Parliamentary briefing

Universities UK

The uses and limits of Longitudinal Education Outcomes (LEO) data

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Introduction

This briefing gives an overview of what Longitudinal Education Outcomes (LEO) data is and how it can be useful to students, policy makers and higher education institutions. It also explores the limits to using LEO data, focusing on the reasons why it should not be used as an instrument for driving funding decisions (either funding directly from government or access to student loan funding).

What is LEO?

LEO data provides information on how much UK graduates of different courses at different universities are earning, either one, three, five or ten years since graduating.[1] It does this by linking up tax, benefits, and student loans data. Data was first published in 2016, which has been followed by several experimental statistics releases by the Department for Education which reports nominal raw figures. LEO data has also recently been used by the IFS to show the impact of undergraduate degrees on early-career earnings, which importantly attempts to control for differences in socio-economic background, ethnicity and GCSE results.

LEO is calculated using administrative data instead of surveys, meaning that there is the potential for greater coverage, greater accuracy, and longer reporting periods than previous approaches to understanding labour market outcomes of graduates. Potentially it enables a picture of a graduate's earnings over their lifetime, instead of at a single point relatively soon after graduation.

What are the benefits and uses of LEO?

LEO is an innovative approach to understanding economic returns to graduates from going to university and how they are getting on in the labour market. It can provide valuable information to inform the choices of prospective students. It enhances the transparency on the contribution universities are making to individuals once they graduate. Used alongside other sources of

[1] Based on most recent tax year for which data is available (latest is for 2016/17).

information, LEO can also inform wider debates about how universities are securing the value and return of studying to individuals and the economy more generally.

LEO has recently been added to the Teaching Excellence Framework (TEF) calculations. It has also been used to complete a labour market returns report, which was released in November 2018, and compared earnings between graduates and non-graduates.[2]

For universities, LEO can be a valuable source of intelligence on how they are supporting and equipping graduates to succeed in the labour market. Universities will use the information, taking in to consideration appropriate context, to inform thinking on course development and design, support for wider employability and skills development of students, and dialogue with relevant employers and sectors on their needs. Although a relatively new source of information, LEO has the potential to become an increasingly valuable tool for institutions.

Should LEO be used to drive higher education funding policy?

Despite the benefits of LEO there are limits in how it should be used. Whether being used by students, government, or institutions, it is vitally important to understand these. The main issue is that relying on earnings alone, or in a significant way, to define success and to guide decisions risks limiting opportunity and choice for graduates and the supply of skilled people across important areas of the labour market. These risks are particularly pertinent to using LEO as a direct funding or policy tool. Using LEO as a blunt mechanism to drive funding to institutions, or limiting access to fee income, would create significant risks. LEO is not only new and untested, meaning such an approach would be an experiment, there are also inherent issues with scope, coverage and methodology that mean it is not fit for these purposes. This briefing identifies 10 of these risk areas.

1. The current LEO methodology does not account for whether a graduate is in full or part-time work, meaning that those in well-paid part-time work could appear to be earning very little. Used as a mechanism to drive funding decisions or limiting student numbers based on salary outcomes would lead to institutions being penalised for producing valuable part-time workers and lead to labour market distortions. This will be particularly important for adult learners entering the workplace, who may have a preference for flexible or part-time work.

2. LEO does not currently account for the region in which a graduate currently works. This means that universities operating in areas with challenging local economic conditions,

[2] Institute for Fiscal Studies (2018), The impact of undergraduate degrees on early-career earnings

where average salaries are lower, could appear to produce graduates with below average employment outcomes even if their graduates' employment is substantially higher than the regional average.[3] A funding model for higher education driven or informed by LEO could act as a drag on regional growth, limiting an institution's ability to support local skills needs. This would further drive differences in regional economic disparities across the UK, ultimately benefiting regions with above average earnings such as London and the South East.

3. LEO data is impacted by external economic activity. Over the past decade there has been a financial crisis, the subsequent recession, and a period of poor wage growth. Given the impact that the future health of the economy will have on earnings, LEO is not a good predictor of current university entrants' future earnings. In addition, the full data is not currently adjusted for inflation, which makes comparisons over time less meaningful. Restricting future skills growth potential based on historical economic performance would equate to driving skills policy by looking in the rear-view mirror.

4. Due to the way that tax information is collected, most of the earnings and employment figures released so far have excluded graduates who are self-employed in the relevant tax year. The exclusion of the self-employed has more of an impact on arts graduates, and therefore arts-focused institutions, as a larger than average proportion of their graduates are self-employed. This information has more recently been included but is reliant on accurate self-reporting. Without clear and robust information on the self-employed the risk of LEO driven funding model is that institutions producing entrepreneurial graduates that take risks and create start-ups are not rewarded. Furthermore, it may restrict growth of small businesses and start ups in the UK's important arts and creative sectors.

5. The LEO figures exclude those who moved out of the UK after graduation for either work or study, those who are earning below the Lower Earnings Limit, or those who have voluntarily left the labour force. This distorts the figures and would be difficult to adjust for in a funding model that was driven by LEO.

6. LEO does not account for the social and cultural value added by a university degree. Having a degree brings many wider benefits. Evidence shows that having a degree means that graduates are less likely to be unemployed, less reliant on social security and use fewer NHS resources. They are also more likely to be engaged in civic and community life, volunteering their time and skills. An approach to funding that looks only

[3] Prospects Luminate (2019), These cities give graduates the best value for their salary

to reward outcomes based on earnings is inherently partial and ignores the wider benefits of going to university.

7. Graduate salaries are significantly influenced by external factors (for example, parental wealth, school attainment). Despite efforts and progress to widen access and drive good outcomes a funding model based on, or significantly influenced by LEO data, may restrict opportunity from those that would most benefit from a university education. Furthermore, despite reporting lower earnings than men in raw LEO figures, women have been shown to benefit most from higher education earning 50% more than women who don't (compared to 25% for men)

8. LEO does not take multi-subject courses into account. The risk for using LEO to drive funding is that it could narrow support to more traditional single disciplinary approaches, working against innovation and limiting ability to respond to rapidly changing skills and workforce needs.

9. Going to university provides benefits beyond future earnings. This is especially true for graduates at institutions which specialise in fields like the arts, charity sector, nursing or the public sector, all of which are of benefit to culture, society and the economy but can have below-average earnings. Restricting funding or student numbers based on the outcomes of LEO data will present significant workforce challenges, restricting the numbers of home-grown workers for the public sector in the future.

10. Some graduates may be very satisfied with their educational choices and careers, despite having lower earnings. Using LEO to drive funding decisions would restrict opportunity and choice available for those that do not regard salary to be the sole determinant of a good outcome from their university experience.

Conclusion

This paper sets out how LEO can be useful, but flags ten clear reasons why it should not be used directly for driving funding decisions (e.g. direct public funding, or access to fee loans). Not all of these issues will be relevant in all cases, but in combination across the country the combined impact would potentially limit opportunity and choice for students and the supply of skilled people in important parts of the labour market. Furthermore, LEO is relatively new and untested as a mechanism for funding. Some of the issues raised could be adjusted for, but not all, and in doing so would lead to significant complexity.

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