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Higher Education from May 2015 to pre-COVID 2020: Policies, Spending and Outcomes

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Since taking office in 2015 Conservative Governments have been committed to increasing participation in higher education; widening participation; reforming HE architecture in England and ensuring UK universities remain world leading. There have been a number of major policy developments, and some positive higher education trends, though with significant ongoing challenges.

- Key policy changes in England (this area of policy is devolved) include the removal of the cap on Higher Education (HE) student numbers, changing HE architecture including the new Office for Students (OfS) and UK Research and Innovation, the introduction of a teaching quality framework and a simplified single route into the sector for new providers.
- Annual government spending on HE in England, in real terms, remained stable at around £11 billion with the vast majority spent on subsidising student loans. Following a review by the Office for National Statistics in 2018, the projected economic subsidy on new student loans is counted towards annual public expenditure.
- More young people attend university than in the past and there is some evidence of a slight narrowing in the socio-economic gap in England.
- The growing use of unconditional offers is causing concerns with their link to poorer A-level performance, higher rates of drop-out, greater use by lower tariff universities and among applicants from less advantaged areas.
- Large increases in first class degree awards risks reputational damage. Some ethnic minority groups are much less likely to be awarded firsts.
- On average, graduates relative to non-graduates have continued to remain at an advantage in the labour market (employment, high skill jobs and average earnings).
- Beneath average rates of return, lies considerable variation and a significant share for whom, it is estimated, would have been financially better-off had they not attended university. While demand stays high, the current system creates no disincentive for providers to offer low value courses as the cost of education for students with low lifetime earnings is borne by tax-payers. The impact of the pandemic on the labour market is likely to bring this issue into sharper relief.

Aims and goals

As higher education is a devolved area of policy, the aims and goals of the government largely relate to England. Of the three Conservative party general election manifestos between 2015 and 2019, the 2015 manifesto sets out the most substantial set of higher education goals. The two overarching goals were: 1) to ensure that anyone can go to university if they want to, and 2) to ensure that UK universities remain world leading. In relation to the first goal, the Conservative party pledged to continue with the policy first announced under the Coalition government in 2013 to remove the cap on university places in England from 2015/16, with the exception of a small number of high-cost subjects which are subsidised (such as medicine). To meet these goals, the 2015 manifesto contained a number of commitments which included the introduction of a teaching quality framework, to require more data to be openly available to prospective students, to introduce a national postgraduate loan system for taught Masters and PhD courses, to encourage the development of online education and 2-year degree courses, and to use the findings from the Nurse Review to help maintain the UK's world class research reputation and academic excellence.

The 2017 manifesto contained very little mention of higher education. However, it did include a proposal to launch a major review into funding across tertiary education and a goal to try and replicate the success of US universities in benefiting from the commercial success of their research through the use of specially designed investment funds.

The 2019 manifesto was also light on higher education goals. It included a commitment to consider carefully the recommendations from the review of tertiary education funding and provision proposed in the 2017 manifesto, subsequently led by Philip Augar and published in May 2019. In particular, a commitment was made to consider recommendations made to reduce higher education tuition fee levels and make changes to the charging of interest on student loans. Further commitments were made to explore ways to tackle grade inflation, low quality higher education courses and to improve the application and offer system for prospective undergraduate students.

Policy developments

A Green Paper, Fulfilling our Potential: Teaching Excellence, Social Mobility and Student Choice, was published in 2015, followed by a White Paper in 2016 Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice, leading to The Higher Education and Research Act 2017. The main higher education policy changes that followed are:

HE architecture

From 2018/19 the introduction of a new non-departmental public body, the Office for Students (OfS), responsible for regulating HE in England. OfS combined the existing regulatory functions of the, now dissolved, Higher Education Funding Council for England (HEFCE) and the Office for Fair Access (OFFA), which merged with the OfS. This change reflected the new funding model in England and a shift from a quality assessment process to risk-based regulation.

Following recommendations in the Nurse Review, the introduction in 2018 of a single non-departmental public body to oversee research funding and administration. UK Research and Innovation (UKRI) brought together the seven existing UK research councils with Innovate UK and Research England (which

undertakes functions for England in relation to research and knowledge exchange that were previously performed by HEFCE).

Competition

These reforms also led to a simplified, single route into the HE sector for new providers overseen by the OfS. This was designed to provide quicker entry and the ability for new providers to award their own degrees. The aim was to increase provision, innovation and choice.

Widening participation, teaching quality and student choice

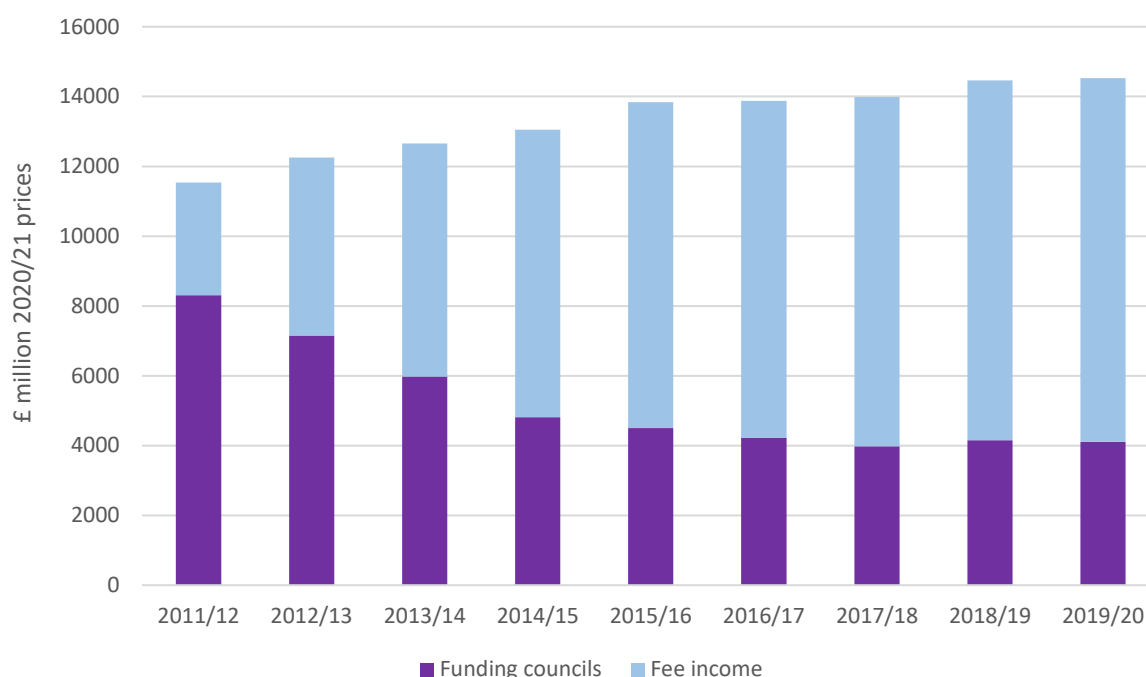
The OfS remit includes widening participation and fair access. A new statutory duty was introduced to cover equality of opportunity across the whole lifecycle (access, retention, progress through HE and employment outcomes) while previously the focus was on access only.

Adopted by the OfS in 2018, the Teaching Excellence and Student Outcomes Framework (TEF) was introduced to provide prospective students with provider level assessments of teaching quality, learning environment, student outcomes and learning gain. After some initial piloting and voluntary participation, since 2020 all but the smallest providers in England are required to undergo a TEF assessment. In 2019 Dame Shirley Pearce conducted an independent review of TEF, and made a number of recommendations for improvement.

Public expenditure

Following the increase in undergraduate annual tuition fees to £9,000 in England from 2012/13 (subsequently raised to £9,250 in 2016/17), government spending on higher education and university funding was transformed. While previously the main source of funding for HE providers in England came from teaching grants, distributed by HEFCE, tuition fee income became the predominate source of funding with teaching grants available for only a small number of high cost degree courses (such as medicine). This shift between 2011 and 2020 is shown in Figure 1 the first half of this decade, this change led to real terms increases in HE funding in England of around £2.31bn. In the second half of the decade the increase was a more modest £656m. Teaching resources per student in England to cover three years of full-time study have declined since 2015 in real-terms due to falls in the value of tuition fees (the cap has been held constant in nominal terms since 2016/17) and government teaching grants (Britton et al., 2020).

Figure 1 Funding for the HE sector in England, 2011/12-2019/20



Source: Bolton (2021)

Calculating what these changes mean in terms of government spending is not straightforward. This is because students pay tuition fees and cover the cost of their maintenance through the government provision of income-contingent loans (administered by the Student Loan Company). After graduating, and when earnings exceed a pre-determined threshold, graduates start paying back these loans as a percentage of their earnings above the threshold (currently 9%). After a defined number of years, any unpaid balance is written-off by the government (currently after 30 years). This means that the cost of HE for lower earning graduates – either in terms of the number of years in employment or in terms of annual earnings – is subsidised by the tax-payer and this subsidy element accounts for the largest component of government expenditure on HE. As unpaid balances are not written-off until 30 years after loans are made, estimates of the subsidy element will be imprecise as they are dependent on predicting graduate earnings across a cohort for decades in the future. The subsidy element is calculated as the face value of loans made in any one year less the discounted or present value of future repayments and is frequently expressed as a proportion of the initial loan outlay, the so-called RAB (resource accounting and budgeting) charge. Changes over time in eligibility for student loans (eg extensions to part-time students), on interest rates, repayment thresholds, repayment rates, changes to the cap on annual tuition fees, changes to the composition of graduates holding student loans and predicted earnings before loans are written-off, all affect estimates of the RAB charge between cohorts. Prior to the pandemic, the government estimated that the RAB charge for Student Loans in England made in the 2018/19 financial year was around 47% (41% for part-time students and 47% for full-time students; DfE, 2019), meaning that the government anticipated that only around 53% of the total face value of loans is likely to be repaid. With loan

outlays of £15,306 million for students studying full-time and £271 million for students studying part-time (DfE, 2020), this amounts to sizeable expenditure.

Another complexity is related to the treatment of student loans in national accounts and public expenditure, and therefore the fiscal deficit and the national debt. Until recently the issuance of student loans was classified a financial transaction and not included in the main measure of public expenditure on services. This meant that current spending on student loans did not count towards the fiscal deficit. Only interest accrued counted as income and write-offs as expenditure. But as write-offs don't occur until 30 years after loans are made, this system meant that the impact on the deficit would not be visible until a long time in the future. In relation to the national debt, loan outlays increase the debt, loan repayments reduce the debt both by their face value. Interest and write-offs have no impact on the national debt.

The Office for Budgetary Responsibility (OBR) called this system a 'fiscal illusion' as policy decisions taken today would have no impact on the public finances for the next 30 years (OBR, 2018). The Treasury Select Committee and the House of Lords Economic Affairs Committee recommended that the Office for National Statistics (ONS) should re-examine the classification of student loans as financial assets for government and consider whether there is a basis to treat them differently from other loans in the UK National Accounts and Public Sector Finances. In December 2018 ONS published an explanation for its decision to treat the issuance of UK student loans as a combination of government expenditure and a financial transaction (ONS, 2018). This means that student loans are now treated part as financial assets (loans), as some will be repaid, and part as government expenditure (capital transfers), as some will not be repaid. ONS describe this as the partitioned loan-transfer approach.

What does all this mean? Estimates put the real value of total public spending on Higher Education in England at just under £11 billion a year between 2015/16 and 2018/19, in 2019-20 prices (Bolton, 2021).

Outcomes

Increasing use of unconditional offers

For most applicants, UK universities make offers based on predicted examination grades. This is because the timing of the admission cycle means that offers are made prior to the publication of examination results. Since the cap on student numbers in England was raised and then removed for the majority of undergraduate courses, concern has been growing about the increasing use of unconditional offers, or more specifically what are called conditional-unconditional offers (offers become unconditional once an applicant selects an HE provider as their first choice). With the lifting of the cap, universities are now in much greater competition for prospective students and unconditional offers can help to secure students. In 2015 around 12% of applicants to degree level courses in England, Northern Ireland and Wales received at least one offer which included an unconditional component; in 2019, the share increased to nearly 38% (UCAS end of cycle report 2019; OfS, 2019). There are a number of issues associated with this practice that are troubling. It has been shown that applicants who accept unconditional offers are more likely to miss their predicted grades (by two or more grades). Lower tariff providers (i.e., providers with lower entry requirements) are more likely to make unconditional offers, although there is variation within tariff types. Applicants from areas of lower HE participation are more likely to receive

unconditional offers and this is partly due to the profile of HE providers they apply to. Although most applications for undergraduate courses are processed by UCAS, some universities are inviting applicants to apply direct to them if they are the applicant's first and only choice. Applicants are being told that if they apply direct they won't need to complete the lengthy UCAS form, write a personal statement, or pay UCAS registration fees and can be told that they will be informed of the outcome within 48 hours (i.e. they won't have a lengthy wait). The university submits the form to UCAS on behalf of the applicant. This practice is reflected in the increase in direct unconditional offers (around 4% 2015 to around 12% in 2019) (UCAS, 2020). The OfS has raised the issue that there could be an element of pressure selling associated with unconditional offers and this is an illegal practice.

HE participation

The number of applicants to full-time undergraduate degree courses has risen considerably since 2006. The greatest increases occurring between 2006 and 2010, and over this period the acceptance rate fell as demand for places on undergraduate degree courses outstripped supply. Under the Coalition government the number of applicants was largely unchanged although the number of acceptances increased marginally in the final year, which may have been a reflection of a slight raising of the cap in student numbers in England prior to its removal in 2015/16. Under the Conservative governments, applications also increased marginally between 2015 and 2019 but acceptances grew by more and the acceptance rate increased. Devolution of HE policy meant that different trends emerged between UK nations and particularly between England and the rest of the UK. Focusing on 18 year olds applying for full-time undergraduate courses through UCAS, it emerges that application rates in England increased from 34.8% in 2014 to 38.8% in 2019. In contrast, rates were virtually unchanged in Northern Ireland, increased only marginally in Scotland and increased by just over 2 percentage points in Wales. Application rates in areas with historically low HE participation increased in all UK nations under the Coalition government and continued to increase under the Conservative governments, particularly in England. However, since 2014 the gap between areas with historically low and historically high HE participation was largely unchanged in England, increased in Wales and fell in Scotland and Northern Ireland. However, as acceptance rates have increased the entry rate gap between students from the areas with the highest and lowest levels of historical participation fell in both relative and absolute terms.

There exists a wide gender gap in application rates and the gender ratio in application rates increased across all UK nations between 2015 and 2020. In 2020, application rates in England among 18 year olds were 46% for women but only 33% for men. Despite this wide disparity, there appears to be little policy focus on reducing this gap.

Other ways of measuring the socio-economic gap in participation, show that the size of the gap in entry rates between students previously eligible for free school meals (FSMs) and non-FSMs students fell in relative but not absolute terms over the past decade. This was also the case for the most advantaged and disadvantaged MEM groups (UCAS's multiple equality measure). However, despite some signs of improvement socio-economic gaps in participation remain large. In addition, the move to the new funding model has been associated with quite precipitous falls in HE participation for mature students and students studying

part-time, and rates have not recovered despite policy changes such as extending student maintenance loans to part-time students.

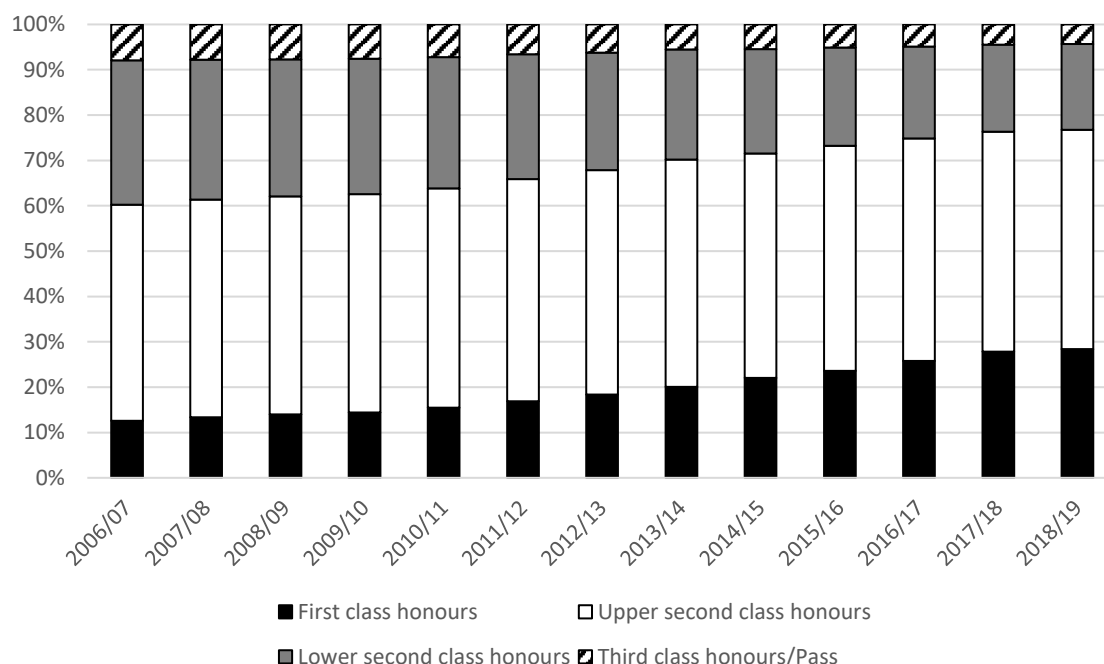
More graduates are achieving first class degrees but is there grade inflation?

Over the last decade the number of undergraduates achieving first class degrees has increased but concerns have been raised about grade inflation and reputational damage. With the removal of the cap in undergraduate student places in England and HE operating as a form of market where universities effectively compete for students, there is an incentive for universities to award more first class degrees to attract students as this is a performance indicator used by prospective students (and their parents). The proportion of UK domiciled, full-time undergraduates attaining a first class honours degree from an English higher education provider, increased from 13% in 2006/07 to 22% 2014/15, and to 28% in 2018/19 (shown in Figure 2); more than doubling over this period and increasing by 27% under the Conservative governments. Increases in student numbers meant that in 2018/19 there were more than 32,000 additional graduates awarded a first class degree than in 2014/15.

After higher annual tuition fees were introduced in 2012/13, first class degree awards increased by 10 percentage points up to 2018/19 (18% to 28%). Over the same period, the share of upper second class degree awards fell by only 1 percentage point (49% to 48%), but the share of lower second class degree awards declined roughly in line with the increase in firsts, falling by 7 percentage points (26% to 19%) and the share of third class degree awards fell by 2 percentage points (6% to 4%). This increase in first class degree awards is not simply due prior to students entering university with higher levels of prior attainment, as the proportion of firsts increased among all prior attainment groups no matter how low their entry level qualifications were (Office for Students, 2019).

The chance of achieving a first class degree is found to vary by ethnicity. In 2018/19 30% of White undergraduates were awarded a first class degree (77% were awarded a first or an upper second class degree). In contrast, only 14% of Black undergraduates were awarded a first (only 57% were awarded a first or an upper second class degree). A higher share of Asian students and Mixed ethnicity students achieved first or upper second class degrees than Black students but overall White students were the most likely to be awarded firsts. This ethnic gap is not due to differences in entry qualifications. At every level of entry qualification, Black undergraduates are less likely to be awarded a first or upper second class degree. Statistical modelling finds that the vast majority of the ethnic gap couldn't be explained by differences in entry qualifications, subject studied, Participation of Local Areas (POLAR) quintile, previous school type, gender, disability status, course type or age (HEFCE, 2018).

Figure 2 Trends in the distribution of degree classifications, 2006/07-2018/19



Source: HESA: Overview charts (Students); Reference ID: OC051 Chart 9

Despite increases in first class degree awards for all ethnic groups, the gap between White undergraduates and Black undergraduates increased over time. In 2012/13 20.4% of White undergraduates were awarded a first class degree in contrast to only 7.5% of Black undergraduates, representing a gap of 12.9 percentage points. In 2018/19 the gap widened to 16.9 percentage points.

Graduate labour market outcomes

There are clearly quite long lags between changes in higher education policy and early labour market outcomes of recent graduates, as higher education leavers in any year will have made the decision to participate at least three years earlier. In addition, graduate labour market outcomes are affected not just by the quantity and quality of graduates entering the labour market in any one year but also by wider economic aspects that can affect graduate recruitment.

Until recently HESA collected information on graduates’ first destinations at approximately six months after graduation and although these statistics provided an indication of the ease of insertion into the labour market, a review concluded that more reliable information on early graduate labour market outcomes should measure outcomes further after graduation. The Graduate Outcomes survey replaced the earlier survey and now takes place 15 months after graduation, with 2017/18 leavers the first cohort to take part. Because there is a longer delay in collecting the information, the first results from this survey were not published until June 2020. Discontinuities between the two surveys mean that it is not possible to produce a time series beyond 2016/17. This is not ideal for assessing change since 2015 in the early destinations of graduates. In the paper we analyse data from HESA surveys along with information from the Labour Force Survey (LFS) and other published evidence.

Employment

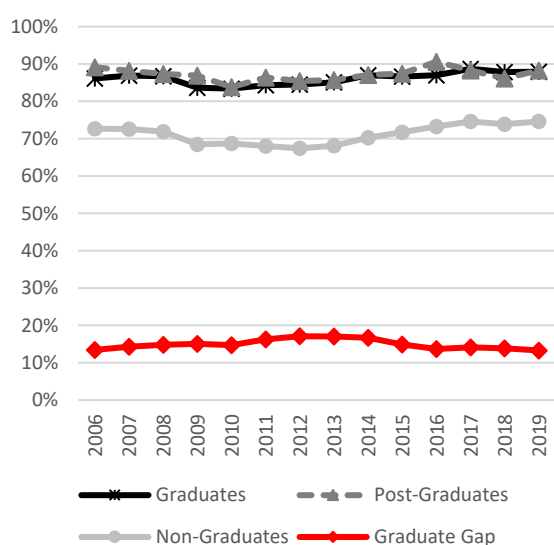
Higher education qualifications continue to be valued by employers and this is reflected in the higher employment rates among graduates and post-graduates relative to non-graduates (Figure 3a). Examining trends since 2006, it is clear that the 2007/08 financial crisis led to a fall in employment rates for both graduates and non-graduates leaving the gap in employment rates between graduates and non-graduates largely unchanged ('graduate gap'). Under the Coalition government (2010-2015), as the economy recovered after the 2008/08 recession, the graduate gap in employment increased up to 2012/13 as non-graduate employment rates took longer to recover. However, in the last year of the Coalition's term in office the graduate gap fell as the employment rate among non-graduates increased relative to that of graduates. Under the Conservative governments, the share of young non-graduates in employment increased relative to young graduates leading to a further fall in the advantage of holding a degree (the gap fell from 14.9 percentage points to 13.3).

High-skill employment

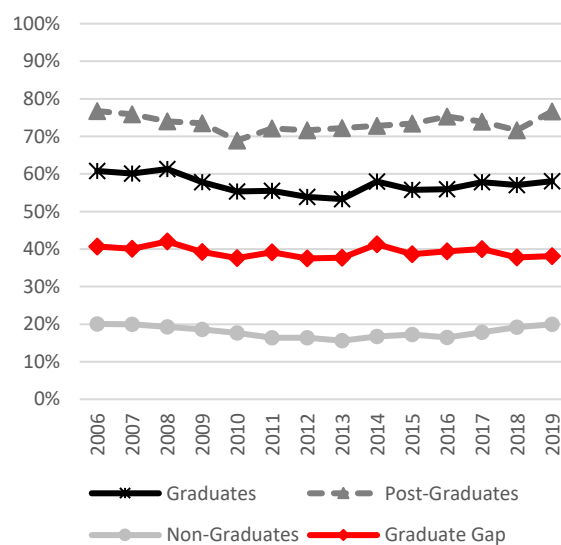
Employed graduates also have an advantage over employed non-graduates in terms of the share working in high-skill occupations (Figure 3b); between 2006 and 2019 50-60% of employed graduates, compared to 15-20% of employed non-graduates. Not surprisingly post-graduates are the most likely to be employed in high-skill occupations; around four times more likely than employed non-graduates. The share of graduates and post-graduates in high-skill employment fell following the financial crisis. Among young graduate employees, since the financial crisis less than 60% have been working in high-skill occupations with the lowest share (53%) in 2013. Between 2015 and 2019 the share increased marginally from 56% to 58% in 2019 but this was less than the increase among non-graduates and the graduate gap declined.

Figure 3 Employment outcomes by education level, 21-30 year olds, 2006-2019

a) Employment



b) High-skill (% of employed)



Source: DfE Graduate Labour Market Statistics 2015; 2019 (Labour Force Survey)

Graduate earnings

One of the main motivations for attaining a degree is the prospect of higher lifetime earnings and a higher standard of living. Although there are also wider benefits, arguably higher education has become more commodified since the introduction of tuition fees and the very high level of these fees in England since 2012/13. The government too has a vested interest as higher earnings increase the likelihood of student loans being repaid and lowers the government (tax-payer) subsidy. The government had hoped that the higher tuition fees introduced in 2012/13 would be variable and in part vary according to different rates of return, but this didn't transpire as universities (rationally) charged maximum fees and the maximum became the 'going rate'. To help guide students to degree courses with high rates of return, more detailed information on expected returns are now published in line with the commitment made in the Conservative party's 2015 manifesto.

Average rates of return have held up despite the increasing supply of graduates. However, large differences are found between subject studied, university attended, socio-economic background, prior attainment, type of secondary school and gender (Britton et al., 2020). Large graduate earnings premia associated with particular subjects (for example, medicine and economics) and universities (for example, Russell group universities) remain after controlling for differences in composition of students (Britton et al., 2020). However, some degree courses are associated with very low rates of return and for some students net rates of return can even be negative. Those who have negative returns would have been financially better-off had they not attended university. Although historical patterns of pay may not precisely predict future patterns of pay, estimates suggest that around one in five graduates are likely to be worse-off (Britton et al., 2020). Not only is this an issue for the individuals involved, unpaid student loans are ultimately paid for by tax-payers. With no cap on student numbers, and fees covered through income-contingent student loans there is no disincentive for providers to offer low value courses as long as demand holds up.

Conclusions and policy challenges looking forward

Higher education benefits individuals and society, and has the potential to be a key engine of social mobility. While some progress has been made with record entry rates among 18 year olds from historically low HE participation areas, it is still the case that young people in high participation areas are more than twice as likely to attend university. In 2017 the Social Mobility Commission concluded that "if progress continues at the current rate it will take more than 80 years before the participation gap between students from disadvantaged and more advantaged areas closes".

The current funding model appears to have kept the level of government spending on HE broadly stable between 2015 and 2019 even in the context of increasing HE participation. The current HE funding model in England annually adds £11bn to government expenditure (ultimately taxpayers) mainly through subsidising a large share of the face value of student loans that is not expected to be repaid. The previous method of accounting meant that this expenditure was effectively differed to a long way in the future but a recent revision by ONS has meant that the subsidy element now accrues in the year liabilities are incurred (student loans are issued). This helps to bring this element of government expenditure into focus.

An increasing share of graduates are being awarded first class degrees and this increase is found across different levels of entry qualifications, including among

those with very low prior attainment. The increase started at around the time higher tuition fees were introduced and might be being used to attract prospect students as well as to reward students for the large investment they are making. Concern has been raised that grade inflation risks reputation damage and the devaluing of degrees awarded in a different era.

On average, graduates continue to have an advantage in the labour market despite increases in supply. They enjoy higher rates of employment, greater prospects of working in high skill jobs and, on average, higher lifetime earnings. Beneath this average lies considerable variation with some subjects at a number of prestigious universities associated with very high earnings premia. Rates of return continue to be socially stratified reflecting not just variation in the value of different degrees but also inequalities in the labour market. Experts have concluding that there are too many degree courses which have little value and too many students find that they would in fact have been better-off in financial terms had they not attended university.

Policy challenges for the 2020s

There are a number of areas identified that require attention from policy makers. The growing use of unconditional offers, given their association with poorer A level grades and higher drop-out, needs to be addressed particularly if they are found to be associated with lower earnings. Addressing the timing of the university admission cycle and the release of A-level grades which results in predicted grades being used as the basis for offers could help to eliminate the use of unconditional offers. Other areas which need urgent attention include access to high tariff universities and the much lower participation rates among young men.

Grade inflation associated with large increases in the award of first class degrees risks reputational damage and could devalue degree awards made in the past.

The prevalence of low value degrees, ultimately paid for by tax-payers, needs to be reduced. This might involve looking at the incentives of providers and the funding they receive for different degree courses. Better information and guidance for prospective students could also help.

The sustainable financing of higher education in England is once again emerging as a major issue. The fact that the nominal value of tuition fees is unchanged since 2016/17 has meant that real income per student from this source has fallen considerably, and this will inevitably impact on education quality and student experience. The Government did not publish a full response to the most recent review (the Augar Review) until spring 2022, some four years after it was set-up. The review and recommendations already seem a bit dated.

Challenges associated with Brexit

Brexit led to a fall in EU students, which has revenue implications, and a smaller pool of academic teaching staff to draw from. Although the government has made various commitments, it is also likely to have a negative impact on research funding and opportunities to collaborate with EU researchers.

Challenges associated with the Covid-19 pandemic

The pandemic has had an impact on the number of international students and as these students pay higher fees than domestic students this fall had serious financial implications particularly for some providers. This not only affects total revenue but where higher international student fees are used to cross-subsidise

the cost of domestic students' tuition, the fall in enrolment of international students will have a wider negative impact.

Although domestic student numbers increased in 2020/21, in part because of the higher exam grades awarded and universities filling places which would normally be filled with international students, universities are facing large cuts to their revenue. These come from lower income from residences and catering, cancellations of executive education, summer schools and conferences. Universities are also facing higher costs, in particular due to increases in pension liabilities and inflation.

From a government expenditure perspective, lower lifetime earnings due to the impact of the pandemic on the labour market has led to an increase in the cost of HE as anticipated loan repayments have fallen. This has already led to an upward revision in the RAB charge for student loans in England issued in 2019/20 from 54% for full-time students (up from 47% in 2018/19) and 45% for part-time students (up from 41% in 2018-19). It will also affect the share of loans made in previous years that is likely to be repaid and will therefore lead to an increase in government expenditure.

Further information

The full version of this paper *Higher Education from May 2015 to pre-COVID 2020: Policies, Spending and Outcomes* is available at <http://sticerd.lse.ac.uk/dps/case/spdo/spdorp16.pdf>

This is one of a series of papers produced as part of CASE's research programme [*Social Policies and Distributional Outcomes in a Changing Britain*](#) (SPDO) funded by Nuffield Foundation. The research examines what progress has been made in addressing inequalities through social policies, looking across ten major social policy areas. The views expressed are those of the authors and not necessarily those of the funders.