The impact of the “2006-07 package” of reforms to HE funding

Submission to the 2010 fees review
Institute for Fiscal Studies
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What do we mean by 2006/07 reforms?

• 2004 HE Act phased in reforms over 3 years and all finally came into place in 2006/07

• But re-introduction of grants of £1,000 began in 2004/05 for low income group

- Here we present results with 2003/04 as base, to make sure we include the effects of the full package of student support

Source: Labour Force Survey
Overview

What was the effect of the 2006/07 package of reforms to fees grants and loans?
1. No behavioural change (see Dearden et al, 2008)
2. Estimating behavioural responses (see Dearden et al, 2010)

What would be the effects of some hypothetical future reforms?
1. Possible savings, and their distributional implications

Background analysis
- ‘Widening participation’ in HE work (see Chowdry et al, 2008)
What was the effect of the 2006/07 reforms?

- Initial work looked at impacts of 2004/5 to 2007/8 reforms under no behavioural change (see Dearden et al, 2008)
  - Students, Graduates, Exchequer, Universities
    1. Viewing the reforms as a zero-sum: who paid and gained?
    2. How did the net costs of university change according to parental income background?
    3. Understanding loan subsidies: which graduates gained the most from fee deferral?

- Subsequent work has examined participation responses: see (Dearden, Fitzsimons, Wyness, 2010)
  1. How responsive is age 18/19 HE participation to changes in fees, grants, and loans?
  2. What was the effect of the 2006/07 package of reforms?
Effects of the 2006-07 reforms: assuming “no behavioural change”
1. Who paid and who gained from “2006/07 reforms”? A circular flow of payments

Taxpayers and graduates paid more; students and universities gained

£ billion

<table>
<thead>
<tr>
<th></th>
<th>2003/04</th>
<th>2008/09</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers</td>
<td>-5.6</td>
<td>-6.7</td>
<td>-1.1</td>
</tr>
<tr>
<td>Students</td>
<td>-0.5</td>
<td>+1.1</td>
<td>+1.6</td>
</tr>
<tr>
<td>Graduates</td>
<td>+0.6</td>
<td>-1.1</td>
<td>-1.7</td>
</tr>
<tr>
<td>Universities</td>
<td>+5.5</td>
<td>+6.7</td>
<td>+1.3</td>
</tr>
</tbody>
</table>

Column sum

0
0
0

Note: assumes minimum bursaries from universities to students
2. How did the reforms affect the net overall cost of attending university, by parental income?

- Net cost lower for parental income backgrounds <£39,000 (2009/10 system)
- Compared to a pre-reform base year 2003-04
- Value of the loan taken to be the implicit govt subsidy (the rest has to be paid back)
3. Understanding loan subsidies: which graduates benefit the most from fee deferral?

- Subsidised loans are a taxpayer contribution and can be seen as the equivalent of an up-front grant
- Our core analytical work was simulation of graduate earnings profiles
  - Allowed us to examine distributional issues around fee deferral
  - Loan subsidies: interest subsidy and debt write off combined are progressive among graduates: for women most due to write-off
  - Now allows us to do ongoing work on reforms - fee cap; loan subsidies, etc.
Understanding loan subsidies: lifetime earnings simulations

Graduate lifetime earnings distributions

Cumulative distributions

Males
Females
Understanding loan subsidies: value of subsidy according to lifetime earnings

- Loan subsidies: interest subsidy and debt write off are progressive among graduates: for women most due to write-off.
What were the effects of the 2006-07 reforms on HE participation?
How did the 2006/07 reforms affect participation in HE? Summary of findings

• The complete 2006/07 reform package had no overall impact on HE participation in England

  – But grants, fees and loans do impact on participation and in different ways
    • A £1000 increase in fees has a negative impact on participation of around 4.4 percentage points
    • This outweighs the positive impact of a £1000 increase in loans (3.2 percentage points) and/or grants (2.1 percentage points)

  – Thus, increasing fees without increasing loans and/or grants by the same value or more, will result in a negative impact on participation
How did the 2006/07 reforms affect participation in HE? Outline of research

Aim of research: estimate effects of upfront fees and grants on higher education participation using funding reforms of past 16 years

- Variation in fees and grants since 1992:
  - Upfront fees of £1200 introduced in 1998
  - Deferred fees of £3000 introduced in 2006
  - Student maintenance grants reduced then abolished in 1999, re-introduced in 2004 and extended in 2006
  - Maintenance loans increasing every year – we control for this but not looking at effect

- Variation in fees and grants by parental income level – means testing

- Model using LFS data 1992-2008 on youths aged 18-19 with info on degree participation and parental income (used to estimate fee, loan and grant eligibility)
Variation in fees and support over time and by income policy groups

- Low and medium income groups affected by fall and then increase in grants
- All income groups affected by increase in fees but timing different
- All groups received increase in loans

LFS degree participation (1st year of university eligibility)

Source: Labour Force Survey n=31,342
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Results of dynamic model – grants, loans and fees impact participation in different ways

• A £1000 increase in fees results in a 4.4 percentage point fall in participation

• A £1000 increase in grants results in a 2.1 percentage point increase in participation

• A £1000 increase in loans results in a 3.2 percentage point increase in participation
  (underlying assumption is discount future completely)

## Impact of 2006/07 policy change versus 2003/04 system – no impact for all groups

### Predicted effect of policy change:
Policy on – policy off (percentage point difference)

<table>
<thead>
<tr>
<th>Change (2006/07 v 2003/04 system)</th>
<th>Net costs</th>
<th>Grant</th>
<th>Loan</th>
<th>Fee</th>
<th>Overall Impact</th>
<th>Partic. (06/07)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated impact per £1k change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>low income</td>
<td>-£1700</td>
<td>£2700</td>
<td>£2000</td>
<td>£3000</td>
<td>-0.009</td>
<td>14.0%</td>
</tr>
<tr>
<td>medium income</td>
<td>-£1400</td>
<td>£1400</td>
<td>£2400</td>
<td>£2400</td>
<td>-0.003</td>
<td>17.2%</td>
</tr>
<tr>
<td>high income</td>
<td>-£1400</td>
<td>0</td>
<td>£3200</td>
<td>£1800</td>
<td>0.021</td>
<td>31.0%</td>
</tr>
</tbody>
</table>

* significant at 10%; ** significant at 5%; *** significant at 1%

### For example:

Low income students gained £2700 in grants and £2000 in loans; this was enough to outweigh the £3000 increase in fees.

The estimated overall impact of the reforms for low income students is -0.009; this is close to zero and statistically insignificant.

Source: Labour Force Survey
How did the 2006/07 reforms affect participation in HE? Conclusions

• The 2006/07 reforms had no overall impact on participation
• But grants, fees and loans do impact participation and in different ways
  – A £1000 increase in fees has a negative impact on participation
  – This outweighs the positive impact of a £1000 increase in loans
  – And this also outweighs a £1000 increase in grants
• Thus, increasing fees without increasing loans by the same value or more, will result in a negative impact on participation
The impact of some hypothetical future reforms: current work in progress
The future: our current work in progress modelling hypothetical future reforms

- Changes in participation
  - Can use our LFS-based model to predict participation responses to increases in fee cap, with or without corresponding increases in loans
  - Increases in fees alone would have negative participation effect
  - Can also model possible participation response to changes to grants
  - Responses to changes in loan system—take-up, participation, are harder to predict: instead we can give some scenarios

- Exchequer savings/distributional implications
  - Interest rate subsidy (e.g. abolish)
  - Repayment rate/Repayment threshold (e.g. raise rate, reduce thresholds)
  - Debt write-off point (e.g. extend)
  - Maintenance grants (e.g. reduce)
  - For all of these, we are updating our lifetime earnings simulations
Some other relevant background research: Widening participation in HE
Background: Widening participation in HE

• Shows that prior school attainment is main reason for large gap between rich and poor in:
  – HE participation
  – Participation in a ‘high status’ university

• Suggests HE funding reforms are not best tool for addressing social mobility/‘access’ issues.
  – Focus instead must be on improving school attainment amongst poor children

• Uses linked school, FE and HE administrative data to assess schooling roots of large SEP gap

Source: Chowdry et al, 2008 (see references at end of slide pack)
Widening participation in HE

Source: Chowdry et al, 2008 (see references at end of slide pack)
References

