

HIGHER EDUCATION FUNDING REFORMS IN ENGLAND: The impact on enrolment rates across socio-economic groups

Reforms in higher education funding, which have taken England from offering free-of-charge, full-time undergraduate studies to being one of the most expensive systems in the OECD, have led to a reduction in the participation gap among those entering university from higher and lower socio-economic groups. Returning to free higher education would not enhance equity: students are still disproportionately from high-income households.

These are among the findings of research by **Ghazala Azmat** and **Stefania Simion**, which assesses the educational and labour market consequences of the reforms, focusing particularly on their distributional effects.

Their study, to be presented at the annual congress of the European Economic Association in Manchester in August 2019, finds that students seem to compensate for increased tuition costs by reducing costs in other areas, such as distance to university. What's more, despite the narrowing participation gap, there is some divergence across socio-economic background when in university: for example, completion rates among those from lower socio-economic backgrounds have fallen.

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The recent restructuring of higher education funding in England has not increased the enrolment gap across socio-economic groups, according to this study.

The research shows that the 2006 reform, in which tuition fees were applied to all students but were coupled with means-tested financial support, had only a small impact of reducing overall enrolment by around 0.5 percentage points. But only students from the highest socio-economic groups drive this modest reduction, while the participation effect for students from medium and lower socio-economic groups increased slightly. The response to the 2012 reform has been very similar, with marginally higher effects.

England (and Wales) has undergone historic reforms that altered the way in which higher education is financed. Until 1998, (full-time) undergraduate education in public universities in England was free of charge to students. In response to the declining quality of university education and rising costs, the government reformed the funding of higher education. The initial reform introduced in 1998, was later updated in 2006 and 2012.

The reforms have had three components:

- First, the introduction of tuition fees – initially means-tested at £1,000 per year, increasing to £3,000 per year in 2006 for all students and then eventually to £9,000 in 2012.
- Second, the introduction of a loan system that allowed students to borrow up (annually) to the fee amount.
- Finally, the support to low-income students, including means-tested grants of up to £3,700 per year and means-tested loans of up to £5,000 per year.

Beyond the three main components, one of the key features of the new system was that all students, irrespective of household income, had access to credit up to the amount of the tuition fees from the 'Student Loan Company', a non-profit government-owned organisation. Moreover, repayment of fees was deferred until after graduation and until earnings were above a certain threshold (£15,000 a year and £21,000 a year following the 2006 and 2012 reform, respectively).

These changes have not been without controversy and with much discussion, even today, about reverting to a system of free (state-funded) higher education or lower tuition fees. Much of the concern relates to the potential impact on equality. The reformed system, however, vastly increased means-tested support and reduced the financing constraints to students, making it unclear what the overall effects of the reforms would be for students from less financially advantaged backgrounds.

Looking at the different components of the reform, the analysis suggests that while an increase in tuition without the possibility of access to financial aid may slightly reduce the probability to enrol, the likelihood of full financial aid can actually increase the probability of enrolling. This implies that there is an offsetting effect from the different components of the result, suggesting that increases in maintenance grants can help to close enrolment gap across socio-economic groups.

The researchers find similarly small impacts on a wide set of other higher education choices. For example, there is a small reduction in the distance travelled to go to university, suggesting that students might compensate for increased tuition costs by reducing costs in other dimensions.

But the study shows that students from lower socio-economic actually increase the distance from home to college following the reform. While the authors do not find a significant effect of the reform on the college choice or field of study overall, the results suggest that those from the lower socio-economic group select into relatively worse-quality institutions and pursue a field of study with a lower (expected) return.

Tracking students into the labour market, the authors observe marginally improved labour market outcomes – in terms of employment status, type of contract, earnings – for those from higher-income households and marginally worse for those from lower-income households.

One of the main objectives of the reforms was to shift the burden of higher education financing from the state to the student. But concerns for its effects on equity persist.

The results of the study suggest that fees do not seem to be a strong deterrent – maybe, in part, because of the deferred system design – while, at the same time, increased financial support for students from lower-income households could actually increase their participation.

This shows that there is scope for an optimally designed system of fees in conjunction with means-tested support, which can help to reduce gaps across socio-economic groups. Policy-makers need to focus on the design of the tuition fees and financial aid structure, as well as the overall funding of the system.

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