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

Submission to the 2010 fees review

Institute for Fiscal Studies

19th January 2010

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

Overview

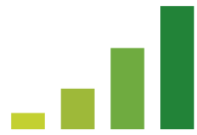
- **What was the effect of the 2006/07 package of reforms to fees grants and loans?**
 1. No behavioural change (see Dearden et al, 2008)
 2. Estimating behavioural responses (see Dearden et al, 2010)

- **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?



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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

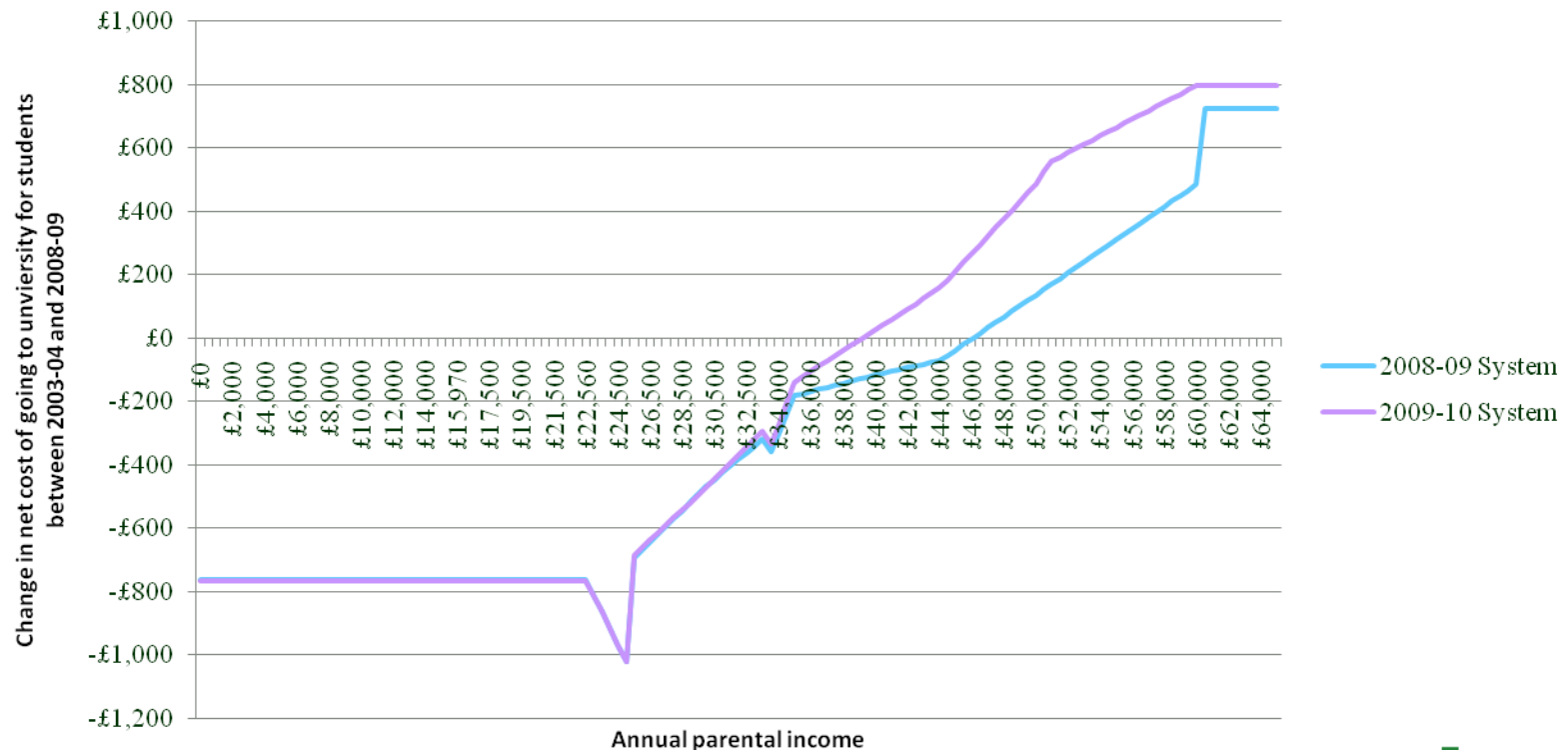
£ billion

	2003/04	2008/09	CHANGE
Taxpayers	-5.6	-6.7	-1.1
Students	-0.5	+1.1	+1.6
Graduates	+0.6	-1.1	-1.7
Universities	+5.5	+6.7	+1.3
<i>Column sum</i>	<i>0</i>	<i>0</i>	<i>0</i>

Note: assumes *minimum* bursaries from universities to students

2. How did the reforms affect the net overall cost of attending university, by parental income?

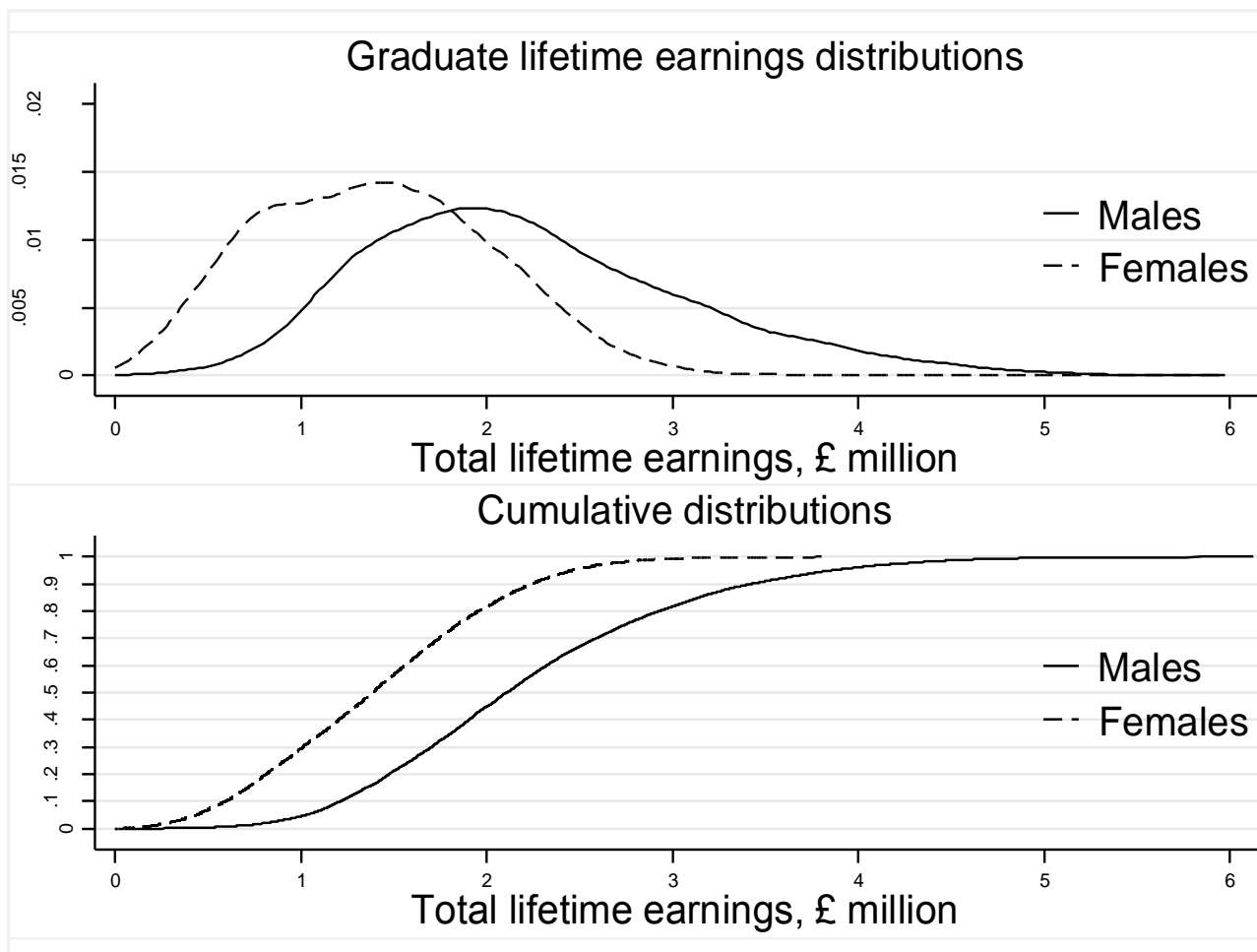
- Net cost lower for parental income backgrounds <£39,000 (2009/10 system)
- Compared to a pre-reform base year 2003-04
- Value of the loan taken to be the implicit govt subsidy (the rest has to be paid back)



3. Understanding loan subsidies: which graduates benefit the most from fee deferral?

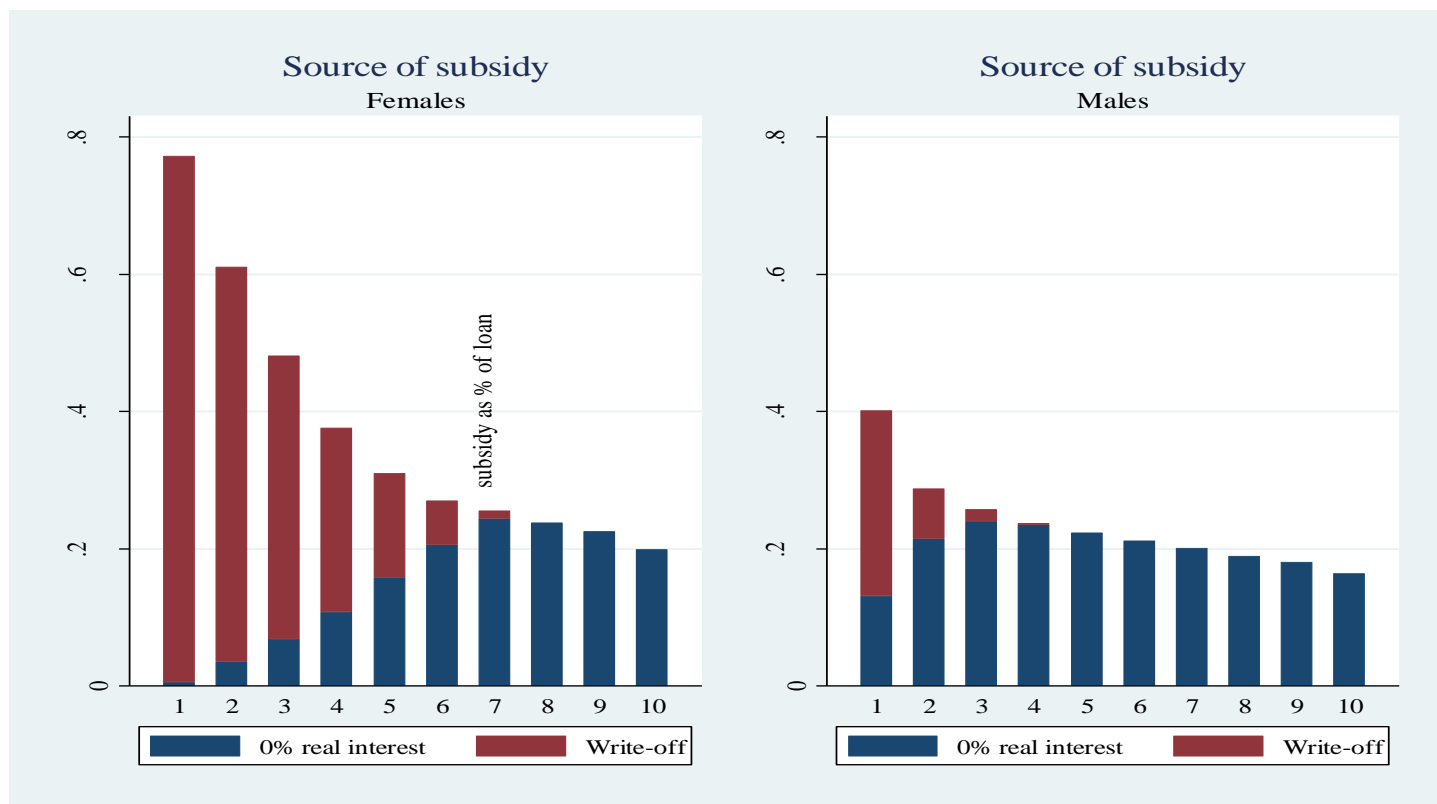
- Subsidised loans are a taxpayer contribution and can be seen as the equivalent of an up-front grant
- Our core analytical work was simulation of graduate earnings profiles
 - Allowed us to examine distributional issues around fee deferral
 - Loan subsidies: interest subsidy and debt write off combined 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.

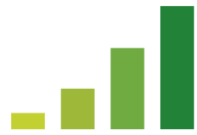
Understanding loan subsidies: lifetime earnings simulations



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





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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

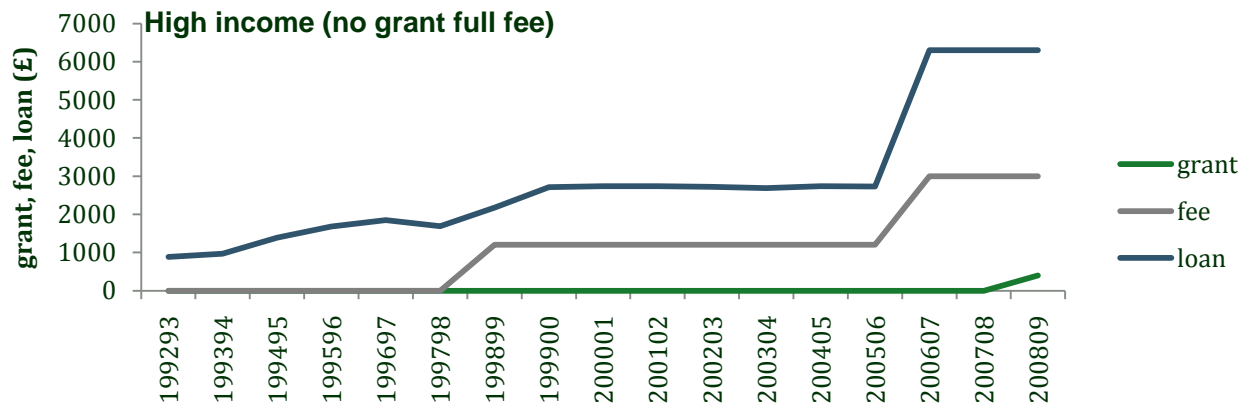
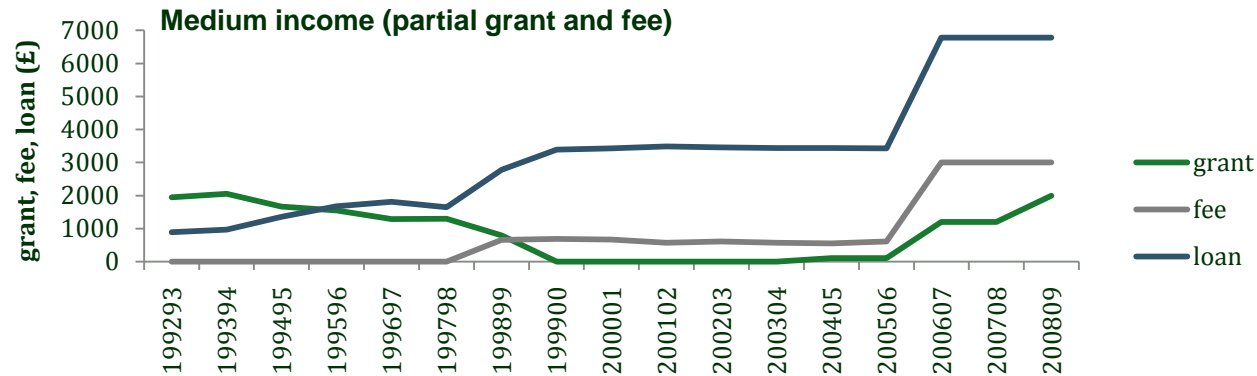
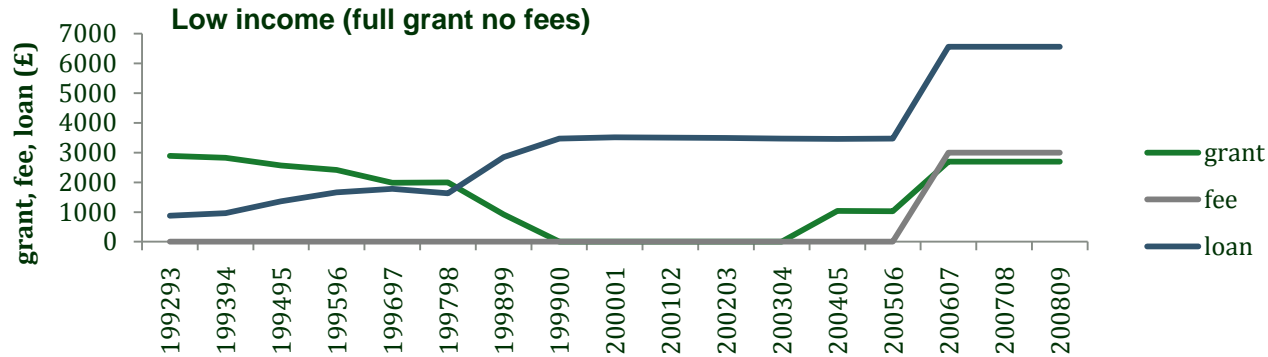
- The complete 2006/07 reform package had no overall impact on HE participation in England
 - But grants, fees and loans *do* impact on participation and in different ways
 - A £1000 increase in fees has a negative impact on participation of around 4.4 percentage points
 - This outweighs the positive 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

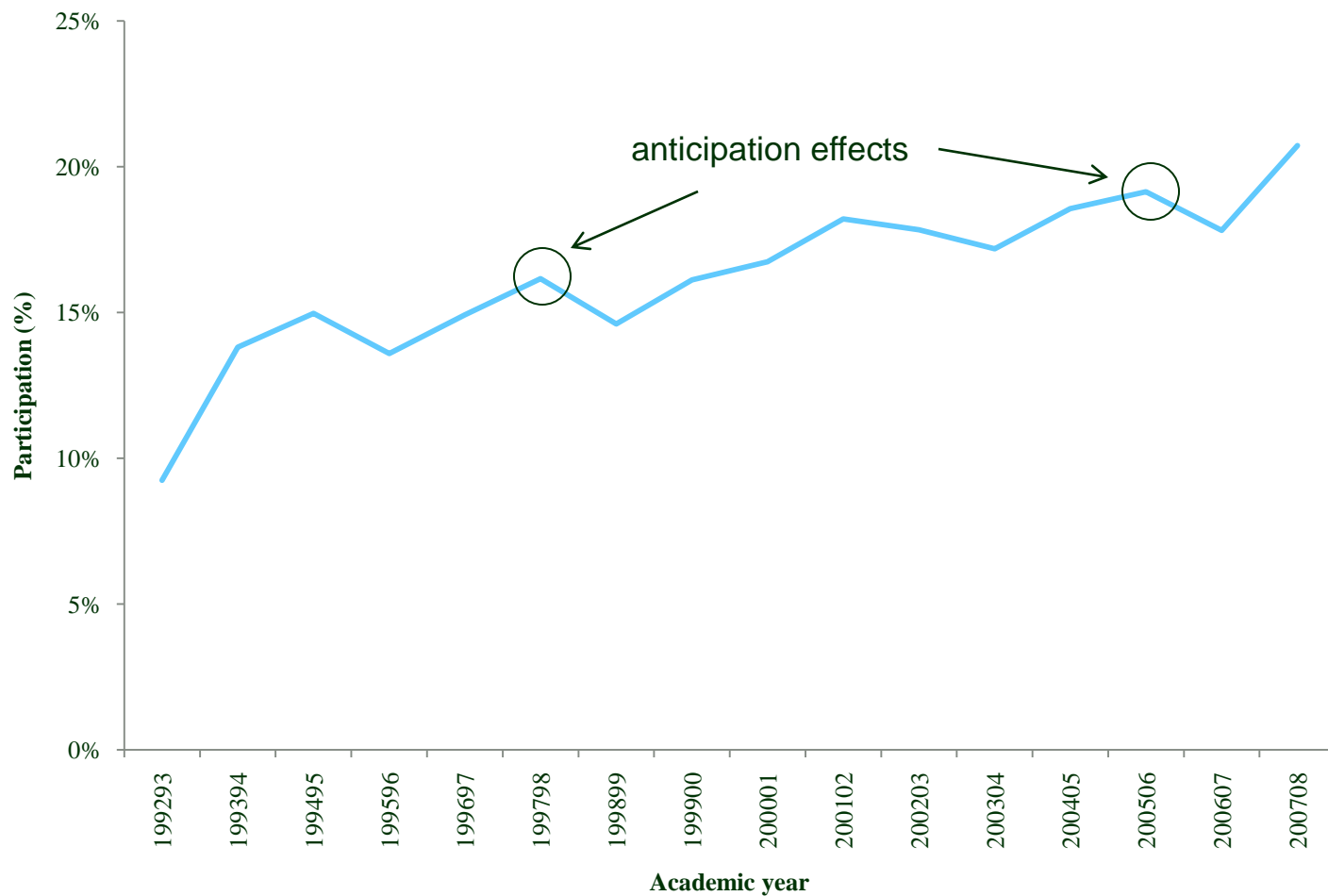


- Low and medium income groups affected by fall and then increase in grants

- 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)

Change (2006/07 v 2003/04 system) :						
Net costs	Grant	Loan	Fee		Overall Impact	Partic. (06/07)
<i>Estimated impact per £1k change</i>	+0.021	+0.032	-0.044			
low income	-£1700	£2700	£2000	£3000	-0.009	14.0%
medium income	-£1400	£1400	£2400	£2400	-0.003	17.2%
high income	-£1400	0	£3200	£1800	0.021	31.0%

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

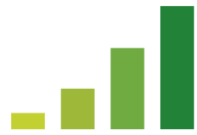
For example:

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

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

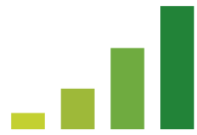


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The impact of some hypothetical future reforms: current work in progress

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



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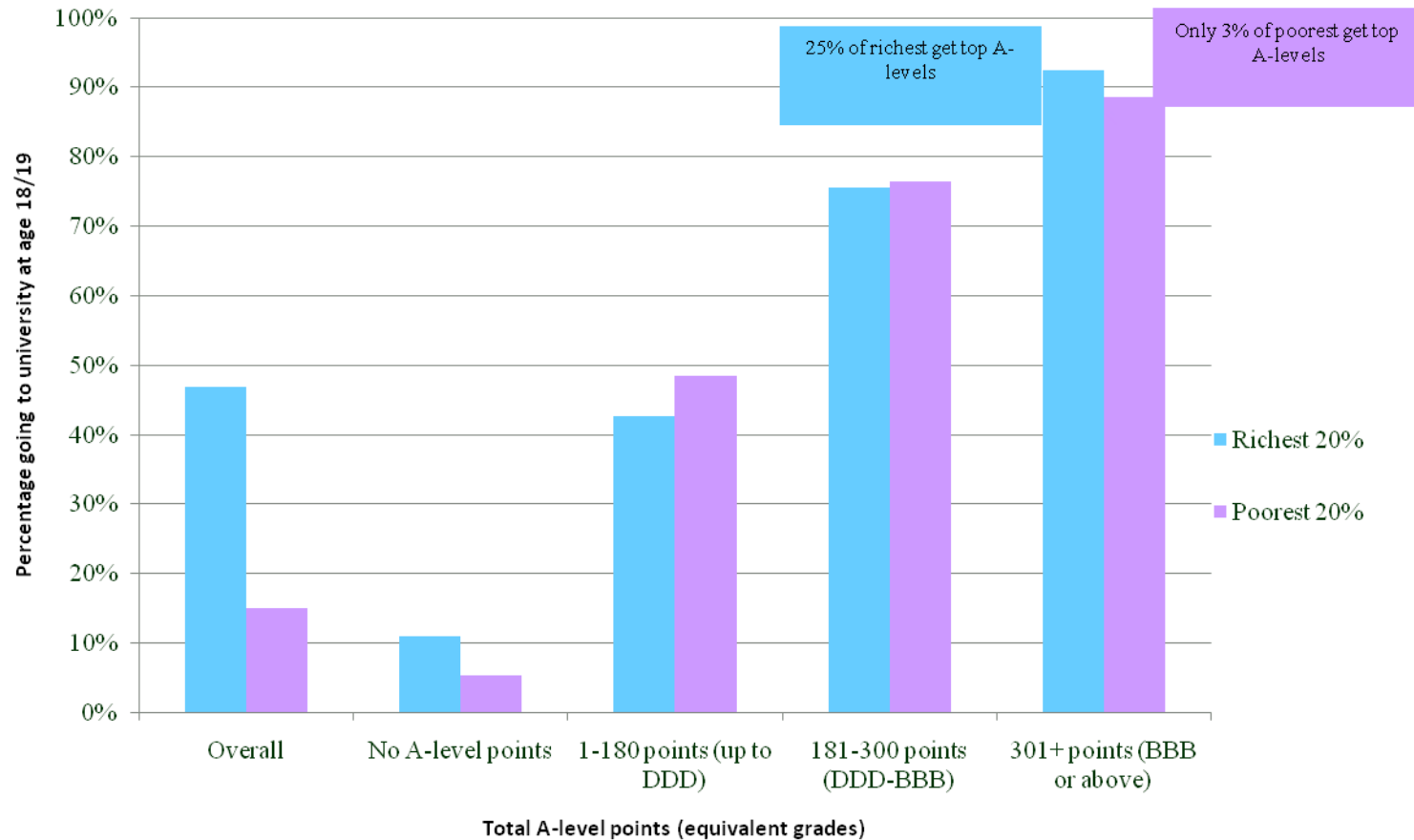
Some other relevant background
research: Widening participation in HE

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

- Chowdry, H., C. Crawford, L. Dearden, A. Goodman & A. Vignoles (2008), ‘Widening Participation in Higher Education: analysis using linked administrative data ’, IFS Report R69
- Dearden, L., E. Fitzsimons, A. Goodman & G. Kaplan (2008), ‘Higher education funding reforms in England: the distributional effects and the shifting balance of costs’, *Economic Journal*, Vol. 118, No. 526, pp. F110-F125.
- Dearden, L., Fitzsimons, E. and Wyness, G (2010), “Estimating the Impact of Up-front Fees and Student Support on University Participation”, mimeo, IFS