

EU tuition fees post-Brexit: feast or famine?

Blog post by Adviser Leo Ringer, 28 September 2016

In a week when a UK university, Oxford, was crowned the best in the world, it's worth reminding ourselves that Brexit gives the British higher education sector a lot to chew on. The potential loss of research funding and restricted access to top EU talent are headline concerns, but here's a different question: what happens once EU students become classified as 'international'? Does the changing fee dynamic mean feast or famine for UK universities?

Currently, EU students have to be charged the same fees as British students, but Brexit will potentially change that. On one hand, this could look like an opportunity for universities to grow revenues by raising fees for the EU chunk of the student intake, now the shackles are off. On the other hand, EU students' appetite to pay more is an unknown - perhaps the fact of the UK leaving the EU is enough to put Continental students off, even if universities hold fees at current levels. The possibility of having to find work quickly and at a minimum salary in order to stay in the UK after studying - as per the current system for non-EU international students - would add to this deterrent effect, as could the potential inability to access the UK student loans system.

The answer lies in the concept of price elasticity of demand - in other words, the amount of demand you lose when prices rise, and vice versa. If demand for UK study from EU students is 'inelastic', then a hike in fees would have only a moderate effect on demand for places. If demand is 'elastic', then the same hike could see a dramatic fall-off in interest from the Continent.

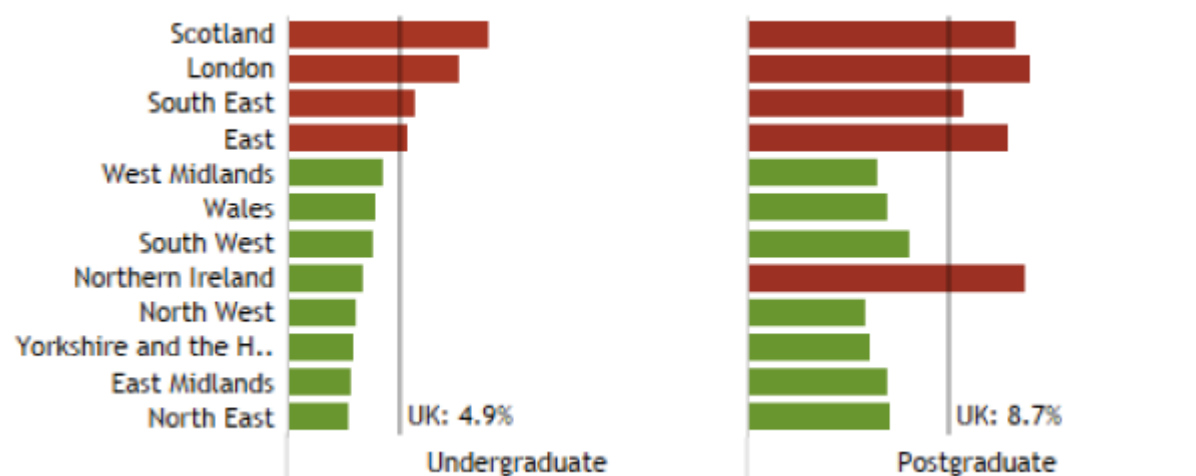


Fig: Proportion of students from the EU at UK universities
Source: HEFCE, Global Counsel analysis

In thinking this through, universities need to work out a couple of things. First, how exposed they are to the reclassification of EU students, in terms of how many of those students they educate as a proportion of their fee base. This really differs across the UK and by individual university, as our handy interactive tool makes clear.

For example, 12% of undergraduates at the University of Essex in 2014/15 were from the other 27 EU member states, while at Sheffield Hallam the proportion was just 0.9%. So whatever the sensitivity of EU students to higher fees might be, universities can quickly get a sense of the scale of the issue: could this sink the P&L, or is it a moot point? And depending on demand for places from non-EU international students, could more of that cohort be recruited to offset any drop off in EU demand?

Second, universities need to get a sense of the price elasticity of demand (PED) for their institution, and the courses they offer. While there will be a general PED for the UK as a whole - based on the 'allure' of British higher education - the difference between institutions will be wide. One university might be confident it can continue to attract EU students even if it doubles their fees; another might worry that EU students will balk at paying even £9,000 a year to study in a post-Brexit UK.

It's worth noting that Scottish universities have a particular interest in the reclassification, for two reasons. First, as in England, they currently have to charge EU students the same as Scottish students, but this is far lower than England, at £1,820 per year (this year). This means they have not even had the benefit of testing EU demand at £9,000, let alone more than that, so the price discovery challenge is an even bigger one. Second, looking at the data, Scottish universities have the highest proportion of EU undergraduates, at 8.8% compared to a UK average of 4.9%, and the third highest proportion of EU postgraduates (11.7%) after London (12.3%) and Northern Ireland (12.1%).

This analysis is also relevant for those judging the prospects of services ancillary to higher education, such as investors in student housing. The differential impact of changing demand from EU students in towns and cities across the UK illustrates the fact that UK-wide conclusions about the sector's resilience to Brexit (or otherwise) are rough guides at best, or misleading at worst. Assessing investment cases against localised demand dynamics is more necessary than ever.

Of course, there is the ever-present caveat that the fee status of EU students is subject to the relationship agreed between the UK and the EU. But that said, it certainly seems that some price discovery research around Europe would be money well spent for those with large exposures to this impact - not least universities themselves.