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Transcript of “The second admissions cycle for HE reforms: What are we learning about demand?”

[Slide 1]

Thank you for the invitation to speak today – it is exactly the right time to be looking at the impact of the HE reforms as the key applications evidence on demand is becoming available.

In the next 15 minutes or so I want to look at the two UCAS cycles we have had under the reforms, including some new analysis we will be publishing shortly, and concentrate on what we are learning about **underlying** applicant demand for HE under the reforms in England.

And it is this **underlying** demand that is key for thinking about long term impact.

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We’re going to do this through focusing on the two core questions on demand for HE –

The first is what does our analysis say about the impact of the reforms on the decision about **whether to apply**, and what to apply to.

And the second is about the effect of the reforms on the strength of demand to **enter** higher education amongst those who did apply.

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We’ll start with the key measure of young demand for higher education.

This line is the 18 year old English application rate, simply the proportion of that age group who apply to UCAS.

What does it show? Demand from 18 year olds rose by around 1 percentage point a year between 2006 and 2011. Then it fell by 1 percentage point in 2012. This year it has gone up by one percentage point.

Those are the facts. But what do they say about the impact of the reforms on young demand?

This is not so simple since it depends on what you think would have happened if the reforms had not occurred.

So it is perfectly possible for different interpretations to be made and indeed HEPI used our published analysis in setting out a different model in their typically thoughtful and well argued report on demand last year.

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Here is our model for the fee impact. We prefer this as we think it best fits the evidence.

It simply notes that application rates have been rising by around one percentage point a year and then assumes that trend would have continued.

This would mean that the 2012 rate was about 2 percentage points lower that it would have been (under this assumption). About a five per cent *proportional* impact on demand to apply.

For this cycle we have seen the application rate increase – by an amount typical of the trend rate of demand increases before the reforms.

So, overall, our model is that the HE reforms lowered permanently the level of demand by around 2 percentage points but have not materially altered the underlying demand growth trend – of around about 1 percentage point a year.

Many have asked us if young people applied a year earlier than normal in 2011 to avoid fees. We don't think there is evidence for that. For example, the 18 year old rate is on trend as you can see – you would expect it to be above trend if that occurred.

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There is other – more complex - evidence too but a simpler way to address this question is to simply look at the share of people who apply by age 19, that is at either age 18 or 19.

This statistic takes longer to calculate – because you need an extra year of data – but it isn't confused by whether people bring forward their application by a year or not.

What does this show?

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Increasing demand up until 18 year olds in 2010 and then flat demand for the later cohorts. Is this consistent with our impact model?

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We think Yes – our model would expect demand to be increasing by about 1.5 points a year for application by 19.

Then this increase stops as – under our model assumptions – the reforms reduce demand across two cohorts - firstly the 19 year olds in 2012 from the 2011 cohort, then an additional effect on the 18 year olds as well in the 2012 cohort.

If our model is correct then we would expect this cohort rate to continue its trend growth from this 'structurally' lower level for the cohort that is aged 18 in 2013, 19 in 2014.

The first part of that is in place – the increase in 18 year old rate of about one percentage point - so unless the 19 year old rate falls substantially next year then that growth should resume. If that does occur then the case for this model of the fee impact becomes quite strong against alternative explanations.

It will probably not be possible to be completely certain of what impact the 2012 fees had, there were too many other changes going on at the same time, and it is

likely that there will be groups of the population showing different patterns, but – overall – we think this is a good working model for the evidence available now.

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Why do we think higher fees are specifically the cause of this lower demand and not one of the other changes going on?

We can get a sense of this from looking at 18 year old application rates from and to different parts in the UK.

This is useful because the divergence in the systems in 2012 meant some people faced an increase in fees, others didn't.

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Here are the application rates of 18 year olds to higher education in their own countries. We've looked at England already – there was an increase in fees and a fall in demand in 2012. For all the other countries there is no material change in fees for studying in the home country, and their rates seem to be more or less on trend in 2012.

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And here are the application rates of people to HE outside of their country.

Young people from NI and Scotland faced higher fees, their demand fell.

Young people from Wales were sheltered from the increase and their rate continued on trend.

So put together, the patterns are very suggestive that it was the change in headline fees that is behind the lower demand from England in 2012.

So far we've looked at demand simply in terms of applying or not – what about what people were applying for? Is there an impact of the reforms there?

[Slide 12]

Here is something where we did see a big effect – application for deferred entry to higher education. In 2011, where deferred entry meant opting to pay 2012 fees, these fell by about 50 per cent against the (downward) trend.

[Slide 13]

We've been focusing on higher fees – but another change of the reforms was more variable fees. This market was established – there were courses on offer between £6000 and £9000 – but most people applied to courses at or near £9000.

How does this pattern of courses applied to compare to previous years?

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Very similar. There was no big move towards higher or lower fee courses. That is, no material (relative to the fee level) change in demand by applicants in response to this market in 2012.

[Slide 15]

So far we've looked at the effects on all young people. Many were concerned about those from disadvantaged backgrounds where it was thought that the change in headline costs may have a larger effect – was there a bigger reduction in demand from these groups?

No. Here are our application rates by background. You can see that, proportionally, the reduction in demand against trend in 2012 was pretty much the same for each group, as is the subsequent resumption of growth from a lower base in 2013.

[Slide 16]

And the reforms don't seem to have had a differential effect on more disadvantaged groups in terms of choice of course by fee level – again the response to the fee market seems similar across backgrounds.

[Slide 17]

So – putting this together, what has been the impact of the HE reforms on applicant demand?

It is a mixed picture.

Effectively there was an increase of around £5,000 in headline fees between 11-12 and 12-13.

For situations where there was no alternative and the consequences are severe (not applying if 18 in 2012) the effect seems to be about 5% proportionally

Where there was an alternative and the effect of taking it is relatively minor (applying as you would have, but for immediate instead of deferred entry) the effect seems to be up to 50% proportionally.

And for the smaller fee difference across institutions in England – around £1,000 covers most courses – where the consequences are perhaps material (since institution nature is strongly differentiated over these groups) there seems to be no material effect on demand.

[Slide 18]

Let's turn our attention to the second type of demand, the 'demand' of applicants for entry once they have applied.

[Slide 19]

Here our key statistic is the acceptance rate, the proportion of applicants who are accepted and enter HE.

Now the acceptance rate is a bit more complicated to interpret as a measure of applicant demand since the institution plays a part too.

Think of the application as the equivalent of a proposal of marriage, the acceptance rate is recording whether the wedding actually takes place – clearly there needs to be ‘demand’ from both parties, and there needs to be enough money to pay for it all too (that is, places at universities).

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2012-13 was an unprecedented year for recruitment to English institutions – acceptances were down by around 14% for both uncapped and controlled students. The reasons for this are complex and explored in our 2012 End of Cycle report – a mixture of the weaker application demand we’ve already looked at together with a combination of other factors relating to demographics, deferred entry and attainment against predicted grades at A level.

The key fact for us on this point is that many English institutions in 2012 would probably have liked to accept more applicants and had the numbers to do so. A difficult situation for institutions – but good for us as analysts as it lets us explore demand for entry from applicants since – for once - it is not masked by a limit on the number of places available.

[Slide 21]

So what do we see for 18 year olds?

Well the acceptance rate went up slightly, but not by nearly enough to fill those empty places, and remained below levels typical a few cycles ago. Does this mean the demand to enter HE from applicants was reduced by the reforms?

Perhaps not. This line here is the reapplication rate of those people who didn’t get in – it remains high and actually increased a bit in 2012: this is not the sign of weaker demand for entry. And if you take the acceptance rate, and add in those who immediate reapply then you get a fairly constant 90 per cent of ‘implied persistent demand’ to enter HE for this 18 year old group.

So if this 'implied persistent demand' for higher education was unaffected by the HE reforms – why didn't the acceptance rate increase to fill all those empty places? We think the evidence points to part of the answer being with how institutions responded to the uncertainty around the HE reforms in terms of their offer making.

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This graph summarises the offers made and responses received by institutions during the 2012 cycle compared to the 2011 cycle (see our 2012 End of Cycle report for more detail on how these types of charts are derived). Despite fewer applications, institutions made fewer offers and concentrated those offers on a small number of applicants (in fact, mainly those predicted AAB at A level). This is a good strategy for under-recruitment and led directly to large reductions in the numbers holding a conditional firm offer over the summer which, in turn, played out into acceptances at the end of the cycle.

Going back to our marriage analogy – what this is suggesting is that when applicants propose a match, the institutions replied too often with “No thanks – I think I can do better - but give me a call in August in case I don't”. It seems, perhaps unsurprisingly, that this response and the absence of an engagement (offer) – leads our applicant to cool a bit on the marriage idea. Come August the institutions can't simply dip back into this pool on the same terms and not as many of them as the institutions would like can be persuaded into a late ceremony in clearing.

So it seems that although the 'persistent demand' from applicants to enter HE was not reduced by the reforms , the way institutions responded to the uncertainty caused by the reforms (and the possible fines for over-recruitment) meant that not all that demand was converted into acceptances. Institutional behavior can alter the acceptance rate under some circumstances.

[Slide 23]

So what are we learning about demand and the reforms in this second UCAS cycle under the new arrangements?

Higher fees probably did reduce the level of demand from what it would have been, probably permanently, but the trend of increasing young demand for HE seems unaffected.

The nature of demand from those who have applied seems relatively unaffected by the reforms where the consequences of demand change had material consequences.

In particular it seems that around 90 per cent of 18 year old applicants have a implied persistent demand to enter HE, and this didn't fall in 2012. But institutions, reacting to the uncertain caused by the reforms, didn't make offers in a way that could maintain recruitment levels and this probably played a part in not converting that demand into filled places last time.

We will be continuing to publish results in this area and will – of course – be keeping a close eye on recruitment as the cycle reaches it resolution over the summer.

Thank you.

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