HOUSE OF LORDS

Economic Affairs Committee

2nd Report of Session 2017–19

Treating Students Fairly: The Economics of Post-School Education

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Economic Affairs Committee

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See Appendix 1.

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Evidence is published online at http://www.parliament.uk/higher-further-education-vocational-lords-inquiry/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Q in footnotes refers to a question in oral evidence.

TERMINOLOGY AND SCOPE

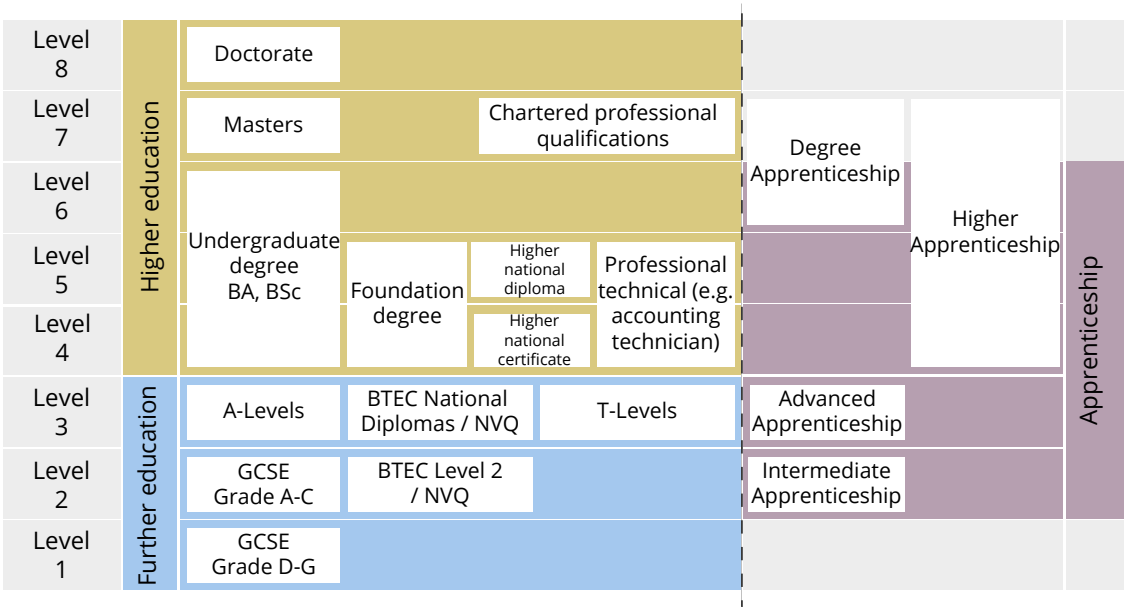
Post-school education: all learning and teaching that takes place after the completion of compulsory education.

Higher education: all education and training at Levels 4, 5 and above whether carried out in universities, further education colleges or as part of an apprenticeship.

Further education: all education and training below Level 4 carried out in further education colleges and universities. Education in schools is not included in further education.

Qualification levels: The Qualifications Framework define and link the levels of different types of qualification. There are currently eight levels of qualification as set out below:

Figure 1: The Qualifications Framework



Scope of report: responsibility for higher and further education is devolved. Apprenticeship policy in general is also a devolved matter. An exception to this is the apprenticeship levy which is a UK-wide policy, but administration of funds collected through the levy is devolved to Scotland and Wales. This report therefore only covers higher and further education and apprenticeships in England.

SUMMARY

Successive governments, over many decades, have pursued and encouraged the expansion of higher education. These efforts have succeeded: in the 1960s, five per cent of young people went into higher education; today, around half of young people do.

Today, there are many options for a person looking to enter higher education: there are thousands of different types of degrees and diplomas to study, hundreds of universities and further education colleges to enrol at, and the choice of studying full-time, part-time or as part of an apprenticeship.

Despite this variety, one form of higher education has become dominant: the growth in higher education during the 21st century has been almost entirely as a result of ever-increasing numbers of young people going to university to study for full-time undergraduate degrees. By contrast, the number of students graduating with other higher education qualifications (Levels 4 and 5) have declined in recent years and there were over 200,000 fewer part-time students in higher education in 2016 than 2010, with an 88 per cent reduction in enrolments at the Open University over that period for qualifications at Levels 4 and 5.

There has also been a recent decline in the number of qualifications awarded to adults at Level 3. These qualifications are awarded largely through the further education sector, to people who have not pursued higher education at a young age. Compared to similar countries, the UK has fewer people without a qualification at Level 3.

Effect on the economy of the expansion of undergraduate degrees

The UK does however produce more workers with undergraduate degrees than similar countries. The present Government claims this expansion has been a boon for young people and the economy. But is the continued expansion of undergraduate degrees the best outcome for graduates and the economy?

We are sceptical. Many graduates appear to be in jobs which do not require a degree-level education and at the same time, many businesses are reporting skills shortages, particularly at technician level. This suggests that in terms of labour market outcomes at least, some graduates may have been better off considering other higher education qualifications that were cheaper, shorter and more relevant to the workplace.

But why then, are people continuing to pursue undergraduate degrees if future employment benefits are uncertain?

Prioritisation of the A-Level/university route

A monoculture has developed around the primacy of the undergraduate degree which has crowded out other options which are perceived as inferior. This situation is not helped by the paucity of information available to young people; the incentivisation of schools to send pupils down the academic route; and employers requiring degrees for jobs which do not really need them. For example, an apprenticeship should be viewed by young people and society as just as valid an option as the academic route of sixth form and university: they offer a way of accessing higher education without incurring student debt and can address directly skills shortages in the economy. Schools should present all

routes into higher education as equal and there should be a single, UCAS-style, portal that covers all forms of higher education.

Market reforms have encouraged undergraduate provision

The 2012 reforms to university financing, which replaced nearly all funding by government grant with funding through tuition fees, have incentivised universities to attract prospective students onto undergraduate degrees, given that funding now follows the student. This includes students who may have been better served by pursuing alternative higher education qualifications. The reforms failed in their aim to create an effective market amongst universities, as evidenced by the lack of price competition. Furthermore, we were struck by the suggestion that the 2012 reforms may have incentivised universities to award more higher class degrees, with 26 per cent of graduates receiving a first-class degree in 2016/17, up from 18 per cent in 2012/13.

Low quality and availability of other options

There are issues around supply too: the quality and availability of other options is variable. Ofsted reported recently that around half of apprenticeship training providers that they assessed were inadequate or required improvement. The lack of demand for courses means it is uneconomic for colleges to provide them in some areas. Better funding for these other options would help. Our proposed reforms to funding should also help support and encourage part-time and flexible learning, which will become more important as a changing economy and career patterns require people to re-train, often several times.

Our system of post-school education is not a system. It is unbalanced in favour of one route, and as a result offers poor value for money to some individuals, taxpayers and the economy. It requires immediate reform.

The Government appears to be open to change, and several reviews of higher education have been launched over the past year. This report sets out what now needs to be done.

KEY RECOMMENDATIONS

This report sets out a package of reform to post-school education. Our key recommendations are:

Other post-school options need more funding

Funding for post-school education is too heavily skewed towards degrees. At present, each undergraduate attracts £9,250 a year for the university, underpinned by the availability of student loans. Funding for other options is less generous and confusing. There should be a better distribution of public funding across all forms and institutions in higher and further education. To assist with this, there should be a single regulator for all higher education (Level 4 and above) and a single regulator for other post-school education (Level 3 and below). This new regulator for Level 3 and below should have equivalent status to the Office for Students, and have sufficient resources and credibility to champion further education (see Chapter 4).

Reversing the decline of part-time and flexible learning

The decline in part-time learning in higher education is a result of restrictions around accessing loans, for students who already have a degree, the raising of tuition fees in 2012 and the lack of maintenance support for part-time students (which will be available from 2018/19). Similar funding restrictions have also led to a decline in part-time study in further education. To halt the decline of part-time and flexible learning, we recommend the introduction of a credit-based system whereby people can learn in a more modular way and at their own pace (see Chapter 5).

Apprenticeships

The Government's target of three million apprenticeships has prioritised quantity over quality, and should be scrapped. The lack of clear accountability for the delivery and quality of apprenticeships is unacceptable. Despite the introduction of the apprenticeship levy, the UK is still a long way away from the effective apprenticeship system needed. The levy has encouraged the rebadging of training activity, most notably MBAs, that should not be funded or described as an apprenticeship. It is also concerning that over half of training providers for apprenticeships were recently rated inadequate or required improvement in a recent Ofsted inspection. The Government must renew its vision for apprenticeships, concentrating on the skills and choices that employers and individuals really need. An apprenticeship should be a method by which a young person, or new entrant to an industry, develops skills whilst working.

The Institute for Apprenticeships should be abolished. The quality and outcomes of Level 2 and 3 apprenticeships should be the responsibility of the new further education regulator; the quality and outcomes of Level 4 and above apprenticeships should be the responsibility of the Office for Students (see Chapter 6).

The national accounts mask the true cost of higher education

Debate over post-school education funding is hampered by the treatment of student loans in the public accounts. The accounting masks the public subsidy going into higher education by delaying its appearance in the deficit: the Government expects that around half of the value of student loans being issued

currently will never be paid back, but these write-offs will not appear in the deficit for over thirty years. A recognition of the write-offs in public spending at the time the loans are made would allow for a better discussion of where public money in post-school education should be directed.

The Office for Budget Responsibility estimated in January 2017 that the student loan book would be worth 11 per cent of GDP in the late-2030s, an increase from around 5 per cent of GDP in 2017/18. They predicted this would fall back to around 9 per cent of GDP by 2066/67. The Department for Education have forecast that the total student loan book will be worth £1.2 trillion in nominal terms (£473 billion in 2018/19 values) by 2049/50 (see Chapter 10).

Reforms to student loans and a widening of maintenance support

The national accounting appears to be responsible for the high level of interest charged on student loans: the accrued interest on student loans is counted as income, despite the fact the vast majority of this interest is expected to be written-off (the income from accrued interest on student loans will be worth £7.5 billion by 2021/22). The Government claims the high interest rate makes the system progressive but it is middle-earning graduates who end up paying the most back in real terms. We call for the interest rate to be reduced to the level of the 10 year gilt rate (currently around 1.5 per cent) from the current rate of RPI plus 3 per cent.

Maintenance support for students is also inconsistent across the different forms of higher education. The switch to maintenance loans from maintenance grants in 2016 will mean poorer students graduate with the largest debt. The same maintenance support should be available for all higher education students. The means-tested system of loans and grants that existed before 2016 must be re-instated, and total support increased to reflect the true cost of living. The change would lead to £1.7 billion more public spending today. However, in the long-run grants increase public spending only by £400 million. This is because under the current system, the vast majority of students do not pay off their student loans fully over the 30 year term, so much of the outlay in loans will be written off (see Chapters 8 and 9).

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Education and the economy

1. The statistical claims made by the Government about the relationship between higher education and economic growth are oversimplified. Whatever relationship may or may not have existed in the past, the assumption that sending increasing numbers of today's young people to university to study undergraduate degrees is the best option for individuals and the economy is questionable. (Paragraph 48)

2. The evidence suggests that there is a mismatch between the qualifications and skills provided by the higher education system and the needs of the labour market. A substantial proportion of current graduates may have been better off pursuing other higher education qualifications in areas where there are skills shortages. (Paragraph 49)

Attempts to create a market in higher education

3. The aim of the 2012 reforms to create an effective market amongst universities has not been achieved, as evidenced by the lack of price competition. We have seen little evidence to suggest that the higher education sector is suitable or amenable to market regulation. (Paragraph 85)

4. We are concerned that the replacement of nearly all grant funding by tuition fees, coupled with the removal of the cap on student numbers, has incentivised universities to attract prospective students onto full-time undergraduate degrees. This may also explain the striking increase in grade inflation. Some students may have been better served by pursuing alternative higher education qualifications. (Paragraph 86)

5. The Teaching Excellence Framework will not impose sufficient discipline on the sector to ensure the quality of the ever-increasing provision of undergraduate degrees. The framework is based on metrics which are too general to relay much information about the quality of an institution or course and are too dependent on unreliable surveys. Risk is borne almost entirely by students and taxpayers rather than the institutions. (Paragraph 87)

6. The combination of incentives to offer and study for undergraduate degrees has had a negative effect on the provision and demand for other types of higher education. (Paragraph 107)

Funding and regulation

7. The structure and distribution of funding in the post-school education sector is unfair and inefficient. Further education is the poor relation to higher education and its position has been weakened and undermined by reductions to its budgets and a complex funding architecture. The separate funding mechanisms create educational silos that prevent innovation. The system accentuates the perception that routes into higher education that begin in further education are inferior to the A-Level/undergraduate degree option. (Paragraph 131)

8. A new deal is required for higher education funding which promotes all types of learning regardless of where or how it takes place. The system of funding higher education should be reformed so that it facilitates a fair and balanced provision of loan and grant funding across higher education. (Paragraph 143)

9. For students, there should be one system of funding: students should be able to access loan funding and maintenance support for all full and part-time courses at Level 4 and above. This does not mean identical levels of support for students studying, for example, a one-year diploma and a three-year undergraduate degree. Differences between qualifications should be reflected in the loan rates and repayment structure. (Paragraph 144)

10. The Government should explore restoring some teaching funding for further education colleges so they can cover costs and stimulate demand for courses at Levels 4 and 5. This should also be considered for part-time courses and modules at Level 4 and 5 such as those offered by the Open University. (Paragraph 145)

11. The purpose of these reforms is to raise the status of all higher education qualifications, creating more flexible full and part-time routes and rebalancing the current offering. The Government should explore whether this should be supported by new financial incentives for entrants into higher education to study for qualifications other than undergraduate degrees. (Paragraph 146)

12. The complex and piecemeal regulation of post-school education may prevent innovation and undermine efforts to reform the sector. (Paragraph 153)

13. In higher education, one regulator should take responsibility for the whole sector. We recommend the Office for Student's remit be extended to regulate and fund all higher education. It should have clear responsibility for all students in higher education, regardless of their course and level of study. (Paragraph 154)

14. The Office for Students should be specifically required to:

    (a) Ensure quality across all levels and institutions that provide higher education, and not just in one part of the system;

    (b) Promote better availability and a more balanced offer across routes and levels within higher education;

    (c) Identify and remove funding rules and regulatory barriers which prevent innovation and integration of different types of higher education;

    (d) Ensure that clear information is provided to school leavers about the choices available to them and the lifetime financial consequences of those choices. This should extend to information about apprenticeships including the available salaries and the likelihood of permanent employment. (Paragraph 155)

15. Other post school education, at Level 3 (A-Level equivalent) and below, should also be regulated by a single agency. To ensure parity of esteem between the sectors, this agency should have equivalent status of the Office for Students. It should be a Council with sufficient resources and credibility to champion further education. (Paragraph 156)

16. The current funding arrangements for Level 3 qualifications provide a straitjacket: they prevent retraining and stifle attempts to create coherent pathways between higher and further education. We recommend providing uncapped state funding (on a tariff basis) for all students, full-time or part-time, irrespective of age, for their first qualification at Level 3. This is both fair and economically necessary. (Paragraph 161)

Flexible learning

17. Part-time study and adult learning have declined dramatically. A decline linked to reforms which aimed to increase participation in higher education. This neglect of part-time and mature students is short sighted: flexible learning is important for mature students looking to learn new skills to adapt to changes in the labour market and working practices. (Paragraph 187)

18. Flexible learning is one method to increase higher education qualifications. It needs to be supported and encouraged by:

    (a) higher and further education institutions working closely with each other and with employers; and

    (b) providers adopting innovative methods of study, such as online learning and shorter courses. (Paragraph 194)

19. But this alone will not be enough. Flexible learning must be backed by a robust, properly enforced credit-based system (where, for example credits accrued studying a Level 4 qualification would count towards—and reduce the cost of—a full degree). This requires regulatory reform and should be a priority for the new higher education regulator. (Paragraph 195)

Apprenticeships

20. An apprenticeship should be viewed by young people and society as just as valid an option as the academic route of sixth form and university: they offer a way of accessing higher education without incurring student debt and can address directly skills shortages in the economy. The Government should consider ways to promote the progression from lower to higher level apprenticeships, rather than higher level apprenticeships becoming the preserve of those with academic backgrounds. (Paragraph 237)

21. There are some excellent apprenticeship schemes but it is concerning that the recent Ofsted inspection found that over half of providers they assessed were rated inadequate or required improvement. There is worrying evidence that the system is being gamed by rebadging existing employees as apprentices, large proportions of whom are unaware they are doing an apprenticeship. (Paragraph 238)

22. The Government must renew its vision for apprenticeships, concentrating on the skills and choices that employers and individuals really need. An apprenticeship should be a method by which a young person, or new entrant to an industry, develops skills while working. MBAs and other training activities that would have happened anyway should be the employer's sole responsibility to fund and arrange. In addition, the Government should have a clearer plan for degree apprenticeships within its broader higher education policy. (Paragraph 239)

23. The quality of apprenticeships is not helped by the Government targeting three million new apprenticeship starts by 2020. The target prioritises quantity over quality and should be scrapped immediately. Framing a target in terms of starts makes no sense when about 40 per cent of starts are not completed. It also treats a one-year apprenticeship as equivalent to a three-year apprenticeship. The target encourages the rebadging of training which should not be funded or described as an apprenticeship. (Paragraph 240)

24. The role of the Institute for Apprenticeships is unclear. It should be abolished. Under our proposed new regulatory structure above, the quality and outcomes of Level 2 and 3 apprenticeships should be the responsibility of the new further education regulator; the quality and outcomes of Level 4 and above apprenticeships should be the responsibility of the Office for Students. The Minister for Apprenticeships and Skills should provide oversight of both. (Paragraph 243)

Information and advice

25. The prioritisation of the undergraduate degree in schools, through the use of incentives and targets, has helped fuel perceptions that other routes are inferior. Schools must present all post-16 and post-18 options as equal. Incentives aimed at schools which encourage them to promote sixth form and university should be removed. Every pupil aged 16 should spend one day learning about apprenticeships and how to apply for them. (Paragraph 254)

26. There is a clear and well understood process for university applications which is not available for other forms of post-school education. The process for students considering routes other than university should be clearer and less complex. There is merit in a single, UCAS-style, portal for covering all forms of higher education, further education and apprenticeships. The Government should ask UCAS how such a portal could be designed and implemented. (Paragraph 260)

Student loan design

27. When the net present value of repayments is considered, the student loan system does not appear as progressive as its advocates have suggested—graduates who only just pay off the loan within the 30 years will pay far more in real terms than higher-earning graduates who pay the loan off sooner. (Paragraph 272)

28. We recommend that the interest rate charged on post-2012 student loans should be reduced to the level of the ten-year gilt rate (currently 1.5 per cent). This is fairer for students as it means that they only pay an interest rate which is equivalent to the Government's cost of borrowing money. Interest should not be charged on loans until students have graduated. (Paragraph 275)

29. There should be no change to the repayment threshold, the repayment rate or the term of the loans. (Paragraph 276)

30. There is little transparency around what universities are spending their income on. Students have little idea about the activities that their course fees may be subsidising. Tuition fees should remain frozen at £9,250 for the medium-term. (Paragraph 300)

Maintenance support

31. The current maintenance system for post-school education is unfair. For those entitled to loans:

    (a) the loans available are insufficient to cover day-to-day living expenses; and

    (b) the loans impose the greatest burden on students from the poorest households; the most disadvantaged students graduate with the largest debt. (Paragraph 324)

32. For some students these problems are a greater concern than tuition fees. Universities report that those from the poorest backgrounds are deterred from pursuing university education. (Paragraph 325)

33. The current maintenance system is also inconsistent. It perpetuates inequality across higher education by restricting maintenance support to certain types of student and certain institutions to the neglect and detriment of others. (Paragraph 326)

34. The structure of student maintenance support must not place students from poorer backgrounds at a long-term disadvantage. A maintenance system based only on income-contingent loans will deter some prospective students from applying; a grant-only system would be too big a burden on public funds. We therefore recommend that the Government reinstate the means-tested system of loans and grants that existed before the 2016 reforms. (Paragraph 332)

35. The inadequate level of maintenance support is causing hardship to students. We recommend that the maximum maintenance support should be increased to reflect the cost of living for students. This increased support should be available as a mixture of means tested grants and loans as set out above. (Paragraph 333)

36. Access to maintenance support should be consistent across all post-school education, regardless of method or place of study. We recommend that the Government extend maintenance support to:

    (a) students studying for a qualification at Level 4 or above in a further education college; and

    (b) all part-time and distance learners at universities and further education colleges studying for Level 4 and above qualifications. (Paragraph 338)

37. Differences between qualifications should be reflected in the loan rates and repayment structure. (Paragraph 339)

Student loans and public accounts

38. Recent changes to higher education financing have been motivated mainly by the desire to lower the deficit. (Paragraph 376)

39. The decision to switch almost all higher education funding to tuition fees hides the true cost of public spending on higher education. When the change was made in 2012, the upfront spend by the Government on higher education increased by £3 billion but as the vast majority of funding was provided through loans rather than grants, the deficit figure was improved by £3.8 billion. Write-offs on student loans will be included in the deficit only when the loans expire in 30 years; if the loans are sold before that point, the write-offs never hit the deficit. (Paragraph 377)

40. The high rate of interest on student loans creates the illusion that Government borrowing is lower than it actually is. It was presented as a progressive measure but in reality, the motivation appears to have been the flattering effect that accrued interest on those loans will have on the deficit. (Paragraph 378)

41. Future governments will have to adjust spending plans to recognise historic student loan losses: in today's money, that would mean the 2047/48 government having to find an extra £8.4 billion to cover expected losses on

the 2017/18 student loans. Alternatively, a future government may attempt to abandon the use of public sector net borrowing as a measure of the strength of the economy. It is unacceptable to expect future taxpayers to bear the brunt for funding today's students. (Paragraph 379)

42. Most student loans will not be repaid in full: some will be paid in full, some not at all, and a lot only partially repaid. The expected write-offs should be shown in the deficit when the loan is issued. The true cost of funding higher education would then be immediately apparent. This would allow for a better discussion as to where funding in the higher education system should be allocated. (Paragraph 388)

Treating Students Fairly: The Economics of Post-School Education

CHAPTER 1: POST-SCHOOL EDUCATION IN THE 21ST CENTURY

> *"So today I set a target of 50 per cent of young adults going into higher education in the next century." Prime Minister Tony Blair, Labour Party Conference, 28 September 1999.*[1]

> *"UK higher education offers a diverse range of courses and qualifications, such as first degrees, Higher National Diplomas and foundation degrees. It includes any qualification at Level 4 and above. A BA or BSc (Hons) degree is a Level 6 qualification." UCAS website, March 2018.*[2]

1. The full-time university undergraduate degree has become synonymous with higher education. As the quote above from the UCAS website makes clear, higher education in the UK includes any qualification at Level 4 and above (such as foundation degrees and other higher vocational qualifications below degree level), which can be studied at higher education or further education institutions (Figure 1 describes what the different levels of qualifications in the UK are). Around half of young adults now participate in higher education but the overwhelming majority study for undergraduate degrees, many of which have an uncertain value in the labour market.

2. There is a skills mismatch in the UK: despite the record numbers of the population with an undergraduate degree, businesses are reporting a shortage of people with technical skills. There are higher education qualifications that could provide these skills but demand from students is very low and the quality and availability of those options is variable.

3. Apprenticeships are another option for higher education but, with some notable exceptions, provision and quality is again variable and the Government's headline figures for new apprenticeships do not tell the whole story.

The growth in higher education since 1999

4. By 2016, Mr Blair's target of half of young people going into higher education had almost been achieved: 49 per cent of 17 to 30-year olds were estimated

1 BBC News, *UK Politics: Tony Blair's speech in full* (September 1999): http://news.bbc.co.uk/1/hi/uk_politics/460009.stm [accessed 24 May 2018]

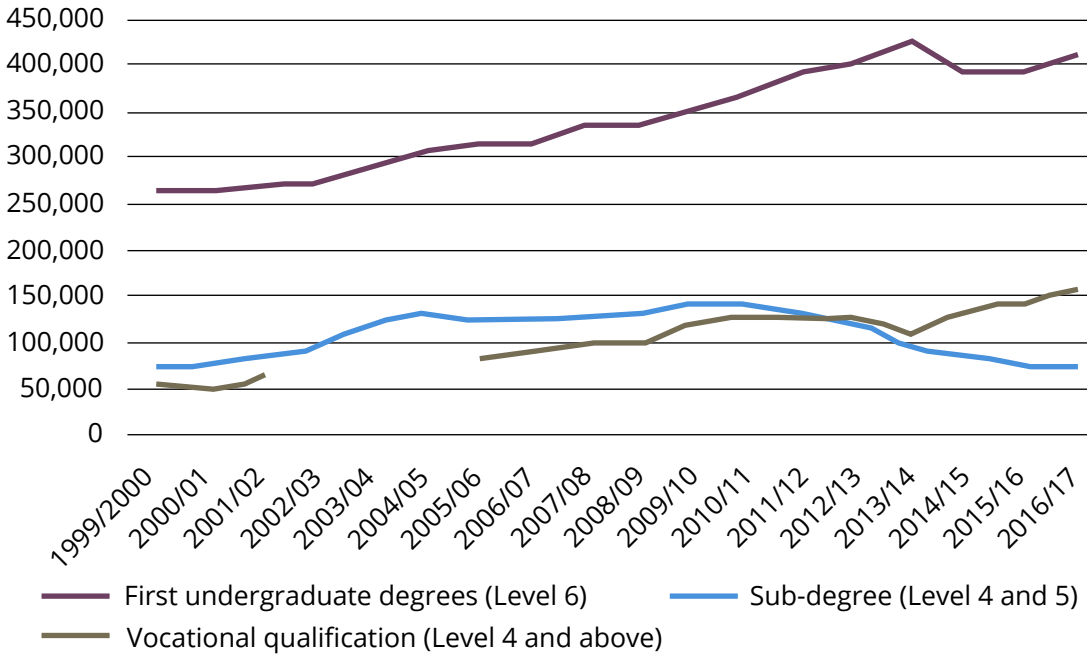
2 UCAS, 'What is higher education?' (2018): https://www.ucas.com/ucas/undergraduate/getting-started/what-higher-education [accessed 10 May 2018]

to have entered higher education for the first time.[3] In 1999, when Mr Blair set his target, this figure was 39 per cent.

5. There are broadly three options for new entrants into higher education: an undergraduate degree (Level 6), a sub-degree qualification (Level 4 and 5; for example, a foundation degree in laboratory science) or a vocational qualification (Level 4 and above; for example, a higher diploma in electrical and electronic engineering). Students may study some of these qualifications at colleges of further education. Qualifications in all three of these options can be undertaken full-time, part-time or as part of an apprenticeship.

6. Amongst young people, the growth in higher education since 1999 has been almost entirely through increasing numbers enrolling on undergraduate degree programmes. Figure 2 shows the number of first degrees awarded in the UK rose from 265,000 in 1999/2000 to 414,000 in 2016/17.

Figure 2: Higher education qualifications awarded in the UK, all ages, 1999/2000 to 2016/17



Source: National Statistics, 'Education and Training Statistics for the United Kingdom', 2001 edition to 2017 edition

7. The number of sub-degree qualifications awarded was 77,000 in 2016/17, around the same as in 1999/2000. The number of higher vocational qualifications awarded increased by around 100,000 over the period.

8. These figures are for all ages. The proportion of young people studying vocational qualifications, and other undergraduate qualifications, is very low compared to first degrees. In 2014/15, 28 per cent of higher vocational qualifications were awarded to people under the age of 25, and 35 per cent

3 The Government measure for higher education participation amongst young people is called the 'Higher Education Initial Participation Rate'. The Government defines it "an estimate of the actual entry rate in the current year of people who had not previously entered higher education at each age from 17 to 30, based on the current entry rate of previous non-entrants … For each age from 17 to 30, the initial participation rate is calculated as a fraction of the academic year population that are initial entrants. These rates are added to create the total [figure]." Students are counted if they participate for at least six months on a course expected to last for at least six months. Students are counted if they are on courses designated as National Vocational Qualification Level 4 or above or are listed as Higher Education courses.

of students studying other undergraduate qualifications were under the age of 25; by contrast, 82 per cent of students studying for a first degree were under 25.[4]

9. There has also been a dramatic reduction in part-time study—numbers fell by 60 per cent between 2010 and 2016—where students are more likely to be older adults. This is at a time when it is acknowledged widely that retraining throughout a person's career will become increasingly necessary. This is considered further in Chapter 5.

Box 1: Defining higher education

> "We are back on track this year with increasing numbers going to university. Whether or not we hit the decade target, we need to be aiming to hit the target of 50 per cent for the future." John Denham MP, Minister for Universities, April 2008.[5]
>
> "Call for review of 50 per cent university target", headline in the Financial Times, March 2010.[6]
>
> "Tony Blair took it further by adopting an explicit target that 50 per cent of people should go to university." Nick Boles MP in the Daily Mail, December 2017.[7]
>
> "Everybody seems to think that Blair's policy is to send 50 per cent of people into university but this is not true. The target is 50 per cent of under 30 year olds should have some kind of higher education qualification. This includes NVQ Level 4, HND, HNC and foundation degrees … I just thought I would point this out as a lot of people seem to think it means 50 per cent of people doing honours degrees." Post on the Student Room website, January 2004.[8]

As noted at the start of this chapter, higher education is much broader than the undergraduate degree. Tony Blair's target to send half of young people into higher education is a good example of how higher education is seen to refer only to university education, as shown by the selection of quotes above.

4 2014/15 figures were the latest available for comparison. The Department for Education publishes a breakdown by age for people achieving vocational qualifications; the Higher Education Statistics Agency however publishes an age breakdown only for students in study, rather than for graduates in a given year, hence the comparison made above. Due to the way the statistics are grouped, it was not possible to compare numbers for under 30s.

5 'Labour sticks to 50 per cent university target', *The Telegraph* (April 2008): https://www.telegraph.co.uk/news/uknews/1584495/Labour-sticks-to-50-per-cent-university-target.html [accessed 10 May 2018]

6 'Call for review of 50% university target' *Financial Times* (March 2010): https://www.ft.com/content/d5e1bfc8-3b3a-11df-a1e7-00144feabdc0 [accessed 9 May 2018]

7 'How to stop our universities ripping off students AND the taxpayer' *Daily Mail* (28 December 2017): http://www.dailymail.co.uk/debate/article-5216633/How-stop-universities-ripping-students.html [accessed 10 May 2018]

8 The Student Room, 'The 50% into university target: The facts' (January 2004): https://www.thestudentroom.co.uk/showthread.php?t=14804 [accessed 15 May 2018]

The Labour Party Manifesto in 2001 acknowledged the target did not just refer to undergraduate degrees:

> "It is time for an historic commitment to open higher education to half of all young people before they are 30 … new two-year foundation degrees to offer students the option of a vocationally relevant, high-quality qualification as a way into skilled work or further study."[9]

This report aims to dispel the notion that higher education means studying for an undergraduate degree in a university.

Level 3 education for adults

10. Figure 2 shows that there has been a decline in sub-degree qualifications amongst all ages since 2010. There has also been a decline in the number of Level 3 (A-Level or equivalent) qualifications awarded to adults; there were around 190,000 advanced qualifications awarded to students aged 19 and over in 2016/17, down from 283,000 in 2010/11.[10]

11. They are delivered largely through the further education sector. They develop the skills of the half of the population who do not go into higher education at a young age and prepare those who wish to pursue higher education in the future: for a person who did not do well at school, achieving an alternative Level 3 qualification to an A-Level is the first step in progressing to Levels 4 to 6. The decline of advanced qualifications, at the same time as an increase in undergraduate degrees, may be reflective of the unequal funding arrangements for the respective educational institutions. This is considered further in Chapter 4.

12. More encouragingly, there has been an increase in the number of advanced level (Level 3) apprenticeships since 2010. The main motivation behind apprenticeships is to ensure that young people who do not pursue the academic route are able to learn a skill through part-time study linked to supervised on-the-job experience. Part-time study for advanced level apprenticeships was funded through the further education budget until the apprenticeship levy was introduced in 2017, through which all apprenticeships are now funded. We consider whether funding for advanced level apprenticeships may be squeezed out by higher level apprenticeships under this new system in Chapter 6.

13. The next chapter considers the relationship between post-school education and the economy.

9 The Labour Party, *2001 Labour Party General Election Manifesto: Ambitions for Britain* (May 2001): http://labourmanifesto.com/2001/2001-labour-manifesto.shtml [accessed 10 May 2018]

10 Department for Education and Education and Skills Funding Agency, 'Further education and skills: Table 4.2, 29' (March 2018): https://www.gov.uk/government/statistics/further-education-and-skills-march-2018 [accessed 9 May 2018]

CHAPTER 2: EDUCATION AND THE ECONOMY

14. Now that half of young people are entering higher education, almost all of them graduating with degrees, how beneficial has this been for the economy and the labour market? The Government is clear and precise about the contribution to economic growth and the benefits it has brought to individuals. But the evidence, particularly in relation to the labour market, suggests more scepticism is required as to the benefits of an ever-increasing number of young people pursuing undergraduate degrees, and whether some would have been better off pursuing other qualifications.

Benefits of higher education to the economy

15. The Department for Education told us that "skills development accounted for around a fifth of productivity growth in the UK before the financial crisis."[11]

16. This claim originated in an August 2013 research paper for the then Department for Business, Innovation and Skills that was written by the National Institute of Economic and Social Research.[12] The paper examined education and GDP growth data from 1982 to 2005. It posited that "if the [higher education] sector in the UK were to expand towards the size in the US, this could be expected to raise the level of productivity in the UK by 15–30 per cent in the long-run."

17. Paul Johnson, the Director of the Institute for Fiscal Studies, said that, while he thought the evidence for the link in the 1990s and early 2000s was "pretty solid", the UK "may be at the turning point where that increase is no longer there. It may be that we have got to the point where the proportion of graduates in the labour market rising will no longer have that effect."[13] He referenced an Institute for Fiscal Studies report on the labour market that noted forecasts that average earnings will still be lower than their 2007/08 level in 2021/22, which the report said was "despite an extraordinary increase in the education levels of the workforce: 35 per cent are now graduates compared with 25 per cent in 2008."[14]

Economic benefits of higher education to the individual

18. The Department for Education also highlighted the economic benefits of an undergraduate degree to the individual. It said that holding an undergraduate degree was associated with 23 per cent higher wages for men and 31 per cent higher wages for women compared to individuals whose highest qualification

11 Written Evidence from the Department for Education (HFV0086). This claim is often made by the Government: in a 2017 speech to the Universities UK annual conference, Jo Johnson MP, then the Minister for Universities, said that a study had shown that "20 per cent of UK economic growth over a two-decade period came from graduate skills accumulation, and that a 1 per cent increase in the share of the workforce with a degree raises long-run productivity growth by between 0.2 per cent and 0.5 per cent." Jo Johnson, Speech on Embracing accountability and promoting value for money in Higher Education to UUK annual conference (7 September 2017): https://www.gov.uk/government/speeches/jo-johnson-speech-to-uuk-annual-conference. Lord Willetts, the Minister for Universities between 2010 and 2014, made the same two points in his written evidence (HFV0088).

12 Department for Business Innovation and Skills, *The relationship between graduates and economic growth across countries* (August 2013): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229492/bis-13-858-relationship-between-graduates-and-economic-growth-across-countries.pdf [accessed 10 May 2018]

13 Q 2 (Paul Johnson)

14 Institute for Fiscal Studies, *The UK labour market: where do we stand now?* (April 2017): https://www.ifs.org.uk/uploads/publications/bns/BN197.pdf [accessed 7 May 2018]

was two or more A-Levels. It said that this so-called 'graduate premium' has "endured in the context of increasing participation in higher education and higher volumes of graduates, and endured through the recent economic downturn."[15]

19. A 2016 paper by the Institute for Fiscal Studies investigated why a large increase in graduates had left the premium unchanged, which it described as a "puzzle".[16] The paper concluded that the large increase in people with undergraduate degrees in the UK had allowed organisations to move to decentralised workplaces where higher educated workers could take more individual initiative and control their own work, thus changing the nature of employment for higher versus low educated workers. This change accounted for the "remarkable stability of the education wage differential." It warned against concluding that the wage premium would remain:

> "We caution that it is dangerous to extrapolate. The UK has already surpassed the US in the BA proportion for the entire workforce. It is plausible that the organisational technology is fully utilised so that a further educational expansion, in the absence of the arrival of a new technology, would result in declines in the education wage differential. There is already some sign of this decline in the private sector."[17]

20. There are doubts over the benefits of a continuing expansion of young people with undergraduate degrees. Would some of these people have been better off pursuing one of the other two higher education routes, or were able to study part-time or retrain in the workplace? The evidence we heard regarding the labour market—the existence of a perceived skills shortage despite the record number of graduates and high levels of graduate underemployment—suggests this may be the case.

Labour market demand

> *"[In] the surveys of industrial trends by the CBI … 30 per cent of all UK firms reported skills shortage as a factor restricting output."*[18]

> *"[There are] serious shortages of 'engineering/systems/software' type skills."*[19]

> *"[A problem] which has plagued our economy for so long. I refer to the productivity gap and skills shortages."*[20]

> *"What strikes me is that we have very high levels of employment, but at the same time we have skills mismatches, the underutilisation of skills and a lack of advanced skills in STEM in particular."*[21]

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15 Written evidence from Department for Education (HFV0086)
16 Institute for Fiscal Studies, *The UK Wage Premium Puzzle: How did a Large Increase in University Graduates Leave the Education Premium Unchanged?* (May 2016): https://www.ifs.org.uk/uploads/publications/wps/WP201601.pdf [accessed 1 May 2018]
17 *Ibid.*
18 'CBI survey shows trend of production is quickening' *The Times* (February 1969)
19 National Economic Development Office, *Computer Manpower in the 1980s: The Supply and Demand for Computer Related Manpower to 1985* (1980)
20 HC Deb, 21 March 2000, col 902
21 Q 154 (Sam Gyimah MP)

21. The final quote above was by the Minister for Universities and Science when he gave evidence to us; the first three are from 1969, 1980 and 2000 respectively. Since the Second World War there has not been a single year when a contemporary shortage of skills was not referenced in Parliament.[22]

22. Perceived skills shortages appear to be a perennial problem. What may be different this time is the combination of the mismatch and underutilisation of skills, as mentioned by the Minister in the quote above. Why are there reported skills shortages when there are record numbers of university graduates, many of whom are in jobs that do not utilise their skills?

The nature of the skills shortage

23. The evidence for skills shortages is based largely on employer surveys. The UK Employer Skills Survey 2015 found that 209,000 of the reported 930,000 vacancies were "hard to fill because of skill shortages". The sectors reporting the highest proportion of jobs that were hard to fill because of skill shortages were the gas, electricity and water industries, construction and manufacturing.[23] What is the nature of these shortages?

24. The focus in recent years has been on the shortage of science, technology, engineering and mathematics (STEM) skills. The Government's Industrial Strategy said that "we need to tackle particular shortages of STEM skills." The points listed below were cited in the Industrial Strategy as the evidence for the STEM skills shortage (listed together with their source):

- "There remains unmet demand from employers" (Employer Skills Survey 2015, UK Commission for Employment and Skills);
- "40 per cent of employers reported a shortage of STEM graduates as being 'a key barrier to recruit appropriate staff'" (2015 online survey of 300 employers by the CBI);
- "Jobs in science, research, engineering and technology are expected to rise at double the rate of other occupations between now and 2023" (Social Market Foundation research in 2017 for EDF Energy, based on 2016 projections from the UK Commission for Employment and Skills);
- "The majority of jobs on the Home Office Shortage Occupation List are in wither STEM-related roles or industries" (Shortage Occupation List maintained by the Migration Advisory Committee).[24]

25. In a January 2018 report the National Audit Office said that the Government did not have "a robust, independent evidence base that defines the STEM skills problem."[25] This was acknowledged by the Government in the Industrial Strategy green paper in January 2017: "part of the problem has

22 Committee staff research.

23 Government Office for Science, *Future of Skills & Lifelong Learning* (November 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/662149/foresight-future-of-skills-lifelong-learning.pdf [accessed 7 May 2018]

24 HM Government, *Industrial Strategy, Building a Britain fit for the future* (November 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf [accessed 8 May 2018]

25 National Audit Office, *Delivering STEM (science, technology, engineering and mathematics) skills for the economy* (January 2018): https://www.nao.org.uk/wp-content/uploads/2018/01/Delivering-STEM-Science-technology-engineering-and-mathematics-skills-for-the-economy.pdf [accessed 29 May 2018]

been the lack of a single authoritative source" of evidence on skills needs, and that such a source needs to be established.[26] The National Audit Office concluded that the evidence relied upon by the Industrial Strategy indicated an undersupply of people with the right STEM skills in general terms, but "it does not analyse the undersupply … in a way that can fully identify the problem."[27]

26. The National Audit Office therefore carried out its own analysis. They estimated that in 2015 there were around 2.7 million STEM recruitment shortages and expected this to fall to 1.5 million in 2018. They identified the majority of these shortages to be at technician level, for which a person would not require a degree-level education.

Shortage of technicians

27. Rather than a need for more STEM graduates, as the 2015 CBI survey quoted in the Industrial Strategy suggested, the greater shortages today appear to be for people with sub-degree qualifications. The National Audit Office report said that recent research suggested "there is an acute shortage of technician-level STEM skills":

> "Interviewees attributed this shortage to an undersupply of people with Level 3 to 5 vocational qualifications over the last 20 years, due to lower participation in vocational education. This lack of new entrants has led employers to rely on an ageing workforce, many of whom are now reaching retirement age."[28]

28. We received similar evidence. Dr Paul Lewis from King's College London set out the results of his studies of parts of the advanced manufacturing sector and provided detailed examples of industries where employers were struggling to recruit suitably qualified technicians.[29]

29. He said that in several cases "employers reported that a shortage of skilled technicians had prevented them from expanding and taking on new business."[30] Martin Hottass from Siemens said that "we do not have enough people leaving further education with engineering subjects … we recruit people with academic qualifications to technical roles for which they are not equipped." He said the provision of intermediate technical skills was deficient.[31]

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26 HM Government, *Building our Industrial Strategy, Green Paper* (January 2017)*:* https://beisgovuk.citizenspace.com/strategy/industrial-strategy/supporting_documents/buildingourindustrialstrategygreenpaper.pdf [accessed 1 May 2018]

27 National Audit Office, *Delivering STEM (science, technology, engineering and mathematics) skills for the economy* (January 2018): https://www.nao.org.uk/wp-content/uploads/2018/01/Delivering-STEM-Science-technology-engineering-and-mathematics-skills-for-the-economy.pdf [accessed 29 May 2018]

28 National Audit Office, *Delivering STEM (science, technology, engineering and mathematics) skills for the economy* (January 2018): https://www.nao.org.uk/wp-content/uploads/2018/01/Delivering-STEM-Science-technology-engineering-and-mathematics-skills-for-the-economy.pdf [accessed 3 May 2018]

29 Written evidence from Dr Paul Lewis (HFV0028). For example, "employers in chemicals and industrial biotechnology find it very difficult to recruit experienced control and instrumentation technicians; employers in industrial biotechnology and cell therapy/regenerative medicine struggle to find manufacturing technicians skilled in fermentation and cell cultivation; firms that make, or use, composites parts find it hard to hire technicians who are skilled at manufacturing and using that material."

30 Written evidence from Dr Paul Lewis (HFV0028). See also written evidence from the Royal Society of Biology (HFV0032).

31 Q 106 (Martin Hottass)

30. Our report last year on 'Brexit and the Labour Market' called for a "proper system of technical education to provide more of the skills that the economy requires." We heard evidence during that inquiry that there were a large number of EU workers in some sectors who will not be replaced easily by domestic workers.[32]

Mismatch between supply and demand for skills

31. The National Audit Office report also said that there was "an oversupply of some STEM qualifications, particularly at degree level. For instance, there appears to be a surfeit of biological science graduates, a greater proportion of whom enter non-graduate roles compared to the STEM average." They said that the oversupply of some graduate-level skills, and the undersupply of technician-level skills, could result in graduates occupying technician-level roles for which they are overqualified and under-skilled:

> "This can lead to low morale and high staff turnover. Graduate-level skills may not align directly with those required in technician-level roles, particularly in engineering-related occupations, where technicians are likely to have expertise in particular processes or instruments that graduates may lack."[33]

32. Dr Paul Lewis explained how technician roles in the chemical and biotechnology sectors were not well suited to the skills graduates possessed as they "place a premium on attention to detail, care in following instructions and on practical skill … rather than on graduate-level theoretical knowledge."[34]

33. Across all sectors, there are varying estimates as to the proportion of graduates in non-graduate jobs. In written evidence the Department for Education said that "academic researchers" had sought to define a graduate job and they had indicated that 26 per cent of graduates were not in graduate-level jobs.[35] Professor Francis Green said that between 1997 to 2001 and 2006 to 2012, the proportion of graduates aged between 25 and 39 working in non-graduate jobs remained steady at around 32 per cent.[36]

34. Some estimates are higher. A November 2017 Government Office for Science report on the 'Future of Skills and Lifelong Learning' quoted estimates from the Chartered Institute for Professional Development and the Office for National Statistics that around 50 per cent of British graduates are employed in non-graduate roles.[37]

35. These estimates will vary as they are based generally on survey data and the definition of a graduate job may change. But whichever estimate is correct, it does appear a sizeable proportion of graduates are employed in jobs for which their qualifications are not necessarily relevant. This is consistent with the research quoted in the Government Office for Science report that over

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32 Economic Affairs Committee, *Brexit and the Labour Market* (1st Report, Session 2017–19, HL Paper 110), p 25

33 National Audit Office, *Delivering STEM (science, technology, engineering and mathematics) skills for the economy* (January 2018): https://www.nao.org.uk/wp-content/uploads/2018/01/Delivering-STEM-Science-technology-engineering-and-mathematics-skills-for-the-economy.pdf [accessed 3 May 2018]

34 Written evidence from Dr Paul Lewis (HFV0028)

35 Written evidence from the Department for Education (HFV0086)

36 Written evidence from Professor Francis Green (HFV0013)

37 Government Office for Science, *Future of Skills & Lifelong Learning* (November 2018): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/662149/foresight-future-of-skills-lifelong-learning.pdf [accessed 7 May 2018]

half of the UK's workforce report having skill levels that are higher than needed to do their current job.[38]

36. There are good reasons why a graduate may wish to be employed in a role for which they appear over-qualified, not least of all personal choice, but the proportions of graduates in this position does suggest a degree of mismatch between the supply and demand for skills.

Box 2: Informal evidence on skills shortages

We met informally a range of small and medium-sized businesses in Birmingham during the inquiry. Their comments support the idea that there is a skills mismatch:

> "There's an oversupply of history graduates and an undersupply of geeks."
>
> "There's insufficient high quality technical people, these things aren't sexy to do at university."
>
> "We're having to employ massive numbers of humanities graduates to do customer service jobs because they've got nowhere else to go. But there's no incentive for them to stay in that job for any long period of time so we get a massive turnover of staff in that area."

The MoneySavingExpert website set up a discussion page for the Committee's inquiry. One contributor discussed his experience as a research and development manager in charge of recruitment for a medium-sized company:

> "We had to employ candidates with poor degrees to do the Technician jobs that would have been filled by school-leavers with 'O' or 'A'-Levels (who would then have acquired further qualifications by day release) when I first entered employment. Our graduates were unhappy because they hadn't got jobs at the level (or salary) they had been led to expect and we were unhappy because we still had to train them up as such skills as they had were academic rather than practical, meanwhile paying them more than we would an equally useful school leaver."[39]

Quality of skills

37. We heard evidence from business representatives who questioned how ready graduates were for the workplace. Seamus Nevin from the Institute of Directors said that "one of [their members'] biggest complaints is not necessarily about the lack of technical skills but about the application of those skills in the workplace—specifically, soft skills such as team-working, communication and time management."[40] A small business in Birmingham told the Committee that "we need those practical skills. People don't train in that, employers and universities are guilty of that failure."

38. Nigel Whitehead CBE from BAE Systems explained how young people who were new to the workplace had to learn communication and teamwork skills

38 *Ibid.*
39 MoneySavingExpert.com, 'Is post-school education good value for money?' (August 2017): https://forums.moneysavingexpert.com/showthread.php?t=5702635 [accessed 3 May 2018]
40 Q 121 (Seamus Nevin)

and develop their work ethic. He said apprentices "sort all their behavioural stuff ahead of the graduates who come in."[41]

39. The National Audit Office report on STEM skills shortages said that for graduate roles the issue was not a shortage of people with the relevant qualifications but with the skills that these people held:

> "This includes particular technical skills that employers expect graduates to have, or 'softer' employability skills. This indicates that, in some areas, there are sufficient people with high-level STEM skills to meet demand, but these individuals do not possess all the skills required by employers."[42]

Higher education qualifications and labour market demand

40. The nature of the skills shortage therefore appears to be more nuanced than the way it was presented in the Government's Industrial Strategy: at sub-degree level, the available evidence suggests there is a shortage at craft and technician level; at graduate level, the evidence suggests that rather than a shortage of people with the right qualifications, it is more a question of the skills that those graduates possess and their readiness for the workplace.

41. Would some graduates have been better off studying something else? The Minister for Universities and Science said it was "legitimate to ask whether it is appropriate for everyone who goes to university to go to university, and whether they are getting the best education that suits their skills and needs."[43] Paul Johnson said that there were "clear mismatches between the kinds of skills coming out of universities and some of the demands in the labour market." He believed some people would have been better served by pursuing a different option through the higher education system:

> "Clearly, there are people who have spent time in universities who are doing jobs that do not require the particular set of skills they may have learned, or the particular degree … If the question is whether feasibly there was a better set of skills that some of those people could have got that would better match the labour market, the answer is almost certainly yes."[44]

42. Professor Anna Vignoles from the University of Cambridge said that her analysis of graduate earnings showed that the median earnings of men from the bottom 23 universities were less than the median earnings for non-graduates. Lord Baker of Dorking, a former Secretary of State for Education, said this showed that many graduates would have been better off doing something different.[45]

43. Nigel Whitehead CBE said that their preferred ratio of recruitment was two-thirds apprentices to one-third graduates.[46] He said that "by and large the UK is not producing enough people at the intermediate level through

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41 Q 107 (Nigel Whitehead CBE)
42 National Audit Office, *Delivering STEM (science, technology, engineering and mathematics) skills for the economy* (January 2018): https://www.nao.org.uk/wp-content/uploads/2018/01/Delivering-STEM-Science-technology-engineering-and-mathematics-skills-for-the-economy.pdf [accessed 7 May 2018]
43 Q 156 (Sam Gyimah MP)
44 Q 1 (Paul Johnson)
45 Q 91 (Lord Baker of Dorking)
46 Q 105 (Nigel Whitehead CBE)

apprenticeships, and has overemphasised higher education, which has led to high levels of underemployment in the workplace."[47]

44. Some witnesses were cautious about drawing conclusions from the available evidence. Professor Sir Anton Muscatelli, chair of the Russell Group, was hesitant to conclude that there is an oversupply of graduates as "looking at a period of economic slackening … it is easy to conclude that perhaps we have overproduced… but the danger is that, if you put on the brakes, you might be disadvantaged in five or six years' time."[48]

45. Professor Vignoles said that the graduates who are overeducated were also under-skilled: "When you look at the skill levels of graduates in non-graduate jobs, they tend to have lower levels of skill than the average graduate." She said this was "an issue of the quality of the [higher education] provision that they have experienced as much as the fact that our labour market cannot absorb more graduates; I do not think there is evidence for the latter."[49]

46. Dr Simon Marginson from UCL said that economies and workforces adapt to the number of graduates, with more higher-skilled roles being created: "the availability of graduates itself has an impact on the nature of the work that is done."[50] Professor Julia Buckingham, a board member of Universities UK, said there was a problem in judging graduate outcomes too soon as graduates in some areas, such as creative arts, do not get into significant jobs until later in their careers.[51]

Level 3 qualifications and labour market demand

47. The UK may also have a shortage of people with Level 3 qualifications. Comparisons with similar countries show that the UK has a higher proportion of graduates, but a lower proportion of people for whom a Level 3 qualification is their highest qualification, as shown in Table 1.

Table 1: UK and OECD educational attainment among 25 to 64 year olds (2016)[52]

	UK (%)	OECD average (%)
Level 3 as highest qualification	18	39
Level 4 or above as highest qualification	46	37
Total	**64**	**76**

Source: OECD, Education at a Glance (September 2017): https://www.oecd-ilibrary.org/education/education-at-a-glance-2017_eag-2017-en [accessed 14 May 2017]

48. **The statistical claims made by the Government about the relationship between higher education and economic growth are oversimplified.**

47 Q 106 (Nigel Whitehead CBE)
48 Q 33 (Professor Sir Anton Muscatelli)
49 Q 91 (Professor Anna Vignoles)
50 Q 33 (Dr Simon Marginson)
51 Q 78 (Professor Julia Buckingham)
52 These figures need to be treated with some caution: the UK's 16+ qualifications (principally GCSE) and A Level classifications do not easily match the classifications of 'lower' and upper secondary' used by the OECD. As a result, in comparative data published by the OECD, the UK 'upper secondary' figures incorporate 'intermediate upper secondary' achievement (5 GCSEs at A-C). Few other countries have qualifications like this so there is no comparative data.

Whatever relationship may or may not have existed in the past, the assumption that sending increasing numbers of today's young people to university to study undergraduate degrees is the best option for individuals and the economy is questionable.

49. **The evidence suggests that there is a mismatch between the qualifications and skills provided by the higher education system and the needs of the labour market. A substantial proportion of current graduates may have been better off pursuing other higher education qualifications in areas where there are skills shortages.**

CHAPTER 3: ATTEMPTS TO CREATE A MARKET IN HIGHER EDUCATION

50. This chapter will explain the recent reforms that were intended to create a market in higher education, how this has exacerbated the number of entrants to higher education undertaking undergraduate degrees, and how this has affected the perception and provision of other forms of higher education.[53]

Reforms to create a higher education market

The 2012 change to tuition fees

51. The coalition Government announced plans to change how universities were funded in 2010. University tuition fees would rise from £3,000 a year to a basic amount of £6,000 a year, with institutions able to charge a maximum of £9,000 a year if certain conditions were met. The increased fees would lead to a reduction in the government grant to universities. Students would be able to take out loans to cover the full cost of tuition. A 2011 white paper, 'Students at the Heart of the System', explained that the reforms would enable greater competition:

> "Our reforms to higher education funding will promote the development of a more diverse, dynamic and responsive higher education sector where funding follows the student and the forces of competition replace the burdens of bureaucracy in driving up the quality of the academic experience …
>
> We want to ensure that the new student finance regime supports student choice, and that in turn student choice drives competition, including on price."[54]

52. Introducing the proposals in the House of Commons in November 2010, the then Minister for Universities and Science, David Willetts, described the £6,000 a year fee as the "basic threshold" and that "in exceptional circumstances" there would be an absolute limit of £9,000.[55] The 2011 white paper explained that universities that charged between £6,000 and £9,000 a year would have to meet "much tougher conditions on widening participation and fair access." These involved institutions demonstrating, "to the satisfaction of the independent Director of Fair Access, what more they will do to attract students from under-represented and disadvantaged groups."[56]

A lack of price competition

53. Since the reforms, there has been very little of the price competition which was envisaged in the 2011 white paper: almost all universities have charged

53 As explained above, higher education also includes qualifications at Level 4 and 5 (such as foundation degrees, HNDs and other technical and vocational courses).

54 Department for Business Innovation & Skills, *Higher Education Students at the Heart of the System* (June 2011): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31384/11-944-higher-education-students-at-heart-of-system.pdf [accessed 9 May 2018]

55 HC Deb, 3 November 2010, col 924

56 Department for Business Innovation & Skills, *Higher Education Students at the Heart of the System* (June 2011): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31384/11-944-higher-education-students-at-heart-of-system.pdf [accessed 9 May 2018]

the maximum fee which is currently £9,250.[57] Dr Gavan Conlon, from London Economics, said that institutions that charged below the maximum "were quickly punished … Institutions were incentivised to charge £9,000, and the government loans facilitated their charging £9,000." He said this was a repeat of when fees had risen to £3,000 in 2006: "Ministers were told explicitly that there would be no price competition with the £3,000 cap. Essentially, that information was not believed and, lo and behold … every institution in the country chose £3,000."[58]

54. The Institute for Fiscal Studies have estimated that under the current parameters of the income-contingent student loan system (including the recent raising of the repayment threshold to £25,000)[59], around 83 per cent of students will not pay the full amount of their loan back.[60] Dr Andrew McGettigan, a writer on higher education, explained that this meant the headline tuition fee did not operate as a price and most students were not price-sensitive:

> "Once you have an income-contingent loan, the headline tuition fee is not a price, because the cost of study is your loan repayment. Loan repayments are determined mostly by future income. A typical graduate, whether they graduate with £40,000 of debt or £49,000 of debt, because they have gone to an institution that charges £6,000 or £9,000, will see no difference in cost unless they are in the higher deciles of the income distribution. That means you have a problem. It is not that it is not price sensitive; it is not really a price at that point."[61]

55. Lord Willetts, a former Minister for Universities and Skills, admitted that "once you have a graduate repayment scheme of the sort we have, you do not have price competition."[62]

56. Dr McGettigan said that institutions would be considered lower quality if they charged below the maximum:

> "if an institution charged £7,000, it would be saying that for every student it got it would be resourced £2,000 less per year … They would be making a decision to give those students less resource and, therefore, most likely a worse experience."[63]

Removal of the cap on student numbers

57. The coalition Government announced in the 2013 Autumn Statement that the cap on undergraduate student numbers at publicly funded higher education institutions would be removed by 2015/16. It said that "the strong demand for higher education significantly exceeds the supply of places":

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57 Q 2 (Lord Adonis). Tuition fees rose with inflation in 2017/18 but further rises with inflation have been put on hold.

58 Q 22 (Dr Gavan Conlon)

59 See paragraph 346.

60 Institute for Fiscal Studies, *Higher Education finance reform: Raising the repayment threshold to £25,000 and freezing the fee cap at £9,250* (October 2017): https://www.ifs.org.uk/uploads/publications/bns/BN217.pdf [accessed 10 May 2018]

61 Q 22 (Dr Andrew McGettigan)

62 Q 2 (Lord Willetts)

63 Q 22 (Dr Andrew McGettigan). Dr Gavan Conlon (Q 22) said that when fees were raised to £3,000 in 2006, "Ministers were told explicitly that there would be no price competition with the £3,000 cap. Essentially, that information was not believed and, lo and behold, when in 2006 fees were raised to £3,000, because of the availability of loans to back that up, every institution in the country chose £3,000."

> "This is in part because the numbers of students providers can accept have been tightly controlled since 2009. This cap acts as a bar to aspiration, as people with the grades to enter higher education are excluded from doing so. And it also prevents the UK from developing the highly-skilled workforce demanded in modern economies."[64]

58. Dr McGettigan explained the logic behind removing the cap:

> "we could not create that kind of market pressure on price, and we had to consider the other aspect, which, in neo-classical economics, is that, if you have unmet demand, you will not get price competition, so you take the caps off established universities and expect them to compete with each other."

59. The removal of the cap was criticised by some witnesses. Lord Baker of Dorking said it was "probably a mistake … because the funding system is so generous to universities." He explained how this incentivised universities to recruit an ever-increasing number of students.[65]

60. Lord Willetts defended the removal of the cap: "I do not believe in government setting targets for the number of people who go to university." He said he used to have this argument when he was in government with Vince Cable:

> "In my former constituency, 23 per cent of young people went to university; in his affluent Twickenham constituency, the figure was 63 per cent. If the only way we can get more people from Havant going to university is to have fewer people going from Twickenham, we will have a very long wait."[66]

61. The Minister for Universities and Science, Sam Gyimah MP, also defended the decision: "removing the number cap might have encouraged more people to go to university than otherwise would have done. Politically I would say that not putting a cap on aspiration is a good thing, and the last thing you want is a Minister in Whitehall deciding how many people get a university education."[67]

62. It is surprising that HM Treasury has allowed numbers to be unrestricted when, as Chapter 10 demonstrates, the average subsidy on student loans issued each year is estimated to be between 40 and 50 per cent. It is strange also that when the cap was removed, no alternative mechanism to prevent this subsidy being open-ended was put in place, such as minimum entry requirements.

Is there a functioning market in higher education?

63. The 2012 reforms did not lead to universities competing on price but the removal of the student cap enabled them to compete for student numbers. Does this impose sufficient discipline on institutions? The Government believes so. In its October 2017 consultation on the regulatory framework for higher education, it said higher education was "well suited to market

64 HM Treasury, *Autumn Statement 2013* (December 2013): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/263942/35062_Autumn_Statement_2013.pdf [accessed 10 May 2018]
65 Q 89 (Lord Baker of Dorking)
66 Q 2 (Lord Willetts)
67 Q 156 (Sam Gyimah MP)

mechanisms driving continuous improvement." It listed five reasons in justification for this:

- "Large number of providers;
- Providers have sufficient autonomy to innovate and differentiate;
- Success or failure has direct implications for providers in terms of student numbers and revenue;
- There is a lot of information available, which has the potential to enable students to compare providers and make more informed choices;
- The price of the service is known to students who, in many cases, pay the bulk of this price as graduates."[68]

64. It also listed seven reasons why higher education was a market unlike any other:

- "There are almost never repeat purchases, the market is in most cases a one-shot game;
- The primary benefits to the student are spread out over their lifetime, exposing the market to distortions such as changing preferences and students discounting the benefits as they occur in the future;
- The cost is paid later and subsidised by the state in most instances, students may take greater risks as they do not bear the full cost of the degree;
- Significant information asymmetries, prospective students often make decisions with limited reliable information;
- There is a price cap (although providers sometimes compete in terms of required grades for admittance);
- Institutional failure has substantial consequences, the regulatory framework is designed to prevent sudden, unplanned market exit;
- There are private and non-profit organisations competing in the provision of similar services."[69]

65. Some witnesses were critical of the idea that it was possible to have a functioning market in higher education, believing that the arguments in paragraph 64 outweighed those in paragraph 63 and made it impossible to sustain the claim that higher education was 'well-suited to market mechanisms'. Dr McGettigan said the "fundamental problem with the higher education system is the idea that the market can be the solution." He said that "you have to realise that you have a market where there is almost no switching, and where people are making a one-off purchase."[70]

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68 Department for Education, *Securing student success: risk-based regulation for teaching excellence, social mobility and informed choice in higher education* (19 October 2017): https://consult.education.gov.uk/higher-education/higher-education-regulatory-framework/supporting_documents/HE%20reg%20framework%20condoc%20FINAL%2018%20October%20FINAL%20FINAL.pdf [accessed 10 May 2018]

69 *Ibid.*

70 Q 30 (Dr Andrew McGettigan)

He questioned the ability of students to inform themselves fully about their options:

> "How do you inform yourself about the 140 universities in England, and probably another 300 further education colleges that offer degrees, or sub-degree undergraduate qualifications? There are alternative providers. How on earth do you do that?"[71]

66. Professor Patrick Bailey, from London South Bank University, disagreed:

> "I would not want you to underestimate how smart the students are in choosing their universities […] students not only gain as much quantitative information as they can but use social media and a whole range of other communication tools that some of us are less familiar with to make their decisions."[72]

He said students were "very well-informed" when making decisions.

67. The Minister for Universities and Science and Dr Philippa Lloyd from the Department for Education believed higher education was amenable to market regulation. They both pointed to a 2015 policy paper from the Competition and Markets Authority which said that "competition and choice can play an important role in helping to deliver high-quality and student-focused services, provided they are implemented in a way which recognises the unique features of the sector."[73]

Market regulation

68. The Higher Education and Research Act 2017 provided for the establishment of a new 'Office for Students' to act as the market regulator for higher education. The Office for Students became operational in April 2018. Its four primary regulatory objectives are that:

> "all students, from all backgrounds, and with the ability and desire to undertake higher education:
>
> - Are supported to access, succeed in, and progress from, higher education.
> - Receive a high quality academic experience, and their interests are protected while they study or in the event of provider, campus or course closure.
> - Are able to progress into employment or further study, and their qualifications hold their value over time.
> - Receive value for money."[74]

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71 Q 29 (Dr Andrew McGettigan)

72 Q 56 (Professor Patrick Bailey)

73 Q 42 (Dr Philippa Lloyd) and Q 165 (Sam Gyimah MP). The Competition and Markets Authority policy paper was examining the impact regulations have on student choice on competition in the higher education sector. Dr Lloyd suggested that perhaps there was little evidence so far as the legislation had only just been put in place to set up an appropriate market regulator. Competition and Markets Authority, *An effective regulatory framework for higher education: A policy paper* (March 2015): https://assets.publishing.service.gov.uk/media/550bf3c740f0b61404000001/Policy_paper_on_higher_education.pdf [accessed 11 May 2018]

74 Office for Students, *Securing student success: Regulatory framework for higher education in England* (February 2018): https://www.officeforstudents.org.uk/publications/securing-student-success-regulatory-framework-for-higher-education-in-england/ [accessed 10 May 2018]

69. The Department for Education explained how the 'Teaching Excellence Framework' and publication of the 'Longitudinal Educational Outcomes' data would help achieve these objectives:

> "The new Teaching Excellence Framework will assess, recognise and reward high quality teaching in higher education and incentivise driving up the standard of teaching. It will also give students clear information about where teaching quality is best and where students have achieved the best outcomes. Complementing the TEF, Longitudinal Educational Outcomes (LEO) data and a new transparency duty on higher education institutions will ensure people have the information they need to choose the course that is right for them."[75]

Teaching Excellence Framework

70. The Teaching Excellence Framework was introduced in 2016 and assesses the quality of teaching in universities by ranking them as gold, silver or bronze. In its current iteration, universities are judged on six metrics: the first three are on student satisfaction as measured by the National Student Survey; the fourth measures the proportion of students who do not continue on a course; and the fifth and sixth are based on a survey of graduates' subsequent employment.

71. The framework was criticised for its over-reliance on the National Student Survey. Box 3 examines how the National Student Survey is used in more detail. Professor Bailey, who was on the most-recent panel of assessors for the Teaching Excellence Framework, said that it was "an extremely crude measure of teaching quality and learning environment to take three values from the National Student Survey and use them as the feed-in for the metrics."

Box 3: The use of the National Student Survey in the Teaching Excellence Framework

The first three metrics in the Teaching Excellence Framework are headed 'the teaching on my course', 'assessment and feedback' and 'academic support'. The score for each metric is calculated based on the percentage of students replying 'mostly agree' or 'definitely agree' to the following questions (the six available options for answers are definitely agree, mostly agree, neither agree nor disagree, mostly disagree, definitely disagree, not applicable):

The teaching on my course

- Staff are good at explaining things
- Staff have made the subject interesting
- The course is intellectually stimulating
- My course has challenged me to achieve my best work

Assessment and feedback

- The criteria used in marking have been clear in advance
- Marking and assessment has been fair

75 Written evidence from the Department for Education (HFV0086). The Teaching Excellence Framework is now known as the Teaching Excellence and Student Outcomes Framework.

- Feedback on my work has been timely
- I have received helpful comments on my work

Academic support

- I have been able to contact staff when I needed to
- I have received sufficient advice and guidance in relation to my course
- Good advice was available when I needed to make study choices on my course

The survey is completed by students in their final year of study and a minimum 50 per cent response rate is required for a score to count for the calculation of metrics. The metric score is an average of the current year and the previous two years of responses.

The average percentage of 'mostly agree' and 'definitely agree' answers for the questions within each metric are then compared against a benchmark which is calculated for that particular institution (which is based on the characteristics of the students at that institution). Performance against those benchmarks, and the benchmarks for student retention and graduate outcomes, determines the award of a gold, silver or bronze rating.

Source: Department for Education, 'Teaching Excellence and Student Outcomes Framework Specification', (October 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658490/Teaching_Excellence_and_Student_Outcomes_Framework_Specification.pdf [accessed 10 May 2018]

72. We heard evidence that questioned the reliability of the survey responses. When the Committee spoke to students informally, we heard that one university offered to pay people £5 to fill in the survey. A student told us that students "fake" their responses to the survey in order to make the university look good and another said that "universities phone third year students and keep contacting them until they fill in the survey. It can get to the point where the students just answer the questions to get them to stop."

73. Professor Graham Virgo QC, Pro-Vice-Chancellor for Education at the University of Cambridge, said that although the framework had "undoubtedly" had benefits, particularly in a renewed focus on teaching at research-intensive universities, it was "not successful in conveying the right information to students". He considered that "to understand the workings behind [the ratings] involves careful analysis of metrics and complex benchmarking."[76]

74. Professor Sir Keith Burnett, Vice-Chancellor of the University of Sheffield, agreed, saying that the benchmarking in particular was "very complex … I am personally suspicious of the assessment … It will take a lot of time and effort, and I think we will still be arguing about it in 20 years."[77] He questioned whether the Government needed the Teaching Excellence Framework. It is surprising that, when judging the quality of teaching, there is no element of observing teaching in action, as there is under the Ofsted system.

75. Some witnesses were more positive about the framework. Professor Julia Buckingham, a board member of Universities UK, said the National Student Survey had had "a tremendous impact" on improving the quality of

76 Q 74 (Professor Graham Virgo QC)
77 Q 74 (Professor Sir Keith Burnett)

teaching. She said the Teaching Excellence Framework was also improving quality: "There is obviously a long way to go with the TEF, but it is certainly encouraging universities to raise standards, which is what we all want to do. I also think that students are working much, much harder."[78] Professor James Stirling CBE, Provost of Imperial College London, compared it to the introduction of the Research Excellence Framework which: "arguably […] took 10 or 15 years to get it right", but has "improved the quality of research in UK universities."[79]

76. The Minister for Universities and Science conceded that some of the "proxies on the National Student Survey … are very remote, and there is reason to be suspicious about these things." However, he thought "it was right that there is some kind of accountability in the system for what our universities are offering"; he had yet to see any "constructive alternatives being provided."[80]

77. The next iteration of the Teaching Excellence Framework will reduce its reliance on the National Student Survey. The proposed changes are outlined in Box 4.

Box 4: Proposed changes to the Teaching Excellence Framework

In October 2017, the Government published changes to the Teaching Excellence Framework. Jo Johnson MP, the then Minister for Universities and Science, told the 2017 Universities UK annual conference, these include:

- placing less weight on the National Student Survey to "give it a more proportionate place in the assessment";
- adapting the assessment procedure universities with large numbers of part-time students; and
- introducing new metrics to measure grade inflation and student labour market outcomes.

Source: Jo Johnson MP, Speech to UUK annual conference, (7 September 2017): https://www.gov.uk/government/speeches/jo-johnson-speech-to-uuk-annual-conference [accessed 10 May 2018]

78. As with the use of any metrics to assess performance, there are concerns that universities will seek to game the system in the pursuit of higher rankings. Professor David Latchman CBE, Master of Birkbeck College, gave an example:

> "In in a lot of league tables and in other things, you do very well if you take students with high A-Level grades. I could move Birkbeck 40 places up the league tables in the *Sunday Times* and the *Guardian* simply by changing our admissions criteria. Would that be in the spirit of taking people who have relatively poor qualifications or people aged 30 who did not do A-Levels but who have a tremendous desire to learn? No, but then we appear lower down in those league tables because we are making input measures, whereas actually we should be making output measures or, even better, added-value measures."

79. One area the Committee explored was so-called 'grade inflation': whether universities increasingly award higher proportions of first and upper-second

78 Q 74 (Professor Julia Buckingham)
79 Q 74 (Professor James Stirling CBE)
80 Q 165 (Sam Gyimah MP)

class degrees to attract students. For 2016/17, 26 per cent of graduates completing their first undergraduate degree achieved a first-class degree, up from 18 per cent in 2012/13; and 75 per cent gained an upper second or a first, up from 68 per cent in 2012/13.

80. Table 2 shows the universities that awarded the highest proportion of first-class degrees in 2016/17 and compares it to the proportion they awarded in 2011/12 and 1994/5.

Table 2: Top ten universities by proportion of students receiving first-class degrees in 2016/17, and comparison with 2011/12 and 1994/95

Institution	Proportion of students receiving first-class degrees in 1994/95 (%)	Proportion of students receiving first-class degrees in 2011/12 (%)	Proportion of students receiving first-class degrees in 2016/17 (%)
University of Surrey	10	26	44
Imperial College	20	32	39
University College London	14	26	37
University of East Anglia	8	15	34
University of Huddersfield	4	15	32
University of Oxford	15	28	32
University of Greenwich	4	17	32
University of West London[81]	3	11	32
University of Bath	11	28	31
University of Durham	8	21	31

Source: Higher Education Statistics Agency, 'Free publications to download', 1994/95: https://www.hesa.ac.uk/data-and-analysis/publications#students-higher-education [accessed 24 May 2018]; Higher Education Statistics Agency, 'Students in Higher Education 2011/12', 1 February 2013: https://www.hesa.ac.uk/data-and-analysis/publications/students-2011–12 [accessed 24 May 2018]; Higher Education Statistics Agency, 'HE qualifiers by HE provider and level of qualification obtained', 2016/17: https://www.hesa.ac.uk/data-and-analysis/students/outcomes [accessed 24 May 2018]

81. The same figures for the universities quoted in evidence in this chapter are shown in Table 3.

81 Thames Valley University in 1994/95

Table 3: Proportion of students at universities quoted in this chapter receiving first-class degrees in 1994/95, 2011/12 and 2016/17

Institution	Proportion of students receiving first-class degrees in 1994/95 (%)	Proportion of students receiving first-class degrees in 2011/12 (%)	Proportion of students receiving first-class degrees in 2016/17 (%)
University of Cambridge	27	22	27
University of Central Lancashire	5	12	26
University of Sheffield	8	19	23

Source: Ibid.

82. Professor Sir Keith Burnett said that there had "undoubtedly been grade inflation across the system." He described the degree classification system as "medieval" and called for it to be replaced.[82]

83. Professor Buckingham, however, said that she "genuinely believe[s] that students are working much harder than they did. They are paying for it and they are working harder."[83] Professor Mike Thomas, vice-chancellor of the University of Central Lancashire, said that given the increased resources going into universities and improvements to student–staff ratios, "I think most people would be disappointed in the country if all those things did not show students getting better results."[84] Professor Virgo QC did not think there was any evidence of grade inflation being linked to the National Student Survey or Teaching Excellence Framework.[85]

84. The Department for Education expressed concern about grade inflation and a 'grade inflation metric', as noted in Box 4, is being added to the Teaching Excellence Framework.[86]

85. **The aim of the 2012 reforms to create an effective market amongst universities has not been achieved, as evidenced by the lack of price competition. We have seen little evidence to suggest that the higher education sector is suitable or amenable to market regulation.**

86. **We are concerned that the replacement of nearly all grant funding by tuition fees, coupled with the removal of the cap on student numbers, has incentivised universities to attract prospective students onto full-time undergraduate degrees. This may also explain the striking increase in grade inflation. Some students may have been better served by pursuing alternative higher education qualifications.**

87. **The Teaching Excellence Framework will not impose sufficient discipline on the sector to ensure the quality of the ever-increasing**

82 Q 74 (Professor Sir Keith Burnett)
83 Q 74 (Professor Julia Buckingham)
84 Q 68 (Professor Mike Thomas)
85 Q 74 (Professor Graham Virgo QC)
86 Q 43 (Dr Philippa Lloyd)

provision of undergraduate degrees. The framework is based on metrics which are too general to relay much information about the quality of an institution or course and are too dependent on unreliable surveys. Risk is borne almost entirely by students and taxpayers rather than the institutions.

88. We now consider how the 2012 reforms have supported further the ascendancy of the undergraduate degree over other higher education qualifications at Levels 4 and 5 (such as foundation degrees and other higher vocational and technical qualifications below Level 6 degree level).

Other higher education qualifications (Levels 4 and 5)

89. Qualifications at Levels 4 and 5 are higher education qualifications and are offered by both further education colleges and universities. Professor Madeleine Atkins, then Chief Executive of the Higher Education Funding Council, told the Committee that they fund directly 190 further education colleges that offer higher education provision, at the same rate as higher education in universities. She said that "further education colleges provide courses that are often tailored to the local context and that cater particularly for those who are not mobile and who cannot go across the country to study."[87]

90. There are low numbers of entrants to higher education studying for these qualifications. Professor Ewart Keep, Director of the Centre on Skills, Knowledge & Organisational Performance at the University of Oxford, agreed that £9,250 fees gave universities an incentive to attract students who may have been better off studying for a technical qualification.[88] Richard Atkins CBE, the Further Education Commissioner, said that universities were "fighting very hard to" recruit students at further education colleges who might otherwise have studied a Level 4 or 5 qualification:

> "Any Level 3 student in an FE college has a very good chance of getting a place at university and drawing down loans, an increasing number of which, as you know, will never be repaid."[89]

91. Julian Gravatt, a deputy chief executive of the Association of Colleges, pointed out that the system encouraged students to bypass these qualifications:

> "People who achieve a Level 3 qualification will be accepted by universities for a Level 6 qualification, a degree, so there is no need in our system to stop at Level 4 or 5; people can jump across Levels 4 and 5. At Level 6, there are maintenance loans as well as tuition fee loans, and maintenance loans are not available at Levels 4 and 5."[90]

92. The system of funding for higher education is skewed towards full-time undergraduate degrees. With universities receiving their funding almost entirely through tuition fees as a result of the 2012 reforms, they are incentivised to attract as many students as possible paying £9,250 a year for full-time undergraduate degrees. The lack of maintenance loans at Levels 4

87 Q 46 (Professor Madeleine Atkins). There is significant vocational and technical content in some university courses although this tends to be within honours degrees rather than through other qualifications.
88 Q 153 (Professor Ewart Keep)
89 Q 127 (Richard Atkins CBE)
90 Q 127 (Julian Gravatt)

and 5 also influences demand for those courses. This is considered further in Chapter 9.

93. Demand for Levels 4 and 5 qualifications is also affected by negative perceptions of the courses and the prioritisation of the undergraduate degree route by schools and in the labour market.

Perceptions of Levels 4 and 5

94. The Association of Colleges said that there were low numbers of students taking Level 4 and 5 courses because "the default choice for young people at 18 obtaining A-Level or Level 3 qualifications is a full-time degree."[91] This was acknowledged by Peter Mucklow, from the Education and Skills Funding Agency:

> "the Government recognise that there should be more Level 4 and 5 in further education, and probably in higher education, too. There is a gap. There is provision … with traditional HNCs and HNDs. There have been two-year foundation degrees. None the less, as previous witnesses have said, the currency of the traditional three-year degree course has maintained a sort of primacy."[92]

95. Professor Sir Alan Tuckett said ambitious people have little choice when considering higher education options:

> "the absence of serious vocational routes at [Levels] 4 and 5 that have cultural respect, investment and security for people means that their choices are either little or a degree, and, if they have any ambition at all, a degree is the route they go down. If you want to change the balance, you have to change the offer."[93]

96. Many witnesses suggested that more technical and vocational courses are perceived to be inferior options. The Prime Minister acknowledged this in her speech launching the Government's review of post-18 education and funding: "there remains a perception that going to university is really the only desirable route, while going into training is something for other people's children." [94]

97. Lord Baker of Dorking said that every attempt to improve technical education since 1870 had failed "because of parity of esteem. People, not least parents, do not value technical education."[95] Some witnesses believed the lack of esteem for other options was the result of them not being funded sufficiently. Dr Marginson said that although the UK used to have "a strong secondary strand with an emphasis on practical skills, we allowed it largely to erode. The level of esteem for non-university education is proportionate to the level of funding. We have underfunded it."[96]

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91 Written evidence from the Association of Colleges (HFV0070); Peter Mucklow from the Education and Skills Funding Agency acknowledged that "The traditional three-year degree course has maintained a sort of primacy."

92 Q135 (Peter Mucklow)

93 Q 153 (Professor Sir Alan Tuckett). Professor Sir Alan Tuckett is Professor of Education at the University of Wolverhampton and former Chief Executive of the National Institute of Adult Continuing Education

94 Rt Hon Theresa May MP, Speech on *The right education for everyone* (19 February 2018): https://www.gov.uk/government/speeches/pm-the-right-education-for-everyone [accessed 23 May 2018]

95 Q 82 (Lord Baker of Dorking)

96 Q 34 (Dr Simon Marginson); see also written evidence from Gateshead College (HFV0078).

98. The Minister for Apprenticeships and Skills said parity of esteem was not something the Government could bring about. She believed the best way to do it was through schools and saw the recent careers strategy as an important step:

> "How do you change the institutional snobbery that is associated with a degree? I did not go to university. I was recently at a very successful independent girls' school and the head teacher said to me before I spoke to 400 girls, "Could you please say something to these girls about the options out there for them that do not involve Oxford, Cambridge, Durham or Warwick?" That was a breath of fresh air to me."[97]

Prioritisation of academic route through higher education

99. Linked to perceptions, we heard that schools are incentivised to push students towards the academic route of sixth form followed by university. The London Borough of Tower Hamlets outlined the problem:

> "While there are clear inducements for schools and sixth forms to promote the university option to their high achievers, with local schools using metrics of 'number of alumni attending elite universities' to benchmark themselves, limited regard is given to those students who might want to use their education and obvious talents in other directions …
>
> The pattern begins to emerge in pre-16 schools and has become increasingly apparent in recent years as responsibility for delivering impartial careers guidance to all but those deemed "at risk" is devolved to the school. It is not in the financial interest of schools with a sixth form to lose students to colleges or apprenticeships offering technical courses, therefore students, who trust in their teachers, can be encouraged to consider the limited range of options on offer in their own school and not look elsewhere."[98]

100. The Confederation of British Industry said that schools receive a higher level of per-pupil funding for sixth form students than for 11 to 16 year old secondary students. This created "an incentive for schools to encourage students to continue in sixth form study rather than pursuing another option, for example a technical qualification, at a different institution."[99] Julian Gravatt said there was a problem with the system that judges teachers "almost entirely on their success in getting pupils to go for an academic route up through A-Levels and into university."[100]

101. This emphasis on sixth form followed by university was backed up by evidence we received informally from current students and apprentices:

> "I went to a school where if you signalled you wanted to go to college instead of sixth form you got less focus from the teachers. In sixth form if you signalled you didn't want to go to uni you again got less attention." (University student)
>
> "If you didn't want to stay for sixth form they didn't want to know you." (Further education student)

97 Q 175 (Rt Hon Anne Milton MP)
98 Written evidence from London Borough of Tower Hamlets (HFV0037)
99 Written evidence from Confederation of Business Industry (HFV0089)
100 Q 129 (Julian Gravatt)

> "School pretty much says you have to go university or nothing." (Apprentice)
>
> "Schools pushing university means that students think apprenticeships are rubbish." (Apprentice)

102. Lord Baker of Dorking said the message was "reinforced by the press and parents, who think it is the right thing to do. We are talking about the first generation whose parents were likely to have been to university. It seems automatic that they should go there too". Student we spoke to also pointed out that the university route was usually the one their teachers knew and had experienced.

103. We set out reforms to address this in Chapter 7.

Need for undergraduate degree in the labour market

104. One reason for the demand for undergraduate degrees is their so-called 'signalling effect' in the labour market. In an article for *Prospect* magazine in July 2017, Baroness Wolf of Dulwich outlined this:

> "People sink time and money into proving, via education, that they are more desirable to employers than others. By having more qualifications, more bits of paper, they should move up shortlists and land interviews … If the chief-effect [of university expansion] is to raise the qualification barrier to a job in back-office accounts, then expansion might already be out of hand … If we continue with higher education business as usual, we risk taking large sums of money from many people for little reward, while for no good reason depriving others, who lack the right piece of paper, of opportunities."

105. Baroness Wolf told the Committee that university education was not just about 'signalling', "but there is an element of it. The more the world is awash with graduates, the more difficult it is for people to know what a degree means other than through signals."

106. The Minister for Universities and Science said that employers had a "huge role" to play in creating parity of esteem between the different options:

> "… if employers have application forms that insist that you have a degree just to pass the sift, do not be surprised if the supply side responds to that. Ultimately, if we get the supply side right and employers respond correctly, we will get parity of esteem."[101]

107. **The combination of incentives to offer and study for undergraduate degrees has had a negative effect on the provision and demand for other types of higher education.**

101 Q 175 (Sam Gyimah MP)

CHAPTER 4: FUNDING AND REGULATION

108. The Government has recognised the need to address the decline in post-school education other than full-time undergraduate degrees. It has expressed its desire to address the whole system and to "increase the amount of sub-degree provision" by "building a much more credible college-based offer that sits alongside university provision, to give people a wider range of options than they currently have and that may be better suited to their aptitude, ability and circumstances".[102]

109. Witnesses suggested that to do this, reform to the funding and regulation of the further and higher education sectors was required.

Higher and further education overview

> *"Currently, it could be perceived that further education and higher education function almost as two separate universes destined for 'different sorts of people'."*[103]

> *"[Higher and further education] are completely different worlds."*[104]

> *"Britain cannot continue to have a debate on student funding that ignores half the population."*[105]

110. Higher and further education are funded by different agencies; regulated by different bodies; political accountability lies with different ministers; students access courses through different systems; financial support for students differs according to where they study.

111. This chapter considers the funding and regulation of higher education (degree and sub-degree qualifications), further education (qualifications equivalent to A-Level and below) and apprenticeships.[106]

Box 5: Higher education definitions for funding and regulatory purposes

Higher education usually, and in this report, refers to qualifications at (Level 4 and above (this means degrees, foundation degree and technical qualifications). For the purpose of funding and regulation the definition is more complex.

The Office for Students provides funding for and regulates providers of higher education.[107] Higher education providers are defined as "institutions which provide higher education".[108] Higher education in this context refers only to certain prescribed courses. These include undergraduate and post graduate degrees, foundation degrees, Higher National Diplomas and Certificates.[109]

102 Q 44 (Dr Philippa Lloyd)
103 Written evidence from Unison (HFV0060)
104 Q 161 (Rt Hon Anne Milton MP)
105 Q 147 (Professor Sir Alan Tuckett)
106 See terminology section for the definitions of these terms.
107 Office for Students, *Regulatory Framework* (28 February 2018): https://www.officeforstudents.org.uk/publications/office-for-students-regulatory-framework-a-summary/ [accessed 23 May 2018]
108 Higher Education and Research Act 2017, section 83
109 Higher Education and Research Act 2017, section 83; Education Reform Act 1988, Schedule 6

The Office for Students (OFS) funds and regulates these prescribed courses whether they are carried out in a university or further education college. It does not fund or regulate Level 4 and 5 courses that are not on the prescribed list.

The Higher Education and Research Council, the predecessor body to the OFS, explained:

"[…] we are only empowered to fund 'prescribed' courses of higher education. These include HNCs, HNDs, foundation degrees, bachelors degrees, postgraduate degrees and certain teacher training qualifications. The awarding bodies for such courses include institutions with degree-awarding powers and (for HNCs and HNDs only) Pearson Education Limited.

"Prescribed courses do not include other higher education courses at FECs, such as some professional courses, or modules taught to students who may be taking parts of a prescribed course but have not declared an intention to complete the whole qualification. These other higher education courses are the funding responsibility of the further education funding body, the Education and Skills Funding Agency."[110]

Funding of higher and further education

112. The funding of higher and further education is complex: there are multiple funding sources allocated according to differing criteria. Some institutions may claim funding from several funding streams.

Funding for higher education

113. The Student Loans Company pays tuition fee loans directly to the university on behalf of the student. Teaching grants are provided through the Office for Students, which also regulates providers of higher education. Universities also receive research grants provided by Research England and the various Research Councils.[111] Some teaching and widening access grants are provided to further education colleges who offer higher education courses. The latter is a relatively small part (five per cent in 2016/17) of the total teaching grant budget.[112]

114. But the Office for Students only funds and regulates certain prescribed courses in higher education.[113] These include undergraduate and post-graduate degrees, foundation degrees, Higher National Diplomas and Higher National Certificates. Prescribed courses can be taught in higher or further education institutions.

115. The Office for Students does not fund or regulate Level 4 and 5 courses that are not on the prescribed list. Courses which are not on the list are the funding responsibility of the further education funding body, the Education

110 Higher Education Funding Council England, *Guide to funding 2017–18* (April 2017): http://www.hefce.ac.uk/media/HEFCE,2014/Content/Pubs/2017/201704/HEFCE_Funding_Guide_2017-18_.pdf [accessed 10 May 2018]

111 The Office for Students commenced operation on 1 April 2018. Prior to this date higher education funding was administered by the Higher Education Funding Council England.

112 In 2016/17 HEFCE allocated £1,39bn of teaching grants. Of these £1.26bn went to higher education institutions and £69m to Further Education colleges offered higher education provision. Hefce, Recurrent grants for 2016–17: Final allocations (October 2016): http://www.hefce.ac.uk/pubs/Year/2016/201631/ [accessed 8 May 2018]

113 Higher Education and Research Act 2017, section 83; Education Reform Act 1988, Schedule 6

and Skills Funding Agency.[114] In addition, the Office for Students is only jointly responsible—with the Education and Skills Funding Agency—for the quality and funding of Level 4 and 5 qualifications offered as part of an apprenticeship.[115]

Types and sources of funding for further education

116. Further education colleges are allocated funding through at least six streams:

(a) 16–18 learners[116]: funding is allocated under a formula administered by the Education and Skills Funding Agency. The funding is used to pay for 16 to 18 year-olds studying certain pre-approved qualifications.[117] Alun Francis, Principal of Oldham College, described this aspect of the system as "relatively straightforward".[118]

(b) Adult education budget: covers learners aged 19 and above. It provides funds for certain courses, such as first Level 3 qualifications for 19 to 23 year-olds. Mr Francis told us that the operation of the adult education budget was "a fairly complex process, which I am not sure anybody quite understands".[119]

(c) Apprenticeships: the advent of the apprenticeship levy changed the way colleges are funded to train apprentices:

(i) For levy-paying firms, training will be negotiated with colleges and other providers and paid directly to the college by the employer their apprenticeship levy account.[120]

(ii) For non-levy paying firms: costs of training are split between the employer (10 per cent) and Government (90 per cent). The employer pays the college directly; Government funding is provided via the Education and Skills Funding Agency.[121]

(d) Higher education: as noted above, further education colleges receive funding from the Office for Students for prescribed higher education courses.[122]

(e) Advanced learner loans: Currently advanced learner loans are available to students over 19 studying most Level 3, 4 and 5 qualifications. The amount loaned depends on the course (in 2015/16 the average loan was

114 Higher Education Funding Council England, Guide to funding 2017–18 (April 2017): http://www.hefce.ac.uk/media/HEFCE,2014/Content/Pubs/2017/201704/HEFCE_Funding_Guide_2017–18_.pdf [accessed 10 May 2018]

115 *Ibid*

116 Broadly, this funding covers learners up to their 19th birthday; the adult education budget covers learners over 19.

117 Department for Education, *The funding formula*: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/533103/The_funding_formula.JPG. [accessed 7 May 2018] There are over 13,000 approved qualifications. These are mainly equivalent to GCSE (Level 2) or A Level (Level 3). Education and Skills Funding Agency, *Section 96: Qualifications* (July 2017): https://www.gov.uk/guidance/section-96-qualifications [accessed 8 May 2018]

118 Q 126 (Alun Francis)

119 *Ibid.*

120 Department for Education, *Apprenticeship funding: how it works* (February 2018): https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work#non-levy-paying-employers [accessed 10 May 2018] For a full explanation of the operation of the levy, see Chapter 6.

121 *Ibid.*

122 See Box 5.

£760) and is paid directly to the college. The terms of repayment are the same as tuition fee loans. Data published by the Department for Education show that in 2016/17 over 82,000 applications for advanced learner loans were approved. Of these, less than 6,000 were for a qualification at Level 4 or above.[123]

(f) Other funding streams: further education colleges also receive money from the European Social Fund and fees charged to students.

Table 4: Higher and further education funding sources

Source of funding	16-19 Budget[124]	Adult education budget	Advanced learner loans	Tuition fee loans	Higher education grants
Agency	Education and Skills Funding Agency	Education and Skills Funding Agency	Student loans company	Student Loans company	Office for Students
Recipient institutions	Further education colleges Sixth form colleges	Further education colleges; Universities offering further education	Further education colleges; Universities offering further education	Universities and further education colleges offering higher education	Universities and further education colleges offering higher education
Type of courses funded[125]	Approved Level 2 and 4 qualifications	First Level 2 and 3 and 4 for 19–23 year olds; Basic English and maths	Level 3–5 qualifications that do not qualify for tuition fee loans	Undergraduate degrees and prescribed Level 4 and 5 qualifications	Undergraduate degrees and prescribed Level 4 and 5 qualifications

Level of funding

117. Currently different amounts of public money are allocated to different types of qualification and spent per head on different types of student. The gap in resources between further education and universities was described by one witness as "quite staggering".[126] Data provided by the Department for Education show an £8 billion difference between the budget for each sector in 2017/18 set out in Table 5.

123 Department for Education, *Advanced Learner Loans, Application information, 2016/17 academic year final report* (October 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/653992/Advanced_Learner_Loans_2016–17_FINAL_.pdf [accessed 9 May 2018]

124 From 2019/20 approximately 50 per cent of the AEB will be devolved to six Mayoral Combined Authorities (Greater Manchester, West Midlands, Tees Valley, West of England, Cambridgeshire and Peterborough and Liverpool City Region) and the Greater London Authority. The EFSA will retain responsibility for funding non-devolved areas. Education and Skills Funding Agency, Helping providers understand implications of AEB devolution/delegation from 2019 to 2020: Education and Skills Funding Agency, 'Preparing for adult funding devolution' (December 2017): https://www.gov.uk/government/news/preparing-for-adult-funding-devolution [accessed 7 May 2018]

125 Education and Skills Funding Agency, *Section 96: Qualifications* (July 2017): https://www.gov.uk/guidance/section-96-qualifications [accessed 10 May 2018] ; Education and Skills Funding Agency, *Guidance: Adult education budget funding and performance management rules 2017 to 2018* (January 2017): https://www.gov.uk/government/publications/adult-education-budget-funding-and-performance-management-rules-2017-to-2018 [accessed 10 May 2018]

126 Q 29 (Dr Conlon)

Table 5: Higher and further education spending and participation 2014/15 to 2016/17, and budgets for 2017/18

	2014/15		2015/16		2016/17		2017/18 (budget)	
	Higher education	**Further education**	**Higher education**	**Further education**	Higher education	**Further education**	Higher education	Further education
Total funding	£14.8 billion	£10.9 billion	£15.6 billion	£10.6 billion	£16.7 billion	£9.6 billion	£17.8 billion	£9.8 billion
Cost to Government[127]	£8.7 billion	£10.6 billion	£6.5 billion	£10.4 billion	£7.1 billion	£9.4 billion	£7.6 billion	£9.6 billion
Total student numbers	1,500,000	3,576,900	1,510,000	3,274,900	1,549,000	3,152,100	Numbers not yet available	
Funding per head	£9,900	£3,000	£10,300	£3,200	£10,800	£3,000	n/a	

Source: Written evidence from the Department for Education (HFV0086) and (HFV0121). The number for further education do not include students studying in school sixth forms.

127 Higher education is funded largely through tuition fees which are paid for by student loans. A substantial proportion of the funding is therefore covered by students rather than the Government. The cost to the Government for higher education includes the remaining grant funding to higher education institutions (around £700 million for 2017/18) and the proportion of the loans which will be covered by public spending when written off at the end of their 30 year term (estimated to be around 48 per cent for the 2017/18 cohort). Chapter 10 discusses this aspect of the funding of higher education in more detail. Some courses in further education are paid for through advanced learner loans although take up of these has been low (see paragraph 159).

118. In oral evidence the Rt Hon Anne Milton MP, Minister for Further Education and Skills, said she would be "interested to interrogate" these figures.[128] The Minister for Universities wished to check the data were "comparing like with like for analytical reasons".[129] In follow-up evidence the Department for Education accepted the accuracy of the calculations, but pointed out that their figures did not include £726 million of capital restructuring expenditure allocated to the further education sector.[130]

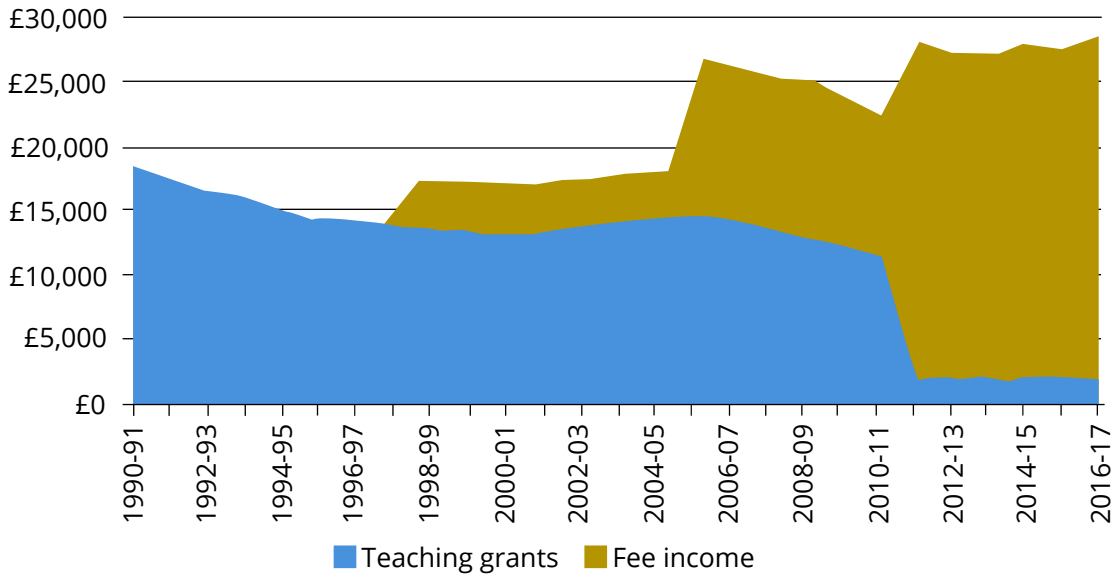
119. Consideration of the details of the allocations in 2016/17 also highlights these disparities. The research grants to universities are £400 million greater than the entire allocation to colleges from the adult education budget.[131] Julian Gravatt claimed "the average resource for higher education teaching is about £8,700, whereas for 16 to 18 education it is about £4,500 a year per student."[132]

Funding trends

120. This disparity has been exacerbated by three trends in funding for post-school education.

121. First, higher education funding has increased to its highest level for 30 years. As Figure 3 shows, whilst teaching grant income has declined, this has been replaced by tuition fees.

Figure 3: University resources per student per degree, 1990–91 to 2017–18 (2017 price)[133]



Source: Institute for Fiscal Studies, Higher Education funding in England: past, present and options for the future (July 2017): https://www.ifs.org.uk/uploads/publications/bns/BN211.pdf [accessed 10 May 2018]

128 Q 161 (Rt Hon Anne Milton MP)
129 Q 161 (Sam Gyimah MP)
130 The Department stated: "We do not include restructuring funds in the overall cost to government as funding is only provided upon the approval of an application from an FE provider, and therefore the total funding to be made available is not yet known. Additionally, a significant proportion of the funding is provided as a loan, and therefore repaid by the college, thereby reducing the overall cost to Government." Assuming this funding is allocated in full equally across the three years, it would provide an extra £242 million funding to FE in 2017/18.
131 HEFCE distributed £1.57bn of research grant funding and £1.26bn teaching grant funding. EFSA made payments of £1.3bn under the adult education budget.
132 Q 126 (Julian Gravatt)
133 Reproduced with permission from the IFS.

122. Secondly, spending on 16–19 education "has been particularly badly hit by cuts in recent years" and has fallen in real terms.[134] Total expenditure on 16–18 education fell by 17.5 per cent in real terms between 2010 and 2017.[135] Funding for 18 year-olds was particularly affected: in 2013 the coalition government reduced the rate of funding it provided to colleges for full-time 18 year old learners from £4,000 to £3,000 per head.[136]

123. Finally, adult education funding has seen significant reductions. Richard Atkins CBE, the Further Education Commissioner, told us that the sector has experienced a "40 per cent cut in adult funding".[137] Allocations Expenditure on adult education and skills fell from £3.16 billion in 2011 to £1.88 billion in 2015/16.[138] In 2016/17 the total allocated to the adult education budget was £1.5 billion.[139]

Problems created by current funding system

124. Problems arise for the further education sector from the level of funding and the structure of the funding system.

125. "FE has been starved", Shakira Martin, President of the NUS told us.[140] She considered that this impeded efforts to ensure parity of esteem between the two sectors.[141] The Education Policy Institute stated that the funding gap made it "unlikely that vocational education can present an attractive alternative to university."[142]

126. A further key issue is that funding is capped for much of further education. Colleges are allocated a specific level of funds according to national formulae. They earn this by delivering certain approved qualifications. This is in stark contrast to higher education where money is automatically provided for each student. Alun Francis explained (using the example of apprentices) that "because we get an allocation, effectively, we recruit [to] spend that allocation, and we cannot go very much beyond that."[143]

127. The reduced funding has also narrowed the range of courses supplied, as the sector "has been given no sensible way of making investments in expensive

134 Written evidence from Professor Sandra McNally (HFV0067)
135 House of Commons Library, 16-19 Education Funding in England since 2010, Briefing Paper No 7019, 15 Jan 2018
136 Education Funding Agency *Funding for academic year 2014 to 2015 for students aged 16 to 19 and high needs students aged 16 to 25 (*December 2013): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/297504/140318_March_letter_to_sector_FINAL__3_.pdf [accessed 8 May 2018]
137 Q 126 (Richard Atkins CBE)
138 House of Commons Library, Adult further education funding in England since 2010, Briefing Paper No 7708, 27 March 2018
139 Letter from Nick Boles MP to the Skills Funding Agency (15 December 2015) p 11: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/485969/BIS-15-615-skills-funding-letter-2016-to-2017.pdf [accessed 7 May 2018]
140 Q 85 (Baroness Wolf of Dulwich)
141 Q 17 (Shakira Martin)
142 Written evidence from the Education Policy Institute (HFV0048)
143 Q 126 (Alun Francis)

courses."[144] Professor Sir Alan Tuckett indicated that funding rules were also to blame for this:

> "we have arrived at a position in FE where the adult budget is underspent because the rules are set centrally. It is not only funding; it is how we have constricted what we see the budgets doing."[145]

128. This concern was shared by other witnesses who considered funding rules impeded the effective operation of the sector and reduced "the ability of providers to innovate new forms of delivery and react to the needs of an evolving economy."[146] Professor Thomas described a "binary system" which made it "very difficult" for students and institutions to access the necessary funding to offer higher and further education.[147] He explained:

> "The difficulty is the silo payment; you have to have an [Education Funding Agency] or an [Education Skills Funding] payment or a student loan. We think there should be one payment and that undergraduates should be allowed to do apprenticeships and respond to the lifelong learning."[148]

129. The limits on funding also impede colleges piloting models of learning which combine degree and technical qualifications. The University of Central Lancashire found that the rules mean "that that a student studying a blended HE/FE degree would … have to self-fund [the FE] element of their education, in addition to their significant university tuition fee."[149]

130. These issues affect the ability of the sector to meet economic needs. As outlined above there is a mismatch between skills provided by the education system and those needed by the economy. The Education Policy Institute pointed out that the current system of vocational qualifications was "failing to equip workers with the skills demanded by the labour market"[150] The Warwickshire College Group thought the sector was ill-equipped to meet the wider policy pressures on it:

> "There is greater emphasis being placed upon the further education sector to 'solve' the UK's productivity problem through an expectation that the sector should be producing the work ready young people for every industry. However, the funding provided for the sector is not supporting this emphasis."[151]

131. **The structure and distribution of funding in the post-school education sector is unfair and inefficient. Further education is the poor relation to higher education and its position has been weakened and undermined by reductions to its budgets and a complex funding architecture. The separate funding mechanisms create educational silos that prevent innovation. The system accentuates the perception that routes into higher education that begin in further education are inferior to the A-Level/undergraduate degree option.**

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144 Q 85 (Baroness Wolf of Dulwich)
145 Q 146 (Professor Sir Alan Tuckett)
146 Written evidence from the University of Central Lancashire (HFV0038)
147 Q 66 (Professor Mike Thomas)
148 *Ibid.*
149 Written evidence from Professor Mike Thomas (HFV0098)
150 Written evidence from the Education Policy Institute (HFV0048)
151 Written evidence from the Warwickshire College Group (HFV0097)

Developing Level 4 and 5 provision

132. Julian Gravatt told us that developing Level 4 and 5 "is a bit of a chicken and egg issue because you need to develop provision and demand at the same time."[152]

133. Some witnesses suggested combining the university and further education sectors. Richard Atkins CBE suggested "we need to blend the lower-tariff universities and the further education system more closely together." He said this would help make "progression routes more obvious. I would like to see some of those institutions offering more Levels 4 and 5, or even 6, in technical subjects and not simply honours degrees."[153]

134. Institutions which had attempted to blend provision pointed to funding and regulatory challenges. The University of Central Lancashire promoted their "hybrid model" which ensured students graduated with both an undergraduate degree and a complementary Level 3 vocational qualification: "Students will divide their time between completing their HE degree, whilst putting into practice what they have learned pursuing a vocational course at a local FE college."[154] However, they pointed to regulatory and funding challenges that arose from this.

Reform of funding: Level 4 and 5

135. Step up to Serve, a community volunteer organisation, was among a number of witnesses to express frustration that "almost all of the debate […] focusses exclusively on patching up funding for young university students when it should be catering for students of all ages in many different types of institution."[155]

136. To achieve this there should be "a new offer of a universal funding entitlement covering both degrees and … sub-degree qualifications".[156] This new joined-up system of funding would require, amongst other changes, "expanding the [student loan] system to cover other forms of post-compulsory education, including vocational training."[157]

137. Such a system would reflect modern patterns of work and study. The University Alliance described a future where "many people will study at both colleges and universities at different points in their life—and not always in a linear way."[158] Witnesses suggested that it could lead to "fewer universities […] a very different subject mix […] a very different student mix."[159]

138. Some witnesses were cautious about moving away from the current system, pointing out that higher and further education are "doing different things".[160] The Minister for Universities aimed to "have the appropriate funding system for each route", drawing attention to the fact that "the FE route […] has

152 Q 127 (Julian Gravatt)
153 Q 127 (Richard Atkins CBE)
154 Written evidence from the University of Central Lancashire (HFV0038)
155 Written evidence from Step up to Serve (HFV0031)
156 Written evidence from the TUC (HFV0082); see also written evidence from Professor Schuler and others (HFV0023) and Q 56 (Professor Mike Thomas).
157 Written evidence from University College London (HFV0077)
158 Written evidence from the University Alliance (HFV0080)
159 Q 153 (Professor Ewart Keep); see also Q 77 (Richard Atkins CBE).
160 Q 59 (Pam Tatlow)

more work and employer-based work and study. That is a very different model from doing [a university degree] that is generally quite theoretical."[161]

Foundations of a new system

139. A joined-up system needs to be designed to address the problems created by the current structure. It should:

- Offer the same structure of support per full time equivalent student to students regardless of where and how they study. A student studying a distance-learning higher national certificate, part-time foundation degree or full undergraduate degree should understand that they can access support for fees and maintenance through the same system of grants and loans. One witness described this as a "breakthrough approach" that "that signals to the country at large that we value people getting further education and better skills to equip them for the future."[162]

- Ensure flexibility between levels and types of study. This should include funding for modules or credit where a full degree is not required. The Open University stated that "for some […] students and […] employers a full degree is not required. Sometimes just one course (module) is more appropriate for their learning and employment goals."[163]

140. This change should occur in parallel to our other reforms to the design of loans and the regulation of the sector (see Chapter 8). Implementing such a system would be a "fundamental challenge to the way the funding arrangements are now divided between further and higher education to the disadvantage of further education."[164]

Additional incentives for studying Level 4 and 5

141. The aim of this new deal is to ensure that no one form of post-school education is, or is perceived to be, the superior route to the labour market. However, as previously discussed, the different types of post-school education do not start from an equal position. Full-time undergraduate degrees have occupied a privileged position in terms of resources and esteem for many years. Some witnesses suggested that, to compensate for the current inequality, other higher education provision required additional support and incentives to ensure that provision and demand are developed at the same time.[165]

142. We have considered whether additional measures should be put in place to ensure that other qualifications can compete with full-time undergraduate degrees under a new funding system. Such measures could include managing university student numbers; more favourable loan terms for further education college students; 'golden handshakes' such as offered to graduates training as teachers; or phased bonuses offered over the lifetime of a course. We support new incentives but want them to be the right ones, avoiding perverse incentives and behaviours elsewhere. We consider that further analysis is

161 Q 161 (Sam Gyimah MP)
162 Q 118 (Russ Shaw)
163 Written evidence from the Open University (HFV0059)
164 Q 144 (Professor Alison Fuller)
165 Q 127 (Julian Gravatt); written evidence from the Association of Colleges (HFV00070); Q 118 (Giles Derrington)

required on the operation of such options to ensure that no new perverse incentives are created.

143. **A new deal is required for higher education funding which promotes all types of learning regardless of where or how it takes place. The system of funding higher education should be reformed so that it facilitates a fair and balanced provision of loan and grant funding across higher education.**

144. **For students, there should be one system of funding: students should be able to access loan funding and maintenance support for all full and part-time courses at Level 4 and above. This does not mean identical levels of support for students studying, for example, a one-year diploma and a three-year undergraduate degree. Differences between qualifications should be reflected in the loan rates and repayment structure.**

145. **The Government should explore restoring some teaching funding for further education colleges so they can cover costs and stimulate demand for courses at Levels 4 and 5. This should also be considered for part-time courses and modules at Level 4 and 5 such as those offered by the Open University.**

146. **The purpose of these reforms is to raise the status of all higher education qualifications, creating more flexible full and part-time routes and rebalancing the current offering. The Government should explore whether this should be supported by new financial incentives for entrants into higher education to study for qualifications other than undergraduate degrees.**

Structure and regulation

147. At least 15 different agencies are involved in the delivery, funding and regulation of further education, higher education and apprenticeships.[166] The complexity is compounded by differences in policy priorities and regulatory philosophies between—and sometimes within—sectors. This impedes integration of post-school education and innovation by providers.

Current system

148. The structure of the post-school education sector is complex, with multiple agencies funding and regulating the sector. There is a demarcation between universities and further education colleges. This extends to funding, admissions, inspection, qualifications and even data collection, for example:

- For universities admissions are administered by UCAS; for further education there is no central admissions body.
- Ofsted inspects further education colleges and apprentice training providers; no body does the same for universities.
- Assurance of qualifications is provided by Ofqual for further education; the Quality Assurance Agency and individual universities for degrees; and Ofqual and/or the Institute of Apprentices and Technical Education for apprentices.

166 Appendix 8 sets out the role and function of the different bodies involved in the sector.

149. A further distinction exists within 'higher education' which is divided into prescribed courses, defined in legislation and regulated and funded through the Office for Students, and all other courses which fall under the remit of the Education and Skills Funding Agency.

150. Apprenticeships cut across higher and further education. Responsibility for the regulation of 'higher education' apprenticeships (those at Level 4 and above). Is divided imprecisely between the Office for Students (OFS) and Ofsted. The OFS explains:

> "Ofsted is responsible for inspecting the quality of apprenticeship training provision at Levels 4–5, unless the apprenticeship standard contains a prescribed HE qualification.
>
> In the case of apprenticeship providers delivering prescribed HE as part of an apprenticeship standard, the OFS and Ofsted will reach a judgement, informed by joint working."[167]

167 Office for Students, 'Apprenticeships': https://www.officeforstudents.org.uk/advice-and-guidance/skills-and-employment/apprenticeships/checking-the-quality-of-apprenticeships/ [accessed 9 May 2018]

Figure 4: Funding and regulatory responsibilities

Level	Higher Education			Further Education	
	Six	**Five**	**Four**	**Three**	**Two & below**
Courses	Undergraduate degree	Technical/technician qualifications		T-Levels A-Levels NVQs	GCSEs
		Foundation degree HND	HNC		
Institutions	Universities				
	*	Further education colleges			
				Sixth form colleges	
Funding	Office for Students				
	Student Loans Company				
	*	Education and Skills Funding Agency			
Regulation	Office for Students				
	*	Education and Skills Funding Agency			
Other agencies	Quality Assurance Agency				
		Ofqual			
		Ofsted			
	FE Commissioner				

Apprenticeships					
	Six	**Five**	**Four**	**Three**	**Two & below**
Courses	Degree apprenticeship	Higher apprenticeship		Advanced apprenticeship	Intermediate apprenticeship
Funding	Institute for Apprentices (recommends funding bands)				
Levy	Employers via levy fund (administered by National Apprenticeship Service)				
Non-levy	Employers (10%); Government via EFSA (90%)				
Regulation	Office for Students				
		Ofsted			
Other agencies	National Apprenticeship Service (apprenticeships delivery)				
	Institute for Apprentices (development of standards and some quality assurance)				
Information	National Apprenticeship Service				
	UCAS (information only)				
	National Careers Service				

[*] Further education colleges offer degrees, but require an external validator with degree awarding powers (usualy a university)

Impact on the sector

151. Witnesses thought that the "artificial divide" created by regulation prevented integration and stifled innovation.[168] Professors Alison Fuller and Lorna Unwin told us that the system "engendered passive and reactive behaviour at local and regional level, and a rule-dependent approach in government agencies".[169]

152. The complex edifice is underpinned by an uneven set of operational priorities and regulatory philosophies. We have set out previously the policy of increased participation and market regulation of universities; further education is not regulated as a market and has no overall participation target; apprenticeship

168 Written evidence from the University of Central Lancashire (HFV0038)
169 Written evidence from Professor Alison Fuller and Dr Lorna Unwin (HFV0061)

numbers are target driven. Within further education different parts of the sector have different objectives, as Gateshead College explained:

> "There is a fundamental disconnect between the way that government agencies manage providers through the funding regime to deliver their priorities. Young people's funding for 16–18 year olds […] is based on doing what is right for the learners with the fundamental tenants of maths, English and work readiness, along with highly relevant qualifications […]However, for adults, there is a disparity between the funding of 19–24 year olds and over 24 year olds, the methodology is transfixed with qualifications, which are often out of date."[170]

153. **The complex and piecemeal regulation of post-school education may prevent innovation and undermine efforts to reform the sector.**

154. **In higher education, one regulator should take responsibility for the whole sector. We recommend the Office for Student's remit be extended to regulate and fund all higher education. It should have clear responsibility for all students in higher education, regardless of their course and level of study.**

155. **The Office for Students should be specifically required to:**

    (a) **Ensure quality across all levels and institutions that provide higher education, and not just in one part of the system;**

    (b) **Promote better availability and a more balanced offer across routes and levels within higher education;**

    (c) **Identify and remove funding rules and regulatory barriers which prevent innovation and integration of different types of higher education;**

    (d) **Ensure that clear information is provided to school leavers about the choices available to them and the lifetime financial consequences of those choices. This should extend to information about apprenticeships including the available salaries and the likelihood of permanent employment.**

156. **Other post school education, at Level 3 (A-Level equivalent) and below, should also be regulated by a single agency. To ensure parity of esteem between the sectors, this agency should have equivalent status of the Office for Students. It should be a Council with sufficient resources and credibility to champion further education.**

Funding of Level 3 qualifications

157. Much of this report concentrates on higher education at Levels 4 and above. The evidence to the Committee was that the lack of sub-degree technical qualifications had led to a mismatch between the skills attained through the education system and those required by the economy. The recommendations are designed to address the inequalities in the system which have led to this mismatch.

170 Written evidence from Gateshead College (HFV0058)

158. There is an even greater injustice at Level 3 (qualifications equivalent to A-Level). Level 3 is an important step towards Level 4 and 5 qualifications and forms a distinct technical pathway into and through higher education. As set out earlier in this chapter, the main problem is that the money does not follow the student: the system of allocations effectively caps funding.

159. Government funding for Level 3 qualifications is available only to limited categories of learner: those under 19; students between 19–23 doing a first qualification; and unemployed adults doing a first qualification. Witnesses highlighted three problems with the current system.

    (a) The cliff edge when a learner turns 19. At this age entitlement to a fully funded course ceases (although student are entitled to their first full Level 3 qualification paid for, this will not cover all students). Funding is also substantially reduced for students in their third year of a Level 3 qualification.

    (b) The funding available for those over 19 covers only the first 'full' Level 3 qualification. This is defined as two A-Levels or equivalent. This excludes, in particular, those seeking to retrain. Julian Gravatt pointed out that "there is not much help if you are already trained to Level 3 or above in one sector but want to reskill to a different job."[171]

    (c) Whilst advanced learner loans cover Level 3 qualifications, relatively few learners take advantage of these: 74,000 loans were awarded in 2016/17. Professor Ewart Keep, Director of the Centre on Skills, Knowledge & Organisational Performance at the University of Oxford, told us that "the only bits of Level 3 adult loan-funded FE that are carrying on are where, essentially, the person has to get the qualification to obtain personal professional insurance […] essentially, they are buying a licence to practise in their profession; they have to get it."[172]

160. Witnesses suggested more support was needed for learners to access Level 3 qualifications and, if appropriate, progress to higher levels. Julian Gravatt said that "it would be fantastic if the Government were prepared to have a national programme that developed Level 3 skills for qualifications in particular areas." Any such expansion in funding would need to be "reasonably focused in certain areas" and backed by a "proper strategy" for adult learning.[173]

161. **The current funding arrangements for Level 3 qualifications provide a straitjacket: they prevent retraining and stifle attempts to create coherent pathways between higher and further education. We recommend providing uncapped state funding (on a tariff basis) for all students, full-time or part-time, irrespective of age, for their first qualification at Level 3. This is both fair and economically necessary.**

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171 Q 128 (Julian Gravatt)

172 Q 146 (Professor Ewart Keep). The top six areas for Level 3 advanced learner loans awards in 2016/17 were: (1) Fitness instruction [5,050 awards]; (2) Teaching support [3,330]; (3) Accountancy [2,360]; (4) Nail technician [1,830]; (5) Access courses [1,520]; (6) Early years education [1,300]. Department for Education, *Advanced Learner Loans, Application information, 2016/17 academic year final report* (October 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/653992/Advanced_Learner_Loans_2016–17_FINAL_.pdf [accessed 9 May 2018]

173 Q 126 (Julian Gravatt), written evidence from the TUC (HFV0082)

CHAPTER 5: FLEXIBLE LEARNING

> *"If you tried to design the decline of adult learning opportunities in Britain over the past 15 years, you would struggle to do it as well as we have done it by accident."*[174]

> *I have to accept that [the decline in part-time students] is one of my biggest regrets about my time as Minister. […] The evidence is that the loans for part-time students have not worked."*[175]

162. The full-time three-year undergraduate degree, entered into at a young age, is the predominant mode of study in higher education. The funding system is designed with this model in mind. But it does not lend itself particularly well to flexible learning: for example, those wishing to learn flexibly are often older learners wishing to retrain.

Box 6: Accelerated degrees

One form of flexible learning is compressed or accelerated degrees. On such courses a three year undergraduate degree is completed in two years. This is usually achieved by students studying through the summer. Currently only 0.2 per cent of students study such courses.[176] Three quarters of those who responded to a 2016 Government consultation on this issue "reported seeing a demand for accelerated courses from students or employers."[177]

Universities highlighted the funding and practical impediments to accelerated degrees. Sir Antony Seldon, of Buckingham University (which offers such courses), told us that "the current system means that there are financial disincentives to universities that want to offer two-year undergraduate degrees".[178]

Professor Virgo suggested that "the compressed degree is incompatible with the research-intensive universities' mission to do both teaching and research" as the latter occurred over the course of the summer months.[179]

The Government has acknowledged that "existing fee cap arrangements do inhibit wider provision of accelerated courses." It launched a consultation on proposals to allow universities to charge up to £11,000 a year for two year courses.[180]

163. The concept of flexible learning covers a number of different types of education, including:

- Length of courses and intensity of study (such as part-time study or courses that are condensed or accelerated).

174 Q 146 (Professor Sir Alan Tuckett)
175 Q 1 (Lord Willetts)
176 Department for Education, *Accelerated Degrees Government consultation* (December 2017): https://consult.education.gov.uk/higher-education-accelerated-degree-courses/widening-student-choice-in-hig/supporting_documents/Consultation%20document%20on%20accelerated%2 0degrees%20publication%2011%20December.pdf [accessed 10 May 2018]
177 *Ibid.*
178 Q 61 (Sir Antony Seldon)
179 Q 79 (Professor Graham Virgo QC)
180 Department of Education, *Accelerated Degrees: widening student choice in Higher Education*, (December 2017): https://consult.education.gov.uk/higher-education-accelerated-degree-courses/widening-student-choice-in-hig/ (accessed 23 May 2018)

- Delivery of education (such as distance or online learning and evening or weekend courses).
- Methods of assessment (such as modular learning).

164. Flexible learning—in particular provision for part-time and older learners—has been stifled by the distorted incentives for both students and universities created by the student loan system and a higher education market. In addition, the decline of flexible learning has been hastened by policies restricting the availability of funding. Similar declines have been seen in the further education sector.

165. In this section we detail recent trends in flexible learning and consider the causes of the decline in student numbers; the economic benefits from flexible learning; and how these trends can be reversed.

Benefits of flexible learning

166. Flexible learning has the potential to offer significant benefits to individual learners, employers and the economy.

167. For individuals it may enable their continued participation in the labour market. GuildHE characterised part-time learners as "mainly adults juggling work, caring and other responsibilities with study" by training "they are […] providing Britain with the qualified workforce we need."[181] The CBI said that flexible learning allowed employers to retain workers "rather than employees leaving an industry to pursue full-time study."[182]

168. Learning new skills will be necessary due to the changes in demographics, the nature of work and the labour market. Matt Houlihan of CISCO predicted that it would be "the absolute norm for people to have to retrain, reskill and build their skill sets throughout their careers." Professor David Latchman CBE suggested it was "madness" to assume "that you will never need to get other qualifications between 21 and 61."[183] Careers for life are disappearing. On average today's new entrants to the labour market expect to have four or five different careers. This trend is likely to continue, maybe accelerate. The sector is behind the curve.

169. Professor Madeleine Atkins suggested that the decline in mature education was "worrying" for " the country's skill demands" and the re-training "needed across many sectors."[184] Universities UK added that demand for skills could not "be solely met through the training of young, full-time graduates"; "adults will need to retrain ".[185]

170. As set out above, below degree level skills are a particular weakness in the UK economy. Professor Keep suggested that planning for future lifelong and flexible learning must include these skills:

> "We need to think about Levels 4 and 5, and shorter courses. [Going] back to the original foundation degrees, the assumption was that most

181 Written evidence from GuildHE (HFV0063)
182 Written evidence from the CBI (HFV0089)
183 Q 67 (Professor David Latchman CBE)
184 Q 45 (Professor Madeleine Atkins)
185 Written evidence from Universities UK (HFV0029)

of the people doing them would be in work and would do them part-time. That is the future."[186]

Box 7: Flexible Learning and the Industrial Strategy

In the Industrial Strategy the Government acknowledged the "growing challenge with lifelong learning: supporting people to up-skill and re-skill across their working lives."[187] The Industrial Strategy said that to improve adult learning and retraining, a National Retraining Scheme would be introduced by the end of this Parliament. To implement these aims the Government has announced two small schemes.

For flexible learning in further education, a £40 million package to "test innovative approaches to helping adults up-skill and re-skill" was announced in the 2017 Spring Budget. [188]

In October 2017 £10 million of this funding was opened to bidding from providers. To win funding, projects must "centre on the delivery of basic skills, or on intermediate or higher level technical learning". Proposals are expected to fit within at least one of four "categories of interest": the delivery of flexible or convenient timetable; delivery outside the classroom; online and blended learning for adults; and learning aimed at those with caring responsibilities.[189]

Trends

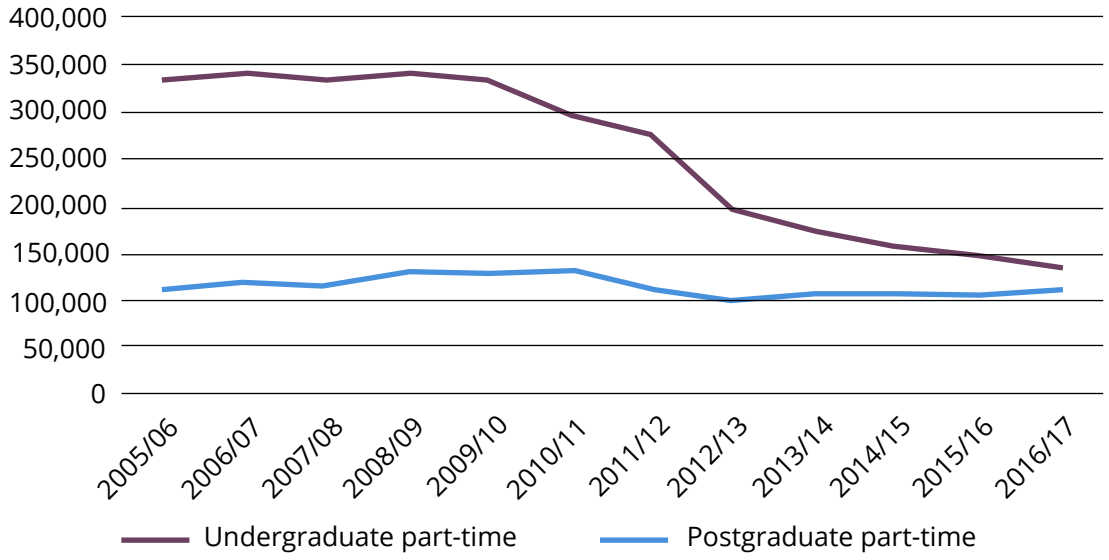
171. Flexible learning students include those studying part-time; older learners who often study part-time; and those seeking flexible methods of leaning such as online or distance studying. Some flexible learning is offered or supported by employers as part of workplace development and training. There is considerable overlap between these three types of student. All have declined.

Degree level

172. Between 2010 and 2016 there was a 60 per cent fall in part-time students.[190] As Figure 5 shows, the decline in part-time undergraduate numbers began in 2008/09 and fell more steeply after 2012.

186 Q 153 (Professor Ewart Keep); see also written evidence from the Association of Colleges (HFV0070).
187 Department for Business, Energy and Industrial Strategy, *Building Our Industrial Strategy* (January 2017):https://beisgovuk.citizenspace.com/strategy/industrial-strategy/supporting_documents/buildingourindustrialstrategygreenpaper.pdf [accessed 11 May 2018]
188 HM Treasury, *Spring Budget*, HC 1025 (March 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/597467/spring_budget_2017_web.pdf [accessed 8 May 2018]
189 Department for Education, *Further education: flexible learning fund* (October 2017): https://www.gov.uk/government/publications/further-education-flexible-learning-fund [Accessed 7 May 2018]
190 Written evidence from London South Bank University (HFV0014), Q 45 (Professor Madeleine Atkins)

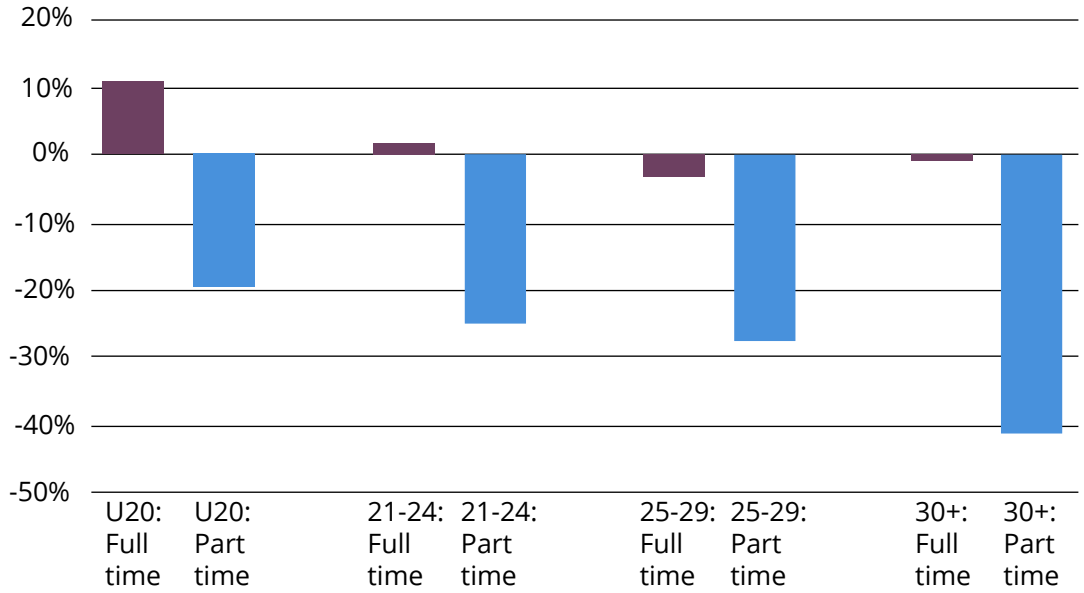
Figure 5: Part-time students (first year entrants, UK providers), 2005/06 to 2016/17



Source: Higher Education Statistics Authority, First year students by level and mode of study (February 2018): https://www.hesa.ac.uk/data-and-analysis/students/chart-2 [accessed 29 May 2018]

173. Related to this is a decline in the number of older students who are more likely to study part-time. Professor Madeleine Atkins told us that "the numbers that have declined are those over 25 years old—the more mature students".[191] Since 2012/13 under-20-year-old full-time students have risen by 11 per cent; part-time students over 30 have fallen by 41 per cent.[192]

Figure 6: Difference in student enrolments by age and mode of study between 2012/13 and 2016/17 (higher education providers in England only)



Source: Higher Education Statistics Authority, HE student enrolments by personal characteristics, 2012/13 to 2016/17: https://www.hesa.ac.uk/data-and-analysis/students/whos-in-he [accessed 10 May 2018]

191 Q 45 (Professor Madeleine Atkins)
192 2012/13 is the earliest that data are available from the HESA.

Sub-degree provision

174. The decline in part-time and older learners hit sub-degree provision particularly starkly across a range of providers. Research by Professor Claire Callender, Professor of Higher Education Policy at Birkbeck University, outlined in Table 6, reveals the drop in part-time learners seeking qualifications below degree level.

175. Overall sub-degrees dropped from 162,000 to 70,000. A substantial proportion of this was from the Open University where sub-degrees declined by 88 per cent, from 41,000 to only 5,000.

Table 6: Part-time undergraduate entrants domiciled in England by qualification type, 2010 and 2015

Provider	Qualification	2010	2015	Percentage decrease
Open University	Degree	32,425	22,235	31%
	Sub-degree	41,305	4,925	88%
Birkbeck	Degree	1,520	540	64%
	Sub-degree	4,945	1,605	68%
FE College	Degree	1,225	930	24%
	Sub-degree	9,790	10,155	4%
Russell Group	Degree	1,150	735	36%
	Sub-degree	12,460	6,100	51%
All	Degree	53,495	35,655	33%
	Sub-degree	162,415	69,835	57%

Soucre: Written evidence from Professor Clare Callendar (HFV0113)

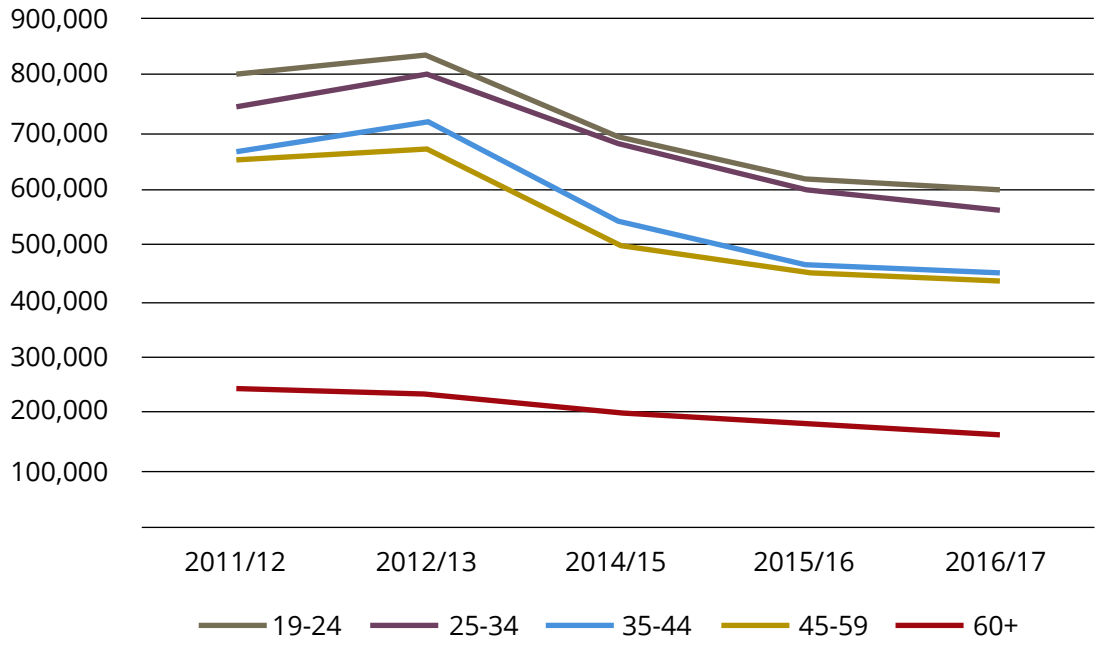
Part-time further education

176. Study by part-time and adult learners in further education has also declined. Professor Sir Alan Tuckett estimated that "from the moment the skills strategy was adopted in 2003, we have seen a massive decline in numbers. About 2 million people have gone in 15 years in two great chunks."[193] Figure 7 shows the decline in numbers since 2011/12 across each age range.[194]

193 Q 146 (Professor Sir Alan Tuckett)

194 The Department for Education publishes data for further education participation by age from 2002 onwards. The department highlights that figures earlier that 2011/12 are not directly comparable due to changes in the method of collection and definitions. Department for Education, FE data library: further education and skills, FE and skills by geography and equality and diversity: participation 2002/03 to 2014/15: The Department for Education, *FE and skills participation by geography learner demographics* (April 2016): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/515809/feandskills-participation-by-geography-learner-demographics.xls [accessed 20 May 2018]

Figure 7: Further education participation by age, 2011/12 to 2016/17 [England only]



Source: Department for Education, FE data library: further education and skills: https://www.gov.uk/government/statistical-data-sets/fe-data-library-further-education-and-skills: FE and skills participation demographic tool for 2016 to 2017 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/665791/201617_FE_and_Skills_Participation_demographic_tool.xlsx; FE and skills participation: all ages demographic summary 2015/16, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/624362/FEandSkills-participation-demographic_summary-201516.xlsx; FE and skills by geography and equality and diversity: participation 2002/03 to 2014/15: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/515809/feandskills-participation-by-geography-learner-demographics.xls

Workplace learning

177. Some witnesses commented on the declining role of employers and workplace learning in adult education. The TUC was among those who highlighted that the UK lags behind the European average for employer investment in vocational training: "the UK is half the EU average and investment in training and learning per UK employee fell by 13.6 per cent per employee in real-terms between 2007 and 2015."[195]

178. Professor Claire Callender pointed out that in the field of higher education there had been a 54 per cent fall in the number of English domiciled entrants receiving employer funding.[196] Giles Derrington of techUK suggested that only a quarter of employees participated in employer sponsored training.[197]

Reasons for decline

179. This decline has been caused by multiple funding and policy changes in the last 10 years. In higher education witnesses referred to two key policies which precipitated falls in part-time and mature numbers.

195 Written evidence from the TUC (HFV0082)
196 Written evidence from Professor Callendar (HFV0103)
197 Q 118 (Giles Derrington); CPID, *From 'inadequate to 'outstanding': making the UK's skills system world class* (April 2017): https://www.cipd.co.uk/Images/from-inadequate-to-outstanding_2017-making-the-UK-skills-system-world-class_tcm18-19933.pdf [accessed 12 May 2018]

Equivalent or Lower Qualifications rule

180. The equivalent or lower qualification (ELQ) rule was introduced in 2009. This means that students cannot access state support—including tuition fee and maintenance loans—to study for a qualification that is equivalent or lower than one they already hold. Professor David Latchman CBE, Master of Birkbeck University, described the effect on his institution:

> "Ninety per cent of those ELQ students, as they were called before it collapsed, were part-time. They were people doing lifelong learning and reorienting their careers. We have destroyed that market. In Birkbeck, before the ELQ rule, we probably had 50 per cent ELQ students. Now we have less than 5 per cent, because you have to have the full fee."[198]

181. In 2015 and 2017 the Government relaxed the rules slightly to allow degree students to claim fees for a second degree in certain STEM subjects. Analysis by Professor Callendar suggests that that this change will only benefit a few hundred students.[199]

182. The impact of the equivalent or lower qualification restrictions was magnified by the introduction of higher tuition fees in 2012 and the lack of available maintenance support for part-time students:[200]

- Those that did not qualify for loans had to pay higher fees for a degree. Martin Lewis OBE, of Money Saving Expert, told us that this produced "a far more expensive system than it had been before. It was a genuine big price hike."[201]
- Some witnesses suggested that mature learners, in particular those with dependents, were more debt averse and reluctant to take on student loans.[202]
- Where loans are available they do not take into account the structure of part-time degrees. Part-time learners begin repayments four years after the start of their course, but most part-time undergraduate degrees last five or six years. As a result "most students will have to start repaying their loan before reaping any financial benefits of their part-time study."[203]

183. As the demand for part-time courses fell, a decline in supply followed. Universities offered fewer part-time courses as their "income from part-time fell behind the income possible from full-time provision".[204] Professor

198 Q 65 (Professor David Latchman CBE)
199 Written evidence from Professor Claire Callendar (HFV0113) Professor Callendar noted that the change had not been included in guidance sent to students. She estimates that 585 students would be able to take advantage of the 2017 changes. The Sutton Trust, *The Lost Part-Timers*, (March 2018): https://www.suttontrust.com/wp-content/uploads/2018/03/The-Lost-Part-Timers-Final.pdf. [accessed 10 May 2018]
200 This will change in 2018/19 when maintenance support will be available, see Chapter 9.
201 Q 20 (Martin Lewis OBE)
202 Written evidence from London South Bank University (HFV0014); Q 65 (Professor David Latchman CBE). However, Professor Madeleine Atkins from HEFCE stated that the evidence was not clear on this point (Q 45).
203 Written evidence from London South Bank University (HFV0014); written evidence from Professor Claire Callendar (HFV0103)
204 Written evidence from Professor Claire Callendar (HFV0103)

Virgo QC told us "institutions with continuing education departments had reduced by two-thirds over the past 10 years."[205]

Further education colleges

184. In further education there has been a similar combination of funding restrictions and consequent decline in student and course availability.

185. The decline in further education funding is set out above: Professor Sir Alan Tuckett observed that "FE overall has lost 25 per cent of its budget". In addition, the complex structure of further education financing means that "there is no real possibility of funding transfers within the system".[206] Professor Sir Alan Tuckett went on to explain that this had affected the supply of courses offered by colleges:

> "if you are running a college, in order to draw down the money, you must have a viable number of people wanting to study a particular thing to be able to mount a course to run it. If smaller and smaller numbers of people are attracted to pay the fees, you reach a dysfunctional point at which you cannot spend the money. The rules we have established are not permissive enough."[207]

186. One consequence of this is that the adult education budget is underspent due to the restrictions on its use. The Government estimate that this underspend will be £63 million in 2016/17.[208]

187. **Part-time study and adult learning have declined dramatically. A decline linked to reforms which aimed to increase participation in higher education. This neglect of part-time and mature students is short sighted: flexible learning is important for mature students looking to learn new skills to adapt to changes in the labour market and working practices.**

Encouraging and supporting flexible learning

188. Some of the barriers faced by those seeking to study part-time or later in life relate to the availability of financial support. We make recommendations to address these issues in Chapter 9. But financial concerns are not the only impediment to a flexible, life-long education system. There are other measures which could improve the availability, accessibility and attractiveness of flexible learning.

189. First, co-operation and flexibility across providers and sectors. Students may not always progress straight through the education system so "provision needs to provide the flexibility that enables changes in direction as well as linear progression".[209] The Institute for Adult Learning stated this would require "greater co-operation between education providers across the system

205 Q 67 (Professor Graham Virgo QC)
206 Q 146 (Professor Sir Alan Tuckett)
207 *Ibid.*
208 Written answer by Rt Hon Anne Milton MP (14 February 2018) 127048
209 Written evidence from Middlesex University (HFV0066) and written evidence from University Alliance (HFV0080)

and also closer interaction with local employers".[210] Peter Horrocks CBE stated that the incentives for providers should be adapted to allow for this:

> "If a student happens to leave Nottingham University, that is the failure of that student in a Nottingham context. If they then come to the Open University and succeed, that is a success for the Open University. There should be an incentive to show that both institutions have shared in that respective success."[211]

190. Co-operation between providers and employers is also necessary. Professor Sir Keith Burnett explained that in Sheffield a lot of the SMEs were looking how to increase their employees' skills: "They are very interested in doing things part-time and online, and that is what we are focusing on in terms of that provision."[212]

191. Second, putting in place a system to ensure that students are credited for study they have undertaken. Professor Vignoles described "a universal accreditation system" which would "enable people to move not only from something that currently looks like an FE offer into an HE offer but between HE institutions." This would help:

> "people taking time out, coming back in and being more flexible with their learning. You cannot do that unless you have some system that accredits learning that has already happened […] and then come in at a higher level to a second institution. At the moment, many students, including at our own institution, would have to start at the bottom again."[213]

192. Giles Derrington told us that from a business perspective said often one university cannot provide all the necessary skills. He also pointed out that this would help students who developed different specialist interests during their course.[214] Matt Houlihan said that he would "love to see […] industry-standard and industry-led qualifications […] recognised as part of wider qualifications such as degrees."[215] Professor Sir Alan Tuckett saw benefits in particular for part-time learners from "robust credit accumulation and recognition systems" which would enable them to "progress through the system more effectively."[216]

193. Finally, encouraging different types of course provision, such as:

    (a) Online learning. Russ Shaw, investor and founder of Tech London Advocates, argued that for many older learners "online initiatives, where they can find an hour here and a couple of hours there and dial into the internet to get their learning, will be the way to go."[217] Free education

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210 Written evidence from the Institute for Adult Learning (HFV0087)
211 Q 66 (Peter Horrocks CBE). Student dropout rates are measured by the Teaching Excellence Framework and impact on ranking under that system. At the time of his evidence Mr Horrocks was Vice-Chancellor of the Open University.
212 Q 67 (Professor Sir Keith Burnett)
213 Q 88 (Professor Anna Vignoles); see also Q 108 (Professor Sir Alan Tuckett), Q 66 (Peter Horrocks CBE).
214 Q 118 (Giles Derrington)
215 Q 119 (Matt Houlihan)
216 Written evidence from Professor Sir Alan Tuckett (HFV0081)
217 Q 118 (Russ Shaw)

is available through Massive Online Open Courses (MOOCs).[218] Professor Keep suggested "the future is blended learning", combining online learning with face-to-face teaching.[219]

(b) Accelerated courses. Professor Stirling CBE suggested that a three-year degree with extended holidays were not necessarily as attractive to older learners as "shorter, more intensive degree courses".[220] Whilst these are offered by some institutions,[221] research-intensive universities considered that they were "incompatible" with the need to do both teaching and research.[222]

194. **Flexible learning is one method to increase higher education qualifications. It needs to be supported and encouraged by:**

(a) **higher and further education institutions working closely with each other and with employers; and**

(b) **providers adopting innovative methods of study, such as online learning and shorter courses.**

195. **But this alone will not be enough. Flexible learning must be backed by a robust, properly enforced credit-based system (where, for example credits accrued studying a Level 4 qualification would count towards—and reduce the cost of—a full degree). This requires regulatory reform and should be a priority for the new higher education regulator.**

196. The recommendations for reform to tuition fees and maintenance support in Chapters 8 and 9 must apply to all part-time and flexible learners. The impact of these changes for students is summarised at the front of this report.

218 The Houses of Parliament has produced three such courses (and co-created a fourth with Royal Holloway University). As of April 2018, since the launch of the first course in November 2016, 38,000 people have joined the courses and 22,000 have gone onto view at least one element at: https://www.futurelearn.com/partners/houses-of-parliament?

219 Q 149 (Professor Ewart Keep)

220 Q 76 (Professor James Stirling CBE)

221 For example, the University of Buckingham.

222 Q 79 (Professor Graham Virgo QC)

CHAPTER 6: APPRENTICESHIPS

197. The Institute for Apprenticeships offered the following definition of an apprenticeship:

> "An apprenticeship is a job with training to industry standards: an agreed partnership between an employer and an apprentice. It should be in a recognised occupation, involve a substantial programme of on and off-the-job training and the apprentice's occupational competence should be tested by an independent end-point assessment. Apprenticeships are employer-led: employers set the standards, create and fund the demand for apprentices to meet their skills needs and are responsible for employing and training the apprentice. The needs of the apprentice are equally important: they achieve competence in a skilled occupation, which is transferable and secures long-term earnings power and the capability to progress in the workplace."[223]

198. This chapter considers the apprenticeship system in England, and examines the initial effect of the apprenticeship levy.

Apprenticeships overview

199. Table 7 lists apprenticeship starts in 2016/17 by level and sector. There were 458,400 apprenticeship starts at intermediate and advanced level (Levels 2 and 3). There were 36,600 apprenticeship starts at a level equivalent to higher education (Level 4 and above).[224]

Table 7: Apprenticeship starts in England, 2016/17

Sector	Level 2	Level 3	Level 4 and above	Total (and percentage of apprenticeships across all sectors)
Health, public services and care	61,700	63,130	14,020	138,850 (28%)
Business, administration and law	68,320	51,990	18,170	138,480 (28%)
Engineering and manufacturing technologies	42,490	31,490	890	74,870 (15%)
Retail and commercial enterprise	54,420	19,800	520	74,740 (15%)
Construction, planning & the built environment	15,840	4,860	510	21,210 (4%)

223 Written evidence from the Institute of Apprenticeships (HFV0039)

224 These were starts under the pre-apprenticeship levy system. Full year figures for starts under the apprenticeship levy system are not yet available but there were 232,700 apprenticeship starts between August 2017 and February 2018 (reported as of May 2018). This compares to 309,000 apprenticeship starts between August 2016 and February 2017 (reported as of May 2017). Department for Education, 'Apprenticeship and levy statistics: May 2018', 17 May 2018: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/705954/Apprenticeship-and-levy-statistics_May-2018_commentary.docx.pdf [accessed 24 May 2018]

Sector	Level 2	Level 3	Level 4 and above	Total (and percentage of apprenticeships across all sectors)
Information and communication technology	3,630	9,520	2,330	15,470 (3%)
Leisure, travel and tourism	6,370	7,420	-	13,790 (3%)
Education and training	2,710	6,210	-	8,920 (2%)
Agriculture, horticulture and animal care	4,970	2,360	60	7,390 (1%)
Arts, media and publishing	180	670	30	870 (0.1%)
Science and mathematics	40	210	40	290 (0.1%)
Total (and percentage of overall total)	**260,700 (53%)**	**197,700 (40%)**	**36,600 (7%)**	**494,900**

Source: Department for Education and Education and Skills Funding Agency, 'FE data library: apprenticeships', 'Apprenticeships level, framework and sector subject area data tool, starts 2011/12 to 2016/17 reported to date': https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships *[accessed 24 May 2018]*

200. There are some excellent examples of apprenticeships working well, particularly in engineering and manufacturing. We took evidence from BAE Systems, Rolls Royce and Siemens who all have well-established programmes. All three firms recruit more apprentices than graduates. They were conscious that the system worked well for them but as Martin Hottass, from Siemens, said, "if I was running an SME, I would probably have a completely different experience … we have a brand name and we can attract [applicants]."[225]

201. Elsewhere, we heard concerns about availability and quality:

- large numbers of apprentices in some sectors are unaware that they are doing an apprenticeship, and the apprenticeship levy may encourage the rebadging of existing training into apprenticeships;
- training provision is unevenly provided across the country, the quality of that provision is variable and there have been delays in approving the new apprenticeship standards;
- progression from lower (Level 2 and 3) apprenticeships to higher apprenticeships is not embedded and there are concerns that degree apprenticeships will become the preserve of people who have pursued an academic route.

225 Q 106 (Martin Hottass)

Conversion of existing employees into apprentices

202. Many of the apprentices in Table 7 were existing employees of the organisation they are working for: the 2017 Apprenticeships Evaluation Learner Survey found that 42 per cent of Level 2 and 3 apprentices and 60 per cent of higher level apprentices were existing employees. These proportions were highest in the health sector which is the biggest employer of apprentices: 60 per cent of Level 2 and 3, and 82 per cent of higher level apprentices, were existing employees (the business sector, the second biggest employer of apprentices, was around the average).

203. The Department for Education has said that since late 2013 the Government has aimed for apprenticeships to be offered to existing employees where "substantial training is required to achieve competency in their occupation."

204. The results of the 2017 survey suggest that many apprenticeships being offered to existing employees are not meeting the Government's condition. Across Level 2 and 3 apprentices, only 43 per cent of existing employees were aware that their course or training meant they were doing an apprenticeship, compared to 90 per cent of new recruits. For the health sector, only 55 per cent of new recruits and existing employees were aware they were doing an apprenticeship (figures for existing employees within the health sector were unavailable).

205. Across higher apprentices, 64 per cent of new recruits and existing employees were aware their course or training was an apprenticeship (figures for each, or by sector, were not available). While not conclusive (the survey is based on a sample of apprentices from each sector), the proportion of apprentices who are unaware they are doing an apprenticeship suggests that a large number of apprenticeships, particularly in the health sector, are not being used in the way the Government would like.

206. Professor Alison Fuller and Professor Lorna Unwin were concerned that the majority of apprenticeships are 'conversions'; "this means existing employees have been re-labelled as apprentices, usually as a result of a training provider persuading an employer to become involved in the state-funded scheme." While some employers have "excellent apprenticeship programmes for existing employees who want to retrain for a different occupation or upskill to the next level … these are in the minority." They concluded that although "accrediting employees for existing skills is not wrong … it isn't apprenticeship and it doesn't contribute to improved skill levels" and noted that "the highest number of apprentices are in service sectors where the 'conversion' practice dominates."[226]

Apprenticeship levy

207. Since April 2017, large employers have been required to pay the apprenticeship levy, which is explained in Box 8. Employers are allowed to recoup levy funds to pay for apprenticeship training.

226 Written evidence from Professors Alison Fuller and Lorna Unwin (HFV0061)

Box 8: How the apprenticeship levy works

The apprenticeship levy is a tax on employers whose pay bill is over £3 million a year. The levy is a 0.5 per cent tax, levied on payroll, which is paid each month through PAYE. The funds are credited to an account which the Government tops up each month by 10 per cent of the total balance.

Using the funds in their account, businesses can claim vouchers from the Government to spend on courses for their apprentices. Funds that are not used expire 24 months after they entered the account. The funds can only be spent on training and assessment, they cannot be used to pay apprentice wages.

From April 2018 employers can transfer funds to other employers, including ones in their supply chain. Initially, employers can transfer up to 10 per cent of the annual value of funds entering their account. Due to EU state aid rules, the maximum amount an organisation can receive through a transfer of funds is 2 million euros over three years.

For non-levy paying businesses, the Government pays 90 per cent of the apprenticeship training and assessment costs and the employer pays 10 per cent. For employers with fewer than 50 employees taking on apprentices aged 16 to 18, the Government pays 100 per cent of training and assessment costs.

208. Professor Alison Fuller and Professor Lorna Unwin were concerned that the introduction of the apprenticeship levy could "exacerbate the 'conversion' and deadweight problems as levy-paying employers seek ways of maximising their ability to recoup their levy spend."[227] We received frank confirmation that this was happening at a business round-table event held in Westminster. One business acknowledged that they had rebranded established internal training schemes as apprenticeships to recoup funds: "we are basically badging what we were doing anyway to get the money back." The 2017 CBI Skills Survey found that 63 per cent of firms were planning to reconfigure their existing training into apprenticeships.[228]

209. Dr Hilary Steedman said there had been a tendency so far for employers to spend the levy on higher-level apprenticeships, "in a way that suggests quite a lot of deadweight".[229] When the levy was introduced, there were reports of firms using it as an opportunity to fund MBAs for senior staff.[230] A cap of £18,000 has been introduced on master's degrees. Dr Steedman said she hoped the MBAs "are a short-lived phenomenon."[231]

210. Sue Husband, the Director of the National Apprenticeship Service, said there was "lots of evidence in the UK that we need to develop the skills of managers in our organisations … the employers we are working with spend the money wisely." When challenged about MBAs being funded through the levy, Ms Husband replied that "I am an apprentice myself. I am doing a chartered management apprenticeship."[232]

227 Written evidence from Professors Alison Fuller and Lorna Unwin (HFV0061)
228 CBI, 'Helping the UK thrive, CBI/Pearson Education and Skills Survey 2017', July 2017: http://www.cbi.org.uk/index.cfm/_api/render/file/?method=inline&fileID=DB1A9FE5-5459-4AA2-8B44798DD5B15E77 [accessed 24 May 2018]
229 Q 143 (Dr Hilary Steedman)
230 'MBA students become unlikely beneficiaries of UK apprenticeship levy', *Financial Times* (6 October 2017): https://www.ft.com/content/0b674abc-a926-11e7-93c5-648314d2c72c [accessed 10 May 2018]
231 Q 143 (Dr Hilary Steedman)
232 Q 137 (Sue Husband)

Government target for new apprenticeship starts

211. The Government has set itself a target of achieving three million new apprenticeship starts between 2015 and 2020. The Federation of Awarding Bodies said that the CBI Skills survey mentioned above showed that "much of the activity counted towards the target may well be based on a 'rebadging' of existing training activity."

212. The Education Policy Institute were concerned that a rush to meet the target would result in "poorer-quality apprenticeships".[233] The National Awarding organisation, the NCFE, said that the focus on starts, rather than completions, "provides a distorted view of volume of training delivered."[234]

213. Baroness Wolf of Dulwich described the target as "an abomination". She said it would be reached easily "by sending half the senior managers in this country on MBA courses and ticking it off."[235] Lord Baker of Dorking said that the public sector "will deliver the numbers." Professor Alison Fuller and Professor Lorna Unwin said that the conversion of existing employees had enabled successive governments to achieve numerical apprenticeship targets since 2006.[236]

214. The way the Government allegedly decided to target three million new apprentices does not inspire confidence. In an interview with the Institute for Government, Nick Boles MP, the Minister for Skills at the time the target was adopted in 2015, explained how it was arrived at:

> "Well, we had delivered two million apprenticeships in the 2010–15 Parliament. So in the manifesto process, there was a classic exercise in "Well, okay, what are we going to promise for the next Parliament?" There was this feeling that you can't say two and a half million, that sounds a bit tame, nobody would be excited by that, so we're going to say three million. Then three million is really a lot of apprenticeships, it's big growth."[237]

215. The current Minister for Apprenticeships and Skills told the Committee that she had "absolutely no idea" how the three million target was arrived at.[238]

Quality and availability of training providers

216. Many apprenticeships counted in the Government's target may therefore be so in name only. We heard evidence about the quality of the training on offer during apprenticeships, delays to the new apprenticeship standards that seek to improve quality and an uneven provision of training across the country.

Low-quality apprenticeship training

217. Contributors to the Money Saving Expert page set up for this inquiry shared their experiences of apprenticeships:

> "I did one day a week at college during my apprenticeship and I don't recall learning anything there that I had not already learned during my

233 Written evidence from the Education Policy Institute (HFV0048)
234 Written evidence from NCFE (HFV0017); see also written evidence from UNISON (HFV0060)
235 Q 93 (Baroness Wolf of Dulwich)
236 Written evidence from Professor Alison Fuller and Professor Lorna Unwin (HFV0061)
237 Institute for Government, 'Ministers Reflect, Nick Boles', 28 November 2017: https://www.instituteforgovernment.org.uk/ministers-reflect/person/nick-boles/ [accessed 24 May 2018]
238 Q 168 (Rt Hon Anne Milton MP)

> workplace training. For me it was a complete waste of time and only good for those that wanted the certificate to help them move away from the actual job we were training for and into management, something that I had no desire to do."
>
> "My other son is on an apprenticeship—what a complete waste of time and money that has been. He was told on day he started "there will be no job at the end of this"—he's been taught absolutely nothing except, mainly in the 1st year, how to move furniture and boxes. He has been taught nothing of value. He went to college one day a week and learnt nothing he hadn't already learnt previously in his previous IT course."

218. When the Committee spoke informally with apprentices, some said their training had been "excellent" but others that it had been "awful": "the colleges they send us to aren't as good as they could be."

219. The quality and behaviour of providers were also a concern for businesses the Committee spoke to. The content of courses was described as "a box-ticking exercise" which was sometimes outdated. One employer explained how an administration apprentice had been forced to learn an older version of software to pass her apprenticeship training course whereas the software she used when working at the company was the most up-to-date version. Another employer described an apprentice jockey being assessed by an examiner who was not able to ride a horse.

220. The latest Ofsted inspection of apprenticeship providers showed around half required improvement or were inadequate, as shown in Table 8. Ofsted inspected 189 providers from a total of around 2,000 registered institutions.

Table 8: 2016/17 Ofsted inspection of apprenticeship providers

Rating	Outstanding	Good	Required improvement	Inadequate
Percentage of providers	6%	43%	40%	11%

Source: Ofsted, The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2016/17 (13 December 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/666871/Ofsted_Annual_Report_2016–17_Accessible.pdf [accessed 24 May 2018]

221. The 189 providers were delivering apprenticeships to 187,000 apprentices. Around 37,000 of these (20 per cent) were training with providers rated as inadequate.

222. In its assessment of the providers that required improvement or were inadequate, Ofsted was critical of employers too. Its findings on these providers are summarised in Box 9.

Box 9: Ofsted judgements on apprenticeship providers rated as requiring improvement or inadequate

In the providers judged requires improvement or inadequate for their apprenticeships in 2016/17, inspectors found that:

- apprentices took too long to complete their apprenticeships because employers did not value the apprenticeship enough to challenge apprentices to do better;
- training providers failed to check on the work that apprentices were doing;
- at work, apprentices were not able to apply what they had learned;
- other characteristics of inadequate training for apprentices included:
  - no off-the-job training;
  - apprentices not in work or on zero-hours contracts;
  - employers using apprenticeships to give qualifications to employees who did not require training;
  - a failure to improve apprentices' skills and qualifications in English and mathematics;
  - too few apprentices completing their apprenticeships.

Source: Ofsted, The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2016/17 (13 December 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/666871/Ofsted_Annual_Report_2016–17_Accessible.pdf [accessed 24 May 2018]

Apprenticeship standards

223. The Ofsted annual report for 2016/17 noted that the Government had introduced apprenticeship standards to improve quality but only five per cent of new apprenticeship starts were using the standards (23,700). The rest started on the old apprenticeship framework (460,000).

224. The standards were introduced in 2014/15. The Department for Education said that they are designed by employers and "describe the skills, knowledge and behaviours an apprentice needs to be competent in a defined occupation." They said that by 2020 there would be one standard for each occupation identified by employers as requiring an apprenticeship. The Institute for Apprenticeships, established in April 2017, is responsible for assuring the quality of standards and reviewing them.[239]

225. As of 23 May 2018, 275 apprenticeship standards have been approved and 262 are awaiting approval. Businesses and education providers told the Committee about the delay in introducing the standards. Aston University said they had employers wanting to sign up to degree apprenticeships, and providers wanting to run them, "but what should be the most fleet of foot offering has become the most bureaucratic."[240] Warwickshire College Group said the development of the standards, and the hindrance it is causing to accessing levy funds, "is a source of frustration for employers and a huge business risk to training providers." They were concerned about the effect on training providers' short-to-medium term cash flow, warning that "there is a danger that some sectors will be without adequate numbers of

239 Written evidence from the Department for Education (HFV0086)
240 Written evidence from Aston University (HFV0099)

quality training providers when the new apprenticeship standards become available."[241]

226. Seamus Nevin, from the Institute of Directors said that there were sectors and businesses that "simply cannot access an appropriate apprenticeship for their needs".[242] One business the Committee spoke to at a roundtable event in Westminster was involved in writing the standards. He attributed the delay to the demands placed on the business groups responsible for writing the standards. Involvement in these 'trailblazer' groups for 12 months to two years was "too time consuming for the majority of SMEs". They pointed out that:

> "The promise and the process of turning two sides of A4 into qualifications has been really drawn out. Part of the problem is that employers asked to develop marking criteria for the standards from scratch. I don't know how to do that—I can do the output required … Employers were asked to engineer the standard from beginning to end. They should have been asked to define the desired output and a qualification authority or training provider should be doing other issues."

227. Antony Jenkins, Chair of the Institute for Apprenticeships, told the Committee he thought it would take another "two to three years" to approve all the standards.[243] But he was confident that "the time cycle can be compressed and that the standards will be produced much more effectively."[244] When we asked the Minister for Apprenticeships and Skills about the delays, she indicated they would be ready by the end of 2018:

> "The first thing I said to the new chief executive of the Institute for Apprenticeships was, 'Speed right up. Get those out of the door by the end of this year'. I said September, and he negotiated me down to the end of this year."
>
> "I cannot lean on employers about what they are doing with the levy if they do not have the standards. I am hearing a lot less about that. The Institute for Apprenticeships produced a document called Faster and Better, and for members of the Committee who have watched "W1A", it could have been taken straight out of that television programme."[245]

Availability of apprenticeship training

228. Seamus Nevin said that the approximately half of the funds raised by the apprenticeship levy were being raised in London and would therefore be spent in London where there was a "proliferation of providers". This would not incentivise training in areas "where there is a shortage of providers and a shortage of training structures."[246]

229. Julian Gravatt explained how providers needed a certain number of people for it to be worth their while providing training:

> "The college would look at the rate card for the qualification or apprenticeship that your company wanted to offer and would then have

241 Written evidence from Warwickshire College Group (HFV0097)
242 Q 122 (Seamus Nevin)
243 Q 140 (Antony Jenkins)
244 Q 141 (Antony Jenkins)
245 Q169 (Rt Hon Anne Milton MP)
246 Q123 (Seamus Nevin)

> to work out the economics—that is, the number of apprentices it would have compared with income. The rates are set broadly on the basis that there will be a group of people, and sometimes it is quite difficult, on the amount of money available, to get customised training for an employer."[247]

230. This may be a particular problem for small businesses. One business told the Committee at the roundtable event in Westminster that it was a challenge for small businesses as they were "too small for providers to care about … There are a number of training providers who have little interest in, or don't deal with, small businesses."

Progression through different levels of apprenticeship

231. The final issue with apprenticeships is the apparent lack of progression from lower to higher level apprenticeships. Table 7 shows that of the 494,900 apprenticeship starts in 2016/17, only 36,600 (seven per cent) were at Levels 4 and above.

232. Dr Hilary Steedman said she hoped that young people would see a Level 3 apprenticeship as "a really important goal" and that many of them want the option of continuing: "Even if they are not going to choose it immediately, they like the idea that their qualification at Level 3 gives them an option to continue to Levels 4 and 5, so the existence of those levels is very important. There is also the fact that companies would be likely to support them to progress."[248]

233. One concern raised by Professor Alison Fuller was that "we are getting to the point where perhaps the best and most attractive options for higher and degree level apprenticeships are being taken up by those with A-Levels who could be going straight into conventional degrees."[249] The Minister for Apprenticeships and Skills said that "the fear of a middle-class grab on these apprenticeships is valid. So I am watching and waiting."[250]

Apprenticeship levy funding for degree apprenticeships

234. Witnesses were supportive generally of the development of degree apprenticeships. Lord Baker of Dorking said that their provision was "undoubtedly going to increase" and he thought they would be "much more attractive" than some three-year undergraduate degrees.[251] Manchester Metropolitan University said that degrees should not be placed in opposition to technical education and they saw degree apprenticeships as "a good example of a pathway that is both 'technical' and 'academic'.[252] Aston University explained to us how they were using degree apprenticeships a programme to attract people who had alternative qualifications to A-Levels.[253]

235. There were however concerns that the switch to funding all apprenticeships through the apprenticeship levy may see degree apprenticeships take up

247 Q126 (Julian Gravatt)
248 Q 143 (Dr Hilary Steedman)
249 Q 143 (Professor Alison Fuller)
250 Q 169 (Rt Hon Anne Milton MP)
251 Q 83 (Lord Baker of Dorking)
252 Written evidence from Manchester Metropolitan University (HFV0068)
253 See Appendix 5. Aston University discussed how students at their University Technical College who studied for UTech diplomas in science struggled to get accepted by universities who wanted A-Level science: "Why do they need A-Level as well?" They believed too many schools were focused on traditional A-Levels.

too much of the available funding. The Association of Employment and Learning Providers said that higher and degree level apprenticeships would take around 50 per cent of the funding available from the apprenticeship levy, leaving less money for entry level apprenticeships. They were concerned about the effect on progression from lower to higher level apprenticeships:

> "This can have an adverse impact on the availability of apprenticeships for young people to take up, particularly entry level apprenticeships. Furthermore, with such a strong focus on higher and degree standards, there is currently no stepping stone apprenticeships to the higher levels."[254]

Conclusions

236. There have been substantial changes to the apprenticeship system in the last few years. The Government's focus on its three million target may mean issues of quality and availability are being overlooked, a concern expressed by Julian Gravatt:

> "Everything in the apprenticeship system has changed within the last 12 months, and there is a danger that it has been partly driven by the original target to have 3 million apprentices. In the process of introducing the levy to support that, and in giving employers the spending power, there is a definite danger that we will lose sight of what the apprenticeships are for and making sure that they are in the skills of the future rather than the skills of the present."[255]

237. **An apprenticeship should be viewed by young people and society as just as valid an option as the academic route of sixth form and university: they offer a way of accessing higher education without incurring student debt and can address directly skills shortages in the economy. The Government should consider ways to promote the progression from lower to higher level apprenticeships, rather than higher level apprenticeships becoming the preserve of those with academic backgrounds.**

238. **There are some excellent apprenticeship schemes but it is concerning that the recent Ofsted inspection found that over half of providers they assessed were rated inadequate or required improvement. There is worrying evidence that the system is being gamed by rebadging existing employees as apprentices, large proportions of whom are unaware they are doing an apprenticeship.**

239. **The Government must renew its vision for apprenticeships, concentrating on the skills and choices that employers and individuals really need. An apprenticeship should be a method by which a young person, or new entrant to an industry, develops skills while working. MBAs and other training activities that would have happened anyway should be the employer's sole responsibility to fund and arrange. In addition, the Government should have a clearer plan for degree apprenticeships within its broader higher education policy.**

240. **The quality of apprenticeships is not helped by the Government targeting three million new apprenticeship starts by 2020. The target prioritises quantity over quality and should be scrapped**

254 Written evidence from the Association of Employment and Learning Providers (HFV0033)
255 Q130 (Julian Gravatt)

immediately. Framing a target in terms of starts makes no sense when about 40 per cent of starts are not completed. It also treats a one-year apprenticeship as equivalent to a three-year apprenticeship. The target encourages the rebadging of training which should not be funded or described as an apprenticeship.

241. It was not clear from the evidence we heard which body had overall responsibility for apprenticeships. Antony Jenkins, the Chair of the Institute for Apprenticeships, said that the Institute was not responsible for the delivery of the three million target. He said that "the training component will be largely inspected by Ofsted; the quality assurance and the endpoint assessment will be done either by the institute or a third-party body. The training from the employer will be assessed by feedback through the apprentice." The Institute had three responsibilities:

> "The first is to set standards for each apprenticeship … The second thing we do is to recommend a funding band to the Secretary of State for the training and assessment component … Our third role, which is a default role, is endpoint assessment, which is the way it is assessed that apprentices have acquired the knowledge, skills and behaviours of the apprenticeship. There are organisations that do that, but those organisations have to be quality assured. When there is no other body that will provide that quality assurance, the institute will do that. We have no mandate for that target."

242. Stephen Evans, from Learning and Work, thought it was the job of the Institute to measure outcomes: "It is meant to be the guardian of quality for apprenticeships, and outcomes are the key measure of quality."[256] The Minister for Apprenticeships and Skills said that she was responsible for the three million target.

243. **The role of the Institute for Apprenticeships is unclear. It should be abolished. Under our proposed new regulatory structure above, the quality and outcomes of Level 2 and 3 apprenticeships should be the responsibility of the new further education regulator; the quality and outcomes of Level 4 and above apprenticeships should be the responsibility of the Office for Students. The Minister for Apprenticeships and Skills should provide oversight of both.**

256 Q 150 (Stephen Evans)

CHAPTER 7: INFORMATION AND ADVICE

244. In Chapter 3 we set out the problems with perceptions of the non-university routes and the role schools and careers advice can play in fostering the idea that the only valid post-school education through an undergraduate degree. In this chapter, we consider how to change these perceptions.

Information and careers advice

245. Since 2011 the duty to provide careers advice has rested on individual schools and colleges, who were expected to meet this requirement from their existing budgets.[257] Support for schools to provide advice comes from a number of sources and schemes (see Table 9).

Table 9: Careers service information providers

Provider	Role	Scope of work
Schools, Colleges and sixth form colleges	Arrange independent advice for students working with employers and other providers.	1.83 million (16 to 18 year older in education or training)
National Careers Service	Primarily for adults. Provides information advice and guidance through face-to-face, telephone and email services and via website.	474,000 face-to-face meetings; 200,000 calls in 2016/17
Careers Enterprise Company	Established in 2014 to co-ordinate schools, employers and providers and to provide funding for effect interventions.	250,000 supported by CEC funding
Job Centre Plus	Since 2015, working with young people in schools to advise on local education and training	1,000 schools

Source: Department for Education, Careers strategy: making the most of everyone's skills and talents (December 2017): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664319/Careers_strategy.pdf [accessed 24 May 2018] ; National Statistics, 'NEET statistics quarterly brief: April to June 2017' (24 August 2017): https://www.gov.uk/government/statistics/neet-statistics-quarterly-brief-april-to-june-2017 [accessed 24 May 2018]

246. London Colleges identified 240 careers providers in London, leading to a "congested and confused market place". They said that the system was "fragmented" and led to:

> "Vastly more activity takes place than any one school can realistically keep track of, let alone a young person or parent and there is both duplication and inefficient targeting in the system. There is duplication in approaches to employers, leading to engagement fatigue, while information sharing is also often poor."[258]

257 Education Act 2011. Prior to the Act the duty to provide careers advice rested on local authorities. Written evidence from Education for Engineering (HFV0053).

258 Written evidence from London Councils (HFV0022)

247. Many witnesses criticised the advice that emerged from this fragmented system. It was of variable quality and gave unsatisfactory information about non-academic options. The Education Policy Institute described the provision of careers advice as "poor and patchy, failing to provide students with up-to-date information around qualifications and the labour market."[259]

248. Gateshead College said that they, "like many others, [are] refused access by schools to talk to pupils about their options or often told that we can speak with select groups of students as decided by the school which [are] usually those who are less academic."[260]

249. In an informal discussion with the Committee, staff at Aston University said that the quality of information on other routes was poor: "we are very worried young people don't know about degree apprenticeships."[261] Ofsted reports published in 2013 and 2015 found that "vocational training and apprenticeships were rarely promoted effectively, especially in schools with sixth forms. The A-Level route to universities remained the 'gold standard' for young people, their parents and teachers." [262]

Recent and suggested improvements

250. There have been recent improvements. The Technical and Further Education Act 2017, as a result of an amendment moved by Lord Baker of Dorking, mandates that providers such as further education colleges and University Technical Colleges have the right to go into schools to explain to students the different types of education that they can offer. Lord Baker told us this may be "the biggest improvement for many years because the heads of alternative providers will be able to explain alternative ways forward to the children." [263]

Box 10: University Technical Colleges

University Technical Colleges (UTCs) are technical schools for 14–19 year olds run under the academy system. Each UTC is sponsored by a local university and their curriculum is designed in consultation with the university and local employers. Currently there are 49 UTCs operating in England.

Destination data published by the UTC network show that in 2017 54 per cent of UTC students went to university or other education; 26 per cent secured an apprenticeship and 17 per cent found employment.

EEF, the manufacturers' association, praised UTCs and said they should have a greater role in particular in the delivery of new T Levels: " he focus should shift towards University Technical Colleges (UTCs) which already have strong employer engagement and offer technical pathways" […] "manufacturers are strong supporters of UTCs. Over a third believe that increasing the number of University Technical Colleges would encourage more young people into manufacturing." In written evidence Ofsted were concerned about under capacity within UTC's "while some are popular and are providing high-quality training to students aged 14–18, most are operating well below capacity."

259 Written evidence from the Education Policy Institute (HFV0048)
260 Written evidence from Gateshead College (HFV0078)
261 See Appendix 5.
262 Written evidence from Ofsted (HFV0052)
263 Q 81 (Lord Baker of Dorking)

We visited the Aston University Engineering Academy and University Sixth Form (University Technical College). Students we spoke to were very positive about their experience. They thought that the UTCs were "not advertised as well as they should be" and often students learned about the opportunities on offer through word of mouth or family connections, rather than school careers services.

251. In December 2017 the Government launched a new careers strategy to "address the issue of variable quality". One of the main initiatives was to "connect the worlds of education and employment".[264] Sue Husband, the Director of the National Apprenticeship Service, explained that as a result of the new strategy, "schools will have to allow employers in to talk about their apprenticeship opportunities, and colleges to talk about opportunities for those young people."[265] Anna Purchas, Head of People at KPMG, said she had seen a change in schools: "We find that careers advisers see the apprenticeship route as a very attractive option and are working with parents to persuade them on that too." She conceded there was however "a long way to go."[266]

252. Russ Shaw, from Tech London Advocates, said that schools were doing a better job of bringing in outside organisations and companies "to expose their students to the world of work" but he said he was frustrated with businesses:

> "We have to push them much harder and say, "You need to go into schools and colleges, and help teachers and administrators in those academic institutions understand what the world of work is going to look like in two, five and ten years" … A lot of the schools I have spoken to say that they are desperate for more organisations to come in and shed that light for their students."[267]

253. Matthew Houlihan, Director of Government and Corporate Affairs at Cisco, pointed out that "a major barrier" was finding the time to go in and work with schools; "we have to make sure we put aside and dedicate time for that."[268] One business the Committee spoke to in Birmingham described the "huge" amount of effort that Jaguar Land Rover had made in working with local schools there but said "that was not a viable route for many smaller companies."[269]

254. **The prioritisation of the undergraduate degree in schools, through the use of incentives and targets, has helped fuel perceptions that other routes are inferior. Schools must present all post-16 and post-18 options as equal. Incentives aimed at schools which encourage them to promote sixth form and university should be removed. Every pupil aged 16 should spend one day learning about apprenticeships and how to apply for them.**

264 Department for Education, *Careers strategy: making the most of everyone's skills and talents* (December 2017): https://www.gov.uk/government/publications/careers-strategy-making-the-most-of-everyones-skills-and-talents [accessed 23 May 2018]
265 Q 139 (Sue Husband)
266 Q 124 (Anna Purchas)
267 Q 119 (Russ Shaw)
268 Q 112 (Matthew Houlihan)
269 See Appendix 5.

Complexity of pathways

255. The complexity of the non-higher education route was also seen as a hindrance to good advice. Paul Johnson, Director of the Institute for Fiscal Studies, said, "It is incredibly difficult to navigate the non-university route and incredibly easy to navigate the university route." This was not the universities' fault: "it is a problem of the rest of the system, which just does not work."[270] As Figure 8 illustrates: university students have a single point of access via the UCAS process. Further education and apprentices must seek out and apply to individual providers.

Figure 8: Applications process for higher education courses, further education courses and apprenticeships[271]

Higher education/ university	Further education		Apprenticeships
	16–18	19+	
Apply via UCAS form for all universities and courses Single application process (some additional requirements for popular courses such as law or medicine)	UCAS Progress lists 90,000 courses at 5,000 providers Applications can be made via UCAS for limited number of participating colleges. For other colleges applications are made to individual colleges.	Information from National Careers Service Website. Applications made to each college (different processes and forms for each)	Various apprenticeship services (number of apprenticeships advertised on 12 April 2018) •UCAS (450) •Find an apprenticeship (17,964) •Not going to uni (3,416) •Rate my apprentice (34) •The big choice (114) There is an individual application process for each company.

256. The Education Policy Institute said it was "challenging" for students to understand "the available options, and where they might lead". They argued for a clearer system with "sound pathways and connected provision at different levels of skills."[272] Businesses we spoke to in Birmingham agreed.[273]

257. Apprentices we met described various options they used to find apprenticeships to apply for. Due to the lack of information from school many found out about apprenticeships through their own efforts. They used websites such as Not Going to Uni, Rate My Apprenticeship, or The Big Choice. One apprentice commented that the National Apprenticeship Service website was "not that helpful" and made it hard to search for apprenticeships.[274]

258. For older learners, finding options can be "difficult especially for adults who currently lack language or literacy skills and need additional support. It is not always clear where to obtain advice in the first instance, even assuming the prospective learner has the confidence and knowledge to make the first step."[275]

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270 Q 2 (Paul Johnson)

271 UCAS: https://www.ucas.com/ [accessed 9 May 2018], UCAS progress: https://www.ucasprogress.com/authentication/logon [accessed 9 May 2018], National Careers website: https://nationalcareersservice.direct.gov.uk/ [accessed 9 May 2018]. Apprenticeships search services accessed on 12 April and searched for all available options.

272 Written evidence from EPI (HFV0048)

273 See Appendix 5.

274 *Ibid.*

275 Written evidence from the Institutes for Adult Learning (HFV0087)

259. In 2015 the then Minister for Skills said that the Government recognised this issue and was in "conversation with UCAS about the possibility of including higher-level courses in FE colleges but also apprenticeships in their system."[276]

260. **There is a clear and well understood process for university applications which is not available for other forms of post-school education. The process for students considering routes other than university should be clearer and less complex. There is merit in a single, UCAS-style, portal for covering all forms of higher education, further education and apprenticeships. The Government should ask UCAS how such a portal could be designed and implemented.**

276 Oral evidence taken before the Select Committee on Social Mobility on 9 December 2017 (Session 2015–16), Q 197 (Nick Boles MP)

CHAPTER 8: STUDENT LOAN DESIGN

261. At present, student loans are subject to the following parameters:

- Repayment rate of 9 per cent of annual earnings above £25,000 (the 'repayment threshold'), indexed to average earnings;
- Loan term of 30 years;
- Inflation of RPI plus 0–3 per cent.

262. The Committee heard proposals for changing all of these. Many different scenarios were proposed. The Institute for Fiscal Studies modelled some of them for us, including reducing fees to £6,000. This modelling is in Appendix 7.

263. This chapter examines our proposed changes to the parameters. We note that the terms changed as recently as April 2018 with the raising of the repayment threshold.[277]

Lowering the interest rate

264. Interest is charged on post-2012 student loans at RPI plus 3 per cent during study, until the April after the person leaves the course. Following that April:

- If a person is earning a salary of £21,000 or less, the interest rate is set at RPI plus 0 per cent;
- If a person is earning between £21,000 and £41,000, the interest rate is set between RPI plus+ 0 per cent and RPI plus 3 per cent according to income;
- If a person is earning over £41,000, the interest rate remains at RPI plus 3 per cent.

265. Many witnesses thought the rate of interest charged on student loans was too high. The Sutton Trust described it as an "unwelcome feature", highlighting that the highest rate of RPI plus three per cent applies from the day a student begins their studies. The University of Cambridge said that no interest should accrue until graduation, with a sliding interest rate dependent on earnings afterwards that was capped at CPI plus one per cent. They pointed out this wouldn't cost the Government much in the long-run, "in light of the proportion of student loan lending which is written off under the present system."[278]

266. Some witnesses were concerned about any changes being regressive. The National Union of Students said that lowering interest rates would help only the highest earning graduates.[279] Paul Johnson said that the interest rate "is plucked out of the air", but that it did add a "degree of progressivity" to the system.[280]

277 See paragraph 346.
278 Written evidence from the University of Cambridge (HFV0040)
279 Written evidence from the National Union of Students (HFV0050)
280 Q 9 (Paul Johnson)

How progressive is the present system?

267. The Department for Education said that the system "is progressive in that higher earning graduates pay more than lower earning graduates."[281] Dr Gavan Conlon, from London Economics, said the system was not progressive when the value of repayments was calculated in real terms:

> "**Dr Gavan Conlon:** For 17 years out of 30 … high earners pay more than lower earners, but the problem is that lower earners continue to pay from year 17 or 18 all the way up to year 30. Adding up the total value in real terms—forget about cash values …
>
> **Lord Burns:** I thought the 6.1 per cent interest rate was to try to offset that.
>
> **Dr Gavan Conlon:** But it has not achieved that, so the system is not even progressive. Individuals with lower levels of earnings, because they are locked in for 30 years, pay more over that period in real terms—today's money terms—than those who repay a larger amount for each of 17 years. On a like-for-like basis, individuals in occupations that pay less will end up paying more.
>
> **The Chairman:** Are you saying that is not progressive?
>
> **Dr Gavan Conlon:** Correct."[282]

268. A 2017 London Economics report published estimates of nominal and real repayments for different occupations for men and women, as reproduced in Tables 10 and 11.

281 Written evidence from the Department for Education (HFV0086)
282 Q 28 (Dr Gavan Conlon)

Table 10: Estimated cumulative student loan repayment per graduate by occupation (men)

	Social workers	School teachers	Nurses/ midwives	Engineering	IT	Legal	Finance	Medical
Repayments (nominal value)	£105,000	£121,000	£133,000	£119,000	£106,000	£114,000	£127,000	£192,000
Net present value repayments (real value)	£46,000	£54,000	£59,000	£60,000	£59,000	£55,000	£55,000	£79,000

Source: London Economics, 'The impact of student loan repayments on graduate taxes', July 2017: https://londoneconomics.co.uk/wp-content/uploads/2017/07/LE-Impact-of-student-loan-repayments-on-graduate-taxation-FINAL.pdf [accessed 24 May 2018]. London Economics assumed that loans covered three years of study except for student teachers (four years) and medical students (five years).

Table 11: Estimated cumulative student loan repayment per graduate by occupation (women)

	Social workers	School teachers	Nurses/ midwives	Engineering	IT	Legal	Finance	Medical
Repayments (nominal value)	£52,000	£61,000	£59,000	£103,000	£121,000	£114,000	£127,000	£192,000
Net present value repayments (real value)	£24,000	£27,000	£26,000	£47,000	£56,000	£61,000	£62,000	£87,000

Source: London Economics, 'The impact of student loan repayments on graduate taxes', July 2017: https://londoneconomics.co.uk/wp-content/uploads/2017/07/LE-Impact-of-student-loan-repayments-on-graduate-taxation-FINAL.pdf [accessed 24 May 2018]. London Economics assumed that loans covered three years of study except for student teachers (four years) and medical students (five years).

269. London Economics analysed these findings as follows:

> "Men in more public sector orientated occupations with relatively low wages end up making repayments for the entire duration of the repayment period (and despite this, never repay their full loan balance). This compares to higher-paying occupations, such as legal professions, where because repayment takes place earlier in a male graduate's working life (and there is less accumulated interest), the total repayment in real terms is actually marginally lower than repayments in the nursing profession (£59,000 compared to £55,000).
>
> A similar phenomenon can be seen amongst females in occupations with above-average earnings (IT professions, for instance), where approximately £56,000 in loan and accumulated interest repayments are made. Despite a £10,000 outstanding balance existing at the end of the repayment period, this still represents a greater level of real repayment than men in finance or legal occupations."[283]

270. They concluded that graduates in the middle of the earnings distribution would pay the most:

> "In other words, there appear to be incentives to pay off student loans early—or not at all—but being positioned in the middle of the earnings distribution appears to offer the worst possible outcome from the individual's perspective."[284]

271. The University of Cambridge also said that it was middle earners, "those who just about repay their loan over 30 years—who pay the brunt of the cost."[285]

272. **When the net present value of repayments is considered, the student loan system does not appear as progressive as its advocates have suggested—graduates who only just pay off the loan within the 30 years will pay far more in real terms than higher-earning graduates who pay the loan off sooner.**

Use of the Retail Prices Index

273. The interest rate on student loans is calculated using the Retail Prices Index. There are known problems with this measure of inflation, which are described in Box 11.

Box 11: Problems with the Retail Prices Index

In 2010 the ONS made what appeared to be routine improvements to the way prices for clothing were collected. When the changes were implemented however, the formula effect in the RPI widened from around 0.5 percentage points to 0.9 percentage points. A subsequent ONS consultation and review found that the RPI did not meet international standards. The UK Statistics Authority stripped RPI of its national statistics status in March 2013.

283 London Economics, *The impact of student loan repayments on graduate taxes* (July 2017): https://londoneconomics.co.uk/blog/publication/impact-student-loan-repayments-graduate-taxes-july-2017/ [accessed 29 May 2018]

284 *Ibid.*

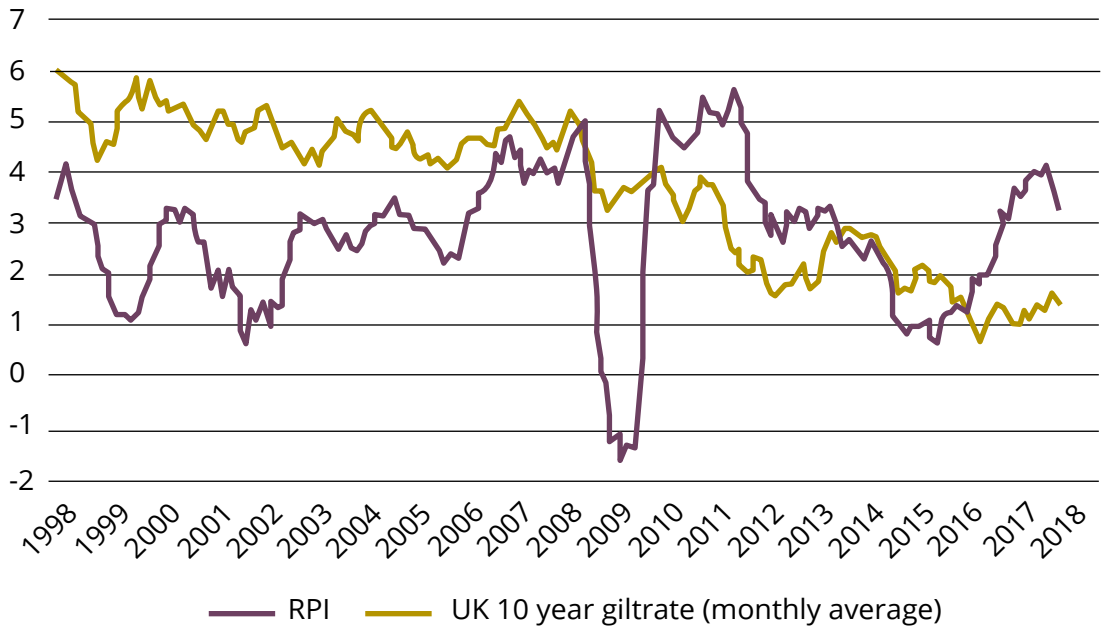
285 Written evidence from the University of Cambridge (HFV0040)

Paul Johnson carried out a review of consumer price statistics for the Government in 2015. The review concluded that "RPI should not be used for new contracts" and "taxes, benefits and regulated prices should not be linked to the RPI." The report also criticised the Government using the lower rate of CPI when paying out money and RPI when receiving money:

> "There is a public perception that Government engages in such 'inflation rate shopping'. In particular, there is a belief that when the Government is paying out money, the lower CPI is used, whilst the higher RPI measure is used when the Government is receiving money. Such 'inflation rate shopping' is highly undesirable and undermines public trust in the statistics. It is a reason for avoiding additional measures of inflation, unless these can be fully justified. It is also a reason for reducing the number of main measures of inflation if at all possible."[286]

274. When the Governor of the Bank of England appeared before the Committee in January 2018 he was asked about the continued appropriateness of using RPI to calculate measures such as the interest charged on student loans. He said that given the known errors, RPI should not be embedded further in contracts. Figure 9 compares RPI against the UK ten year gilt rate over the last 20 years.

Figure 9: Retail Prices Index (monthly, percentage change over the previous 12 months) versus monthly average yield from British Government securities, 10 year nominal par yield, March 1998 to March 2018



Source: Office for National Statistics, 'Consumer Price Inflation time series dataset (MM23)', 18 April 2018: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czbh/mm23 [accessed 9 May 2018]; Bank of England, 'Monthly average yield from British Government Securities, 10 year Nominal Par Yield', 1 May 2018: http://www.bankofengland.co.uk/boeapps/iadb/index.asp?Travel=NIxIRx&levels=1&XNotes=Y&C=5TU&G0Xtop.x=41&G0Xtop.y=3&XNotes2=Y&Nodes=X4051X4052X4053X4058&SectionRequired=I&HideNums=-1&ExtraInfo=true#BM [accessed 9 May 2018]

286 Paul Johnson, *UK Consumer Price Statistics: A Review* (January 2015): https://www.statisticsauthority.gov.uk/wp-content/uploads/2015/12/images-ukconsumerpricestatisticsarevie_tcm97-44345.pdf [accessed 29 May 2018]

275. **We recommend that the interest rate charged on post-2012 student loans should be reduced to the level of the ten-year gilt rate (currently 1.5 per cent). This is fairer for students as it means that they only pay an interest rate which is equivalent to the Government's cost of borrowing money. Interest should not be charged on loans until students have graduated.**

276. **There should be no change to the repayment threshold, the repayment rate or the term of the loans.**

277. The cost of this proposal is considered at the end of the report in Chapter 10.

Tuition fee levels

Current maximum tuition fee

278. As explained in Chapter 3, the 2012 funding reforms raised the maximum tuition fee amount that an institution could charge to £9,000. In the 2015 Summer Budget, the Government announced that institutions offering 'high teaching quality' would be able to increase their tuition fees in line with inflation from 2017/18.[287] The barometer of high teaching quality was whether an institution received a 'meets expectations' rating in the first year of the Teaching Excellence Framework.

279. The first year of the Teaching Excellence Framework took place in 2016. An institution received a 'meets expectations' rating if it had passed its most recent inspection by the Quality Assurance Agency for Higher Education. There were 471 institutions who were eligible to take part in the assessment's first year. The results do not appear to be available publicly but 96 per cent of universities had passed their Quality Assurance and Agency inspection in 2014. David Kernohan, Associate Editor of the higher education blog Wonkhe, said that "the upshot is that just about every university will be eligible to raise fees".

280. In 2017/18, the fee cap for nearly every institution was therefore raised by the retail price index (2.8 per cent) to £9,250. The expectation was that institutions that passed the Teaching Excellence Framework in subsequent years (by receiving a gold, silver or bronze rating under its revised classifications) would be able to raise fees in line with the retail price index. But the Prime Minister announced in October 2017 that tuition fees would be frozen at £9,250 for the duration of the Government's review of higher education.[288]

Tuition fee freeze

281. Professor Julia Buckingham, from Universities UK, said that "we are obviously concerned that the fees are flat at the moment." She said if the unit of resource per student was not maintained, "we are not going to be able

287 HM Treasury, *Summer Budget 2015* (July 2015): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/443232/50325_Summer_Budget_15_Web_Accessible.pdf [accessed 8 May 2018]

288 The Prime Minister said that the Government would "undertake a major review of university funding and student financing. We will scrap the increase in fees that was due next year, and freeze the maximum rate while the review takes place." Theresa May's speech to Conservative Party Conference (October 2017): https://www.conservatives.com/sharethefacts/2017/10/theresa-mays-conference-speech [accessed 14 May 2018]

to deliver the quality of education that we would like."[289] The University of Cambridge said that it "strongly supports" ensuring that the real value of tuition fees is maintained.[290]

282. Professor Madeleine Atkins said that the sector had already factored in the possibility that fees would not rise. She said the freeze was "reasonably sustainable in the short term but not sustainable as a long-term trend. The gearing in the sector is somewhere around 34 per cent, 35 per cent or 36 per cent. Again, that is reasonable in the short to medium term."[291]

Value for money

283. Students complained to the Committee about current fees not providing value for money. A business student said his degree did not at all provide value for money: "there are 200 students in my class, no particular equipment, lecturers reading off slides."

284. A mother on the Committee's MoneySavingExpert page complained that her son was paying £9,250 a year in fees and receiving less than eight hours tuition a week: " This excuse of 'self-guided study' is an absolute cop-out and no value for money. I remember being amazed at the difference in five years all the universities having brand new facilities, or in the process of new buildings being built. All paid for by students, but no value in return."[292]

285. Lord Adonis said he had seen "no evidence from universities that a high proportion of the courses they offer cost anything like £9,250." He questioned the lack of transparency around how much courses cost universities to provide:

> "They will not publish accounts showing, course by course, how much each costs and what proportion of the courses they offer costs the same as or more than the actual fee level. To my mind, that is a matter of great concern, because I see no reason whatever why students should have to pay more than the actual cost of their course for their degree and be saddled with very high levels of debt."[293]

Cross-subsidisation of courses

286. Other witnesses were also critical of the notion that courses that cost less to teach than the tuition fee charged were subsidising courses that were more expensive to teach. One optometry student said that her friends that were studying media studies were subsidising her degree as "their lectures do not cost £9,000" whereas she studied "in a lab full of expensive kit."

287. The sector denied that this subsidisation occurred. Professor Madeleine Atkins said that there were "no vast profits" being made on fees:

> "There is a sense sometimes in the media that classroom-based subjects are overpriced at £9,000, and that a considerable surplus must be being made there, which is then directed to higher-cost courses. Our analysis

289 Q 79 (Professor Julia Buckingham)
290 Written evidence from the University of Cambridge (HFV0040)
291 Q 45 (Professor Madeleine Atkins)
292 Money Saving Expert, 'Is post-school education good value for money?' (August 2017): http://forums.moneysavingexpert.com/showthread.php?p=73060501 [accessed 14 May 2018]. This thread was posted on the Money Saving Expert forum at the Committee's request.
293 Q 3 (Lord Adonis)

> suggests that that is not the case. Indeed, any surplus on classroom-based courses is eroding fast, due to inflation and other things."

288. She said the main subsidy came from the higher fees charged to international students. Professor Stirling agreed the subsidy came from international students. He said that for STEM subjects it cost around £12,500 per student per year to deliver an undergraduate degree: "we make a loss on every home and EU student we teach. On the other hand, we have a lot of international students … That is how we survive and how we are able to be financially sustainable."[294]

289. Professor Sir Keith Burnett said the subsidisation argument was "simply not true" at the University of Sheffield:

> "We do not cross-subsidise between English, the social sciences and engineering. Actually, each department gets the full tuition fee that is paid and each will use it to the greatest effect for its students. There is no cross-subsidy at my university."[295]

290. Professor Bailey did however admit that for subjects such as business, which do not require extensive facilities and were easy to attract students into, "it is relatively easy to offer a degree in that area less expensively and still make a profit."[296] Dr Marginson said he suspected that in many institutions, "the relatively low-cost business programmes, which generate high volumes of students, with large numbers of international students paying full fees and so on, subsidise a lot of other activity."[297]

Cross-subsidisation of teaching and research

291. Another area of subsidisation that was raised was between teaching and research. Samuel Brook, a 2016 graduate, said universities did not provide value for money because tuition fees were spent on research: "If the government wants to fund research at universities it can do so, however students at those universities should not provide huge subsidies for something that doesn't materially affect them."[298]

292. Dr Marginson said it was a "complex problem":

> "The tendency has been for us to find every way and means we can to subsidise and build research, because research is not only integral to the role of universities but has become central to their national and global competition … We are using our teaching money where we can, whether it is domestic or foreign income, to subsidise our research output and effort."[299]

Other benefits of higher education

293. Pam Tatlow cautioned against the "great temptation" to focus on value for money: "we have to add the wider public benefits of investment in higher education."[300] The University of Manchester Students Union said university

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294 Q 70 (Professor James Stirling CBE)
295 Q 70 (Professor Sir Keith Burnett)
296 Q 56 (Professor Patrick Bailey)
297 Q 39 (Dr Simon Marginson)
298 Written evidence from Samuel Brook (HFV0091)
299 Q 39 (Dr Simon Marginson)
300 Q 56 (Pam Tatlow)

was also about "acquiring skills, personal development, new opportunities, broadening horizons, meeting friends for life, and learning about other cultures and people of different backgrounds. There are no metrics to measure these."[301]

Reducing fees

294. Lord Adonis said that there was "a revolt" from students over value for money and the present system "has death written all over it."[302] He called for lower fees and said that the funding per pupil for a secondary school in England was £4,800, "which is almost precisely half what we pay for university courses, many of which are considerably less intensive than secondary school courses."[303]

295. Samuel Brook said that reducing fees did not have to mean increased government spending, "instead it could mean more pressure on university budgets."[304] Another recent graduate, Krutnik Patel, said that his degree was not worth £9,000 a year. He said universities were using the higher fees "for enterprise" and said they should be reduced to £3,000 a year.[305]

296. Dr McGettigan said that he thought the present funding system worked well for "Oxford, Cambridge, LSE and few other highly selective institutions", but "we have a loan scheme that makes no sense for the vast majority of borrowers." He said other institutions needed "a different kind of funding. If we think they are the institutions that are doing the most for social mobility, and the most work on widening participation, we should restore direct grant to enable them to lower their fees."

Widening access

297. As discussed in Chapter 3, if universities charge the maximum fee of £9,250, they are required to spend a portion of this on widening access to universities. This arrangement is described in Box 12.

Box 12: Widening access requirements

All English universities that want to charge higher fees (above £6,000 per annum) must have an access agreement with the Office for Fair Access (OFFA), the DfE-sponsored agency which "safeguards and promotes fair access to higher education".

Access agreements are negotiated individually with institutions, and there is no statutory minimum investment level set by the OFFA; rather, it sets guidelines with the ability to levy fines or reduce fee rates if objectives are not met. These guidelines only apply to fees above £6,000.

301 Written evidence from the University of Manchester (HFV0069)
302 Q 9 (Lord Adonis)
303 Q 7 (Lord Adonis)
304 Written evidence from Samuel Brook (HFV0091)
305 Written evidence from Krutnik Patel (HFV0058)

Guideline spending levels for universities [and indicative funding amounts assuming a full fee of £9,250 is charged] are:

- Low proportion of students from under-represented groups: 30 per cent [£975]
- Average proportion: 22.5 per cent [£731]
- High proportion: 15 per cent [£487]

298. Nottingham Trent University said that they spend £500 of each undergraduate's tuition fee on widening access. They warned that if tuition fees were reduced, "there will not be the 'financial headroom' to undertake these impactful activities at the current scale."[306]

299. The Minister for Universities and Science said that students "are not just paying for their tuition, they are paying a university fee, and some of that money goes on hardship and some of it goes on disadvantaged students."[307]

300. **There is little transparency around what universities are spending their income on. Students have little idea about the activities that their course fees may be subsidising. Tuition fees should remain frozen at £9,250 for the medium-term.**

306 Written evidence from Nottingham Trent University (HFV0079)
307 Q 174 (Sam Gyimah MP)

CHAPTER 9: MAINTENANCE SUPPORT

"People from poorer backgrounds are borrowing more, having more debt, and pay less back. They come out with more debt and it takes them longer to pay it back."

"I had to leave University because I couldn't cover my rent with my student loan."

"I have £50 a week after accommodation. [I know] some people whose loan doesn't cover accommodation costs."[308]

301. As the quotes from students and apprentices above illustrate, many are unhappy with the current system of maintenance support. The problems identified in evidence to us were:

    (a) The abolition of maintenance grants and the move to a loan-only system.

    (b) The amount of support available.

    (c) The restrictions on who is entitled to maintenance support.

Current system

302. In England, full-time undergraduate students may be eligible for between £7,000 and £11,000 a year in maintenance support. As shown in Table 12, the amount a student will receive varies depending on their parents' income, course location, and if they live at home. A student's tuition fee loan is added to the maintenance loan and they are repaid on the same terms.

Table 12: Maintenance loan entitlement (2017/18)

	Maximum available	Minimum available
Living away from home, outside London	£8,430	£3,928
Living away from home, in London	£11,002	£5,479
Living at home	£7,097	£3,124

Source: Student Finance, How You're Assessed and Paid, 2017/18: http://media.slc.co.uk/sfe/1718/ft/sfe_how_you_are_assessed_and_paid_guide_1718_d.pdf [accessed 15 March 2018]; Department for Business, Innovation and Skills, Loan, Grant and Tuition Fee Rates for Academic Year 2017/18: http://www.practitioners.slc.co.uk/media/1158/201718-financial-memorandum.pdf [accessed 15 March 2018]

303. At present, full maintenance support is available only to full-time undergraduate students. From 2018/19, maintenance support will be available for part-time Level 6 degree courses and the Government is intending to extend maintenance support to part-time Level 4 and 5 study, and distance learning courses, from 2019/20.[309] Maintenance support in further education institutions is only available in the National Colleges and Institutes of Technology. Figure 10 below sets out which types of study and training carry with them an entitlement to maintenance support from the state.[310]

308 Evidence from students and apprentices, see Appendix 5.
309 See paragraph 319.
310 See paragraph 336.

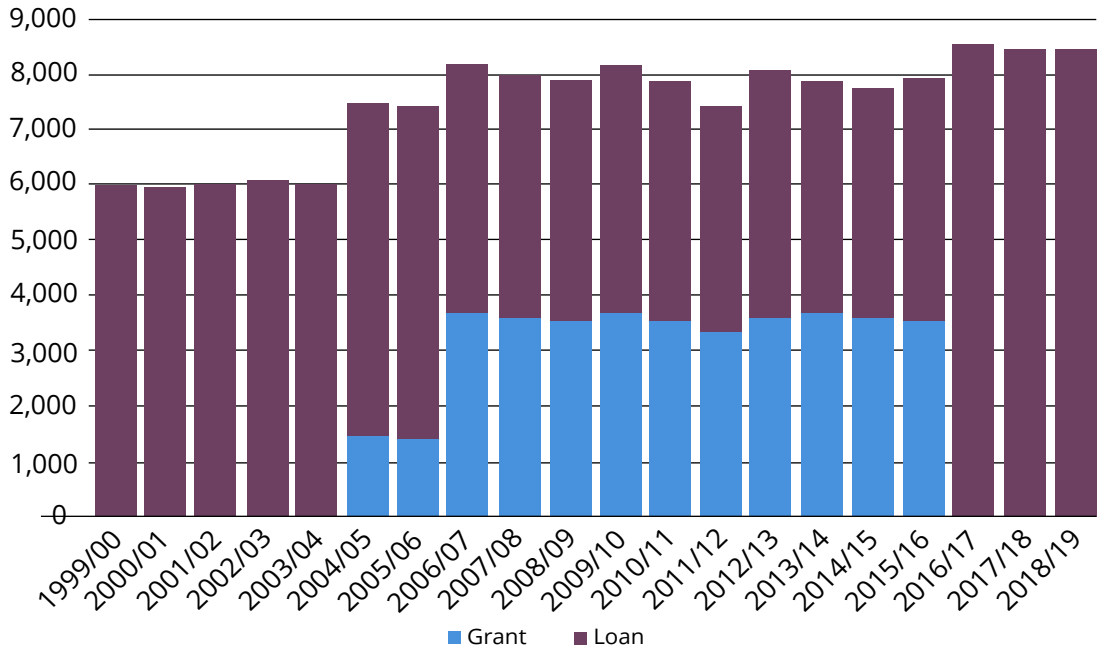
Figure 10: Maintenance support available by level and type of study/ training

	Higher Education Institution		Further Education Institution		Apprentices
	Full time	Part time	Full time course	Part time course	
A-level or equivalent (Level 3)			✗	✗	✗
Sub-degree/technical qualifications (Level 4 & 5)	✓	From 2019/20	✗	✗	✗
Undergraduate degree (Level 6)	✓	From 2018/19			✗

Abolition of maintenance grants

304. Prior to 2016, maintenance support was provided through a mixture of means tested grants and loans. In 2015/16 a student outside London could receive total support of £7,434. This included a grant of up to £3,387. As Figure 11 demonstrates the balance between maintenance grants and loans has fluctuated since the introduction of tuition fees.

Figure 11: Student maintenance support 1999/2000 to 2018/19 (new students England, September 2017 prices)



Source: House of Commons Library, The Value of Student Maintenance Support, Briefing Paper No 00916, 5 March 2018

305. Two cohorts of students have entered university since maintenance grants were abolished. For some witnesses the impact of inadequate maintenance support was greater than concerns about tuition fees. "We get very bogged

down in tuition fees", Professor Buckingham, board member of Universities UK and Vice-Chancellor of Brunel University, told us, "and we forget that the bulk of the cost in going to university is the maintenance while you are there."[311] Witnesses were concerned about the level of debt incurred by the poorest students. They argued this had an impact on the willingness of students from disadvantaged backgrounds to go to university.

Level of debt

306. Further issues arise from the way the entitlement to maintenance loans operates. Maintenance loans are means tested: the largest loans are provided to those with the lowest household/parental income. As a result, students from the poorest backgrounds receive the highest loans and therefore accrue the largest debts.

307. Analysis by the Institute for Fiscal Studies suggests that students from the poorest 40 per cent of families will graduate with an average debt of £57,000; their peers from the richest 30 per cent of families will owe £43,000.[312] This £14,000 difference is entirely due to maintenance loan entitlement and the accrued interest.[313]

308. The unfairness of the system continues following graduation. Data published by the Department for Education show that students entitled to free school meals have lower average earnings after graduation; five years after graduation those eligible for free school meals earned 13 per cent less than those not entitled.[314] As illustrated above graduates with more modest earnings pay more over the lifetime of their loans.

Impact on participation in higher education

309. A common concern was that students from poorer backgrounds were put off going to university. The Minister for Universities and Science told us that the data show that "someone from a disadvantaged background is 50 per cent more likely to go to university now than in 2009. So it clearly has not been a deterrence."[315]

310. The NUS pointed to the importance of maintenance grants in achieving this increase:

> "Maintenance grants were a key element in improving the accessibility of university for the most disadvantaged young people, but they were scrapped by the Government in 2016. In the last decade participation in Higher Education by the poorest students has increased, but this was partly driven by the availability of non-repayable grants."[316]

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311 Q 73 (Professor Julia Buckingham)

312 Institute for Fiscal Studies, *Higher Education funding in England: past, present and options for the future* (July 2017): https://www.ifs.org.uk/publications/9334 [accessed 14 May 2018]. The IFS analysis assumes that students take out the full loan they are entitled to, are at 2017 prices, not discounted, and include interest.

313 Students from the poorest 40 per cent will accrue £6,500 interest over the course of their degree. Those from the highest 30 per cent will accrue just under £5,000.

314 Department for Education, *Graduate outcomes (LEO Graduate outcomes (LEO): Employment and earnings outcomes of higher education graduates by subject studied and graduate characteristics (March 2018):* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690859/SFR15_2018_Main_text.pdf [accessed 15 May 2018] Students who entitled to free school meals earned £22,500; those not entitled, £25,800. The data do not include a number of pupils from independent schools were data on free school meal status is not collected.

315 Q 163 (Sam Gyimah MP)

316 Written evidence from the NUS (HFV0050)

311. Paul Johnson, Director of the Institute for Fiscal Studies, echoed this: "we know that the up-front availability of maintenance money is a really important part of what determines whether poorer students in particular go on to higher education."[317]Mr Johnson stated that it was too early to measure fully the impact of the abolition of grants.[318] Students and universities were clear that the most recent increase in loans deterred poorer students. London South Bank University cited research showing that "debt aversion has the potential to put off young people from the poorest socio-economic backgrounds from applying to university." They continued, "this problem will only be compounded by the replacement of maintenance grants with larger loans".[319]

312. The University of Cambridge was "concerned that levels of debt resulting from the present student loan system are a deterrent for many students, and … present a real risk to maintaining current levels of access."[320] University College London highlighted research showing that "grants have a positive impact on participation. Substituting maintenance loans for maintenance grants has been highly regressive and has affected participation rates for those from disadvantaged backgrounds."[321]

313. It may also affect students' choice of university. Hannah Morrish, from the Student Room website, told us that 30 per cent of students who had received free school meals choose to live at home. This compared to 20 per cent of students who had not received free school meals.[322]

Amount of support

314. The level of maintenance loans available was considered inadequate by a number of witnesses. Students we spoke to were clear that "loans should cover the cost of living—they currently are not sufficient to cover groceries, housing and people are suffering to get through university".[323]

315. When loans were introduced the total amount of funding was increased, but the students we spoke to were clear that the amounts available were "not enough to cover my rent never mind food, bills, stationary."[324] The NUS told us that "one in seven" students "admit that they have been chased by debt collectors as a result of missing rent payments" and "nearly half … are worried about having enough money to buy essential groceries such as bread and milk."[325]

316. Martin Lewis OBE described the lack of student support as "outrageous". He argued that "the biggest problem with student finance at the moment is that loans are not big enough, not that they are too big".[326] The Minister acknowledged that worries about money were "very serious points" that he was "very alive to".[327]

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317 Q 2 (Paul Johnson)
318 *Ibid.*
319 Written evidence from London South Bank University (HFV0014)
320 Written evidence from the University of Cambridge (HFV0040)
321 Written evidence from UCL (HFV0077)
322 Q 18 (Hannah Morrish), The Student Room, *Options 2017:* http://tsrmatters.com/wp-content/uploads/2017/09/TSR-Options-2017-FINAL-DIGITAL.pdf [accessed 15 March 2018]
323 Informal evidence from students, Appendix 5.
324 See Appendix 5.
325 Written evidence from the NUS (HFV0050); see also Q 16 (Shakira Martin).
326 Q 18 (Martin Lewis OBE)
327 Q 163 (Sam Gyimah MP)

Eligibility

Part-time study

317. From 2018/19, the Government plans to make maintenance support available to part-time higher education students. Previously, part-time students were eligible for tuition fee loans, but not support for living and other costs. The CBI pointed out that this "can reduce the attractiveness of part-time study given many will need to reduce working hours—and therefore income—to meet the course commitments. This disincentive is likely to be particularly acute for those on low incomes or who have to balance study and work with caring responsibilities."[328]

318. Providers of part-time higher education supported this view. Professor David Latchman CBE, Master of Birkbeck University, told us Birkbeck's traditional four-year course had "lost catastrophic numbers", but a three-year online and classroom learning course now attracted two-thirds of undergraduates because of "the paradox that that is officially classified as a full-time course […] Therefore, the students get maintenance loans."[329]

319. Witnesses welcomed the Government's commitment to introduce maintenance support for part-time higher education students. This may be extended to distance learners from 2019/20, "subject to the development of a robust control regime to manage the particular risks and challenges associated with this mode of study".[330]

Further and sub-degree education

320. There is no consistent provision of maintenance support outside the university sector. In England, they can access some grant support from a complex web of discretionary bursaries which replaced the Educational Maintenance Allowance. The amounts awarded are typically under £1,000 and subject to criteria set by individual colleges.

321. Peter Mucklow, from the Education and Skills Funding Agency, said that nonetheless "significant student support funds are available to institutions to support students."[331] The Association of Colleges explained that the sources of funding shown in Table 13 are available.

328 Written evidence from the CBI (HFV0089)
329 Q 64 (Professor David Latchman CBE)
330 Department for Education, *Part-time Maintenance Loans Government consultation response* (March 2017): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/597367/Part-time_Maintenance_Loans_-_Government_consultation_response_.pdf [accessed 15 March 2018]
331 Q 134 (Peter Mucklow)

Table 13: Discretionary funding support for further education students (2015/16 costs and student numbers)

	Type of Support	Number of students supported	Cost [total/ per head where available]	Notes
16–19 year olds	Vulnerable Group Bursaries	20,000	£23 million/up to £1,200 per head	Limited to children in care; leaving care or in receipt of certain benefits
	Discretionary bursaries	350,000	£143 million/£60–£4,000 per head (£447 per head in 2013/14)	Assessed by colleges and schools and can be paid in cash directly or indirectly.
	Free School Meals	80,000	£31 million/£2.41 per day	
	Care to Learn	1,700	£30 million/up to £175 per week	Parents under 20 to support travel and childcare costs
Adults	Discretionary bursaries	Not known [total number of learners 2.34 million]	£86 million	At college's discretion
	Advanced learner loan bursary spending	Not known [95,000 loans were awarded]	£35 million	To assist with travel, accommodation and child care costs. At discretion of FE provider.
Higher education	Maintenance Loan	1 million	£5 billion (average loan in 2016/17 £5970)	

Source: Written evidence from the Association of Colleges (HFV0118); Department for Education, Further Education and Skills in England November 2017 and November 2016: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/660580/SFR62_Nov_2017.pdf and https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577119/SFA_SFR36_2016_Ofqual_Update.pdf; Student Loans Company, Student Support for higher education in England, https://www.slc.co.uk/official-statistics/financial-support-awarded/england-higher-education.aspx

322. Aston University said that:

> "Students from the most deprived backgrounds in the region are reliant on … providers to offer some financial support to ensure they can complete their study. Often this is limited to a very small bursary which does not meet the student's needs"[332]

323. For greater levels of support, students may seek Personal Career Development Loans available from two high-street banks. These are at the discretion of the providing banks and, it was suggested, "represent a more expensive, potentially 'riskier' option for most learners."[333]

324. **The current maintenance system for post-school education is unfair. For those entitled to loans:**

    (a) **the loans available are insufficient to cover day-to-day living expenses; and**

    (b) **the loans impose the greatest burden on students from the poorest households; the most disadvantaged students graduate with the largest debt.**

325. **For some students these problems are a greater concern than tuition fees. Universities report that those from the poorest backgrounds are deterred from pursuing university education.**

326. **The current maintenance system is also inconsistent. It perpetuates inequality across higher education by restricting maintenance support to certain types of student and certain institutions to the neglect and detriment of others.**

Creating a fair maintenance support system

Type of support

327. The provision of support only through loans is, as we conclude above, deeply unfair. Witnesses suggested alternatives to the current arrangements. University College London proposed the "urgent re-introduction of maintenance grants."[334] This would be a significant upfront cost to the Government. In 2016/17 the average maintenance loan for a first-year student was £5,970, totalling £1.9 billion across the cohort.[335]

328. Another option proposed was the partial replacement of loans with grants, returning to the pre-2016 system. Under this proposal maintenance support would comprise:

    (a) grants (on the same terms and up to the levels available prior to 2016/17); and

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332 Written evidence from Aston University (HFV0099)
333 Written evidence from the National Union of Students (HFV0050)
334 Written evidence from UCL (HFV0077). This was also proposed by many of the students we spoke to (see Appendix 5).
335 These are loans provided under the revised 2016 maintenance loan scheme. Student Loans Company, *Student Support for Higher Education in England 2017: academic year 2016/17 payments, 2017/18 awards* (November 2017): https://www.slc.co.uk/official-statistics/full-catalogue-of-official-statistics/student-support-for-higher-education-in-england.aspx. [accessed 14 May 2018]

(b) loans (up to current available level of loans so that the overall cash available to students does not reduce).

329. The IFS calculated that this would add £1.7 billion to the deficit, as seen in Table 14.

Table 14: Cost of system with maintenance loans versus the pre 2016/17 mixed means-tested maintenance grant and loan system

	Current system (no grants)	Mixed grant and loan system (means tested)
Upfront spending (maintenance and tuition fees)	£16.7 billion	£16.7 billion
RAB	45.6%	41.6%
Expenditure on grants (immediate deficit impact)	£0.7 billion	£2.4 billion
Long-run government cost (taking into account repayments)	£8.4 billion	£8.8 billion

Source: IFS, Options for reducing the interest rate on student loans and introducing maintenance grants: https://www.ifs.org.uk/uploads/BN221.pdf [accessed 24 May 2018] and and Institute for Fiscal Studies (see Appendix 7)

330. Although the change would lead to £1.7 billion more public spending today, in the long-run grants increase public spending only by £400 million. This is because under the current system, the vast majority of students do not pay off their student loans fully over the 30 year term, so much of the outlay in loans will be written off.

331. Some witnesses suggested that any reform should be limited to making bursaries available to certain professions or to greater use of student hardship funds.[336]

332. **The structure of student maintenance support must not place students from poorer backgrounds at a long-term disadvantage. A maintenance system based only on income-contingent loans will deter some prospective students from applying; a grant-only system would be too big a burden on public funds. We therefore recommend that the Government reinstate the means-tested system of loans and grants that existed before the 2016 reforms.**

333. **The inadequate level of maintenance support is causing hardship to students. We recommend that the maximum maintenance support should be increased to reflect the cost of living for students. This increased support should be available as a mixture of means tested grants and loans as set out above.**

334. These loans would be repaid on the same terms as we recommend for tuition fee loans. The overall cost of these changes is set out in Chapter 10.

336 Written evidence from the University of Surrey (HFV0021)

Eligibility

335. A further question is whether this revised support should be extended to all higher and further education students?

336. As outlined above, further education students are not currently entitled to maintenance loans. The Government has provided for the partial extension of maintenance loans to some other higher education courses. From 2019/20 maintenance loans will be available to students studying sub-degree courses (such as foundation degrees or National Diplomas) at two types of institution:

    (a) National Colleges: four colleges (High Speed Rail, Nuclear, Digital Skills, and Creative and Cultural Industries) are currently open. A fifth college (Onshore Oil and Gas) has been delayed. The number of students currently being educated at these colleges is small. In the longer term the colleges' plans suggest they would educate fewer than 6,000 students a year at full capacity.

    (b) Institutes of Technology: in January 2017 the Government outlined plans to establish new Institutes of Technology and promised a new investment of £170 million in capital funding.[337] The contracting process to run these institutes is under way and the results will be announced at the end of 2018. The first institutes are expected to open in September 2019.[338]

337. When the Government consulted on plans to extend maintenance loans to further education students at National Colleges and Institutes of Technology the responses received showed "strong support" for extending maintenance loans to further education. The majority believed this should be based on the qualification studied.[339] The Federation of Awarding Bodies suggested that maintenance loans be expanded "at the very least" to "all higher-level learning in subjects that focus on areas where there are current skills gaps."[340]

338. **Access to maintenance support should be consistent across all post-school education, regardless of method or place of study. We recommend that the Government extend maintenance support to:**

    (a) **students studying for a qualification at Level 4 or above in a further education college; and**

    (b) **all part-time and distance learners at universities and further education colleges studying for Level 4 and above qualifications.**

339. **Differences between qualifications should be reflected in the loan rates and repayment structure.**

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337 Department for Business, Energy and Industrial Strategy, *Building Our Industrial Strategy* (Jan 2017): https://beisgovuk.citizenspace.com/strategy/industrial-strategy/supporting_documents/buildingourindustrialstrategygreenpaper.pdf [accessed 15 May 2018]

338 Association of Colleges,'Institutes of Technology policy statement and application forms' (Dec 2017): https://www.aoc.co.uk/news/dfes-institutes-technology-policy-statement-and-application-forms [accessed 15 May 2018]

339 Department for Education, *Further Education Maintenance Loans A summary of the consultation responses* (September 2016): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/549982/Further-education-maintenance-loans-government-response.pdf [accessed 16 May 2018]

340 Written evidence from the Federation of Awarding Bodies (HFV0034)

CHAPTER 10: STUDENT LOANS AND THE PUBLIC ACCOUNTS

340. There are suggestions that the presentation of student loans in the national accounts was a factor behind three recent policy decisions: the raising of tuition fees in 2012, the setting of the interest rate on post-2012 loans and the sale of the pre-2012 student loan book. This chapter examines the extent to which the national accounting is influencing the financing of higher education and masking its true cost.

341. This chapter is intended to be accessible to the general reader and avoids accounting terminology where possible.

Measuring the value of student loans and cost to the Government

342. Before examining the policy decisions mentioned above, it will be useful to outline how much the Government is currently lending to students and how much this is expected to cost the Government.

Lending to students and expected write-offs

343. For the 2016/17 academic year, the Government issued £13.6 billion of new student loans. When this is added to the student loans issued in previous years which have yet to be paid back (the 'student loan book'), the Government holds £88.8 billion worth of outstanding student loans (this is referred to as the 'face value' of the student loan book).

344. Not all of these loans are going to be repaid, since any amount outstanding after 30 years is written off. The Government acknowledges this outcome and estimates what proportion of the loans issued for the given year will not be repaid. For 2016/17, the Government estimated that £3.9 billion of the £13.6 billion issued will not be repaid.

345. For the full loan book of £88.8 billion, the Government expected that £27.5 billion will not be repaid (around 30 per cent of the face value of the total loan book, a percentage referred to as the 'impairment rate'[341]). The Government therefore valued the student loan book at £61.3 billion (this is referred to as the 'carrying value' or the 'face value'[342]).

Raising the repayment threshold to £25,000

346. The expected loss on student loans will increase as a result of the Government's decision to raise the repayment threshold on student loans issued after 2012. From April 2018, graduates repay 9 per cent of their salary over £25,000 a year[343]; the threshold was previously £21,000 a year. This increase will reduce loan repayments.

347. Official figures for 2017/18 are not yet available but the Government said last year that the proportion of the face value of loans issued that will be not be repaid will increase from 30 per cent to between 40 and 45 per cent.[344] In work carried out for the Committee, the Institute of Fiscal Studies estimated

341 The impairment rate is referred to in the Department for Education's accounts as the 'Resource and Accounting Budgeting', or 'RAB', charge.
342 The Department for Education says that the carrying value of the loan book is a reasonable approximation of the fair value, "in the absence of an active market, readily observable market trends or similar arm's length transactions."
343 The threshold will rise in line with average earnings for subsequent years.
344 Q 52 (James Bowler)

this would be 48 per cent.[345] In other words, around half of the student loans issued by the Government each year will not be paid back.

Cost to the Government of funding higher education through student loans

348. For the 2017/18 academic year, the Institute for Fiscal Studies estimated that the Government would provide around £16 billion of student loans and £750 million of grant funding. Taking into account that around half of these loans will not be paid back, they estimated the cost to the Government of funding the 2017/18 cohort would be £8.4 billion.

349. If the repayment threshold had not been raised, the Institute for Fiscal Studies said the cost of funding the 2017/18 cohort would have been £5.6 billion. Dr Gavan Conlon said London Economics had estimated the long-run taxpayer cost of the change was £2.85 billion a year.[346]

Effect on the national accounts

350. Because student loans are classified as a 'loan' for national accounting purposes, the amount of loans issued each year is not counted as Government expenditure. Only write-offs on loans are counted as expenditure. This means that student loans only affect Government expenditure when the write-offs are made after the loans expire at the end of their 30 year term (student loans are written off 30 years after the April following graduation). In other words, the losses made on students graduating in the summer of 2018 will only be recognised in the national accounts in 2049/50.

Future impact on the deficit (public sector net borrowing)

351. In January 2017, when the impairment rate on student loans was estimated to be around 30 per cent, the Office for Budget Responsibility said that from the mid-2040s, the write-offs on student loans would be worth around 0.3 per cent of GDP every year (0.3 per cent of GDP in 2017/18 is around £6 billion). As the expected impairment rate is now closer to 50 per cent, this percentage will now be higher.

Future impact on the national debt (public sector net debt)

352. The Office for Budget Responsibility estimated in January 2017 that the student loan book would be worth 11 per cent of GDP in the late-2030s, an increase from around 5 per cent of GDP in 2017/18. They predicted this would fall back to around 9 per cent of GDP by 2066/67. The Department for Education have forecast that the total student loan book will be worth £1.2 trillion in nominal terms (£473 billion in 2018/19 values) by 2049/50. The letter in which the Minister for Universities and Science explained this to the Committee is included in Appendix 6.

2012 funding reforms

353. The difference between Government income and Government expenditure is known as 'public sector net borrowing' and is commonly called 'the deficit'. In June 2010, the coalition government set itself a target of achieving a "cyclically-adjusted current balance" by 2015. To achieve this target it needed to reduce the deficit.

345 See Appendix 7.
346 Q 27 (Dr Gavan Conlon)

354. The coalition government changed how higher education was funded: rather than a mix of government grant and tuition fees, from 2012 the funding would be provided almost entirely through increase tuition fees, for which larger student loans would be available. Funding higher education through government grant increases government expenditure and the deficit; funding through tuition fees and student loans does not.

355. Table 15 shows the difference between grant funding and loan funding before and after the 2012 reforms.

Table 15: Upfront Government spend on higher education, comparison between 2011/12 and 2012/13 cohorts

Government spend	2011/12 system	2012/13 system
Funding via student loans	£8.4 billion	£15.2 billion
Funding via grants to institutions	£6.4 billion	£2.6 billion
Total upfront spend	**£14.8 billion**	**£17.8 billion**

Source: IFS, Options for reducing the interest rate on student loans and introducing maintenance grants: https://www.ifs.org.uk/uploads/BN221.pdf [accessed 24 May 2018]

356. The total upfront spend by the Government was £3 billion higher following the changes but as the spending on grants was £3.8 billion lower, the deficit would have been improved by £3.8 billion.

357. Dr Conlon, when he appeared before the Committee in July 2016, explained the effect that this had on the national accounts:

> "the taxpayer is essentially paying through loan write-offs instead of [government grant]. That makes the system a little riskier from the perspective of higher education institutions, but it also kicks the debt down the road towards the next generation. Instead of the Government or the taxpayer paying for higher education now, it will be paid for over the next 30 years, also predominantly by the taxpayer."[347]

358. Lord Willetts said that the 2012 changes "took higher education out of public funding, that releases public funding for areas that clearly are in much greater need".[348] Paul Johnson, the Director of the Institute for Fiscal Studies, however said the changes simply "delayed the point in the national accounts at which public funding kicks in."[349] Lord Willetts conceded that the public finances were a factor in the changes: "let's face it, there were also public expenditure demands."[350]

Interest rate on post-2012 loans

359. Interest is charged on post-2012 student loans at RPI plus 3 per cent during study, until the April after the person leaves the course. Following that April, the interest rate used is between RPI plus 0 per cent and RPI plus 3 per cent, depending on a person's salary.

347 Q 1 (Dr Gavan Conlon)
348 Q 6 (Lord Willetts)
349 Q 6 (Paul Johnson)
350 Q 3 (Lord Willetts)

- If a person is earning a salary of £21,000 or less, the interest rate is set at RPI plus 0 per cent;
- If a person is earning between £21,000 and £41,000, the interest rate is set between RPI plus 0 per cent and RPI plus 3 per cent according to income;
- If a person is earning over £41,000, the interest rate remains at RPI plus 3 per cent.

360. The interest rate on the loans changes every September in time for the forthcoming academic year.[351] For 2017/18, RPI was 3.1 per cent for the purpose of calculating the interest rate on student loans. This meant students studying at university, or graduates earning over £41,000, were charged 6.1 per cent interest on their student loan. For 2018/19, the rate of RPI to be used will be 3.3 per cent (meaning the maximum rate of interest charged will increase to 6.3 per cent).[352]

361. Lord Willetts told us that this interest rate was "brought in to get higher repayments from well-paid graduates." He accepted that this was not made clear to those graduates.[353] At his annual evidence session with the Committee in September 2017, the Chancellor of the Exchequer said:

> "It is perfectly well understood that the design intention of the student finance scheme is that there is an element of redistribution in it. Higher earners pay a higher rate of interest on their loans than lower earners. The system is designed such that lower earners will be forgiven the balance of their loan after a certain number of years. It is a very different animal from a loan that one would take from a bank or a building society. Sometimes that is not understood clearly enough."[354]

362. We consider in Chapter 8 how the system is not as progressive as the Government claims.

363. The high interest rate may have been influenced by the fact that interest on student loans is recorded as income by the Government as it accrues. The Office for Budget Responsibility estimated that the accrued interest on the student loan book will be £3 billion in 2017/18. This is forecast to rise to £7.5 billion by 2022/23 and will carry on increasing as the proportion of post-2012 loans in the loan book increases (this is because the interest rate on pre-2012 loans is much lower: 1.25 per cent for 2017/18). Table 16 shows the forecast for accrued interest on student loans alongside the forecast for public sector net borrowing (the deficit); by 2021/22 the accrued interest will be a substantial proportion of public sector net borrowing.

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351 The rate of RPI used is RPI for the year up the previous March.

352 Office for National Statistics, 'Consumer price inflation tables', 23 May 2018: https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation [accessed 25 May 2018]. RPI was 3.3 per cent in March 2018.

353 Q 7 (Lord Willetts)

354 Oral evidence taken before the Economic Affairs Committee on 12 September 2017 (Session 2017–19), Q 4 (The Rt Hon Philip Hammond MP)

Table 16: Office for Budget Responsibility's forecasts for accrued interest on student loan and public sector net borrowing, 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
Forecast accrued interest	£3.2 billion	£4.7 billion	£5.6 billion	£6.7 billion	£7.5 billion
Forecast public sector net borrowing	£45.2 billion	£37.1 billion	£28.7 billion	£26.0 billion	£21.4 billion

Source: Office for Budget Responsibility, Economic and Fiscal Outlook, Cm 9572, March 2018: http://cdn.obr.uk/EFO-MaRch_2018.pdf [accessed 24 May 2018]

364. As with the changes to funding, the high interest rate makes it easier for the Government to achieve its target to reduce the deficit. The present Government has a target to reduce the deficit to below 2 per cent of GDP by 2020/21.[355]

365. The Office for Budget Responsibility said in the March 2018 Economic and Fiscal Outlook that "much of the accrued interest will eventually be written off rather than repaid, so the National Accounts methodology for measuring interest does not reflect fiscal reality." They described the recording of the accrued interest as income as a "fiscal illusion".[356]

366. Dr McGettigan described the accounting as "unexpected, if not bizarre, because we know that the interest accruing is very unlikely to be repaid, so we are scoring the receivable as income before we have necessarily received it, and we anticipate that we may never even receive it."[357]

367. Paul Johnson said he would not be surprised if these flattering effects on the public finances were part of the motive for the Government's choice of rate, "but I really can't comment on it."[358] Lord Willetts said that "I was in the room at the time. I can tell you that there was pressure from our coalition colleagues to make this as progressive as possible."[359]

Selling the student loan book

368. In the 2013 Autumn Statement the coalition Government announced plans to sell the pre-2012 student loan book. The sale of the first tranche of loans was concluded in December 2017. Loans with a face value of £3.5 billion were sold for £1.7 billion, with £1.8 billion (51 per cent of the face value) written off. The Government plans to sell off £12 billion of loans over the next five years.

369. Why was the Government prepared to make a sale at such a large loss? It prefers cash today over a larger sum of cash tomorrow. This preference is a result of another of the Government's targets: to reduce the national debt.

355 The latest Charter for Budget Responsibility requires the "structural deficit (cyclically adjusted public sector net borrowing) to lie below 2 per cent of GDP by 2020/21".
356 Office for Budget Responsibility, *Economic and Fiscal Outlook*, Cm 9572, March 2018: http://cdn.obr.uk/EFO-MaRch_2018.pdf [accessed 24 May 2018]
357 Q 26 (Dr Andrew McGettigan)
358 Q 9 (Paul Johnson)
359 Q 9 (Lord Willetts)

The present Government is aiming to see the national debt (referred to as 'public sector net debt') falling as a percentage of GDP by 2020/21.

370. When student loans are issued, the value of the loan is added to the national debt. When repayments on the loans are made, the national debt is reduced accordingly. If the loans are sold, the value of the sale is taken off the national debt. As repayments of the loans takes place over 30 years, the national debt is reduced much more quickly by selling the loans, even at a substantial loss.

371. For the Government to sell assets such as student loans, the sale must pass HM Treasury's value for money test. The test is skewed to reflect the Government's preference for cash today: a sale can pass this test despite it taking place at a price far below the value the Government itself places on the asset.[360]

Effect of the sale on the national accounts

372. The sale of the loans means effectively that the Government has brought forward the write-offs on the loans and recognised them today. But a sale means that the write-offs are never recognised in the deficit (if the Government had held onto the loans, any write-offs would have been recognised at the end of the loan term). In a February 2018 report, the House of Commons Treasury Committee drew attention to the size of this difference if that level of loss remains the same for the rest of the planned sales:

> "If the rate of losses on these sales is maintained, billions of pounds of student loan losses will be crystallised without having any impact on the deficit. Its inclusion would increase the deficit as forecast by the Office for Budget Responsibility (OBR) by 13 per cent, from £45.5 billion to £51 billion."[361]

373. The accrued interest on the loans that were sold was nevertheless counted as income while they were held by the Government. The Government had likely received little of the interest payments on these loans before the sale. These interest payments, if ever made by the borrowers, will now be paid to the purchaser of the loans. However, the Government will not make a deduction in the national accounts to reflect the fact that the accrued interest it has already counted as income will never be received. As the interest rate is low on pre-2012 loans, the accrued interest will not be a large figure. Should the Government pursue sales of post-2012 loans, which have a higher rate of interest and lead to the Government recording substantial amounts of accrued interest as income, the distorting effect on the national accounts could be substantial.

374. The Chancellor of the Exchequer explained the Government's thinking to us in September 2017:

> "It is the Government's intention, where they find that they hold assets on the public balance sheet for which there is no policy or strategic reason, to realise those assets and thus reduce public sector debt, helping

360 The sale passed HM Treasury's value for money test because of the discrepancy between the discount rate used to work out the fair value of the future cash flow from the loans (RPI plus 0.7 per cent) and the discount rate used to value the asset for the value for money test (RPI plus 3.5 per cent). The future cash flows from the student loans are valued at a lower rate under the higher discount rate, and therefore a sale today will look more attractive.

361 Treasury Select Committee, *Student Loans* (Seventh Report, Session 2017–18, HC 478)

us to achieve our debt targets and/or create capacity to do other things in line with policy priorities."[362]

375. When we put this explanation to Paul Johnson, he said that "it was hard to know why in any rational world it would give you more space … There is a short-term benefit to the measured financial debt, but that is an illusion created by the slightly odd way in which we look at the public finances." He concluded that most policy changes in student loans "move in the same helpful direction of short-term public finances at the expense of the long-term public finances."[363]

376. **Recent changes to higher education financing have been motivated mainly by the desire to lower the deficit.**

377. **The decision to switch almost all higher education funding to tuition fees hides the true cost of public spending on higher education. When the change was made in 2012, the upfront spend by the Government on higher education increased by £3 billion but as the vast majority of funding was provided through loans rather than grants, the deficit figure was improved by £3.8 billion. Write-offs on student loans will be included in the deficit only when the loans expire in 30 years; if the loans are sold before that point, the write-offs never hit the deficit.**

378. **The high rate of interest on student loans creates the illusion that Government borrowing is lower than it actually is. It was presented as a progressive measure but in reality, the motivation appears to have been the flattering effect that accrued interest on those loans will have on the deficit.**

379. **Future governments will have to adjust spending plans to recognise historic student loan losses: in today's money, that would mean the 2047/48 government having to find an extra £8.4 billion to cover expected losses on the 2017/18 student loans. Alternatively, a future government may attempt to abandon the use of public sector net borrowing as a measure of the strength of the economy. It is unacceptable to expect future taxpayers to bear the brunt for funding today's students.**

380. The total upfront spend by the Government was £3 billion higher following the changes but as the spending on grants was £3.8 billion lower, the deficit would have been improved by £3.8 billion.

Different ways of accounting for student loans

381. The public accounts will increasingly present an inaccurate indication of the strength of the economy. Dr McGettigan said student loans will have "an increasingly distorting effect on those statistics." That is particularly the case once the write-offs begin to show in the public accounts. This section will consider other ways in which student loans could be recorded in the public accounts.

362 Q 1 (The Rt Hon Philip Hammond MP)
363 Q 10 (Paul Johnson)

382. Dr McGettigan said the problem was with the use of statistics by the Government:

> "It is perhaps not so much a question of reforming national accounts as taking a step back and realising the presentational force of the headline statistics. The fiscal mandate is what the Government present to the country as, "Judge our macroeconomic and fiscal competence on hitting these targets". The issue is the statistics in the targetry rather than whether you should re-categorise student loans as income or expenditure in different ways."

383. The Office for National Statistics said it was their responsibility to compile the deficit (public sector net borrowing) and the national debt (public sector net debt) in a way that ensures that "the underlying economic reality of transactions and financial instruments is followed when deciding whether or not a particular transaction should impact [the statistics] … ONS reaches these decisions in compliance with the international (UN) statistical guidance for National Accounts."[364]

384. They said that "it might be conceivable" to consider student loans in a different way. For example as a series of transfers out of government, at the point of loan issuance, and into government when interest and capital repayments are made. This would mean that all cash paid when issuing the loans would be recorded as government spending, affecting the deficit. They were, however, "firmly of the view" that the economic nature of student loans closely matches the definition of a loan in the international accounting rules used by the government.

385. Eurostat said that the UK's recording of student loans in the public accounts was in line with the rules prescribed by the applicable European accounting rules in relation to the accounting of "standard loans".[365]

386. They described two different ways of treating student loans issued by governments, which depend on the amount repaid:

(1) "When student loans are provided by government (or on behalf of government) and are expected to be largely repaid, a loan asset is recognised in GFS/EDP data. When debt cancellations occur, these impact net lending at the time of debt cancellation.

(2) When student loans are provided by government and are mostly not repaid, a capital transfer impacting net lending should be recognised at the time the loan is granted. Any recoveries should impact net lending at the time of recovery."[366]

387. With the Government expecting just under half of loans to be repaid at present, student loans in England may be getting close to the second scenario. The House of Commons Treasury Committee recommended:

> "Loans that are intended to be written off are, in substance, a partially repayable grant rather than a loan. The ONS should re-examine its

364 Written evidence from the Office for National Statistics (HFV0103)
365 European Commission, 'European System of Accounts: ESA 2010' (4 December 2013): http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-02-13-269 [accessed 24 May 2018]
366 Written evidence from Eurostat (HFV0104)

classification of student loans as financial assets—which they are in legal form—and consider whether a portion of the loan should, in substance, be classed as a grant."[367]

The Office for National Statistics announced subsequently that "to consider the treatment of such financial assets and the accounting issues they raise, we have begun work with international agencies and other National Statistical Offices."[368]

388. **Most student loans will not be repaid in full: some will be paid in full, some not at all, and a lot only partially repaid. The expected write-offs should be shown in the deficit when the loan is issued. The true cost of funding higher education would then be immediately apparent. This would allow for a better discussion as to where funding in the higher education system should be allocated.**

Cost of our proposed changes to student loans and maintenance and the effect on the national accounts

389. We asked the Institute for Fiscal Studies to calculate the cost of our proposals to reduce the interest rate on student loans and restore maintenance grants.

Cost of reducing the interest rate

390. Table 17 compares the cost of funding the 2017/18 cohort through the current system, with an interest rate of RPI plus 0–3 per cent, with the cost of our proposed system, with an interest rate equal to the 10-year gilt rate (currently around 1.5 per cent). The change does not affect the deficit but it increases the proportion of the 2017/18 loans which would not be repaid.

Table 17: Cost of reducing the interest rate on student loans to the 10-year gilt rate

	Present system (RPI plus 0–3%)	Proposed system (the 10-year gilt rate)
Upfront funding via student loans	£16 billion	£16 billion
Upfront funding via grants (counted in the deficit)	£0.7 billion	£0.7 billion
Value of student loans in 2017 prices which will not be repaid	£8.4 billion	£10.4 billion

Source: Institute for Fiscal Studies (see Appendix 7). The simulation by the Institute for Fiscal Studies assumed a two per cent nominal interest rate in the long-run (the Institute for Fiscal Studies were asked originally to model the results of lowering the interest rate to CPI).

391. The lower interest rate means that a smaller proportion of the £16 billion issued is ever repaid. This is because higher earning graduates are making fewer interest payments on their loans, which under the present system are helping subsidise the losses made on loans issued to lower-earning graduates.

367 Treasury Select Committee, *Student Loans* (Seventh Report, Session 2017–18, HC 478)
368 Office for National Statistics, 'Public sector finances, UK: March 2018', 24 April 2018: https://www.ons.gov.uk/releases/ukpublicsectorfinancesmar2018 [accessed 30 May 2018]

Cost of restoring maintenance grants

392. Table 18 compares the cost of restoring maintenance grants of £3,500 a year to students with household incomes of less than £25,000, tapered between £25,000 and £45,000, with the cost of supporting students through maintenance loans under the present system (for the 2017/18 cohort).

Table 18: Cost of restoring maintenance grants

	Present system (no maintenance grants)	Proposed system (£3,500 grants per year, tapered between £25,000 and £45,000)
Upfront funding via student loans	£16 billion	£16 billion
Upfront funding via grants (counted in the deficit)	£0.7 billion	£2.4 billion
Value of student loans in 2017 prices which will not be repaid	£8.4 billion	£8.8 billion

Source: IFS, Options for reducing the interest rate on student loans and introducing maintenance grants: https://www.ifs.org.uk/uploads/BN221.pdf [accessed 24 May 2018] and and Institute for Fiscal Studies (see Appendix 7).

393. As maintenance is paid as grants rather than loans, Government spending (which counts towards the deficit) is increased by £1.7 billion. The removal of maintenance loans decreases the total borrowing of students. Those students have a lower level of borrowing on which interest is charged. The Government therefore receives fewer repayments and the value of loans which will not be repaid for the 2017/18 cohort increases by £400 million (in today's prices).

Combined cost of the proposals

394. Finally, the Institute for Fiscal Studies calculated the combined cost of these proposals.

Table 19: Cost of lowering interest rates and restoring maintenance grants

	Present system	Proposed system
Upfront funding via student loans	£16 billion	£16 billion
Upfront funding via grants (counted in the deficit)	£0.7 billion	£2.4 billion
Value of student loans in 2017 prices which will not be repaid	£8.4 billion	£10.8 billion

Source: Institute for Fiscal Studies (see Appendix 7)

395. The combined effect of the proposals on the national accounts is to increase Government spending (and therefore the deficit) by £1.7 billion, and to increase the amount of the 2017/18 loans that will not be repaid by £2.4 billion (in today's prices).

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTERESTS

Members

Baroness Bowles of Berkhamsted
Lord Burns
Lord Darling of Roulanish
Lord Forsyth of Drumlean (Chairman)
Baroness Harding of Winscombe
Lord Kerr of Kinlochard
Baroness Kingsmill
Lord Lamont of Lerwick
Lord Layard
Lord Livermore
Lord Sharkey
Lord Tugendhat
Lord Turnbull

Declaration of interests

Baroness Bowles of Berkhamsted
No relevant interests

Lord Burns
No relevant interests

Lord Darling of Roulanish
No relevant interests

Lord Forsyth of Drumlean (Chairman)
No relevant interests

Baroness Harding of Winscombe
Chair, NHS Improvement

Lord Kerr of Kinlochard
Fellow, and former Chairman, Imperial College London; Trustee and Deputy Chairman of the Carnegie Trust for the Universities of Scotland

Baroness Kingsmill
Member, International Advisory Board, Spanish Business School, IESE

Lord Lamont of Lerwick
Director of the School of Islamic Finance at Bolton University

Lord Layard
Employee of an HE institution (funded by research funds not general university income)

Lord Livermore
No relevant interests

Lord Sharkey
Council Member of UCL; Member of the Remuneration Committee, UCL Council

Lord Tugendhat
Chancellor, University of Bath 1998–2013; Member Advisory Council, Institute of Policy Research, University of Bath, Member of the Council of Imperial College from 2007 to 2011.

Lord Turnbull
No relevant interests

A full list of Members' interests can be found in the Register of Lords' Interests: http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/register-of-lords-interests/

Specialist Advisers

Professor Andrew Westwood, Specialist Adviser

Professor of Government and Vice Dean of Humanities, University of Manchester; Visiting Professor of Further Education and Higher Education, University of Wolverhampton; Member of HEFCE Quality, Accountability and Regulation Strategic Advisory Committee [interest ceased January 2018]; Trustee of National Union of Students; Council Member of Liverpool Institute of Performing Arts; Chair of Advisory Board to LLAKES ESRC Centre, UCL (Learning and Life Chances in Knowledge Economies and Society; Advisory Board member and occasional contributor, WonkHE; Occasional columnist, THE, TES, Guardian Education and Research Fortnight.

Professor Nicholas Barr

No relevant interests

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at https://www.parliament.uk/higher-further-education-vocational-lords-inquiry/ and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with ** gave both oral and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

*	The Rt Hon the Lord Adonis	QQ 1–13
*	Paul Johnson, Director, Institute for Fiscal Studies	QQ 1–13
**	The Rt Hon the Lord Willetts	QQ 1–13
*	Martin Lewis OBE, Executive Chair, MoneySavingExpert.com	QQ 14–21
*	Shakira Martin, President, National Union of Students	QQ 14–21
*	Hannah Morrish, Student Choice and Higher Education Lead, The Student Room	QQ 14–21
*	Dr Gavan Conlon, Partner, London Economics	QQ 22–30
*	Dr Andrew McGettigan, Freelance Writer and Researcher on Higher Education Policy	QQ 22–30
*	Professor Sir Anton Muscatelli, Principal and Vice-Chancellor, University of Glasgow	QQ 31–40
*	Professor Edward Byrne, President and Principal, King's College London	QQ 31–40
*	Dr Simon Marginson, Director of The Centre for Higher Education, University College London	QQ 31–40
*	Professor Madeleine Atkins, Chief Executive, Higher Education Funding Council for England	QQ 41–48
*	Dr Philippa Lloyd, Director General of Higher and Further Education, Department for Education	QQ 41–48
*	James Bowler, Director General, Public Spending, HM Treasury	QQ 49–53
*	Charles Roxburgh, Second Permanent Secretary, HM Treasury	QQ 49–53
*	Sir Anthony Seldon, Vice Chancellor, Buckingham University	QQ 54–62
*	Professor Patrick Bailey, Deputy Vice-Chancellor, London South Bank University	QQ 54–62
*	Pam Tatlow, Chief Executive, MillionPlus	QQ 54–62

*	Professor Mike Thomas, Vice-Chancellor, University of Central Lancashire	QQ 63–69
*	Professor David Latchman CBE, Master, Birkbeck University	QQ 63–69
*	Peter Horrocks CBE, Vice Chancellor, Open University	QQ 63–69
*	Professor Julia Buckingham, Vice-Chancellor and President, Brunel University London	QQ 70–80
*	Professor Graham Virgo QC, Pro-Vice-Chancellor for Education, Cambridge University	QQ 70–80
*	Professor James Stirling CBE, Provost, Imperial College London	QQ 70–80
*	Professor Sir Keith Burnett, Vice Chancellor, Sheffield University	QQ 70–80
**	Lord Baker of Dorking	QQ 81–97
*	Professor Anna Vignoles, Professor of Education, Cambridge University	QQ 81–97
*	Baroness Wolf of Dulwich	QQ 81–97
*	Dr Robert Hancké, Associate Professor, London School of Economics	QQ 98–104
*	Professor Ellen Hazelkorn, Professor Emeritus and Director, Higher Education Policy Unit, Dublin Institute of Technology and Education Policy Consultant, BH Associates	QQ 98–104
*	Nigel Whitehead CBE, Chief Technology Officer, BAE Systems	QQ 105–110
*	Martin Donelan, Regional HR-UK, Rolls-Royce	QQ 105–110
*	Martin Hottass, UK Skills Partner, Siemens	QQ 105–110
*	Matthew Houlihan, Director, Government and Corporate Affairs, Cisco UK and Ireland	QQ 111–119
*	Séamus Nevin, Head of Employment and Skills, Institute of Directors	QQ 111–119
*	Anna Purchas, Head of People, KPMG	QQ 120–125
*	Russ Shaw, Founder, Tech London Advocates	QQ 111–119
*	Giles Derrington, Head of Policy for European Exit, techUK	QQ 120–125
*	Julian Gravatt, Assistant CEO, Association of Colleges	QQ 126–133
*	Richard Atkins CBE, Further Education Commissioner, Department for Education	QQ 126–133
*	Alun Francis, Principal and Chief Executive, Oldham College	QQ 126–133

*	Eileen Milner, Chief Executive and Accounting Officer, Education and Skills Funding Agency	QQ 134–139
*	Peter Mucklow, Director, Intervention and Young People's Funding Group, Education and Skills Funding Agency	QQ 134–139
*	Sue Husband, Director, National Apprenticeship Service	QQ 134–139
**	Professor Alison Fuller, Pro-Director, Research and Development, UCL Institute of Education	QQ 140–145
*	Antony Jenkins, Chair, Institute for Apprenticeships	QQ 140–145
*	Dr Hilary Steedman, Senior Research Fellow, Centre for Economic Performance, London School of Economics	QQ 140–145
*	Stephen Evans, Chief Executive, Learning and Work Institute	QQ 146–153
**	Professor Ewart Keep, Director, Oxford University, Centre on Skills Knowledge and Organisational Performance	QQ 146–153
**	Professor Sir Alan Tuckett, Professor of Education, University of Wolverhampton	QQ 146–153
*	Sam Gyimah MP, Minister of State for Universities, Science, Research and Innovation	QQ 154–176
*	The Rt Hon Anne Milton MP, Minister of State for Apprenticeships and Skills	QQ 154–176

Alphabetical list of all witnesses

	Access to Music	HFV0025
*	The Rt Hon the Lord Adonis (QQ 1–13)	
	Dr Samir Alamad	
	Association of Colleges	HFV0070 HFV0118
	Association of Employment and Learning Providers	HFV0033
	Aston University	HFV0099
*	Professor Madeleine Atkins, Chief Executive, Higher Education Funding Council for England (QQ 41–48)	
*	Richard Atkins CBE, Further Education Commissioner, Department for Education (QQ 126–133)	
*	Professor Patrick Bailey, Deputy Vice-Chancellor, London South Bank University (QQ 54–62)	
**	Lord Baker of Dorking (QQ 81–97)	HFV0094
	Birkbeck, University of London	HFV0018 HFV0093

*	James Bowler, Director General, Public Spending, HM Treasury (QQ 49–53)	
	Bright Blue	HFV0095
	Samuel Brook	HFV0091
*	Professor Julia Buckingham, Vice-Chancellor and President, Brunel University London (QQ 70–80)	
*	Professor Sir Keith Burnett, Vice Chancellor, Sheffield University (QQ 70–80)	
*	Professor Edward Byrne, President and Principal, King's College London (QQ 31–40)	HFV0073
	Professor Claire Callender	HFV0113
	CareersNearHear.com	HFV0016
	Central YMCA	HFV0075
	Chartered Management Institute	HFV0074
	Arnaud Chevalier	HFV0035
	Church of England Education Office	HFV0047
	City & Guilds Group	HFV0027
	City of London Corporation	HFV0024
	Estelle Clarke	HFV0090
	Confederation of British Industry	HFV0089
	Destination for Education	HFV0092
*	Dr Gavan Conlon, Partner, London Economics (QQ 22–30)	
	Council of Deans of Health	HFV0112
	Department for Education	HFV0086 HFV0100 HFV0107 HFV0121 HFV0122
*	Giles Derrington, Head of Policy: Brexit, International and Economics, techUK (QQ 111–119)	
*	Martin Donelan, Regional HR-UK, Rolls-Royce (QQ 105–110)	
	Education for Engineering	HFV0053
	Education Policy Institute	HFV0048
	EEF, the Manufacturers Organisation	HFV0065
	Tarek El Diwany and Badr Al-Hasan	HFV0105
	Employment Related Services Association (ERSA)	HFV0055
	Energy and Utility Skills	HFV0046
	Eurostat	HFV0104

*	Stephen Evans, Chief Executive, Learning and Work Institute (QQ 146–153)	
	Exposure Organisation Limited	HFV0005
	Federation of Awarding Bodies	HFV0034
*	Alun Francis, Principal and Chief Executive, Oldham College (QQ 126–132)	
	Further Education Trust for Leadership (FETL)	HFV0026
**	Professor Alison Fuller, Pro-Director, Research and Development, UCL Institute of Education (QQ 140–145)	
*	Professor Alison Fuller and Lorna Unwin	HFV0061
	Colin Gamble	HFV0002
	Gateshead College	HFV0078
*	Julian Gravatt, Assistant CEO, Association of Colleges (QQ 126–133)	
	Professor Francis Green	HFV0013
	GuildHE	HFV0063
*	Sam Gyimah MP, Minister of State for Universities, Science, Research and Innovation (QQ 154–176)	
*	Dr Robert Hancké, Associate Professor, London School of Economics (QQ 98–104)	
	Dr Liam Hardy	HFV0007
	Dr Linda Hastie	HFV0008
*	Professor Ellen Hazelkorn, Professor Emeritus and Director, Higher Education Policy Unit, Dublin Institute of Technology and Education Policy Consultant, BH Associates (QQ 98–104)	
	Ian Herbert	HFV0056
*	Peter Horrocks CBE, Vice Chancellor, Open University (QQ 63–69)	
*	Martin Hottass, UK Skills Partner, Siemens (QQ 105–110)	
*	Matthew Houlihan, Director, Government and Corporate Affairs, Cisco UK and Ireland (QQ 111–119)	
*	Sue Husband, Director, National Apprenticeship Service (QQ 134–139)	
	Institute for Apprenticeships	HFV0039
	Institutes for Adult Learning	HFV0087
	Intergenerational Foundation	HFV0049

*	Antony Jenkins, Chair, Institute for Apprenticeships (QQ 140–145)	
	Jisc	HFV0072
*	Paul Johnson, Director, Institute for Fiscal Studies (QQ 1–13)	
	Dr Steven Jones	HFV0042
**	Professor Ewart Keep, Director, Oxford University, Centre on Skills Knowledge and Organisational Performance (QQ 146–153)	HFV0102
*	Professor David Latchman CBE, Master, Birkbeck University (QQ 63–69)	
	Learning and Work Institute	HFV0101
*	Martin Lewis OBE, Executive Chair, MoneySavingExpert.com (QQ 14–21)	
	Dr Paul Lewis	HFV0028
*	Dr Philippa Lloyd, Director General of Higher and Further Education, Department for Education (QQ 41–48)	
	London Borough of Tower Hamlets	HFV0037
	London Councils	HFV0022
	London South Bank University	HFV0014
	Manchester Metropolitan University	HFV0068
*	Dr Simon Marginson, Director of The Centre for Higher Education, University College London (QQ 31–40)	
*	Shakira Martin, President, National Union of Students (QQ 14–21)	
*	Dr Andrew McGettigan, Freelance Writer and Researcher on Higher Education Policy (QQ 22–30)	
	Professor Sandra McNally	HFV0067
	Middlesex University	HFV0066
	Bethan Miller	HFV0010
	MillionPlus	HFV0036
*	Eileen Milner, Chief Executive and Accounting Officer, Education and Skills Funding Agency (QQ 134–139)	
*	The Rt Hon Anne Milton MP, Minister of State for Apprenticeships and Skills (QQ 154–176)	
*	Hannah Morrish, Student Choice and Higher Education Lead, The Student Room (QQ 14–21)	
	Movement to Work	HFV0071

*	Peter Mucklow, Director, Intervention and Young People's Funding Group, Education and Skills Funding Agency (QQ 134–139)	
*	Professor Sir Anton Muscatelli, Principal and Vice-Chancellor, University of Glasgow (QQ 31–40)	
	National Education Union	HFV0043
	National Union of Students	HFV0050
	NCFE	HFV0017
*	Séamus Nevin, Head of Employment and Skills, Institute of Directors (QQ 111–119)	
	NHS Employers	HFV0109
	Nottingham Trent University	HFV0079
	OCR	HFV0057
	OECD	HFV0117
	Office for National Statistics	HFV0103
	Ofsted	HFV0052
	Krutik Patel	HFV0058
	Policy Connect	HFV0076
	Post-Crash Economics Society	HFV0081
*	Anna Purchas, Head of People, KPMG (QQ 120–125)	
*	Charles Roxburgh, Second Permanent Secretary, HM Treasury (QQ 49–53)	
	Royal College of Nursing	HFV0110
	Royal Society of Biology	HFV0032
	Tom Schuller, Alan Tuckett and Tom Wilson	HFV0023
*	Sir Anthony Seldon, Vice Chancellor, Buckingham University (QQ 54–62)	
*	Russ Shaw, Founder, Tech London Advocates (QQ 11–119)	
*	Dr Hilary Steedman, Senior Research Fellow, Centre for Economic Performance, London School of Economics (QQ 140–145)	
	Step Up To Serve	HFV0031
*	Professor James Stirling CBE, Provost, Imperial College London (QQ 70–80)	
*	Pam Tatlow, Chief Executive, MillionPlus (QQ 54–62)	
	The British Institute of Facilities Management (BIFM)	HFV0064
	The Open University	HFV0059
	The Russell Group	HFV0041

	The Society for the Environment	HFV0051
	The Sutton Trust	HFV0054
*	Professor Mike Thomas, Vice-Chancellor, University of Central Lancashire (QQ 63–69)	
	Truro and Penwith College	HFV0084
	TUC	HFV0082
**	Professor Sir Alan Tuckett OBE, Professor of Education, University of Wolverhampton (QQ 146–153)	HFV0108
	UCL	HFV0077
	Ulster University	HFV0045
	UNISON	HFV0060 HFV0111
	Universities UK	HFV0029
	University Alliance	HFV0080
	University of Cambridge	HFV0040
	University of Central Lancashire	HFV0038 HFV0098
	University of Derby	HFV0044
	University of Manchester Students' Union	HFV0069
	University of Portsmouth	HFV0085
	University of Surrey Students' Union	HFV0021
*	Professor Anna Vignoles, Professor of Education, Cambridge University (QQ 81–97)	
*	Professor Graham Virgo QC, Pro-Vice-Chancellor for Education, Cambridge University (QQ 70–80)	
	Warwickshire College Group	HFV0097
*	Nigel Whitehead CBE, Chief Technology Officer, BAE Systems (QQ 105–110)	
**	The Rt Hon the Lord Willetts (QQ 1–13)	HFV0088
*	Baroness Wolf of Dulwich (QQ 81–97)	
	Hayley Wood	HFV0009
	Young Enterprise	HFV0083
	Young Women's Trust	HFV0020

APPENDIX 3: CALL FOR EVIDENCE

The Economic Affairs Committee of the House of Lords, chaired by Lord Forsyth, is conducting an inquiry into the economics of higher education, further education and vocational training

Evidence sought

The Committee seeks evidence on the following questions:

- Is the current structure of post-school education and training, and the way it is financed, appropriate for the modern British economy?
- If not, what changes are required to develop a system that meets the needs of enterprise and the labour market whilst providing value for students and the Government?

The Committee invites interested individuals and organisations to submit evidence to this inquiry. The Committee particularly welcomes evidence from students and recent graduates, apprentices, and businesses.

Further information

1. The background to this inquiry is set out below. This summarises the areas the Committee may consider. It is not intended to be an exclusive list and submissions can cover matters not listed below. Submissions can focus on a single type of training (higher education, further education, or vocational training) or cover the full system of post-school education.

2. The deadline for written evidence is 21 September 2017. The written submissions will guide the Committee's deliberations in oral evidence sessions and inform the Committee's final conclusions and recommendations.

3. Public hearings will be held in the autumn. The Committee aims to report to the House, with recommendations, in 2018. The report will receive a response from the Government, and may be debated in the House.

4. Guidance on submissions is set out below. For further information please contact the Committee staff: economicaffairs@parliament.uk.

Background to the inquiry

Since 1999 successive governments have been committed to widening participation in higher education. The percentage of young adults (ages 17 to 30) estimated to participate in higher education has increased from 42 per cent in 2006/07 to 48 per cent in 2014/15.

Excluding universities, there was a 26 per cent fall in adult skills and education between 2011/12 and 2015/16. There has however been substantial growth in the number of apprenticeships over the same period and the Government pledged to create three million apprenticeships by 2020.

It has been suggested that one reason for the UK's lower productivity relative to similar countries is a lower emphasis on technical and vocational education: the Office for National Statistics has estimated that France, Germany and the USA are each about a third more productive than the UK; the UK ranks 16th out of 20 OECD countries for the proportion of people with technical qualifications, with particular skills shortages in STEM subjects.

University funding and incentives: Average university funding has increased by 25 per cent since the 2012 reforms. This has not been evenly distributed: funding for the most expensive courses increased by 6 per cent between 2011 and 2017 (from £18,000 to £19,000 per student) but by 47 per cent for the cheapest courses (£6,000 to £9,000 per student).

Student debt: Around 96 per cent of upfront Government support for universities is now in the form of loans. The average debt on graduation for the 2017/18 cohort of students will be just over £50,000. Over three quarters will be unable to repay the full debt within the 30 year time limit. The Institute for Fiscal Studies have estimated that the upfront cost for the 2017/18 cohort is £17 billion with £5.9 billion of that expected to not be repaid.

Public accounts: For 2016/17, the total amount of loans outstanding was £89 billion, a £13 billion increase on the previous financial year. This is projected to increase to £500 billion in the mid2030s and £1 trillion (£1,000 billion) in the late 2040s. To reflect the fact that a substantial proportion of student loans will not be repaid, an annual impairment provision, (the 'Resource Accounting and Budgeting' charge) is made in the Department for Education's accounts. Recent changes to the financial discount reporting rate reduced the impairment charge and resulted in the existing stock of loans improving in fair value by £6 billion in the 2015/16 accounts.

Employment prospects: The Chartered Institute of Professional Development estimated in 2015 that almost 60 per cent of recent graduates in the UK are working in non-graduate jobs. The equivalent figures for Germany, the Netherlands, Slovenia and Switzerland are 10 per cent or less. The CIPD said it was "noteworthy" that these countries had strong histories of vocational education.

Apprenticeships: From April 2017, employers with a pay bill of more than £3 million will pay a levy to fund apprenticeships. The levy is expected to raise almost £3 billion a year.

The Enterprise Act 2016 established the Institute for Apprenticeships with a remit is to approve apprenticeship standards. The standards show what an apprentice will be doing and the skills required of them. The National Audit Office has been critical of the Department for Education for not setting out how it will use the increase in apprentices to deliver improvements in productivity.

Technical 'routes': In July 2016 the Government published a 'Post-16 Skills Plan'. One of the main initiatives was the creation of 15 'routes', encompassing college-based and employment-based learning, that will allow people to target particular careers in skilled occupations.

'T-levels': In the March 2017 Budget the Chancellor set out plans to create 'T-levels' which will allow 16 to 19 year-olds to study for technical qualifications in 15 sectors. Students in further education or technical college will also be eligible for maintenance loans.

APPENDIX 4: SYSTEM OF POST SCHOOL EDUCATION FINANCE IN SCOTLAND AND WALES

Education is a devolved area of policy, meaning that there are distinct differences between the HE and FE systems in England, Scotland and Wales. However, there is some overlap in the regulation of Higher Education across the UK, Scotland and Wales. Scotland and Wales work on a UK wide basis in the TEF, UCAS, QAA, HEA, HESA and the various UK Research Councils. It is currently unclear how the new Office for Students will work with the devolved administrations.[369]

Scotland

Further Education

The FE budget is fully devolved and funded by the Scottish Government through the Scottish Further Education Funding Council. Scotland has 46 colleges offering mainly vocational courses (including apprenticeships), Levels 3-8, Scottish Highers, Higher National Certificates (HNC) and Higher National Diplomas (HND). Like in England, there is some overlap in provision with HE, as a significant number of HE courses are taught in FE colleges. HM Inspectorate of Education is responsible for the inspection of FE and is an Executive Agency of the Scottish Government (similar to Ofsted). Scottish FE students can get a non-repayable bursary of up to £97.33 a week (means tested) as well as the Education Maintenance Allowance.[370]

Higher Education

Scotland has 19 universities, which are funded by the Scottish Government through the Scottish Higher Education Funding Council.[371]

Scottish domiciled students studying in Scotland do not pay tuition fees. Students apply to the Student Awards Agency who pay a tuition fee of £1820 directly to the university. Tuition fees are currently linked to inflation. Scottish domiciled students studying elsewhere in the UK can apply for a student loan (non-income assessed) to pay for all or part of the tuition fees.

The majority of funding for Scottish universities is made up of the Teaching Grant. Universities decide how to spend their teaching grant, of which the total is calculated based on a formula comprising the number of students and the costs attached to different subjects.[372] Additionally universities receive public funding for research, of which the largest is the Main Quality Research Grant distributed based upon the outcomes of the peer assessed Research Assessment Exercise. There are a number of smaller funds also available.

369 The Higher Education and Research Act 2017 empowers the OfS to work with the devolved administrations and their funding bodies. Whilst, the OfS has reported that they, "will seek active and constructive engagement" with the devolved bodies, it is currently unclear how this will be organised. The OfS has stated that for a higher education provider to remain on their register, the institution must comply with various conditions, including participating in the TEF. However, in the devolved parts of the UK, participation in the TEF will require the consent of the devolved government.

370 Scottish Government, *Guide to learner funding 2017 to 2018* (July 2017) p 11: https://beta.gov.scot/policies/universities/student-financial-support/#support-for-further-education-students [accessed 6 April 2018]

371 With the exception of the Scottish Agricultural College which is funded by the Agriculture Department of the Scottish Government.

372 Universities Scotland, *Briefing: How is higher education funded?:* https://www.universities-scotland.ac.uk/uploads/briefings/how%20is%20higher%20education%20funded.pdf [accessed 24 May 2018]

Prospective Scottish domiciled students that receive an offer can apply for a maintenance bursary or loan, which is means tested. The maximum amount of bursary available is £1,875 with a maximum loan amount of £5,750.[373] Thus the maximum total amount available through a bursary and loan is £7,625 compared to £8,430 under the English system. The amount of maintenance loan available is the same whether a student studies in Scotland or elsewhere in the UK. The amount of bursary available for students studying elsewhere in the UK is slightly higher, worth £2,150.

In Scotland there is an unofficial cap on the number of Scottish student places. As universities receive a teaching grant calculated on the basis of the assumed number of places being provided to eligible students, any additional places will only be funded via the tuition fee from the Scottish Awards Agency.[374] However, Audit Scotland (responsible for auditing the devolved parliament and associated public bodies) has found that it was getting harder for Scottish domiciled students to secure a place at university due to number of applications increasing faster than the number of places, which is capped by the government to control the cost to the taxpayer.[375] The report said that the fee of £6,999 received for each Scottish and EU-domiciled student does not reflect the actual cost of teaching, resulting in Scottish universities becoming increasingly reliant on students from the rest of the UK and from outside the EU who pay upwards of £9,250 in tuition fees.

Wales

Further Education

FE has been devolved and funded by the Welsh Government since 2006. Wales provides an Education Maintenance Allowance of £30 a week to FE students, which is means tested. The post-16 (excluding HE) budget allocation for 2017/18 was £407.686 million.[376] An extra £2.5m was allocated for 2018/19 and £4.2m for 2019/20 in support of programmes and interventions aimed at improving skills.[377]

Welsh FE institutions offer the same range of qualifications offered in England as well as the Welsh Baccalaureate. Like in Scotland and England, there is some overlap in provision with HE, as a significant number of HE courses are taught in FE colleges. Inspections of providers of FE, work-based learning and adult and community education is carried out by HM inspectors from Estyn, an independent body funded by the Welsh Government (similar to Ofsted).

Higher Education

The Higher Education system in Wales comprises of nine universities including the Open University, which is funded through the Higher Education Funding Council for Wales (HEFCW). The Council also funds HE courses at FE

373 Student Awards Agency Scotland, 'Funding Available': http://www.saas.gov.uk/full_time/ug/young/funding_available.htm [accessed 27 March 2018]

374 Scottish Parliament Information Centre, *Higher Education Institutions: Subject Profile* (September 2016) p 10: http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_16-71_Higher_Education_Institutions-_Subject_Profile.pdf [accessed 6 April 2018]

375 Audit Scotland, *Audit of higher education in Scottish universities* (July 2016): http://www.audit-scotland.gov.uk/report/audit-of-higher-education-in-scottish-universities [accessed 14 May 2018]

376 Welsh Government, *Main expenditure group (MEG) allocations* (20 December 2016) p 11: http://gov.wales/docs/caecd/publications/161220-action-en.pdf [accessed 27 March 2018]

377 Welsh Government, *Final Budget 2018–2019: A new budget for Wales* (December 2016) p 8: http://gov.wales/docs/caecd/publications/171219-note-en.pdf [accessed 27 March 2018]

institutions. For the 2017/18 academic year HEFCW's budget was £99.3m.[378] The Cabinet Secretary for Education in Wales announced an additional £10m of revenue funding for HEFCW to deal with issues arising from tuition fee rises (£5m for 2018/19 and £5m for 2019/20).[379]

Welsh domiciled students studying in Wales can be charged up to £9,000 a year in tuition fees and receive tuition fee loans on the same terms as English students. Welsh domiciled students studying elsewhere in the UK can receive tuition fee loans up to £9,250 to cover the cost of tuition at those institutions.

Whilst tuition fee arrangements are identical for Welsh and English students, the system for maintenance support differs. From 2018/19 all full-time undergraduate Welsh students living away from home but studying at a Welsh university will be entitled to £9,000 towards their maintenance costs (or £7,650 for students living at home). This is made up of a means tested grant which is topped up with a loan. Welsh students studying elsewhere in the UK receive the equivalent support (or £11,250 if they study in London).[380] The equivalent maintenance support is provided to part-time and postgraduate students. Part-time undergraduates will receive support for maintenance (pro-rata).

378 Higher Education Funding Council for Wales, *HEFCW's Funding Allocations 2017/18* (9 June 2017) p 1: https://www.hefcw.ac.uk/documents/publications/circulars/circulars_2017/W17%2011HE%20HEFCW%20Funding%20Allocations%202017_18.pdf [accessed 27 March 2018]

379 Welsh Government, *Final Budget 2018–2019: A new budget for Wales* (December 2016) p 6: http://gov.wales/docs/caecd/publications/171219-note-en.pdf [accessed 27 March 2018]

380 Welsh Government, '*Welsh students applying for university will benefit from most generous student support package in the UK*': http://gov.wales/newsroom/educationandskills/2018/welsh-students-applying-for-university-will-benefit-from-most-generous-student-support-package/?lang=en [accessed 27 March 2018]

APPENDIX 5: INFORMAL EVIDENCE SESSION AND VISIT NOTE

During the inquiry, the Committee held a series of informal evidence sessions in London and Birmingham. The purpose of these sessions was to ensure that we heard the broadest possible range of views and in particular, heard from students and apprentices. We are grateful to all who attended the events and participated in the discussions.

Visit to Birmingham, 14 December 2017

On 14 December 2017 six members of the Committee visited Birmingham. This visit included informal evidence sessions hosted by Aston University with further education college students studying at Birmingham Metropolitan College; pupils from Aston University Academy of Engineering, a university technical college (UTC); and staff from Aston University and the Aston University Academy of Engineering. The visit also included lunch and a roundtable discussion with local businesses hosted by the Birmingham Chamber of Commerce, and a presentation from staff and tour of Warwick Trident College.

Members who attended the visit were: Lord Forsyth (Chairman); Lord Burns; Baroness Bowles of Berkhamsted; Lord Kerr of Kinlochard; Lord Sharkey; and Lord Turnbull.

Students from Birmingham Metropolitan College

Birmingham Metropolitan College is an FE college with approximately 20,000 students across four campuses. The college offers nearly 300 different courses. It has significant relationships with large local employers such as Samsung Electronics, Caterpillar and The Baxi Group.

The College performs well in media and graphics, business and professional services, and vocational medical sciences. It also specialises in the delivery of high level technology and advanced manufacturing training. In 2013 the College won an award for apprenticeship innovation for their BTEC apprenticeship frameworks for 16 to19 year olds and adult learners.

16 students from Birmingham Metropolitan College attended. The students were split into three groups. Two Committee members led a discussion with each group. Notes were taken by Committee staff.

Choosing what and where to study

The students gave a variety of reasons for choosing their current courses, including: it leads to a university degree and "after university you are guaranteed a job" and to keep options open and see what "I might want to explore in the future".

Many students had chosen courses that would lead to a specific occupation—such as nursing, architecture, or accountancy—after further study. Some students considered their focus was atypical, commenting "most people our age don't know what they want to do. They're just messing about".

On one table, all the students came to the college because they couldn't do the courses they wanted to at their school sixth forms. On other tables the choice was influenced by college outreach and open days. All the students had only looked at local colleges.

All of the students were being financially supported by their parents during college. Some were aware of bursaries available to help with living and travel costs. There were some concerns about current funding arrangements, in particular the removal of the education maintenance allowance which one student felt left them dependent on family handouts.

Future plans

The students' future plans included to seek an apprenticeships, including with large local employers such as HS2 and Jaguar Land Rover. One student wanted to do a degree apprenticeship as that was "the next logical step" as you get "a foundation degree and get paid and have a guaranteed job at the end of it."

Many students were concerned about the cost of student loans. There was a general understanding that they would not need to pay anything back until earning £25,000. The students admitted that they did not fully understand how student loans worked. There was a fear of 'debt' 'hanging over' a person from university. One student asked: "are they just making it more expensive so that less people go to university?"

Maintenance support was a particular concern: "I'm not worried about the tuition loan system, I'm worried about maintenance. I don't care if it's a loan or a grant, university students struggle to live."

The students suggested a number of changes to the current system:

- "All the courses and degrees should be for free" this would mean that "people would then apply who don't at the moment."
- "I would change the paying back process. It needs to be more than £25,000, until people are more comfortable so that they can afford a mortgage."
- "You could change the interest rate, I know someone who borrowed roughly £27,000 but will end up paying back £60,000."
- "If you're paying for the course at university, maintenance should be a grant."

Students from Aston University Academy of Engineering

The University Technical College opened in September 2012 in Birmingham and is sponsored by Aston University and the Science, Technology, Engineering and Mathematics Network. Its business partners include E.ON, Goodrich Corporation, National Grid plc, and the Royal Air Force. The UTC's catchment area covers the Birmingham metropolitan borough for 14 to19 year olds.

The first Ofsted inspection of the UTC in 2014 rated it as 'good' noting that "lessons are strongly linked to the types of activity students are likely to encounter in the workplace, including substantial use of computer based technology".

15 pupils the UTC attended. They were split into three groups. Two Committee members led a discussion with each group on the topics below. Notes were taken by Committee staff.

Why and how did you choose to go to the UTC?

Reflecting the UTC's specialism, most students were studying engineering or a related discipline. Their reasons for choosing the UTC included:

- the different style of learning, "you get to do theory as well as practical here which you don't get anywhere else."
- The opportunities to do engineering and the work experience opportunities.
- "I want to do engineering and this is my best start. A family friend advised me and told me about [the UTC] and its connections. Coming to the open day gave me the information I needed to get into the school."

One of the students commented that the UTCs are "not advertised as well as they should be. I only found out through one person who came and visited my school." Other's found out through family members: "my Mum pushed me to go to [here] after she'd found out through word of mouth about the opportunities" and "my dad found out and told me about [the UTC]. I went on the internet and found out whatever I [could]"

What are you going to do next?

The students noted that in all their cases there would need to be a further stage before full time employment: "We wouldn't have enough qualifications or experience for a financially stable job–a lot of the jobs we want require a qualification." Their plans included:

- An engineering apprenticeship "mainly because of costs … . Engineering has the most apprenticeships–you get double pay compared to other apprenticeships."
- To go to a specific university to do accounting and finance because "it seems secure [and] … I will do paid placements at my chosen university".
- To study computer science as "this is [in] high demand nowadays [so there is a] low risk of not finding a job afterwards."
- To become an air traffic controller as "I will paid a wage rather than taking a loan".

Two students commented that their "grades were good enough" for university and implied that apprenticeships would be open to those with lower grades.

One student cited fees as the "main reason for thinking about apprenticeships first …Apprenticeships give you job and degree. [You] can come out degree and not get a job as [you] don't have skills for a specific job." But another student was "not worried about tuition fees". He noted that "they only take money from your account if you earn above 25k and they only take a percentage of that … That is very helpful when you are inexperienced [and] you may not earn that much money." Another student thought that "tuition fees are frightening … you can step into an area and not know you will succeed. Most people fear failure and are not wiling to take the risk. Students [would] rather go into a field there is a high demand for."

One student felt that the apprenticeship route was not available for all careers and "sometimes you have to pay fees if you want the qualification. If you want the qualification you don't have another choice." For this reason "fees [are] not as fair as they could be." One noted that in his field [electrical engineering] "only the big companies" offered degree apprenticeships "mainly because of the cost involved in the degree." Another student commented that partnerships between big and small companies could help this issue.

University and college staff

The Committee held an informal evidence session with: Helen Higson, Provost and Deputy Vice Chancellor at Aston University and Ruth Sorsby, Assistant Principal—Curriculum and Assessment, University of Aston Engineering Academy (UTC). A note was taken by Committee staff. Topics discussed included

Information provided to students

The quality of information is poor. For example "on degree apprenticeships, we know there is nothing out there. … We are very worried young people don't know about degree apprenticeships." Advice needs to be impartial and start from an early age "[Aston] do a lot of work, thinking about pathways."

Co-operation with schools had improved: "when we first set the UTC up, schools were sceptical, and often sent us their most challenging students." Now "the schools are more open to providing students with better choices. It is not perfect, still work to do but we have come a long way."

Degree apprentices

Employers are at the centre of degree apprenticeships: "Employers design the programmes, … We take what the employer needs, and then teach. It's a nightmare to organise, which is why there is not a great pipeline of apprenticeships. But it is a very well designed product. You can't just design degrees because you want to design a degree in something". The most apprenticeships are available in engineering which is "ahead of the game". But other areas, such as the health sector, are catching up.

In terms of funding, the student doesn't pay fees and the company funds them through university. The university does not currently make money on apprenticeships and they had "decided it would be a loss leader for us initially."

The operation of apprenticeships varied between companies. "The first two cohorts we have had [of degree apprenticeships], have to spend at least 20 per cent of their time away from the company. Some of the apprentices had seven promotions within the company. They come out with no debt, they get pay rises … that runs independently of how they do on the degree apprenticeship, they are just an ordinary employee." This poses challenges for the university who "we can't treat them like campus students… We have to look at them in a completely different way".

The dropout rate amongst degree apprenticeships is much lower than traditional degrees. At Aston it was 5 per cent last year.

Qualifications requirements

Aston stated that they were "particularly keen to get people with non-traditional qualifications to come. We are piloting it through the degree apprenticeship. I

think too many schools are stuck with traditional A-Levels. For our first [degree apprenticeship] cohort, 70 per cent got 2.1 degrees and it was pretty much the same with the second cohort."

There is an issue at the UTC that "some students are doing UTech diplomas in science but the universities want A-Level science. Why do they need A-Level as well? We need universities to understand the course content."

Student loans

Aston University has seen changes in student behaviour "since the change in fees to £9,000, students are thinking more about what they are doing, sticking to it more than before." At Aston "40 per cent of students are from the wider West Midlands area. The proportion living at home has grown in recent years. Students on campus achieve better results than those at home. Some scholarships have been targeted at people so that they can live on campus."

Change to the current system:

- Improve maintenance support for students while they are at university.
- Speed up the approval of apprenticeship standards by the Institute of Apprenticeships.
- Bring back the education maintenance allowance for FE students.
- Ensure that T levels make the situation better and not worse and are not seen as inferior to A-Levels.

Round table discussion with local businesses

This event was arranged and hosted by the Greater Birmingham Chambers of Commerce and was attended by 15 representatives from local businesses:

- Birmingham City University
- Birmingham Metropolitan College
- BPS Birmingham (Business and Professional Services)
- BSA Machine Tools
- Curium Solutions (management consultancy)
- Effigy Blinds
- Innovation Birmingham (digital and tech campus)
- KPMG
- Midland Heart (housing)
- Millennium Point
- Mills & Reeve (law firm)
- National College for High
- Speed Rail

- South & City College
- Birmingham & Bournville College
- Squire Patton Boggs (law firm)

The following issues were raised during the discussion:

Technical and further education system

Many participants were critical of the current system, commenting that "vocational skills are a disaster" and had resulted in "millions of hairdressers and no engineers". The complexity of the current system and frequent changes were a source of frustration: "[there has been] more change in the last 10 years than in the previous 90 years … Employers and managers are just confused". Another simply asked "what the hell is a T-level?"

Value of a university education

Employers felt that the current tertiary education system did not meet their needs: "There's insufficient high quality technical people, these things aren't 'sexy' to do at university, and so we're really struggle to get those people." Another business said, "there's an oversupply of history graduates and an under supply of 'geeks'."

This was also a problem for graduates: "We're having to employ massive numbers of humanities graduates to do customer service jobs because they've got nowhere else to go. But there's no incentive for them to stay in that job for any long period of time so we get a massive turnover of staff in that area. They're normally very recent graduates in their first or second job."

Graduates often the lacked skills necessary for the modern workplace "We need … practical skills. People don't train in that, employers and universities are guilty of that failure." Another business pointed out that "Dentists have £1,000s of debt when they qualify, but not a single thing they've learnt is about running a business. There needs to be more integration into the technical side, real world experience"

One accountancy business compared graduate and non-graduate employees: [people who] "work for me … come from school at 18 and are trained to be an accountant. I've also had graduates who have come in and are training. If I compare them both at 25 they are so different. [Those who started at]18 are full qualified and much more mature and commercial compared to graduates who have had three years of fun and are programmed to having six weeks off in the summer."

Parity of funding

It was suggested that the Government should put the FE sector and technical sector "on a par with the academic sector in terms of funding." The businesses pointed out that students pay £9,000 p.a. FE colleges get less that £4,000 p.a. to provide "something that may be more complicated".

There was general agreement that FE has been substantially underfunded. "FE provides so much glue for those who didn't know what they wanted to do, mopping up those who weren't on the traditional academic route." o One of Birmingham FE college has the same number of students as Birmingham University, "but a fraction of the funding".

Careers advice

Participants thought that schools should do more to promote non-degree options, but acknowledged that businesses also have a role in this: "Students at college would all say the options available to them are so complicated. The issue is schools don't talk about anything other than the standard academic route. We don't market other options well at all. We need to do much more in breaking down those barriers. When you do get students in front of you talking about things like apprentices, about working from day one, they're so pleasantly shocked. It's phenomenal."

Some noted that JLR had put in a "huge" amount of "effort and resource to build [a] reputation with schools", but that was not a viable route for many smaller companies.

Equity in careers information was required. "University is seen to be the place to go and there is not the same amount of information about apprentices and skills training."

Apprenticeships

Many attendees were dissatisfied with the apprenticeship levy and felt it had failed: "The public sector is the biggest contributor to the levy in Birmingham. If the incentive was to encourage private sector apprentices, it has failed."

Specific problems included:

- Not being able to access levy funds: "We haven't been able to draw the money down to use it, we've looked into giving it to someone else to spend e.g. a local company but we can't even do that." SME's were particularly badly affected: "I think smaller businesses are worse off than we were previously."

- Delays to apprenticeship standards: It was noted that the apprenticeship standard should improve what employers are able to offer. But "an awful lot are held up" by the Institute of Apprenticeships.

There was a discussion about the concern that the levy money was being used on existing employees. One business thought that "larger firms are using levy to work out how to fund training they were already going to offer."

One business pointed out that requiring firms to spend levy money on new employees would "cause havoc" especially in big companies. They "will not be able to employ that many new people each year. I can't see how companies can do that."

Another business felt that the attention should be on "reskilling and upskilling" and that companies were focused on "worries about today's skills and not tomorrow's skills". They needed to "develop tomorrow's skills" which meant "upskilling" existing employees "as well as new employees." To this end "The levy should be "reframed as a training levy". This could also help the UK invest more in skills.

One table had a discussion of vocational training and digital skills. It was noted that 60 per cent of businesses in the West Midlands do not have a website. Another participant stated that "a lot of companies are missing a trick and don't use social media" … "if you just work on the old system of brochures and phone calls [you] don't reach the people you need."

An example was given of a digital lab where apprentices work with larger companies on a project and then provided free help to start ups. In one recent example a 16-year-old apprentice helped a local grime DJ to design an app to connect musicians, producers and DJs.

Warwickshire Trident College / JLR training academy

Jaguar Land Rover is the UK's largest automotive apprenticeship provider. Jaguar Land Rover offers Advanced, Higher and Degree level apprenticeships. Jaguar Land Rover have six apprenticeships facilities across the UK including at Warwick Trident College.

Warwick Trident College is part of the Warwickshire College Group. The group manages with a faculty of around 1,000 staff for approximately 17,000 students. The group offers more than 1,000 courses over 20 areas of discipline. Warwick Trident College's current building opened in 2016 and offers facilities to train students in manufacturing, mechanical, electrical, electronic, automotive and product creation sectors. The College is a partner in the Jaguar Land Rover Academy alongside University of Warwick and EEF.

Angela Lopes, CEO Warwickshire College Group; and Peter Husband Deputy Vice Principal, Warwickshire Trident gave a presentation about the college followed by a tour of the college of facilities.

Informal evidence from students .

On 21 November the Committee held an informal discussion with 40 students. The students were selected from a range of universities across the country and a variety of courses. Students studying part-time and mature students were also represented.

The students were split into tables and each group held discussion with representatives of the Committee. A set of questions drawn up by the Committee were used to provide an aid to discussion. An anonymised note was taken by a member of staff at each table. A summary of the topics discussed is set out below.

Post school options: why did you choose to go to university?

Reasons given by students included:

- "I went to a school where everyone went to University. When you are in that environment it just becomes the expected next step. No other options you wanted to explore were on offer"
- "I went to a school where if you signalled you wanted to go to college instead of 6th form you got less focus from the teachers. In 6th form if you signalled you didn't want to go to Uni you again got less attention."
- "Everything was about going to university. [there was a] taboo and stigma attached to things like apprenticeships."

One student knew apprenticeship was an option but no their school gave them no further information and it would have "taken a lot of effort to find out about." Several participants stated that the quality of career advisors in school is "really poor."

Choice of university

An international student stated that prestige was important, "studying in London looks better than somewhere like Hull. London gives you exposure to different contacts and opportunities."

One student stated they looked at the National Student Survey, but they didn't understand a lot of the questions and it was not accessible to a lot of students. Several students stated that they made their final choice based on their experience at university open days/events. There was mixed reaction to league tables. Some thought they were "worthless". Others looked at specific metrics, such as the student satisfaction scores".

Student loan system

In general the students were critical of the current arrangements:

- "The student loan system is an unsustainable model, I don't like the idea of just saying oh it's fine you won't have to pay it back. If no one is going to pay it back, what's the point?"
- "We will pay tax when we work anyway. With the interest on top it seems like we are paying back into the system doubly"
- "Students don't know where their money goes, what the institution uses that money for or what HEFCE gives them money for. There's no accountability or reassurance that the money is being spent on the student. The perception is that you're spending £27,000 for a few lectures."

Many found the loan and repayment system difficult to understand: "You just get a letter saying how much you're getting and then when you leave you get a letter saying how much you owe and that's it, it inevitably just gets put away in a folder."

One student had looked at the Student Loan Company website before coming to the session and found it "so vague" despite working in finance she found it hard to "nail down" what interest rate applied.

Several students commented that the total debt that would be incurred across a degree was not stated clearly: "When you take a loan for a car, people spell out how much cost you will incur. This doesn't happen for students." And "At no point do the student loan company tell you how much you will have to give back."

Changes to the loan system

Suggested changes included

- Nationalise the universities and stop them being run for profit. We would then get back "control" of the universities.
- Abolish all interest rates on student loans.
- Make the system so it is more "proportional" to graduate wages. If wages are increasing, then increase the fees.
- Forgive loans to students who do three years of 'public service' (e.g. working as a teacher or nurse) after university

- The Government should not be allowed to change loan terms–students can start off paying one thing and then end up paying another and this is unreasonable.
- Add international students to the system.
- Run degrees across two years rather than three

Maintenance loans

The loans do not cover the cost of living: One student [studying in London] had £50 left each week after paying rent. She knew people whose loan doesn't cover accommodation costs. Another commented [loans are] "currently are not sufficient to cover groceries, housing and people are suffering to get through university and then get jobs that did not require a degree."

It was noted that students in London get additional financial support but other cities are just as expensive but are not getting the same amount of loan as those in London. Means testing means students from less wealthy backgrounds can take out bigger maintenance loan but it essentially means that they will have to pay back more.

Prospects after university

Many students felt that a degree was necessary, but not sufficient for a job:

- "It feels like everyone's got a degree at the moment so you need something else to set you apart."
- "I know a lot of students who have graduated and thought, why the hell have I done that what was the point?"
- "I have a degree I can show an employer" but this on its own would not be enough and internships and possibly a masters degree might also be required.
- "We need more training other than our degrees. I feel like after Uni I'll have to take a few internships before I get into a job."

Informal evidence from apprentices, 20 February 2018

On 20 February, five Committee members[381] held an informal evidence session with apprentices. The apprentices came from five companies (John Lewis, KPMG, Pret a Manger, Rolls Royce and BAE) and two training providers (the Association of Accounting Technicians and the Advance Manufacturing and Research Centre).

The participants were placed into four groups and each group held discussion with representatives of the Committee. A set of questions drawn up by the Committee were used to provide an aid to discussion. An anonymised note was taken by a member of staff at each table. A summary of the topics discussed is set out below.

Experience of finding and choosing an apprenticeship

The participant's reasons for doing an apprenticeship varied. Some knew that they did not want to go to university. This reason was often associated with the

381 Lord Burns, Lord Forsyth of Drumlean (Chairman), Baroness Harding of Winscombe, Lord Layard and Lord Turnbull.

level of debt they would incur. Others had secured places at university. One person changed 'at the last minute' to an apprenticeship due to a family member who had been an apprentice suggesting this route. One participant had done a year at university but dropped out and then applied for and secured a degree apprenticeship. One student said that "I went to University because I never heard about apprenticeships." …" I had to leave University because I couldn't cover my rent with my student loan and my parents had to support with the costs"

Those doing degree apprenticeships actively chose to do an apprenticeship over university (one participant had the grades to study at a Russell Group university but chose a degree apprenticeship)

Some participants 'fell into' an apprenticeship: One participant deferred her university place, worked for a year, and then decided to stay and do an apprenticeship at the company. Another did not get the grades for university and so 'by accident' chose to do an apprenticeship.

Careers advice

The information available from schools and colleges on apprenticeships was generally considered to be poor, in particular compared to support and information about university.

The general feeling was that "school pretty much says you have to go to university or nothing." "Schools pushing university means that students think apprenticeships are rubbish".

Some resented the significant time and support allocated to UCAS. One participant was told he had to do an application despite having secured a prestigious apprenticeship. Another said "My school allocated time aside from lessons to prepare for UCAS, but I didn't want to do that, so was just sat there".

Some found out about apprenticeships through presentations by companies at their school. Some participants thought that whilst their schools were "open to the idea" of apprenticeships they "don't know how to approach it." A number of apprentices had returned to their schools to give presentations about their experience and tell others about what is available.

Those who had attended FE colleges (rather than school sixth forms) felt they were given more information and support. One noted that "when I went to college my tutor had come from industry so he was really clued up"

Due to the lack of information from school many found out about apprenticeships through their own efforts. They used websites such as Not Going to Uni, Rate My Apprenticeship, or The Big Choice. One apprentice commented that the National Apprenticeship Service website was "not that helpful" and made it hard to search for apprenticeships.

The apprentices felt that perceptions about apprenticeships were changing. One apprentice commented that "my parents were very against me doing an apprenticeship–as everyone goes to university–at the end of A-Levels I showed them it was a better route […] so they let me try it out. I got in quickly now they are very proud of me".

Families were also impressed by the additional opportunities offered by apprenticeships. One apprentice noted that "All extra things make them even

happier" when he told his mother he was coming to participate in this event she "couldn't have been more proud".

Views on your apprenticeship so far

The precise structure of the apprenticeships varied between apprentices (even those within the same company, but on different courses). Some did one day a week in college, others had blocks of time at university or college. Training was generally provided by an external provider (such as a local university or FE college or one of the large national providers). The quality of educational provision was variable: some had found it excellent. One set of apprentices said that at certain levels the training offered was "awful" and that the company was aware of their concerns.

One apprentice felt that geography played a part: he pointed out that some apprentices have the grades for Russell Group universities, but degree apprenticeship provision is from the university local to the firm. He felt in these circumstances "*apprentices' expectations are not always met by the local universities.*"

Funding and living costs

The majority of apprentices lived at home which reduced their living costs. For those living away from home money was tight. One apprentice stated that: [The apprenticeship itself] was not costing me any money. [But] because I've had to move away from home [I need to] pay for everything unsupported. If he had gone to university "I'd have had a maintenance loan".

There were advantages of moving away from home. One apprentice felt that "I've grown up a lot more than my friends [who went to university] have. I'm getting a mortgage soon. They haven't grown up as much."

Whilst money was a concern, some preferred to take a long-term approach, pointing out that "by the time I finish my starting salary will be almost as much as [students] are in debt."

In terms of the social aspects, those at larger companies considered that these were provided. For example there were social clubs (sports and music) and social events. One apprentice said his company had an "apprentice and graduate association which organises all the mad things you get with uni."

Long term career prospects

Most apprentices felt that on completion of their course they would be on at least an equal footing with graduates. They pointed out that they would have "more experience in the company" and have "three years worth of networking". One apprentice stated: "A qualification is nothing compared to experience you get on the job. I've learnt more in a year on my placement than I have in all my education."

One apprentice indicated that she had worked on projects with graduates and been given more responsibility based on her experience. Some reported the difficulties that their friends who had gone to university had: "Many of my [graduate] friends can't get jobs. Now they're trying to find internships and even apprenticeships to get foot in the door." In the services sector the qualifications achieved were seen as the key: "once you have the ACA [accounting qualification] the world is your oyster, you can do anything".

What changes would you make to the current system?

Suggested changes suggested included:

- Improving the information available:
  - "Start younger" and give advice pre GCSE.
  - Make sure that advice on options is impartial.
  - "Re-educate" teachers: "most will have gone to uni and done a degree" so that they are aware that doing a degree is not the only option.
  - Make apprenticeships easier to find–in particular at small companies.
  - Make sure that schools promote apprentices and not just university applications/UCAS. Taster sessions from companies were seen as very useful.
- Funding:
  - Make maintenance loans available to apprentices so people can "*afford to move away from home*". These need not be large sums, just enough for a deposit on accommodation.
  - Some companies pay apprentices less than non-apprentices for doing the same job. This was seen as "*unfortunate*".

Roundtable with medium sized businesses, 6 March 2018

On 6 March 2018 the Committee held an informal evidence session with medium sized businesses. The event was organised in conjunction with the London Chamber of Commerce. The attendees were firms who are large enough to pay the apprenticeship levy, but not in a position to operate large scale inhouse training programmes.

The event was attended by ten businesses and five member of the Committee.[382] The businesses represented were:

- The HR Department
- City Cruises
- MACS Plasterboards
- Norbain SD
- Henry Construction
- Shakespeare Martineau
- Middleton Murray
- London Chamber of Commerce and Industry
- Optimity
- Duprez Consulting

382 Lord Forsyth, Lord Sharkey, Lord Layard, Lord Turnbull, Lord Tugendhat and Baroness Harding.

The Chairman asked the businesses to introduce themselves and to set out their experiences of the apprenticeship levy and apprenticeships generally. The following themes emerged from the introductions and subsequent discussion.

Experience of apprentices

Companies who had apprenticesmainly prior to the levy coming into operation —spoke positively about them: it was a "largely enjoyable experience". In the technology and digital sector apprentices were turned to "as a route of last resort" when it was found that graduates didn't have the necessary skills. Apprentices had proved to be "very valuable for our business and a real driver for growth."

One business said that the biggest issue she had when she started to take on apprentices was that "they didn't have the skills we needed and weren't ready for work". She started a pre-employment bootcamp programme to address this. A second attendee ran a training provider which offered, *inter alia*, 'traineeships', six week courses to prepare young people to do an apprenticeship. These involve maths and English and soft skills. He described these as "key" so when young people "enter an apprenticeship they don't fall out".

Levy

One business commented that the levy was "difficult to get to grips with". It was introduced "very quickly" and contained some contradictions and conflicts.

The levy was seen as a tax: some employers said that "everybody talks about it as a tax". The amount of levy funds that could be drawn down and applied to various types of apprenticeships were felt by many to not meet the businesses costs of training them. For example, £5000 was available from the levy for a boat captain apprenticeship; the cost to the employer was £10,000. As a result, the business had cut the budget for training for other staff. By contrast tech sector apprenticeships were "very well funded" up to and including degree apprenticeships.

It was acknowledged that business "were not spending their levy money quickly" and were "tending to use it for their existing staff". One employer was not attempting to spend the £20,000 levy contribution as it was "too much bureaucracy and hassle to bother" and the apprenticeships on offer were not relevant.

Some businesses openly acknowledged that they were currently only spending funds on existing staff. On businesses accepted that they had 'rebadged' established internal training schemes as apprenticeships. Places on these were offered only to internal applicants. "We are basically badging what we were doing anyway to get the money back."

Some attendees compared the current arrangements to those in operation for their businesses prior to the levy. For example, one had established a pathway for existing employees to train as ship's captains; another had an internal academy offering legal and non-legal qualifications. The construction industry representatives spoke of a levy scheme operated by the Construction Industry Training Board which firms paid into. The CITB then covered the cost of training and provided funds to cover wages. The only effective cost to the company was the lost labour from the apprentices one day a week in college.

Standards

One employer was involved in writing standards. He attributed the delay to the demands placed on the businesses groups responsible for writing the standards.

Involvement in these 'trailblazer' groups for 12 months to two years was "too time consuming for the majority of SMEs". He pointed out that:

> "The promise and the process of turning two sides of A4 into qualifications has been really drawn out. Part of the problem is that employers asked to develop marking criteria for the standards from scratch. I don't know how to do that–I can do the output required … . Employers were asked to engineer the standard from beginning to end. They should have been asked to define the desired output and a qualification authority or training provider should be done other issues."

Some businesses had struggled to navigate the standards and couldn't find "anything relevant from providers for our businesses". A niche cleaning company wanted to offer apprenticeships but there was no standard, so was now trying to "shoehorn" a supervisory role into a general management standard.

The quality and behaviour of providers was a consistent concern. Generally, it was thought that they didn't "understand the commercial drivers" of businesses. Key issues were:

- Course content was seen to be a 'box ticking exercise" and sometimes outdated: one employer described his experience of an administration apprentice having to learn an older version of software to pass her apprenticeship training course whereas the company used the most up-to-date version. This was echoed by the digital sector who–five years ago–had found the training "quality poor and using very outdated versions of programmes". In response local tech employers set up a group to improve the courses on offer. The two programmes set up had trained 400 people.

- "Gaming the funding system" by (for example) insisting an apprentice with A-Levels do Level 4 and 5 apprenticeship qualifications, rather than simply enter a degree apprenticeship. This was the "best way [for providers] to maximise the money from the system".

- Assessors: one employer described an apprentice jockey being assessed by a examiner who was not able to ride a horse.

- Service offered to SMEs: one business stated that it was a challenge for "small businesses too small for providers to care about" to find training. "There are a number of training providers who have little interest in or don't deal with small businesses"

Changes and solutions

The following solutions were suggested by participants:

- Abolish the levy

- Companies should be able to "concentrate on upskilling their current workforce"

- Greater flexibility in the required training time. Currently an apprenticeship must be 12 months and must have 20 per cent off the job training. One business stated that such a "a time based criteria is not always the best indicator of what quality means. It needs to be determined sector by sector and qualification by qualification." The

mechanism to do that exists and can be applied by the Institute for Apprentices.

- Change in the nomenclature: the use of the term apprenticeship means that company boards "see 17 year old–it is not always that and it goes somewhat wider–boards are resistant as they think don't need people at that level. Change in the name might help."
- Extend the time available to spend levy funds so businesses are "able to use levy without fear of losing after two years".
- Allow business to spend funds on internal training

APPENDIX 6: LETTER FROM SAM GYIMAH MP, MINISTER OF STATE FOR UNIVERSITIES, SCIENCE, RESEARCH AND INNOVATION TO THE CHAIRMAN, 3 MAY 2018

Following Viscount Younger's letter to you on 29 March 2018, please find enclosed a table showing the Department for Education's projections for the face value of the higher education student loan book at the start of each financial year up to 2049–50, in real and nominal terms. This includes a table of forecasts for the size of the loan book before and after the loan sale that occurred in 2017. I apologise for the delay in this correspondence.

The forecasts have been produced using the Department's student loan outlay and repayment models, which forecast future loan outlay, repayments, interest and write-offs to estimate the value of the outstanding student loan book. Student loan outlay is forecast using historical expenditure and projected into the future using the Department's student number projections, historic continuation rates and OBR inflation estimates, with some adjustments made where future policies have been announced. Student loan repayments are estimated from earning forecasts for a population of loan borrowers, based on earnings of historic loan borrowers and graduates with the same demographic and course characteristics, uprated in line with OBR average earnings growth forecasts. Repayments are then forecast based on these earnings, with adjustments made to allow for voluntary and overseas repayments, and mortality.

I am afraid that it is not currently possible to provide you with forecasts for the size of the remaining loan book after any other future loan sales. The Government has said that it is targeting £12bn of proceeds through a programme of sales over the next five years. However, we have yet to determine which loans will be included in these sales and therefore cannot estimate the yearly value of the student loan book after these sales have taken place.

I am placing a copy of this letter in the House Libraries.

Forecast opening value of English higher education income contingent student loan book, in nominal and real terms: 2018/19 to 2049/50

	Value including sold loans		Value excluding loans sold in 2017	
Financial year	**Nominal terms (£bn)**	**Real terms, 2018–19 values (£bn)**	**Nominal terms (£bn)**	**Real terms, 2018–19 values (£bn)**
2018/19	103.6	103.6	100.6	100.6
2019/20	121.7	118.1	118.9	115.4
2020/21	141.7	133.5	139.0	131.0
2021/22	162.6	148.9	160.2	146.7
2022/23	184.6	164.2	182.3	162.2
2023/24	207.7	179.4	205.5	177.5
2024/25	232.2	194.5	230.2	192.8
2025/26	258.5	209.8	256.5	208.3

	Value including sold loans		Value excluding loans sold in 2017	
Financial year	**Nominal terms (£bn)**	**Real terms, 2018–19 values (£bn)**	**Nominal terms (£bn)**	**Real terms, 2018–19 values (£bn)**
2026/27	286.6	225.5	284.7	224.0
2027/28	316.3	241.3	314.6	239.9
2028/29	347.6	256.9	345.9	255.7
2029/30	380.4	272.5	378.8	271.3
2030/31	414.9	288.0	413.4	287.0
2031/32	451.0	303.4	449.6	302.4
2032/33	488.3	318.3	486.9	317.4
2033/34	526.6	332.7	525.4	331.9
2034/35	566.0	346.6	564.8	345.8
2035/36	606.3	359.8	605.2	359.1
2036/37	647.0	372.1	645.9	371.5
2037/38	688.5	383.9	687.5	383.3
2038/39	731.2	395.2	730.3	394.7
2039/40	774.9	406.2	774.0	405.7
2040/41	819.5	417.0	818.6	416.6
2041/42	865.9	427.8	865.1	427.4
2042/43	913.7	438.3	912.9	437.9
2043/44	962.5	448.3	961.8	447.9
2044/45	1,012.5	457.8	1,011.8	457.5
2045/46	1,063.6	466.9	1,063.1	466.7
2046/47	1,106.2	471.5	1,105.8	471.3
2047/48	1,147.1	474.7	1,146.9	474.6
2048/49	1,181.6	474.7	1,181.5	474.7
2049/50	1,212.7	473.0	1,212.7	473.0

Source: DFE student loan outlay and repayment models

Notes

Includes all income contingent undergraduate and postgraduate higher education loans.

The values shown are forecasts for the total face value of the student loan book at the start of each financial year in April.

Values in 2018/19 prices have been calculated using forecasts for RPI from the Office for Budget Responsibility (OBR) March 2018 Economic and Fiscal Outlook

This assumes that in the long run, future average loan outlay increases in line with OBR forecasts for RPIX and student numbers vary in line with ONS principal population projections (weighted to the age profile of new students)

Loan repayments are estimated from earning forecasts for a population of loan borrowers, based on earnings of historic loan borrowers and graduates with the same demographic and course characteristics, uprated in line with OBR average earnings growth forecasts

Future students are assumed to have the same distribution of characteristics and loan amounts as the most recent year of student loan borrowers

Forecasts are based on current policies and policy changes that have already been announced.

APPENDIX 7: MODELLING OF CHANGES TO STUDENT LOANS

The Committee asked the Institute for Fiscal Studies to model the effects on Government spending of changing the parameters on student loans. Some of these scenarios are reproduced below.

The current parameters for student loans are:

- Tuition fees of maximum £9,250 a year;
- Graduate repays when earning over £25,000 a year (the repayment threshold);
- Repayment rate of 9 per cent of earnings above the repayment threshold;
- Interest rate of RPI + 3 per cent whilst studying, tiered interest rate of RPI + 0–3 per cent depending on income following graduation;
- Loan term of 30 years.

Under the present system of student loans, the upfront Government spend was £16.7 billion for the 2017/18 cohort (which includes the outlay on tuition fee and maintenance loans and the remaining funding by direct grant). The Institute for Fiscal Studies calculates that the long-run cost to Government for the 2017/18 cohort will be £8.4 billion (in 2017 prices), once repayments are taken into account.

Scenario 1: Lowering the repayment threshold to £15,000

Government spending on the 2017/18 cohort if the repayment threshold was lowered to £15,000 (other parameters the same as the current system)

Upfront funding via student loans	£16 billion
Upfront funding via grants (counted in the deficit)	£0.7 billion
Long-run cost to Government (value of student loans in 2017 prices which will not be repaid)	£3.9 billion
Difference in the long-run cost to Government compared to the present system	Reduced long-run cost of £4.5 billion

Source: Institute for Fiscal Studies work commissioned by the Committee

Scenario 2: Lowering the interest rate to RPI + 0.7 per cent

Government spending on the 2017/18 cohort if the interest rate was lowered to RPI + 0.7 per cent (other parameters the same as the current system)

Upfront funding via student loans	£16 billion
Upfront funding via grants (counted in the deficit)	£0.7 billion
Long-run cost to Government (value of student loans in 2017 prices which will not be repaid)	£9 billion
Difference in the long-run cost to Government compared to the present system	Increased long-run cost of £0.6 billion

Source: Institute for Fiscal Studies work commissioned by the Committee

Scenario 3: Lowering the interest rate to RPI + 0.7 per cent, lowering the repayment threshold to £15,000 and introducing a tiered repayment rate

In the tiered repayment scenario, the repayment threshold was set at £15,000 a year. Graduates paid 3 per cent of earnings above the threshold if they earned between £15,000 and £25,000 a year; 6 per cent of earnings above the threshold if they earned between £25,000 and £35,000 a year; and 9 per cent of earnings above the threshold if they earned above £35,000 a year.

Government spending on the 2017/18 cohort if the interest rate was lowered to RPI + 0.7 per cent, the repayment threshold lowered to £15,000 and a tiered repayment introduced (other parameters the same as the current system)

Upfront funding via student loans	£16 billion
Upfront funding via grants (counted in the deficit)	£0.7 billion
Long-run cost to Government (value of student loans in 2017 prices which will not be repaid)	£7.6 billion
Difference in the long-run cost to Government compared to the present system	Reduced long-run cost of £0.8 billion

Source: Institute for Fiscal Studies work commissioned by the Committee

The Institute for Fiscal Studies also modelled the effect on the present system of lowering fees to £6,000. The results for the present system, and for making the same adjustments as in the first three scenarios above, are presented below.

Scenario 4: Reducing tuition fees to £6,000

Government spending on the 2017/18 cohort if tuition fees were reduced to £6,000 (other parameters the same as the current system)

Upfront funding via student loans	£15.3 billion
Upfront funding via grants (counted in the deficit)	£2.6 billion
Long-run cost to Government (value of student loans in 2017 prices which will not be repaid)	£9.7 billion
Difference in the long-run cost to Government compared to the present system	Increased long-run cost of £1.3 billion

Source: Institute for Fiscal Studies work commissioned by the Committee

Scenario 5: Reducing tuition fees to £6,000 and lowering the repayment threshold to £15,000

Government spending on the 2017/18 cohort if tuition fees were reduced to £6,000 and the repayment threshold was reduced to £15,000 (other parameters the same as the current system)

Upfront funding via student loans	£15.3 billion
Upfront funding via grants (counted in the deficit)	£2.6 billion
Long-run cost to Government (value of student loans in 2017 prices which will not be repaid)	£6 billion
Difference in the long-run cost to Government compared to the present system	Reduced long-run cost of £2.4 billion

Source: Institute for Fiscal Studies work commissioned by the Committee

Scenario 6: Reducing tuition fees to £6,000 and lowering the interest rate to RPI + 0.7 per cent

Government spending on the 2017/18 cohort if tuition fees were reduced to £6,000 and the interest rate was reduced to RPI + 0.7 per cent (other parameters the same as the current system)

Upfront funding via student loans	£15.3 billion
Upfront funding via grants (counted in the deficit)	£2.6 billion
Long-run cost to Government (value of student loans in 2017 prices which will not be repaid)	£10.2 billion
Difference in the long-run cost to Government compared to the present system	Increased long-run cost of £1.8 billion

Source: Institute for Fiscal Studies work commissioned by the Committee

Scenario 7: Reducing tuition fees to £6,000, lowering the interest rate to RPI + 0.7 per cent, lowering the repayment threshold to £15,000 and introducing a tiered repayment rate

Government spending on the 2017/18 cohort if tuition fees were lowered to £6,000, the interest rate was lowered to RPI + 0.7 per cent, the repayment threshold lowered to £15,000 and a tiered repayment introduced (other parameters the same as the current system)

Upfront funding via student loans	£15.3 billion
Upfront funding via grants (counted in the deficit)	£2.6 billion
Long-run cost to Government (value of student loans in 2017 prices which will not be repaid)	£9 billion
Difference in the long-run cost to Government compared to the present system	Increased long-run cost of £0.6 billion

Source: Institute for Fiscal Studies work commissioned by the Committee

APPENDIX 8: AGENCIES INVOLVED IN THE DELIVERY, FUNDING AND REGULATION OF POST-SCHOOL EDUCATION

Agency	Created	Type of body	Sector(s)	Summary of role
EFSA[383]	2017[384]	Executive agency of the Department for Education	Further education and apprenticeships	Funding further education and apprenticeship provision (it allocated £63bn funding a year). Regulates academies, FE and sixth form colleges. Publishes data on FE and apprenticeship participation. Responsible the delivery of capital projects and services (such as the National Careers Service and National Apprenticeship Service).
Institute for Apprentices[385]	2017	Executive non-departmental public body [Department for Education]	Apprenticeships	The Institute states that it "empowers employers to help them create high quality apprenticeships." It is responsible for the development of apprenticeship standards and some quality assurance of apprenticeships assessments. Does not distribute and funds. The Institute does recommend the allocation of funds to different apprenticeships using funding bands

383 Education & Skills Funding Agency (EFSA), 'About us': https://www.gov.uk/government/organisations/education-and-skills-funding-agency/about
384 Merger of Education Funding Agency and Skills Funding Agency
385 Insittute for Apprenticeships, 'What we do': https://www.instituteforapprenticeships.org/

Agency	Created	Type of body	Sector(s)	Summary of role
National Apprenticeship service	2008[386]	Part of EFSA	Apprenticeships	"supports the delivery of apprenticeships and traineeships in England [and]… leads on communications to raise the profile and prestige of apprenticeships.[387] NAS delivers the digital apprenticeship service (employers use to access and spend levy funds).
Ofsted	1992	Non-ministerial department	Further education and apprenticeships	"Inspects further education colleges, further education taking place in higher education institutions and apprenticeship providers[388]
Ofqual	2010	Non-ministerial department	Further education and apprenticeships	Regulated and accredits qualification including vocational and technical qualifications[389] Publishes statistics for the number of vocational qualifications awarded[390] as well as for GCSEs and A levels.

386 Department for Work and Pensions, *Ready to Work, Skilled for Work: Unlocking Britain's Talent*, Cm 7316, January 2008: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/238773/7316.pdf

387 EFSA, *Business plan for the financial year 2017 to 2018*, August 2017: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/638379/ESFA_Business_Plan_2017_to_2018.pdf

388 Ofsted, *The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2016/17*, HC618, December 2017: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/666871/Ofsted_Annual_Report_2016-17_Accessible.pdf

389 Ofqual, 'About us': https://www.gov.uk/government/organisations/ofqual/about

390 Ofqual, 'Certificates awarded for all vocational qualifications (excluding GCSEs, A levels and the Diploma)'(March 2018): https://www.gov.uk/government/statistical-data-sets/vocational-qualifications-dataset

Agency	Created	Type of body	Sector(s)	Summary of role
National Careers Service	2012[391]	Part of EFSA	Further education and apprenticeships Higher education	The NCS provides impartial careers information, advice and guidance to adults and young people to support their decision-making about learning and work[392] Services include website with job profiles, skills health checks and facility to find courses. Advisers available via a telephone helpline.
Office for Students	April 2018	Executive non-departmental public body	Higher Education	The Office for Students' states that its "primary aim is to ensure that English higher education is delivering positive outcomes for students – past, present, and future."[393] Distributes funding to higher education providers Regulates higher education Regulates widening access requirements Publishes data on participation, drop out and transfer rates and student outcomes.

391 Department for Education, *Careers strategy: making the most of everyone's skills and talents*, December 2017: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664319/Careers_strategy.pdf

392 EFSA, *Business plan for the financial year 2017 to 2018*

393 Office for Students, 'The regulatory framework for higher education in England': https://www.officeforstudents.org.uk/advice-and-guidance/regulation/the-regulatory-framework-for-higher-education-in-england/

Agency	Created	Type of body	Sector(s)	Summary of role
UCAS	1993[394]	Independent charity (no direct support from the Government)	Higher education Further education and apprenticeships (limited service)	Undergraduate admissions service. Information service for other forms of education – including further education and apprenticeships Publishes higher education application and acceptance data
Quality Assurance Agency for Higher Education[395]	1997[396]	Independent company limited by guarantee and registered charity	Higher education	Independent body funded by universities "check that students working towards a UK qualification get the higher education they are entitled to expect." Includes advice to government on degree awarding powers" May become the "designated quality body" under the new framework proposed by the OFS.[397]
Student Loans Company	1990	Private Limited Company	Higher and further education	Payments of maintenance grants and loans to learners; and ensuring payments of tuition fee loans to HE and FE providers. Payment of tuition fees to providers. Publishes data on financial support received by learners (including advanced learner loans) and progress of student debt and repayment

394 A centralised admissions service has operated since 1961. In 1993 the Universities Central Council on Admissions, Polytechnics Central Admissions System and Standing Conference on University Entrance merged to form UCAS; UCAS, 'Who we are': https://www.ucas.com/corporate/about-us/who-we-are

395 Quality Assurance Agency for Higher Education, 'Home': http://www.qaa.ac.uk/en

396 Quality Assurance Agency for Higher Education, 'Quality in Action': http://www.qaa.ac.uk/en/Publications/Documents/Quality-in-Action-2016-17.pdf (2017 annual report "this year marks the 20th anniversary of our founding"

397 Department for Education, *Designation of a body to perform the assessment functions for higher education in England, Government consultation response*, January 2018: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/677339/Designation_of_a_body_to_perform_the_assessment_functions_for_higher_edu....pdf

Agency	Created	Type of body	Sector(s)	Summary of role
Office of the Independent Adjudicator[398]	2005	Limited company, set up under Higher Education Act 2004	Higher education	An independent body set up to review student complaints, but has "no regulatory powers over providers and cannot punish or fine them"[399].
Education and Training Foundation	2013	Charity, funded by department of education[400]	Further education	Sets voluntary professional standards for teachers in further education. Publishes data on staff in FE and training (including demographics, numbers and levels of pay).
Careers Enterprise Company[401]	2015	Social enterprise	All	Connects local employers, schools, colleges and careers advisers Runs an investment fund to support and generate innovation in careers advice (money from donations and private sector as well as the Government. [£15 million invested across various funds] Supports schools and colleges to meet the statutory requirements of the careers strategy.

398 Office of the independent adjudication, 'Home': http://www.oiahe.org.uk/
399 Office of the independent adjudication, 'About us': http://www.oiahe.org.uk/about-us.aspx
400 Department for Education, 'Grant Offer Letter', March 2017: http://www.et-foundation.co.uk/wp-content/uploads/2014/03/DfE-Grant-Letter-2017-18.pdf
401 The Careers & Enterprise Company, 'About us': https://www.careersandenterprise.co.uk/about-us