

# Social Policy and Distributional Outcomes

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in a Changing Britain

## Spending, policies and outcomes in higher education in the UK

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7 November 2018/SPDO seminar



# Introduction

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SPDO main question: What progress has been made in addressing social inequalities through social policies?

## Outline:

- Inheritance
- Goals
- Policies
- Spending
- Inputs
- Outputs
- Outcomes

# Inheritance

- The landscape of higher education funding and policies has transformed dramatically over the last 20 years.
- Move from elite system of higher education to a mass system (3.4% in 1950, to 8.4% in 1970, 19.3% in 1990, 33% in 2000, ~38% in 2017)
- Higher Education policy has been shaped by a number of high profile reviews (Robbins (1963); Dearing (1997); Browne (2010); Nurse (2015); (Wales – Diamond (2016))
- Income contingent maintenance grants for undergraduates were gradually replaced by loans from 1990/91.
- The binary divide between 'polytechnics' and 'universities' was abolished in 1992 (E, W, NI).

# Inheritance

- The main change in terms of funding was the introduction of higher education tuition fees in 1998 following the Dearing Review. This marked an acceleration in the shift of the cost burden of HE funding away from general public expenditure to students and their families.
- Initially fees were income contingent.
- There have been a number of major changes to the level of fees, interest rates charged on loans, the repayment threshold (£1,000 in 1998 (upfront); £3,000 in 2006; £9,000 in 2012)
- Loans for fees were introduced in 2006
- Other important reforms to funding in 2012: interest on loans (RPI+3% while studying; RPI+0-3% when working); write-off extended to 30 years (from 25 years); teaching grants cut except for high cost subjects; repayment threshold raised (£15k to £21k) and frozen until 2016
- There existed a complex system of bursaries; National Scholarship Programme
- Maintenance grants for students from low income backgrounds were reintroduced in 2006

# Goals – 2015 manifesto

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Goals set out in the Conservative manifesto focused on increasing participation and removing barriers

- “We will ensure that if you want to go to university, you can...”
- “..abolish the cap on higher education student numbers and remove an arbitrary ceiling on ambition”
- “..introduce a national postgraduate loan system for taught masters and PhD courses”
- “a framework to recognise universities offering the highest teaching quality; encourage universities to offer more two-year courses; and require more data to be openly available to potential students so that they can make decisions informed by the career paths of past graduates”
- “...Through the Nurse Review of research councils, we will seek to ensure that the UK continues to support world-leading science, and invests public money in the best possible way. And we will encourage the development of online education as a tool for students, whether studying independently or in our universities”

# Policies

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2016 White Paper: *Success as a knowledge economy: teaching excellence, social mobility and student choice/The Higher Education and Research Act in May 2017*

- **Teaching Excellence Framework:** to link “the funding of teaching in higher education to quality and not simply quantity – a principle that has long been established for research”. Ensure that the TEF assessment framework explicitly takes into account outcomes for disadvantaged students.
- **Expansion** through creating a competitive market in Higher Education:
  - a single regulator and route into sector to allow high quality institutions to compete on equal terms with quicker entry to the sector
  - Lift the artificial minimum student numbers criterion for awarding full university status, and enable access to university title for those able to award bachelor degrees, provided that (as now), more than 55% of their full time equivalent students are studying HE
- **Choice for students:** improve information provision through the TEF and linking higher education and tax data “to chart the transition of graduates from higher education into the workplace better”, providing students with the source of information on the potential rewards of their degrees as well as costs.

# Policies (2016 White paper/2017 Act contd.)

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## **Updating regulatory architecture:**

- Reducing ten separate arms'-length Government bodies operating within higher education and research (i.e. HEFCE, OFFA, IUK, 7 research councils) to two: the Office for Students (OfS) and UK Research and Innovation (UKRI) (April 2018)
- "The OfS will be explicitly pro-competition and pro-student choice, putting "the interests of the student at the heart of [the] regulatory landscape"
- UKRI "will be an NDPB at arms' length from Government in order to ensure autonomy and independence"

## **Widening participation:**

- Ask the Director of Fair Access to Higher Education (DFA), whose function will be merged into the OfS, to make progress towards achieving Prime Minister's goals on widening participation to a) "double the proportion of people from disadvantaged backgrounds entering university in 2020 compared to 2009, and [b)] to increase the number of black and minority ethnic (BME) students going to university by 20% by 2020"
- Ask the DFA to continue focusing efforts on widening participation among other groups such as those with disabilities and white males from lower socio-economic backgrounds. Additionally, "give OfS a statutory duty to cover equality of opportunity across the whole lifecycle of for disadvantaged students, not just access"

# **Policies** (funding and student financial support)

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## **Updating regulatory architecture:**

March 2016 Budget

- Availability of maintenance loans for part-time students

There's lots more....

# Policies (actual)

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## **Include:**

In 2016 vocational and higher education (VE and HE) policy responsibilities were transferred from BIS to the Secretary of State for Education.

Maintenance grants which were first abolished in 2004, reinstated in 2006, abolished again in 2016, and from 2016/17 maintenance loans entirely replace grants for new eligible students

From the academic year 2017/18 the tuition fee cap rose in line with inflation in England, for UK and EU students (currently set at £9,250)

From April 2018 the loan repayment threshold, the amount you need to earn before you have to start repaying your student loan increased to £18,330 for pre 2012 plan 1 loans and were unchanged at £21,000 for post 2012 plan 2 loans.

In February 2018 the prime minister announced a further major independent review into post-18 education which will cover technical, vocational and academic routes, including higher education *Review of post-18 Education and Funding* (chaired by Philip Augar).

# Devolution

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- Higher education is a devolved area
- Higher education system very different in Scotland. HE students who normally live in Scotland are liable for the Home-Scotland tuition fee (£1,820). However, if studying FT for a first degree, these fees paid are usually paid by the Scottish Government for your full period of study. For living costs, income contingent bursaries and loans are available.
- Differences between Wales and England (fees have remained at £9,000 pa for Welsh undergraduates studying at an HEI in Wales; maintenance support available through income contingent Welsh Government Learning Grant)

# Spending - introduction

- With drastic reforms over the past two decades, the financing of HE has been transformed with the focus taken away from grants (both to students and to HE providers) and onto loans and loan income.
- However, this does not mean that the cost to the government had reduced by the amount of the funding grants, as the number of HE places has expanded and there are public costs associated with student loans.

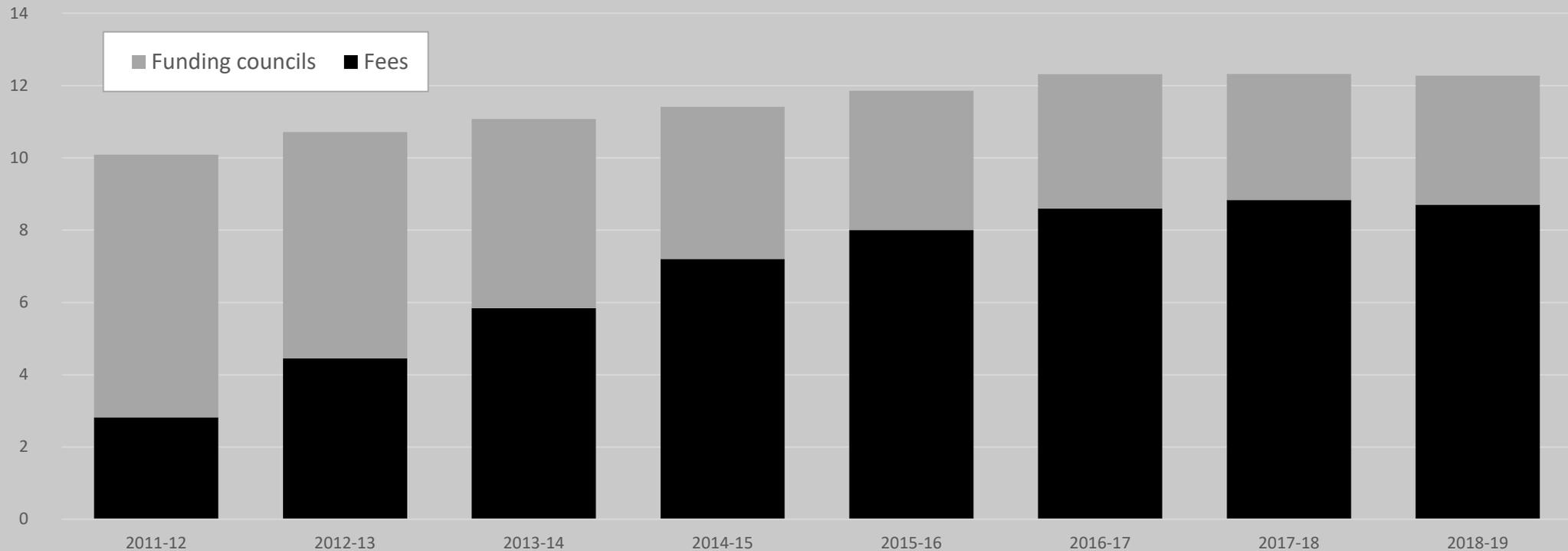
## **To cover:**

- Evolving sources of funding/types of spending
- Indirect expenditure - Resource Accounting and Budgeting (RAB)
- Relationship between student loans/debts and fiscal deficit/national debt
- Evolving policy: a) level of tuition fees; b) maintenance grants/loans; c) repayment threshold; d) model assumptions for calculating RAB

# Funding – Evolving sources of funding

- Funding - shift away from grants to tuition fee income

Funding for the HE sector in England 2011/12-2018/19 (£ billion 2016/17 prices)

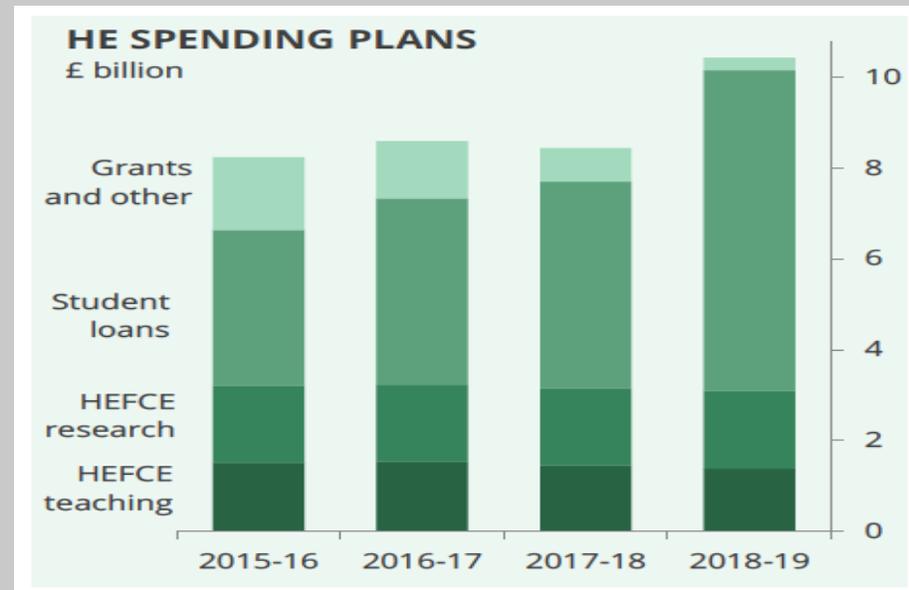
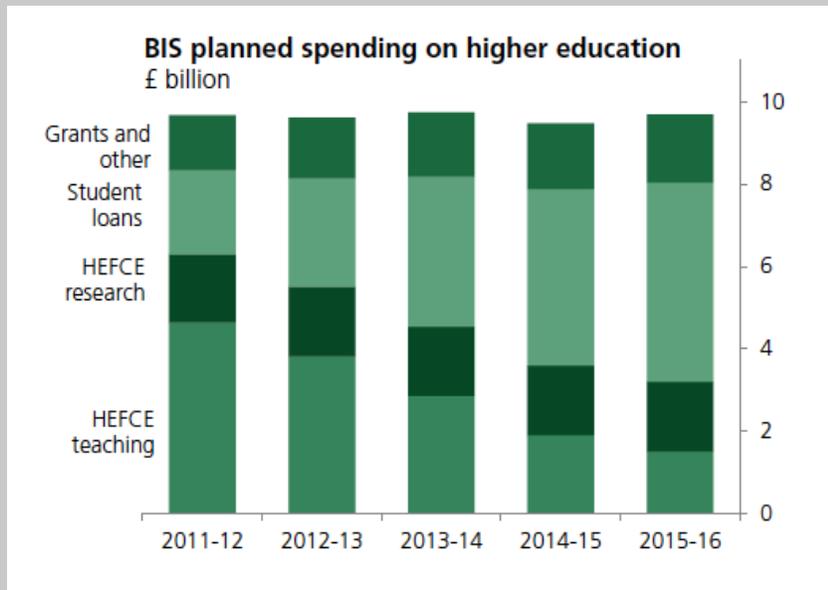


Source: Bolton (2018)

# Spending – HE planned spending and spending plans

- Spending – direct (HE and student grants etc) and indirect (economic cost of loans)

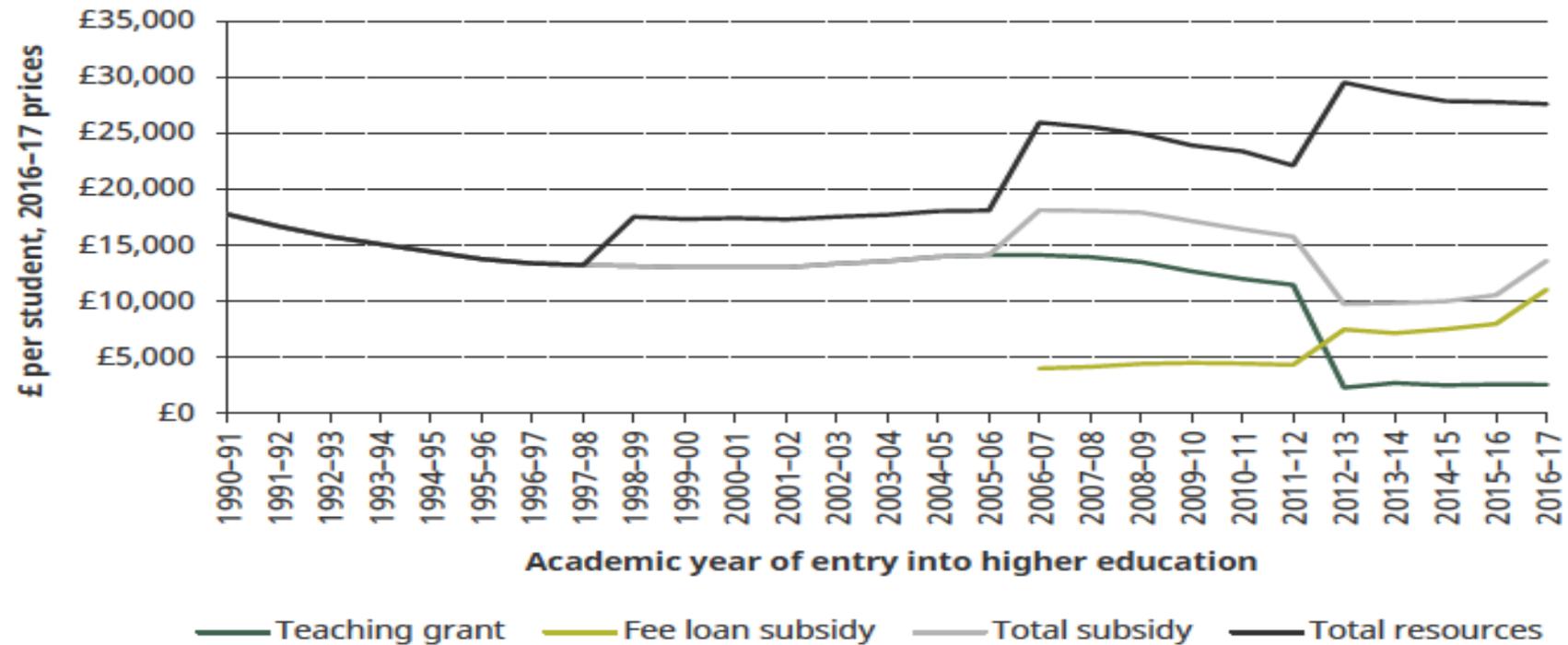
## England



Source: Bolton (2018)

# Funding – Per student

Figure 5.1. Public spending per student in higher education for students starting between 1990-91 and 2016-17 (2016-17 prices)



Source: Belfield et al (2017)

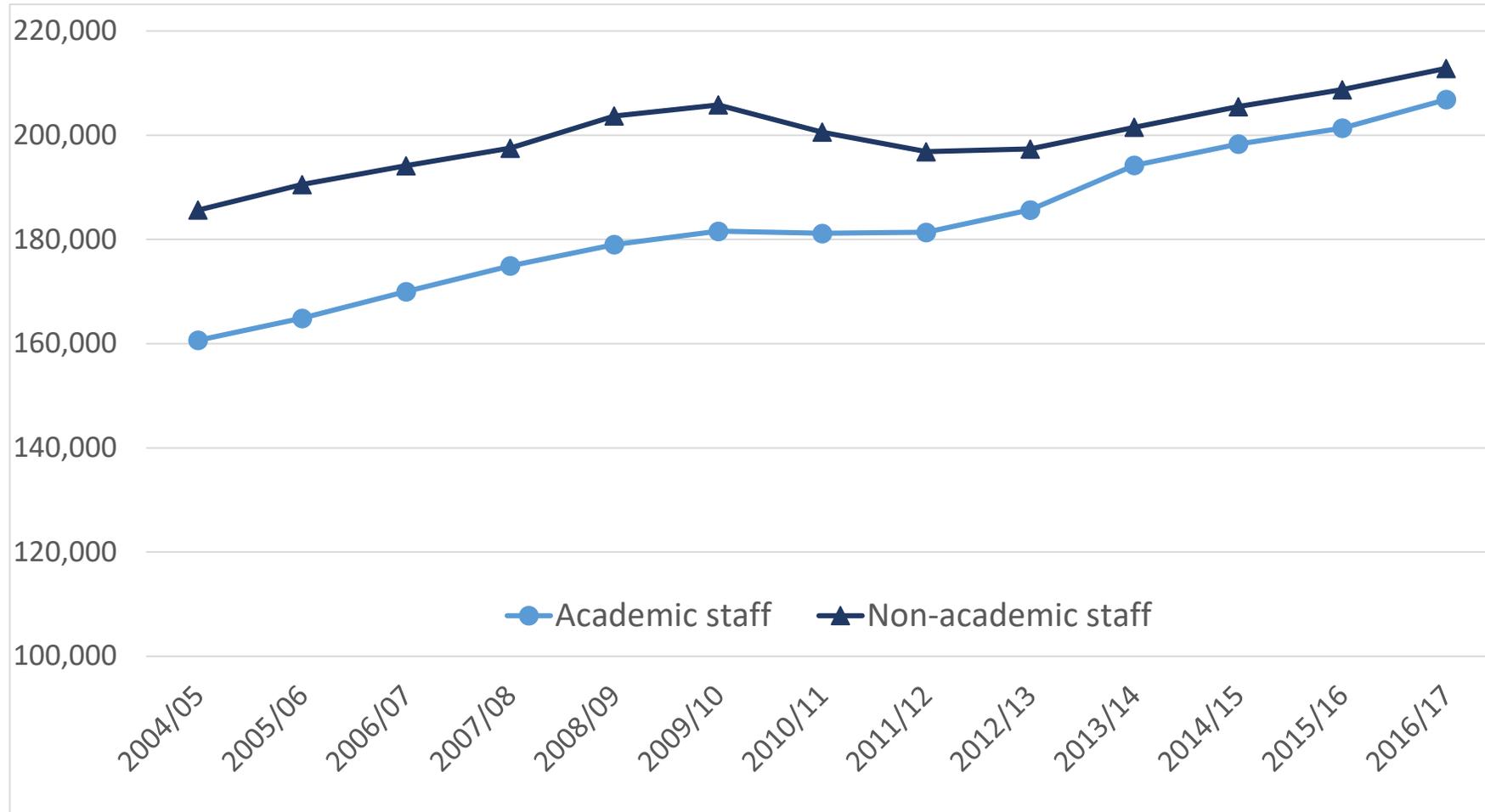
# Spending – indirect expenditure

- Economic cost (or subsidy) of student loans arises from any (historical) interest subsidy, the share and value of loans not expected to be repaid (written off).
- The method by which the economic cost of student loans is calculated is called Resource Accounting and Budgeting (or RAB) (or accruals accounting) which involves estimating a ('highly complex') student loan repayment model to estimate a 'RAB charge' (the predicted share of value of student loans which will not be repaid – the economic cost).
- The parameters of the model, and therefore the RAB rate, are: the earnings threshold (below which graduates do not need to make repayments), predicted future earnings growth, characteristics of students taking out loans, discount rate applied to loans.
- The estimated RAB rate has increased due to changes in the model parameters. Removal on the student cap and widening access to loans (part-time students) are assumed to increase the RAB rate due to a lower assumption on repayment. Freezing the earnings threshold. Improvements to the model.
- An increase in tuition fees reduces the economic cost of loans but increases the total amount students borrow.
- There are also economic costs associated with maintenance loans. Replacing maintenance grants with loans for students from low income backgrounds (2016/17) leads to an increase in the total economic cost of maintenance loans.

# Spending – indirect expenditure

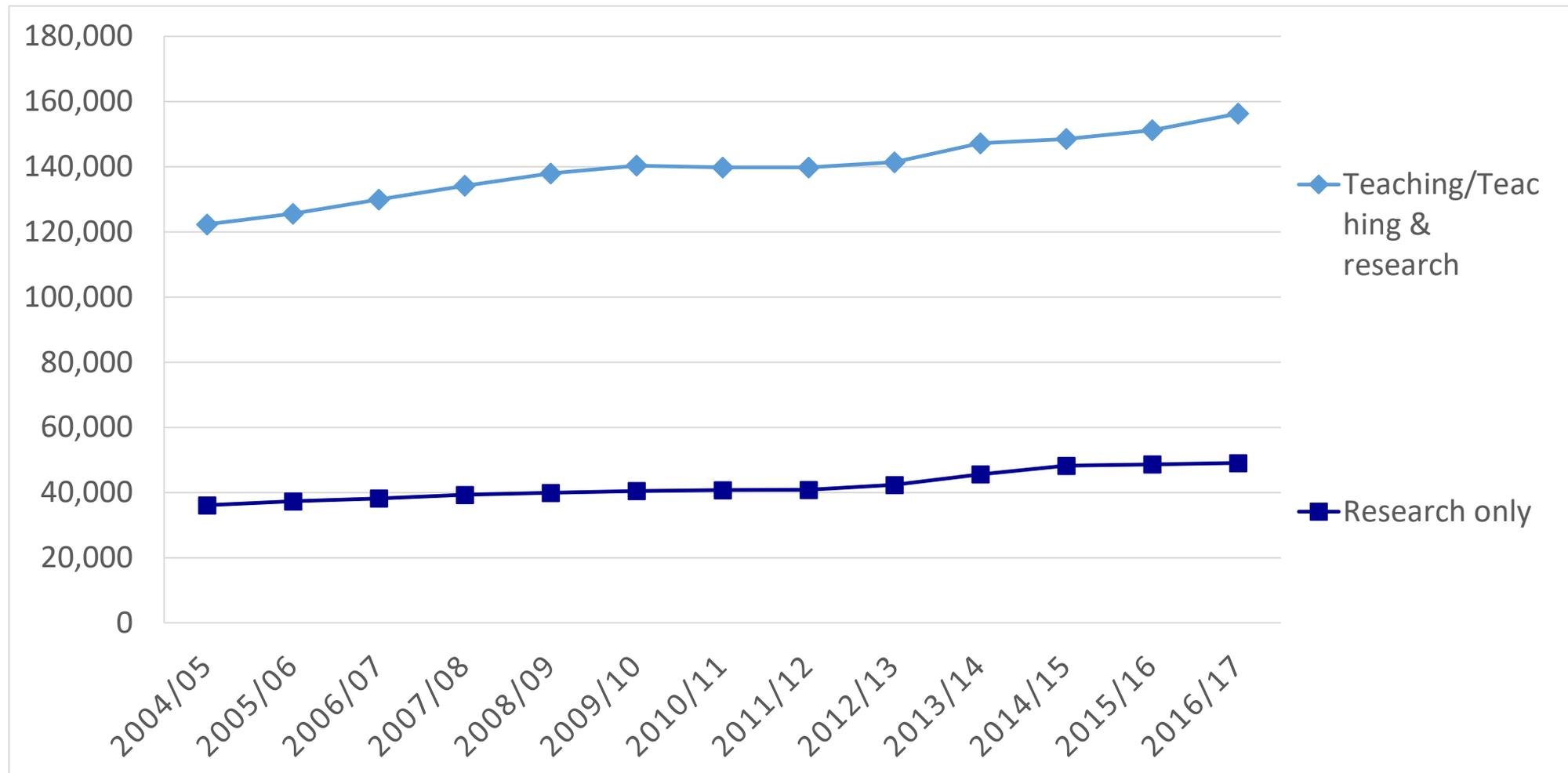
- Direct spending on student loans are not classified as a financial transaction and therefore not included in government public spending on services and therefore does not contribute to the *fiscal deficit*. Only the interest on outstanding debt and write-offs count.
- However, student loans contribute to the *national debt*. Loan outlays increase the debt and loan repayments reduce the debt. (OBR 2018 paper – fiscal illusions)
  - The shift from grants to loans in the short term will improve the fiscal deficit and increase national debt.
- Estimates of the RAB rate\charge (permanent costs of the loan to the taxpayer)
  - 2012 'around 30%'
  - 2013 'around 35%'
  - 2013 '35-40%'
  - 2013 'around 40%'
  - 2014 'around 45%'
  - (Government predicted that proposed reforms in 2015 Spending Review would reduce rate to 20-25%)
  - Latest '40-45%'

# Inputs – increase in the number of academic staff, particularly since 2010/11



Source: HESA Staff numbers and characteristics

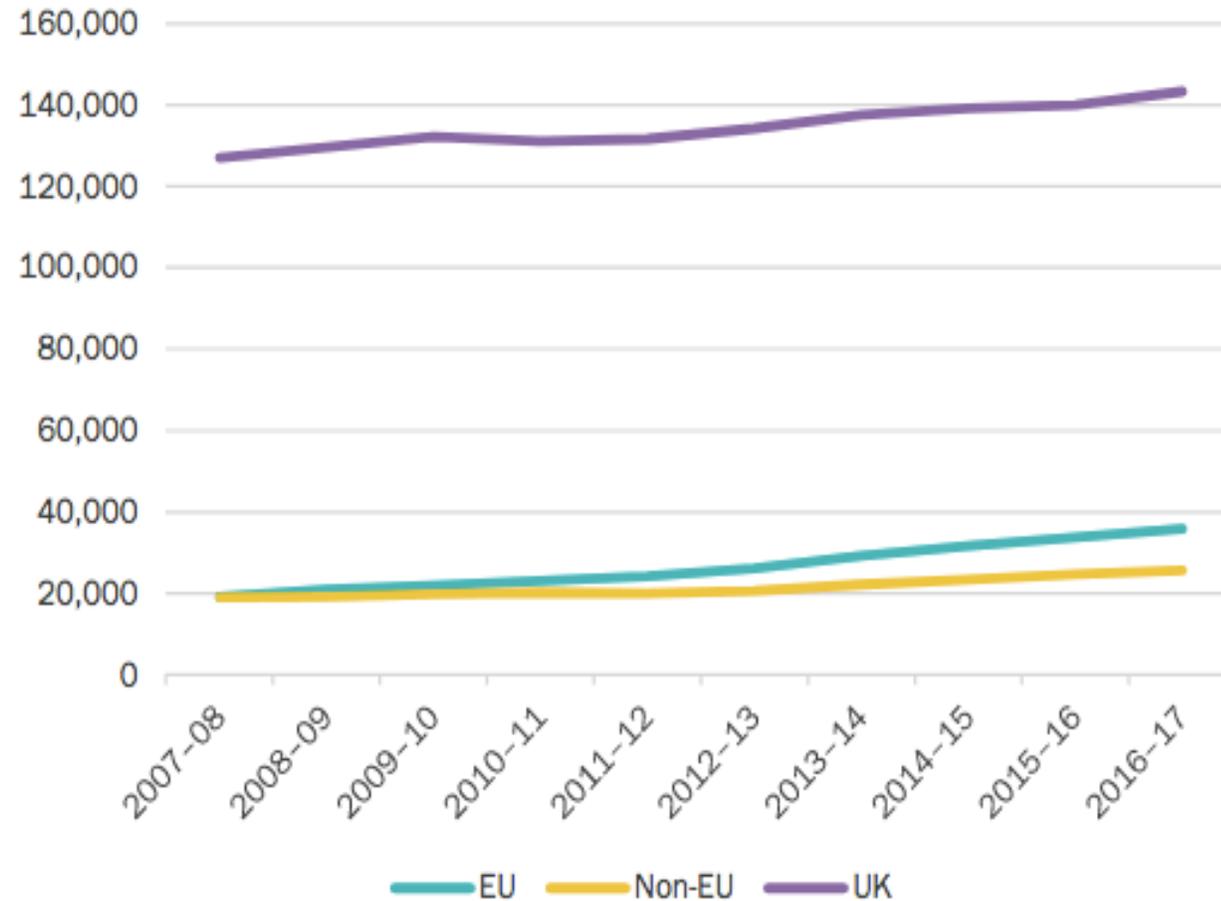
# Inputs – increase in both teaching and research staff with higher proportional increase in the numbers of 'research only' staff



Source: HESA Staff numbers and characteristics

# Inputs

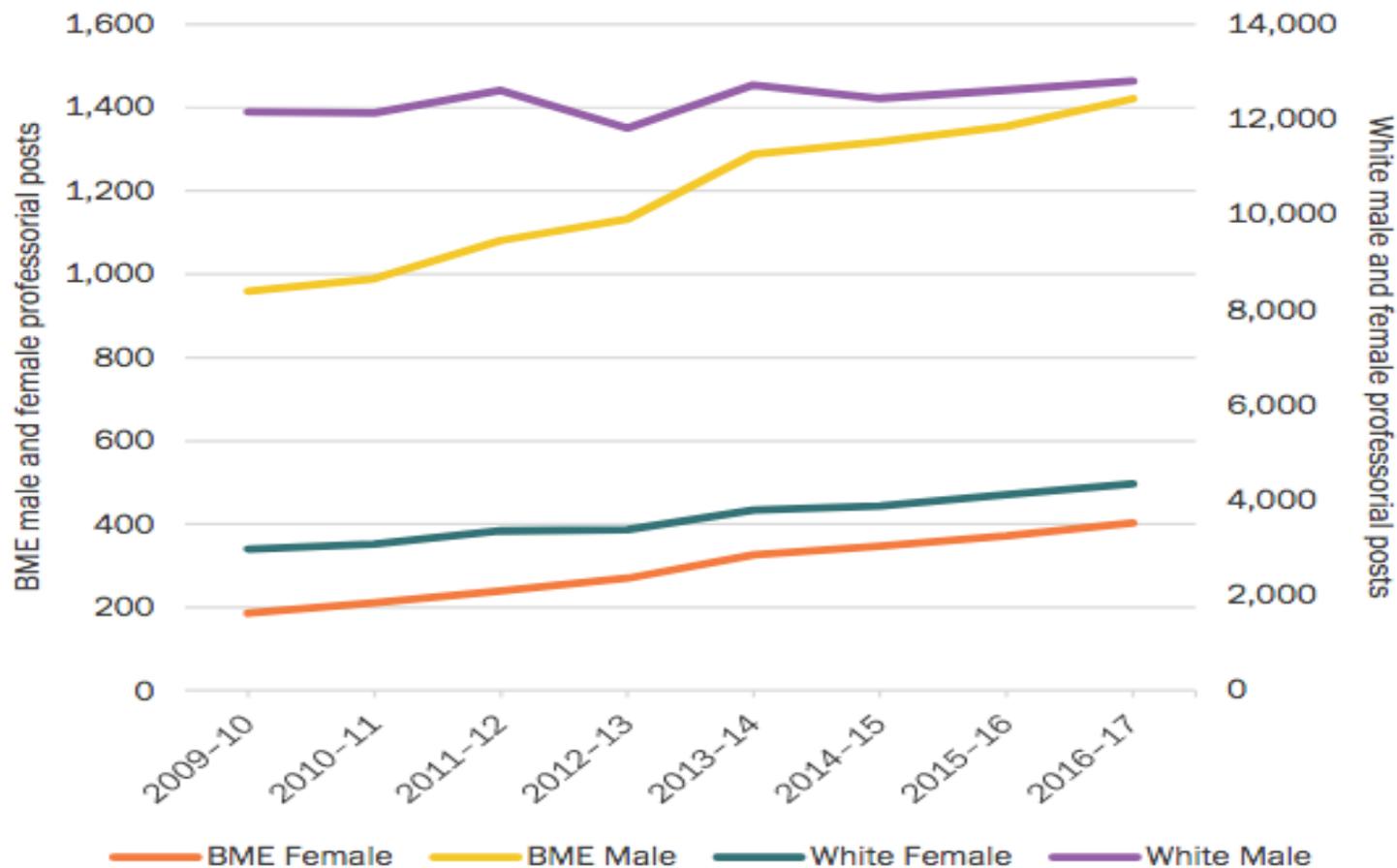
– increase in overseas staff numbers accounted for a larger share of overall growth in professorial staff



*Note: excludes academic staff with unknown nationality*

**Inputs** – while White males continue to dominate professorial posts (67.5% in 2016-17), there has been little change in their numbers. But higher increase in the numbers of BME male professors (over 40%) and female (both White: 50% and BME: 59%)

Professorial posts by gender and ethnicity, 2009-10 and 2016-17

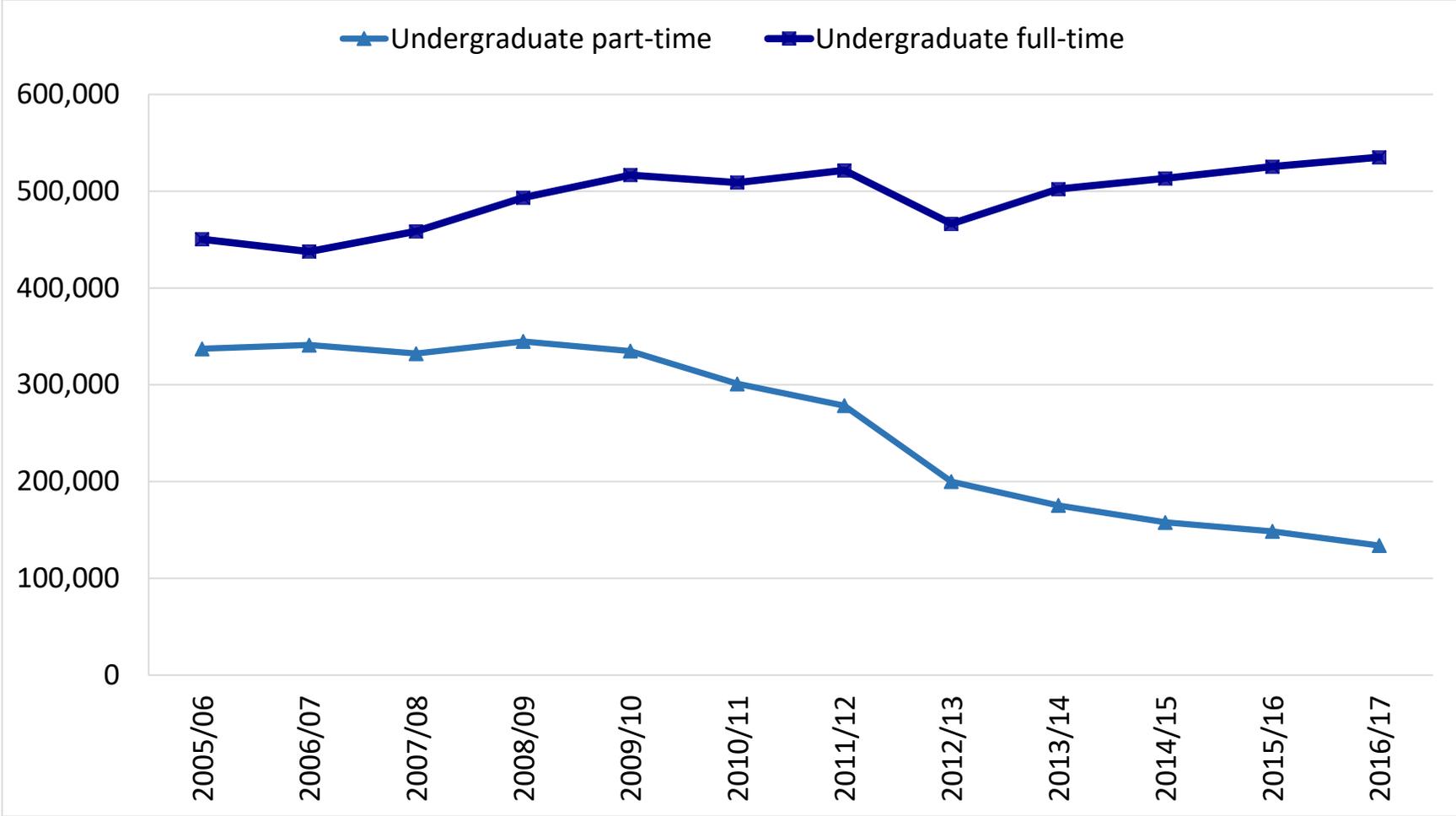


Note: excludes academic staff with unknown ethnicity

Source: Universities UK (2018), original data from HESA

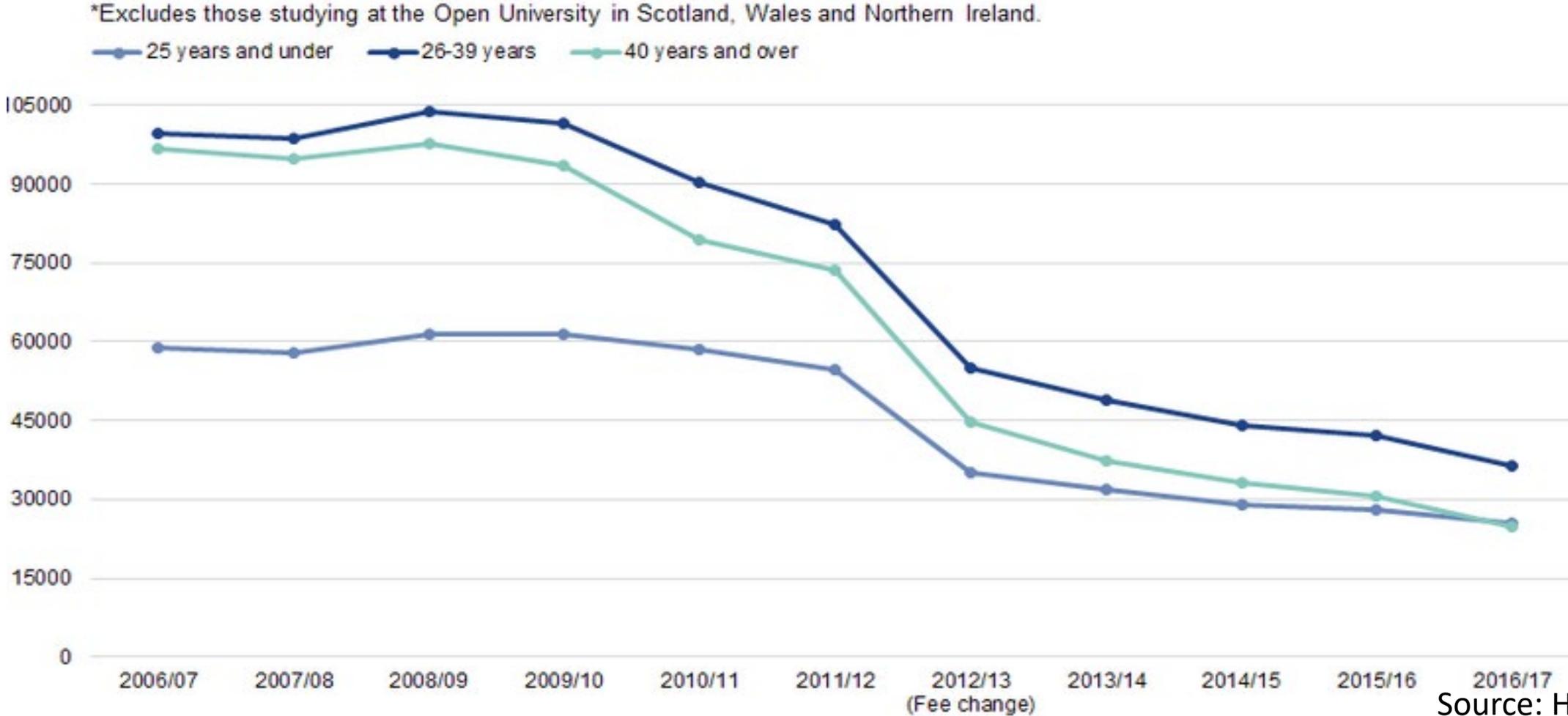
# Outputs

# Outputs – the number of part-time first year undergraduates has plummeted in England



Source: HESA, First year students by level and mode of study

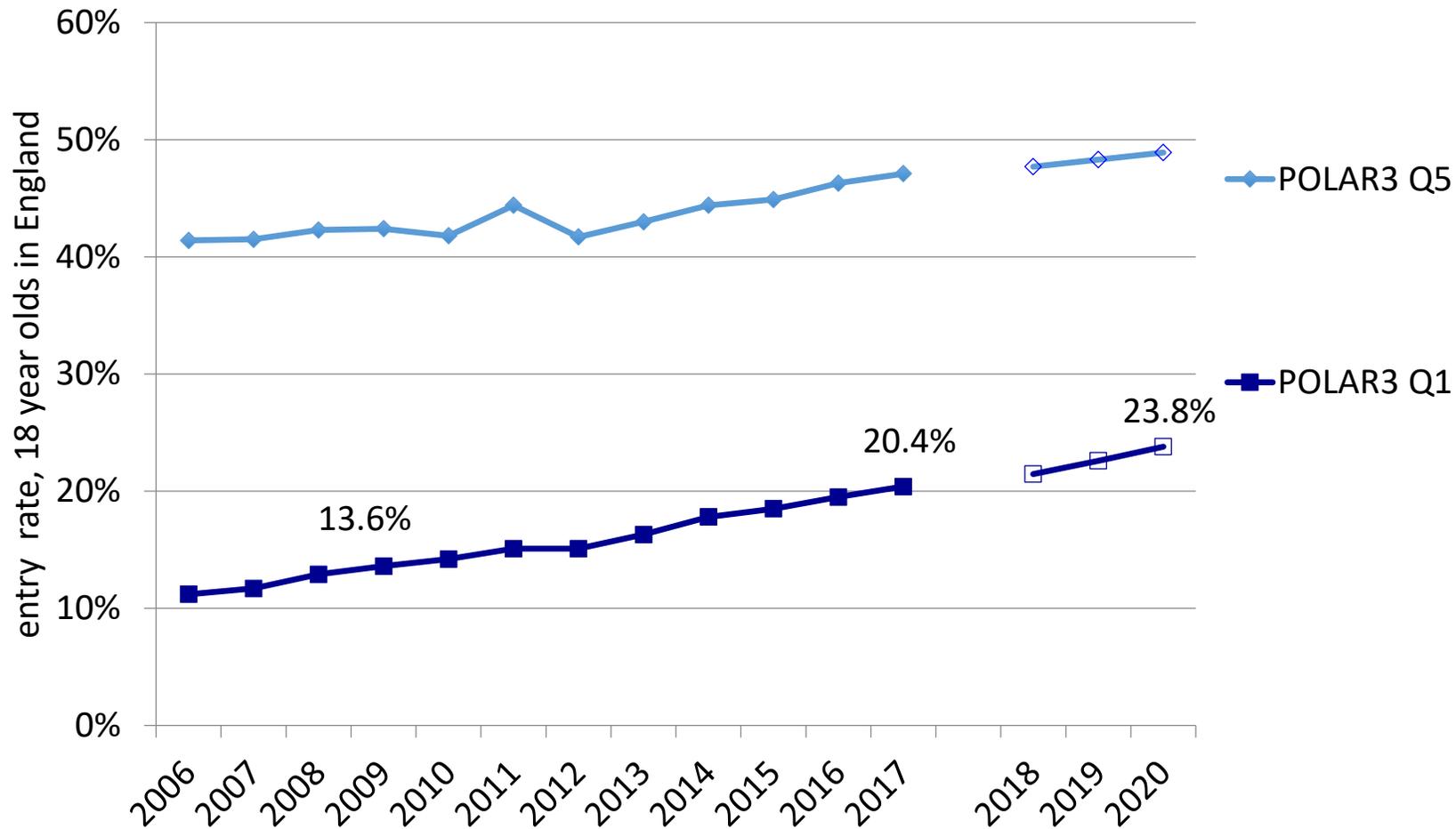
# Outputs – the number of mature part-time UK-domiciled undergraduate entrants in English institutions has fallen more compared to younger entrants



# Outputs – widening participation

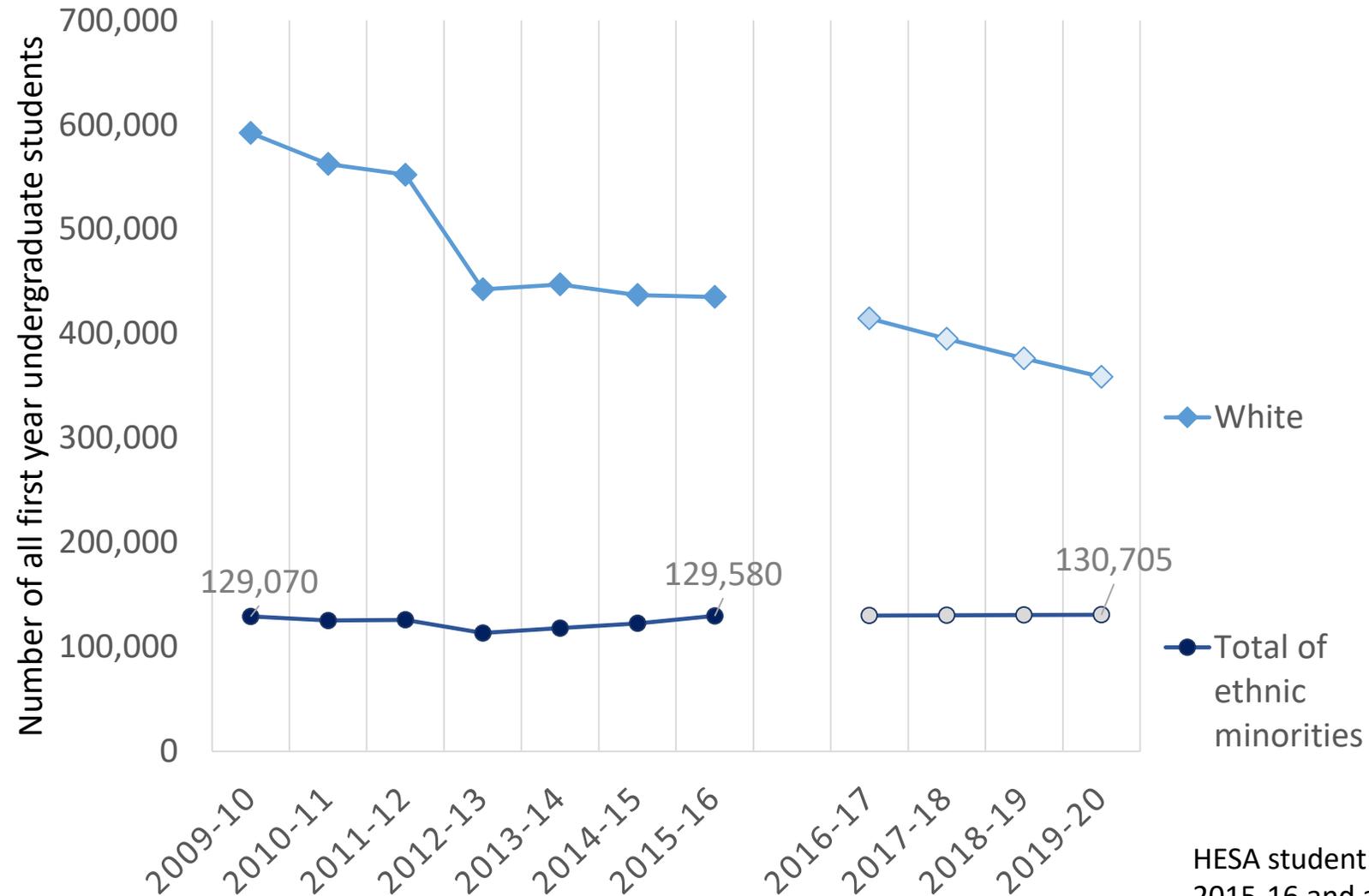
- There has been an increase in participation in higher education for young people (age 19) who were in receipt of Free School Meals (FSM) when aged 15 (2005/06 and 2014/15) from 13% to 24%, but participation rates for those who were not in receipt of FSM also increased (from 33% to 41%), leaving the gap between the two groups remaining broadly constant (17-19ppt) (DfE, 2017)
- Progression rates (A level to HE) have widened (2008/09-2014/15) between state schools (70% to 63%) and independent schools (82% to 85%). The gap in progression rates between state and independent schools to the most selective HEIs also increased (37 ppts to 42 ppts) DfE, 2017)
- Greater improvements in application rates among 18 years olds from most disadvantaged areas compared to most advantaged as well as entry rates (UCAS, 2018)

# Outputs - Widening participation: higher rate of improvement in entry rate among 18 year olds from the most disadvantaged areas in England compared to most advantaged since 2009/10 but unlikely to meet the target of doubling the proportion by 2020



Source: (UCAS, 2017) to 2017: Entry rates for English 18 year old state school pupils by POLAR3 groups; and authors' calculations for 2018-2020

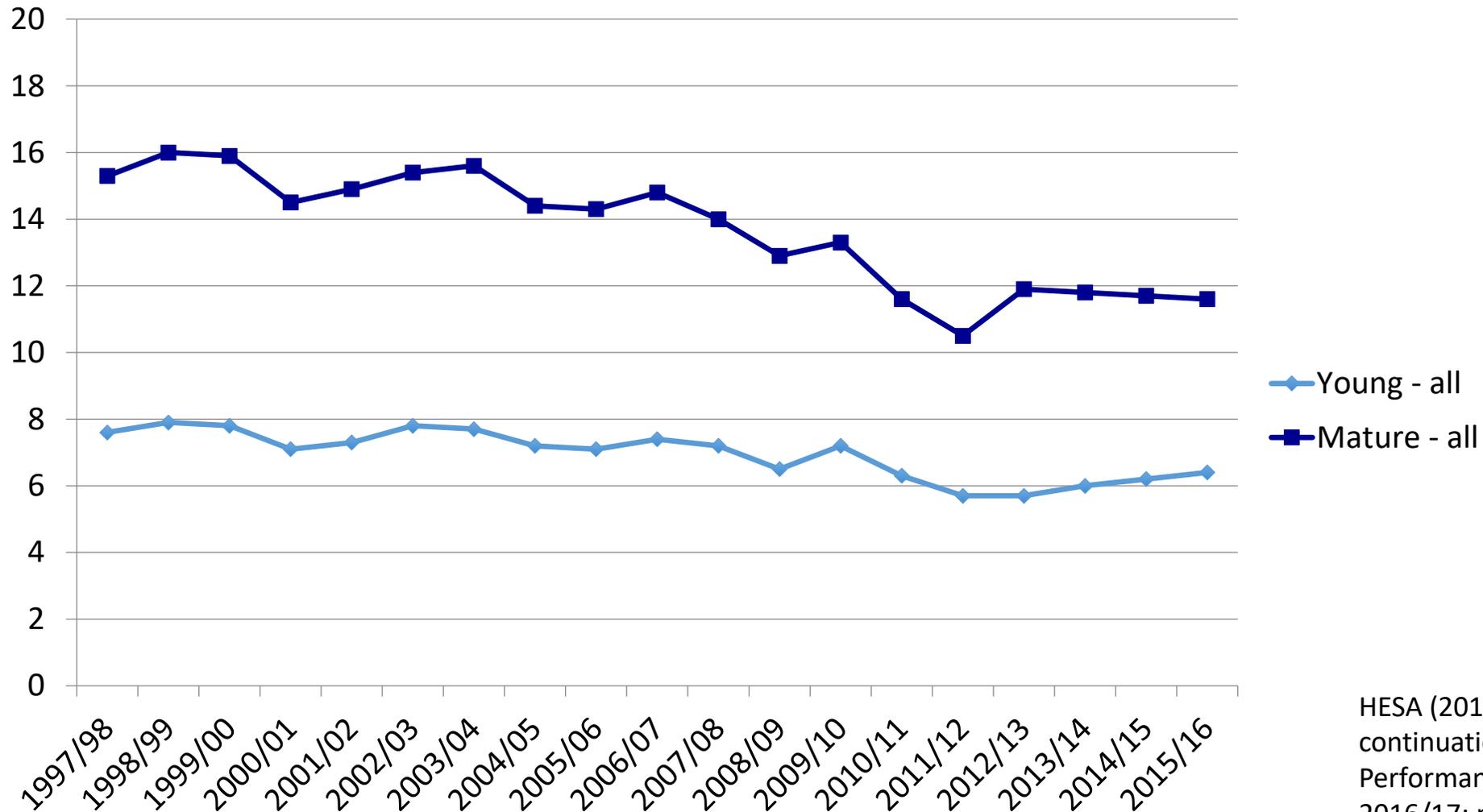
# Outputs - Widening participation: improvement in first year undergraduate entrants from minority ethnic groups



HESA student numbers 2009-10 to 2015-16 and authors' calculations of figures between 2016-17 and 2020-21

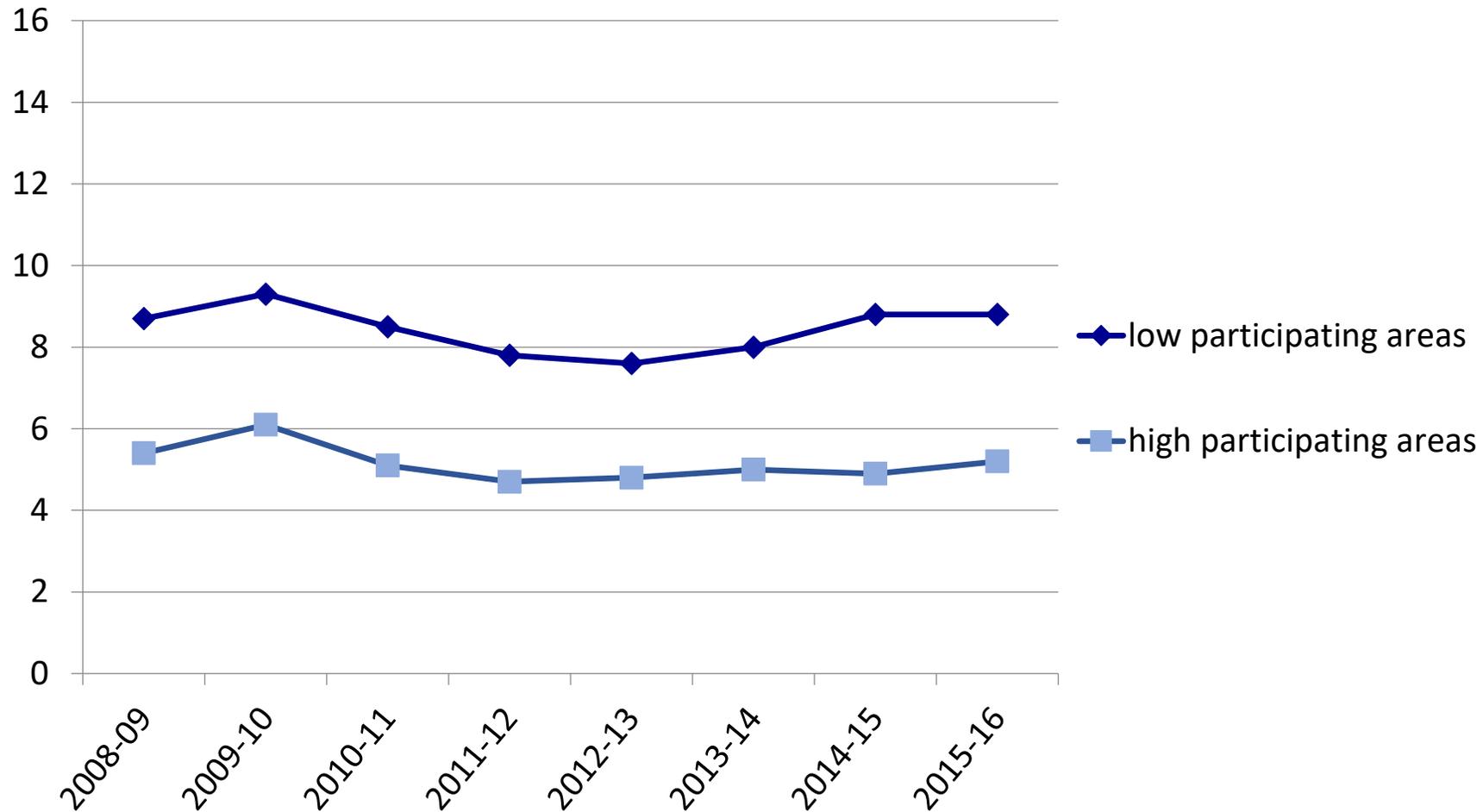
# Outcomes

# Outcomes – Non-continuation: improvement in non-continuation rates overall but signs of worsening from 2011/12



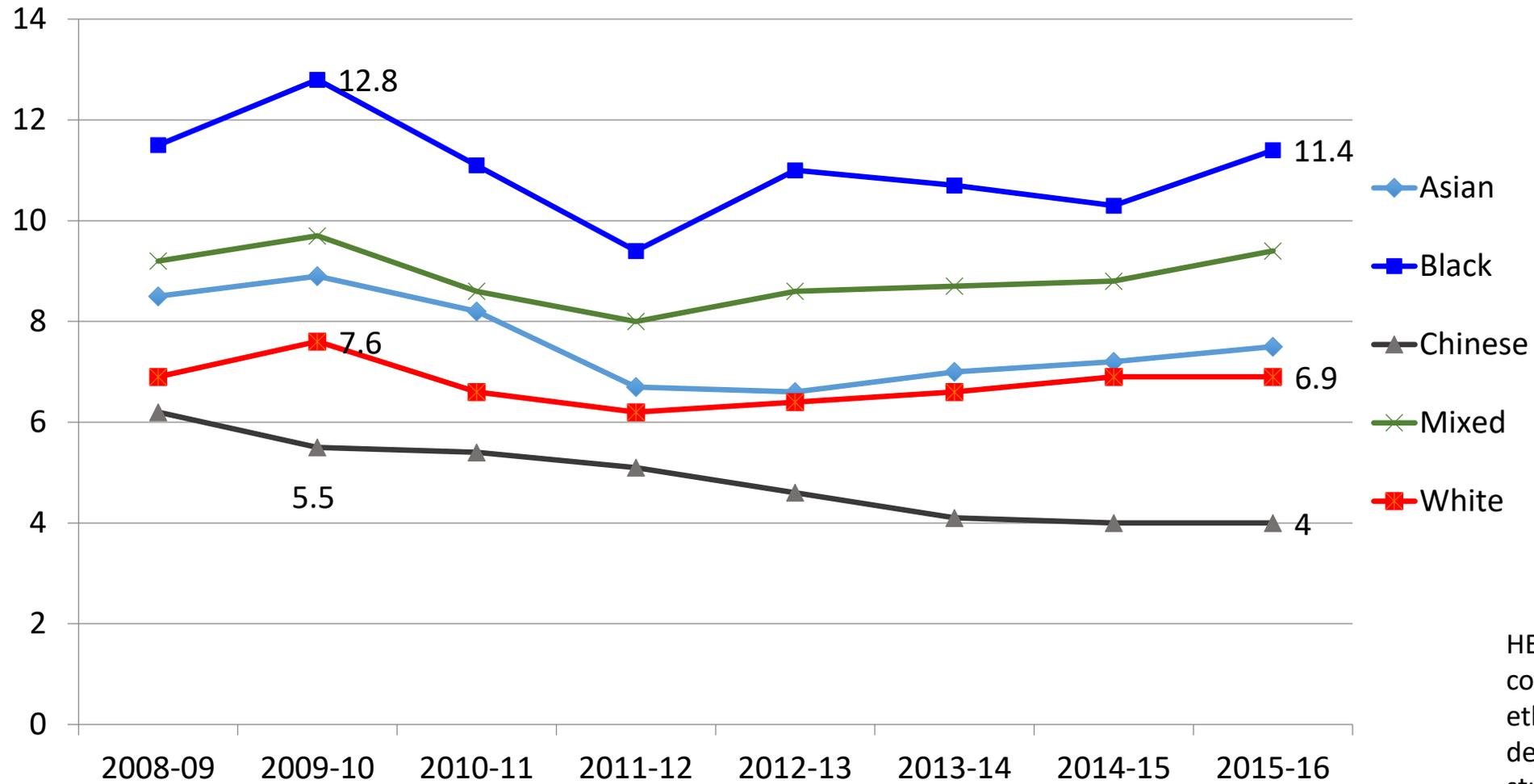
HESA (2018), Non-continuation: UK Performance Indicators 2016/17; non-continuation rates for first degree

# Outcomes – Non-continuation: slower progress in reducing non-continuation rates among students from disadvantaged areas compared to most advantaged areas (POLAR3 quintiles 1 and 5)



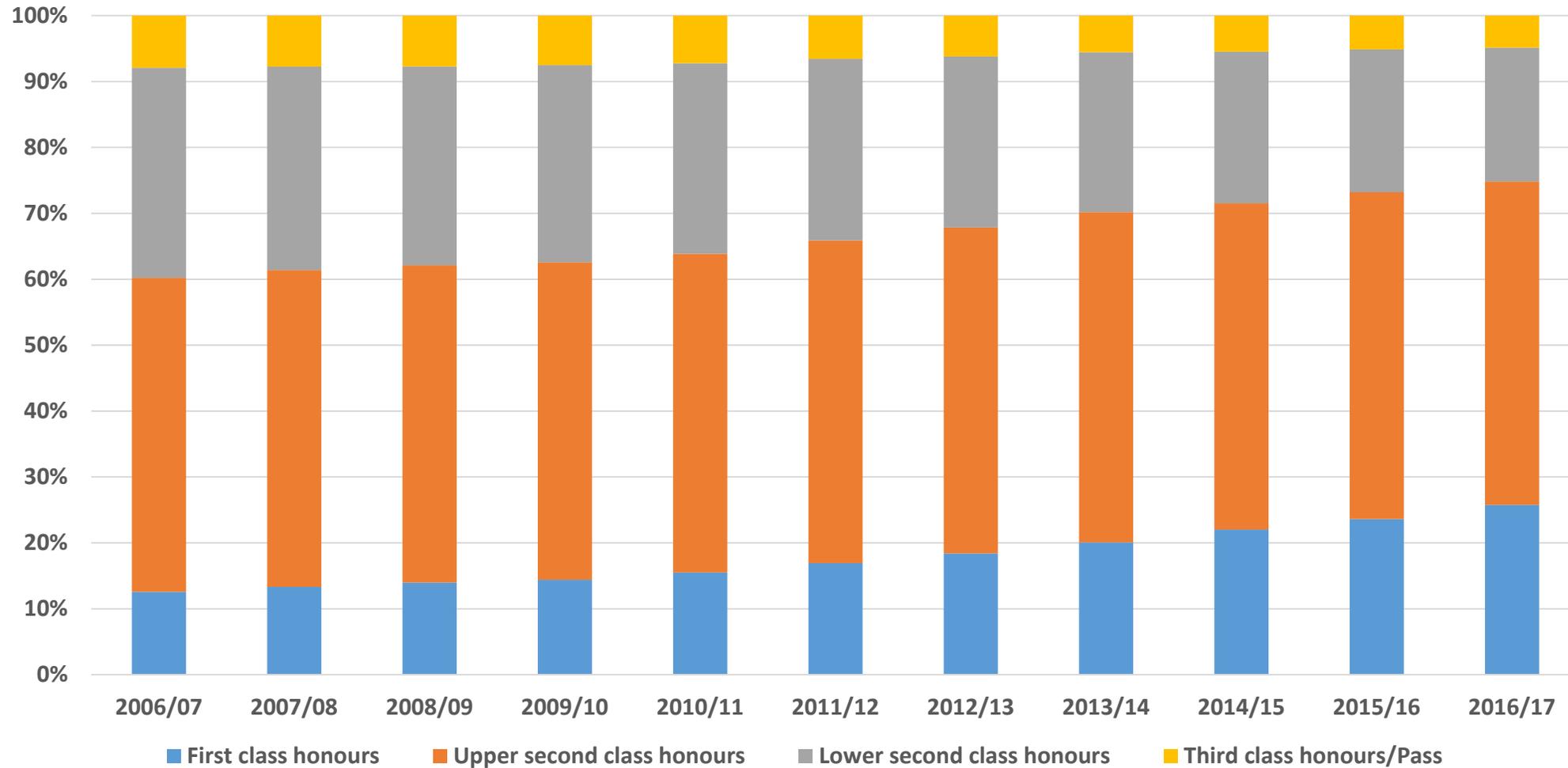
HESA (2017), Non-continuation rate by POLAR3, full-time, first degree UK domiciled students (England)

# Outcomes – Non-continuation: non-continuation rates remain higher for all ethnic minority groups except Chinese



HESA (2017), Non-continuation rate by ethnicity, full-time, first degree UK domiciled students (England)

# Outcomes - Grade inflation?

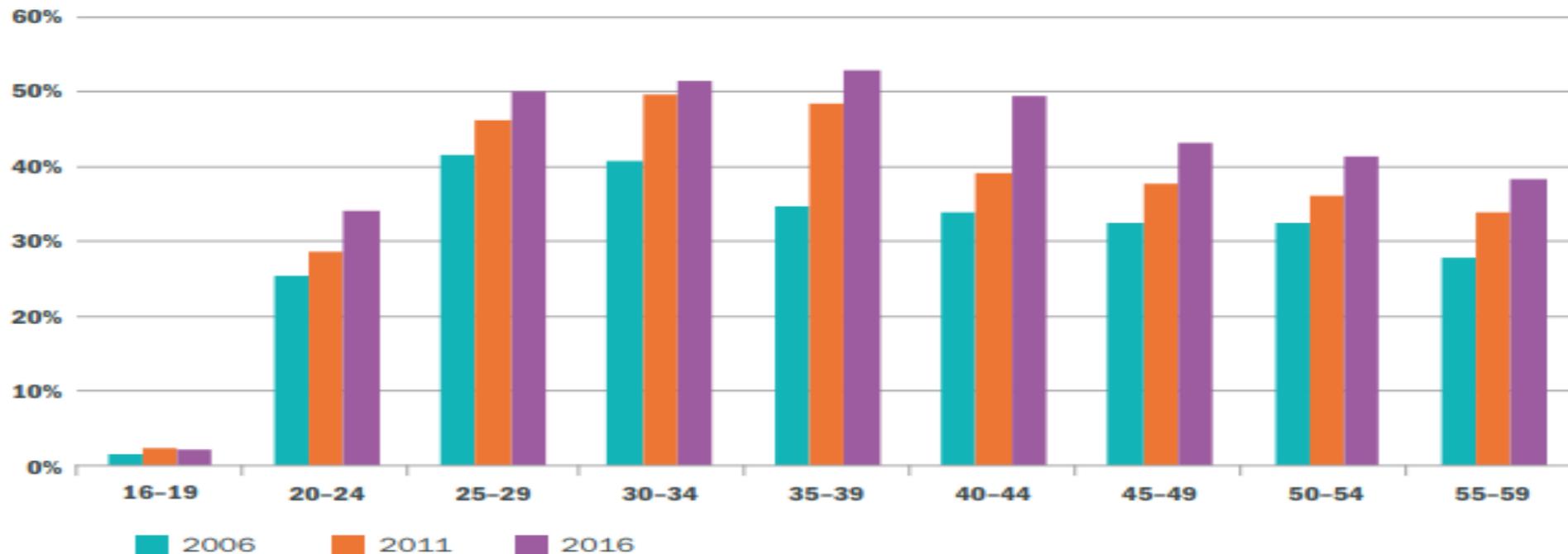


Source: HESA (2018)

# Outcomes - increases in labour force with HE qualifications

**FIGURE 24:**

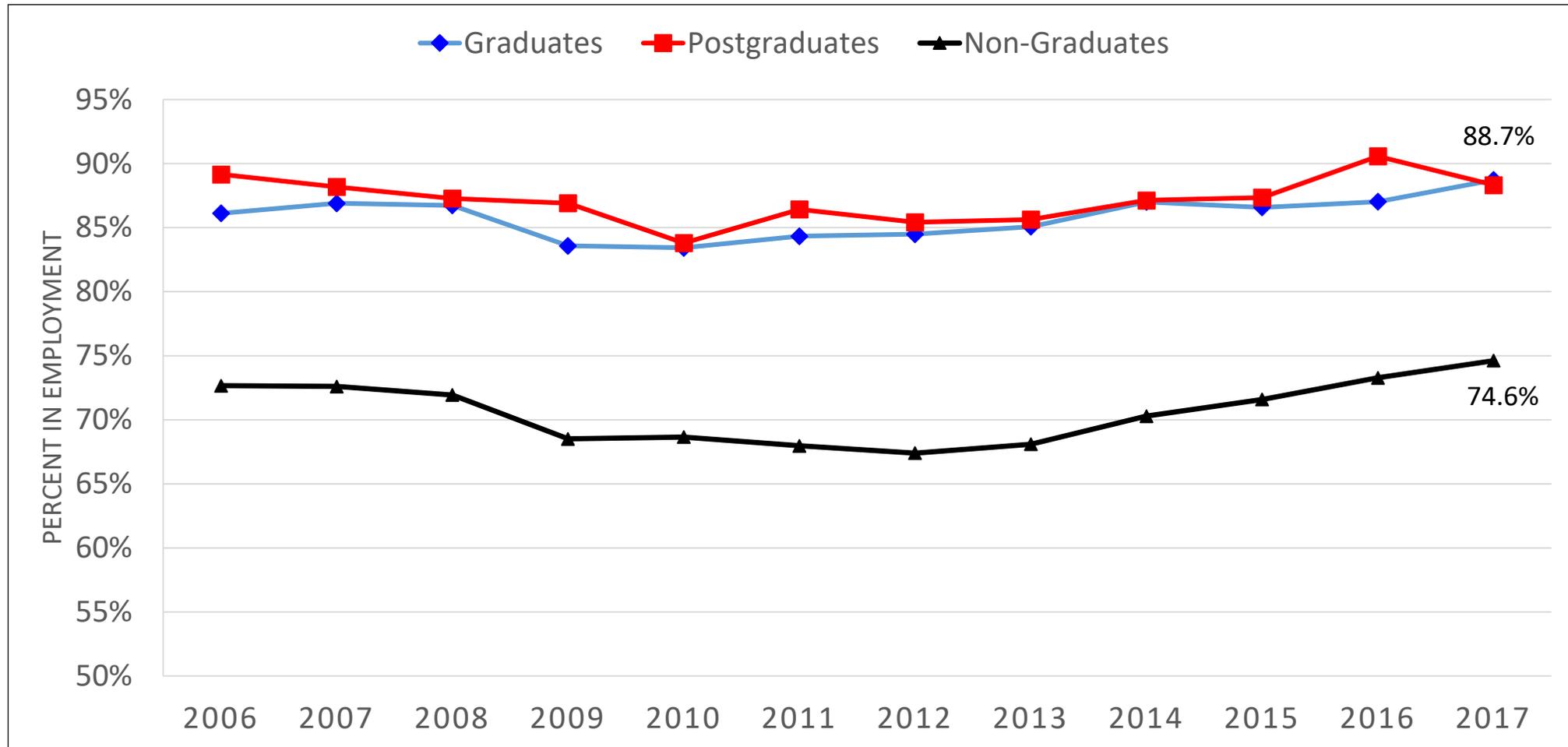
Percentage of UK population in employment with higher education qualifications by age, 2006, 2011 and 2016



Source: HESA from Labour force survey and Annual population survey

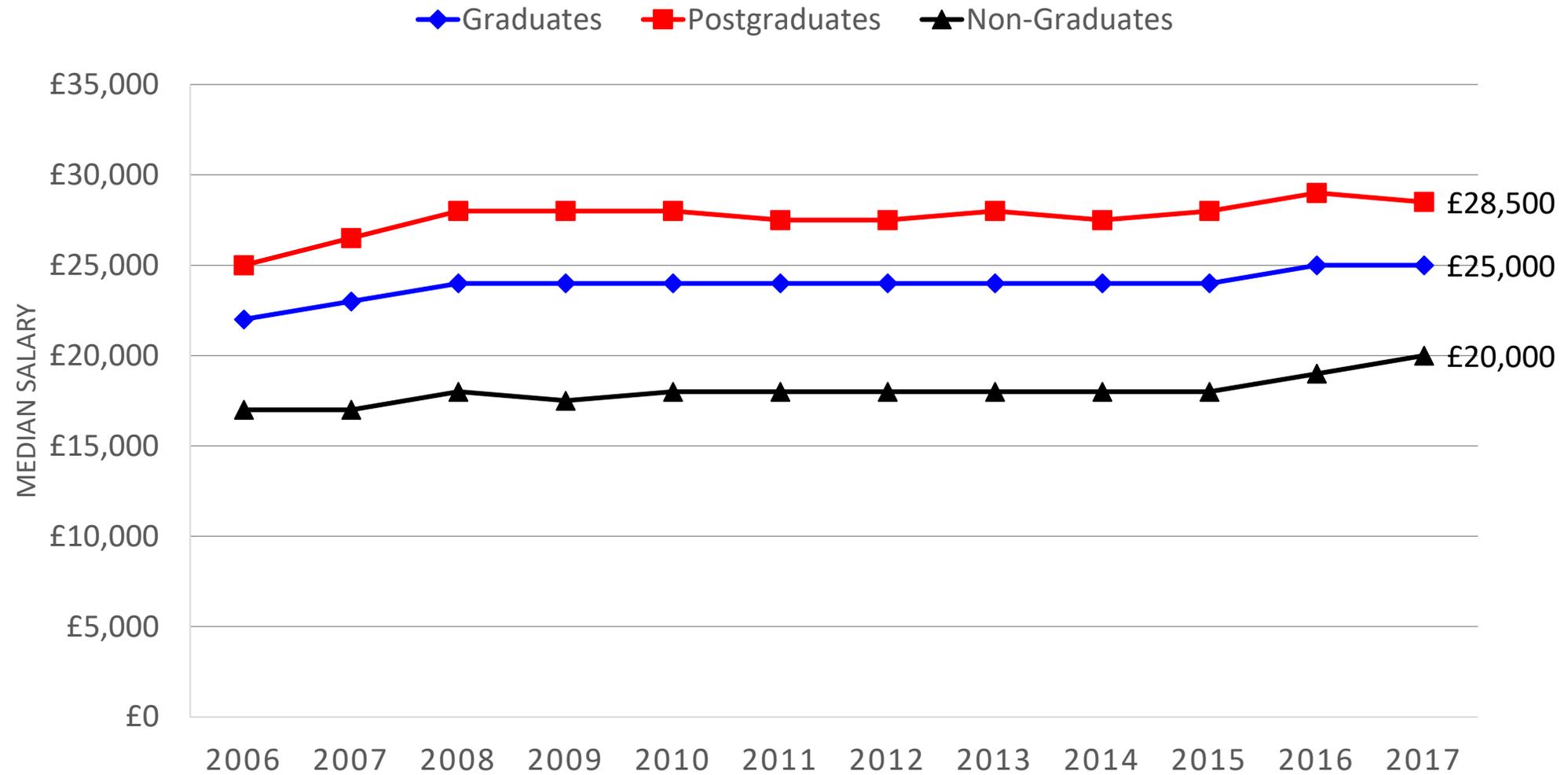
Although: the UK's high-skill labour force is lagging behind "some other advanced countries, with the proportion of adults with high level skills" such as Canada, Japan, Korea and the US (Universities UK – 2017)

# Outcomes - graduate employment rates remain high



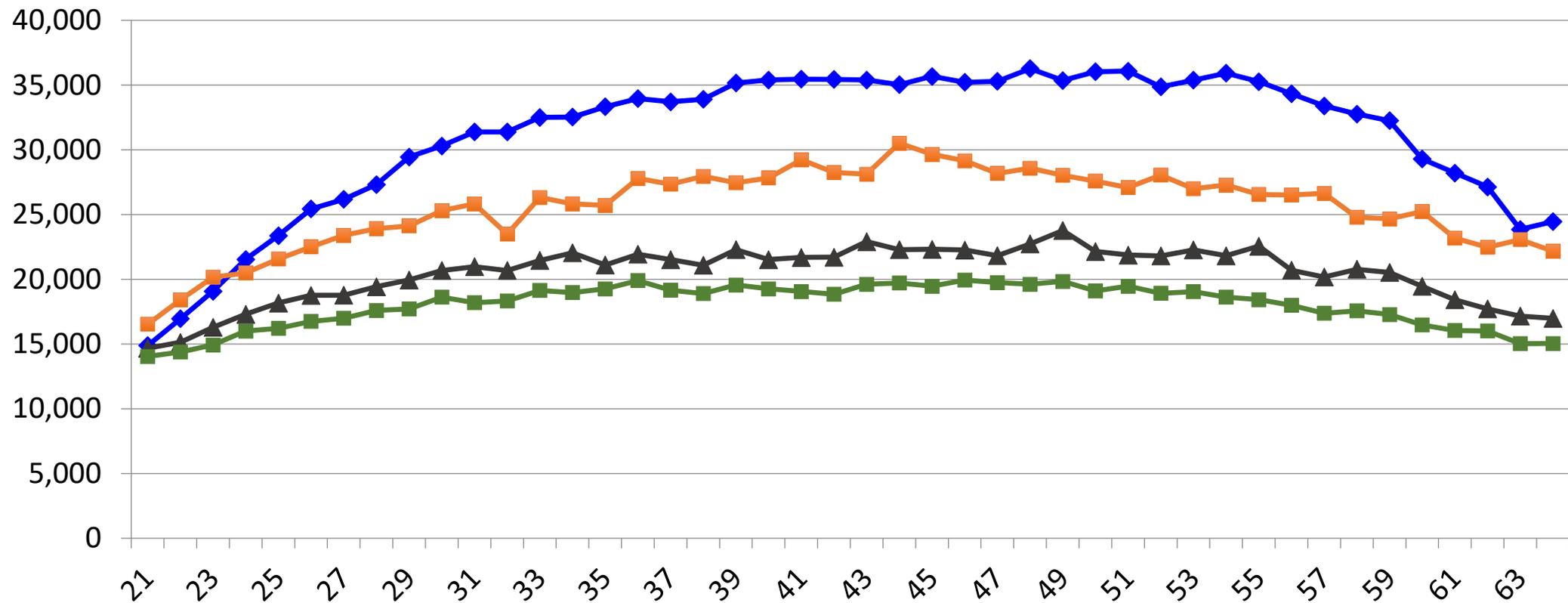
Source: DfE (2018)

# Outcomes - graduates continue to earn a premium but increase in salaries greater for non-graduates



Source: DfE (2018)

# Outcomes – graduates earn a premium across the age distribution and their median salary peaks at a later age (July-Sep 2017)



- ◆ Graduates
- Highest qualification is an apprenticeship
- ▲ Highest qualification is an A level or equivalent qualification (excluding apprenticeships)
- Highest qualification is A\* to C grade GCSE or equivalent qualification

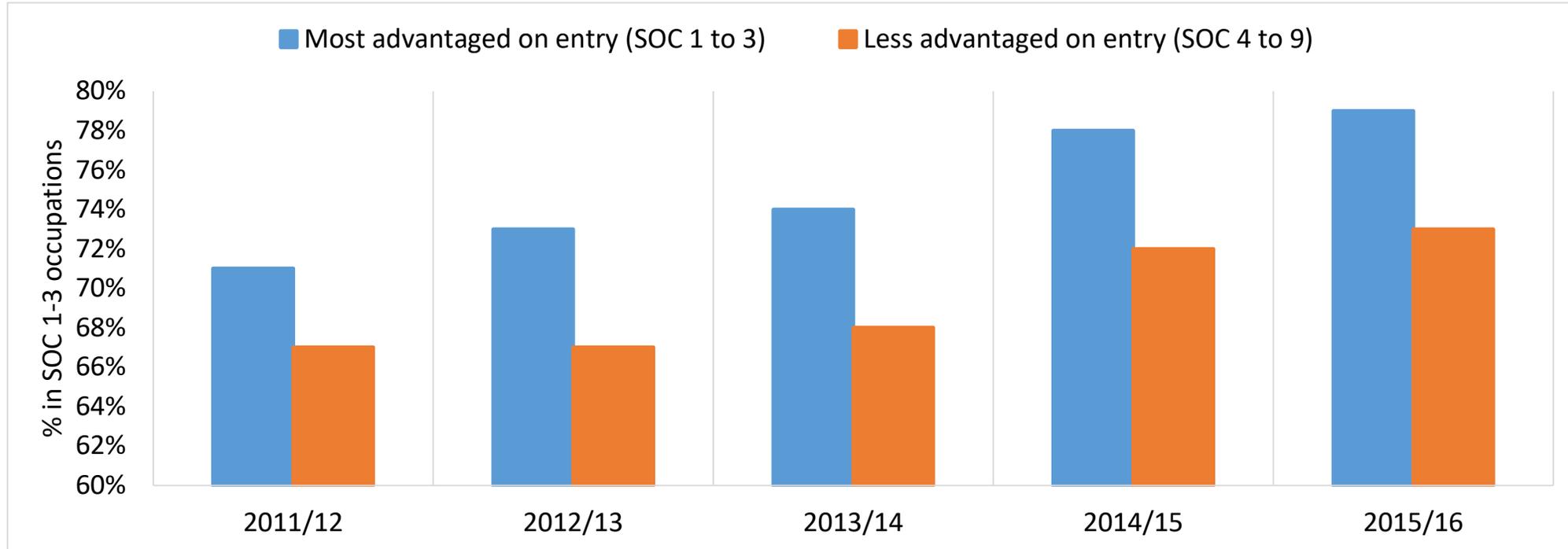
Source: DfE (2018), Average annual gross wage<sup>1,2</sup> by age and highest qualification  
July to September 2017, UK

# Distributional outcomes – generally, following trends of improvement but gaps remain

SMC (2017): “while there had been an improvement in wider participation among less advantaged young people, less progress was made in ensuring their retention, improving degree outcomes and employment outcomes”

- Non-continuation rates are higher for all but Chinese ethnic groups compared to White [shown on previous slides]. The gap in attainment for these groups and White students remain (although also improve). Even high achieving non-white students at entrance to university are less likely to obtain at least a 2:1 for their first degree compared to their white counterparts. Additionally, employment gaps remain between Black and Mixed ethnic minority graduates compared to White (HEFCE, 2017).
- While non-continuation rates have also improved more for those from disadvantaged areas [shown on previous slides], there is still a gap in the proportion of them achieving a ‘good degree’ (2:1 or above), and securing employment (HEFCE).
- Earnings vary by degree performance, subject studied, HEI attended, type of secondary school attended (various references)
- Median earnings among graduates from higher income families are 25% more than those from lower income families, while controlling for institution attended and degree subject, the difference is still substantial - around 10% (Britton et al., 2016).

# Distributional outcomes - less advantaged remain less likely to attain 'graduate jobs' (first destinations)



Only 26% (2008/10) and 18% (2012/14) of first-degree graduates were in non-professional occupations 40 months after graduating (HESA Longitudinal Destination Survey of 2008/10 and 2012/14 graduates)

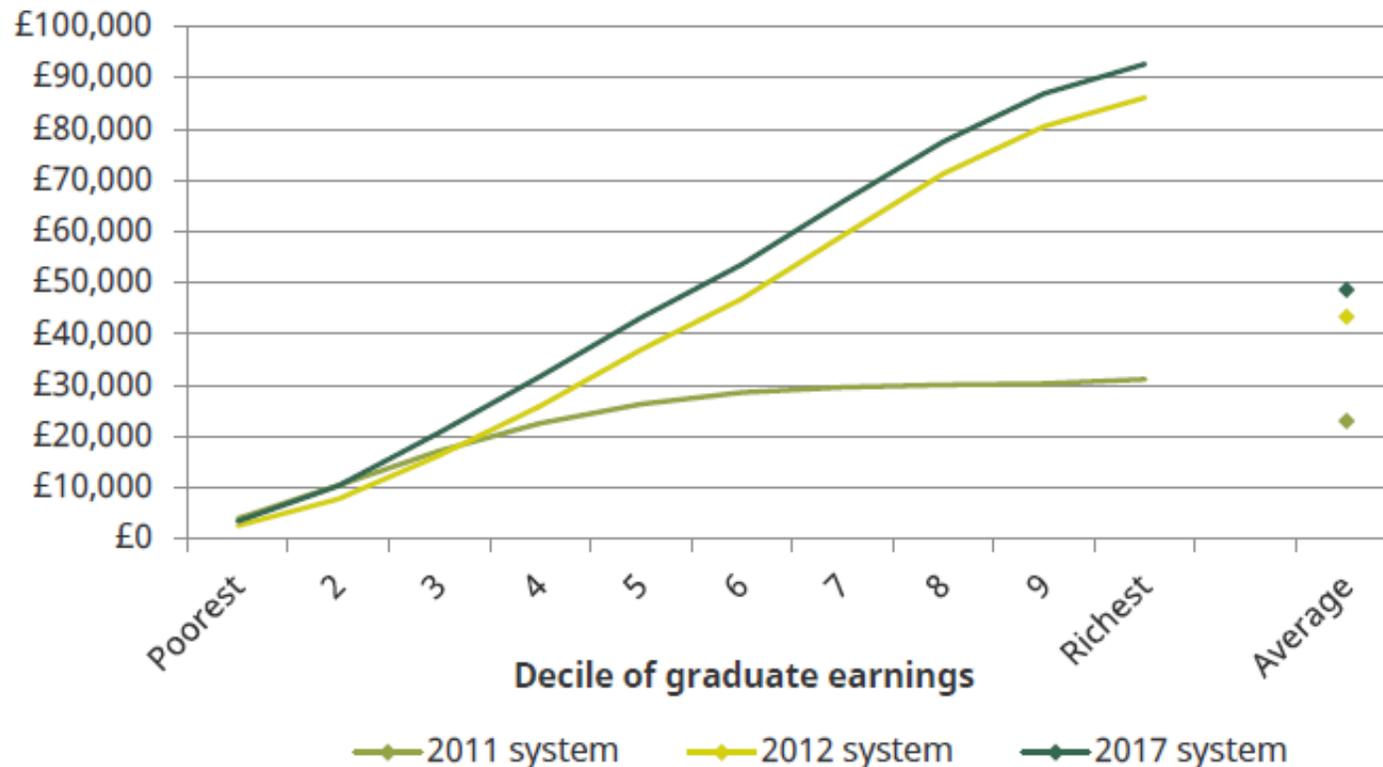
Source: DfE (2017), English domiciled graduates in FT employment six months after graduation)

# Distributional outcomes – rising student debt

Recent cohorts of students are graduating with very large debts

Repayment has become more progressive

Due to interest charges higher earning graduates pay back considerably more than they borrow (average payback £48,600 but highest earnings payback over £90,000)



Source: Belfield et al., (2017)

# Summary

What progress has been made in reducing social inequalities through higher education policy?

- Longer-term progress has been made with increasing shares of young people from disadvantaged backgrounds attaining higher education qualifications
- But...
  - Less progress has been made in closing the gap (dis/adv)
  - Progression rates (A level -> HE) between state and independent schools has increased particularly to selective HEIs
  - Gaps remain in graduate outcomes
  - Recent reforms (replacing maintenance grants with loans for those from disadvantaged backgrounds) will increase debt held by this group and could put them at a disadvantage later in life and may have a negative impact on participation
- Impact of high loan repayment on income/savings, etc. of graduates
- High uncertainty in estimation of economic cost of loans/large increase in fiscal deficit looming on the horizon 2030 and particularly 2042
- Is subsidising low earning subjects/institutions sustainable?