Independent panel report to the

Review of Post-18 Education and Funding

May 2019

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Review of Post-18 Education and Funding

Presented to Parliament
by the Secretary of State for Education
by Command of Her Majesty

May 2019

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Introduction

Foreword

Post-18 (or 'tertiary') education in England is a story of both care and neglect, depending on whether students are amongst the 50 per cent of young people who participate in higher education (HE) or the rest.[1] The panel believes that this disparity simply has to be addressed. Doing so is a matter of fairness and equity and is likely to bring considerable social and economic benefits to individuals and the country at large. It is our core message.

Following a major refunding of the higher education sector in 2012, universities and university students are both cared for and cared about. They receive the majority of public funding and attention: in 2017-18, over £8 billion[2] was comitted to support 1.2 million UK undergraduate students in English HE institutions.[3] Their experience is the subject of much comment. The sector is studied by specialist university departments and by education think tanks, some of which are funded by the sector they are thinking about. The universities also fund several mission groups – including Universities UK (UUK), University Alliance, Million+, Guild HE and the Russell Group - who lobby on their behalf. The mainly university-educated media is deeply interested in their activities. We note this without criticism. Universities serve important social and economic purposes. They are one of the UK's world-class industries: second only to the US in terms of research citations, with a fraction of the spend.[4] As such they are worth caring about and large parts of this report are devoted to building on their considerable achievements.

But what of the neglected, the 50 per cent of the 18-30 year-old population who do not go to university, and older non-graduates? They too are worthy of attention. They are mostly at work and, if they are educated at all after the age of 18, are being educated mainly in further education colleges (FECs). The same is true of older adults in the workforce with basic or intermediate skills, for whom upskilling and reskilling are vital in a changing labour market. There are 2.2 million full and part time adult further education (FE) students[5] receiving £2.3 billion of public funding,[6] a large under-investment relative to the state support afforded university students. In 1989, the then Secretary of State for Education Kenneth Baker described further education as the Cinderella sector but successive governments have failed to deliver the glass slipper.[7] There have been a few reviews, such as the Leitch review on basic and intermediate skills (2006) and the Foster review of the FE college landscape (2005) but despite widespread acknowledgement that this sector is crucial to the country's economic success, nothing much has happened except for a steep, steady decline in funding.

That decline is widespread and protracted.[8] Teachers in FE colleges are paid on average less than their counterparts in schools.[9] Funding levels are inadequate to cover essential maintenance or to provide modern facilities, and funding flows are complex to navigate. Not surprisingly, the sector is demoralised, has little to spend on mission groups and is consequently under-reported in the media and under-represented in Westminster. No prior government of any persuasion has considered further education to be a priority. The consequence has been decades of neglect and a loss of status and prestige amongst learners, employers and the public at large.

The present government's review is the first since the Robbins report in 1963 to consider both parts of tertiary education together. It is an opportunity to consider the roles both should play in meeting the country's social and economic needs, how they fit together, how they should be funded and whether they are delivering value for students and taxpayers. The panel informing the review is independent and impartial and is determined not to waste this unique opportunity to deliver an objective assessment of the current situation, to articulate the country's future needs from tertiary

education, and to propose remedies that are practical and realistic in addressing the issues it has identified.

I am indebted to my fellow panel members Professor Ivor Crewe, Jacqueline de Rojas, Professor Edward Peck, Beverley Robinson and Professor Alison Wolf for the considerable expertise, counsel and commitment they have brought to this project. We have been helped by constructive engagement with students - particularly through our student reference group - employers and further and higher education institutions and their representative bodies. Our work has been informed by almost 400 respondents to our call for evidence, by discussions with academic and other experts and by visits to a great many educational institutions. We are grateful to our hard working secretariat at the Department for Education led by Matt Toombs and Lucy Ryan, and particularly to the Prime Minister, Theresa May, the Chancellor of the Exchequer, Philip Hammond, and the Secretary of State for Education, Damian Hinds, for giving us this opportunity and, above all, for asking the right question.

I have pleasure in enclosing the panel's report.

Dr Philip Augar,

Chair, Post-18 Education and Funding Review Panel

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Professor Edward Peck

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The Panel's Principles

In setting about our task, we have been guided by a set of principles. Some of these were self-evident to us at the start, others have been developed in the light of emerging evidence during the panel's life. The principles and their rationale are set out below.

Principle 1. Post-18 education benefits society, the economy, and individuals.

The potential benefits of an increasingly educated adult population have guided our work. But increasing the sheer volume of tertiary education does not necessarily translate into social, economic and personal good. That depends on the quality, accessibility and direction of study.

Principle 2. Everyone should have the opportunity to be educated after the age of 18.

We have noted the disparity of resources between higher and further education and the steep decline in opportunities for education and training in later life. We have this in mind in seeking to create an integrated and sustainable post-18 system with opportunities for the whole population.

Principle 3. The decline in numbers of those getting post-18 education needs to be reversed.

In many developed economies, increased participation in tertiary education has been associated with productivity growth over the past half century but in England - where attention has focused largely on degree-level study - the total number of people involved in post-18 education has in fact declined. This decline needs to be reversed urgently.

Principle 4. The cost of post-18 education should be shared between taxpayers, employers and learners.

This was the defining principle of the seminal Dearing Report (1997) and continues to have resonance: the alternatives are simply inconceivable. Getting the taxpayer to pay for everything is unaffordable. Getting learners to pay all their own costs is unfair to those of limited means. Getting employers to pay for the whole system would put too much emphasis on economic value alone. A shared responsibility, in our view, is the only fair and feasible solution.

Principle 5. Organisations providing education and training must be accountable for the public subsidy they receive.

The receipt of taxpayer funding, whether this is directly through grants or indirectly through forgiveable loans, carries with it the expectation of transparency and accountability for the purposes to which it is put and the outcomes that it delivers. There should be no sense of entitlement.

Principle 6. Government has a responsibility to ensure that its investment in tertiary education is appropriately spent and directed.

The government should consider public spending on tertiary education alongside its spending on other parts of the public sector and should hold the sector accountable whilst respecting its intellectual freedom and academic autonomy.

Principle 7. Post-18 education cannot be left entirely to market forces.

The idea of a market in tertiary education has been a defining characteristic of English policy since 1998. We believe that competition between providers has an important role to play in creating choice for students but that on its own it cannot deliver a full spectrum of social, economic and cultural benefits. With no steer from government, the outcome is likely to be haphazard.

Principle 8. Post-18 education needs to be forward looking.

The future challenges of technological innovation, artificial intelligence and shorter job cycles will require greater labour market flexibility. The post-18 education system needs to respond to this: doing more of the same will not be enough.

The Panel's Proposals

We were asked to provide input into the government's review of post-18 education and funding. We have assessed the present system and made recommendations about how it can be strengthened, in the light of its current performance and the future challenges we expect it to face.

There is much to be celebrated in England's post-compulsory education system. Record numbers of young people and young people from disadvantaged backgrounds in particular are now entering higher education. Many universities make a considerable civic contribution, being torch carriers for economic, cultural, social and environmental development, often in partnership with communities and businesses. England has a world-leading reputation in research and some of the best performing research universities in the world. Many further education colleges play important roles in their local economies with strong employer relationships.

Our proposals look to build on these strengths by identifying areas where the post-18 education system could be improved. The objective - to quote from the government's terms of reference - is to provide a joined-up system that 'is accessible to all, supported by a funding system that provides value for money and works for students and taxpayers, incentivises choice and competition across the sector and encourages the development of the skills that we need as a country.'

Our core message is that the disparity between the 50 per cent of young people attending higher education and the other 50 per cent who do not has to be addressed. Doing so is a matter of fairness and equity and is likely to bring considerable social and economic benefits to individuals and the country at large. This underpins our proposals which are outlined in detail in subsequent chapters and summarised below:

- **Strengthening technical education -** England needs a stronger technical and vocational education system at sub-degree levels to meet the structural skills shortages that are in all probability contributing to the UK's weak productivity performance. Improved funding, a better maintenance offer, and a more coherent suite of higher technical and professional qualifications would help level the playing field with degrees and drive up both the supply of and demand for such courses.
- **Increasing opportunities for everyone -** Despite the very large increase in participation in higher education by young people, the total number of people involved in tertiary education has declined. Almost 40 per cent of 25 year olds do not progress beyond GCSEs as their highest qualification and social mobility shows little sign of improvement. Our recommendations seek to address these problems by reversing cuts in adult skills provision and encouraging part time and later life learning.
- **Reforming and refunding the FE college network -** Further education colleges are an essential part of the national educational infrastructure and should play a core role in the delivery of higher technical and intermediate level training. Our recommendations are intended to reform and refund the FE college network by means of an increased base rate of funding for high return courses, an additional £1bn capital investment over the coming spending review period and investment in

the workforce to improve recruitment and retention. Rationalisation of the network to even out provision across over-supplied and under-supplied areas, funding for some specialised colleges and closer links with HE and other providers would help establish a genuinely national system of higher technical education.

- **Bearing down on low value HE -** There is a misalignment at the margin between England's otherwise outstanding system of higher education and the country's economic requirements. A twenty-year market in lightly regulated higher education has greatly expanded the number of skilled graduates bringing considerable social and economic benefits and wider participation for students from lower socio-economic groups. However, for a small but significant minority of degree students doing certain courses at certain institutions, the university experience leads to disappointment. We make recommendations intended to encourage universities to bear down on low value degrees and to incentivise them to increase the provision of courses better aligned with the economy's needs.
- **Addressing higher education funding -** Generous and undirected funding has led to an over-supply of some courses at great cost to the taxpayer and a corresponding under-supply of graduates in strategically important sectors. Our recommendations would restore more control over taxpayer support and would reduce what universities may charge each degree student. Universities should find further efficiency savings over the coming years, maximum fees for students should be reduced to £7,500 a year, and more of the taxpayer funding should come through grants directed to disadvantaged students and to high value and high cost subjects.
- **Increasing flexibility and lifetime learning -** Employment patterns are changing fast with shorter job cycles and longer working lives requiring many people to reskill and upskill. We recommend the introduction of a lifelong learning loan allowance to be used at higher technical and degree level at any stage of an adult's career for full and part-time students. To encourage retraining and flexible learning, we recommend that this should be available in modules where required. We intend that our proposals should facilitate transfer between different institutions and we make proposals for greater investment in so-called 'second chance' learning at intermediate levels. We endorse the government's National Retraining Scheme, which we believe to be a potentially valuable supplement to college based learning.
- **Supporting disadvantaged students -** Disadvantaged students need better financial support, improved choices and more effective advice and guidance to benefit fully from post-18 education. Our recommendations would provide them with additional support by reintroducing maintenance grants for students from low income households, and by increasing and better targeting the government's funding for disadvantaged students.
- **Ensuring those who benefit from higher education contribute fairly -** Most graduates benefit significantly from participating in higher education – as does the economy and wider society. We therefore endorse the established principle that students and the state should share the cost of tertiary education. We support the income-contingent repayment approach as a means of delivering this fairly, with those benefitting the most making the greatest contribution. However, public misunderstanding is high and better communication is required, including a new name, the Student Contribution System. We believe that more graduates should repay their loans in full over their lifetimes, and recommend extending the repayment period for future students and effectively freezing the

repayment threshold. These changes – with the reduction in fees – would apply only to students entering higher education from 2021-22 at the earliest: students starting before then would not be affected. Some aspects of the present system appear to be unfairly punitive and we recommend reducing students' in-study interest charges and capping graduates' lifetime repayments.

- **Improving the apprenticeship offer -** Apprenticeships can deliver benefits both for apprentices and employers but there is evidence of a mismatch between the economy's strategic requirements and current apprenticeship starts. Our recommendations, together with recent government reforms, look to make further improvements in the quality of the apprenticeship offer by providing learners with better wage return information, strengthening Ofsted's role – and thus the quality of providers – and better understanding and addressing the barriers SMEs face within the apprenticeship system. We have considered how best to use the finite funding which is available for apprenticeships and recommend that apprenticeships at degree level and above should normally be funded only for those who do not already have a publicly-funded degree.

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Chapter one:

What is the purpose of post-18 education and how does the system currently work?

Purposes of post-18 education

In our highly developed industrial society, tertiary education serves a range of economic and social purposes and the age of 18 is something of a watershed for the way in which people are educated. Full-time education up to that age is close to universal in developed countries including England, where some participation in formal education or training is legally required until this age. Prior to that age, education takes place largely in classes of pupils the same age, and with the vast bulk of content taught to the whole cohort until the final few years. Post-18 education is very different.

It is the stage at which specialisation intensifies and delivery methods diversify. Universities, further education colleges, independent training providers and employers are all involved and the system as a whole needs to fulfil several core purposes. The figure below summarises what we take these to be in a country committed: to equity and equal opportunity; to democracy and civic integration; to scholarship, open enquiry and dialogue; and, of course, to maintaining economic prosperity in a world of global competition. It also highlights the core themes of our later analyses.

Figure 1.1: Purpose of post-18 education

Purpose: Promote citizens' ability to realise their full potential, economically and more broadly.

Post-18 education plays a central role in enabling social mobility and lifetime remunerative employment, and in realising wider benefits across the population. Higher levels of education are associated with wider participation in politics and civic affairs, and better physical and mental health. Education brings together people from different backgrounds, demonstrating the value of diverse voices and connecting learners with lifestyles that differ from their own.

Assessment: Despite an overall increase in numbers of young students from across the population accessing higher education, course completion, grade attainment and longer-term employment outcomes for disadvantaged learners remain disappointing and there are regional gaps in access to tertiary education. Numbers undertaking adult education and part time study have fallen at all levels.

Purpose: Provision of a suitably skilled workforce.

The country needs a population with the right mix of basic and advanced skills to support economic activity in both the private and public sectors. It needs a workforce able to respond to change and develop further skills throughout their lives.

Assessment: England's workforce is reasonably well aligned with economic requirements but there are some grounds for concern. Many graduates are working in non-graduate jobs and some employers report dissatisfaction with graduate skills. Both higher technical and craft skills are in short supply with long-standing skills gaps in strategic sectors such as engineering, IT and digital. Migrant labour is required in many sectors and at different levels.

Figure 1.1: Purpose of post-18 education continued

Purpose: Support innovation through research and development (R&D), commercial ideas and global talent.

World class R&D is a fundamental driver of economic growth and the system needs strong links with business to transfer this knowledge and support innovation.[1]

Assessment: The UK punches above its weight in research league tables, commercial innovation and cultural contribution. In 2014, the UK represented just 0.9 per cent of global population, 2.7 per cent of R&D expenditure, and 4.1 per cent of researchers, while accounting for 9.9 per cent of downloads, 10.7 per cent of citations and 15.2 per cent of the world's most highly-cited articles.[2]

But questions about the UK's capacity to convert research into productivity growth and intense global competition give no grounds for complacency.

Purpose: Contribute scholarship and debate that sustain and enrich society through knowledge, ideas, culture and creativity.

Assessment: Tertiary institutions generate the knowledge and skills that fuel our economy and provide the basis for our nation's intellectual and cultural heritage. The UK is an acknowledged leader in a wide variety of artistic and academic fields.[3]

Purpose: Contribute to growth by virtue of post-18 institutions' direct contributions to the economy.

High quality institutions producing a skilled and adaptable labour force are central to the development of high-skill industrial clusters, enhancing localities' attractiveness to enterprises and employers.

Assessment: The post-18 sector contributes 2 per cent of GDP, employing nearly half a million people in England.[4] Non-EU students pay £4.7bn in tuition fees[5] and also contribute £4.6bn to the economy as consumers of goods and services.[6] From Weston-super-Mare to Wearside, universities and FE colleges are frequently found at the centre of local growth initiatives.

Purpose: Play a core civic role in the regeneration, culture, sustainability, and heritage of the communities in which they are based.

Tertiary institutions serve as local centres for a wide range of social, economic and educational activity. To quote a recent report on universities from the UPP Foundation Civic University Commission, "if you strip all these things away, you are left with an impoverished place – and it is impossible to think of another institution that could deliver these benefits".[7] The same is at least as true of further education colleges which are in effect community colleges in many towns and cities.

Assessment: The same UPP report asked of universities, "are they fulfilling their true civic role? The truth is 'only in part'. Many universities have an impressive menu of 'civic engagement'. But few can claim to be strategically civic institutions."[8] Further education colleges could also potentially fulfil a more strategic role but funding cuts have caused them to cut back on some aspects of community engagement.

Post-18 education in England: the institutional structure

When English people speak of post-18 education, many think first of universities. However, there are more over 18s attending other educational institutions, 2.2 million[9], than there are at university, with 1.2 million UK-domiciled undergraduates in England in 2017/18.[10] These other institutions include further education colleges (FECs); public sector non-university providers (including local authority institutions); and independent training providers (ITPs), some charitable and others for-profit. In this report the terms 'post-18 education' and 'tertiary education' are used as descriptors for the whole system. Formal qualifications which can be delivered with government funding are all ascribed a numerical level (see Figure 1.2 below). 'Higher education' (HE) means Level 4, 5 and 6 (degree) and above. 'Further education' (FE) means post-18 education up to Level 4, and is also used to refer to provision below Level 6 in the FE sector.

Universities

Within England there are currently 141 higher education institutions (HEIs) of which 134 receive public funding from the Office for Students (OfS).[11] Two dozen of these are specialist or postgraduate institutions, such as the Royal College of Music or London Business School, reducing the number of full-scale publicly funded HEIs in England to about 110. The vast majority of students studying for degrees (undergraduate and postgraduate) are found in these institutions.

The academic autonomy of universities is recognised in statute and - with the exception of a few private universities - they are self-governing charitable institutions with a chair and a board of trustees. The university's vice-chancellor is its senior academic and administrative officer and is accountable to the board. The vice-chancellor is usually supported by a number of pro or deputy vice-chancellors with responsibility for specific aspects of the institution's work. An important aspect of the University structure is that they validate their own degrees.

In English higher education the typical university offers all levels of degree: undergraduate, taught postgraduate and research degrees. This arrangement is highly unusual. Almost all other countries in the world have very clear sub-categories of university, distinguished by the level of degree that they award. But England's university model is far from homogeneous.[12] A distinctive group of 'research intensive universities', with very large levels of such activity, are perceived to be the most prestigious institutions. Newer universities focussing on teaching and research specialisms have their own distinctive standing. This latter group, including many former polytechnics which achieved university status after the educational reforms of 1992, has its own hierarchy based on reputation for teaching, student experience and successful graduate employment.

Further education colleges

The second major set of institutions providing post-18 education are the country's FECs. Originally they provided specialised skills training and more general education to apprentices and employed workers, but after the second world war FECs also became major providers of more general adult education. Most recently, this has included large-scale provision for unemployed people and English for speakers of other languages (ESOL) and full-time education for 16-18 year-olds.[13] This latter role has resulted in them becoming, effectively, the default institutions as the country moved towards near-universal continuation of secondary schooling post-GCSE. Such a broad mission is very unusual: education institutions in other countries do not tend to combine large amounts of secondary and post-secondary education.

A number of English FE colleges also teach advanced courses in vocationally-related fields. They cover various levels including foundation degrees (Level 5 awards typically requiring two years full-time-equivalent study), bachelor's degrees and vocational sub-degree qualifications such as Higher National Diplomas (HNDs) and Higher National Certificates (HNCs). Degree courses are usually offered under franchise or validation arrangements with a university but a small number of FECs have their own degree-awarding powers. These colleges are the closest England has to higher technical institutions like the country's former Colleges of Advanced Technology and Polytechnics or the higher technical institutions that exist in many other countries. For example, the USA has both universities (which differ in the levels of degree they award) and community colleges; Canada has separate college and university networks; Germany has both universities and technical universities (Fachhochschulen); the Netherlands has hogescholen (polytechnics); France has IUTs (Instituts Universitaires de Technologie).

FECs are autonomous exempt charities governed by a chair and a board of governors. They moved from local authority control under the Further and Higher Education Act of 1992. They have a contractual relationship with central government to deliver education and training. There are currently 200 general, tertiary and specialist FECs providing learning in England[14], down from 246 in 2013/14.[15] In recent years, and in considerable part as a result of a coordinated process of area-based reviews led by central government, there have been multiple mergers or closures.[16] While many FECs remain as single institutions, college groups have also been formed with a single managing body for several institutions, usually, though not always, covering a contiguous geographic area.

Independent training providers (ITPs) and other publicly funded provision

Government-financed education and training in England is also provided by 1,179 private sector training providers (also referred to as ITPs) and 312 'other publicly funded' providers of further education and training (e.g. local authorities providing adult education classes and HE institutions delivering FE) as of 2017/18.[17] ITPs range from niche operators with just a handful of staff to full-scale enterprises: a definitive list is almost impossible to create since there are frequent exits, takeovers and the formation of new companies.

This aspect of post-18 provision is another distinctive feature of contemporary England (and, to a lesser degree, the UK generally). This large private sector, dependent largely, and in many cases wholly, on government training contracts is a recent development. It derives from a 'market based' approach to the delivery of non-advanced (non-degree) vocational training, including apprenticeship training, which has characterised English policy for the last 30 years and is discussed further below.

Important sub-sets of the independent and 'other public' sectors are adult and community learning providers (who tend to specialise in sub-Level 2 provision for disadvantaged learners) and independent specialist colleges (who provide education for learners with additional needs).

Employers

Employers play a vital role in post-18 education. They provide on-the-job training on a daily basis; they co-produce and deliver skills training with providers; they work with local and regional bodies to address skills needs; and, through their representative organisations, they have a fundamental role in setting the skills agenda. Much of this is simply part of employers' daily business but it is a core part of skills provision and is taken very seriously indeed by the vast majority of private and public sector employers and professional bodies.

However, we note with concern a decline in work-based training over the last twenty years.[18] The scale of the decline is hard to quantify, since

results differ according to the measure of training which is used, as well as survey methodology, but the finding is quite consistent. In addition, a smaller proportion of employers is now directly engaged with, or purchases training from FE colleges. This is partly because of major changes in the organisation and funding of apprenticeship training - one of the most important sources of skill formation in the economy. For some decades now government policy has removed most apprenticeship training and funding from employer control; as we discuss later, current reforms are intended to reverse this.

Changes in the pattern of study

In recent years the post-18 sector has experienced a number of changes in what is studied, how, by whom and where. The most important developments are summarised below:

- **The growth in university enrolments:** There has been steady growth in the proportion of young people moving more or less directly from school to university. Successive governments have supported and promoted this trend, particularly after the Labour government's 1998 commitment to get 50 per cent of young people into higher education, and the coalition government's decision to abolish any limits on the number of home students it would support at university in 2015.[19] England now has one of the highest university participation rates among OECD countries.[20]
- **The decline in part time and older university students:** While the proportion of English young people attending university has been going up, the numbers and proportions of older and part-time students enrolled in higher education have been going down. In 2009/10, there were 594,550 full-time entrants to English universities and 385,965 part-time entrants in universities in England.[21] By 2017/18, there were 654,235 full-time entrants but only 180,675 part-time entrants – a fall in part time entrants of 53 per cent.[22]
- **The decline in level 4 and 5 qualifications:** At the same time as the number of students taking full bachelor's degrees (Level 6) has risen dramatically, higher technical qualifications (Level 4 and 5) have become a smaller part of England's higher education landscape. HNCs and HNDs, once an important part of polytechnics' programmes, are now a minority qualification.[23] In 2016/17, only 15,000 students were registered for HNDs and only 19,500 were registered for HNCs in English higher education institutions and FE colleges[24]: equivalent to approximately 2 per cent of the undergraduate student body.[25] By comparison, there were 63,900 registered for HNDs and 48,700 for HNCs in 2000/01.[26] There has been a similar decline in foundation degrees, Level 5 qualifications originally introduced in 2001 and intended to be "high-quality, intermediate, vocational higher education qualifications."[27]
- **The decline in qualifications at Level 3 and below:** The numbers of achievements at Levels 3 and below have fallen for all categories. It has been a sharp decline. The number of full Level 2 achievements fell from 550,000 in 2011/12 to 160,000 in 2017/18 and the majority of achievements are below this level. This can be seen from the results for 2017/18, when there were only 170,000 full Level 3 achievements compared to over 800,000 achievements below Level 2.[28]

Figure 1.2: Qualification Levels and Examples: England 2019[29]

Level	Examples
8	Doctorate
7	Master's (MA, MSc, MEng, MBA), PGCE
6	Bachelor's degree (BA, BSc), degree apprenticeships
5	Foundation degree, HND, DipHE
4	HNC, full Accounting Technician qualification
3	A levels, BTEC diplomas, City & Guilds trade Diplomas (e.g. plumbing), Dental Nursing Level 3 Diploma (for dental assistants), Access to HE diplomas A 'full Level 3' must be substantial: 2 A level passes or a BTEC National Diploma count as 'full'
2	GCSEs at grades A-C/9-4; Level 2 occupational qualifications A 'full Level 2' must be substantial (e.g. 5 GCSEs, an occupational qualification requiring a full year to complete)
1	GCSEs at D-G/3-1
Entry level (subdivided into three sub-levels)	Entry-level certificates in e.g. English for speakers of other languages, literacy, numeracy, employability and a range of independent and life skills

Post-18 education in England: the finance systems

The systems used by government to finance higher and further education are very different. Universities are funded largely through fees which follow enrolments: if providers can attract more students, they earn more money. Student loans in which the state eventually writes off any unpaid debt have replaced central and local government grants as the primary means of funding students' fees. This mechanism, first introduced in 1998 and subsequently expanded in 2012 when the fee cap was raised to £9,000 following the Browne Review, splits the cost of higher education between the student and the taxpayer and so enabled government to lift the previous cap on student numbers. It has been the key driver in the fulfilment of successive governments' ambitions to increase the proportion of young people going to university.

The move led to a reduction in public funding for higher education, and - because of public sector spending rules - a deferral of the cost. The system of income-contingent loans collects interest and repayments from borrowers depending on their post-study earnings. Unpaid loans are written off against the Department for Education's balance sheet; it is estimated that an average of 45 per cent of the amount loaned to students will ultimately be written off.[30] However, under the public spending regulations in place when this system was introduced, this write off would not be reflected in the whole government accounts on which public spending is calculated until 30 years after the loan was taken out. This public spending treatment took the taxpayer subsidy of higher education funding out of the public debate: it came to be regarded as tomorrow's problem.

This situation is about to change. In a review announced after the government's review of post-18 education and funding was launched, the Office for National Statistics (ONS), after consulting international authorities, concluded that the write-off should be scored in the public finances in the period loans are issued to students, rather than at maturity (after 30 years) thus bringing public spending statistics into line with the DfE accounts. The sums are substantial; at Spring Statement 2019 the Office for Budget Responsibility (OBR) estimated an impact on the deficit of £10.5bn in 2018-19 rising to £13.7bn in 2023-4.[31] This will make the taxpayer subsidy more visible and more immediate - and as a result will bring HE financing back into the arena of budgetary debate.

FECs, ITPs and other providers are funded in a completely different way - FECs receive annual contracts for adult (post 18) education based on the amount of education and training - delivered in the previous year using a centrally set list of approved prices for different qualifications. Once a contract is awarded by the Education and Skills Funding Agency (ESFA) - a government body - an FEC can claim for the cost of provision, up to the limit of the contract. This system is far more restrictive and cumbersome than that enjoyed by the universities: in effect it constitutes a college-by-college number cap. A further important difference is that the government records costs up front, as it does for schools: the full cost of the contracts appears at once in the public accounts.[32]

There are in effect two different systems of funding tertiary education. The one allows uncapped student numbers, is unrestricted in the application of funds and until recently did not have to be recognised in the public accounts for 30 years. The other caps numbers, is restrictive in the use of funds and has to be accounted for upfront in public expenditure. Given these fundamental differences, it is no wonder post-18 education is the story of care and neglect we identified at the beginning of this report: the funding system guarantees that it will be.

Social mobility

> *"If progress continues at the current rate, it will take 120 years before disadvantaged young people become as likely as their better-off peers to achieve A levels or equivalent qualifications. In higher education, it will take more than 80 years before the participation gap between students from disadvantaged and more advantaged areas closes."*
>
> Social Mobility Commission, 2017[33]

According to authoritative academic research there has been no improvement in social mobility in Britain over half a century: increases in wealth and changes in the overall structure of the job market have had no impact on the relative chances of people born into less advantaged groups. Indeed, 'rising upward and falling downward mobility in the mid-20th century are now being reversed.'[34] A recent OECD report on social mobility found it to be frozen or declining in many countries. The report estimates that, on current trends and despite recent progress, it would take five generations for a low-income UK family to reach the average UK family income. This is slower than the OECD average and much slower than in Scandinavian countries with the highest income mobility rates. The same report comments that those born between 1945 and 1975 had much greater chances of social mobility than those born afterwards.[35]

Education is a potential means of thawing this social permafrost. Yet despite some people obtaining considerably more education at higher levels than they would have done in the past, social mobility in England is not improving. We begin by illustrating recent patterns in the English education system.[36]

At school level, there have been some significant improvements in recent decades. A level 2 qualification – which within the academic/school-based route is equivalent to 5 'good' (grades A* - C or Level 4 – 9) GCSEs - is widely considered the minimum benchmark for employability in a range of productive occupations. Between 2005 and 2017 the percentage of the cohort achieving Level 2 by age 19 rose from 67 per cent to 84 per cent and the percentage achieving Level 2 with English and Maths rose from 46 per cent to 69 per cent.[37]

There has also been a significant increase in the proportion of young people achieving a Level 3 by age 19: up from 43 per cent in 2005 to 58 per cent in 2017.[38] A large part of this increase reflects a rise in the number of people attending university with Level 3 BTEC diplomas, a more practically-taught alternative to A level.[39]

However at age 18, the starting age for our report, the picture becomes very different. Figure 1.3 shows, in more detail, that progress for learners who do not complete their Level 3 by age 18/19 is virtually non-existent. The cohort analysed here took GCSEs in 2011. Two years later, in 2013, over a third of young people had failed to achieve Level 3 , whether through A levels, a BTEC Diploma or a craft qualification. For all but a tiny few, their highest qualification in the years that follow remains at Level 1 or 2: in 2017, the numbers stuck at this level remains over a third of the age cohort. The table also illustrates very clearly that among those who do achieve a Level 3 at age 18/19, extremely few progress to a Level 4 or 5: the numbers who gain that level of award at any point is tiny. The next step after Level 3 is, effectively, a Level 6 (full degree), or nothing: there is a near-total barrier to progress for people who have achieved a basic level of education at age 18, but do not progress to university or an apprenticeship.

Figure 1.3: KS4 leavers' cohort 2010/11. Highest level of education acquired per year during period 2011-2017 (Source: Espinoza and Speckesser 2018)[40]

Highest level of education	2011	2012	2013	2014	2015	2016	2017
Level 1 or below	46.6%	31.1%	26.8%	25.4%	24.8%	24.6%	24.4%
Level 2	53.4%	12.6%	11.3%	11.3%	11.3%	11.4%	11.4%
Level 3 Vocational		14.6%	15.4%	16.4%	16.7%	11.2%	10.4%
Level 3 Mix		2.0%	3.8%	3.8%	3.7%	4.2%	3.5%
Level 3 A-Level		39.4%	42.3%	42.2%	42.2%	25.3%	17.8%
Level 3 + Apprenticeship		0.3%	0.5%	0.7%	0.9%	1.0%	1.0%
Level 4 and 5, and Level 6 Vocational		0.0%	0.0%	0.2%	0.3%	0.6%	0.6%
Level 6 Academic				0.0%	0.1%	21.8%	30.8%
Sample: 637,000							

Turning now to those who apply to go to university, the Centre for Vocational Education Research found that, even after controlling for many other characteristics, including prior attainment at GCSE level, the following trends existed, and that, for most of these differences, the gaps are widening rather than closing:

- Regions differ in the likelihood that young people will apply to higher education.
- There are wide differences among different ethnic groups (and all minority ethnic groups, other than Afro-Caribbean, are more likely to apply to higher education than their white equivalents).
- Girls are more likely to apply to university than boys.
- Young people with a graduate parent are more likely to apply to university, for any given set of GCSE or A level grades.
- Those with graduate parents are more likely to do A levels in preparation for University: a third of individuals with less than 5 good GCSEs (grade A*-C) who aspired to an academic route and had graduate parents followed an academic route, compared with 15 per cent or fewer of those with academic aspirations but whose parents were not educated to degree level. [41]

These findings help to explain why even though the higher education entry rate for disadvantaged 18-year-olds in 2018/19 was the highest on record, huge gaps in access and progression remain.[42] Using generally accepted definitions, advantaged students were more than twice as likely to enter full time higher education in 2018 as their disadvantaged peers.[43] The most advantaged students are 4.5 times more likely to go into higher education than the least disadvantaged.[44] While some areas of London see over 60 per cent of young people in the area entering higher education, fourteen local authorities outside London see less than a third of their young people progressing to university or a HE course in a college.[45] Students from disadvantaged backgrounds are disproportionately likely to attend low tariff institutions[46] and more likely to drop out.[47] These students are also less likely to achieve first class or upper second degrees compared to their more advantaged counterparts[48] and to earn

less after graduation.[49] Lower prior attainment is the predominant factor.[50]

Expanding higher education does not automatically lead to more social mobility: as we stated in our first principle, 'increasing the sheer volume of tertiary education does not necessarily translate into social, economic and personal good. That depends on the quality, accessibility and direction of study'. Later sections of this report make recommendations that are intended to improve those outcomes.

Skills and skills mis-matches

In many respects the UK has a highly successful economy, ranking as the seventh largest in the world[51], with 76 per cent of the working age population in employment, the joint-highest since measures began in 1971[52], and strengths in sectors as diverse as automotive, aerospace, digital and financial services. However, we heard from employers and academic experts of a shortage of higher technical and craft skills which in some sectors and regions is acute. Skill shortages and skill mis-matches reduce efficiency and act as drags on productivity growth. This is of particular concern given the British economy's extremely poor growth in productivity since the 2008 financial crisis, both in absolute terms and in comparison with many other developed countries.[53]

In an important speech at the Academy of Social Sciences in 2018, Andrew Haldane, Chief Economist at the Bank of England, said that "UK productivity is running almost 20% below its level had it continued along its pre-crisis trend". He went on to add that "The UK faces perhaps no greater challenge, economically and socially, than its productivity challenge. Meeting that challenge would deliver benefits to workers in improved wages and skills and to companies in greater efficiency and profitability. It would also contribute to closing inequalities of income, wealth and opportunity which have rightly and increasingly preoccupied policymakers over recent years."[54]

It would be simplistic to believe that the productivity puzzle can be solved just by improving the supply of skills in the economy. Factors such as England's institutional infrastructure, regional differences, the means of technology transfer and the availability of financial capital all play a part but it would be equally simplistic to believe that skills shortages have nothing to do with it. Andrew Haldane's belief that improving productivity would help close 'inequalities of income, wealth and opportunity' is closely aligned with our own objectives. We believe that the skills gap is both a cause of the problem and - if it can be filled, can help to solve it.

Skills shortages are certainly to be expected in a buoyant economy with full employment but when they persist over a long period in particular occupations, they indicate failings in the education and training system. The panel heard repeated evidence of such long-standing problems. These systemic failures are of particular concern in a fast-changing labour market characterised by shortening job cycles in which the nature of work can change every decade, the steady advance of automation and artificial intelligence, and fierce global competition.

The evidence for skill shortages is particularly strong in STEM-related areas and the skilled trades.[55] Although there is evidence of some 'hollowing out' of the labour market, with falls in the share of intermediate skilled jobs in recent years, there are still very large numbers of such jobs, within a workforce that has been growing in size overall. Moreover, and crucially, there are very different rates of change in demand within this broad category. In the UK, for example, there has been rapid growth in demand for intermediate or technician level jobs in sectors that include construction and agriculture as well as health and information technology.[56] Recent detailed analysis of occupations with persistent skills shortages highlights a sizeable number of technician and skilled trade jobs as skill shortage occupations, many of which are in these sectors.[57] These long-standing shortages indicate serious structural problems.

National longitudinal studies and earnings data provide clear evidence of very strong demand for mathematics and for STEM expertise more generally: the consistently high returns to these subjects are a classic manifestation of high demand and constrained supply. Controlling for a multitude of other factors (including tertiary qualifications), someone who has passed a Maths A level can expect earnings that average over 10% more than those of others in their peer group, and the returns have been increasing over time. Individuals who achieved an A* in Maths GCSE achieve especially rapid earnings growth in their early careers compared to their peers. At university, individuals with at least one STEM A level are mostly found taking degrees with high returns again reflecting the high labour market demand for STEM skills.[58]

The polarisation in educational attainment noted above manifests itself particularly in the development of intermediate and advanced technical skills:

- In England, only 4 per cent of 25 year-olds hold a Level 4 or Level 5 qualification as their highest level, compared to nearly 30 per cent for both Level 3 and Level 6.[59] In contrast, in Germany, Level 4 and 5 makes up 20 per cent of all higher education enrolments.
- We also compare quite poorly with OECD comparators on the stock of people with intermediate (Level 2/3) skills in the workforce.[60] Almost 40 per cent of 25 year-olds hold a Level 2 or less as their highest qualification; while a further 26 per cent of individuals do not progress beyond Level 3.[61]

Those few who do obtain a Level 4 or 5 award – often by a rather circuitous route – move into well-paid skilled jobs; the median annual income of someone with a Level 4 or 5 is around £2,000 higher than someone with a Level 3 by the age of 26 and comparable to the earnings of some graduates.[62] Similarly, as discussed later, Level 3 apprenticeships in the skilled trades and engineering are very highly valued by employers – indeed in the latter case, for men at age 28, more than some Level 6 degrees.[63] However, as discussed further below, apprenticeship in England has in recent years been concentrated at lower levels (typically Level 2) than is common in the rest of Europe. Skill shortages in contrast are most evident at Levels 3 and above.

Employers have dealt with some skills shortages (for example in construction) by hiring recent immigrants with the relevant skills. They have also responded to the lack of Level 4 or 5 qualified applicants by taking on graduates as technicians, although without the relevant practical training graduates are often actually under-skilled for such roles and tend to leave quickly.[64]

England's education and training system currently stands in the way of taking on technician apprentices in emerging and small sectors. With no central mechanism for ensuring coverage, some employers have told us that it is often hard to identify colleges or other training providers willing to provide the necessary education and training. Providers will only do so if they are assured of a critical mass of apprentices, since otherwise the training is financially non-viable – especially if it requires expensive equipment.

> *"the prevailing funding regime....all too often discourages providers from offering ... longer, more expensive higher-level (training)"*
>
> Paul Lewis, a leading expert on technician skills and training from King's College London, in evidence submitted to our skills workshops.[65]

Some recent attempts have been made to address the need for specialised centres of training. England's four National Colleges, announced in 2015 are intended to develop national centres of excellence in specific areas, at levels up to degree (Level 6), with a strong emphasis on technician training.[66] However, it has proven difficult for them to grow, and develop Level 4 and 5 provision, within the current funding regime. In addition, the government has recently announced 12 Institutes of Technology, collaborations of HE and FE providers and local employers, designed to increase technician level provision.[67] We support these initiatives but believe that a more comprehensive solution to skills shortages will be required, encompassing all higher and further education institutions, and providing systematic sectoral and geographic coverage.

Oversupply of graduates

We heard evidence indicating that the current supply of graduates is greater than job and skill requirements. It is hotly contested territory, with the HE sector referring to reports that a rising 50% of employment vacancies require applicants to hold a degree and some going so far as to suggest that in the modern world of work, graduate skills are relevant to most jobs.[68] However, although there is no consensus on how to measure oversupply, most studies consider the number of English graduates in 'non-graduate employment' to be between 30 and 50 per cent. The ONS find an overall upward trend since 2002[69], whereas in an analysis of graduate jobs published in 2014, the academics Green and Henseke concluded that 'over education' of graduates in the economy had remained reasonably stable at 30 per cent.[70] The panel is in no position to provide a definitive estimate, but notes that the UK is an outlier internationally in terms of the proportions of graduates in non-graduate employment. Using the 2012 Survey of Adult Skills, the OECD found that 28 per cent of university degree holders in England reported being overqualified for their jobs, compared to 14 per cent on average across OECD countries.[71] And in a follow-up study to their 2014 report, Green and Henseke (2016) concluded that 34 per cent of graduates in England and Northern Ireland are in non-graduate jobs, more than all the other countries in Europe except for Ireland and the Czech Republic.[72]

The social and economic value of a degree is not always reflected in wages – nursing and healthcare are examples of modestly paid but socially valuable professions - but analysis conducted by the Institute for Fiscal Studies for the DfE compares wage returns for graduates at age 29 with wage returns for those who have similar prior attainment at age 18 and 16, but did not attend university.[73] This shows a wide variation – and for some courses and institutions, lower returns than for those with similar prior attainment who did not attend university. This is likely to lead to disappointment for those graduates who went to university with greater expectations but the consequences are felt not only by them. As the sociologist John Goldthorpe has pointed out 'a situation of over-qualification at the graduate level in turn results in the 'bumping down' of the labour-market value of all lower-level qualifications.'[74] Once we understand that relationship we can understand the complex organism that is tertiary education in England, the important role it plays in the country's social and economic life and the benefits of ensuring that the system genuinely works for everyone. The rest of this report makes recommendations that are intended to address these issues.

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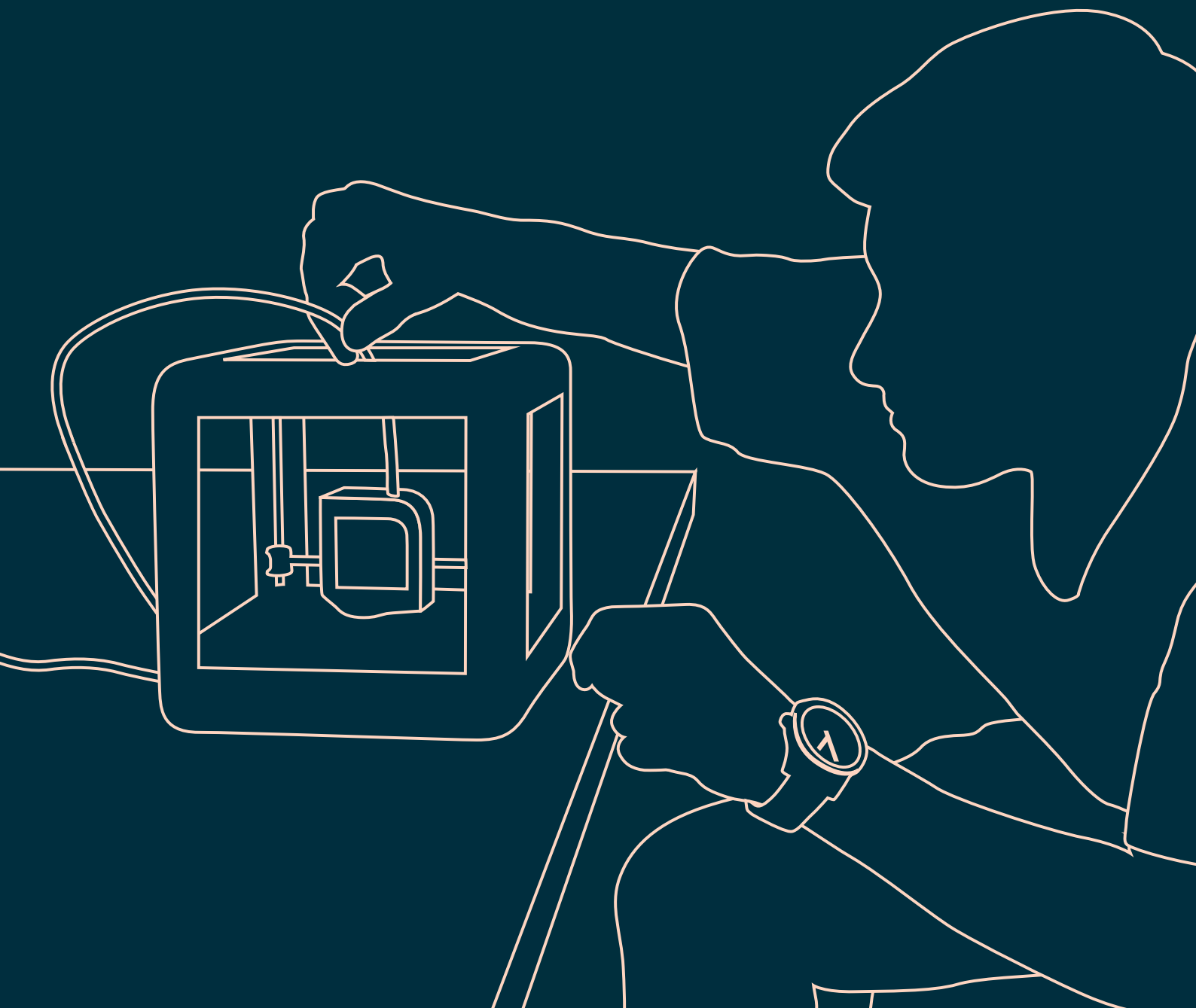
Chapter two:

Skills



Introduction

This chapter focuses on the capacity of the post-18 education system to produce a suitably skilled workforce, and how this might be improved. It proposes a number of changes which we believe would improve higher and further education's responsiveness to the labour market, both in the immediate and longer term future.

Skills formation is not the only purpose of our post-18 education system but it is fundamental to the future prosperity of the country and is the single most important reason why taxpayers and individuals alike contribute to its costs. The previous chapter outlined how current arrangements are allowing skills gaps to endure and the barriers to progress that remain.

Part of the solution to current problems lies in improving the quality of technical education both for students under 18 and for adults. This is a government priority and we welcome a number of recent initiatives in this area. These include the introduction of T levels from autumn 2020 and proposals announced in December 2018 by the Secretary of State for Education to introduce employer-led national standards for higher technical education.[1] This chapter identifies further changes which we believe to be necessary if the government's ambitions for improved technical education and a more skilled workforce are to be realised.

Delivering technical education at Levels 4 and 5

The missing middle

England's highly distinctive pattern of post-18 participation was outlined in chapter 1 and is further summarised by two submissions to our call for evidence:

> *"...for years, technical education at Levels 4 and 5 has been a neglected area of skills policy. This neglect has led to the current situation, where progression routes into and from Level 4 and 5 courses are poorly defined and rarely communicated to individuals who could benefit from training at these levels."* [2]
>
> Lord Sainsbury of Turville, Founder of the Gatsby Foundation and Chancellor of the University of Cambridge.

> *"The Government must therefore comprehensively challenge the school to A level to University narrative that persists in the public consciousness in order to ensure that awareness of level 4 and 5 technical and vocational qualifications increases and that these options are seen as more desirable."*[3]
>
> Burton and South Derbyshire College, a further education college.

The country's very small number of Level 4/5 students translates into persistent skill gaps at technician level and also severely reduces opportunities for people who are unable, for whatever reason, to progress directly from Level 3 to Level 6. Evidence to the panel showed wide support for expanding Level 4 and 5 enrolments from their current levels. What is less well recognised is that enrolments at these levels have actually been falling recently, in spite of renewed concern about technical education and technician shortages. In 2009/10, there were approximately 510,000 learners enrolled on a sub-bachelor (Level 4-5) course: by 2014/15 this had reduced

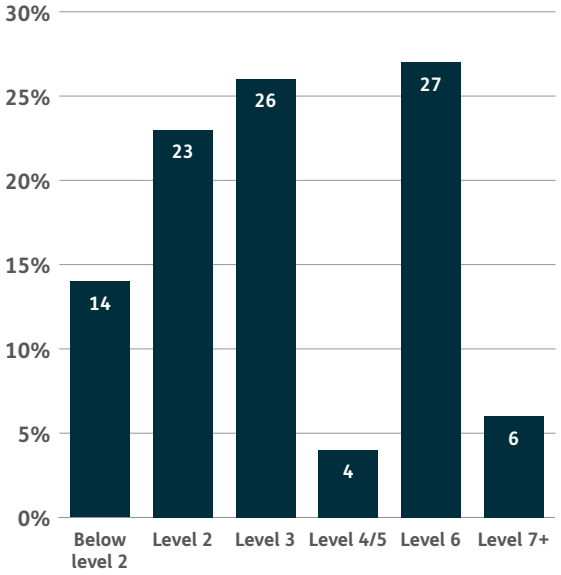
to 240,000[4] and by 2016/17 to 190,000.[5] These declines are accounted for in large part by the way in which post-18 funding is currently organised. Experts on adult and part-time higher education (HE) agree that changes in the funding rules for degrees have forced changes in the type of HE course taken as well as reducing total numbers at sub-degree levels. For example, Professor Claire Callender informed us:

> *"There has been a dramatic shift in entrants' qualification aims and their intensity of study, signalling a change in the nature of part-time provision with a move towards more degree courses and away from vocationally oriented short 'continuing' education type courses. These shifts are associated with the student loan eligibility criteria."* [6]

We believe that funding structures and incentives must be changed if Level 4 and 5 uptake is to increase. Changes are also needed for Levels 2 and 3: these are discussed in the later part of this chapter.

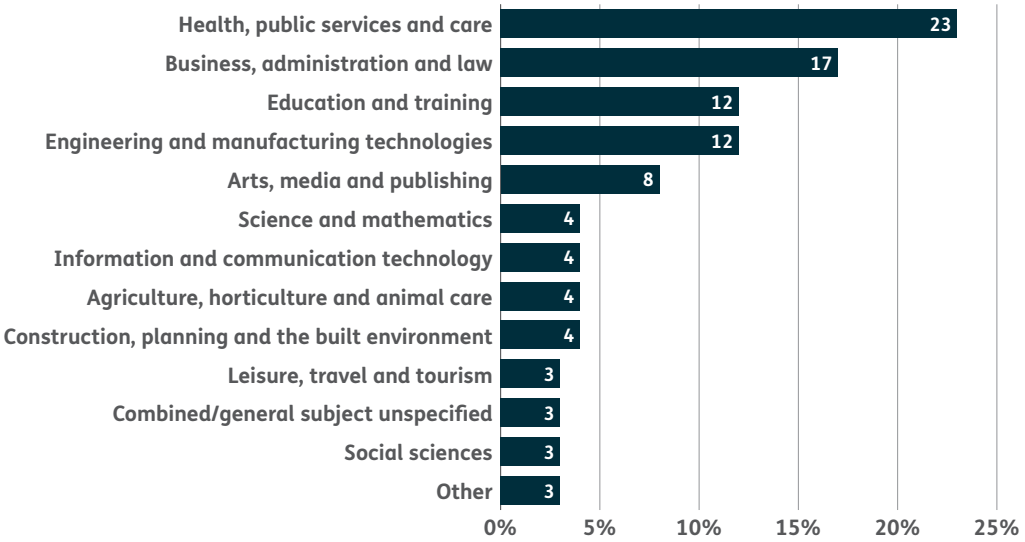
Level 4/5, or higher technical provision, is currently delivered across further and higher education and includes a range of qualifications and duration of study. Learners are on average aged 30[7] and around half study part-time.[8] Qualifications at these levels include higher nationals (HNCs/HNDs), Foundation Degrees and Certificates and Diplomas: they can support either entry to skilled work or further study. However, as noted above, there were only 190,000 people studying at Level 4 or 5 in 2016/17 (excluding apprenticeships),[9] compared with approximately 1.14 million learners at Level 6.[10] Only 4 per cent of the English cohort who will shortly turn 30 had achieved a Level 4/5 as their highest qualification by the age of 25, as shown in Figure 2.1. More recent data on a younger cohort, discussed in chapter 1 (Figure 1.3) show that very few people – less than 1 per cent – do so by their early twenties.

Figure 2.1: Highest level of qualifications achieved by age 25, England: cohort that undertook GCSEs in 2004/05[11]



Moreover, overall, as Figure 2.2 demonstrates, only a small minority of Level 4/5 learners are found in the STEM-related technical areas where skills gaps are especially evident. The most common subject areas are Health, Public Services and Care, and Business, Administration and Law – with relatively few in technical subjects such as Construction and Science.[12]

Figure 2.2: Level 4/5 learners by sector subject area, 2016-17[13]



*Other includes: Languages, literature and culture; Retail and commercial enterprise; History, philosophy and theology; and Preparation for life and work.

This gap in higher technical education makes England an outlier by international standards. To match the proportion of learners studying Level 4 and 5 qualifications in Germany and the OECD average England would need to double current numbers[14] but the long term trend in England is that numbers are declining.[15]

This was never deliberate government policy. The Dearing Report of 1997 – in many respects the inspiration for recent developments in higher education – both expected and strongly recommended that a large part of future growth in universities should involve 'sub-degree' (i.e. higher technical Level 4 and 5) courses.[16] Foundation Degrees (Level 5) were launched in 2001 and were intended to provide courses closely linked to employer needs, yet enrolments in England have been falling steadily in recent years, from a high of over 81,000 in all years of study in 2009/10 to approximately 30,000 in 2017/18.[17]

The missing middle is the result of current incentives for learners and providers

At present, both on the supply and demand side, incentives are stacked in favour of the provision and take-up of three-year full-time undergraduate degrees and against the provision and take-up of Level 4/5 courses – or, indeed, of part-time and adult study generally, both of which are in decline. Although the quality of courses and of information, advice and guidance are important, and are discussed below, financial issues are the fundamental cause of this. They explain why there has been a decline in higher technician provision at a time when the labour market provides clear evidence of skill gaps, and are critically important in explaining why our skills system supplies so little part-time and flexible provision at a time of rapid economic change and lengthening work lives.

The current structure of higher education is driven in very large part by two important policy changes. The first introduced income-contingent loans for home students studying for specified HE courses up to Level 6 in 1998. The second was the lifting of the numbers cap on HE admissions in 2015. These are explained in full in chapter 3. Briefly, they mean that today, any home student accepted for an approved course within English HE – Levels 4 through 6 – can borrow for fees for up to four years of study (full-time equivalent). However, there are restrictions. A complex system of 'Equivalent or Lower Qualification' (ELQ) rules effectively prevent anyone from receiving direct financial support for any HE (Level 4-6) qualification[18] at a level at which they have already studied. Restrictions apply even to those who previously followed a *privately*-funded course.

Prescribed and non-prescribed Level 4/5 qualifications

Currently, Level 4/5 qualifications are either 'prescribed' or 'non-prescribed'. Those qualifications deemed to be 'prescribed' HE Level 4/5 provision are part of the HE system. Students taking these courses get full access to HE loans for fees and maintenance, and these are regulated by the Office for Students (OfS). These include Foundation Degrees, Higher Nationals (HNDs and HNCs) and Certificates/ Diplomas of Higher Education.

'Non-prescribed' Level 4/5 provision is part of the FE system, funded by Advanced Learner Loans (ALLs) which vary in amount depending on the size of the qualification. This provision is regulated by Ofqual. These include professional Certificates, Diplomas and Awards such as those awarded by City and Guilds. There is no maintenance offer for non-prescribed courses but students can access limited financial support through a provider-administered bursary fund.

This dual system is complex for institutions, students and employers and militates against the emergence of a clearly understood higher technical pathway.

The distinction between these types of qualification is sometimes explained using the terms designated and non-designated. For the purpose of this report, the panel will refer to 'prescribed' and 'non-prescribed' qualifications at Levels 4 and 5.

So, with a number of subject-specific exceptions, someone who has taken a prescribed HE Level 5 cannot get support for a prescribed HE Level 4 or a different prescribed HE Level 5 or for the equivalent parts of a full degree; and someone who has completed a degree cannot normally get any further undergraduate-level support even if they did not take all, or any, of the loan entitlement. These ELQ restrictions are both complex and very unusual: they do not, for example, exist in Canada, Australia or New Zealand, whose HE systems are quite similar to England's, as discussed further below. They make it difficult to change subject and difficult to retrain.

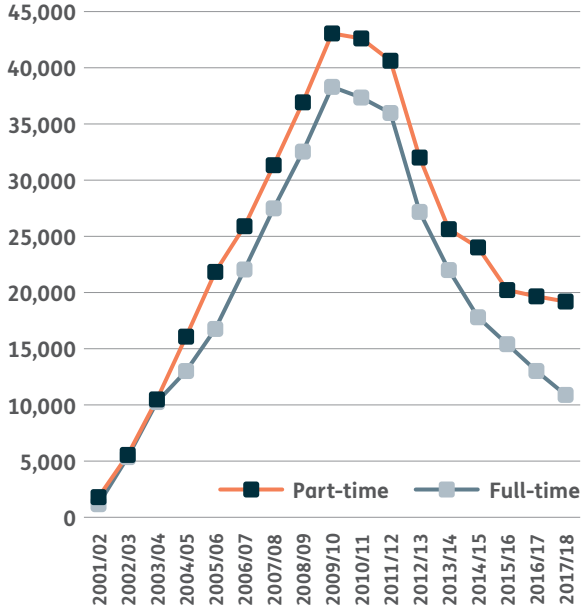
Since 2012/13, English HE students have also only been eligible for income-contingent loans if they are studying at an intensity of 25 per cent or greater of a full-time equivalent course and are following a full course for a specified qualification. Hence students studying individual institutional modules or short courses of less intensity are ineligible for loans. Academic research and evidence submitted to the panel both indicate that this has been an important factor in the decline of part-time adult learners, described in chapter 1.[19]

The Equivalent or Lower Level Qualification (ELQ)

Funding for tuition fees or maintenance loans is not provided for students taking equivalent or lower qualifications in HE at Levels 4, 5 and 6, except for a number of exemption subjects, where some learners may continue to be eligible for maintenance support only. These exemptions, introduced over a number of years, include subjects related to medical and health care, architecture, social work, veterinary surgery, and teacher training. There are also further exemptions for certain qualifications related to teaching and health care, where students are still eligible for both tuition fee and maintenance loans. There are further exemptions when studying part-time.[20]

The balance between courses at Levels 4/5 and full degrees at Level 6 has shifted following these policy changes. The latter became ever more dominant: higher technical awards by English HE institutions (HEIs) are not merely few in number but in continuing decline. Figure 2.3 illustrates this for one important Level 5 award, Foundation Degrees, where enrolments, following the lifting of the numbers cap, have fallen sharply. As we explained earlier, this is not because UK employers do not value higher technical qualifications: wage returns to higher technical qualifications are positive and significant,[21] and in Scotland, with different post-18 arrangements, HNDs and HNCs remain numerous and important.[22]

Figure 2.3: Foundation Degree enrolments (all years of study) in England, 2001/02-2017/18[23]



The reasons for the decline in Level 4/5 enrolments in England are that current arrangements set up an interconnected set of incentives which result in young people opting for full-time degrees (Level 6) and in institutions marketing and supplying full degrees at maximum price to the near-exclusion of other options.

Income-contingent loans mean that young people can and do take on debts in the knowledge that, if things go wrong and they earn little, the debt will be written off. In addition, any loan allowance not borrowed by pursuing a lower cost course cannot be used for anything else because the ELQ restrictions are, by design, pushing learners to always 'advance' in the sense of moving on to qualifications (of any sort and content) at a higher level.

Compared to many other countries, our funding arrangements drive providers away from higher technical provision. Developing new courses is always risky, especially if they require large amounts of equipment or the hiring of very specialist staff; given current conditions, launching new high-cost provision at Level 4 or 5 is additionally risky and financially unattractive. As discussed in chapter 3, current teaching grant levels for technical subjects, which top up income from fees, are low by historical standards: one private alternative provider that we visited told us that provision of technical degrees was simply unaffordable for them. Funding incentives drive providers to Level 6 and disincentivise the provision of technical subjects at all levels. The support system makes a full Level 6 the obvious choice for students. The contraction in higher technical education and the resultant skills gap are the consequences.[24]

The case for flexible learning at Level 4 and above

The eighth and last of our principles as set out in chapter 1 states that 'post 18 education needs to be forward looking'. This links to our belief that the system should support a 'workforce able to respond to change and develop further skills throughout their lives' as set out in Figure 1.1. Evidence submitted to us emphasised that in order to achieve this, there needs to be more flexibility and variety in the way people can access education.

The CBI, for example, told us that:

> *"The post-18 system should become flexible enough to facilitate additional routes to higher skills be it through higher or further education providers. This will be essential to ensure individuals already in the workforce can learn on a more modular basis and not have to choose work or study."* [25]

The CBI also expanded on this in a joint public paper with Universities UK:

> *"As the UK's economy grows, in the context of global change, the needs of employers, employees and learners will also change. There is a strong economic imperative to improve flexible learning opportunities to improve the life chances and employment outcomes of those wishing to change or improve their careers, as well as increasing productivity of businesses through addressing skills shortages and upskilling existing employees."* [26]

A related theme emerging from our call for evidence was the need to encourage shorter courses which could be used by adults to upskill and reskill. Mary Curnock Cook, a former Chief Executive of UCAS and an acknowledged expert in HE, noted:

> *"Funding based on credits, which could be built up over any stretch of time would make sense, not least for part-time providers like the OU and Birkbeck which need to be flexible to accommodate usually adult and therefore 'messy' learners... A flexible funding system would encourage more innovative models which might mix full-time, part-time, distance and work-based provision over varying stretches of time."* [27]

We invited leading academic experts on skill requirements and provision to contribute papers and discussion to a workshop. The consensus from these and other experts is that current arrangements are ill-suited to helping employees or companies upskill and that greater flexibility and access to shorter periods of learning are needed. The recent House of Lords enquiry into the economics of post-school education similarly recommended that the system should:

> *"Ensure flexibility between levels and types of study. This should include funding for modules or credit where a full degree is not required."* [28]

We believe that equipping people with the skills to adapt to a constantly evolving employment market is key to a successful future. This is a government priority as set out in the Industrial Strategy which declares that:

> *"We will ensure that everyone can improve their skills throughout their lives, increasing their earning power and opportunities for better jobs. We will equip citizens for jobs shaped by next generation technology. As the economy adapts, we want everyone to access and enjoy good work".* [29]

Andrew Haldane, chair of the Industrial Strategy Council and Chief Economist at the Bank of England has argued in this context that:

> *"The future university may need to be a very different creature than in the past. It may need to cater for multiple entry points along the age distribution, rather than focussing on the young. And it may need to cater for multiple entry points along the skills spectrum..."* [30]

The following section proposes funding reforms that can help to deliver this flexibility, and also reverse the decline in Level 4/5 qualifications to address higher technical skills gaps.

Restructuring loan entitlements

We make three recommendations intended to promote both uptake of higher technical qualifications and flexible study. The core proposal is that individuals should be able to draw down their HE loan allowance over a lifetime. We also propose, secondly, the abolition of certain restrictions on equivalence and intensity. Learners should also, thirdly, be able to access funding for one module at a time, *without having to sign up to a full qualification* as they do at present.

Maintenance should be drawn down on a pro-rated basis as currently happens for part-time students. Learners should be able to build up to full qualifications over a number of years, should they wish. Learners should be able to access student finance for tuition fee and maintenance support for modules of prescribed HE qualifications at Level 4, 5 and 6, in order to maximise flexibility and enable providers to respond quickly to labour market demands.

Qualifications eligible for funding under this recommended change should all be credit-based: credits are explained in the accompanying box. Modules eligible for individual funding should be for a minimum of 30 credits: as a reference point a single year's full time Level 6 course brings 120 credits.[31] A 30 credit course, in our view, represents a significant amount of teaching and learning, and is an appropriate minimum for upskilling or reskilling. It is also short enough to be combined fairly easily with work and other commitments.[32]

Credit and modules[33]

- Credit is a means of quantifying and recognising learning. Individual modules and programmes may be assigned a credit value which indicates both the amount of learning expected (the number of credits) and its depth, complexity and intellectual demand (the credit level).
- 'Module' or 'unit' is a self-contained, formally structured, learning experience with a coherent and explicit set of learning outcomes and assessment criteria. Currently these comprise a variety of credit values, ranging from 10 to 60 credits, depending on the institution.
- If studied full time, a Level 4 usually takes one or two years depending on the type of qualification, a Level 5, two years and a Level 6, three or four years, although there are a number of much longer courses such as medicine and architecture.
- 'Course intensity' measures how much of a course a learner is enrolled to complete each academic year compared to a full-time equivalent course. The minimum intensity is currently 25 per cent which equates to 30 credits.
- A Level 4 qualification usually equates to 120 credits; Level 5 equates to 240 credits, and a Level 6, to 360 credits.

Our proposal would not require any change in the total amount that an individual might borrow: as noted above, current arrangements entitle any home student to access loans for four years' worth of full-time fees and universities can accept as many home students in total as they see fit. However, we do propose, for loans made under the new allowance, that both the restrictions currently associated with 'ELQ' rules, and the 'intensity' requirements (which restrict loans to study towards full qualifications, at 25 per cent intensity or more) should end.

Recommendation 2.1

The government should introduce a single lifelong learning loan allowance for tuition loans at Levels 4, 5 and 6, available for adults aged 18 or over, without a publicly funded degree. This should be set, as it is now, as a financial amount equivalent to four years' full-time undergraduate degree funding.

Recommendation 2.2

Learners should be able to access student finance for tuition fee and maintenance support for modules of credit-based Level 4, 5 and 6 qualifications.

Recommendation 2.3

ELQ rules should be scrapped for those taking out loans for Levels 4, 5 and 6.

In the longer term, when considering Level 4 and 5 qualifications specifically, only those qualifications which meet the new employer-led standards, as outlined later in this chapter are in scope for these three recommendations. This is explained further below.

We believe that these three recommendations should apply to those who do not already have a publicly-funded or publicly-supported degree. In line with present practice, the upper loan limit should be set as a financial amount equivalent to four years' full-time undergraduate degree funding: £30,000, under the panel's recommended fee cap of £7,500 per year. The system would need to flex to accommodate longer courses, such as medicine and architecture. There would be no change to the current rule that maintenance support is made available for the first HE qualification at each level.

Figure 2.4 summarises the difference in the choices faced by individuals and by institutions under the current and our proposed system. Overall, we believe that introducing a flexible lifetime loan allowance would make a fundamental and positive difference to the relative attractions of part-time, adult, and Level 4/5 study, and would strongly encourage young people to think about their higher education in terms of a lifetime of employment. Individuals would be able, under these arrangements, to work, to move on or move up, and still have the opportunity to return to study later, using any outstanding loan allowance, and in the subjects, and at the levels, that suit their careers. A lifetime loan allowance would also ensure that there are new incentives for borrowers both to be price-sensitive, and to take a loan for only part of their current fees, thus retaining some entitlement for future years, should they need it.

The incentives faced by higher education institutions would change and, therefore, so would their behaviour. Demand for Level 4/5 and for short courses should grow and be actively encouraged as demand from learners increased.

Institutions would also have an incentive to revisit charging. Price may still be a signal of quality but increases in the price-sensitivity of students would mean that they would be looking for institutions which could demonstrate that quality remained high, but charged below the fee cap. Especially at higher technical levels, and for adult students who cannot study full-time, or relocate, we would expect our proposed reforms to strengthen demand for provision in further education colleges.

These changes would mark a major shift in the way individuals access funding and would require the Student Loans Company (SLC) to administer them. The overwhelming majority of students studying at Levels 4, 5 and 6 are already on courses which are credit-based. The SLC already deals, as a

matter of routine, with full-timers and part-timers, and with students who interrupt their course for personal or professional reasons, and then return. However, we are aware that a good number of our recommendations, in this chapter, but also in the chapters that follow, would mean changes in the terms and conditions for student loans. It may not be reasonable or desirable for them all to be implemented at once. Given the complexity of any new arrangements, government should assure itself that delivery partners have the capacity and capability to deliver a secure and stable platform before implementing these changes.

Figure 2.4: Choices facing individuals and institutions under current funding rules, and with an individual lifelong learning loan allowance

	Individuals entitled to one funded course per Level (the status quo)	Individual allowance to a loan amount which can be used at any time for any approved tuition at Levels 4, 5 and 6
Individuals	Choose one full degree at the maximum fee level, since any unused loan cannot be used later.	Consider taking shorter courses, especially to start with and preserving the remaining entitlement for future use. Shop around for provision which is good but cheaper since this preserves loan entitlements for future flexible learning.
Institutions	Offer the longest courses at the highest fee level permitted. Target full-time enrolments at age 18.	Offer more modular provision, as well as Level 4 and 5, which can be topped up later. Compete on price as well as reputation and entry requirements. Target older individuals who are retraining or changing occupation.

We examined the operation of the more flexible finance systems in Australia and New Zealand. Both countries have operated successfully for some time with a flexible lifetime loan entitlement for tertiary study, similar to the one recommended here. Singapore also offers all adult citizens a 'skills account' and England has experience of relaxing ELQ rules for Level 6 study in STEM subjects. These examples indicate that, with careful planning, a lifetime loan allowance can be successfully introduced and operated.

Loan support in Australia

Since student number caps were lifted in 2012, Australia's tertiary education sector has grown significantly, becoming more diverse and accessible, with multiple pathways to entry.[34]

Tuition fees vary between universities and the type of course. All University students can apply for Australia's income-contingent Higher Education Loan Program (HELP) to pay tuition fees. The majority of undergraduates are eligible to access a subsidised place which comes with a subsidised HECS-HELP loan.[35] Most undergraduates will be enrolled in a place where the government pays part of their fees, called a commonwealth supported place (CSP). This part is a subsidy, not a loan, and does not have to be paid back. This subsidy does not cover the entire cost of the study and students must pay the rest, called the 'student contribution amount', this amount differs with subjects being classified into three bands with different student contribution limits for each.

However, for those that are not eligible they can instead use the FEE-HELP program. This is a universal entitlement: it is available to all domestic students enrolled in approved HE providers, regardless of level of qualification or previous qualifications. Students can access up to a lifetime maximum of AUS $104,440;[36] this is designed to allow students to re-train and re-skill throughout their lifetime.

Australia differs from England in that through this system almost every student will be able to access a loan to cover the cost of tuition fees (either subsidised or not) repayable on an income-contingent basis irrespective of previous equivalent level qualifications. The only students that are unable to access a loan would be those that had reached their FEE-HELP lifetime maximum loan allowance of AUS $104,440.

A report by HEPI in 2014 suggests the FEE-HELP system operated in Australia is especially beneficial for those students who are most likely to be averse to the upfront cost of studying and likely to want to reskill or retrain later in life, such as postgraduate, part-time and mature students.[37]

We also examined the failure of the Individual Learning Accounts (ILA) programme in England in the early 2000s.[38] This was the result of poor design and hasty implementation: in particular, large numbers of providers were involved, without proper controls, and were incentivised to recruit learners at speed for low-level courses.[39] Our recommendations are for a system implemented and overseen by the established Office for Students (OfS) and the SLC. We would also expect implementation to be gradual, for successive cohorts, rather than the whole population at once; and to be carefully monitored.

There are important lessons to be learned from the ILA episode but equally, we emphasise that, without these changes, neither more flexible provision, nor a major increase in Level 4/5 uptake, is at all likely. On the contrary, the incentives which are driving HE towards ever more uniform provision of full-time Level 6 degrees would remain in place.

Awarding qualifications at Level 4 and 5 mid-points in a programme of degree study

For many younger students, a single three-year, full-time degree is likely to remain the most popular option. However, sometimes students need to pause their learning, or may decide that they have made the wrong choice. Others may find themselves struggling: although English drop-out rates are low by international standards,[40] many thousands of students drop out every year, and rates are significantly higher among disadvantaged students.[41]

A change in the way universities award qualifications would, in our view, help students who have to interrupt their studies and also motivate students who are struggling to complete their current year successfully. One aspect of contemporary English provision which is little known to either students or the general public, is the possibility of exiting most undergraduate degree courses mid-way, with either a Certificate (Level 4: CertHE) or a Diploma (Level 5: DipHE). Within degree courses, these awards are mostly used only for students who leave their course partway through: this means they are not only little known but also perceived as a 'consolation prize' or even a certificate of failure.

We recommend that higher education institutions should award at least one interim qualification at either Level 4 or Level 5, to all students who are following a Level 6 course successfully. There are three reasons for this recommendation. First, creating a widely known accreditation point would motivate students who may be struggling or have decided to leave their current course. They would have an incentive to complete the current stage of their studies successfully, and acquire a formal, widely recognised certificate. Second, it would make credit transfer easier: students who wish to move institutions or courses, either immediately or, often, after a period, would have a completed award rather than a miscellaneous collection of credits. This would be easier and more straightforward for other institutions to process. Third, it would quickly make Levels 4 and 5 a central and visible part of HE and with minimal expense.

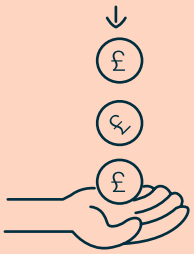
Recommendation 2.4

Institutions should award at least one interim qualification to *all* students who are following a Level 6 course successfully.

Combining the lifelong learning loan allowance and modular funding: Example routes

Person A

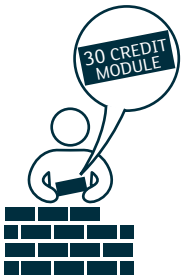
Wants to improve their job prospects



They access student finance for a one-off module to help them upskill or reskill or develop their career

Once finished they are able to show employers they have completed this module.

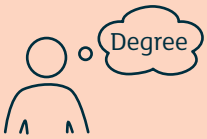
Person B



Takes one 30 credit module at a time, adding further modules over time

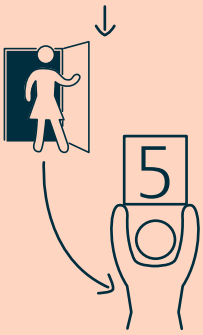
Once they have gained 120 credits they will be awarded a Level 4.

Person C



Signs up for a Level 6 degree but has to step off after a year, when they are awarded a Level 4

They go back after a break and complete more modules and get a Level 5



They go back after a break and complete further modules over a few years and get a Level 6.

Person D

Attains a Level 6 degree at the age of 21

At age 35, uses the remainder of their allowance to achieve another Level 4.

Person E

Achieves a Level 4 by the age of 25

Using the remainder of their allowance, gets a Level 5

A few years later takes another Level 4.

Improving quality and streamlining provision at Levels 4 and 5

There were over 3,000 separate qualifications at Levels 4 and 5 available to learners in 2016/17, many of which have few or no enrolled and active learners.[42] Awareness of these qualifications among employers and potential learners is low and it is difficult for them to evaluate their potential worth.

If higher technical education is to fulfil its potential, the country needs a suite of qualifications whose quality is clear and assured, and which can be easily recognised by employers, as well as a change in the financial incentives to take such qualifications.

The English government's 2016 Post-16 Skills Plan said that *"improving higher-level technical skills (Level 4 and above) is critical"* and committed to reforms under which *"only level 4 and 5 qualifications which meet national standards… will be eligible for public subsidy (via government-backed loans) as technical qualifications"*.[43] Following a DfE review, in December 2018, the Secretary of State for Education announced proposals to introduce employer-led national standards for higher technical education, through which qualifications will be badged and recognised.[44] We welcome this initiative and the new kitemarked qualifications form the basis of our subsequent recommendations on fees and funding.[45]

To ensure high quality we recommend one regulator for all institution-based (non-apprenticeship) provision at these levels to support consistent quality. The OfS should be that regulator.

Recommendation 2.5

Streamline the number and improve the status of Level 4/5 qualifications.

Recommendation 2.6

The OfS should become the national regulator of all non-apprenticeship provision at Levels 4 and above.

The case for a systematic approach to Level 4 and 5 delivery

A growth in higher technical education also requires more high quality provision. The government has already begun to address this with the creation of four National Colleges and is now in the process of establishing 12 Institutes of Technology (IoTs).[46] We support these policies in principle but note that, under current funding conditions, the National Colleges have struggled to thrive. We believe that a more systematic approach to provision is needed to ensure that a genuinely national and equitable system is established.

National Colleges

National Colleges are new institutions, created by employers to support high-level skills training in those sectors that are economically and strategically important to UK growth (i.e. High Speed Rail, Nuclear, Digital, Creative & Cultural). Courses are predominantly between Levels 4 to 6, with employers involved in developing the curriculum, and industry professionals teaching the content in simulated workplaces. The goal is for the colleges to develop a national reach by setting up 'hub and spoke' models with main campuses and satellite sites.

Institutes of Technology (IoTs)

IoTs form a key part of the government's plans for a new technical education system. They are intended to be prestigious, high-quality institutions created by existing FE and HE institutions with leading employers to specialise in meeting Level 4/5 technical skill needs in STEM-based subjects, with options for progression to degree level. In April 2019, 12 IoTs were announced and the first are expected to open in September 2019.

We note that countries with successful higher technical provision ensure that it is available nationally and is partly managed centrally. By contrast, England's market-led approach is fragmented across three types of provider at Levels 4 and 5. Universities – for reasons we fully understand and have discussed above – have concentrated on degrees rather than standalone Level 4 and 5 awards. As we will discuss in chapter 4, FECs offer 53 per cent of Level 4/5 provision but have experienced severe funding cuts, leaving them with no surpluses available for high cost higher technical provision and forcing them to focus on lower level awards.[47] The third group of participants are independent training providers (ITPs), who offer about 2 per cent of Level 4/5 provision.[48] Each has a role to play but there is no coherence to the way the three types of provider fit together.

Linked to the Industrial Strategy, we believe that the government should take a lead role in ensuring geographical coverage of Level 4 and 5 provision to ensure prosperous communities across the UK. They should identify recipient institutions within the FEC network and provide adequate means to ensure that learners have access, across the country, to high quality technical and professional education. The following recommendations are developed further in chapter 4.

Recommendation 2.7

- Government should provide additional support and capital funding to specific FE colleges in order to ensure a national network of high quality technical provision is available.
- Government should work with the OfS to determine how best to allocate this using, for example, quality indicators and analysis of geographic coverage.

Simplifying fees

Simplifying Levels 4 and 5 fees

We also recommend that in conjunction with the development of national standards, a structured approach to the delivery of higher technical education and the kitemarking of approved higher technical qualifications, the fee regime for Levels 4 and 5 should be rationalised.

At present, as discussed in the boxed explanation below, there are two quite separate systems. The first applies the standard HE fee and loan arrangements to any qualification prescribed by the OfS. The second, which applies to a very large number of Level 4 and 5 vocational awards of varying lengths, uses a wide variety of prices and a different loan system, Advanced Learner Loans (ALLs). As discussed further below, the move to ALLs, which has taken place over the last few years for non-prescribed awards at Levels 3 to 6, has been accompanied by an unpredicted and undesired fall in enrolments for these non-prescribed awards; this is not a coincidence.

Current Level 4/5 fees

Student Loans Company (SLC) data show that there is a wide range of fees charged by universities and colleges for prescribed HE Level 4 and 5 courses; this varies by level and type of provider.

HEIs with OfS approved plans to widen access and participation can charge up to £9,250 at present for Levels 4 and 5, as can FECs which have such an access agreement: for colleges without an access agreement the cap is £6,165 with a Teaching Excellence Framework award, and £6,000 without.[49]

The average headline fee charged for a Foundation Degree in a HEI in 2016/17 was £7,510 compared to £7,240 in FECs with an access agreement (£6,010 in FECs without an access agreement), suggesting there is some price competition below full degree level.[50]

Tuition fees vary for Level 4 and 5 courses that are not prescribed for HE funding. These include certificates and diplomas in vocational subjects offered by FECs. The maximum ALL loan available is based on the size and subject of an individual qualification by the ESFA and serves as a proxy fee cap. Levels vary considerably among qualifications, in large part because of differences in the number of 'guided learning hours' needed for completion and whether these lead to a full qualification. In 2017/18, the average ALL loan amount for tuition fees was around £2,700 for Level 4 and above.[51]

From 2022/23 onwards, we recommend that the fee cap for all Level 4/5 qualifications should be linked to the new employer-led national standards for higher technical education. On a rolling basis, as these new standards are introduced, fee caps for those Level 4/5 qualifications that are kitemarked should be equivalent to the fee cap set for a full Level 6 degree. This would be £7,500 a year (120 credits) under our recommendation. Other Level 4/5 qualifications in that discipline should be subject to a lower fee cap within a simplified pricing structure.

We believe a fee cap for kitemarked Level 4/5 qualifications equal to that set for degrees is important to level the playing field. Indeed, this is already the case for prescribed HE qualifications – which make up approximately 80 per cent of qualifications (and at least 70 per cent of learners) at Levels 4/5.[52] We believe a fee differential between kitemarked and non-kitemarked awards is important to incentivise providers to deliver the former and establish the 'higher technical' brand. We also believe that the simplification of the fee system, and its application across HE and FE, would make higher technical provision much easier for learners to understand and thereby more attractive.

Once the national standards are fully established, the cap for all other non-kitemarked Level 4/5 provision should be at a lower level. Moreover, again at this point, access to modular funding should be confined to kitemarked qualifications. Providers of kitemarked qualifications should receive a teaching grant top-up to reflect the extra cost of delivering that particular subject in line with that available for Level 6 providers in that discipline. There should be a pro-rata fee cap and teaching grant for courses at Levels 4 and 5 that are credit-based but less than full-time.

Until courses have been deemed kitemarked or non-kitemarked, arrangements would remain the same as at present; courses prescribed by the OfS would be eligible for the same fee caps as Level 6, and other courses would have their maximum fee set by the ESFA. However, as noted above, we urge the government to move speedily to set national standards and kitemark higher technical qualifications. We believe these will be attractive to some young people, including those who might otherwise have stopped at Level 3 and to mature people wanting to upskill.

The current and intended long term positions are set out in the following table.

Current position and long term proposals for L4/5 qualifications

Current position	Longer term (~2024 onwards)
Prescribed HE Level 4/5 qualifications • Part of HE system and overseen by the OfS, but can also be delivered by FECs. These make up at least 70 per cent of Level 4/5 learners. • Learners can access full HE student finance package, including maintenance support (equivalent to Level 6). • Institutions with an access agreement (most universities) charge up to £9,250 per annum and those without an access agreement (most FECs and Alternative Provision) up to £6,165,[53] as for full Level 6 degrees.	**Kitemarked Level 4/5 qualifications** • Improve status of Level 4/5, in line with new employer-led national standards, against which qualifications will be kitemarked. • Replace distinction between prescribed and non-prescribed courses with kitemarked and non-kitemarked qualifications. • Same fee cap (£7,500 per year from 2021-22) and eligible for same teaching grant as Level 6 qualifications. • Maintenance support package equivalent to Level 6 qualifications.
Non-prescribed Level 4/5 qualifications • Part of FE system and regulated by Ofqual – not delivered by HEIs. These make up at least 20 per cent of Level 4/5 learners. • Funded by direct payment or through Advanced Learner Loans (ALLs) for tuition (ALLs administered through the Student Loans Company (SLC)): carry small-scale support for costs of study through bursary funds. No access to maintenance support through the SLC. • Tuition fees vary based on number of learning hours, as set by the ESFA. Most non-prescribed courses cost between £3,000 and £5,000.	**Non-kitemarked Level 4/5 qualifications** • Qualifications that do not meet high-quality threshold (against national standards) will not be kitemarked. • Lower fee cap and not eligible for teaching grant. • Eligible students receive ALL bursary fund. • Once national standards are fully established, there is a case for government to review this group of qualifications.

Recommendation 2.8

From 2021-22 the fee cap for Level 4 and 5 qualifications currently prescribed by the OfS should be £7,500 – the same as that proposed for Level 6 qualifications and in line with current arrangements for prescribed HE qualifications. Longer term, only kitemarked Level 4 and 5 qualifications that meet the new employer-led national standards should be able to charge fees up to the Level 6 cap and be eligible for teaching grant. From that point, any other Level 4 and 5 courses should have a lower fee cap.

Joined up at all levels

Although skill gaps and falling enrolments at Levels 4/5 are highly visible and have attracted growing attention, they are not the only part of post-18 provision where there are major reasons for concern. At both Level 2 and Level 3, there are growing gaps between current provision, labour market demand, and the ability of our system to offer people fair and equal chances of progression.

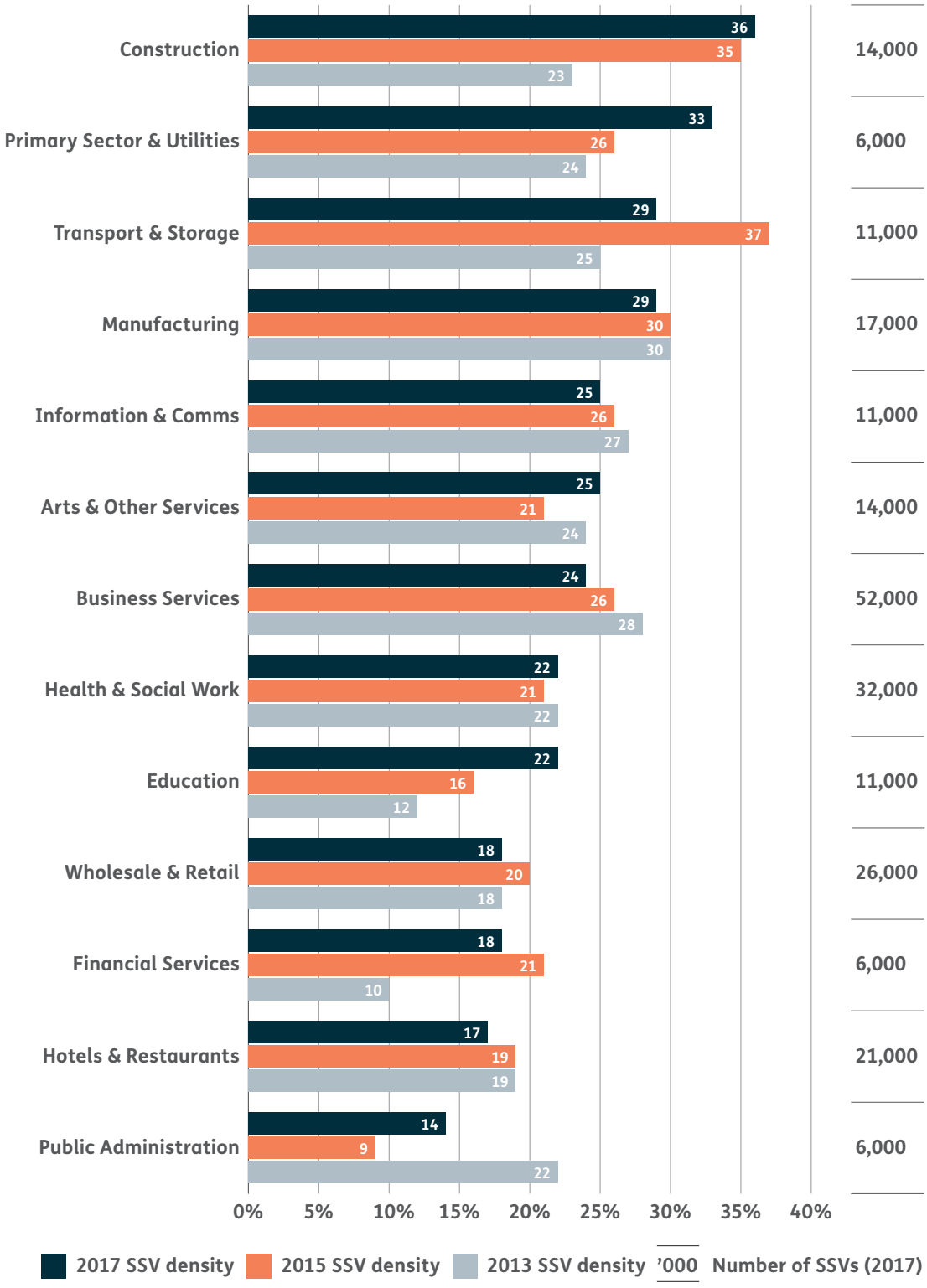
In 2016, the government established an Independent Panel on Technical Education, chaired by Lord Sainsbury of Turville. Early in 2017 that panel recommended a *"coherent technical education option…which leads from Levels 2/3 to Levels 4/5 and beyond"* a common framework for Levels 2 to 5 and *"further work to examine how to ensure clear progression routes develop from Levels 4 and 5"*.[54]

This vision was reflected in the Industrial Strategy which seeks a system in which "*everyone can improve their skills throughout their lives, increasing their earning power and opportunities for better jobs*".[55] At present, however, there is a huge divide between those who carry on into HE from a Level 3, usually at age 18 or 19, and those who do not. The latter very rarely progress to any higher level than they achieved at age 18, see Figure 2.1 above. A growing body of evidence documents how hard it is for low-paid workers, most of whom are also poorly qualified, to escape from low-paid work and progress occupationally or in income terms. For example, the Resolution Foundation finds *"just one in six low-paid employees moving onto consistently higher wages over the course of a decade"* and that when such employees change jobs it is usually for another equivalent position.[56] Hence, *"for most low-paid workers, poorly-paid positions are not acting as a first rung on the ladder – it is the only rung"*.[57]

This is not because there is no demand for skilled employees. In the UK, Working Futures estimates that associate professional and technical occupations will experience over 10 per cent growth up to 2024 from 2014. Most roles in this occupation group – for example, science and engineering technicians – utilise higher technical skills.[58] Analysis conducted on behalf of EngineeringUK shows a net requirement of approximately 400,000 associate professional occupations in the engineering sector over 2014 to 2024.[59]

Figure 2.5 below summarises the levels and recent changes in skill-shortage vacancies across the economy. While there have been some improvements (e.g. in transport and storage), levels remain high – notably in the vital sectors of construction and utilities. Here, there is strong unmet demand for craft-level skills. As discussed further below, both Level 2 and Level 3 qualifications generally yield strong positive earnings returns. And yet the number of awards being made to post-18 learners has fallen steeply and is continuing to fall. The following sections explain how this has come about and we make proposals to reverse these trends and create a clear educational route for adults wishing to study and train at Levels 2 and 3.

Figure 2.5: Number and density of skill shortage vacancies by sector, 2013-2017[60]



Retraining and funding for adults

Retraining and funding for adults at Level 3

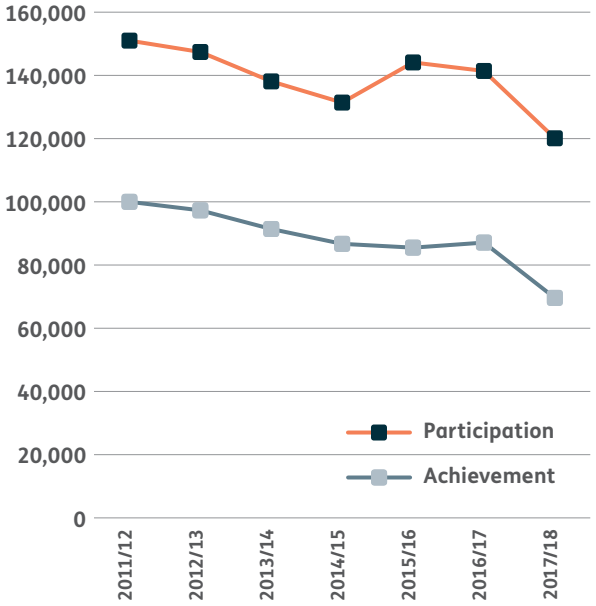
Qualifications which are at Level 3 cover a wide range of content. Many are academic, including A level, BTEC Nationals, and Access courses for adults without the right formal qualifications to enter higher education. Many others are vocational, and cover specialised skills at a high level including T levels, a suite of qualifications created as a Level 3 full-time technical option commencing in 2020.

The Employer Skills Survey 2017 found that some of the most persistent skills shortages were in skilled trades (such as electricians and vehicle technicians).[61,62] Qualifications for skilled trades are typically 'full' Level 3s and require prolonged periods of study and training, whereas other courses at this level are much shorter (and so not 'full').

Post-18 study at Level 3 is generally financially beneficial. A comparison between adult learners who do and do not complete a 'full' Level 3 qualification shows a 9 percentage point earnings return and increases their chance of being in employment by 4 percentage points on average 3-5 years after achievement.[63] Analyses by the Centre for Vocational Education Research looked in detail at the returns to different qualifications achieved between ages 16 and 24, and found that for those people whose highest achieved award was at Level 3, returns at age 26 were high, with returns depending on the type of vocational award.[64] Compared to individuals holding a Level 2 qualification, those holding a vocational Level 3 qualification all enjoyed an earnings premium. For example, Level 3 NVQs offered a 15 per cent return for men and 9 per cent return for women;[65] these are typically occupationally competence based qualifications relevant for those working in the skilled trades.

Despite these benefits, participation by adults in Level 3 study has fallen in recent years as shown in Figure 2.6. These figures exclude apprenticeships (discussed in chapter 5) but cover all mainstream educational provision for adults (19+) and include both academic and vocational qualifications.

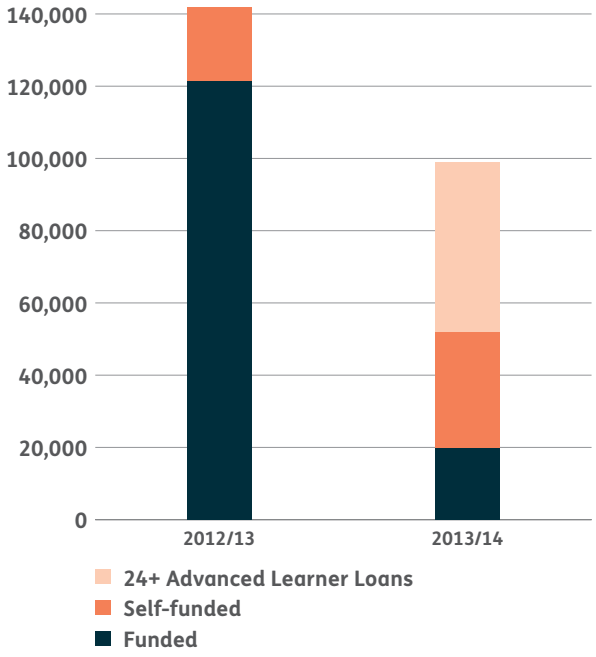
Figure 2.6: Numbers participating and achieving 'full' Level 3 awards in adult (19+) education and training (excluding apprenticeships): 2011/12-2017/18[66]



We believe that this fall is mainly a consequence of changes in funding. Prior to 2013, there was full funding for any adult's first 'full' Level 3 qualification: in other words, if an adult who had not yet achieved a full Level 3 qualification decided to re-enter education, they were not liable for any tuition fees. This changed for the 2013/14 academic year: since then anyone aged 24 or over and employed who wants to obtain a Level 3 award has had to either pay from their own resources or take out an Advanced Learner Loan (ALL) unless they can persuade their employer to contribute. From 2016/17, this has also been true for 19-23 year olds except for their first full Level 3 qualification. Enrolments at Level 3 dropped by 31 per cent in the first year (a fall from 142,500 in 2012/13 to just over 98,000 in 2013/14), see Figure 2.7.[67] More recent evidence shows that most of this fall in enrolments, around 26 per cent, is estimated to be attributable

to the withdrawal of funding, with the remainder likely to be the result of changes in learner demand in response to economic conditions (e.g. higher employment).[68] Research for this review further highlighted how financial factors affect the choices people make about studying for Level 3 as an adult. This study found that cost issues were the most frequently cited reasons that put adults off studying.[69] Non-prescribed qualifications at Levels 4 to 6, which were discussed in the previous section, are not funded and require students to take out an ALL.

Figure 2.7: Advanced Learner Loans: overall volumes of take-up of eligible courses 2012/13 – 2013/14 (ILR analysis)[70]



Advanced Learner Loans (ALLs)

ALLs are available for individuals aged 19 or above to undertake approved further education qualifications at Levels 3 to 6. ALLs provide financial support for tuition costs and are paid directly to the provider on behalf of the student by Student Finance England. They are income-contingent repayment loans with identical terms to post-2012 HE student loans, with repayment only commencing when income exceeds £25,000. The size of the loan varies depending on the course and subject undertaken.[71]

Loans can be written off for Access to HE courses at the point where the student successfully completes a course of Higher Education.

No maintenance loan is offered as part of the ALL system, but an ALL Bursary Fund is available to learners to cover specific costs associated with studying, such as travel, childcare and books, as outlined in chapter 7.

In 2017/18, there were 109,000 FE learners funded by ALLs of which there were 99,500 at Level 3 and 9,900 at Level 4 and above.[72]

Unlike HE qualifications, qualifications supported by ALLs are not demand led. Instead, institutions have a funding agreement with the ESFA that enables them to provide a loans facility. The size of this facility is based on what was delivered through loans in previous years. As such it is difficult to increase the size of the facility even if the demand is there. This can be particularly problematic for small institutions which may lack the capability and capacity to meet minimum delivery expectations, yet these institutions are often very close to the labour market and its changing skills needs and are potentially the key to filling local skills shortages.

In its recent report on post-school education, the House of Lords Economic Affairs Committee concluded that:

"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."[73]

We agree and endorse that committee's recommendation of full funding at Level 3 for all adults undertaking a first 'full' Level 3. At present, the government makes large contributions to the cost of HE courses for students of all ages but does not do so for older students on lower level courses (notably Levels 2 and 3). We think this is both inequitable and economically misguided and recommend that this be corrected in recommendations 2.9 and 2.10.

Recommendation 2.9

The current age cap should be removed so that a first 'full' Level 3 is available free to all learners whether they are in work or not.

Retraining and funding for adults at Level 2

There are around six million adults without a Level 2 in this country, many of whom are likely to have the ability and appetite to achieve and progress.[74] We also have an economy in which productivity growth is extremely low, and in which there is widespread potential for improvement. Level 2 qualifications (see box below) are an increasingly important precondition for progression at work and to higher levels of attainment. Achieving a 'full' Level 2 qualification can increase an individual's earnings by 11 per cent and their chance of being in employment by 2 percentage points (based on 3-5 year averages after achievement), compared to those that do not achieve the qualification.[75] This country is committed in principle to a fair and equitable education system, including support for the most disadvantaged and vulnerable people in society, such as prisoners and ex-offenders, but it is not currently delivering one.

Level 2 qualifications

These comprise a broad range of qualifications including GCSEs (5 good passes (grades 4-9 / A*-C in the old system) or Technical Certificates, and functional skills, and range from small, single unit qualifications to larger diplomas, comprising specific occupational job roles such as bricklaying, introductory vocational tasters, or broader employability qualifications.

The need for reform is strengthened by economic change. The panel has heard a great deal of evidence about shorter job cycles and the need for employees to train mid-career as the nature of their employment changes. The government's Industrial Strategy paper referred to a *"growing challenge with lifelong learning: supporting people to up-skill and re-skill across their working lives"*and emphasised the need to increase opportunities to retrain.[76] The government's intention to trial and develop new ways of making retraining and lifelong learning available to adults, especially where their current industry faced decline or change has been reflected in the National Retraining Scheme, announced in the November 2017 Budget and currently under development.

National Retraining Scheme

The National Retraining Scheme is the government's new programme to drive adult retraining. It was announced in the Autumn 2017 Budget and is being developed by government in partnership with the CBI and TUC.

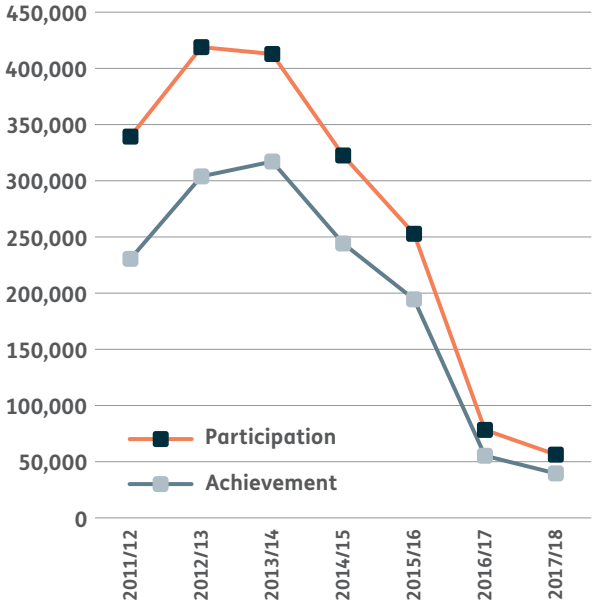
The scheme is being rolled out incrementally, but over time will include a new careers guidance service with expert advice to help people identify work opportunities in their area, courses combining online learning with traditional classroom teaching to develop key transferable skills, and job-specific retraining.

We welcome the National Retraining Scheme and its focus on adults affected by imminent technological and economic change. We also believe that there are strong arguments for complementary reform focused on improving the opportunities and skills of the wider, low-skilled adult population, including the role that qualifications can play.

English and Maths tuition up to and including GCSE is currently fully funded for all, and in our view, should continue to be so. However, England also used to provide full tuition funding for a first 'full' Level 2 qualification – a substantial qualification typically associated for adults with a clear occupational role – and continues to do so for the unemployed and for those aged 23 and under. But from 2012/13 onwards, employed people aged 24 and over were required to pay half of their tuition costs and in addition, in 2016/17, government support for workplace training for this group was entirely removed. This means that employed people aged 24 and over needing to reskill or wishing to gain a first full Level 2 in order to progress further up the education and career ladder now have to pay half the tuition costs - this could typically be in the region of £500[77] - unless their employer will pay.

Not surprisingly, the total number of 'full' Level 2 adult learners fell. It was over 400,000 in 2012/13 and fell to just over 50,000 in 2017/18 as shown in Figure 2.8 below.[78]

Figure 2.8: Numbers participating and achieving 'full' Level 2 awards in adult (19+) education and training (excluding apprenticeships): 2011/12-2017/18[79]



Some of this fall is because of reclassification of certain qualifications but it is beyond debate that the impact of the recent funding changes – at Level 2 and as discussed above at Levels 3 to 5 – has led to a significant and highly undesirable fall in the number of learners.[80] In fact, the total number of 'full' Level 2 learners aged 25+ fell from over 500,000 in 2011/12 to under 50,000 in 2017/18.[81]

We believe that the funding changes created a barrier to both social mobility and productivity and recommend addressing this by providing funding to those adults who still need to take their first full Level 2 or 3. These qualifications should be employment and skills focused, appropriate for older adults and based on the quality of the course, not the number of hours studied. This change would enable many thousands of people to upskill and respond to the changing demands of the economy.

Recommendation 2.10

Full funding for the first 'full' Level 2 qualification, for those who are 24 and over and who are employed should be restored.

Information, advice and guidance to support informed choices

Good information, advice and guidance (IAG) is crucial for anyone seeking impartial advice about jobs, careers, routes of learning and qualifications. A young person who has four or more encounters with an employer is 86 per cent less likely to be not in education, employment or training (NEET) and can earn up to 22 per cent more during their career, compared to those who did not have any such encounters.[82] The converse is also true: poor IAG can increase dissatisfaction with career and subject choices and result in individuals switching courses and careers.[83]

However, weaknesses in the provision of information, advice and guidance have been a recurring theme from both the call for evidence and our discussions with learners, employers and providers – particularly with regard to the visibility and quality of advice on technical routes. Many schools initially struggled with their new responsibilities to provide good IAG and Ofsted was critical of the quality and variation of provision in schools.[84]

The government published a Careers Strategy in December 2017, backed by £16m investment for new activities.[85] It retains a school- and college-led approach, providing training and support for careers leaders in local 'hubs' of schools, colleges and businesses and increasing the number of employer encounters with young people. Whilst recognising the promising start, we believe that careers support is still underfunded and therefore recommend that the strategy is rolled out nationally so that every secondary school is able to be part of a careers hub, that training is available to all careers leaders and that more young people have access to meaningful careers activities and encounters with employers. We recognise that schools policy is outside the scope of our Terms of Reference. However, given that IAG influences post 18 choices, and that schools are required by law to deliver impartial, high quality IAG, we believe it is in within our remit to recommend changes to improve this provision.

We also believe that schools should be held to account for their statutory responsibility to provide IAG. We welcome the new requirement on schools (from January 2018) to allow technical education and apprenticeship providers to talk to pupils, but were disappointed to learn that there is evidence that schools still fail to tell pupils about the full range of post-18 options. We welcome Ofsted's focus on schools' provision of independent advice, careers guidance and opportunities for pupils to encounter the world of work, as part of judging pupils' personal development.

It is equally important that young people and adults have direct access to information, advice and guidance. We welcome the ongoing development of the Unistats website that will allow prospective HE students to better compare not only courses and institutions, but the outcomes students achieve. We also encourage better and more systematic use of outcome data for FE courses and apprenticeships which will help potential students to better understand the benefits of these qualifications. We note the role of UCAS as a central clearing point for HE and encourage government to consider the value of a comparable service for FE students at Levels 4 and above. Prospective students should also be advised of different and more flexible modes of learning including part time and modular learning, so that they are able to make more informed choices about how they can study. For adults seeking careers advice, the National Careers Service, set up in 2012, offers a range of approaches to support decision-making including a website with information about jobs and the full range of routes to learning, access to phone, web chats, texts and emails with careers advisers and a face-to-face service offering personalised advice to priority groups. However,

despite evidence that this service has a positive impact on users, the budget is reducing, meaning the offer will also reduce. Given the clear demand for the National Careers Service website, we are keen that this service continues to provide vital impartial IAG. We welcome the continued development of the website so that it becomes the single, trusted source for people to find out about different careers, whatever their level of skills or qualifications.

Recommendation 2.11

The careers strategy should be rolled out nationally so that every secondary school is able to be part of a careers hub, that training is available to all careers leaders and that more young people have access to meaningful careers activities and encounters with employers.

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Chapter three:

Higher education

Introduction

This chapter is about the role and funding of universities for undergraduate degree level provision. Postgraduate study accounts for a relatively small proportion of resources invested in higher education and is not the focus of the government review or indeed of this chapter. While universities are not the only providers of higher education (HE), they are the most significant, educating approximately 90 per cent of those taking an undergraduate degree.[1] There are 141 HE institutions (HEIs) registered in England, of which over 100 are full-scale publicly funded universities, the remainder being specialist, postgraduate, or privately funded institutions.[2]

The sector has grown considerably in recent years – at least for full-time students. The proportion of English young people entering HE has risen from below 20 per cent in 1990 to almost 50 per cent today.[3] Apart from a dip in 2012[4] when £9,000 fees were introduced, the number of domestic full-time entrants to HE has grown steadily over the last ten years, despite a decline in the English 18 year-old population.[5,6] Altogether 1.44 million undergraduates are studying at English HEIs – including 210,000 EU and international students – of which 1.24 million are full-time.[7]

The continuous expansion of HE has been the explicit aim of successive governments. The introduction of £1,000 fees in 1998 and their increase to £3,000 in 2006, accompanied by the availability of income-contingent tuition fee loans, created a demand-led system in which students are lent the money to make a choice between universities (or whether or not to go to university) and universities compete to recruit them. The intention was to create a market and the principle was taken a stage further in 2012, when fee caps were trebled to £9,000, and in 2015 when student number caps were lifted. This was intended to encourage universities to expand and increase student choice. Undergraduate teaching after 2012 became a profitable activity and the sector responded as it was meant to by recruiting more students, improving student support and developing facilities.

The creation of a competitive market in HE required a different form of regulation. This came in 2017 – see box below – with legislation for the Office for Students (OfS) to replace the old funding body, the Higher Education Funding Council for England (HEFCE), and the Office for Fair Access (OFFA). The replacement of a funding body with a regulator was an explicit acknowledgement that the market needs to be managed. The new regulator – which will become fully operational on 1 August 2019 – has a wider remit and greater powers than its predecessors. HEFCE attached terms and conditions to grant funding but in practice its powers were limited to either continuing to fund a sub-standard provider, or not; there were no formal mechanisms for influencing individual HEIs. By contrast, the OfS has powers to intervene on a risk-based basis with the objective of promoting competition and choice and looking after the student interest. It is an important distinction and we believe it offers great potential to ensure that the market works in the interests of all stakeholders.

HERA and the OfS

The 2017 Higher Education and Research Act replaced multiple overlapping HE regulatory systems with a new single regulator. The OfS was established on 1 January 2018, with full powers coming into effect on 1 August 2019. The Act introduced a new regulatory system based on voluntary registration subject to conditions. The new market regulator has competition, choice and student interest at its heart, with a statutory duty to assess quality and standards in the HE sector. The OfS has been given a wider range of powers to ensure that providers comply with their registration conditions and is using them. Of the 352 providers that the OfS have registered to date, 15 have been registered subject to a detailed regulatory condition requiring them to take action to address specific concerns by a deadline.[8]

In the words of Lord Willetts, one of the architects of the current system as Universities Minister from 2010 to 2014, '*Universities are one of the great forces shaping the modern world and driving human progress.*'[9] We agree and see great benefits from the decades-long expansion in the sector.

This expansion and the improvements in student financial support have turned HE into a widely available opportunity for young people and a record proportion of 18 year-olds are now entering HE.[10] We comment later that the experiences of some young people while at university and beyond give rise for concern, but the increase in entry rates for disadvantaged students in particular is a significant and long-awaited improvement. Since 2009 the entry rate for disadvantaged 18-year-olds to full-time HE has increased by more than 50 per cent and the gap in entry rates between the most and least advantaged applicants is narrowing.[11] We regard this as an important building block in the development of a fairer society.

We also welcome the economic impact of HE. Nationally, the UK university sector contributed £21.5 billion to GDP in 2014-15, representing 1.2 per cent of the UK's GDP.[12] In 2017/18, the academic workforce totalled nearly 212,000 with a further 218,000 employed as non-academic staff.[13] In 2016, total revenue from the 460,000 international HE students at UK HEIs totalled £11.9bn.[14] Moreover, recent analysis by London Economics suggests the international students from a single cohort who obtain good jobs and remain in the UK will generate over £3 billion in tax, over a ten-year period.[15] By any criterion, therefore, higher education is an important sector of the economy.

Many universities also make a considerable civic contribution. They are torch carriers for their community's economic, cultural, social and environmental development, often in partnership with their local authorities and local businesses.[16] The recent Civic University Commission report stressed the importance of this role: "it is clear that universities are – alongside the NHS and local authorities – one of the key institutions in and for local society, and especially in many economically vulnerable places and this role will become more important".[17] This is difficult to quantify but estimates put the value of pro-bono work by HEIs through public initiatives, knowledge exchange and participation in science and cultural events, charitable endeavours and social enterprise at over £3 billion in 2017.[18]

The sector has an outstanding reputation for research and, in a knowledge economy such as ours, the importance of this is clear. In 2014, the UK represented less than 1 per cent of the global population, less than 3 per cent of R&D expenditure, and 4 per cent of researchers, yet accounted for 11 per cent of downloads of research papers, 10 per cent of citations and 15 per cent of the world's most highly-cited articles.[19] A study by Elsevier in 2016 ranked the UK first amongst its comparator countries by field-weighted citation impact, an indicator of research impact and quality.[20] Earlier this year the QS World University Rankings gave UK universities the top ranking in 13 out of 48 subjects.[21]

We acknowledge and celebrate these and the HE sector's other considerable achievements and do not wish to understate them. Nonetheless our task, and one of the objectives of the government's review, is to assess whether – to quote from our terms of reference – the sector "is accessible to all, supported by a funding system that provides value for money and works for students and taxpayers, incentivises choice and competition … and encourages the development of the skills that we need as a country."[22]

Our conclusion is that the HE sector broadly fulfils these objectives. By any reasonable measure, the expansion of England's university sector should be considered a success, bringing benefits to graduates, employers and society at large. However, as is true of any market, there are deficiencies both at system-wide and at institutional level. We raise our concerns about 'the other 50 per cent' elsewhere in this report but believe that even amongst the 50 per cent attending university, the rising tide has not lifted all the boats. A minority – but a significant minority – of university students are left stranded with poor earnings and mounting "debt". This has personal consequences for those whose expectations have been disappointed and economic consequences for the state that foots the bill. Lifting all the boats would bring significant benefits for students, taxpayers and employers alike and is the subject matter of this chapter.

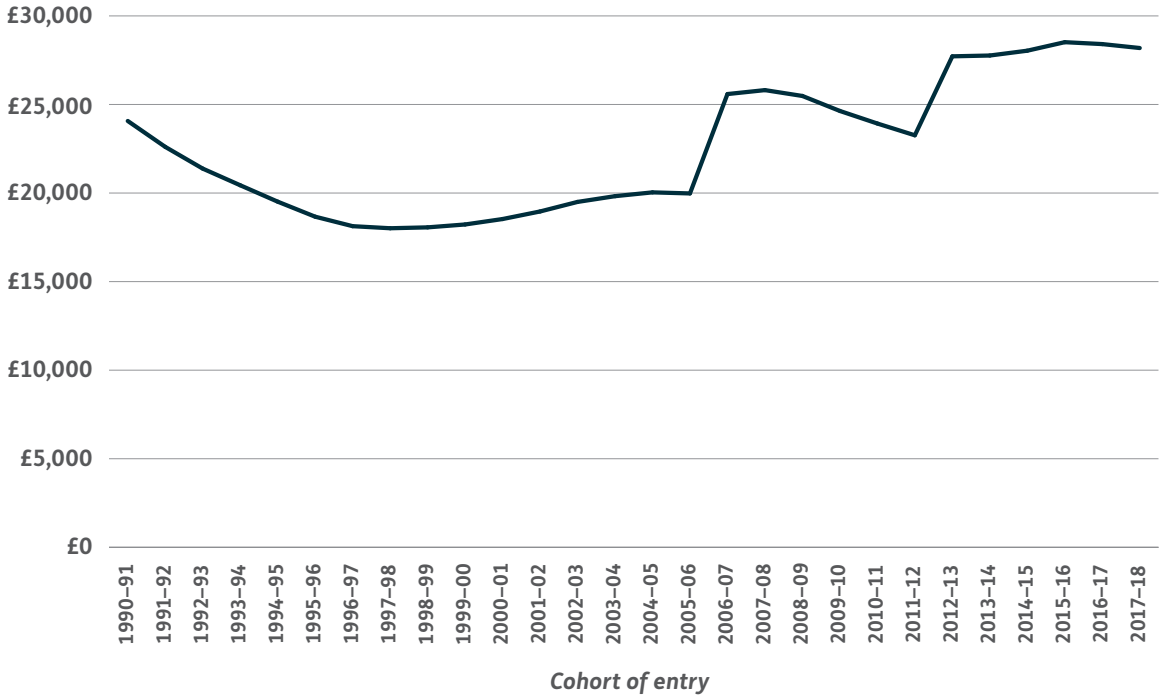
In making our recommendations, we have examined the financing of universities, how they use their resources and how the market works. We begin with a financial analysis.

Section 1: University finances

The percentage increase in the resources flowing to the sector in recent years has outstripped public spending and the growth in GDP

The 2012 increase in the fee cap from £3,290[23] to £9,000 marked a major change in universities' funding. It allowed government to increase per-student resources while reducing upfront grants. Sharing more of the costs of tuition and maintenance with students through the loan system made the lifting of the student number cap in 2015 affordable. Although the increase in resources was intended to address a lengthy period of underfunding for the sector, this radical move – once almost all universities had unexpectedly set fees at the maximum – boosted the money received by universities per student to its highest real-terms level in at least 25 years, as shown in Figures 3.1 and 3.3. Figure 3.2 shows that overall funding is now close to the highest international level, despite recent freezes. Scarcely noticed at the time was the implicit state subsidy which came from writing off the unpaid portion of student loans; this has turned out to be almost half of the additional fee income from UK and EU students.

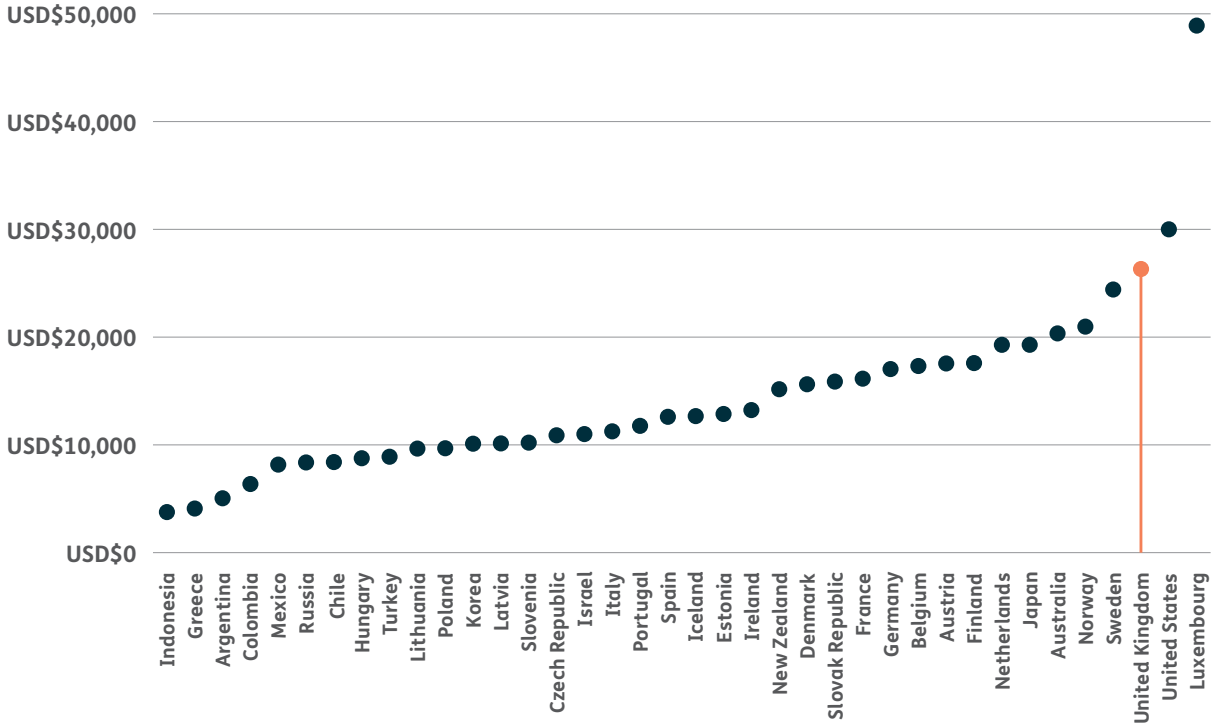
Figure 3.1: Estimate of university resources per student per publicly funded degree 1990-91 to 2017-18 (in 2018-19 prices)[24] (IFS)



Source: IFS 2018

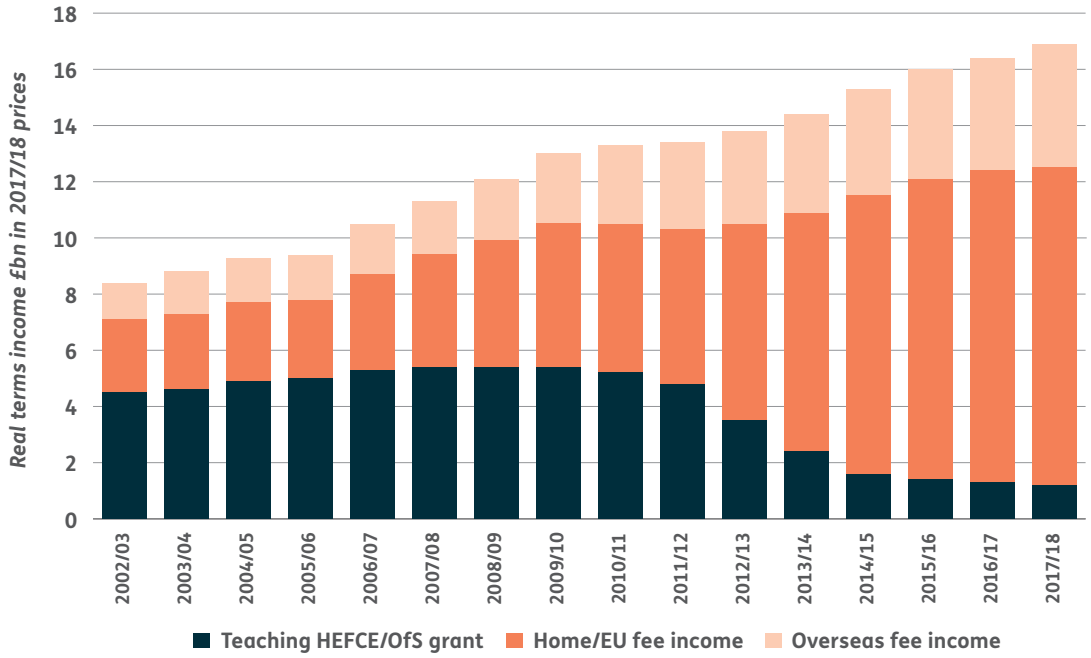
The effect on universities' income was dramatic (see Figure 3.3) and in sharp contrast to what was happening in the rest of the economy. The increase in student numbers carried some extra cost but the combination of higher fees and more students led to sector income from publicly funded teaching rising by an average of 3 per cent per annum in real terms between 2010-11 and 2016-17.[25] In contrast, total public spending fell by nearly 1 per cent per year in real terms,[26] and spending for school aged pupils also fell slightly in real terms per pupil.[27]

Figure 3.2: Comparison of tertiary education spending in OECD countries, including public and private investment, 2016 or latest available.[28]



Source: OECD 2018

Figure 3.3: HE-related teaching income at English HEIs, in 2017/18 prices



Source: HESA Higher Education Provider Data: Finance, various years. Notes – see footnote.[29]

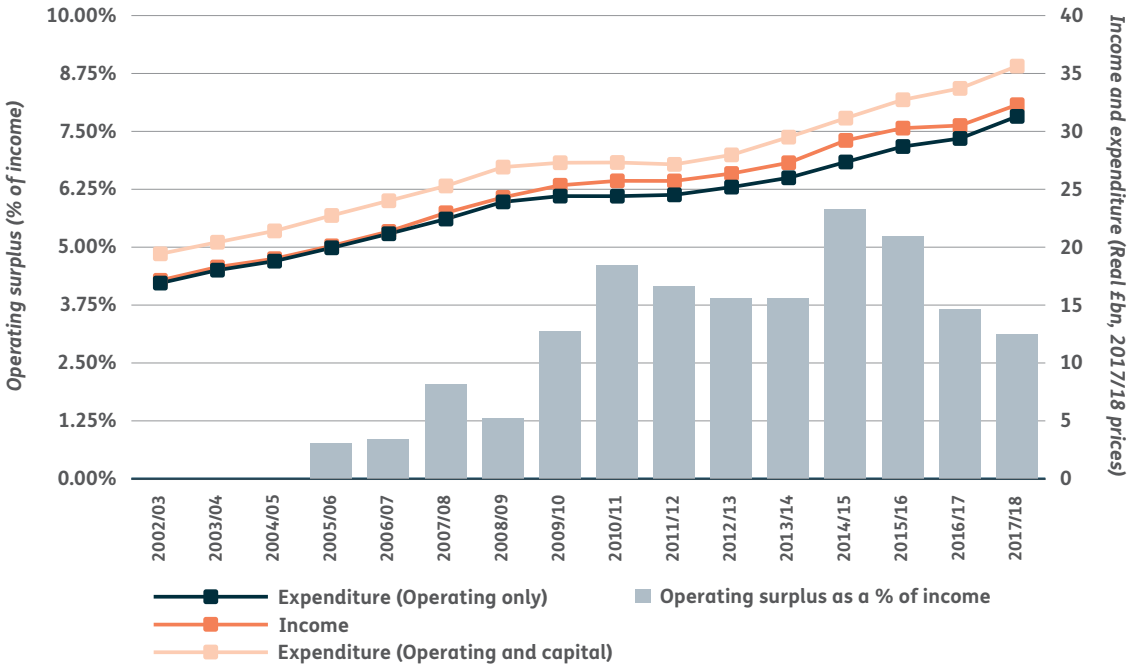
The sector is in reasonable financial health

In a report issued on 4 April 2019 the OfS concluded that *"the sector overall is currently in reasonable financial health."*[30] We concur with this view. Based on Higher Education Statistics Agency data, the operating surplus in 2017/18 for the English HEI sector was 3.1 per cent of income, down from 3.6 per cent the previous year and 5.2 per cent in 2015/16.[31] Sector projections submitted to the OfS indicate that the operating surplus is forecast to drop to 0.9 per cent in 2018-19 before recovering to about 3 per cent in each of the following three years.[32] The sector overall has operated with a surplus for all of the years in the past decade.

At the sector level, total net assets, which provides an indicative measure of the underlying financial strength of providers, increased from £37.1bn at the end of July 2017 to £41.3bn at the end of July 2018. They are forecast to continue rising to 2022, reaching £45.1bn.[33]

The OfS's report of a sector in reasonable financial health is unsurprising, given the decade-long increase in income depicted in Figure 3.3. However, we note the regulator's comments that the sector's growth expectations are based on "ambitious assumptions about growth in student numbers" and we believe that performance against forecast should be monitored closely.[34]

Figure 3.4: Overall sector resources and spending (in 2017/18 prices) and surplus over time[35]



Source: HESA Higher Education Provider Data: Finance, various years. Notes – see footnote.[36]

Financial performance varies at institutional level

Within this healthy picture, performance at individual institutional level varies widely. In 2017/18, HEIs in England reported surpluses as a proportion of income as high as 33.9 per cent, with 13 providers reporting a surplus above 10 per cent, but 32 HEIs were in deficit, one by as much as 13.6 per cent.[37] We recognise that some of these deficits were planned but it is striking that while the overall sector is in good health, a quarter of universities are in deficit.

Expansion comes with risk

Universities' expansion has been partly funded through debt and financial arrangements known as 'sale and leaseback'. The former includes bond issues and bank borrowing; the latter involves universities selling student accommodation for cash upfront, sometimes committing to provide specified numbers of rent-paying students to the new owner.[38]

Borrowing exposes universities to risk if the expected student numbers do not materialise and the OfS has recently warned of over-ambitious forecasts: despite a projected 5 per cent decline in the UK population of 18 year olds, the sector is expecting a 10 per cent growth in student numbers by 2022.[39]

There are already some examples of this risk crystallising. One HEI recorded high debt levels following an over-optimistic view of home student recruitment and significant losses on an overseas campus expansion. This resulted in a sale of student housing to restore its balance sheet. Another faces serious financial difficulties following an over-ambitious expansion in London. The BBC revealed in late 2018 that one university had received a £900,000 temporary emergency loan from the OfS in the summer of 2018.[40]

Fee levels in England exceed the amount expected by government when the £9,000 fee regime was introduced

When the fee cap was raised to £9,000, the expectation in government was that price competition would drive fees at most universities to below this level. Lord Willetts (the then Universities Minister) believed that the £9,000 fee would be for "exceptional circumstances" and that for many courses the level would be closer to £6,000 or £7,000.[41] This is not what occurred: an estimated 98 per cent of full-time students are now on a degree course with a fee cap at the maximum.[42]

The resulting high level of fees have led to mounting concerns about the level of student debt and a large part of the public discourse concerns this issue. Indeed, new research has found that for students, applicants, graduates and the public themselves, the main priority for changes to the student finance system was for fees to be lower.[43]

Fee levels in England are high by international standards

Tuition fees in England are at the upper end of the international scale, as shown by Figure 3.5.

Figure 3.5: Fees charged to students for full-time degree level study in a selection of comparator countries[44,45,46]

Country	Tuition fee charged to students per full-time year of degree level study	
	Local currency	Converted to £
US (Private) 2016/17 figures	Private non-profit institutions $27,300 average	£20,550 average
	Private for-profit institutions $16,000 average	£12,040 average
England 2018/19 figures	**£9,250 maximum**	**£9,250 maximum**
Wales 2018/19 figures	£9,000 maximum	£9,000 maximum
US (Public) 2016/17 figures	The average for in-state students at public universities was $8,200. (Students studying out of state are charged more).	£6,170 average
Australia 2018/19 figures	Band 1 (Law, Dentistry, Medicine) – maximum AUD$10,440	£5,870 maximum
	Band 2 (Computing, Engineering, Maths) – maximum AUD$8,920	£5,010 maximum
	Band 3 (Humanities, Psychology and foreign languages) – maximum AUD$6,260	£3,510 maximum
Canada 2017/18 figures	CAN$6,570 average	£3,750 average
New Zealand 2015/16 figures	NZ$5,400 average	£2,860 average
Scotland	Not charged if Scotland domiciled student staying in Scotland to study at a public university.	£0
Germany	Not charged if attending a public university.	£0
Norway	Not charged if attending a public university.	£0

Trebling fees in 2012 led to increases in subject funding unrelated to teaching costs

Before 2012, every undergraduate course was funded by a mixture of fee income from the student and teaching grant income from the Funding Council. The subjects were grouped into price bands according to the estimated cost of providing them (labelled A, B , C1, C2, D, with band A being the highest) and a teaching grant rate was set for each band.[47] When the fee cap was increased, it was set at a higher point than the total funding previously available for the lowest cost courses. Courses in price Bands C2 and D, such as English and History no longer received government grant funding, whereas higher cost courses, such as Medicine and STEM in Bands A, B and C1, did, albeit at a lower level than before 2012 in recognition of the increased maximum fee. With almost all HEIs setting fees at the maximum, the outcome was an increase in funding for some subjects at more than twice the rate of others, a differential for which we can find no basis in the cost of provision.

According to the IFS, between 2011/12 and 2016/17 the lowest cost band D subjects received a 47 per cent increase compared to a 19 per cent increase for higher cost band B subjects (the laboratory sciences) and only a 6 per cent increase for the highest price Band A subjects (Clinical Medicine).[48] Figure 3.6 shows this in detail. It was an unintended consequence and means that

funding for low cost subjects is now significantly higher in England than in some other countries: for example, the lowest funded subjects received up to AUD$12,340[49] / £6,930[50] in Australia in 2017-18 and £5,340[51] in Scotland in 2018-19. It has led to the apparent overfunding of low cost subjects and the underfunding of high cost subjects, with cross-subsidies within many institutions from the first to the second.

This is acknowledged by the sector. In their evidence to us, Universities UK said, while noting variations across institutions: "*The average costs of providing undergraduate courses vary from £7,500 (Humanities and Social Studies) up to £22,000 (Veterinary Science)*".[52] The £9,000 fee is well in excess of £7,500. The Russell Group told us: "*Strategically important high cost subjects remain under-funded with an estimated £90 million deficit across Russell Group universities in England for undergraduates in subjects in bands A and B (clinical and lab-based subjects). This is an area where the system could be refined to support innovative delivery of research-intensive STEM subjects which are critical to meeting the future skills needs of the UK.*"[53]

Figure 3.6: Change in overall fee and grant funding per student, for different subject funding bands, between 2011/12 and 2016/17 (IFS) [54,55]

	Course price group				
	A	B	C1	C2	D
Share of students	2%	20%	18%	28%	33%
Funding under 2011-12 system					
HEFCE funding	14,543	5,337	3,736	3,736	2,536
Fees	3,681	3,681	3,681	3,681	3,681
Total	18,224	9,018	7,417	7,417	6,217
Funding in 2016-17 under new system					
HEFCE funding	10,180	1,527	255	0	0
Fees	9,162	9,162	9,162	9,162	9,162
Total	19,342	10,689	9,417	9,162	9,162
Change in funding	+6%	+19%	+27%	+24%	+47%

Source: IFS 2017

Conclusion

The preceding financial analysis suggests that in aggregate the HE sector is in a reasonably solid financial position. However, despite this, a number of universities are in deficit with some potential risk to students and local economies. Funding of universities is high by historic and international standards but we judge that the distribution of funding between subjects is out of line with teaching costs causing over and under funding of many subjects.

Section 2: Understanding university spending

University spending patterns are complex

It is important to recognise that the data on which analysis of university finances is usually based measures what they *spend* on their various activities, not their *cost*. The data do not and cannot measure the reasonable and efficient *cost* of high quality provision: that will vary according to HEIs' resourcing decisions, priorities, efficiency and other factors.

Objective analysis is not straightforward. Universities are complex institutions with cross-subsidy across various subjects and between income from international students and other teaching and research activities. Few universities publish a rigorous and informative breakdown of how they deploy tuition fees and government teaching grants. Data provided by the universities reveal both too much and too little; they are unnecessarily detailed in places but also contain notable gaps and rely on some contestable definitions. HESA data do not provide a breakdown of spending on teaching. The OfS holds TRAC (Transparent Approach to Costing) data but these are organised into sector-designed spending categories relating to teaching by subject rather than by sub-activity.[56] We asked the Department for Education (DfE) to commission a separate study from the accountancy firm KPMG, which has universities amongst its clients, to establish a more detailed breakdown of teaching spend, and are grateful to the universities which took part.

Understanding how teaching resource is used

Developing a better understanding of spending is important in assessing value for money and institutional efficiency. We wanted to understand:

- the spend on undergraduate provision and how this varies by subject and level
- the activities this spend covers and the breakdown of spending between them
- the key factors that account for the variation in spend between institutions

The DfE commissioned KPMG to carry out an extensive analysis of the costs of undergraduate provision.[57] The work analysed what is termed the "full economic cost" of provision but we noted that in this context "cost" is in fact the spend and margin for investment determined by the provider. The study used established TRAC data combined with further data provided by 40 participating HEIs, to estimate this on a consistent basis by subject group; the breakdown between different activities; and what factors explained the variation between institutions. These 40 HEIs represent a third of sector institutions by number, and 40 per cent of the sector in terms of full time equivalent students.

We drew on findings from this work alongside other sources of evidence in shaping our analysis and we concluded that:

- Spend on a number of subjects in the lowest-cost subject group fell below the current fee cap: reported spend on English, Law and Modern Languages for non-London institutions was £8,635 on average.
- The margin allowed for sustainability by the 40 institutions in the study is substantial, at approximately 10%, typically around £1,000 per student per year.[58]
- The variation in spend between institutions within the different subject groups is extensive.[59]
- The spend on direct departmental teaching (around £4,300 per student) seems low. By contrast the spend on infrastructure and on corporate and central activities seems high: approximately £1,300

per student on estates; approximately £500 per student on each of IT, marketing and admissions and libraries; and a further £1,000 on corporate activities.[60]

- Compared to England's international counterparts, spend on teaching staff in UK universities is low, possibly reflecting a wider range of activities.[61]

Universities spend a large proportion of their income from student fees and teaching grants on non-teaching activities – more than their international comparators

The KPMG study showed that 42 per cent of reported costs went on direct departmental teaching costs.[62] 12 per cent went on maintaining the existing estates and 35 per cent on corporate services and student related central services.[63] The remaining 10 per cent of the unit cost is accounted for by the "margin for sustainability and investment" or MSI. This is an amount intended to protect the sustainability of provision according to the institution's past performance and future plans. In effect it represents the amount deemed necessary on top of existing spend to maintain and improve infrastructure and provision and manage future risk.[64] Comparisons are complicated by different reporting conventions but benchmarked against international comparators, UK universities spend proportionally less on teaching and more on non-teaching staff and non-staff costs than their counterparts overseas.[65]

The data require careful interpretation because some categories do not count as direct teaching but are nevertheless an essential part of provision for students. This includes spend on support services such as libraries, study skills and welfare, including mental health. It also includes the mandatory access and participation programme of activities for HEIs charging fees above £6,165,[66] and wider support for disadvantaged students. In addition, a good part of estates and IT spending relates to teaching.

However, good governance requires constant scrutiny of such expenditure and benchmarking against peers. We encourage the senior management and governing bodies of universities to find and emulate examples of best practice and to work together to develop more consistent data for benchmarking. We are particularly concerned about the MSI adjustment. We understand that universities need to generate a surplus to reinvest in their facilities and provision, particularly as they receive limited capital grant from government. But we question the size of the MSI – £1,000 per student on average for the 40 institutions studied, more than is spent on access and participation – and its transparency.

University spending has risen in line with income but lower-cost courses have seen bigger spending increases than more resource-intensive subjects

Since the increase in the fee cap, what universities report as the cost of teaching has risen year-on-year at almost exactly the same rate as the funding and fees received.[67] But as figure 3.7 shows, because funding increased at a much faster rate for lower cost subjects due to the near universal setting of fees at the fee cap, lower cost subjects have seen a larger percentage increase in spending than higher cost subjects.

It is difficult to explain why spend on, for example, Humanities, such as History, and Social Studies should have increased at more than twice the rate of Physics and Engineering, for any other reason than that the additional income became available attached to these subjects. It is improbable that the reasonable costs of teaching English or History have risen at two and a half times the rate for the reasonable costs of teaching Chemistry and Engineering. Either HEIs are indeed spending their additional income for these subjects in order to demonstrate value for the higher fee level charged, or the allocation of costs to different subjects in the TRAC data is relatively loose. Neither explanation is satisfactory, a point reinforced by the following paragraphs.

Figure 3.7: Percentage change in real terms Subject FACTS from 2011/12 to 2016/17[68,69]

	% change in Subject FACTS
Education	41.1
Architecture, built environment and planning	39.7
Sports science and leisure studies	33.9
Media studies	33.6
Design and creative arts	32.9
Humanities and language-based studies	31.4
Social studies	30.3
Continuing education	30.1
Catering and hospitality management	29.8
Civil engineering	29.5
Geography and environmental studies	29.3
Mathematics	28.8
Business and management studies	26.8
Pharmacy and pharmacology	25.5
Modern languages	25.2
Information technology, systems sciences and computer software engineering	24.6
Health and community studies	24.5
Agriculture, forestry and food science	22.8
Psychology and behavioural sciences	21.7
Chemistry	20.2
Clinical dentistry	20.2
Earth, marine and environmental sciences	20.0
Mineral, metallurgy and materials engineering	20.0
Electrical, electronic and computer engineering	19.5
Nursing and allied health professions	17.0
Mechanical, aero and production engineering	16.3
Anatomy and physiology	16.0
Archaeology	15.9
Biosciences	14.1
General engineering	13.8
Clinical medicine	8.8
Chemical engineering	8.7
Physics	6.4
Veterinary science	6.2

Source: DfE analysis of OFS Subject FACTS data. 'FACTS': Full Average annual subject-related Cost of Teaching an OFS fundable FTE Student.

There is a wide variation in what different HEIs spend on different activities, and on subjects grouped in similar cost categories

We recognise that every institution is different but there is a wide variation in spend on subjects grouped in the same funding categories, at apparently similar institutions, with no known correlation to outcomes. On the lowest-cost band of subjects, the reported full economic cost is less than £8,000 per student in 23 per cent of the courses at participating institutions, but greater than £10,000 on 27 per cent of these courses. Direct teaching costs range from just over £2,000 to over £5,500. Central costs, as defined in the study, appear to vary by a similar margin. While we recognise that HEIs vary in their approaches to teaching, this wide dispersion reinforces our belief that the application of best practice would yield significant efficiency savings.

We expect this assessment to be contested within the sector. Typically, it has been resistant to measures of performance based on inputs (contact hours), outputs (student satisfaction) and outcomes (graduate salaries). There are undoubtedly weaknesses in all of these metrics, including the TEF framework which brings them together, but they give universities important information about their own performance and we encourage the sector to use them constructively.

Vice chancellor pay across the sector

The remuneration of some Vice-Chancellors has attracted media and public attention and has been portrayed as an indication of profligacy within the sector. The panel's past and present vice chancellors recused themselves from this part of the discussion but the remainder of us noted that while the sum total of vice-chancellor pay is small in the context of a sector spending £35.6 billion a year[70], it is understandable that senior pay levels are seen as visible indicators of the sector's attitude to resource, accountability and governance. We welcome the OfS's recent publication on senior pay and its role in pressing the sector to give greater consideration to senior pay and governance.[71] Government should take a close interest in the progress of OfS initiatives in this area.

TEF: The Teaching Excellence and Student Outcomes Framework

The Teaching Excellence and Student Outcomes Framework (TEF) is a national exercise, introduced for England by the government in 2016. It assesses excellence in teaching at universities and colleges, and how well they ensure excellent outcomes for their students in terms of graduate-level employment or further study. We found some anecdotal evidence that initiatives such as TEF have driven HEIs to renew their focus on teaching and learning practices. This encourages us to believe that there is further potential for a focus on quality and value. We welcome attempts to consistently measure the quality of teaching and outcomes.

However, the use of metrics in the TEF process must be robust and command confidence. The Royal Statistical Society has raised concerns about the statistical validity of the current approach and the risk of the system being "gamed".[72] We await the outcome of the on-going independent review of the TEF, led by Dame Shirley Pearce, which is examining this and other issues.[73]

Over £1 billion annually is spent to support access and participation

Currently more than £1bn is spent annually on widening access and participation and supporting disadvantaged students. This comes through two main mechanisms:

- Institutions that charge more than the basic fee of £6,165[74] – in effect nearly all universities, and some FECs and ITPs – are required to agree with the OfS their plans and expenditure for supporting disadvantaged students and underrepresented groups. These are known as Access and Participation Plans which must be approved by the OfS for permission to charge up to the higher level fee, currently £9,250. Across the sector in 2019/20, an estimated £740 per full-time student of the £3,000 fee income above the basic fee cap will be deployed to support these groups of students.[75] This funding pays for a range of activities to encourage access and increase the numbers of disadvantaged students attending university, in particular through outreach to areas and groups with low participation rates. It also supports disadvantaged students during their studies by various means, including bursaries, and helps prepare them for employment. Universities with relatively small proportions of disadvantaged students are required to undertake more outreach activity. The sector in total expects to spend around £860m of fee income through Access and Participation Plans in 2018/19.
- Institutions also receive additional funding directly from government through the Student Premium element of the teaching grant, which provides additional resource for students at the highest risk of dropping out.[76] In 2018/19, £277m was allocated for this purpose, with £72m of it specifically earmarked to support part-time students and a further £40m to support disabled students. The allocation to each university depends on the numbers of such students enrolled and on their characteristics, with low prior attainment and POLAR background being the main factors.

What do we mean by disadvantaged students?

There are a range of characteristics – such as family background, income, sex and ethnicity – that can affect an individual's opportunity to participate and succeed in post-18 education. In HE however, the main measures used to report on access and progression of disadvantaged students are POLAR,[77] which measures the likelihood of HE participation based on residential location, and, to a lesser extent, eligibility for free school meals (FSM), a direct socio-economic indicator based on parental income.[78]

POLAR focuses on areas with low HE participation. As a result it does not provide a good direct measure of an individual student's disadvantaged circumstances. For example, two-thirds of FSM key stage 4 pupils do not live in the most disadvantaged POLAR quintile and one-quarter of FSM pupils live in the two least disadvantaged POLAR quintiles.[79]

We believe that individual socio-economic indicators, such as FSM or household income, are a better measure of an individual's disadvantage and need for extra support and that these should be used within the sector more widely to report progress on social mobility.

Whilst we support the overall approach to access, participation and success for disadvantaged students we note with surprise the absence of any over-arching assessment of the impact of different approaches to widening participation and success. There has been some evaluation at institutional level, and some national evaluation of specific programmes, but despite the substantial investment of resources, no comprehensive national evaluation. We therefore welcome the OfS's forthcoming Evidence and Impact Exchange, which will collate, share and commission research and evaluation, and establish which institutions or initiatives are the most effective.[80]

Conclusion: Wide variation in spend raises some questions

It has not been easy for us to form an objective view of university spending and we believe that the regulator will want to do further work to improve the quality of information coming from the sector. Nonetheless, we observe the relatively low proportion of spending on direct teaching and the correspondingly high spend on other items.

We are concerned by the larger increase in spend on low cost subjects than on high-cost subjects and by the wide variation in spend on similar subjects and activities with no known correlation to teaching costs or outcomes.

We are surprised that there has been no overall assessment of the effectiveness of spend on different approaches to recruiting and supporting disadvantaged students.

Section 3. Market competition

Our seventh principle as set out at the beginning of this report is that 'post-18 education cannot be left entirely to market forces'.[81] We have already established that England's market in HE has produced substantial social, economic and personal benefits but have noted that price competition has not developed as was originally expected. This is rational behaviour in a market where price is taken as a signal of quality. In this short section we examine the other forms of market competition that have emerged.

The strongest form of competition – bringing many benefits to students – is rooted in improving the student experience in terms of campus facilities, teaching and welfare support. This is reflected in continuing high levels of student satisfaction discussed later in this chapter. Naturally, universities want to convey the quality of their offer to young people across the ever increasing range of multi-media channels and this material plays a role in informing the decisions taken by applicants.

However, since the opening up of the sector, universities have increased and professionalised their marketing. Responding to an article in The Guardian which used freedom of information requests to highlight one university spending over £3 million a year on marketing and others spending in excess of £1 million, Universities UK stated: "*Recent government policy... has had the intention of creating a more vibrant market and a focus on student choice, so it's not surprising that we have seen changes in behaviour and different marketing strategies across the sector.*"[82] We understand this but nonetheless urge universities to maintain a sense of proportion in their marketing strategies and budgets.

It is of concern to us that these marketing approaches sometimes include cash and in-kind inducements to prospective students to accept a place. It would be an unacceptable use of public funds for universities to recycle tuition fees, funded by state-subsidised income contingent loans, as gifts over which the state has no recourse.

A recent study for Universities UK found "... *perceptions that universities are becoming more like commercial businesses, driven by profit*"[83] and we would not be surprised if over-enthusiastic marketing had contributed to this perception.

We further note three aspects of academic practice that could be interpreted as being a consequence of market competition.

- Grade inflation. The growth in the proportion of first and upper second-class degrees awarded (see box) has been too great to suggest plausibly that it can be entirely attributed to a genuine improvement in the quality of students' academic performance. It is not unreasonable to assume that part of the explanation is that academic assessment has become a means of reputational enhancement, albeit how this has happened is unclear.[84] We note the intervention in March 2018 on this matter by the Secretary of State for Education.[85]
- Lower entry requirements. An increasing proportion of students with lower prior attainment are now attending university. We welcome this but not at any price. Low prior attainment, measured by A level and BTEC grades, is associated with dropping out from university studies, to the financial and often emotional cost of the student. From the 2016/17 cohort, as many as 12.8 per cent of students with UCAS tariff points between 0 and 100 (equivalent to D and E at A-level in the old tariff scheme), and 11.6 per cent of students with BTECs at any level, did not progress past their first year of a degree. This is about double the 6.3 per cent drop out rate for students as a whole. For the lowest attaining BTEC students the drop-out rates are well above 15 per cent. At fourteen UK universities, projections of the number of students likely to obtain a degree is below 70 per cent; the lowest has a degree projection rate of 51.7 per cent with 28.1 per

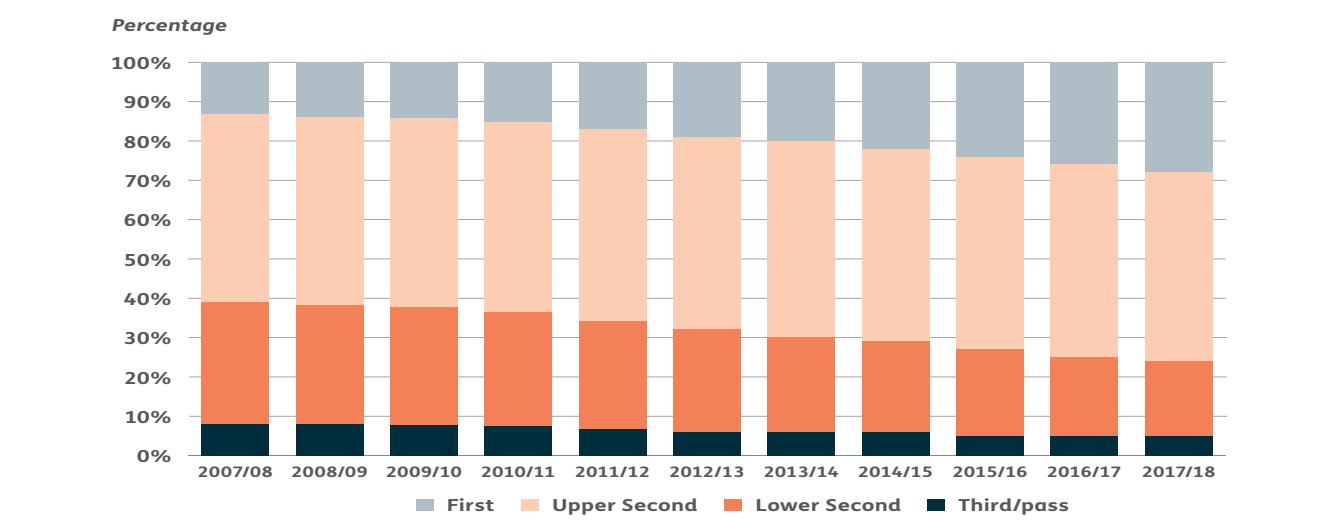
cent of its students dropping out entirely rather than transferring or obtaining another award such as a Level 4 or Level 5 qualification.[86]

- Unconditional offers. Responsibly used, unconditional offers can have benefits, particularly in attracting students from disadvantaged backgrounds – but the emphasis has to be on 'responsible'. We agree with the OfS that "Universities must not resort to pressure selling tactics in promoting unconditional offers"[87] and we note the intervention in April 2018 on this matter by the Secretary of State for Education.[88]

Grade inflation

HESA data shows that the proportion of students receiving higher degree classifications is increasing, while lower classifications is decreasing.

Figure 3.8: Percentage of first degree qualifiers obtaining each classification at English HEIs[89]



Unconditional offers

An unconditional offer guarantees a prospective student a place on a HE course without any condition relating to the results of their final school or college exams. The number of offers with an unconditional component rose from 3,000 in 2013 to 117,000 in 2018, just over 12 per cent of all offers.[90] Some of these offers require acceptance by a date ahead of the national deadline and/or carry inducements such as early access to accommodation choices or cash benefits.[91]

Applicants most likely to receive an unconditional offer are those with predicted A level points equivalent to BBC (down from AAA a few years ago).[92] The highest proportions of unconditional offers are made by medium and low tariff institutions where in 2018 the proportion of offers which were unconditional were 20 per cent and 32 per cent respectively.[93]

Increasing rate of offers and acceptances for low-attaining students

The majority of people applying to university do so via the Universities and Colleges Admissions Service (UCAS), where their qualifications are allocated tariff points; universities then make offers based on applicants' predicted or actual tariff point scores. The figures below show notable increases in the acceptance rates for those with the lowest predicted grades, for those taking A levels and BTECs.

Figure 3.9a – Acceptance rates of UK 18 year-old applicants by A level profile points[94]

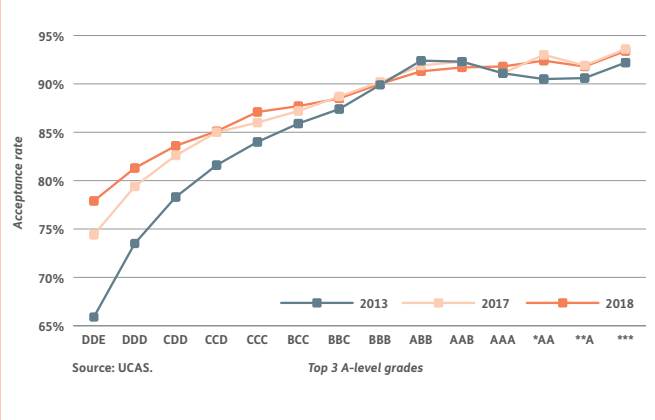
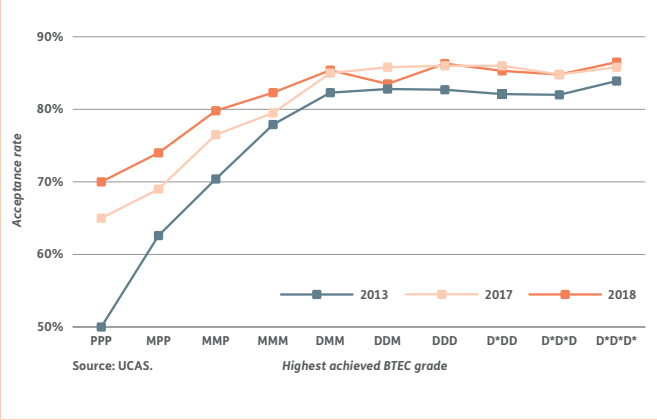


Figure 3.9b – Acceptance rates of UK 18 year-old applicants by BTEC grade[95]



Conclusion: Market competition exists but not on the terms intended

The removal of number controls combined with a high fee cap created the conditions for a very competitive market. This has taken the form of extremely limited competition on price but intense competition for students through quality of offer, extensive marketing, and other inducements.

Section 4: The case for change

(i) The case for change: Taxpayers

The exchequer has a complicated relationship with HE. It provides much of the upfront cash to fund students and universities through subsidised loans and grants and then reaps the benefits from interest on loans and higher tax receipts during graduates' working lives. Most of the taxpayer contribution comes from writing off unpaid student debt, which until recently would not be visible in the government's headline deficit measure (Public Sector Net Borrowing) for thirty years, the point at which most write-offs will take place. Although some commentators raised the consequences this might have for government decision making when the new system was introduced in 1998 and subsequently, the matter only took on significance at the end of 2018 when a change in the accounting treatment was announced by the independent Office for National Statistics.[96] The predicted public subsidy will soon be recognised upfront when the loans are issued and the Office for Budget Responsibility estimates the impact of this on the deficit to be £10.5bn in 2018-19 rising to £13.7bn by 2023-24.[97]

It is for the government to decide whether this sum – equivalent in 2018-19 to 42.5 per cent of the deficit and 12 per cent of the total education budget – is too small or too great relative to other priorities but it is significant enough to require careful analysis of where this subsidy lands.[98]

The preceding section showed that the replacement of most of the teaching grant by tuition fees in 2012 has unintentionally led to the over-funding of some degree courses relative to their reasonable cost of provision, and to the under-funding of others. This has a number of adverse effects:

- Many of the under-funded high-cost subjects – Engineering, Science, Technology, Medicine and health-related subjects – are central to the government's Industrial Strategy. They produce some of the highest returns in earnings for graduates and therefore incur a low taxpayer subsidy on their student loans.[99] We believe that providers should be encouraged to offer these subjects, not – as they are now – financially penalised for putting them on.
- Over-funding other courses relative to their reasonable cost of provision potentially incentivises institutions to prioritise them because they provide a higher margin. Some lower cost courses have seen very big increases in student numbers: for example in England between 2013/14 and 2017/18 there has been a 20 per cent increase in the number studying Social Sciences and a growth of almost 17 per cent in the number taking courses in Business and Administration.[100] These increases compare with a 10 per cent increase in full-time undergraduate enrolments over the same period.

Figure 3.10 below shows the IFS's estimates of the average cost to government per student per subject of direct teaching grants and loan write-offs for tuition fee and maintenance loans. These are inevitably broad estimates, given the inherent difficulty of forecasting future earnings, but in our view shine a valuable and necessary light on the potential scale of taxpayer investment in a sector that appears at face value to be largely funded by individuals. This reveals some anomalies in both the amount of, and trends in, taxpayer funding.

The IFS estimates that the public subsidy amounts to about £30,000 per student for those studying Arts and Humanities subjects such as English and Communications and Media and as much as £37,000 for those taking courses in the Creative Arts. The equivalent public subsidy is £28,000 for Engineering students and £24,000 for those studying Maths and Computer Science. The IFS estimates that the government's investment in providing Engineering degrees has fallen by about £9,000 per student since 2011, but has risen by more than £6,000 for Creative Arts degrees, illustrated in Figure 3.11. The government is estimated to now spend over 30 per cent more per student for Creative Arts degrees

than it does for Engineering degrees.[101] We make no judgements about the merits or demerits of these disciplines, but question whether this changing pattern of public subsidy is strategically desirable.

Figure 3.10 Estimated Government spending by subject per student (IFS)[102]

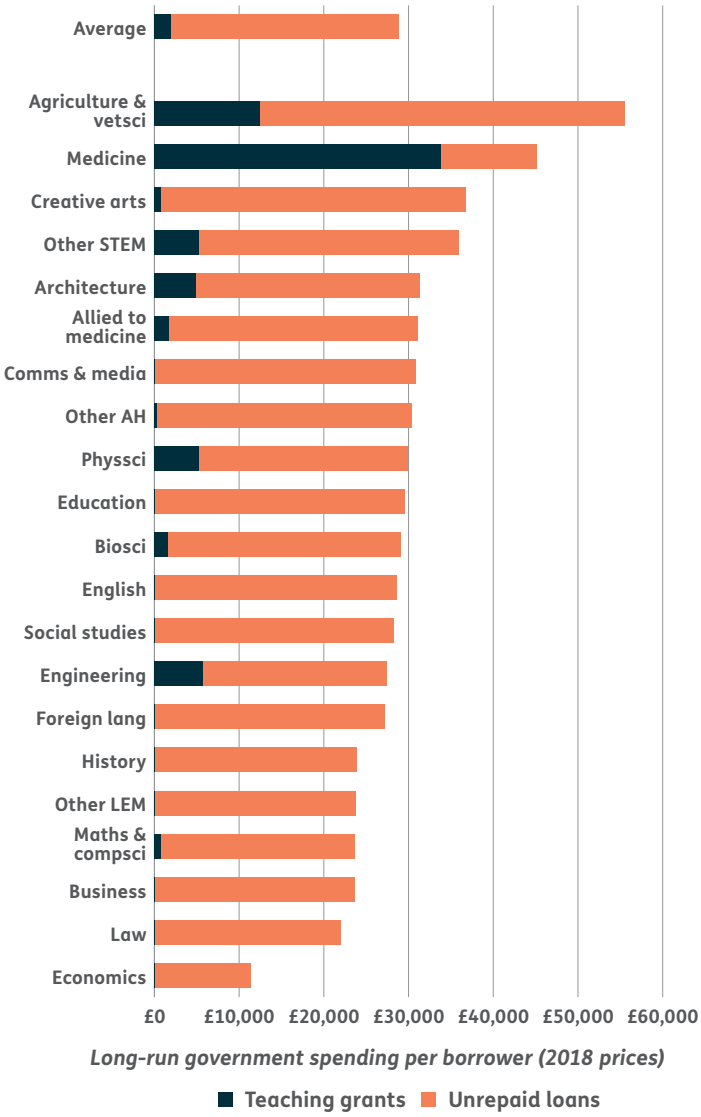


Figure 3.10 Note: All figures have been discounted using the government rate of discounting and are in 2018 prices. See Table A2 for subject classifications.

Source: Calculations based on HMRC administrative data sets

Figure 3.11 Estimated Government spending per borrower over time, by subject (IFS)[103]

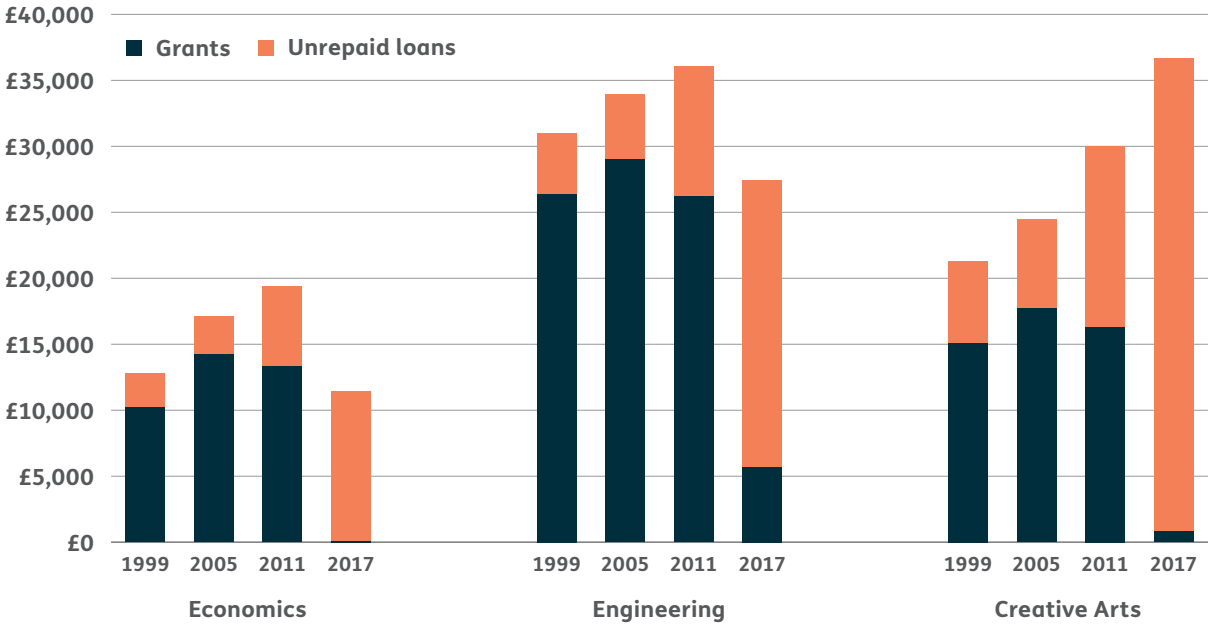


Figure 3.11 Note: All figures have been discounted using the government rate of discounting and are in 2018 prices.For the 2017 cohort, grants are made up only of teaching grants; in 2011 and 2005, they also include maintenance grants; and in 1999; they also include fee support.

Source: Calculations based on HMRC administrative data sets

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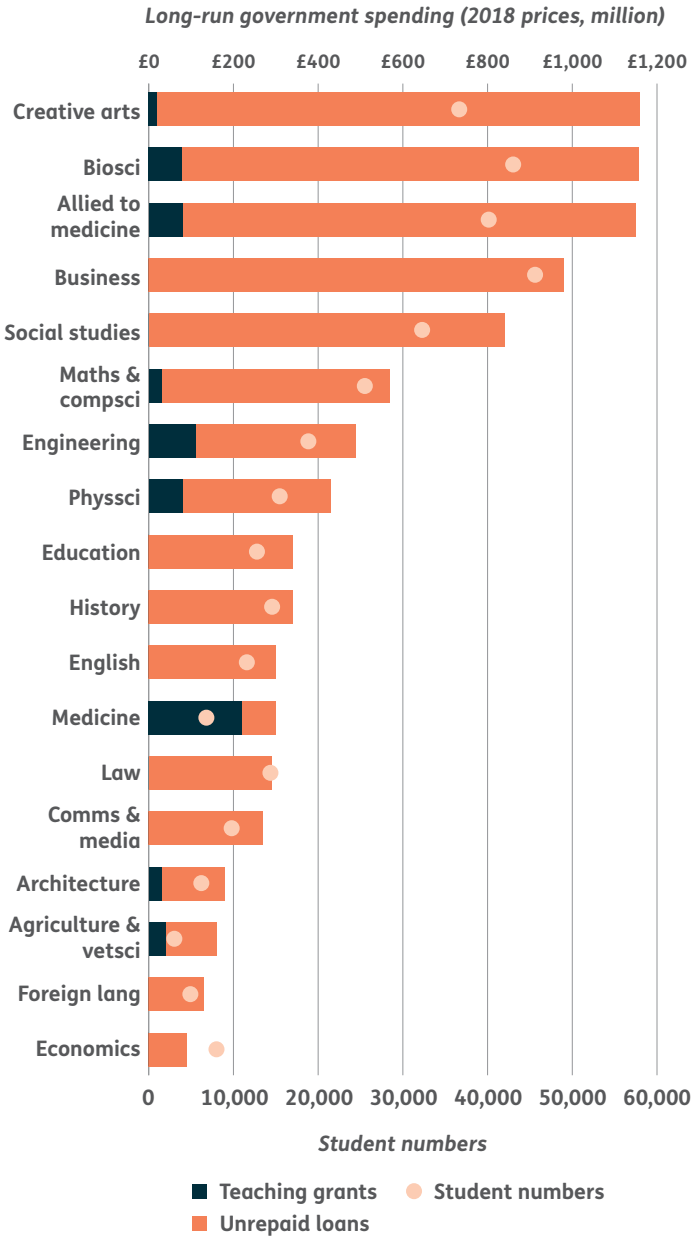
Figure 3.12 Estimated Government spending by subject (IFS)[104]



Combining the estimated loan write-offs and student numbers provides an estimate of the scale of taxpayer investment in each of the main subject areas for the whole student population. Figure 3.12 reveals this by subject: it is over £1.1 billion for the Creative Arts, nearly £1 billion for Business degrees and over £800m for Social Studies, but much lower for medicine (about £300m), the Physical Sciences (£420m) and Engineering (£480m). Government will want to review these estimates as improved data on lifetime returns become available, discussed further on in this chapter

We recognise that a significant number of graduates in the Creative Arts make a strong contribution to the economy through work in the dynamic creative industries sector and to society through careers in the arts and design.[105] But we question whether the sheer number of students taking subjects such as Creative Arts and Design and Social Studies, the current grant top-up, and the large likely debt write-off given these graduates' predicted earnings, constitute good value for taxpayers' money.

Conclusion

We judge that the current method of university funding has resulted in an accidental over-investment in some subjects and an under-investment in others that is at odds with the government's Industrial Strategy and with taxpayers' interests.

(ii) The case for change: Students

The persisting gap between advantaged and disadvantaged students

As outlined in the first paragraph of this report, and reinforced in our first two principles, we are clear that the system must support economically disadvantaged students - people disadvantaged by their family background or income, which may affect their opportunity to participate and succeed in post-18 education. This is central to achieving a post-18 system that fully plays its part in improving social mobility and is core to the panel's principle that 'everyone should have the opportunity to be educated after the age of 18'.

Disadvantaged 18-year-olds are more likely to enter HE than ever before but there remain significant gaps between their access, participation and success at university compared to those of their advantaged peers:

- Advantaged 18 year-olds were more than twice as likely to enter full-time HE in 2018 as their disadvantaged peers.[106]
- Only around 4 per cent of disadvantaged 18 year-olds go to the highest tariff universities, and advantaged applicants are more than 5.7 times more likely to do so than their disadvantaged peers.[107]
- Disadvantaged entrants have higher drop out rates than expected after accounting for factors such as age, subject studied, and entry qualifications. 9.7 per cent of disadvantaged full-time first-degree UK-domiciled entrants in 2016/17 were no longer in HE the following year, compared with 5.3 per cent of advantaged entrants.[108]
- In 2016/17 the most advantaged students were more likely to achieve an upper second or first class degree than their disadvantaged peers even after accounting for prior attainment and other factors.[109]
- Accounting for all other characteristics, degree subject and institution at age 29, graduates from households in the top socio-economic status (SES) quintile earn between 8 and 9 per cent (£2,300-£2,400) more than those graduates from households in the lowest SES quintile.[110]

Rising participation rates suggest that high fees have not put off many students but research by the academics Callender and Mason found "lower-class students are still far more likely to be deterred from planning to enter higher education because of fear of debt".[111] They also report that lower-family income students were more debt-averse in 2015 than in 2002. Moreover, disadvantaged students are likely to graduate with a larger debt than advantaged students because they will have needed to take out a larger loan to meet their living costs - the difference in debt compared with their more privileged peers can be as much as £15,000.[112] We consider that higher fees may also act as a disincentive to this particular group.

As set out above, funding for disadvantaged students comes from two sources: through fees via Access and Participation Plans and direct from government through the Student Premium. We believe that the current resourcing of Access and Participation Plans through fee income does not reflect the additional costs faced by HEIs with large numbers of disadvantaged students. These HEIs are likely to use a greater proportion of their overall fee income to support disadvantaged students, leaving a lower level of core funding for other purposes. In effect, the current funding system penalises those institutions which do the most to support social mobility.

Student Premium funding is principally allocated according to the number of students with low prior attainment and from a low POLAR area, as a proxy for their degree of disadvantage. This means that HEIs admitting students with a higher prior attainment but from socio-economically disadvantaged backgrounds do not receive additional funding.

We recommend a different approach, which is set out in the final part of this chapter.

Value for money for students

Measures of student satisfaction rely on short-term judgements of an experience that is intended to bring lifetime benefits. They are also likely to be influenced by the fact that students are paying higher fees and taking on greater amounts of debt than ever before: three-year degree students with average maintenance loans graduate with a loan debt of around £57,800.[113] Nonetheless, the National Student Survey, managed by the OfS, has reported continuing high levels of satisfaction over the past decade.[114] The overall satisfaction level of students in England, as measured by the NSS, was 82 per cent in 2008, rose slightly to a peak of 86 per cent in 2015, before falling back slightly to 83 per cent in 2018.

But students are much less positive when asked about value for money. A Higher Education Policy Institute (HEPI) survey in 2018 reported that only 38 per cent of students felt they had received 'good or very good' value from their course, whereas 32 per cent felt they had received 'poor or very poor' value – a slight improvement on the previous year but still worryingly high.[115]

The Education Select Committee Chair Robert Halfon MP said in November 2018, on publishing that Committee's inquiry into value for money in higher education: "*The blunt reality is that too many universities are not providing value for money and that students are not getting good outcomes from the degrees for which so many of them rack up debt. Too many institutions are neither meeting our skills needs or providing the means for the disadvantaged to climb the ladder of opportunity.*"[116]

Value can, of course, be measured in many different ways. How much do students enjoy their experience day-to-day? What do they think of the available teaching and student support? What are the culturally enriching benefits of student life? These are all important considerations but for many graduates the critical consideration is career benefit and in particular the premium in earnings for having a degree. What do the data show about this important aspect of value?

Information and guidance

One key to helping students in making the best choice of university and subject is to provide timely and accurate information. It also continues to be important – though is seldom mentioned – that students should continue to have good information once they are studying, in order that they may change course or institution if that would be the best option for them. There are many sources of information including the Teaching Excellence and Student Outcomes Framework rating system from OfS, the Unistats website, the Universities and Colleges Admissions Service, many guides from newspapers and the consumer review company Which?, advice from the Student Loans Company, MoneySavingExpert and many others. Students have a complex choice to make, but until recently, no clear evidence of the likely outcome. The estimates of the earnings returns to graduates from studying specific subjects at specific institutions provide valuable information for deciding what and where to study and we encourage government to ensure these data are publicly available in an accessible format.

Earnings data vary widely between different courses and institutions

New data collected by government and analysed by the IFS has revealed the impact of undertaking a degree on early-career earnings and further analysis will examine full lifetime returns. Only the early career results were available to us at the time of writing but these include the returns for different subjects and institutions and take into account prior attainment and other student characteristics.

The data allow us to compare the earnings of graduates with those of their peers with a similar background and prior attainment who chose not to embark on or complete a degree ('non-graduates'). Across all HEIs and subjects the graduate premium for men at age 29 varies from minus 16 per cent to plus 58 per cent; the median is 10 per cent. The graduate premium for women varies from minus 11

per cent to plus 94 per cent and the median is 24 per cent. The data therefore confirm that the labour market places a significant value on graduate skills even at the early age of 29.[117]

Limitations of the IFS early-career earnings analysis

There are some limitations to the analysis. The data do not distinguish between full and part-time work, which is likely to affect comparisons of earnings between men and women, and they also do not cover the self-employed. The results we discuss are for earnings up to the age of 29 whereas the principal benefit in earnings for graduates tends to arrive in the following decade and thus we would expect full lifetime earnings for most graduates to generate higher premiums than those shown. However, the current data excludes the cost of foregone earnings during study and loan repayments after graduation which need to be taken into account for a full assessment of lifetime returns. Earnings are largely a product of the labour market for particular skills and qualifications and should not be regarded as a measure of teaching quality. They also vary according to location: a graduate working in an economic cold spot is likely to earn less than her or his counterpart working in a hot spot. However, if analysed with care, the data provide an insight into the early career financial consequences of degree study and will be a useful source of information for students, government and HEIs alike.

Value to society

We have used the available data to consider the economic value for students and the economy of different higher educational routes, for different people. However, we are clear that successful outcomes for both students and society are about more than pay. Higher levels of education are associated with wider participation in politics and civic affairs, and better physical and mental health. We also understand the social value of some lower-earning professions such as nursing and social care, and the cultural value of studying the Arts and Humanities. The earnings data enable us to make economically defined value calculations, not value judgements. Assessing this wider value is very difficult but government should continue to work to ensure that wider considerations are taken into account in its policy and funding decisions.

A graduate earnings premium is usual but not universal

While most graduates can expect a significant lifetime premium in earnings, at age 29 graduates in some subjects from some universities earn less than their peers who did not embark upon or complete study for a degree. We also note that on average the returns (the earnings benefit compared to similar students) for students with lower prior attainment are lower than for those with higher prior attainment.

Variations in the graduate premium by subject

Even after taking account of differences in prior academic attainment, and other background characteristics of students, the impact of different degree subjects on earnings varies considerably. The extremes are far apart. Among men, the earnings premium for an Economics graduate at age 29 is 33 per cent on average, whereas a graduate in the Creative Arts will, on average, earn 14 per cent less than his peers who did not attend university. Among women, the earnings premium

for a medical graduate is 75 per cent, but only 9 per cent for those graduated in the Creative Arts.

The graduate premium for men is low or negative at age 29 for a sizeable minority of subjects. In addition to the Creative Arts, these include English and Philosophy, for which the premium is negative, and Agriculture, Communications, Psychology, Languages, History, Biosciences and Physical Sciences for which it is zero or very small. Women, by contrast, enjoy a graduate premium at age 29 irrespective of the subject they studied, but the premium is small for the Creative Arts, Agriculture, Social Care and Psychology. We expect that the graduate premium will increase after age 29 and so getting a full picture of the lifetime returns and how these vary by subject will be key for the government in concluding this review.

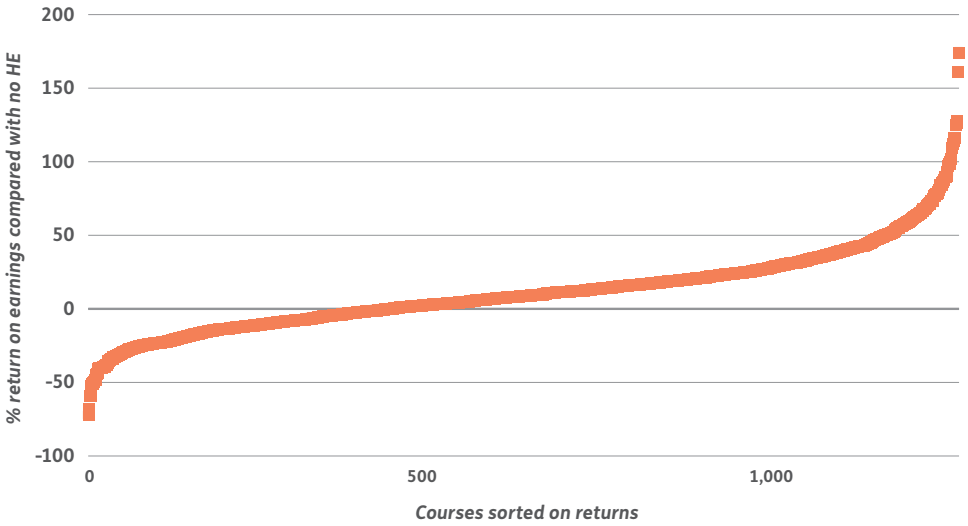
Variations in the graduate premium between institutions

The returns in earnings to graduates at age 29 also vary considerably according to the institution they attended. The typical Russell Group graduate enjoys a very high earnings premium, once results are controlled for background characteristics and prior attainment. The graduates of pre-1992 universities generally benefit from an earnings premium, but there are exceptions. Some post-1992 universities for some subjects generate a high graduate premium but most of the institutions and courses associated with a negative return in earnings are found within this group. For several subjects, the returns for men are higher for those studying for Level 4/5 qualifications than for those undertaking a degree in a similar field at a non-Russell group institution.[118] These results will need to be considered in the light of the forthcoming lifetime earnings analysis.

A small minority of institutions produce graduates who on average earn significantly less at age 29 than their comparators who did not attend higher education. The IFS estimate that 33 per cent of male students, and 1 per cent of female students - together making 15 per cent of all students - attended universities that had either significantly negative or statistically negligible earnings returns when these are averaged across all students at age 29.

The research also allows us to drill down further and look at the earnings returns for combinations of subjects and institutions, shown in Figure 3.13. The majority of courses produce graduates who on average enjoy a positive wage return but there is a wide variation. For men, the lowest 10 per cent of courses result in negative returns of below minus 21 per cent while at the other end 10 per cent of the highest return courses result in average returns of above 46 per cent. Altogether 34 per cent of courses[119] – accounting for 29 per cent of male students – were shown to have negative returns for men at age 29 (without taking foregone earnings and interest loan repayments into account), suggesting that one in three male students who took these courses could have earned more if they had chosen a different course of study or not gone to university at all. We expect these outturns for graduates to be improved once the analysis is extended to estimate lifetime returns.

Figure 3.13: Estimated returns at age 29 by course, men (IFS)[120]

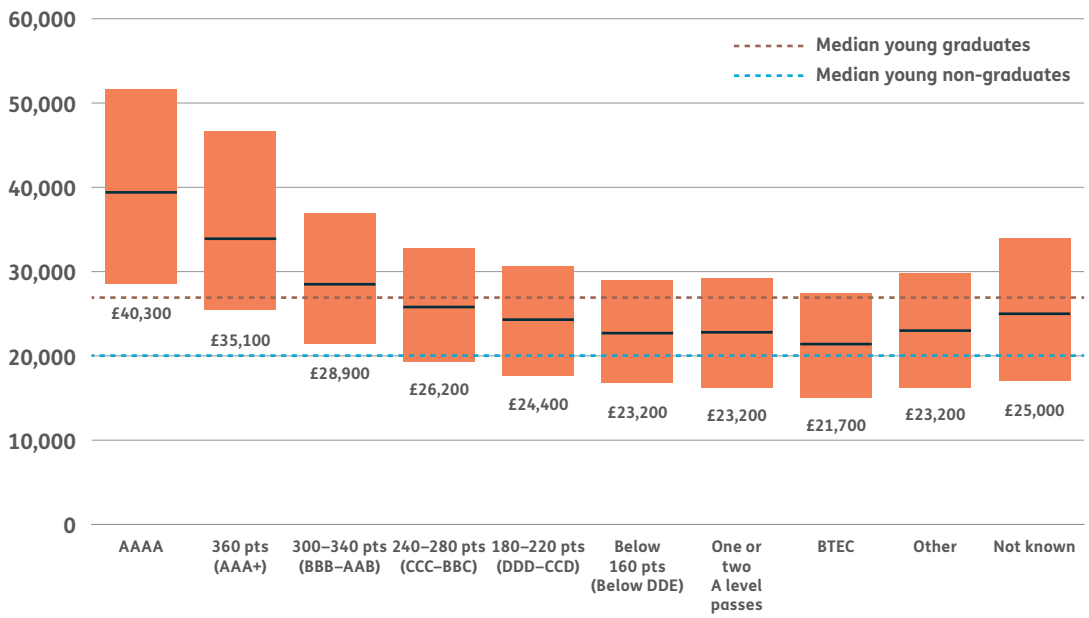


Variations by prior academic attainment

Many of the students who arrived at their university with relatively poor qualifications but completed their degree course then go on to earn less than those who entered with higher qualifications. Analysis in Figure 3.14 presents the median earnings for different levels of prior attainment five years after graduation. We noted that the median earnings of those entering university with BTECs was £21,700 five years after graduation and of those entering with A level grades of DDE or below £23,200, which compared with £28,900 or more for those admitted to university with BBB grades or better.[121] This is compared to those with the very highest tariff points who are likely to earn closer to or above £40,000.

Separate analysis at age 29 also shows that the earnings of those with lower prior attainment can be much closer, and in some cases below, the earnings of those with similar prior attainment who chose not to attend university.[122]

Figure 3.14: Earnings (£) for 2010/11 graduates in the 2016/17 tax year by qualifications on entry (interquartile range for each prior attainment group)[123]



More students are entering university with non-academic qualifications

As noted earlier, applicants with lower prior attainment are now more likely to be accepted to university as the sector has expanded. Since 2012 the number of students going to university with BTECs and other vocational qualifications has increased by 24 per cent; they make up one in four of all English domiciled entrants, and in 2017, two thirds studied at a lower tariff university. [124,125,126]

BTECs are a vocationally-designed Level 3 qualification with a large element of continuous assessment. The percentage of BTEC diploma students achieving a distinction or distinction star rose by 40 per cent between 2006 and 2016.[127] We are concerned about this, particularly since achievement in BTECs is inflated when it comes to allocating tariff points: there can be no other reasonable explanation for BTEC students earning more UCAS points than A level students with the same level of GCSE attainment.[128]

BTEC reforms in 2018 produced a tightening of standards. In summer 2018, 4 per cent of applicants achieved D*D*D* in the new reformed BTECs, compared to 34 per cent achieving the same grades in the non-reformed BTECs. However, the new standards are optional for schools and colleges and the panel has heard that many of the latter are choosing to stay with the old standards. We draw this anomaly to the attention of the relevant regulators.

While the biggest growth has been in applicants with BTECs, a similar trend has emerged for other vocational Level 3 qualifications. UCAS data from 2018 shows that 15.7 per cent of university applicants held 'other qualifications', up 2.6 percentage points from 2017. This increase is attributable to more applicants holding Cambridge Technical Qualifications, either alone, or alongside A levels and BTECs. There have also been increases in applicants holding Cambridge Pre-University qualifications, Extended Projects, and alternative vocational qualifications alongside one or two A levels or BTECs.[129]

We welcome the recently announced review of qualifications at Level 3 to consider which of these qualifications the government should fund.[130] The review should help ensure that qualifications are judged appropriately in terms of allocation of tariff points. We consider it an urgent priority for Ofqual, the OfS and UCAS to ensure that standards across vocational and non-vocational Level 3 qualifications are robust and comparable.

(iii) The case for change: Conclusion

The steady and marked expansion of HE over the last three decades has brought significant social and economic benefits to the nation and a real financial return to most graduates. Since the funding reforms of 2012, which largely replaced the government's teaching grant to universities with tuition fees paid by the student by means of an income-contingent loan, most of the taxpayer subsidy for HE has shifted from the teaching grant to unpaid loans. This taxpayer subsidy has been hidden from view by the accounting treatment such that it has not been considered in the context of investment in other parts of post-18 education and education more generally or in other public services. This funding methodology has also led to unintended consequences for subject provision that are not aligned with the government's Industrial Strategy.

The principal cause of unpaid loans is that many graduates earn too little in the course of their employment to repay the loan in full under existing terms. The analysis of graduate earnings at age 29 outlined above shows that a significant minority of graduates, concentrated in some institutions and some subjects, as well as among those with low educational attainment on embarking on degree study, are likely to earn too little to repay any or more than a small part of their loan; they would have been better off financially if they had not embarked on a university course in the first place, or had chosen a different course. This pattern of graduate earnings, loan repayments and taxpayer subsidy raises concerns about the value of some Level 6 provision, which are addressed in the next section.

Section 5: Recommendations

Per-student resource levels

Our earlier analysis showed that:

- The increase in the resources flowing to the sector in recent years has outstripped wider public spending and GDP growth.
- Funding levels are high internationally.
- While some English HEIs reported operating deficits in 2017/18, the sector's overall financial position is reasonably sound, with a strong balance sheet and operating surplus.
- The variation in universities' spending by subject suggests that it largely reflects available income rather than essential costs of provision.
- There is wide variation in what different institutions spend on different subjects and activities, with no established evidence of whether there is any link between levels of funding and outcomes.
- By international standards English universities spend a lower proportion of their total expenditure on teaching staff.

These observations lead us to conclude that the sector could and should absorb a further freeze on per student resources to help fund investment in other parts of post-18 education.

We acknowledge that efficiency initiatives are already underway and have no wish to recommend specific targets, which should be left to individual institutions. We believe that the best way to encourage the sector to achieve further efficiencies is to extend the 2018/19 and 2019/20 freeze of the average per-student resource for a further three years. Based on current inflation forecasts, this would mean a real terms reduction of 8 per cent between 2019/20 and 2022/23, and a reduction of 11 per cent compared to 2018/19 funding levels.[131] This freeze aligns with the current plan for a government spending review covering the years in the current parliament, up to 2022/23.

We recognise that a continuous freeze in resource presents a challenge to the sector. We have considered the risks of a potential reduction in the number of EU students – currently over 100,000 across all HE routes – after EU exit.[132] We understand that the sector is reliant on overseas students for a significant portion of its income (see Figure 3.3) and that competition from other countries is intensifying.

We have also considered the potential costs of a revaluation of sector pension schemes. Changes resulting from the 2017 valuation of the Universities Superannuation Scheme (USS) could add 6 percentage points to the employer contribution rate compared with the 2018/19 rate - equivalent to a 3 per cent increase in universities' overall costs[133] - over the next five years.[134] Although the emerging findings from the 2018 valuation suggest a lower increase.[135] There are two other main pension schemes in HE: the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). Changes to the TPS have been estimated to cost affected HE providers a total of around £80 million in 2019/20.[136] The next triennial valuation of the LGPS will be as at 31 March 2019.

However, we believe that these pressures can be offset by a growth in the number of UK students. Following a decline in the total number of 18 year-olds in the UK from a peak of 830,000 in 2009 to 766,000 in 2017[137] the number will start to increase again in 2020 and surpass 2009 levels by 2025. At current levels of participation and resource per student, these numbers will bring in approximately £500 million of annual extra income for universities by 2025 over current levels.[138] Indeed universities themselves are expecting an increase in student numbers of 10 per cent.[139] While higher numbers of students do bring an increase in costs, they also provide scope for greater 'operational gearing', which, as explained in the box below, leads to higher margins and a funding 'cushion' against the financial pressures outlined above. This is

consistent with universities' own forecasts of increased income exceeding increased expenditure as student numbers rise.[140]

Operational gearing.

Operational gearing is a term used by business analysts to describe economies and diseconomies of scale. Once fixed costs have been covered, the marginal profitability on incremental sales is much higher than average. The same principle applies to universities: the surplus on each additional student should rise, up to the level at which more staff and facilities have to be added. The golden zone between covering fixed costs and needing to add costs to cope with extra demand is very profitable; the reverse is true when numbers decrease.

We believe that the gradual effects of a funding freeze would give HEIs time to rise to the challenge of greater efficiency and redesigned business models, whilst maintaining the quality of provision. However, on current evidence we believe that attempts to generate further savings over this proposed funding freeze would jeopardise the quality of provision.

We make no recommendations about research funding, which is outside the scope of this review, and is for government to consider separately.

Recommendation 3.1

The average per-student resource should be frozen for three further years from 2020/21 until 2022/23. On current evidence, inflation based increases to the average per-student unit of resource should resume in 2023/24.

Research Funding

The government has set the objective of raising the overall R&D spend in the UK economy from 1.7 per cent to 2.4 per cent as part of the Industrial Strategy.

Universities in the UK educate the graduates, especially in STEM fields, needed to achieve this target. Our proposals on rebalancing funding towards high-cost and high-value subjects, discussed below, are intended to encourage this and are likely to result in more funding going to institutions with a strong research base. We also make recommendations to protect high quality specialist institutions.

We recognise that there will be concerns about the impact of the resource freeze on some institutions with pockets of research excellence. We are of the view that it is for government, business and other interested bodies to fund research adequately and directly.

Examples of differentiated provider offers

Some institutions have launched innovative degree programmes at reasonable fee levels and as a result widened the choice for students. Others have, for example, focused on offering a different pace of study, or links with industry. We strongly support further differentiation in the market of this kind.

Lower cost degrees

Coventry University owns and runs a group of HEIs in Coventry, Scarborough and London. The CU Group offers lower-cost access to degree and sub-degree study; typically courses cost £6,200 per year. Courses are offered flexibly: students can begin their courses at six different times in the year, and attend teaching at either morning or afternoon sessions to allow them to combine study with work. Modules are taught in six-week blocks, allowing students to 'roll on / roll off'. The group offers a wide range of vocational programmes at each location covering Finance, Business, Tourism, Policing, Nursing, Engineering, Education and Counselling. Since opening in 2012, CU Group has admitted 3,570 students, of whom a relatively high proportion are mature students and come from low participation areas.

Accelerated degrees

The government is promoting lower cost degrees with the recent introduction of accelerated – usually two-year – degrees, whereby students undertake a normal three-year degree in two years. The government has recently announced that it will provide a 20 per cent uplift in annual funding for accelerated degree providers, and an overall 20 per cent saving in total fee cost for the student.[141] This system will be in place for September 2019. The private University of Buckingham works entirely with a two-year, 40-week-per-year model, for bachelor's degrees, and the University of Staffordshire is offering much of their provision in this way.

Focus on employability

The University of Sheffield is one of many universities that prepare students for work by forging connections with communities and external partners. The University offers academic and vocational courses, as well as degree-level apprenticeships. Through cutting-edge research and strong partnerships with industry leaders such as Boeing, Siemens, Rolls-Royce and McLaren, the University takes a collaborative and multidisciplinary approach. The Advanced Manufacturing Research Centre attracts significant research income for engineering, through its strong industrial partnerships. The RISE scheme is run in partnership with Sheffield City Council and other partners across the City, including Sheffield Hallam University. It introduces graduates to the region's businesses through a 6-month paid placement with an employer in the region.

Working with industry

Amongst several good examples, the National Automotive Innovation Centre at Warwick, co-developed by Warwick university with Jaguar Land Rover, is a centre of automotive excellence and innovation, providing opportunities for industry experience and employment for students as well as access to the latest learning and technology.

The fee level

We base our recommendations on fee levels on three observations:

- England's fees are amongst the highest internationally.
- £9,250 appears to be more than the reasonable cost of providing the lowest cost courses.
- Government should have more say in how the state subsidy for higher education is spent.

We have concluded that the headline fee should be cut to a reasonable base cost of providing the lowest-cost courses and that the additional costs of providing higher-cost subjects should be funded directly by grant. The assessment of this base cost will inevitably rely on judgement: there is no "right" answer for the "true" cost of university provision. We have drawn on the KPMG report and TRAC data; on our analysis of changes in spending over time; on international comparisons and on broader considerations of student debt and spending priorities in making our recommendations.

We judge that a fee cap of £7,500 is fair. It ensures that no student pays more than what could be considered the reasonable cost of their course and allows better targeting of taxpayer investment. It would also reduce overall student debt and lower one deterrent to participation. Although commentators stress that the level of debt is irrelevant given the income-contingent character of the loan system, perception is reality for many prospective students, particularly those from a disadvantaged background with larger maintenance loans who are currently likely to graduate with debt of over £60,000 once in-study interest is factored in.

We firmly believe that the total reduction in resources from the fee cut must be matched with an equivalent increase in average per-student grant funding from government, so that the average per student resource to the sector stays level in cash terms (in line with Recommendation 3.3).

We do not recommend any changes to the lower fee cap, currently set at £6,000 or £6,165 for providers with a TEF rating. We propose that fee caps which are currently set in proportion to the higher fee cap – namely the accelerated degree fee cap and the part time fee cap – should be changed in proportion to our proposed change in the headline cap.

Recommendation 3.2

The cap on the fee chargeable to HE students should be reduced to £7,500 per year.[142] We consider that this could be introduced by 2021/22.

Recommendation 3.3

Government should replace in full the lost fee income by increasing the teaching grant, leaving the average unit of funding unchanged at sector level in cash terms.

Recommendation 3.4

The fee cap should be frozen until 2022/23, then increased in line with inflation from 2023/24

Per-subject funding levels

The increased level of grant resulting from the reduction in fee needs to be directed effectively. Our recommendations are based on evidence showing that:

- The current funding system under-funds certain high-cost subjects to the detriment of the economy in general and the government's Industrial Strategy.
- The current long-term taxpayer subsidy is poorly directed.
- Government currently has very limited control over the substantial taxpayer investment in higher education.

We recommend that the OfS carry out a review of the funding rates for different subjects, to include an examination of the reasonable costs

of provision in the light of sector best practice, historical levels and international comparisons. We recommend that the OfS should have regard to economic and social value and consider support for socially-desirable professions such as nursing and teaching which do not command a significant earnings premium. We expect that this study should rebalance funding towards high-cost and strategically important subjects and to subjects that add social as well as economic value. We would expect some subjects to receive little or no subject specific teaching grant over the £7,500 base rate but that the OfS would consider separate arrangements to support those specialist institutions offering the highest quality provision that might otherwise be adversely affected by these recommendations.

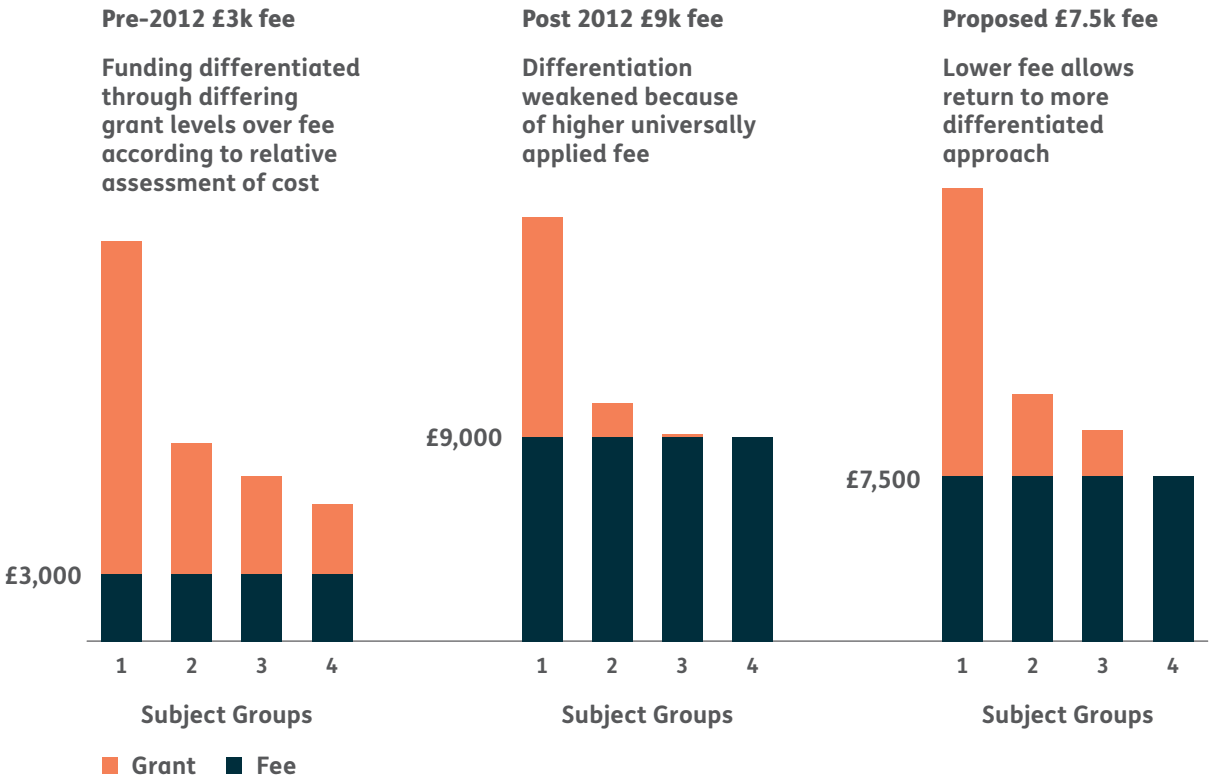
We also considered carefully a wide range of alternatives to recommendations 3.2 – 3.5. The details of these options, and why the panel preferred recommendations 3.2 – 3.5, are included in the box at the end of this chapter.

Recommendation 3.5

Government should adjust the teaching grant attached to each subject to reflect more accurately the subject's reasonable costs and its social and economic value to students and taxpayers.

Support for high-quality specialist institutions that could be adversely affected should be reviewed and if necessary increased.

Figure 3.15: How the panel's proposals to reduce fees could enable greater differences of funding between subjects



Note: this chart is illustrative to show the potential for greater funding differences between subject groups – the future grant levels (and indeed the number of groups and subjects in each group) would need to be considered by government.

Distance Learning

The Complete University Guide (CUG) defines distance learning as 'a way of learning remotely without being in regular face-to-face contact with a teacher in the classroom'. More than 270,000 UK undergraduate students are taking their first degrees via distance learning, together with some 108,000 postgraduate students. In the UK, the majority of these are studying with the Open University. As noted elsewhere, there has been a decline in HE student numbers on these programmes in recent years. Many learners are studying for professional qualifications through this method and online learning is a major plank of the National Retraining Scheme.

Distance learning continues a tradition of non-campus learning that began with correspondence courses. Many campus providers incorporate elements of online provision into their courses and programmes and we note with interest the use of distance teaching, sometimes at very low cost, through mobile and other devices at degree level and as part of continuous professional development.

It may be necessary in terms of fees and funding to maintain a distinction between those programmes which are designed, advertised and delivered as campus based – notwithstanding they may have on-line components – and those which are predominantly intended to be studied remotely. This matter should be kept under review by the OfS.

Funding to support disadvantaged students

Our assessment of the current system is that it fails to fully support social mobility because it:

- Over-emphasises entry into higher education rather than successful participation.
- Fails to resource adequately those institutions that admit a large proportion of their students from disadvantaged backgrounds.
- Relies on too limited an evidence base of what works best.

We propose that a portion of the increased teaching grant be used to target government funding more effectively to support access, participation and success for those students who have experienced socio-economic disadvantage, including part-time and mature students. Discarding measures of prior academic attainment and area-based measures of participation in HE in favour of individual measures of socio-economic disadvantage would help to ensure that funding is directed at those institutions that do most to support social mobility, and that disadvantaged students are better supported. We recommend that government should specify a minimum sum for each such student, as it does in the Pupil Premium Grant for schools.

Access and Participation Plans should clearly specify intended outcomes. We support the OfS's focus on evidence-based interventions and encourage the regulator to hold providers to account for the results. We believe that Access and Participation Plans should cover part-time students, mature students and commuter students.

Our recommendations to reduce the fee cap and replace lost income with teaching grant should not lead to any reduction in the overall levels of spend on disadvantaged students at sector level because lost fee income would be replaced in full by additional teaching grant, and we are recommending an increase in the amount of teaching grant that is focused on disadvantage. Universities should continue to use both fee and grant income to support their disadvantaged students. We are also making substantial recommendations on maintenance support, including the reintroduction of maintenance grants. These changes mean a more explicit and generous form of support in the system for disadvantaged students. It would also reduce the need for institutions to provide additional financial assistance within their Access and Participation Plan. Institutions would need to ensure that their funding is recycled appropriately and directed towards further supporting their disadvantaged students. Institutions should use the Evidence and Impact Exchange to help ensure that all their expenditure is used in the most effective way.

Recommendation 3.6

Government should take further steps to ensure disadvantaged students have sufficient support to access, participate and succeed in higher education. It should do this by:

- Increasing the amount of teaching grant funding that follows disadvantaged students, so that funding flows to those institutions educating the students that are most likely to need additional support.
- Changing the measure of disadvantage used in the Student Premium to capture individual-level socio-economic disadvantage, so that funding closely follows the students who need support.
- Requiring providers to be accountable for their use of Student Premium grant, alongside Access and Participation Plans for the spend of tuition fee income, to enable joined up scrutiny.

Maximising value

The role of the OfS

The OfS has a key role to play as the market regulator, acting on behalf of all students and taxpayers in pushing up quality and bearing down on provision of dubious value. We strongly support the regulator's remit. The OfS sets the lead indicators used to monitor HEIs, including continuation rates, NSS results, degree attainment, student and staff complaints, graduate employment, reports from the Designated Data Body, and employer feedback. The OfS has the power to address poor quality provision and outcomes and we encourage it to intervene where it sees instances of poor value.

The OfS is also responsible for the resolution of failing institutions. Its chairman, Sir Michael Barber, has stated that the OfS will not rescue financially-bereft institutions beyond the provision of temporary funding: to do so would risk moral hazard.

"The OfS will not bail out providers in financial difficulty. This kind of thinking – not unlike the 'too big to fail' idea among the banks – will lead to poor decision making and a lack of financial discipline, is inconsistent with the principle of university autonomy and is not in students' longer term interests.....Good governance and financial sustainability are conditions of registration and we expect universities to develop realistic plans for the future which reflect likely student demand for their courses and how best they can meet that demand. Should a university or other higher education provider find themselves at risk of closure, our role will be to protect students' interests, and we will not hesitate to intervene to do so. We will not step in to prop up a failing provider."
Sir Michael Barber, OfS Chair[143]

We note that in addition to risking moral hazard, the cost of bailing out a failing institution would be prohibitively expensive. Providers should have robust resolution plans in place and these should be agreed with and regularly tested by the OfS, as required through their student protection plans.

The proposals outlined above are intended to build more balanced incentives into the funding system and, alongside greater scrutiny of university data, recruiting practices and earnings returns, reduce the volume of low value provision. However, there is still a risk that some HEIs will continue to recruit too many students who will not benefit from a degree and so we have considered harder-edged options. These would undoubtedly be unpopular in the sector, where the connection between going to university and achieving social mobility has become something of an unquestioned – although we believe questionable – mantra. We are conscious that any move to restrict entry to HE after years of expansion could be seen as a retrograde step. Reintroducing a universal student number cap is out of scope of our terms of reference and one we consider to be a very blunt instrument. However, restricting entry to degree-level study on the basis of prior academic attainment could be less blunt provided that there was sufficient protection for disadvantaged groups. The following section explains how this could work.

A minimum entry threshold

We have considered the introduction at some future date of a contextualised minimum entry threshold for access to Level 6 student finance for students under the age of 25, to be used if the measures outlined above did not deliver the scale and pace of change needed. Students under 25 with tariff points below a certain level would be ineligible for student loans for tuition at Level 6. To repeat, this policy would need to be implemented such that disadvantaged students were not unfairly penalised.

The choice of threshold would be critical. As Figure 3.14 shows, there is no clear drop-off point in graduate earnings by attainment. To be effective, a threshold would need to be both high enough to address the issues of drop-out and lower wage returns set out earlier; and low enough to ensure that the impact could be managed across the sector and would avoid disproportionate impact on disadvantaged groups. The box below – which is purely illustrative – shows that contextualisation could be applied to a minimum entry threshold that would address most of the concerns expressed about the proposal.

Contextualisation with a minimum entry threshold

We commissioned UCAS to explore the effect of introducing a minimum entry threshold, and to identify the extent of any contextualisation required to mitigate any adverse impact on equality of access to higher education.

Previous research has shown that students with lower levels of Level 3 attainment are more likely to be from disadvantaged backgrounds.[144] For the purpose of this analysis, we have used a specific version of UCAS's Multiple Equality Measure (MEM) – an equality metric for HE – to assess the impact of a minimum entry threshold[145] and calculated a contextualised tariff point score for all 18 year-old English full-time undergraduate students with A level and BTEC qualifications. This analysis shows how a moderated threshold could work, and estimates the impact on disadvantaged students. It is an illustration to demonstrate that contextualisation is possible, not a recommendation.

The UCAS MEM used here brings together information on several equality dimensions that are associated with the probability of progression into HE. These include sex, where applicants live (POLAR3 and Index of Multiple Deprivation) and secondary school sector. The probability of entry to HE aged 18 is calculated on the basis of these characteristics and their combinations. These probabilities are then used to aggregate applicants into groups, where group 1 contains those least likely to enter HE (the "most disadvantaged"), and group 5 contains those most likely to enter HE (the "most advantaged").

We considered the impact of a minimum entry requirement at different A level and BTEC thresholds. The underlying assumption is that an applicant with a lower likelihood of entering HE is likely to have experienced educational disadvantage meaning their qualifications potentially understate their potential and so should have their A level/BTEC grades adjusted upwards for the purpose of judging their suitability for admission to a Level 6 course.[146] The analysis indicated that the 20 per cent most disadvantaged applicants (MEM group 1) would need an average adjustment of three grades (e.g. from EEE to DDD) to bring their attainment in line with more advantaged peers.

For illustrative purposes, the impact of two thresholds and this approach to contextualisation are described here:

- At a threshold of DDD, 72 tariff points, around 19,000 English 18 year-old students – about 10 per cent of all those accepted – would not have been accepted in the absence of any form of contextualisation. Without appropriate contextualisation, this threshold would disproportionately affect the most disadvantaged students. For example, in MEM group 1, 14.9 per cent of A level students fall below the threshold compared to 4.5 percent of MEM group 5. After applying the contextualisation metric, 6,000 – about 3 per cent - would remain below the threshold. Of these, only 300 are from groups 1-3 i.e. the most disadvantaged applicants. (This assumes BTEC grade MMP (merit, merit, pass) is equivalent to DDD at A level.)
- At a threshold of CCD, 88 tariff points, around 38,000 English 18 year-olds would not have been accepted without some form of contextualisation. That is around 20 per cent of all those accepted into HE. After applying the contextualisation metric, about 19,000 students would remain below the threshold, of whom approximately 3,000 are from groups 1-3. (This assumes BTEC grade MMM (merit, merit, merit) is equivalent to CCD at A level.)

These figures have been calculated using a specific method to illustrate how a contextualisation process could work. Such a measure would directly impact individual applicants, so it would be essential to apply robust measures of individual disadvantage in combination with area-based measures.

UCAS noted the risks and issues inherent in such large adjustments of grades and the importance of clearly setting out the assumptions that underpin the contextualisation. UCAS also noted that this method is focused entirely on 18 year-olds, and would be inappropriate for mature applicants, or applicants with other characteristics that make them eligible for contextualised admissions, such as having been in care.

The UCAS Tariff is a metric based on qualification size and grading structure. Differences in qualification structures mean that it is not possible to infer absolute equivalence between all grades across all qualifications (and one of the panel's observations is that this lack of equivalence needs resolving as qualifications are reformed and as T levels are introduced). The data are also based on acceptances, not enrolments, and thus over-represent the numbers of students entering university in 2018.

Were a minimum entry requirement introduced, it should apply only to students under the age of 25, after which work experience, rather than Level 3 qualifications alone, would be the appropriate entry criterion. The policy should apply only to Level 6 courses: any young person with Level 3 attainment below the threshold would still be eligible for student finance to study at Levels 4/5, and could then use their qualification at those higher levels to progress on to, and therefore receive finance for, Level 6 in the future. Introducing high-quality alternatives to degree study will be crucial to addressing the problems of low-value degrees set out above. Students recognise the value of higher-level study but they must have these alternatives available to them or they will continue to enrol for poor-value degrees.

We are aware that even with contextualisation the impact on some HEIs would be significant. Some of them might wish to focus on the new higher technical provision discussed in the previous chapter; if they chose to do so, this would be a positive outcome.

We consider a minimum entry threshold contextualised for socio-economic background to be feasible and that it could address the problems of low returns for graduates in a socially progressive way. However, such a threshold would be a significant intervention into what has been designed as a competitive autonomous market. It could be seen as a reversal of the principle of allowing all who are able to benefit from HE to attend, a principle that has underpinned HE policy in recent years and was first pronounced in the 1963 Robbins Report. It might be objected that the contextualisation process breaks the clear link between attainment and entry established by a minimum entry threshold. For example, it could result in a position where two students at the same school with the same grades holding the same offer from the same university would have different outcomes; one would be moderated over the threshold and attend university while the other would not. In so doing, it could be presented as an example of social engineering – and breach of concepts of fairness – that do not fit comfortably within a meritocratic education system. However, universities already take account of a range of factors – including circumstances and potential – alongside a prospective student's prior attainment; a more systematic national approach would simply increase the extent and transparency of contextualised admissions.

Targeted number caps on courses offering poor value for money

If recruitment practice has not improved by 2022/23, discussed further below, an alternative or complementary option for the government and OfS is the imposition of a cap on the numbers admitted to courses that persistently manifest poor value for money for students and the public. The existing regulations give OfS the power to implement such

caps where that is justified in accordance with their regulatory aims, at institutional or subject level.[147]

The government has made it clear that it will not re-impose a cap on student numbers at national level. It would be out of scope for us to propose this and we would not wish to do so, even if it were within our terms of reference. However, we are mindful that the government does exceptionally place a cap on numbers, notably on university places for Medicine, because of the very high cost of a medical degree and of the professional training that follows it, and have considered whether this practice could be extended.

We therefore invite the government to consider the case for encouraging the OfS to stipulate in exceptional circumstances a limit to the numbers an HEI could enrol on a specific course, or group of courses. It would be critical for the OfS to be transparent about the grounds and process for such an intervention and we can offer no more than a broad indication of what these circumstances might be. Where there is persistent evidence of poor value for students in terms of employment and earnings and for the public in terms of loan repayments, the OfS would have the regulatory authority to place a limit, for a fixed period, on the numbers eligible for financial support who could be admitted to the course. The institution in question would remain free to recruit to all other courses without restriction. Such a cap system would clearly target the institutions that are offering poor value, rather than altering the entry criteria for individual students.

The sector should reform its student recruitment practices

Our preference is for the HE sector, through the OfS, to resolve the problem of students being inappropriately recruited onto low value courses. This is a matter of responsible recruitment practice which puts the long-term interests of individual students over and above the short-term interests of providers.

We believe that the sector should have three years – until the start of academic year 2022/23 – to put its house in order. This timescale would have a number of benefits. It would enable universities to have two recruitment rounds – 2020/21 and 2021/22 – in which to demonstrate sufficient progress. The impact on universities would be mitigated by the predicted upturn in 18 year-old applicants from 2021 onwards. If adopted by government, by then our recommendations would have created an attractive higher technical alternative to Level 6 degrees.

These reforms would take time to bed in but during the intervening period government and the OfS should monitor the practices that concern the panel. Universities themselves, as well as schools and colleges, have a key role to play in responding to these issues. But we are clear that if there is no evidence of progress in recruitment practice or outcomes of students on low value courses then government should intervene either with a minimum entry threshold or a selective cap on numbers, or a combination of both. We envisage the OfS monitoring progress in terms of: the average entry tariff; the use of unconditional offers and pressure selling tactics; and non-continuation rates, on lower value courses.

We have considered the case for an institutional number cap but rejected it because the very public imposition of such a cap on a named institution would risk triggering a spiral of decline. We would not rule out imposing more than one subject number cap on the same institution if the circumstances justified it.

Recommendation 3.7

Unless the sector has moved to address the problem of recruitment to courses which have poor retention, poor graduate employability and poor long term earnings benefits by 2022/23, the government should intervene. This intervention should take the form of a contextualised minimum entry threshold, a selective numbers cap or a combination of both.

Foundation Years

Foundation years attached to degree courses are not to be confused with foundation degrees. They are one-year courses offered by universities for students who do not have the prior attainment in the right subjects to enter the course of their choice, to teach them the knowledge they need to progress on to the first year of their chosen course. Providing the course with which the foundation year is integrated is itself eligible for student finance, students enrolling can access the normal package of tuition fee and maintenance loans for the full duration of the extended course; providers, normally universities, can charge up to the maximum tuition fee cap of £9,250.

An alternative route into HE for students without the necessary prior attainment is provided by Access to HE Diplomas. These are discrete courses of further education (FE) at Level 3, designed to equip students with a good foundation in the knowledge and skills required for studying a specific subject at university level. They are mostly provided by FE colleges (FECs), predominantly undertaken by mature learners, and are widely accepted as an entry qualification to HE. Students can access an Advanced Learner Loan (ALL) to meet tuition costs, and on successful completion of a subsequent HE course, are eligible to have their outstanding ALL balance written off. The maximum ALL amounts available for Access Diplomas – which effectively act as a fee cap – range from £3,022 to £5,197, depending on subject. It is a cheaper way for students with low prior attainment to access HE.

To our surprise, the number of UK-domiciled students entering integrated foundation years in England almost tripled between 2012/13 and 2017/18, from 10,430 to 30,030, whereas the number of entrants to Access Diplomas declined from 36,880 to 30,410, a drop of 18 per cent, over the same period.[148] The vast majority of Access Diploma entrants (90 per cent in 2017/18) are taught at FECs, whereas the majority of integrated foundation year students (77 per cent in 2017/18) are taught at HEIs.[149]

There may be compelling reasons why HE courses with subject-specific entry requirements – for example, Medicine – should offer foundation years as an entry route for students from disadvantaged backgrounds, but this does not seem to be how these courses are, in the main, being deployed. The largest number of registrations onto foundation years by subject group in 2017/18 was for Business and Administrative Studies[150], for which there are generally no special entry requirements.

It is hard not to conclude that universities are using foundation years to create four-year degrees in order to entice students who do not otherwise meet their standard entry criteria. Most recruiters to these programmes are medium or lower entry tariff institutions[151], typically universities with a high proportion of students from poorer backgrounds. These students are obliged to take out an additional fourth year of higher and non-cancellable fee loans. We question whether this is in their best interests.

The taxpayer is entitled to ask why universities are not collaborating with FECs on enrolling these students onto Access Diplomas with lower fees, more advantageous loan terms, and a standalone qualification, or, if necessary, running such courses themselves, as a few universities already do.

It is our view that the inequity in funding and support available for Access Diplomas compared to the package available for foundation years is resulting in poor value for money for both government and some students. We recommend that student finance is no longer offered for foundation years, unless agreed with the OfS in exceptional cases.

In recognition of the potential impact on widening participation, we recommend this should not be implemented without notice of at least two academic years. Over this period, those universities that do not already offer them may wish to develop their own Access Diplomas or collaborate with FECs in their creation. Given the substantially lower fee levels for this type of provision, this will represent better value for money for students and taxpayers.

Recommendation 3.8

We recommend withdrawing financial support for foundation years attached to degree courses after an appropriate notice period. Exemptions for specific courses such as Medicine may be granted by the OfS.

Options considered and discarded relating to the fee level

We received a variety of representations on options for different fee levels, and considered carefully a wide range of alternatives to Recommendation 3.2. Because of the public interest and the differences of opinion, often debated in the media, around university fees, we will set out here the case for our recommendation as opposed to alternatives. The options considered included:

- **Retaining the current fee cap**. The case against this – and for a lower cap – is set out above.
- **A lower fee cap of £6,500**. At this level, there would no longer be any additional benefit in terms of redistributing funding between subjects, because it does not look reasonable from the reported levels of cost and KPMG work to expect any subject to be taught to a high standard for under £7,500 per year. Also, the cost – in the form of additional teaching grant – of this further fee reduction would be more expensive for the taxpayer than the cost of the £7,500 proposal.
- **Differential fees: variable fee caps for different subjects on the basis of cost, expected value, or a combination of the two**. Government grants would make up the remaining costs for each course, in the way the current grant does for high-cost subjects. The Australian system operates in much this way. We felt that setting different subject fees based on cost would be counter-productive; some of the most expensive subjects are those that provide skills the economy most needs – such as Science, Engineering and Medicine – where higher fees could act as a deterrent to students when making their choices. Our view is that whilst overall *funding* should be more differentiated between subjects, *fees* for the student should not. The panel noted that the vast majority of commentators and call for evidence respondents were also of the view that fees should not be differentiated.
- **A 'negative' grant for low cost subjects**. As an alternate way to achieve a uniform fee cap but funding differentiated by subject, the panel explored in detail what was termed a 'negative' grant. This would allow the fee to remain at £9,250 but the total amount of government teaching grant allocated to an HEI would be reduced on the basis of the number of Band D students it admitted, effectively reducing the unit of resource for students (in the Arts, Humanities and Social Sciences). This option had merits but was judged to be complicated to explain and administer and would serve to highlight and embed the subsidy that students of some subjects make to students of others.
- **Differential fees: variable fee caps depending on course or institution quality and/or outcomes.** We heard calls for fees to be differentiated on the basis of course quality or institutional quality. We looked at the option of allowing high quality institutions to charge fees above £9,250 for all or some of their courses in return for sharing responsibility for student finance. In this scheme, institutions would take on some of the risk of their graduates not repaying their loans, in return for charging a higher fee. Government teaching grants would not be provided to make up the difference between the fee the institution charged and the cost of provision, because the HEI would be rewarded or penalised for performance. The critical drawback of such a scheme is that the

differentiation in fees would lead to spirals of improvement or decline, depending on a provider's reputation and quality. High tariff institutions could confidently charge higher fees and invest to improve, while lower tariff institutions would be forced to manage with lower fees and lower resources and be less able to invest, improve and compete. This could further create a two (or multi) tier system, where fee prices would push more debt-averse poorer students towards lower quality provision. In practice differential fees would be near impossible to implement given the inevitable data lags in assessing quality and the potential for differences between overall institutional quality rating and subject rating.

We concluded that a system of differential fees is undesirable at subject level, and unworkable at institutional level, and would not bring overall benefits to the individual, economy or society.

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2. Based on registration data covering the transitional regulatory period 1st April 2018 to 31st July 2019. Of the 141 institutions, 132 were publicly funded and 9 privately funded. Note: HERA and OfS now recognise all institutions registered to provider HE as Higher Education Providers (HEPs) and does not distinguish between HEIs and other provider types. OfS Existing Regulatory Data, provider level data table, column F. https://www.officeforstudents.org.uk/advice-and-guidance/the-register/existing-regulatory-data/
3. 1990 figure measured by the DfE's Age Participation Index. Series can be found in Figure 1 of 'Gender Gaps in Higher Education Participation: An Analysis of the Relationship between Prior Attainment and Young Participation by Gender, Socio-Economic Class and Ethnicity': https://dera.ioe.ac.uk/8717/1/DIUS-RR-08-14.pdf. Current figure taken from 'Participation Rates in Higher Education: 2006 to 2017' https://www.gov.uk/government/statistics/participation-rates-in-higher-education-2006-to-2017
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10. UCAS (2018) End of Cycle Report 2018: Summary of applicants and acceptances, p4. https://www.ucas.com/file/225551/download?token=nGdxoNQn
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12. Counts include all UK HEIs. source: Universities UK (2017) The economic impact of universities in 2014-15, p2. https://www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2017/the-economic-impact-of-universities.pdf
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[22] DfE (2018) Review of Post-18 Education and Funding, p1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682348/Post_18_review_-_ToR.pdf

[23] The fee cap increased to £3,000 in 2008 and then increased by the rate of inflation each year.

[24] Belfield, C., Farquharson, C. and Sibieta, L. (2018) 2018 Annual Report on Education Spending in England. Institute for Fiscal Studies, p63. https://www.ifs.org.uk/uploads/publications/comms/R150.pdf

[25] DfE analysis based on Higher Education Provider Data: Finance Plus data. 2016/17 prices using GDP deflators.

[26] Based on 2016-17 prices. Source: HM Treasury (2018) Public Expenditure: Statistical Analyses, page 66, table 4.2. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726871/PESA_2018_Accessible.pdf

[27] Belfield, C., Farquharson, C. and Sibieta, L. (2018) 2018 Annual Report on Education Spending in England, p29, Figure 3.1. Institute for Fiscal Studies. https://www.ifs.org.uk/uploads/publications/comms/R150.pdf

[28] Teaching related income defined here is the sum of Home and EU tuition fees (full- and part-time undergraduate and postgraduate fees) plus recurrent teaching grant from funding bodies. Excluded from this definition are fee income from overseas students, other sources of tuition fee and education contract income, and other recurrent teaching grant from other funding bodies as well as capital grants. Source: OECD (2018) Education Spending. https://data.oecd.org/eduresource/education-spending.htm#indicator-chart

[29] Teaching HEFCE/OfS grant relates to recurrent teaching grant only. It does not include other sources of recurrent funding or capital grant funding. Chart also does not include other teaching and education contract income (e.g. PGCE, non-credit-bearing course fees, FE course fees or research training support grants). Real term values calculated using financial year GDP deflators at market prices published at Spring Statement 2019 converted to academic years in 2017/18 prices. Data from 2015/16 onwards not directly comparable with earlier years as they are based on different Financial Report Standards (FRS 102).

[30] OfS (2019) Financial sustainability of higher education providers in England, p3. https://www.officeforstudents.org.uk/media/cf54b6ee-714e-45c3-ade9-56bc685b861d/report-on-financial-sustainability-of-higher-education-providers-in-england.pdf

[31] The figure for 2015-16 is taken from HEFCE's last financial health report published in March. Source: HEFCE (2018) Financial health of the higher education sector: 2016-17 financial results, p7. https://dera.ioe.ac.uk/31345/1/HEFCE2018_04.pdf

[32] These projections related to the 183 providers which have so far registered under the new regulatory framework and are a mix of HEIs and former Alternative Providers. Source: OfS (2019) Financial sustainability of higher education providers in England, p7, table 1. https://www.officeforstudents.org.uk/media/cf54b6ee-714e-45c3-ade9-56bc685b861d/report-on-financial-sustainability-of-higher-education-providers-in-england.pdf

[33] 33 Ibid, p12.

[34] Ibid, p3.

[35] Data for 2015/16 and 2016/17 based on new Financial Reporting Standards (FRS 102) so not directly comparable with earlier years. Source: DfE analysis of HESA Finance data.

[36] Real term values calculated using financial year GDP deflators at market prices published at Spring Statement 2019 converted to academic years with in 2017/18 prices. Data from 2015/16 onwards not directly comparable with earlier years as they are based on different Financial Reporting Standards (FRS 102).

[37] HESA (2019) HE Provider Data: Finance – new open data release. https://www.hesa.ac.uk/news/21-03-2019/he-provider-data-finance

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[42] Department for Education (2019) Higher Education Tuition Fee Prices - Using 2016/17 Student Loan Company to estimate headline tuition fee prices in the Higher Education sector by provider and qualification type.

[43] Looney, S., Drummond, A. and Grayson, C. (2019) Attitudes towards the student finance system. Report by Opinium for the Department for Education. Brown, M. (2019) Attitudes of higher education applicants, students and graduates towards the student finance system. Report by Youthsight for the Department for Education.

[44] Currency conversion to £GBP was based on average exchange rates over the period from August 2017 to July 2018. As this was based on exchange rates, this comparison does not necessarily account for differences in the cost of goods or services in different economies. Additionally fee levels were drawn from a variety of different sources covering different years and have not been adjusted for inflation, so figures should be used for an indicative comparison only. Rates are rounded to the nearest ten units of currency.

[45] Figures for all countries except Australia. Source: Greatbatch, D. and Tate, S., (2019), International comparisons of post-18 education systems. DfE.

[46] Figures for Australia source: Australian Government (2019) StudyAssist: Information for students about government assistance for financing tertiary study. https://www.studyassist.gov.au/help-loans-commonwealth-supported-places-csps/student-contribution-amounts

[47] The mapping of HESA cost centre codes to the price band grouping used by HEFCE, and now the OfS to inform their grant funding decisions has remained unchanged since 2013/14. These can be found at: https://dera.ioe.ac.uk/21101/12/HEFCE2014_23l.pdf

[48] The IFS analysis does not include all teaching grant, only subject specific teaching grant. The non-subject specific teaching grant was also reduced significantly over this period and thus the IFS figures overstate the increase received. The point on the different rates of increase by subject remains.

[49] Norton, A. and Cherastidtham, I. (2018) Mapping Australian higher education 2018, p62. https://grattan.edu.au/wp-content/uploads/2018/09/907-Mapping-Australian-higher-education-2018.pdf

[50] Currency conversion to £GBP was based on average exchange rates over the period from August 2017 to July 2018, similar to Figure 3.5.

[51] Scottish Funding Council (2018) Outcome agreement funding for universities – final allocations for 2018-19, p8. http://www.sfc.ac.uk/web/FILES/announcements_sfcan102018/Outcome_agreement_funding_for_universities_-_final_allocations_for_2018-19.pdf

[52] Universities UK (2018) Universities UK response to the review of post-18 education and funding call for evidence, p10. https://www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2018/uuk-response-post-18-review-call-evidence.pdf

[53] The Russell Group's submission to call for evidence (May 2018).

[54] Example subjects by price group: A) Clinical Medicine, Clinical Dentistry, Veterinary Science. B) Pharmacy and pharmacology, Chemistry, Engineering. C1) Information Technology, Software Engineering, Art and Design, Music, Dance, Drama. C2) Psychology, Architecture, Mathematics, Modern Languages. D) History, Philosophy, Sociology, Business Studies, Economics, Law. Full list: https://dera.ioe.ac.uk/21101/12/HEFCE2014_23l.pdf

[55] Belfield, C., Britton, J., Dearden, L. and van der Erve, L. (2017) Higher Education funding in England: past, present and options for the future, p28, table 4.1. https://www.ifs.org.uk/uploads/publications/bns/BN211.pdf

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[57] KPMG LLP, (2019), Understanding costs of undergraduate provision in Higher Education, Costing Study report, report prepared for the Department for Education.

[58] DfE estimates using total cost figures and student numbers from: KPMG LLP, (2019), Understanding costs of undergraduate provision in Higher Education, Costing Study report, report prepared for the Department for Education.

[59] Department for Education (2019) Measuring the cost of provision using Transparent Approach to Costing data.

[60] Corporate and central activities include Estate costs, corporate services such as Finance, HR, IT, Legal, other central indirect costs and sustainability adjustments. DfE estimates using total cost figures and student numbers from: KPMG LLP, (2019), Understanding costs of undergraduate provision in Higher Education, Costing Study report, report prepared for the Department for Education.

[61] OECD (2017) Education at a Glance 2017: OECD Indicators, table B6.2. https://read.oecd-ilibrary.org/education/education-at-a-glance-2017_eag-2017-en#page233

[62] Direct teaching costs include departmental staff costs (e.g. salaries, national insurance and pensions), non-pay costs (e.g. materials and equipment) and indirect departmental costs (e.g. salaries of administrative support staff).

[63] Student related central services include financial support to students, libraries and museums, student facilities, outreach activities. Corporate services include Finance, HR, and legal services. Both sets of services are led and managed centrally across the whole institution.

[64] The Margin for Sustainability and Investment is an accepted approach for establishing the full economic cost of an HEI's activities. It represents an additional amount, based on institutional financial performance and plans, over existing spend which is considered necessary for the institution to remain financially sustainable. It is a requirement of research funding in order to ensure future research capacity is maintained and is applied across all HE provider activity so that they can monitor whether they are fully recovering costs on their activities. However, it is not intended to represent required concrete spending, more it is a tool to allow institutions to make an assessment of the sustainability of their activities compared to their levels of resources for those activities.

[65] OECD (2017) Education at a Glance 2017: OECD Indicators, table B6.2. https://read.oecd-ilibrary.org/education/education-at-a-glance-2017_eag-2017-en#page233

[66] Fee cap is £6,000 rather than £6,165 if a provider does not have a TEF award.

[67] Kernohan, D. (2019) HESA institutional finance 2019 release: KFI is going to rock you. https://wonkhe.com/glogs/hesa-institutional-finance-2019-release-kfi-is-going-to-rock-you/

[68] Department for Education (2019). Measuring the cost of provision using Transparent Approach to Costing data.

[69] Note: Part of the change in subject FACTS may be attributed to the change in cost centre code definitions following the introduction of a new classification system by HESA in 2012. Further detail available in the statistical publication. Ibid.

[70] Total expenditure in 2017/18 by HEIs in England was £31.3bn. Total capital expenditure in the same academic year was £4.3bn. HESA data. HESA (2019) What is the expenditure of HE providers? https://www.hesa.ac.uk/data-and-analysis/finances/expenditure

[71] OfS (2019) Office for Students publishes first annual analysis of senior staff pay. https://www.officeforstudents.org.uk/news-blog-and-events/press-and-media/office-for-students-publishes-first-annual-analysis-of-senior-staff-pay/

[72] RSS (2019) Submission to the Independent Review of the TEF, p1. https://www.rss.org.uk/Images/PDF/influencing-change/2019/RSS_Evidence_to_the_TEF_consultation_Feb2019.pdf

[73] DfE (2019) Independent review of TEF: about us. https://www.gov.uk/government/publications/independent-review-of-tef-about-us

[74] Fee cap is £6,000 rather than £6,165 if a provider does not have a TEF award

[75] For 19/20 the OfS estimated that 25.0% of the high fee income generated above the basic fee of £6,165 was spent on Access and Participation, which is approximately £740 per full time student paying higher level fees. According to the OfS, the average fee (after waivers) is an estimated £9,126. Thus the average amount of fee income above the basic cap is £2,960 (£9,126 - £6,165) and this multiplied by 25% gives £740. Source: OfS (2019) Access and participation plan data. https://www.officeforstudents.org.uk/data-and-analysis/access-and-participation-plan-data/.

[76] OfS (2019) Annual Funding: Recurrent Funding: Funding for 2019-20. https://www.officeforstudents.org.uk/advice-and-guidance/funding-for-providers/annual-funding/funding-for-2018-19/

[77] POLAR is an area based measure which looks at how likely young people are to participate in HE across the UK. These groups range from quintile 1 areas, with the lowest young participation (most disadvantaged), up to quintile 5 areas with the highest rates (most advantaged). This measure is widely used by the HE sector with reports and statistics often reported by POLAR breakdowns.

[78] A Free School Meal (FSM) is a statutory benefit available to school-aged children from families who receive other qualifying benefits.

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[80] OfS (2018) OfS invites tender for Evidence and Impact Exchange. https://www.officeforstudents.org.uk/news-blog-and-events/our-news-and-blog/ofs-invites-tenders-for-evidence-and-impact-exchange

[81] Wolf, M. (2017) Annual Lecture of the Council for Defence of British Universities. http://cdbu.org.uk/wp-content/uploads/2017/02/Wolf_CDBU_lecture_26Jan2017.pdf

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[87] OfS (2019) Unconditional offers: Serving the interests of students? p2. https://www.officeforstudents.org.uk/media/7aa7b69b-f340-4e72-ac0f-a3486d4dc09a/insight-1-unconditionaloffers.pdf

[88] DfE (2019) How the Education Secretary is tackling unconditional offers. https://dfemedia.blog.gov.uk/2019/04/05/how-the-education-secretary-is-tackling-unconditional-offers/

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[90] For 18 year olds from England, Northern Ireland and Wales. Source: UCAS (2018) 2018 End of Cycle Report, p17. https://www.ucas.com/file/196151/download?token=jzRAy4kS

[91] OfS (2019) Unconditional offers: Serving the interests of students? https://www.officeforstudents.org.uk/publications/unconditional-offers-serving-the-interests-of-students/

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[99] Belfield, C., Britton, J., Dearden, L. and van der Erve, L (2019) Where is the money going? Estimating the government cost of different university degrees, p18-19. IFS. https://www.ifs.org.uk/uploads/publications/bns/BN244.pdf

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[101] Belfield, C., Britton, J., Dearden, L. and van der Erve, L (2019) Where is the money going? Estimating the government cost of different university degrees, p3. https://www.ifs.org.uk/uploads/publications/bns/BN244.pdf

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[103] Ibid, p25.

[104] Ibid, p22.

[105] HESA (2018) Industry of leavers entering employment in the UK by subject area of degree. https://www.hesa.ac.uk/data-and-analysis/sfr250/figure-11

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[107] Ibid p5.

[108] OfS (2019) Continuation and transfer rates. https://www.officeforstudents.org.uk/data-and-analysis/continuation-and-transfer-rates/continuation-non-continuation-and-transfer-rates/

[109] OfS (2019) Differences in student outcomes. https://www.officeforstudents.org.uk/data-and-analysis/differences-in-student-outcomes/educational-disadvantage/

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[119] When looking at statistically significant average negative earning returns, the proportion of courses falls to 15 per cent.

[120] Belfield, C. et al. (2018) Undergraduate degrees: labour market returns, p58. DfE. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/759278/The_impact_of_undergraduate_degrees_on_early-career_earnings.pdf

[121] Graduate outcomes (LEO): outcomes in 2016 to 2017. https://www.gov.uk/government/statistics/graduate-outcomes-leo-outcomes-in-2016-to-2017

[122] Belfield, C. et al. (2018) Undergraduate degrees: labour market returns, p39, p42. https://www.gov.uk/government/publications/undergraduate-degrees-labour-market-returns

[123] Ibid. Notes: The one or two A level passes category will include those who have AS levels in addition to the A level(s). Those with just one E will be in this category too. Those in the BTEC category may also have A levels (but less than 3). Those in the 'other' category may have 1 or 2 A levels plus another L3 qualification (not a BTEC).

[124] Data refers to UK domiciled acceptances who applied by UCAS June deadline and who held at least one BTEC. Source: UCAS (2018) UCAS undergraduate end of cycle data resources. https://www.ucas.com/data-and-analysis/ucas-undergraduate-releases/ucas-undergraduate-end-cycle-data-resources

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[127] Ofqual (2018) An exploration of grade inflation in 'older style' level 3 BTEC Nationals: 2006 to 2016, p7. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/763761/BTEC_grade_inflation_report_-_FINAL64592.pdf

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[130] DfE (2019) Review of post-16 qualifications at level 3 and below in England: Government consultation. https://consult.education.gov.uk/post-16-qualifications-review-team/post-16-level-3-and-below-qualifications-review/supporting_documents/Post%2016%20level%203%20and%20below%20qualifications%20review%20%20Consultation%20Document.pdf

[131] The freeze reductions were calculated using financial year RPIX inflation figures from the Office for Budget Responsibility's (OBR) 'Economic and fiscal outlook' publication in March 2019, and converted to academic years. RPIX is used as the deflation measures because of its historic links to HE funding. In the absence of any policy changes, the OBR assumes that future tuition fees, which are the largest component of undergraduate funding, increase annually with RPIX.

[132] HESA (2019) Where do HE students come from? https://www.hesa.ac.uk/data-and-analysis/students/where-from

[133] USS (2019) A rise in your contributions. https://www.uss.co.uk/members/members-home/retirement-articles/2019/a-rise-in-your-contributions

[134] Around 50% of university expenditure is on staff. HESA (2019) What is the expenditure of HE providers? https://www.hesa.ac.uk/data-and-analysis/finances/expenditure

[135] USS (2019) 2018 Valuation update: 9 May 2019. https://www.uss.co.uk/how-uss-is-run/2018-valuation/2018-valuation-updates/9-may-2019

[136] DfE (2019) Funding increases to teachers' pensions employer contributions: Government consultation, p5. https://consult.education.gov.uk/financial-strategy-unit/funding-the-education-sector-for-teacher-pensions/supporting_documents/Teachers%20Pensions%20Scheme%20Consulation.pdf

[137] ONS (2018) Being 18 in 2018: Work, family marriage – how has life changed for the children of 2000 reaching adulthood? https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/articles/being18in2018/2018-09-13

[138] Panel analysis using ONS population projections

[139] OfS (2019) Financial sustainability of higher education providers in England, p17. https://www.officeforstudents.org.uk/media/cf54b6ee-714e-45c3-ade9-56bc685b861d/report-on-financial-sustainability-of-higher-education-providers-in-england.pdf

[140] Ibid.

[141] Parliament passes accelerated degree proposals. https://www.gov.uk/government/news/accelerated-degrees-approved-by-mps

[142] One full-time year is equivalent to 120 credits.

[143] OfS (2018) We will not bail out universities in financial difficulty, regulator chair says. https://www.officeforstudents.org.uk/news-blog-and-events/press-and-media/we-will-not-bail-out-universities-in-financial-difficulty-regulator-chair-says/

[144] Sharp, C., Macleod, S., Bernardinelli, D., Skipp, A. and Higgins, S. (2015) Supporting the attainment of disadvantaged pupils: Briefing for school leaders, p5-7. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/473976/DFE-RS411_Supporting_the_attainment_of_disadvantaged_pupils_-_briefing_for_school_leaders.pdf; Strand, S. (2015) Ethnicity, deprivation and educational achievement at age 16 in England: trends over time: Annex to compendium of evidence on ethnic minority resilience to the effects of deprivation on attainment. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/439867/RR439B-Ethnic_minorities_and_attainment_the_effects_of_poverty_annex.pdf.pdf; Crenna-Jennings, W. (2018) Key drivers of the disadvantage gap Literature Review: Education in England: Annual Report 2018, p4-5. https://epi.org.uk/wp-content/uploads/2018/07/EPI-Annual-Report-2018-Lit-review.pdf

[145] UCAS (2018) MEM – technical report, p7. https://www.ucas.com/file/190241/download?token=TrHwfBmw

[146] Note that this method is also based upon the assumption that 18 year-olds (in the National Pupil Database) who apply for entry to HE have achieved higher levels of Level 3 attainment than those who do not apply. This will likely overstate the grade adjustments necessary for the most disadvantaged applicants.

[147] OfS (2018) Securing student success: Regulatory framework for higher education in England, p57, paragraph 175. https://www.officeforstudents.org.uk/media/1406/ofs2018_01.pdf

[148] OfS (2019) Preparing for degree study: Analysis of Access to Higher Education Diplomas and integrated foundation year courses, p3. https://www.officeforstudents.org.uk/media/f3450e04-2d2b-4b33-932f-41140d57c41e/ofs2019_20.pdf

[149] Ibid, p12.

[150] Ibid, p15.

[151] Ibid, p18.

Chapter four:

Further education

Introduction

This chapter focuses on the institutional structure of the further education (FE) sector, and recommends interlocking changes to its financial and regulatory framework. These are necessary if the country is to deliver high quality technical and higher technical education, and tackle the huge gulf in opportunities which currently opens up at the end of secondary schooling. The statistics which demonstrate that gulf have been discussed earlier, but bear repeating. Of the young people who have not achieved a Level 3 by the age of 19, almost none will ever do so.[1] A substantial 14 per cent of people in England have not achieved a Level 2 qualification by age 25, and a further 23 per cent have done so but not progressed beyond it.[2] We also compare quite poorly with other OECD countries in the volume of people with intermediate (Level 2 and 3) skills in the workforce.[3] And, as noted in the third of the principles underpinning this report, the total number of people involved in post-18 education has in fact declined since 2010/11,[4,5] in spite of rising participation amongst young people in higher education (HE).

Major skill shortages persist, as discussed in chapter 2. Higher technical skills are in great demand[6] and yet only 4 per cent of 25 year-olds hold qualifications at Levels 4 and 5 as their highest achievement, compared to nearly 30 per cent for Level 6.[7] Qualifications at these levels form a much smaller part of our HE system than in the past[8] and numbers have been falling. Enrolments on foundation degrees (a Level 5 qualification) in England, for example, have been falling steadily in recent years, from a high of over 81,000 in all years of study in 2009/10 to approximately 30,000 in 2017/18.[9]

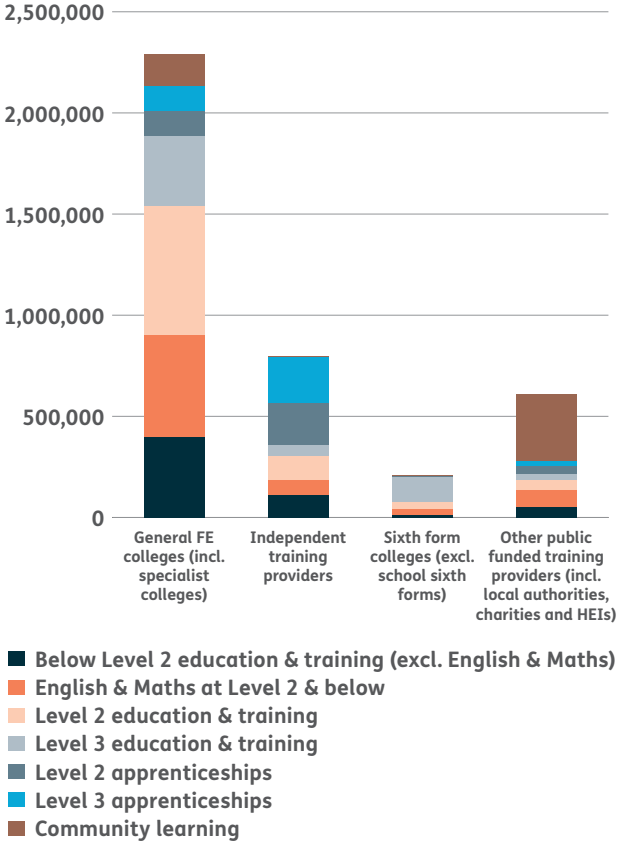
Skill shortages and gaps are also evident at Level 3,[10] yet here too, numbers of adult learners have been falling rather than rising (see Figure 4.2). A Level 2 qualification is regarded, increasingly, as a prerequisite for successful entry into the labour market, and is strongly associated with higher earnings and lower chances of unemployment.[11] Although rising proportions of young people now achieve this, through GCSEs, at age 16, 17 or 18, many do not and the total number of full Level 2 learners aged 19 and above has been falling (see Figure 4.2).

These statistics underpin the recommendations made in chapter 2, notably to restore adults' entitlements to free tuition for their first full Level 2 and 3 qualifications, and greatly increase the flexibility with which adults can access learning, using a lifelong learning loan allowance for Levels 4 to 6. However, these changes cannot transform opportunities or close skill gaps in and of themselves. The institutional capability must be there: education must be available which is of high quality, provided by institutions which can respond effectively to changing labour markets, and serve a highly diverse population.

Although we hope and expect that, in the future, the HE sector will provide far more higher technical education than at present, FE will be key. The much needed increase in higher technical and intermediate skills provision will only occur if FE is equipped and able to provide it; moreover, for adults at all skill levels, opportunities will only open up through high quality locally accessible institutions.

At present, FE (at 18+) in England is provided by a network of 200[12] general and specialist FE colleges (referred to here collectively as FECs or colleges for simplicity unless otherwise stated), independent training providers (ITPs), local authorities and charitable organisations (who are particularly involved with community learning), and offender learning providers. Sixth form colleges predominantly teach learners aged 16-19. Figure 4.1 shows the volume of learners at Level 3 and below, including apprentices, at different types of FE provider, and also makes it clear how much they differ from each other in their core activities.

Figure 4.1: FE and skills funded learners at Level 3 and below by provider type and level (all ages)*[13]



*Note that these figures count learners multiple times if they are studying at more than one level or type of provision, for example an apprenticeship at the same time as some other qualification

As noted in chapter 1, ITPs are a very distinctive feature of English (and indeed UK) education. Many are for-profit companies: they are also highly diverse, and numbers fluctuate a great deal, due to openings, closures and mergers. While a few ITPs are very large, the vast majority are small in size: in 2017/18 the median size of an ITP was 150 funded learners (excluding ITPs with fewer than five learners, of which there were 45 in 2017/18), compared to 5,745 learners at the median general FEC. Only 23 ITPs had more than 5,745 funded learners (i.e. more than the college median).[14] Large ITPs have been particularly involved in providing national coverage for large employers.

The growth in the number of ITPs noted in chapter 1 has been a function of successive government policies which emphasised workplace provision and competitive contracting. Today, ITPs are largely involved in apprenticeships, and, as shown in Figure 4.1, have become the major providers of apprenticeship training; this is the subject of chapter 5. However, some ITPs are also funded via the Adult Education Budget (AEB), which is described in detail below; some have an Advanced Learner Loans (ALL) facility (as described in chapter 2), and some receive funding via the 16-19 budget.

This chapter will have relatively little to say about ITPs, or about other community learning and training providers. This is partly because there is remarkably little information available about them: even obtaining provider numbers is difficult. It is partly because we deal separately with apprenticeships, and it is within apprenticeships that ITPs have been successful in responding to government and employer demands: in this context, chapter 5 also discusses some major issues relating to financial failures and quality control. But the balance of discussion in this chapter is mostly because we believe that England's network of FECs must play the core role in addressing skills gaps and providing opportunities for people to progress. They are the only institutions which can in principle achieve this at a national level, and in a stable and enduring way. To do so, colleges must now be equipped, funded and structured to deliver.

We begin with an overview of England's FECs and why they are the focus for our proposals in FE, followed by a description of the FE funding system. Sections 3 and 4 of this chapter then set out the case for change and our recommendations for reform.

Section 1: FE colleges – a national network

Almost all developed countries have a network of institutions that are not universities, but which offer vocational and technical education, training and apprenticeship training to adults, at both higher levels (equivalent to Level 4 and above in England) and levels below this. These institutions commonly structure courses around regulated qualifications, but also offer uncertificated training for individuals and businesses. Their precise structure is enormously variable, but what they share is a very direct relationship with the contemporary labour market and with employers.

The same is true of England. Its FECs are often very long established and deeply embedded in their communities. They are essentially educational, and essentially community focused: they have corporate independence but also, and crucially, the status of exempt charities.

FECs also have been and continue to be economy and work-focused, although they have acquired other tasks – including 16-18 provision – not commonly part of similar institutions' offer in other countries. The traditional mission of FECs, as focused on the world of work, was endorsed and re-emphasised by the Foster report – a major independent review of the future of further education in England commissioned by government and published in 2005 – and by the government-appointed Commission on Adult Vocational Teaching and Learning. More recently this view was also powerfully expressed by the Association of Colleges in their response to our call for evidence.

Foster review: *"The FE college of the future must be absolutely clear about its primary purpose: to improve employability and skills in its local area contributing to economic growth and social inclusion."* [15]

Association of Colleges' response to our call for evidence: *"Since they were established in the 1890s, colleges have been focused on the skills needs of the economy [...] In the words of a recent official report, 'the sector is all about work'[16]."* [17]

FECs in England are highly diverse, reflecting the different areas they serve. However, they all are involved in three main areas of adult skills provision which are comprehensively different to anything offered by schools or higher education institutions (HEIs):

1) initial vocational education (i.e. pre-labour market entry and early vocational training, including apprenticeship training at lower levels);
2) higher vocationally oriented and technician level training;
3) opportunities to re-train and re-skill.

In addition, FECs offer a range of general education that provide adults with second, or third chances: these include basic skills and English for speakers of other languages (ESOL) courses, academic qualifications, technically focused reskilling and upskilling programmes, and Access to HE Diplomas that enable adults to progress to higher vocational, technical and degree-level provision. Some colleges specialise in particular sectors, notably arts and design or agriculture and land-based subjects. Some also offer the opportunity to take degrees. They cater for a diverse student body, and cover a very wide age range: in 2016/17, there were 1.4 million adults aged 19 and over studying in England's college network[18] of whom 149,000 were studying for HE qualifications.[19] There is also a substantial number of students in general FECs who are under 19 – around 530,000 in 2017/18.[20]

England's existing network of 200 general and specialist FECs collectively represents a substantial, widely distributed physical estate, built up over

many decades through public investment. In practice, this means that colleges already possess a good deal of the infrastructure – and expertise – needed to deliver on the government's ambitions. Indeed, over half of Level 4 and 5 qualifications undertaken in 2016/17 (excluding apprenticeships) were in FECs.[21] Many successful FECs are also already key contributors to local economies in various parts of England, possessing wide reaching employer relationships and working to meet local skills needs.

FECs are mission-driven, and we believe this is a significant and valuable aspect of these organisations. Their charitable status is also important: any surplus they generate will be reinvested in provision. FECs are, for the most part, large enough for sizeable, high-cost programmes to be feasible. They are focused on their local areas by history, and also by mission. Their existing, national coverage means that they can and should be the cornerstone provider for the rejuvenation of higher and intermediate technical and professional education.

The government has recently announced considerable investment in the development of T levels – the technical alternative to A levels – and the embryonic Institutes of Technology (IoT) programme, as detailed in chapter 2. These developments are very welcome. Much of this funding will go to FECs, and there are obvious potential synergies with the reforms proposed in this report. However, further reforms of a comprehensive nature, along with much more investment, will be needed if post-18 education is to achieve its purpose fully.

We support a vision for FECs as core contributors to employment, productivity and growth, as set out in the box below. The remainder of this chapter addresses the changes needed to achieve it.

A vision for England's FE colleges in the future

A national network of collaborative FECs that provide high quality technical and professional education with a clear focus on Levels 3, 4 and 5, delivered flexibly and aligned to the needs of local economies. FECs will maintain strong relationships with employers and assist in driving productivity.

As engines of social mobility and inclusion, FECs will also provide community learning, reskilling and upskilling opportunities for adults leading to sustainable career opportunities.

Section 2: FE finances

House of Lords Economic Affairs Committee:

"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." [22]

Funding is a fundamental challenge in FE. Funding for adult learners in FE is fragmented, unpredictable and sits at a much lower level per learner than both HE and 16-18 funding, at about £1,000 per year[23] (although many adult FE learners are part time). Largely reflecting the collapse in learner numbers, total spending on adult skills has fallen by approximately 45 per cent in real terms between 2009/10 and 2017/18.[24] This is one of the most important statistics in this entire report and cannot be justified in terms of either economics or social equity.

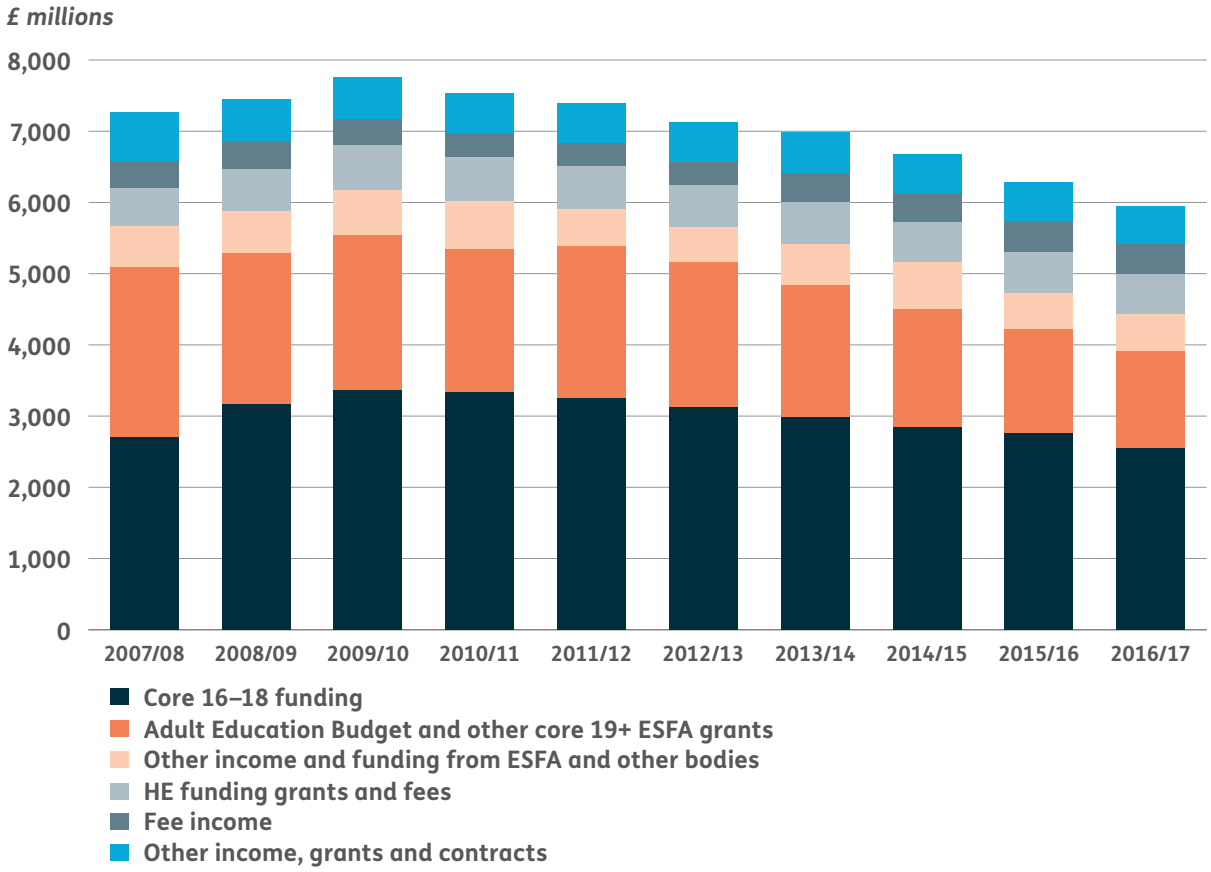
The impact of lower funding and other factors outlined below on adult student numbers is shown in Figure 4.2: there have been falls in every single category of study funded from the main adult education budget.

Figure 4.2: Adult (19+) FE and skills participation by level – learner volumes (excluding apprenticeships and community learning)[25]

		Academic year						
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	% change 12/13 to 17/18
	Total Learners	**1,782,200**	**1,603,700**	**1,355,000**	**1,098,500**	**1,080,400**	**1,131,700**	**-36%**
of which...	**Below Level 2 (excl. English & Maths)**	745,300	713,800	544,600	410,400	377,200	399,000	-46%
	English & Maths	439,000	447,700	431,500	370,300	358,400	364,000	-17%
	Full Level 2	418,900	412,800	322,500	252,800	78,300	56,300	-87%
	Full Level 3	147,400	138,100	131,400	144,100	141,400	120,100	-19%
	Level 2	677,500	672,700	581,800	450,000	465,800	512,100	-24%
	Level 3	238,900	179,600	155,700	157,500	158,700	143,300	-40%
	Level 4+	34,500	15,600	11,900	11,900	16,100	16,900	-51%
	No Level Assigned	209,900	47,000	43,800	38,400	34,100	29,300	-86%

The effect of this reduction on total FEC income has been severe: a 23 per cent decrease between 2009/10 and 2016/17 as shown in the chart below.

Figure 4.3: FE college sector total income 2007/8 to 2016/17 (2016/17 prices)[26]



The largest single source of adult funding in FE is the Education and Skills Funding Agency (ESFA) AEB. This provided approximately £800m to FECs in 2016/17, and its real-term decline can be seen clearly in Figure 4.3.[27] The AEB funds a wide range of entitlements at lower levels, including basic English and Maths, ESOL, vocational learning and employability skills. However, demand for many established qualifications has slumped due to recent changes in these entitlements as discussed in chapter 2.

The Adult Education Budget

The AEB covers funding for adult education (excluding apprenticeships), community learning, and learner support. It focuses on funding certain groups of learners with low skills, such as young adults, unemployed individuals who are actively seeking work, employed individuals in receipt of a low wage, and certain subjects, such as English and Maths.

From its AEB allocation, an FEC must offer learners provision based on a number of legal and policy-based entitlements. Eligibility for funding is based on an individual's age, their prior attainment and personal circumstances. This means that some adults are eligible for full funding, and others are eligible for co-funding: in other words, they or their employers have to pay part of the costs. The legal entitlements to full funding for eligible adult learners are set out in the Apprenticeships, Skills and Children's Learning Act 2009 and cover:

- English and Maths up to and including Level 2, for individuals aged 19 and over, who have not previously attained a GCSE grade A*-C, or grade 4 or higher;

- First full qualification at Level 2 for individuals aged 19 to 23;
- First full qualification at Level 3 for individuals aged 19 to 23.
- From 2020 the AEB will also support a fourth entitlement – for learners aged 19 and over to be fully funded to achieve in basic digital skills.

The AEB is also used to support a number of 'policy entitlements' for full or co-funding. Currently these include:

- Full funding for learners aged 19 to 23, and for unemployed people aged 24 and over, to undertake learning to progress to Level 2;
- Full funding for ESOL learning up to and including Level 2;
- Full funding for unemployed people aged 19 and over to undertake a second Level 2 qualification (co-funding for others aged 19 and over).

Elements of the AEB are also designated for community learning and learner support funding to enable providers to meet the additional needs of learners. Community learning activities are intended to help disadvantaged and hard-to-reach learners re-engage in learning, build confidence, and enhance their wellbeing. This learning may lead towards progression into further learning or employment rather than achievement of a qualification. Learner support, unlike HE maintenance, is allocated by providers according to financial need, and can cover things like course material and equipment costs, childcare, travel and accommodation. The financial support is limited and subject to strict eligibility criteria.

Although outside the scope of this review, it is also important to note that grant funding for 16-18 provision amounted to over 40 per cent of total FEC income for 2017/18 – totalling £2.5bn[28] for 530,000 learners[29] – and is one of colleges' most predictable and stable revenue sources. As is clear in Figure 4.3, however, this too has declined: overall spending on 16-18 year-olds in FE has fallen by 15 per cent in real terms between 2009/10 and 2017/18, and spending per learner fell by 12 per cent between 2011/12 and 2017/18.[30] Moreover, whilst 16 and 17 year olds on full-time study programmes are funded at a base rate of £4,000 a year, the rate for 18 year-olds was cut in 2014, and now stands 17.5 per cent lower at £3,300 a year.[31]

The combination of falling numbers, reduced entitlements and pressure on funding rates has been predictably dire for FECs' financial position. In 2015, the National Audit Office (NAO) reported that the financial health of the FEC sector had been declining since 2010/11, and that the number of colleges under strain was likely to increase rapidly.[32] This duly occurred. In a recent report on college finances, the Association of Colleges noted that 40 per cent of FECs were in deficit in 2016/17.[33] We too heard from senior college managers and sector organisations that total current funding levels are inadequate to sustain viable institutions across the country, and that growth in the 16-19 cohort size (from 2019/20, after years of decline) will not on current per-student funding levels be enough to change the situation.

Our proposals in chapter 2 would help reverse the decline in adult learners and increase FEC income. However, they would not in themselves be enough to ensure that FECs fulfilled the vision outlined above. The rest of this chapter examines in more detail the need for such change and makes corresponding recommendations.

Section 3: The case for change

Overview

One of the principles underpinning this report, principle 7, is that 'post-18 education cannot be left entirely to market forces' but over the past two decades, government policy has been to increase competition in post-school skills provision by wider use of competitive tendering, and by putting more funding into the hands of employers and students. As a result, FECs now compete in multiple different markets. For example, in apprenticeships, they compete with ITPs to offer the off-the-job learning component. In HE, FECs are mostly in competition with so called 'post '92 universities', that is to say the newer universities many of which were formerly polytechnics. In community learning FECs might compete with local authority providers, and in 16-19 provision they compete with local schools and/or sixth form colleges for students.

In chapter 3 we said of HE that competition has an important role to play in creating student choice, but, with no steer from government, the social, economic and cultural outcomes are likely to be suboptimal. In FE the situation is somewhat different; there are plenty of steers from government, but often in very specific and changeable ways with a succession of overlapping and at times conflicting reforms to what is taught, and how, and a gradual shift in the level and focus of funding. In its most recent annual report on education spending in England, the Institute for Fiscal Studies aptly describes a "*near-permanent state of revolution in the further education sector*"[34] and we set out the multiple funding, policy, regulatory and external factors shaping FEC behaviour and the outcomes they deliver in Figure 4.4. The following sub-sections then examine these in more detail.

England displays more policy volatility than most other countries

"Norris and Adam (2017)[35] have described how further education has been unusually subject to policy churn, with, since the 1980s, 28 major pieces of legislation bearing on FE, 48 secretaries of state with responsibility for the sector and many agencies, such as the Further Education Funding Council, the Learning and Skills Council and the UK Commission for Employment and Skills coming and going. Norris and Adam argue that while all Ministers want to visibly 'do something' in their area of responsibility, in the FE sector it is easier because the stakeholder institutions are relatively weak and therefore find it harder to oppose change. This degree of churn has damaged higher technical education, particularly in the context of competition with the more stable environment of university institutions and bachelor's degrees."[36]

Figure 4.4 External forces operating on FE colleges

1 There has been a slow and steady decline in the number of people studying higher technical and technical provision, partly caused by the growth in undergraduate degrees and partly by changes in funding rates and rules.

2 The number of 16-18 year-olds staying in full-time education has increased, with colleges becoming the 'default' institutions.

3 Competition in some types of provision and in some geographic areas takes counter-productive forms and new money in apprenticeships has largely gone outside the college sector.

4 There has been insufficient capital funding to maintain the college estate. Declining revenue funding has further prevented colleges from investing in advanced equipment and facilities, and also affected their ability to recruit and retain a high quality workforce.

5 Frequent and sustained cuts to college budgets require colleges to focus on a sub-set of activity which covers costs in the immediate and short term.

6 Funding rules are complex, inflexible and encourage certain types of provision for financial reasons, rather than those in the interests of students or the local economy. They do not allow colleges to respond to local labour market needs. The regulatory regime is also complex and burdensome.

The drivers of high volume, low value further education

FECs have become providers of everything to everyone. They make a major contribution to technical and professional education for young people and adults. They play an essential role in serving those without basic qualifications, and remain crucial to apprenticeship training, especially in high-skill technical trades. Some FECs provide specialised, full-cost provision for local and national employers; some offer higher technical qualifications linked to the local economy. Some have degree awarding powers, and many put on programmes for unemployed adults, including ex-offenders, which have a very high success rate in leading on to employment. They also educate a significant proportion of our 16-18 year-olds.

These are all valuable functions but incentives in the current system encourage colleges to deliver high volumes of learning at low levels to the partial exclusion of the higher level qualifications wanted by the labour market and offering the best return to individuals.

As Figure 4.5 below shows, the highest number of FE learners are studying either qualifications below Level 2 or single Level 2 qualifications, which – as illustrated by the net present value (NPV) column (essentially the return on public investment) – can yield lower earnings returns compared to other options. It also shows that full Level 2 qualifications yield some of the highest increases in earnings, but as is shown in Figure 4.2, the number of learners undertaking these qualifications declined 87 per cent between 2012/13 and 2017/18 (the reasons for this decline are explored in detail in chapter 2). While lower level qualifications are undoubtedly an important pipeline to higher level courses, it is evident that, in general, higher level qualifications offer a greater NPV. Our conclusion is that the current weighting towards low level FE is not advantageous to either the student or the state.

Figure 4.5: Wage returns for different levels of adult study and FE learner numbers at Level 3 and below[37]

Level of qualification	Increased earnings in employment	Increased chance of being in employment	NPV per £ of government funding (£)	No. of 19+ FE learners 2017/18
Below Level 2	2%	0 percentage points (pp)	10	399,000
English and Maths	5%	1 pp	17	364,000
Level 2	1%	1 pp	Not available	512,100
Full Level 2	11%	2 pp	21	56,300
Apprenticeship Level 2	11%	0 pp	26	263,200
Level 3	3%	1 pp	Not available	143,300
Full Level 3	9%	4 pp	16-21	120,100
Apprenticeship Level 3	16%	0 pp	28	304,700

The principal drivers to such high volume, low value provision are as follows:

- The mechanism by which lower level courses and qualifications become eligible for AEB funding encourage colleges to focus on low value, low risk, easy to deliver programmes.
- Entitlements for full tuition funding to enable learners over age 23 to gain a first full Level 2 or 3 have been removed and replaced with co-funding at Level 2 and ALLs at Level 3 (as described in chapter 2).
- Funding rules discourage providers from seeking to stretch learners to move to the next level, as AEB learners' payments are related to whether learners complete qualifications, rather than simply to enrolments.

Funding rules encourage FE colleges to focus on certain types of lower level provision

Within the AEB there is an open-ended policy entitlement to support learners to progress to Level 2. This entitlement means that learners who are 19 to 23 years old, or 24 plus and unemployed, may be fully funded to undertake multiple qualifications and/or non-regulated provision up to and including Level 1. There is no approval process for bringing qualifications at entry level and Level 1 in scope for these entitlements for funding, provided they meet some broad prerequisites set by the ESFA.

As a consequence, a great many qualifications (as well as individual units of study linked to these qualifications) are available through these AEB entitlements. Many of these qualifications are small in size, broad in nature and many are assessed through coursework and portfolios. The range can be confusing and duplicative: there are often different sizes of the same qualification at the same level available to study, for example an award, certificate and diploma in the same subject, at the same level, offered by the same awarding organisation. However, in many cases, these qualifications are economical and relatively easy for FECs to deliver.

The funding rules managed by the ESFA further encourage a focus on low cost provision. The ESFA use 'programme weighting factors' to differentiate funding according to relative costs of delivery, based on the sector subject area classifications (SSAC) that awarding organisations attach to their qualifications. The SSAC are a good guide to which sector and/or broad occupational area a qualification may fall within, but anomalies exist. For example, it is possible for a lower level qualification, with minimal engineering content, to be assigned an engineering SSAC. This results in that qualification being funded at a higher rate and so incentivises the provider to deliver it.

Funding rules are complex and inflexible. They impose short time horizons and do not allow FE colleges to respond to local labour market needs

The AEB operates quite differently to funding for schools and universities. All of the latter operate on an uncapped payment per-student basis. These funding streams are therefore relatively consistent year-on-year (with any annual variation a result of fluctuation in learner numbers), more so because most of their learners are on courses longer than one year, and may be expected to remain with the institution for some time. They also incentivise recruitment, and avoid the multiplicity of complex incentives of the sort discussed above for qualifications at Level 1 and below.

By contrast, the AEB is not based directly on learner volumes; rather, providers receive a capped annual contract from the ESFA that they 'earn' as and when qualifications or learning aims are achieved, each of which have an individual price tag. An FEC's allocation is determined annually by the ESFA based on historic performance (in terms of how much of their allocation they earned in previous years) and represents the maximum amount of funding they can receive. Because the allocation is a cap, AEB funding for a college cannot automatically grow with the volume of learners; in fact, as we have seen, in recent years, both AEB budgets and learner numbers have shrunk in part because FECs cannot afford to gamble on receiving an increased contract the following year by teaching adults for free.

Payments against an FEC's AEB agreement are made on a profiled monthly basis, and then reconciled by the ESFA at the end of the year. The reconciliation exercise determines how much of their allocation a college should keep; if they earn 97 per cent or more of their allocation, it is funded in full. From 2018/19, the ESFA has announced that it will also fund up to 3 per cent above a college's allocation if it over-delivers. We welcome this development, but we believe that funding rules remain far from ideal. FECs need to spend all of their allocation in the year it is provided: if a

college delivers outside of the 3 per cent tolerance window, perhaps in response to local labour market demand and conditions, funds will be clawed back or additional provision will go unfunded.

These rules mean FECs are under pressure to fill their courses early in the year, leaving little opportunity for long term planning and little alternative but to offer whatever will fill places quickly. We have heard consistently from colleges and principals that responding to mid-year requests from employers is difficult as a result of this funding mechanism and that enrolling to maximum or near-maximum at the start of the year has become a necessity for survival. Because the AEB operates on a year-by-year basis, it is very difficult for colleges to enter multi-year arrangements with employers or to provide flexible, tailored training at short notice.

This inflexibility is greatly increased by the complex set of eligibility and charging requirements which has developed and which means that an FEC's AEB contract operates more as a collection of separate contracts or funding pots rather than as one. This creates very large administrative costs which reduce the funds available for front-line teaching and student services. It also means that, paradoxically, a good number of FECs have been unable to spend their full AEB in recent years because the demand from their local population and employers is so ill-matched with the eligibility categories and funding rules which have been set at national level.

Budget administration in a FE college

A large tertiary college we contacted has an annual turnover of just over £40m, enrolling over 10,000 students per year. The college has 49 full-time equivalent staff fulfilling the functions associated with enrolling and administering student data, including the many returns required by regulators, such as the ESFA and the Office for Students (OfS). In a typical year the college will make up to 30 separate funding and information returns to the ESFA and OfS, typically covering varied information from student data to space utilisation.

This administrative cost reduces the budget for frontline teaching staff. It also makes student recruitment time consuming and expensive. It is possible for one classroom to contain students studying the same qualification, who are funded in four different ways, with four different funding rates and four different criteria for funding. This materially affects the quality of the offer the college can make to students and employers, and the flexibility it has to put on new provision responding to demand.

From academic year 2019/20, central government will devolve control of the AEB to six Mayoral Combined Authorities and through a delegation agreement to the Mayor of London for the Greater London Authority.[38] Approximately 50 per cent of the national AEB will be controlled by these devolved areas; central government, via the ESFA, will continue to administer the AEB across the rest of England.[39] Devolution may create opportunities to tailor the AEB to meet local needs in devolved areas but devolved budgets will remain subject to constraints in terms of the statutory entitlements set at national level and we question whether there is enough money within the AEB for devolution to make a significant difference.

Access to high quality FE college provision is not uniform across England and access to specialist higher technical provision is patchy

A core belief as set out in our second principle is that everyone should have the opportunity to be educated after the age of 18, an ambition that amongst other things requires a national network of high quality universities and FECs. Such a network already exists in HE but although we have the potential components of such a comprehensive network in FE, it does not presently exist in a fully functioning form.

The government's FE 'area review' programme from 2015 to 2019 led to rationalisation in the FE sector through mergers and closures, and over sixty mergers have taken place with more planned for 2019.[40] However, we believe that there remain problems with the way the sector is organised, over and above the system-wide challenges created by inadequate funding levels.

Creating a well-resourced college network will require both investment and rationalisation. We believe that there are some areas, particularly large urban areas, where the number of FECs is still too high. This can result in colleges competing for learners in an inefficient and very unproductive way. A certain amount of over-capacity encourages innovation and competition on quality, and allows learners to move away from poor performers: but too much over-capacity makes it very hard for institutions to build or maintain the critical mass required to invest in high-cost subjects, to risk new ventures, or to deliver a well-rounded and high quality offer.

Manchester, for instance, saw its provider base shrink little after the area reviews: there are still nine separate FECs in the Greater Manchester area. Similarly, in London, there are 40 independent colleges,[41] many of them within overlapping travel-to-learn distances. A recent report from the King's Commission on London described the FEC market in the capital as 'dysfunctional': explaining how too much competition between colleges ultimately results in a narrower, not broader, range of courses for learners.

> *"A London college has very little idea about what new courses its numerous and sometimes distant rivals may be about to introduce, or where the latter are likely to pull out of an area. It is therefore likely to be extremely cautious about new ventures, and far more likely than most non-London colleges to find that student enrolments which would make courses viable in a few locations have been spread over so many that all or most of them do not run."*[42]

A different problem exists in less densely populated areas. Access to FECs remains limited in more rural areas of England, and the availability of quality higher technical provision within reasonable travel distances is far from comprehensive: there are far too many places where learners have limited access to 'high return' courses at Levels 3, 4 or 5.

The government has started to address the higher technical gap with its IoT programme. This is a welcome development but it is clear from the limited number of IoTs announced that these will not give full geographic or subject coverage at Levels 4 and 5 across England. If England is to provide high quality technical and professional education for all, within a context of continuing and inevitable financial constraints, specialist provision needs to be examined and managed from a national perspective – at Levels 4 and 5 but also Level 3 – to ensure both that provision is fully utilised, and that learners in more isolated communities have access to a range of opportunities.

The FE college estate is in poor condition with limited capacity in the sector to address it and no resource to invest in high-cost, yet high value provision

Further consolidation and more managed provision would help increase opportunities for learners. However, without more capital expenditure, it will be impossible to secure high quality provision. FECs have little capital to maintain their estates, or to invest in the new equipment needed to provide high quality technical education. The previous chapter describes the very large increases in capital investment seen in the HE sector over the past five years that have enabled universities to teach in fit-for-purpose buildings and with modern equipment; the contrast with FE could scarcely be greater.

According to the Association of Colleges, annual capital spending in the FEC sector has reduced from almost £1 billion a year between 2010 and 2015 to less than half of that – £404 million – in 2016/17.[43] Capital funding for the FE sector from government has fallen from a peak in 2009/10 of over £940 million per year[44] to just £130 million per year, delegated to Local Enterprise Partnerships via the Local Growth Fund (LGF).[45] The LGF is awarded according to locally determined priorities via a mechanism that is focused on the promotion of local growth. This may be appropriate given the purpose of the LGF, but national priorities can be missed as a result: for example, the NAO has reported that issues accessing capital via the LGF have disincentivised some providers from taking on the financial risk involved in running STEM courses.[46] The absence of dedicated government funding for capital projects by the FE sector outside the LGF, or of specific funding for capital maintenance, is a serious weakness given the sector's current financial condition.

Following their drop in revenue described above, many FECs are unable to fund maintenance, let alone undertake significant new investment, from operating surpluses and instead have had to rely on private sector borrowing. FECs' parlous financial condition and the unintended consequence of a new insolvency regime introduced in January 2019[47] that brings colleges within the remit of company insolvency law and so cuts their credit score, has increased the cost of private sector debt.

Recruitment of a high quality workforce is challenging for many FE colleges

High quality FE, which is close to the labour market and employers, needs to offer teaching by vocational experts with up to date experience and knowledge and it must recruit people who did not make teaching a lifetime career. Recruitment of high quality teachers and leaders is made challenging by direct competition from schools, HEIs and business, all of which typically offer more attractive rates of pay for comparable roles. Full-time FE teaching professionals in the UK earn, on average, around £2,500 less than secondary school teachers and approximately £13,000 less than HE lecturers.[48]

The 2018 college staff survey conducted by the Department for Education (DfE) substantiated the scale of the teacher recruitment challenge in colleges: over half of principals responding to the survey indicated that teacher recruitment is "difficult", with 20 per cent describing it as "very difficult".[49] The survey also illustrated that the level of challenge varies significantly depending on subject/sector; three-quarters of principals report that the most difficult subject to recruit to is Engineering and Manufacturing, with Construction, Maths and Digital/IT also posing significant challenges. Nationally, teacher vacancy rates in FECs were estimated at 3 per cent with higher levels in some subjects (e.g. 5 per cent in Engineering and Manufacturing; Construction; and Legal, Finance and Accounting).[50] This compares to an average national vacancy rate of 1.1 per cent for the secondary school workforce.[51] Staff retention in FE is similarly challenging: 42 per cent of FE tutors and 33 per cent of FE leaders say they are likely to leave the sector in the next 12 months.[52]

The government's decision in 2013 to revoke regulations relating to FE teachers' qualifications[53] was designed to make it easier for FE to recruit industry professionals (part time or full time), and

there are now no prescribed levels of qualification or professional status required to teach in the sector - as is also the case in the university sector. However, this has had some negative consequences: there is a lack of clarity about what level and type of training is appropriate for new teachers, and significant variation in the quality of teacher training. The fragmentation of FE teacher training also makes it extremely difficult to articulate a clear 'value proposition' for those who might be attracted to teaching in the sector, and to build a strong teacher supply pipeline.

Complex regulatory regime

FECs are subject to multiple regulatory regimes, as a result of the broad curriculum they provide. The ESFA regulates provision from Levels 1 to 3 and non-prescribed Level 4/5 provision, and the OfS regulates prescribed HE provision at Level 4 and above. Separate bodies conduct quality assessment and inspection, with Ofsted being responsible for inspecting all ESFA-funded provision up to Level 6, and the OfS (via the Quality Assurance Agency) responsible for quality assessment of HE-funded provision. With regards to the content and design of qualifications, assessments and standards, organisations with their own degree-awarding powers hold this responsibility themselves. Ofqual are responsible for most regulated qualifications in FE and the Institute for Apprenticeships and Technical Education (IfATE) for apprenticeship standards.

A degree of complexity in overseeing post-18 education is inevitable given the broad range of provider and qualification types and the varying levels of risk that they pose. However, some simplification is possible: we have recommended changes with respect to all non-apprenticeship provision at Levels 4, 5 and 6 (see recommendation 2.6 in chapter 2) and to apprenticeship provision (see chapter 5). It is also clear that the presence of multiple regulators results in duplicate demands being placed on providers in areas such as data collection and oversight of governance and finance. This is a view shared by the Lords Economic Affairs Committee, who, in their report on the economics of post-school education, observed that:

> *"At least 15 different agencies are involved in the delivery, funding and regulation of further education, HE and apprenticeships. 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."*[54]

The Association of Colleges highlight the particular tensions for FECs in greater detail:

> *"The OfS has legal duties and powers with respect to all forms of publicly funded HE, but this overlaps with the existing regulation and inspection of FE. The overlaps and borders of the new regime can be duplicative and onerous for the many colleges which operate in both the FE and HE sectors. This inhibits the growth of college HE, with some colleges for instance facing prohibitive cost barriers to achieving degree awarding powers. Similar issues arise from having two separate quality assurance regimes for colleges and HE."*[55]

Conclusions

FECs are educational institutions, with the status of exempt charities. Every college is overseen by a governing body, almost always in the form of a 'further education corporation'. The Education Act 2011 relaxed the regulatory environment affecting college corporations, making it easier for them to take their own decisions. This process, known as 'reclassification' (as it led to the Office for National Statistics reclassifying FE and sixth form college corporations as autonomous bodies) enabled college corporations to borrow money without needing permission from the government. It removed the Secretary of State for Education's right to modify, revoke or replace the instruments and articles of England's FE corporations (with this power given to the corporations themselves). The Secretary of State's right to dissolve an FEC

was also removed, as was the power of the Chief Executive of Skills Funding to appoint additional members of the governing body.

The governance arrangements set out above give FECs in principle, the ability to innovate, to respond to changing labour market conditions, and to operate as the centre of economic, social and educational activity for their localities: all functions which we identified in chapter 1 as core purposes of post-18 education. However, in practice FECs are severely restricted in what they can do. They have no protected title. Very few have the power to award their own qualifications. Their budgets are closely regulated and subject to inflexible and administratively costly rules. More than 90 per cent of their teaching income is provided by grant and contract, a situation which is very different from the funding arrangements in HE. Moreover, in recent years the funding regime has severely restricted their operations and ability to either innovate or plan for the long term. We therefore believe that there is a powerful case for change.

Section 4: Recommendations

We propose a number of reforms intended to improve the quality, capability and capacity of the FE college network. This final section of the chapter details these proposals.

Focusing on the most economically valuable provision

The recommendations in chapter 2 to restore funding for economically valuable Level 2 and 3 provision for adults and to promote the supply and demand of Level 4 and 5 courses are about offering financial and other support for the most valuable training. In addition, we recommend an increase in the funding rates for the most economically valuable courses – based on Industrial Strategy priorities – so that their funding rates cover the full economic costs of delivery. The Foster review made similar recommendations in 2005 and went on to explain that an explicit focus on skills is not necessarily in tension with delivering other social objectives:

> *"A focus on vocational skills building is not a residual choice, but a vital building block in the UK's platform for future prosperity. It gives FE colleges an unequivocal mission and the basis of a renewed and powerful brand image."*

> *"It is not suggested that skills development is the only thing that FE colleges should pursue. The other pillars of social inclusion and advancement, and academic progress, are not invalid. The important thing is to recognise and focus on the core purpose and have declared, clear priorities. In any event it is absolutely clear that an emphasis on skills development will itself turn out to be a huge driver for social inclusion and improved personal self esteem, achieving a valuable synergy between societal and personal need."*[56]

We believe that this should be achieved by a rebalancing of funding from less economically valuable parts of the AEB, and possibly other funding streams such as the European Social Fund or its replacement. This would make adult skills provision more sustainable and encourage colleges to direct their focus there, rather than on low cost and low level training. The government's planned reviews of Level 3 qualifications and Level 2 and below qualifications[57] should help to define where such funding should be prioritised.

Recommendation 4.1

The unit funding rate for economically valuable adult education courses should be increased.

Increasing the funding rate for 18 year-olds

We can find no evidence to justify the lower base rate set for 18 years-olds in colleges compared to that for 16-17 year-olds. We are not persuaded by the suggestion that 18 year-olds require less teaching, indeed many have had difficulties in their previous education and may need even more hours to successfully complete their course. As discussed in chapters 1 and 2, one of the most disturbing aspects of England's current 18+ provision is the number of adults who do not progress beyond the low levels they achieved by age 18 and we believe that addressing this is a matter of some importance to the individuals concerned, to social progression and to the needs of the economy.

Recommendation 4.2

The reduction in the core funding rate for 18 year-olds should be reversed.

More flexible funding

The current post-18 funding regime creates major inefficiencies through the administrative costs it imposes on colleges, and makes it very difficult for them to respond to the demands of their local labour markets. At present, although an FEC has a single total AEB allocation, the complexity of the rules around learner entitlements and the limits on learners' eligibility for funding mean that spending is highly constrained by the extent to which demand in their area fits with those rules. This explains why, in a number of well-run and Ofsted-rated 'outstanding' FECs, despite strong local demand, the budget is underspent – there might be, for example, significant local demand for Level 3, but not a great deal of demand for provision at lower levels. In Scotland, which operates a different, more integrated system, such underspends do not occur. Current funding arrangements also mean that a great deal of the budget is spent on administration; determining and documenting what each individual learner can or cannot access.

Some of the constraints on spending can only be removed through primary legislation, which has mandated (typically) universal free provision in a number of 'basic skills'. But a good many are policy priorities rather than embedded in legislation. The ESFA has informed us that it could, if instructed, reduce the extent to which its procedures focus on the ring-fencing of funds, and allow greater freedom to FECs. We believe this should be done at the earliest opportunity.

We note that the AEB has been protected in cash terms until the end of the current parliament. We welcome the certainty this affords the sector overall but it does not provide individual colleges with any guarantee of stability.

We described above the negative effects of annual budgets on FECs' ability to respond to emerging local needs. Because they are under pressure to spend all their budget, many colleges try to commit it early in the year (and also are incentivised to steer learners towards courses which they will complete successfully, and fast). This means they have no unspent budget with which to respond to and work with employers who have emerging needs and, in the current climate, no reserves to draw on for that purpose either. We note with interest a new 'corridor' system of funding being introduced in Ontario, Canada, that will provide their colleges with increased stability in their budgets between years.

We recommend that government should commit to providing an indicative AEB that allows individual FECs to plan and budget over a three-year period. We believe more is also needed, and that government should explore providing FECs with increased flexibility to transfer their budgets – provided they are earned through sufficient enrolments - between years.

Predictable college funding in Ontario, Canada

Funding for Ontario's 24 colleges is moving in 2019/20 to a new 'corridor approach'. This shift is at the heart of a set of reforms that aim to improve financial sustainability, support differentiation, enhance the quality of the student experience and improve transparency and accountability. It will be part of a funding model that, as announced in Ontario Budget 2019, increasingly focuses on outcomes.

Under the present system, Ontario colleges' 'core operating' funding fluctuates year to year, reflecting changes in lagged student enrolment numbers. Under the new approach, these colleges will not see any increase or decrease in their core operating grant, provided that changes in their moving average enrolments (measured as 'weighted funding units') fall within a fixed range (up to 3 per cent above, or 7 per cent below) surrounding the college's enrolment 'midpoint'. Ontario's Ministry of Training, Colleges and Universities implemented midpoints as part of the current Strategic Mandate Agreements with colleges; beginning in 2020/21, new agreements (and the midpoints identified in them) will have a duration of five years.

In practice, this new approach means that colleges will not be penalised for unplanned decreases in enrolment – and that the Government of Ontario will not be obliged to automatically fund enrolment increases. Should a decision be made to invest in enrolment in the future, the Ministry would work with institutions to adjust funding.

Recommendation 4.3

ESFA funding rules should be simplified for FE colleges, allowing colleges to respond more flexibly and immediately to the particular needs of their local labour market.

Recommendation 4.4

Government should commit to providing an indicative AEB that enables individual FE colleges to plan on the basis of income over a three-year period. Government should also explore introducing additional flexibility to transfer a proportion of AEB allocations between years on the same basis.

Investing in the FE college estate

It is our view that the FE capital budget is too small relative to the needs of the sector, the size of the overall LGF that it has been absorbed into, and the potential that FECs have to enhance local growth. Having met with some representatives of Local Enterprise Partnership groups, we discovered some good examples of co-ordination between employers and colleges, but too often funding was aspirational and bore little relation to pressing short term needs. Much of the skills capital budget has gone on new buildings at a time when much of the existing estate is in dire need of repair. We question whether working through a wholly localised mechanism has been strategically successful. It is certainly unclear how such a mechanism can deliver the 'managed market' and national network of FECs which we advocate.

Given the substantial capital requirements needed to meet the shortfall in FECs' maintenance budgets set out earlier in this chapter, and also provide the targeted investment required for technical and higher technical provision, we suggest that government should initially commit to making an investment of at least £1 billion over the next Spending Review period. The DfE should improve its understanding of the capital needs of the sector, and use this to inform allocation of funds primarily on a strategic, national basis. Funding should come with an expectation that FECs will supplement government investment by leveraging in additional funds from elsewhere.

In addition to an investment in the overall FEC estate, additional capital is needed to support

specialisation of some of our colleges in higher technical areas. England needs a national network of high quality FECs with the expertise and resources to deliver higher technical provision in the volumes and quality necessary to address this country's skills gaps at Levels 4 and 5. The network must have comprehensive geographical coverage, based on reasonable travel-to-learn distances, so that all prospective students have access to quality higher technical provision wherever they live.

We recommend that the OfS (as the regulator for all prescribed HE Level 4 and 5 provision as set out in chapter 2) works with government to find an appropriate way of deciding how to allocate additional capital to grow capacity for higher technical provision in specific FECs. We expect this would include looking across geographical coverage, the presence or absence of local HEIs, provider quality and the strength of industry relationships. Capital funding should also be used to encourage excellent specialist provision for high-cost specialised Level 3 provision. This extra capital would be part of the £1 billion we are recommending government to allocate to FECs over the next three years.

Recommendation 4.5

4.5.1 Government should provide FE colleges with a dedicated capital investment of at least £1 billion over the next Spending Review period. This should be in addition to funding for T levels and should be allocated primarily on a strategic national basis in-line with Industrial Strategy priorities.

4.5.2 Government should use the additional capital funding primarily to augment existing FE colleges to create a strong national network of high quality provision of technical and professional education, including growing capacity for higher technical provision in specific FE colleges.

4.5.3 Government should also consider redirecting the HE capital grant to further education.

Consolidation and specialisation

As discussed earlier in this chapter, government embarked on a programme of FE area reviews in 2015 that has recently concluded. The aim of these reviews was to support a restructure of England's network of sixth form and FE colleges "*to ensure we have the right capacity to meet the needs of students and employers in each area, provided by institutions which are financially stable and able to deliver high quality provision.*"[58] As discussed above, there has been considerable change as a result of the reviews, but issues remain. There is evidence of over-capacity in some areas while in others, learners do not have access to good quality specialised provision.

We recognise that different models can work for different local contexts and do not want to be prescriptive on the form that further consolidation and collaboration should take. We do, however, believe that the government should actively promote partnerships, group structures, and specialisation, in order to deliver a national network of colleges that puts all learners within reach of high quality provision. The most effective mechanism for achieving this 'managed market' will be the capital budget. In the box below we explain two very different models of partnership, both of which work well for their local circumstances.

Warwickshire College Group (WCG)

WCG is a group of seven colleges across Warwickshire and Worcestershire. With around 16,000 students and an annual turnover of £56 million, it is one of the largest college groups in the UK, and provides academic, vocational and technical education in a broad range of subjects to students aged 16 and over. The group has foundation degree awarding powers, and partners with several universities across the Midlands to award degrees at Level 6.

WCG originated in 1996 with the merger of Mid-Warwickshire College in Royal Leamington Spa and Moreton Morrell College, the first equine college in Britain. Further expansion took place in 2003 through a merger with Rugby College and the acquisition of an independent school's site in Henley-in-Arden; in 2004 with the opening of a specialist engineering college in Warwick; in 2007 through a merger with Pershore College; and, most recently, South Worcestershire College joined the group in 2016. Member colleges have retained their individual identities, and some have retained long-standing specialisms including land-based subjects and arts and crafts, while others have been positioned to specialise in areas such as power industry engineering, computer games and sports-related studies.

The group provides a positive example of how smaller colleges can come together to make a successful, sustainable entity that not only brings financial benefits (by cutting central overheads, creating economies of scale etc.), but also benefits learners across the region. Central coordination and planning of the colleges' offer mean learners have a wide range of high quality provision to choose from in reasonable travel-to-learn distances, which the group can invest in developing further without the risk of counterproductive competition between independent colleges.

Lambeth College and London South Bank University

Lambeth College has around 7,200 full- and part-time students, across campuses in Clapham, Brixton and (by 2020/21) Vauxhall, with a focus on technical and vocational education to meet the needs of local employers and the community. Around 70% of its students are resident in Lambeth and surrounding London boroughs, with 1,200 students aged 16-18 and around 6,000 adults. During the central London area review process, and in light of financial difficulties and an FE Commissioner-led structural appraisal, the college developed plans to merge with London South Bank University (LSBU) in 2016. After consulting with its students, staff, wider stakeholders and the general public in 2018, Lambeth joined LSBU in February 2019. Its property, rights and liabilities transferred to a wholly owned subsidiary of LSBU, where it joined an 11-19 engineering academy and a university technical college in the LSBU 'family' of educational providers. The family utilises a group structure, within which each institution remains a distinct body focused on providing high quality education in its field, whilst sharing common governance arrangements as well as administrative and back-office functions.

Leaders in both Lambeth College and LSBU recognised that other forms of FE-HE partnership can work well, but agreed that merging would enable deeper, long-term structural integration. The legal process took longer than anticipated – around 18 months – but now means the college and university can develop fully integrated learning pathways, and make robust commitments to their students on transfer and recognition of qualifications. Both institutions expect benefits including reduced costs through sharing back-office functions and professional services, and improving the experience for students and staff by sharing facilities, training opportunities and co-developing outreach programmes. For Lambeth College the merger provides financial stability; for LSBU it provides the opportunity to extend its reach into the community; and for learners the merger provides clear pathways through the education system and into high quality careers.

We have noted the evidence of over-capacity in some places and believe that further rationalisation is required. We note too that some small and fairly isolated FECs, while important for their local areas, are too small to employ adequate high quality staff full time in specialised areas, and are very vulnerable to shifts in demand. We believe that their integration into groups, which can share staff and expertise, and cushion against sudden enrolment shifts, would be highly desirable. Geographical contiguity is important in this context.

We recognise the political pressures and arguments that stand in the way of consolidation. However, not only is further change desirable, it is also the case that there simply is not enough money to upgrade every FEC in every field. Government needs to be much more robust in using the levers it has, especially in the allocation of capital, and prioritise quality improvement and the development of well resourced specialisms to make them accessible to all learners.

Recommendation 4.6

4.6.1 The structure of the FE college network, particularly in large cities, should be further modified to minimise duplication in reasonable travel to learn areas.

4.6.2 In rural and semi-rural areas, small FE colleges should be strongly encouraged to form or join groups in order to ensure sustainable quality provision in the long term.

Recommendation 4.7

Government should develop procedures to ensure that – as part of a collaborative national network of FE colleges – there is an efficient distribution of Level 3, 4 and 5 provision within reasonable travel-to-learn areas, to enable strategic investment and avoid counterproductive competition between providers.

Workforce

The vision we have for FE requires a greatly enlarged and professionalised FE workforce with clear progression routes and development opportunities. We encourage the Association of Colleges and employee groups to work with government and colleges to develop this, building on the DfE's recent programmes in this area. These are intended to attract more industry professionals into teaching in FE, to provide tailored professional development targeted at teachers who will be teaching T levels and to fund a series of development programmes for FE sector leaders.

However, the most important barrier to workforce improvement is simply a lack of money. FECs currently cannot afford to match salaries in schools or HEIs. Our recommendations would, if accepted, improve colleges' financial position and, therefore, their ability to attract and retain good staff. We also reiterate the point that it is easier to attract and retain good staff to larger institutions or groups, where they can find professional colleagues and, generally, better facilities: and that larger workforces provide a cushion against the problems caused by normal staff turnover.

Recommendation 4.8

Investment in the FE workforce should be a priority, allowing improvements in recruitment and retention, drawing in more expertise from industry, and strengthening professional development.

Data collection

We have been struck by the paucity of data available to the college sector compared to both higher education and schools. The government has made some recent improvements (notably through the funding of the Centre for Vocational Education Research, on whose work we have drawn heavily). But 'Individualised Learner Record' data, which are the main source of quantitative information on the sector, focus almost exclusively on individual qualifications, and are under-utilised by government. There is limited information on workforce and facilities. The data for ITPs is even more sketchy.

FE sector leaders therefore lack the opportunities to use data for benchmarking. Basic descriptive data on trends in enrolment are not in the public domain: we have been unable, for example, to obtain good detailed time series data on the nature of higher level enrolments in FECs (e.g. what proportion are franchised) or on the student population (e.g. what proportion are unemployed). Better information is a basic precondition for sector-wide improvement in workforce management and college leadership.

Recommendation 4.9

The panel recommends that government improve data collection, collation, analysis and publication across the whole further education sector (including independent training providers).

Fit for purpose regulation

Under the current system, the main support to FECs requiring improvement is from the FE Commissioner. This role was established in 2013 as an independent advisor to ministers, and the Commissioner's role includes intervening in cases of financial and quality failure, particularly to strengthen leadership and governance, and engaging with colleges earlier to support improvement and reduce the number that require formal intervention. This is an ad hoc arrangement but given the importance of the FE system there should be a permanent core of regulatory expertise within the DfE, and the ESFA also has an important role to play in working towards a risk based regulatory regime.

As discussed in chapter 2, we recommend that the OfS becomes the national regulator for all non-apprenticeship provision at Levels 4 and above, and chapter 5 makes further recommendations to simplify apprenticeship regulation. We believe that these changes would reduce regulatory complexity and in the light of repeated evidence from FECs and the Association of Colleges that current regulatory requirements for higher level qualifications are ill-designed for colleges, recommend that this is progressed rapidly.

Recommendation 4.10

The OfS and the ESFA should establish a joint working party, co-chaired by the OfS and ESFA chairs, to align the requirements they place on providers and improve the interactions and exchange of information between these bodies. The working party should report to the Secretary of State for Education by March 2020.

Protected title for colleges

Our vision of a national network of collaborative FECs that provide high quality technical and professional education, maintain strong relationships with employers and act as engines of social mobility and inclusion is central to our overall vision for post-18 education in England.

Although FECs are established and well-known institutions in their towns and cities, both the public at large and prospective learners have been left confused by a succession of sometimes contradictory reforms and initiatives over recent decades. They have resulted in institutions with an extremely broad focus, with no single defining purpose and with no consistent identity nationally, and we seek a means of restoring that.

University is a protected title in the UK, which helps provide clarity to any prospective student or employer about their chosen institution's mission and status. As we have seen, FECs also have a unique role in the English education system. They are the only institutions to offer the range of vocationally oriented and basic skills provision outlined elsewhere in this chapter. Looking forward, we believe not only that FECs should have a strengthened role but that they must be able to articulate this role clearly, and be easily identifiable as core institutions in a national system.

Conferring a protected title on FECs, as universities are entitled to, would instil confidence in potential learners that their chosen college and the courses it offers are part of a respected national adult education network.

Increased clarity on the role and status of FECs would also send a clear signal to employers that these are high quality, reliable providers they can engage with over the long term to meet their skills needs.

Recommendation 4.11

FE colleges should be more clearly distinguished from other types of training provider in the FE sector with a protected title similar to that conferred on universities.

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Chapter five:

Apprenticeships

Context

Apprentices are part of the employed labour force, although they and their employers are bound by very specific rights and duties, which are set out in legislation and/or formal sectoral agreements. These cover, among other things, wages (which will typically be lower for apprentices) and rights to formal training.

Formal apprenticeships have characterised England's labour market, and its education and training system, for many hundreds of years, as they have those of other European countries. Today, they are both important and central to the government's education and skills policies. They are also associated with positive employment and income returns, as discussed further below. A wholesale reform of apprenticeships is in process, following several decades in which governments first neglected them, and then implemented successive changes which created a surge in numbers but were at odds with the traditional employer-centred model.

Because the current reforms remain very much in progress, and the government has been gathering views on the future of the programme, we do not think it appropriate to undertake a wholesale evaluation of current apprenticeship arrangements. However, a number of issues have emerged which deserve immediate attention, and which have a direct bearing on whether the current reforms succeed. This chapter therefore makes a number of concrete recommendations. First, however, it provides a summary of developments prior to the current reforms, and of the reforms themselves. These are not generally well known, but are important in understanding the current situation, and the panel's recommendations.

How it was

Until the late 1970s, apprenticeships were very common in England. In 1961, for example, 34 per cent of boys left school at age 15 and went straight into apprenticeships (though only 7 per cent of girls).[1] However, the 1970s were a period of recession, spiralling inflation, and rising unemployment. Employers pulled back, and apprenticeship numbers plummeted.

In 1981, the number of registered unemployed in the UK topped 3 million and in 1983, unemployment among males aged 15-24 was over 20 per cent. The government moved to create emergency employment and training programmes, especially for the young: these focused on establishing new centrally directed programmes, fully funded by the public purse, and which were intended to create a high-status, practical workplace-based route for school-leavers. There was no enthusiasm at this period for reviving apprenticeship numbers but there were huge ambitions for a national 'Youth Training Scheme', organised around new National Vocational Qualifications (NVQs), of which nearly 800 had been created by 1995.[2] Large amounts of money were paid to 'training providers' who ran training schemes and were reimbursed on the basis of each NVQ completed by a trainee.

However, by the mid-1990s, with the economy reviving, it was obvious that this set of reforms had failed. The payment scheme had incentivised trainers to focus on short, easy-to-deliver qualifications. NVQs had low status, very poor economic returns, and were subject to growing criticism.[3] Apprenticeships, meanwhile, continued to exist, though at reduced volumes, in key industries such as engineering where intensive skill training of young employees was a business necessity, and also retained high respect among the general public. Government policy-makers decided that there should be a move back to apprenticeships, but this time as a government programme, centrally administered and funded. Moreover, government retained the key delivery mechanism established for the previous schemes: training providers were awarded contracts and paid on the basis of numbers delivered. This is still the basic approach today for much of the apprenticeship programme.

Apprenticeships of this type were launched in 1995 as 'Modern Apprenticeships' and the programme grew under the Labour governments of the 1997-2010 period. Formal 'apprenticeship frameworks' were developed, in conjunction with a network of government-supported quangos and advisory bodies. Each apprenticeship was assigned a level in the qualifications framework (see chapter 1), its own specific funding rate, and a combination of detailed activities and qualifications required for completion.[4] In 2009, the Apprenticeships, Skills, Children and Learning Act codified many of these developments and confirmed that the regulation and oversight of apprenticeships in England were now the statutory duty of the central government. Many of the apprenticeship frameworks covered traditional occupations, but others included occupations which had never developed an apprenticeship route, or seen any need to: for example, Level 2 apprenticeships for retail assistants, or Level 2 in customer relations. Traditional apprenticeships were several years in length: some of these new ones were as short as 6 months.

The Labour governments of 1997-2010 were enthusiastic adopters of delivery targets in the public services. In post-18 education, the Leitch Review of 2006, commissioned by the Treasury, adopted ambitious quantitative targets for qualifications at all levels.[5] These targets were expressed simply in numerical or percentage terms per level, with little account taken of vocational pathway or evidence of skills shortages. Raising apprenticeship numbers made an important contribution to meeting these targets, and government contracts were accordingly driven

in substantial part by the desire to 'achieve' as many starts, and thereby completers, as possible. The importance of quantitative targets in driving apprenticeship policy remains a distinctive feature of the current English system.[6]

During the 1990s and 2000s independent training providers (ITPs) also became a major part of the 'provider' landscape. Traditionally, apprentices trained in their local technical (further education) colleges, but new entrants were actively encouraged by the government funding agencies, and contracts frequently given to new providers (many of which were for-profit). As noted in chapter 1, the large size of this sector is a distinctive feature of English post-18 education and training, and this is especially true of apprenticeships. A decade ago, ITPs accounted for over 70 per cent of all apprenticeship starts for over 19s[7] and in the 2017/18 academic year, they still made up 65 per cent of apprenticeship starts.[8]

The Coalition government of 2010-2015 initially made few changes to apprenticeships policy. The most important change was in scale rather than fundamental principle: namely a large increase in the number of 'adult' apprenticeships. The increase was largely because the government replaced Train to Gain, an adult workplace skills development programme, with apprenticeships. English apprenticeships (like English qualifications) are not formally age-specific, but in the past, they were overwhelmingly a route for young school-leavers to acquire skills – as is still the case in other European countries. From 2010 onwards, in order to drive up numbers successfully, the government explicitly encouraged the growth of adult apprenticeships for older workers. Moreover, it accepted that these apprentices could be existing employees, receiving training and accreditation for jobs they already held. This, too, was a highly distinctive development.

The other important change made in the early years of the Coalition was to place a minimum level on the size of contracts. This meant that many small providers could no longer contract directly to provide apprenticeships (or other public funded training provision) and encouraged a rapid growth in sub-contracting. Complicated sub-contracting relationships make it hard to track and monitor the quality of provision, and also impose costs, since money is spent on additional layers of administration: sub-contractors frequently are charged overheads of 20 per cent or more. Subcontracting remains a major feature of apprenticeship provision in England and has been criticised recently by the House of Commons Education Committee.[9]

However, although the early years of the Coalition were marked by continuity, there was growing criticism regarding the quality of apprenticeships and the perverse incentives built into the funding system. In 2012, therefore, government commissioned an independent review of apprenticeships: the subsequent Richard Review provided the basis for current reforms.[10]

Critique and subsequent reform

The main criticisms of the system which is now being phased out were as follows:

- It was not driven by or, often, even responsive to the needs of employers and the labour market. Training providers were contracted and paid to 'provide' apprentice numbers. They then found employers who were willing to sign people up as apprentices, often on the understanding that they would incur no expense and administration would be undertaken by the provider. These might be new employees but might also be existing staff. In some cases, where employers were in serious need of apprentices, significant skill development took place in the traditional way, but in many cases, employers were barely involved. The Richard Review emphasised that *"the relationship between an employer and an apprentice must once again rise to the fore."* [11]
- Apprenticeships were heavily weighted towards Level 2, a lower level than is standard for apprenticeships in other countries.[12] Returns are generally higher for Level 3 than for Level 2, and skill shortages are much more evident at higher levels (discussed further later).

- Apprenticeships were also heavily weighted towards non-technical subjects (see Figures 5.1 and 5.2 below). This was in large part because of the incentives which both providers and government agencies faced. Non-technical subjects (such as Retail and Business Administration) required little specialist provision or investment, and could be delivered fast and profitably. This was particularly attractive to new entrants dependent on short-term contracts (and as noted above, the bulk of apprenticeship provision involved ITPs – new entrants). Shorter and cheaper apprenticeships also contributed faster to meeting the targets to which government procurement was oriented. The Richard Review therefore recommended that apprenticeships should be for *"a job or role that requires sustained and substantial training"*.[13]
- In many cases, little training or acquisition of new skills occurred. Researchers reported this to be particularly common in the case of adult apprentices who were already employed before becoming apprentices, and where what was happening was generally just a certification of existing skills.[14] In some cases there was overt fraud, but the more common problem was that private providers made large profits by offering little or no training.[15] In 2015, a major and critical review of training quality by Ofsted found that:

> *"Some learners on low-level, low-quality programmes were unaware that they were even on an apprenticeship."* [16]

The Department for Education (DfE) evaluations also highlighted that 'apprentices' were quite frequently unaware of their status, reporting in 2017 (when reforms were just starting) that:

> *"Awareness that individuals were undertaking an apprenticeship has continued to increase, with seven in ten (70 per cent) aware they were on an apprenticeship, up from 67 per cent in 2015, 65 per cent in 2014 and 63 per cent in 2013".* [17]

The Richard Review recommended that:

> *"An apprentice must be new to a job or job role" and that "upskilling of the adult workforce should not be bundled with apprenticeships". Though important, such training is a separate activity.* [18]

- Employers reported that the frameworks, and the system generally, were controlled by governmental organisations and awarding bodies rather than employers, to the detriment of apprenticeships; and that outcomes were often not satisfactory, in considerable part because attention was given to processes required to draw down funding rather than to the requirements of the job.[19]

The government accepted the Richard Review's major recommendations and a programme of reform was launched. Frameworks are now being phased out, replaced by apprenticeship standards that have been developed and written by employer ('Trailblazer') groups. External qualifications may be but need not be included, but there must be an independent end point assessment. Apprenticeships should last a minimum of 12 months, and at least 20 per cent of an apprentice's time must be spent on off-the-job training. The establishing of an Institute for Apprenticeships (IfA) was included in 2009 legislation: the Enterprise Act of 2016 amended this and gave the IfA power to oversee standards development, approve standards, advise on funding levels, and

quality-assure assessments.[20] It has since become the Institute for Apprenticeships and Technical Education (IfATE). The system is still evolving. Between August and October 2018, 42 per cent of apprenticeship starts were on old-style frameworks, rather than new standards, and the former will continue to be funded until 2020.[21] Many standards are still under development, and funding rates are under ongoing review.

In addition, a number of additional policy changes have been introduced in recent years, which were not within the Richard Review's remit or recommendations, but nonetheless affect the way in which the reform programme has been developing.

First, a new target for apprenticeship starts was introduced. The 2015 Conservative manifesto committed to creating 3 million new apprenticeships by 2020 and this was subsequently written into legislation.[22] Apprenticeship policy in England therefore remains subject to pressures to meet a numerical target.

Second, in 2015, government embraced new 'degree apprenticeships' as a flagship policy and provided seed funding for universities to develop provision. These apprenticeships must be aligned with new standards (not old frameworks). Degree apprenticeships are a new concept for England and not found in other large European apprenticeship systems.

Third, and most importantly, an Apprenticeship Levy was announced in November 2015 and introduced in April 2017. It takes the form of 0.5 per cent levy on employers' annual pay bill over £3m. Employers with a pay bill lower than £3m do not need to pay the levy.

Levies are quite common in other countries as are apprenticeship taxes, while some 'high apprenticeship' countries have a fund into which employers all pay.[23] Normally, the money is hypothecated – i.e. ring-fenced, and useable only for training: in some cases (for example Austria) it is controlled by an organisation of employers. Normally, the charges apply to all or all but the very smallest employers. The UK-wide levy is unusual in having a high and absolute cut-off point. The money is not formally hypothecated, going instead direct to the Treasury.

Levy-paying employers can offset the full amount of their training costs against the levy within two years of the levy being raised; after that, their unspent levy is lost.[24] They do so by paying the levy but then creating a digital account into which levy funds can be paid and from which they can in turn pay training providers. The latter can be drawn from among any providers who have been listed on the Register of Apprenticeship Training Providers (RoATP), an approved list maintained by the DfE, and the choice is the employers'. Levy-payers may also choose to transfer up to 25 per cent of their levy amount for other employers in their supply chain to use on apprenticeship training.

The vast majority of employers with a wage bill below this level pay no levy. They obtain apprentice training from providers who have been awarded a contract to provide it, and who make contact with them, or vice versa. They will be providers who are (a) on the Register but also (b) have bid for and won a contract from government – as under the old system. 95 per cent of the apprenticeship training costs for non-levy employers are met by the government who pay the costs direct to providers. Employers make a 5 per cent contribution, reduced from 10 per cent in April 2019.[25] Although the levy is not formally hypothecated, current spending plans assume that the costs of all apprenticeship training will be covered by it: in other words, they assume that a large part of the levy will not be spent by levy-payers.

This system is unique to England, and, very unusually, creates two completely different processes for levy and non-levy payers.

ITPs continue to dominate delivery. There are currently 1,097 ITPs on the register of approved apprenticeship providers.[26] ITPs range in size from regional, such as TDR Training who delivered 270 specialist science training apprenticeship starts in the North East in 2017/18, and national, such as Kaplan, who provided 5,050 accountancy apprenticeship starts across the country in 2017/18.[27]

Much attention has been focused on an initial decline in the number of apprenticeship starts in the period since the levy was introduced. This decline has partly resulted from a greater emphasis on quality. The new requirement for off-the-job training made many former apprenticeships ineligible to continue without substantial reform. We understand that demand is increasing and that the full levy amount is likely, in the near future, to be spent (partly by levy-payers and partly by others). As noted above, it is too early to evaluate the reforms overall. However, it is possible and important to see whether apprenticeships are developing in ways which address the major problems with the old system and, most importantly, make the system better suited to meeting skill needs.

How it is now: strengths, weaknesses and recommendations

We have noted that strengthening and expanding apprenticeships are at the centre of this government's post-18 education and training policy. The literature on apprenticeships – both national and international – confirms that 'good' apprenticeships, which combine acquisition of substantive new skills with the work experience gained as an employee, are good both for the apprentice and for enterprise productivity.[28]

In the case of England, and taking wage returns as a proxy for the economic value of a qualification, most Level 2 and 3 apprenticeships perform well. Averaged across 3-5 years after the apprenticeship, recent results indicate earnings differentials to be on average 16 per cent and 11 per cent at Level 3 and Level 2 respectively for apprentices who complete compared to starters who fail to complete.[29] However, these returns vary significantly by sector.[30]

Results are also available comparing young people who completed an apprenticeship with contemporaries who completed a comparable level of vocational qualification, but in college not through an apprenticeship. In general, there is a positive earnings differential that persists up to at least age 28, and apprenticeships are also associated with better employment prospects. Again, though, the returns vary greatly by sector and gender – for example, 38 per cent at Level 3 for men doing engineering apprenticeships rather than a college course, compared to a 5 per cent differential for women in child development and wellbeing.[31] Returns are also lower for older ('adult') apprentices.[32] Older apprentices are much more likely to be in the large, lower-returns sectors (Business Administration, Health and Social care) but their earnings premia are also lower within the sectors.

Subjects studied

155,500 (41 per cent) of the apprenticeships started in 2017/18 were by people aged 25 or over. A further 113,700 (30 per cent) were started by those aged between 19 and 24, meaning that over 70 per cent of apprenticeships were started by people aged 19 or over. The remaining 106,600 (28 per cent) apprenticeships were started by those aged under 19.[33] Younger apprentices were far more likely to be new recruits, with 90 per cent of those aged under 19 recruited specifically to an apprenticeship. The comparable figures for older people are 70 per cent of those aged 19-24 and only 20 per cent of those aged 25 and over.[34] CVER research has also found that the earnings returns to apprenticeships for those aged 19-24 is around twice that of those aged 25+.[35] We understand that older workers are more likely to be 'rebadged' as apprentices and we question whether this always represents good value in the programme.

In light of these figures, and what is known about skill shortages and needs, the distribution of apprenticeships across sectors is a cause for concern. Figure 5.1 demonstrates that the vast majority of apprenticeships are in Business, Administration and Law and Health, Public Services and Care. There has been a welcome shift in the balance between Level 2 and Level 3 apprenticeships: there were slightly more Level 3 starts than Level 2 starts in 2017/18, whereas (see Figure 5.2) Level 2 apprenticeships have dominated apprenticeship starts in recent years.[36] However, there remain very few apprenticeships at Levels 4 and above, and apprenticeships remain heavily concentrated in a few sectors with low average returns.

Figure 5.1: Apprenticeship starts by Level and sector subject area 2017/18[37]

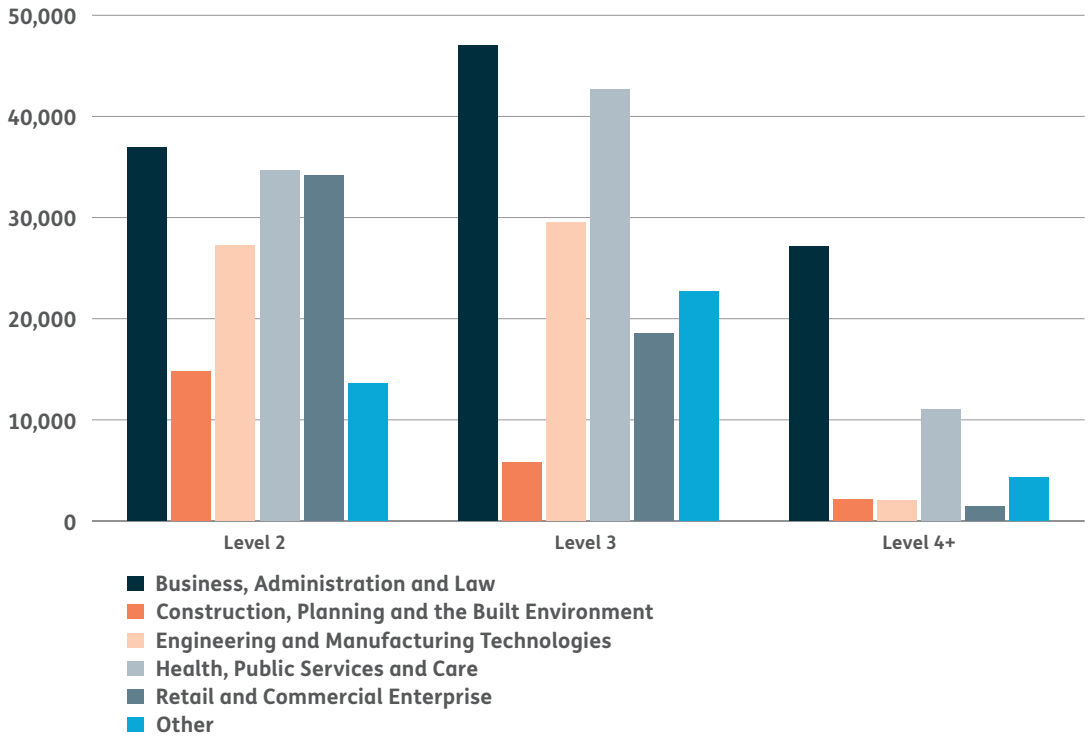
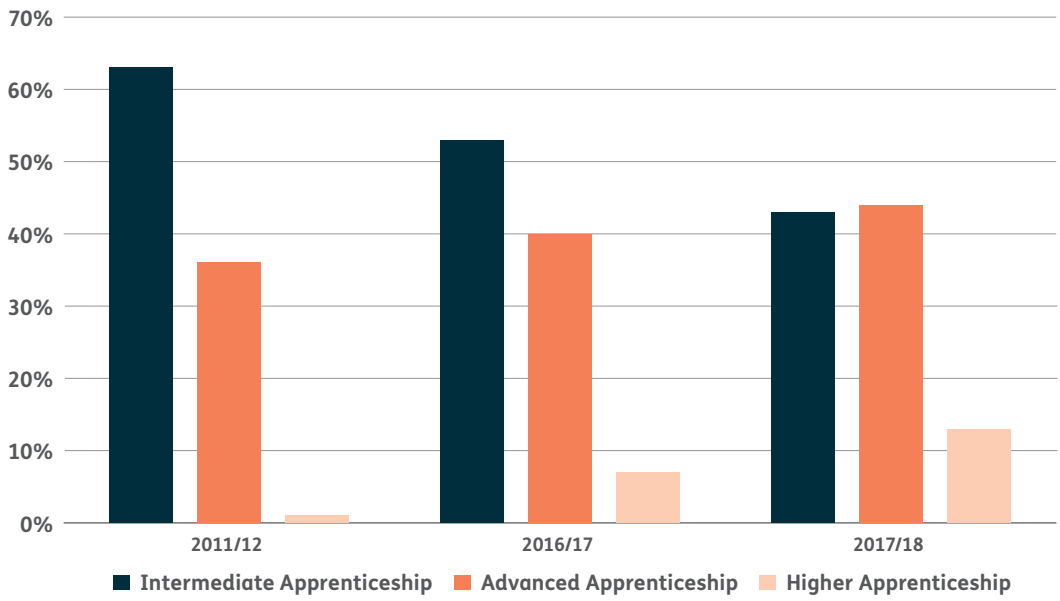


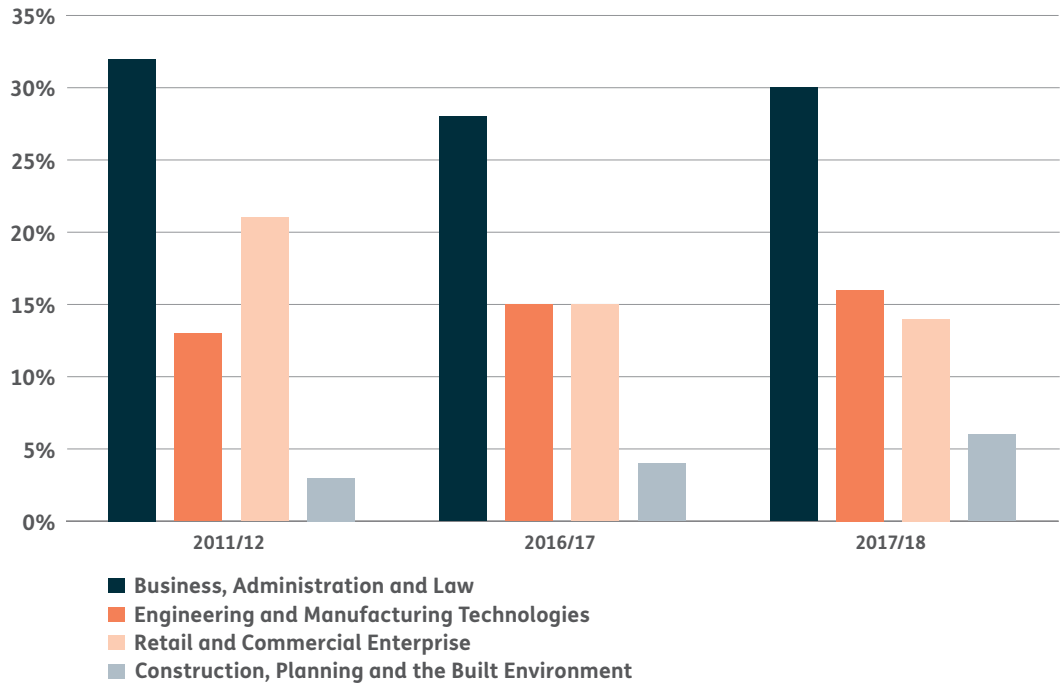
Figure 5.2: Percentage of apprenticeship starts by level (time series)[38]



Levels 2 and 3 account for 87 per cent of all apprenticeship starts; apprenticeships at Levels 4 and 5 – the higher technical level crucial to the economy's current skills needs – account for only 10 per cent of the total.[39] Level 4/5 apprenticeship starts in the key engineering, manufacturing and construction sectors totalled just over 2,400 in 2017/18.[40] Meanwhile, Business, Administration and Law, and Retail and Commercial Enterprise make up 44 per cent of 2017/18 starts at Level 2 and 39 per cent of starts at Level 3.[41] Only 28 per cent of all starts at Levels 2 and 3 are in ICT, Construction and Engineering (including Transport) – i.e. the subjects with the highest returns.[42] Moreover, as Figure

5.3 demonstrates, while there has been some significant shift in distribution across sectors, not only does Business remain the dominant sector, but in Construction, where there are major and well-documented skill shortages, growth is best characterised as very low. We await the full effects of the new approach but the most numerous starts in 2017/18 under new standards, as opposed to old frameworks, were first, 'Team Leader/Supervisor' with 17,300 starts (up from 1,800 the previous year), Adult Care Worker, Lead Adult Care Worker, and Customer Service Practitioner.[43]

Figure 5.3: Percentage of apprenticeship starts in selected sectors[44]



The low number of apprenticeships in the priority areas in the Industrial Strategy, and the small numbers at Levels 4 and above, indicates a clear mismatch between the economy's strategic demands and current apprenticeship starts and employer activity. We question whether this is consistent with the original spirit of the apprenticeship reforms, including whether it reflects the intention to reflect employer demand directly, rather than being driven by government contracts with providers. In the levy-based part of the system, employers are indeed determining expenditures: but as noted above, in the non-levy part of the system, which covers the vast majority of employers, the system remains similar in structure to the pre-reform approach which was producing unacceptable results. As discussed further below, we also heard other evidence indicating that there remain major problems with the implementation of the reforms. Given the central importance of apprenticeships to the Industrial Strategy and to economic productivity as highlighted below, we recommend that the government take a more proactive role, especially with non-levy funding.

> *"We expect the Institute for Apprenticeships to prioritise the development of standards in sectors which are priorities for the Industrial Strategy."*
>
> Industrial Strategy, 2017 [45]

Recommendation 5.1

The government should monitor closely the extent to which apprenticeship take up reflects the priorities of the Industrial Strategy, both in content – including the need for specific skills at Levels 3 through 5 – and in geographic spread. If funding is inadequate for demand, apprenticeships should be prioritised in line with Industrial Strategy requirements.

Recommendation 5.2

The government should use data on apprenticeships wage returns to provide accessible system wide information for learners with a potential interest in apprenticeships.

Level 6 and above, and degree apprenticeships

Apprenticeship starts at Level 4 and above include Levels 4, 5, 6 and 7 (Masters level) as shown Figure 5.1 above. They are also very small in number other than in Business, Administration and Law, and (to a lesser degree) Health and Social Care.

This uneven pattern is reflected in the sub-group of apprenticeships at Levels 6 and 7, including those which actually include a degree. These degree-level and above apprenticeships have only recently been introduced and, as noted above, are a distinctive feature of the English system. With no cohorts yet complete, there is no evidence about the value derived. There were 10,800 Level 6 and above learners on higher apprenticeship standards in 2017/18: however, these figures are for Level 6 and above starts broadly and not degree apprenticeships specifically. This approximates to 3 per cent of all apprenticeship starts but numbers have been growing fast.[46] Starts at Levels 6 (both standards and frameworks) and above grew from 1,700 in 2016/17 to 10,900 in 2017/18.[47]

At Level 6, in 2017/18, the most popular subjects are Chartered Manager (36 per cent of starts), Digital & Technology Solutions Professional (21 per cent) and Chartered Surveyor (13 per cent). At Level 7, in 2017/18, starts are dominated by the Accountancy and Tax Professional standards (over 80 per cent of 4,500 starts).[48] In a recent report on degree apprenticeships, the Higher Education Commission found that many degree apprenticeship standards were not, in practice, available to non-levy employers, because there were few or no providers with contracts who could offer them: for example, 63 per cent of degree apprenticeship standards have no or just one provider that can deliver to non-levy payers. Moreover, 50 per cent of degree apprenticeship standards have no or just one provider that can deliver to levy payers. Chartered Management standards dominate: 69 providers currently offer them, compared to just 17 for the next most common (Chartered Surveyor).[49]

Other information reinforces our concerns about how degree apprenticeships are developing. We have heard reports of employers rebadging existing training activity – including graduate schemes – to claim apprenticeship funds, and putting senior managers through Level 7 courses paid for by the levy. We question whether this represents good value to the public purse. Early figures show that degree and higher level apprentices are more likely to come from areas with higher participation in education, and companies in education and employment 'cold spots' are usually far further, geographically, from degree apprenticeship providers than are companies in more advantaged areas.[50] We also acknowledge the comment of skills minister Anne Milton: "*the fear of a middle-class grab on these apprenticeships is valid.*"[51]

Large employers, especially in engineering, have for many years supported some of their apprentices through degrees, and will naturally expect to continue this using levy funding. However, at national level, with finite resources, and 95 per cent reimbursement of non-levy-payers' costs, the picture becomes more complex. A degree student going down one route gets paid to do so and emerges debt free; another degree student incurs a large debt on graduation and an income contingent repayment commitment. There are particular problems when existing staff are involved (which, as noted above, was also a

major concern of the Richard Review). Currently, funding rules state that funds can only be used to train apprentices in new 'knowledge, skills and behaviours'; and providers and employers are also meant to take account of prior learning and adapt content and price accordingly.[52] However, there are concerns that this is not happening: for example, the 2018 annual report of the Ofsted Chief Inspector highlighted that accreditation of existing skills remained a problem in spite of the reform programme.[53] We understand that the DfE is continuing to look into this 'prior learning issue', but we also note how difficult and expensive it is to monitor this at an individual employer and provider level.

Degree-level apprenticeships have the potential to be an expensive draw on the levy fund – 89 per cent of standards at this level are in the £15,000 funding band or higher, compared to 33 per cent at Level 4 and 5 and 23 per cent of Level 2 and 3 standards.[54] The NAO in a recent report on apprenticeships warned of 'a clear risk that the budget may be insufficient should demand pick up' and we are concerned that the rapid growth in the apprenticeships programme at the most expensive levels increases this risk.[55] Furthermore, paying for expensive courses for well-qualified, socially-mobile learners is unlikely to be the most valuable use of limited funds.

The NAO report notes:

> *"However, these new types of apprenticeship raise questions about whether public money is being used to pay for training that already existed in other forms. Some levy-paying employers are replacing their professional development programmes – for example, graduate training schemes in accountancy or advanced courses in management – with apprenticeships. In such cases, there is a risk that the additional value of the apprenticeship to the economy may not be proportionate to the amount of government funding."* [56]

We therefore believe that the regulation of degree apprenticeships should go beyond the current broad requirements relating to 'new' learning. In accordance with our principles on the cost of education being shared between taxpayers, employers and learners, and in order to ensure that scarce funding provides national value-for-money, we recommend restricting funding for Level 6 and above apprenticeships to those who have not previously undertaken a publicly-supported degree. Exemptions may be required under certain circumstances particularly in the public sector.

Recommendation 5.3

Funding for Level 6 and above apprenticeships should normally be available only for apprentices who have not previously undertaken a publicly-supported degree.

Regulation

The large number of training providers and the wide range of levels of apprenticeship provision make supervision a complex but essential task. At present, there are seven responsible bodies working together under the Quality Alliance umbrella.

The Quality Alliance

- The **DfE,** through the **Education and Skills Funding Agency** (**ESFA**), has overall responsibility for the programme, policy and strategy.
- The **IfATE** has overall responsibility for quality assurance of all end point assessment. It is also accountable for designing and running approvals and review processes for standards and assessment plans and for advising employers on how to write standards and assessments.
- **Ofsted** inspects the quality of apprenticeship training provision, both at provider and programme level, from Levels 2 to 5.
- The **Office for Students** (**OfS**) is responsible for the quality assurance of Level 6 and 7 apprenticeships at providers on their register of institutions. They carry out desk-based analysis at provider level, not course level.

They also share information with **Ofsted** on Level 4 and 5 provision at providers on their register.

- **Ofqual** are responsible for qualifications and assessments if they are the registered external quality assurance organisation for the qualification.
- The **Quality Assurance Agency (QAA)** provides advice and monitoring for higher education (HE) across the UK, and advises the OfS on what they should look for in registered providers.

We believe this complex environment creates duplication, stretches the regulators involved, leaves gaps and risks poorer quality provision. There is one important gap in coverage: the OfS remit to regulate providers at Levels 6 and 7 who are on their register leaves no-one responsible for quality assurance for Level 6 and 7 apprenticeship providers who are not on the OfS register. We believe this should be addressed immediately.

Another concern is that of the rapidly growing apprenticeship provider market. The proportion of providers that have been inspected fell by 26 percentage points, from 88 per cent in August 2017 to 62 per cent in August 2018. Over 500 apprenticeship providers that are both open and on the register remain to be inspected, meaning we know very little about the quality of this provision.[57] In August 2018, the DfE agreed additional funding for Ofsted for them to visit all new apprenticeship training providers (within their remit) within 24 months of the provider's funding start date, but further improvement remains necessary. Ofsted has noted:

"While we fully support the government's goal of boosting apprenticeship numbers, we are also seeing some early warning signs of a dilution of quality. Our new monitoring visits to some of these providers have shown common issues around poor governance, low-quality teaching and not enough time for off-the-job training." [58]

At present both the OfS and Ofsted are expected to have the necessary expertise to ensure the quality assurance of apprenticeship provision which we believe is wasteful. One regulator should inspect apprenticeship provision at all levels to ensure consistency in standards and in-house expertise. We believe this should be Ofsted, thus maintaining a single knowledge hub for apprenticeship quality. This would reduce duplication and the risk of providers being overlooked. While we recognise this may not be welcome by some HEIs, we believe a sole inspection body is vital when new and untested providers are entering the market and offering provision at a variety of levels.

The problems created by the currently tangled and under-resourced system have been compounded by a flawed contract award process. Providers on the register bid for contracts from government (as they did pre-reform): these contracts cover all provision to non-levy-payers. This process takes place with insufficient regard for quality and experience; after the first bidding round for new contracts a number of highly experienced colleges which are central to local apprenticeship training were left without contracts while new, uninspected providers with no experience received contracts. We recognise that the DfE has made some improvements to the contracting process but do not believe these yet go far enough.

Re-establishing provision at local level has added further complexity to an already complex system, as we discovered during our provider visits. In order to sustain provision for local employers, established providers who did not receive contracts have entered into more and complex sub-contracts, a process which drains funds from front-line provision. We accept that some sub-contracting is necessary, especially if a minimum contract size is required (thus excluding small specialist providers). We also acknowledge that the House of Commons Education Committee has recently made some specific recommendations with respect to sub-contracting, which the government is considering.[59] However, we consider it unacceptable that contracts should be awarded to apprenticeship providers without what we see as due quality control.

Recommendation 5.4

Ofsted become the lead responsible body for the inspection of the quality of apprenticeships at all levels.

Recommendation 5.5

No provider without an acceptable Ofsted rating should receive a contract to deliver training in their own right (although a provider who has not yet been inspected could sub-contract from a high-quality provider pending their own inspection).

Complexity, transparency and accountability

As noted above, England's current apprenticeship system is very new and needs to bed down before it can be fully evaluated. However, it is clear that, within what is now a highly bifurcated system, SMEs find engagement a struggle. Numerous examples of complexity were reported to us by SMEs who found the system difficult to navigate and overly bureaucratic. This is consistent with the findings of other recent reports referenced in these pages, by the House of Commons Education Select Committee, the House of Lords Economic Affairs Committee and the Higher Education Commission. The Federation of Small Businesses (FSB) recently found that the barriers for SMEs include lack of time and resources to train apprentices and quality of applications.[60] We believe that the specific problems for SMEs should now be examined. Such a review might also usefully consider the problems created by current very tight restrictions on apprentices' ability to interrupt or resume apprenticeships. While we do not have access to good data on this issue, we believe it may be particularly important in the SME sector, and act as a deterrent to both employers and prospective apprentices.

Recommendation 5.6

The IfATE and the DfE (through the ESFA) should undertake a programme of work to better understand the barriers that SMEs face in engaging with the apprenticeship system and put in place mechanisms to address these, including raising awareness of the programme and making the system easier to navigate.

An employer told a member of the panel about their experience:

The Digital and Technology Solutions degree apprenticeship standard was first submitted to the Skills Funding Agency (SFA) (prior to the IfA being set up) for review in the summer of 2016, it (the standard) then went through multiple reviews (each involving input from SFA/IFA) before being published in November 2017. The corresponding assessment standard was not published until July 2018. Multiple universities had made agreements with employers to provide apprenticeship courses in that area. The standard was returned for further work so often that employers delayed commitments from 2017 to 2018 because they could not ask learners to commit without greater certainty that the courses would run. At each step, revisions were undertaken in line with the recommendations of the SFA/IFA. The standard was finally accepted so late in 2018 that only one university was able to launch a course in September of that year – more than two years after the standard was first submitted for approval.

We consider that the process by which standards are approved should be made clearer and more transparent, and that this would greatly increase efficiency for providers. In this area, again like other enquiries, we heard that the process of standards approval was highly problematic. Clearly, the IfATE must scrutinise properly, but complaints about delay and slowness would be greatly

mitigated, and provision more efficient, if it was always clear what point a set of draft standards had reached in the approval process and when, under normal conditions, they might be expected to receive approval. The NAO point out that the lack of prioritisation within the process has led to eight of the top ten subjects remaining on frameworks rather than standards.[61] They also highlight the five years it has taken to approve 360 out of 'a potential 600' standards.[62]

If there had been a clear timetable, with internal deadlines, and if the IfA committed to providing formal interim information on whether a standard had reached and passed critical approval points or gateways, the standards approval process would be greatly improved. We recognise that the IfA introduced the Faster and Better programme but do not think this went far enough.[63]

Recommendation 5.7

The IfATE improve transparency when processing standards that have been submitted for approval. Trailblazer groups and providers should have a clear indication of progress, available on-line, so they can start to plan, recruit and invest within workable timelines.

Finally, we consider that greater accountability is required, not only with respect to eligibility for contracts (recommendation 5.5) but also in system administration and rules for disbursement. One of the reasons for the reform programme was the poor quality of many providers, including successive cases of failure and indeed fraud which left many apprentices without training, and many others receiving substandard or little training.

Several years into the reform programme, such cases continue to occur: for example, Learndirect, the country's largest training provider, was judged inadequate by Ofsted in 2017. There have been a number of high-profile failures of ITPs, including 3aaa: the latter stopped trading in October 2018 after the ESFA issued a notice to terminate their contracts. These failures have left large numbers of students without training – 4,216 apprentices have been affected by the collapse of 3aaa.[64] These apprentices, and their employers, now have to be supported to find other options for completing their apprenticeships.

The panel is concerned by the lack of controls over apprenticeship spending. At present no reporting is required of how much and what off-the-job-training has actually occurred and government does not currently measure the delivery of training or link apprenticeship funding to the delivery of training. While funding rules make it clear that off-the-job training must impart new knowledge, skills and behaviours, this can occur in a number of ways. Indeed, it is perfectly possible and legal for a provider to spend the entire apprenticeship fee on expenses such as mentoring and 'observation' by company employees, administration and progress reviews, leaving no direct funding at all for off-the-job training.[65]

Productivity gains are tied to the acquisition of new skills, learnt off the job and not just in the course of working. This is why other countries mandate levels of off-the-job training which are generally higher than in England; and why the government supports training costs, reimbursing 95 per cent of the costs for non-levy payers. It is the receipt of training that justifies lower wages for apprentices and we were disturbed to encounter employers – hopefully a small minority – who did not seem to accept the need for apprentices to leave the job for training purposes.

Since the new system is still embedding, and the DfE is working to understand the impact of the new rules, while noting that this situation is highly unsatisfactory, we do not propose any precise changes relating to funding and expenditure rules. However, we draw these issues to the attention of the reader. We do consider it imperative to provide a level playing field across post-18 education and training with respect to the protection of apprentices and students.

All parts of the post-18 system other than ITPs have some form of insolvency provision. The recently introduced insolvency regime for further education colleges (FECs) provides statutory protection for current students and the new HE regulatory regime requires providers registered with the OfS to have a student protection plan in place. The OfS also monitors the financial viability of HE institutions (HEIs). We note that ITPs are not required to make any such provisions and recommend that this be rectified.

Recommendation 5.8

All approved providers of government-funded training, including apprenticeship training, must make clear provision for the protection of learners in the case of closure or insolvency.

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[29] Bibby, D., et al. (2014) Estimation of the labour market returns to qualifications gained in English Further Education, p16. https://www.aoc.co.uk/sites/default/files/BIS%20Estimation_of_the_labour_market_returns_to_qualifications_gained_in_English_Further_Education_-_Final_-_November_2014.pdf; Substantial wage returns in 2004/5 to Modern Apprenticeships, of around 18% at Level 3 and 16% at Level 2, compared to individuals whose highest qualification is at Level 2, or at Level 1 or 2 respectively. Source: McIntosh, S. (2007) A Cost-Benefit Analysis of Apprenticeships and Other Vocational Qualifications. DfES Research Report 834. https://webarchive.nationalarchives.gov.uk/20130321015154/https://www.education.gov.uk/publications/eOrderingDownload/RR834.pdf

[30] It should be noted that evidence on earnings returns to apprenticeships is based on pre-reform apprenticeship frameworks; this is because not enough time has passed for data to be used robustly to provide evidence on returns to apprenticeship standards.

[31] They also differ significantly by gender – within sector, and not just because women tend to be in occupational sectors with average lower returns. The main results show an annual earnings differential for men with an Intermediate Apprenticeship of 23% at age 28 relative to those men with GCSEs, and 16% relative to those men whose highest qualification is a vocational Level 2 qualification. The equivalent figures for women are 15% and 4% respectively. At Level 3, men with an Advanced Apprenticeship are observed to receive an annual earnings differential at age 28 of 37% relative to men with A levels as their highest qualification, and 35% relative to men whose highest qualification is a vocational Level 3 qualification. The equivalent figures for women are 9% and 15% respectively. Cavaglia, C., McNally, S. and Ventura, G. (2018) Do Apprenticeships Pay? Evidence for England. Centre for Vocational Education Research, p35, table 4b. http://cver.lse.ac.uk/textonly/cver/pubs/cverdp015.pdf

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[33] DfE (2019) Apprenticeships Data Pack- User Guide 2014/15 to 2018/19 (Reported to Date - Quarter 1). https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/772381/Apprenticeship-starts-ach-detailed-demographic_201415-Q1201819_Jan2019_v1.xlsx

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[41] Ibid.

[42] Bibby, D., et al. (2014) Estimation of the labour market returns to qualifications gained in English Further Education. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/383646/Estimation_of_the_labour_market_returns_to_qualifications_gained_in_English_Further_Education_-_Final_-_November_2014.pdf; DfE (2019) Apprenticeships Data Pack- User Guide 2014/15 to 2018/19 (Reported to Date - Quarter 1). https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/772385/Apprenticeship-starts-ach-framework-standard-tool_201415-Q1201819_Jan2019_v1.xlsx

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Chapter six:

Student contribution system

Introduction

Starting in 1962 and throughout almost four decades of university expansion, full-time UK students attended university free of charge and were eligible for a means-tested maintenance grant paid by their local authority. The tax and rates payer paid the student's fees and part of their living costs. In 1998, following the Dearing Report, the newly elected Labour Government introduced tuition fees on two grounds. The first was the principle that students should contribute towards the cost of their university education because they, as well as society, generally benefit financially. This is now a well-established principle and is included in our own principles at the front of this report. The second was that the rapid growth in university numbers since the 1970s, which the government aimed to grow to 50 per cent of 18 to 30-year-olds, could not be sustained on the basis of funding by the taxpayer alone.

Previous chapters have set out how the upfront share of costs between the state and students is determined by: the size of government grants to providers; the level of student fees and accompanying loans; and the nature of - and eligibility for - maintenance support. Chapter 3 has proposed a reduction in the maximum student fee from £9,250 to £7,500 with a matching increase in the government grant to providers of higher education (HE) for their reasonable teaching costs. Chapter 7, immediately after this chapter, recommends a replacement of a portion of the maintenance loan by a maintenance grant for students from low-income households. These changes will tilt the share of upfront costs from the student to the government and reduce the debt students will take on, lowering loan balances and interest accrued for all students.

The eventual balance of contributions between the state and students is also shaped by the terms of the income-contingent loan system and the earnings of the borrowers within it. 93.6 per cent of eligible undergraduate full-time HE students took tuition loans in 2016/17.[1] This chapter reviews the current student finance regime and makes proposals to recalibrate the system. When combined with our fee and maintenance proposals and by setting clearer principles for the contributions collected from students, our recommendations are intended to maintain a fair balance between taxpayers and students.

The current student finance system and how we got there

Two critical features of England's current student finance system are a statutory entitlement to a government loan to cover tuition fee and maintenance costs, and repayment of the loan after graduation on an income-contingent basis, i.e. according to the borrower's capacity to pay based on their income. These distinguish it from many other countries' arrangements for university funding and ensure that it encourages access and collects contributions in a broadly progressive way. The loan entitlement guarantees that students do not have to pay the substantial fees and maintenance costs in advance from their own pockets. The pay-as-you earn principle is designed to produce a fair balance of contributions between the taxpayer and students and to collect a contribution from high, medium and low earners in a progressive way. Borrowers who find themselves on a relatively low income – possibly because they are at the start of their careers, or on no income at all perhaps having temporarily left the labour market to raise a family – are protected. Recent research carried out for the Department for Education (DfE) showed that the income-contingent nature of loans – no repayments are required until earnings are above a predefined amount – is the most important factor in persuading people to enter HE, despite concerns about overall costs.[2]

The income-contingent principle of the loan repayment system is a framework for fairness but it is the specific terms of the loan that determine the balance of contributions between the state and students and the relative contributions made by high and low earning borrowers. The key variables are: the income threshold at which repayments are due; the repayment rate (as a percentage of income); the income thresholds for interest charges; the interest rate(s); the maximum period during which repayments are due; and eligibility for forgiveness of the loan (if any). The terms matter: small adjustments can make a considerable difference to the overall proportion of loans that are repaid, and to the profile of lifetime repayments for different income groups among students.

What constitutes a fair balance of contributions towards the cost of HE is a matter of judgement. This needs to take into account the public interest in a high-performing HE system – which warrants a substantial taxpayer subsidy – and the affordability of repayments by individual borrowers, whose lifetime earnings have generally been enhanced as a result of their studies and training. Responses to our call for evidence left us in no doubt that particular features of the current system, notably the charging of interest while the student is studying, and the level of interest charged, are widely regarded as unreasonable. We are also aware of concerns raised in the past two years by parliamentary committees including the Lords Economic Affairs Committee[3], the Treasury Select Committee[4] and the Public Accounts Committee[5], and more widely in the media. These concerns include the way the system is communicated, as well as its terms and outcomes. In reviewing the current system, and making recommendations for change, we have given these views careful consideration.

The current undergraduate loan system's terms are summarised in Figure 6.1 below.

Figure 6.1: The terms of the current undergraduate student finance system

Parameter	Level for 2018-19	Explanation
In-study interest rate	RPI+3 per cent	Interest is charged from the day a loan is taken out at 3 percentage points above the Retail Price Index (RPI) measure of inflation, until the date a student becomes eligible to make repayments.
Post-study interest rate	RPI to RPI+3 per cent variable	When students enter their repayment period (the April after study has ended), interest is charged on a sliding scale each year depending on their earnings in that year. Annual earnings below the lower threshold attract interest set at the same level as RPI inflation – keeping the balance constant in real terms. The interest rate scales linearly up to a maximum of 3 percentage points above RPI at (and above) the upper earnings threshold. The rate a borrower's earnings attract applies to their loan balance for that whole year, applied retrospectively once the earnings are known.
Post-study interest thresholds	£25,000 and £45,000 annual earnings	In 2018-19 the earnings thresholds that determine interest rates (referred to above) were set at £25,000 and £45,000. This is in 2018-19 prices – in subsequent years they will rise by average earnings.
Repayment threshold	£25,000 annual earnings	In 2018-19 the earnings threshold above which repayments are required was set at £25,000. This is in 2018-19 prices – in subsequent years this will rise by average earnings.
Repayment rate	9 per cent	9 per cent of earnings above the repayment threshold are collected as loan repayments. (Note: Borrowers with an undergraduate *and* a Master's (and in future doctoral) loan pay 9 per cent of earnings on their undergraduate loan plus 6 per cent of earnings towards their Master's loan, totalling 15 per cent of earnings above the threshold for as long as both loans require payments.)
Repayment period	30 years from the April after study has ended	Payments cease after 30 years, irrespective of whether any debt remains.

Student loans with income contingent repayments originate from 1998/99 (those original loans are now known as 'Plan 1'). Since then the core of the system has remained unchanged but parameters have been altered to change the amounts collected from borrowers, and in the wake of major increases in student fees. The loan terms were changed in 2012 following the Browne review ('Plan 2'), and in recognition of greatly increased fee debt that graduates would incur as a result of the raising of the fee cap to £9,000.

However, governments have also made changes in response to fiscal or political pressures. For example, the Plan 2 repayment threshold, which was originally set to track national trends in earnings, was frozen in April 2016 and was intended to stay frozen until at least April 2021. This meant that the threshold would fall each year in real terms and therefore require higher and earlier repayments, in real terms, from all graduates. This prompted complaints and threats of legal action from borrowers who considered that they had signed up to the terms as stated at the time of loan issue. It was followed by a groundswell of concern about the growth in student debt and in late 2017 the government announced that it would unfreeze the threshold and also raise it above its previous level, from £21,000 to £25,000, from April 2018.

Postgraduate student loans

The government has also introduced loans for postgraduate study. Loans for Master's degrees were introduced in August 2016, up to a set maximum (£10,609 in 2018/19). Loans for doctoral degrees were introduced in August 2018 for which the maximum is £25,000, with a maximum of £10,609 per year at 2018/19 prices. Both loans' maxima will rise with Retail Price Index inflation in future years. Both of these loan types can support fee and maintenance costs as determined by the borrower; the government does not regulate the fee charged on most Master's and doctoral courses and there is a wide range. The repayment terms are 6 per cent above an income threshold of £21,000, in parallel with any remaining repayments on a borrower's undergraduate loan

As with other parts of this review, we have focused our attention on the undergraduate system. Master's loans are forecast on average to be repaid in full and postgraduate loans have only been introduced recently. We consider it premature to examine or propose changes to these loans now and none of our proposals apply to them. It is the undergraduate system that is accessed by the vast majority of HE learners and that is the principal focus of public and government attention.

Figures 6.2 and 6.3 show the marked impact of these changes on the balance between the forecast long-term contributions of the taxpayer and undergraduate students and the relative amounts collected from individual borrowers as a result of differences in their income. Figure 6.2 shows that the forecast tax payer contribution was reduced from 60 per cent to 40 per cent after the introduction of the £9,000 student fee and new loan terms in 2012 and further reduced to 35 per cent in 2016 when the government froze the income threshold for repaying the loan and removed maintenance grants, but rose again to 50 per cent after the income threshold was unfrozen and taken up to £25,000 in 2018.

Figure 6.2: Relative contributions of the taxpayer (grants and loan write-offs) and students (up-front and loan repayments) to the costs of full-time undergraduate HE in the pre-2012, 2012-2015, 2016-2018 and current (post-2018) system[6]

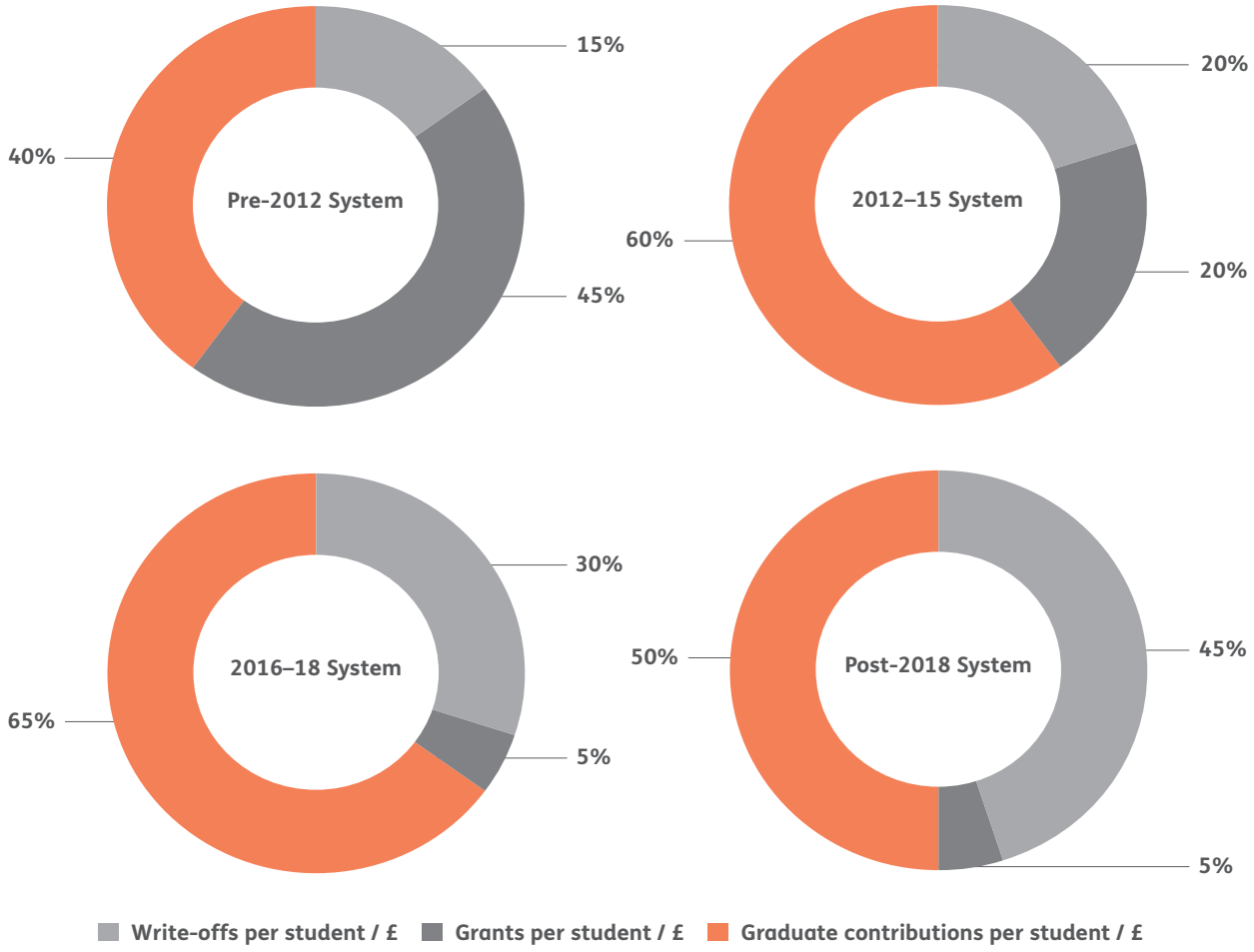
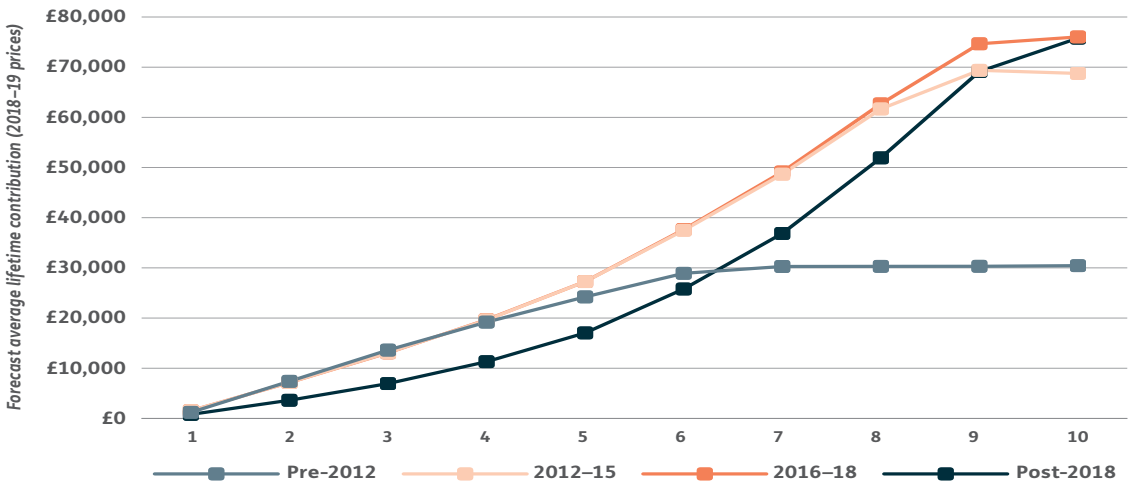


Figure 6.3 below shows the average lifetime repayments expected from student borrowers, categorised in deciles by their lifetime earnings, for different fee and finance arrangements. It demonstrates that, contrary to the widespread assumption at the time, the tripling of student fees in 2012 made little difference to the lifetime repayments made by graduates with relatively modest incomes (the bottom four deciles) but markedly increased the total amount repaid by higher earners. In other words it made the student finance system fiscally much more progressive. The progressive gradient of the system steepened further after the changes in 2018.

Figure 6.3: Forecast lifetime contribution for a sample cohort of undergraduate student borrowers, categorised in deciles by their lifetime earnings, deflated by average earnings to today's prices, for recent student loan systems[7]



The student contribution system: concerns, considerations and recommendations

We have considered all of the representations made about the student contribution in the call for evidence. We have arrived at our recommendations in the light of extensive examination of a wide range of options. We examined the estimated impact on the state/student balance and on the relative contributions collected from different income groups of graduates from changes to each of the parameters of the system, singly and in various permutations. We chose not to consider the recently introduced loan schemes for graduates (Master's and doctoral) and make no recommendations about those.

Some of the concerns we heard from stakeholders and respondents related to factual financial outcomes of the system for borrowers, others were based on common misunderstandings. Many commentators and advocates of reform often fail to recognise that, although graduates can accrue significant notional debt, and see that grow with interest, what they will actually repay largely depends on the relationship between their earnings, the income threshold for repayments (£25,000 in 2018-19) and repayment percentage (currently 9 per cent) levied on income above the threshold.

For many, the system will feel like a 30-year tax, after which any remaining debt is written off. Borrowers will not have to pay if they are not earning, and their notional 'debt' – precisely because it is only payable if they are earning – is not counted as debt by commercial creditors when considering credit worthiness. According to government forecasts based on a sample of full-time borrowers in the current system, and categorised by their lifetime earnings: [8]

- the top 30 per cent of lifetime earners will repay more than 100 per cent of their original debt on average (due to the repayment of both their original debt and a large portion of interest accrued);
- the middle 40 per cent will repay 45 per cent of their debt on average;
- the lowest-earning 30 per cent will repay less than 10 per cent of their debt.

Yet we received many pleas to lower fees and interest rates in order to 'make education less expensive' despite this having a very limited impact on learners with the lowest or even middle incomes. This misunderstanding is a key challenge for an income-contingent student contribution system. How language can be altered and information, advice and guidance (IAG) strengthened to improve understanding is covered in this chapter's final section.

We firmly endorse the principles that students should not have to pay up-front costs on entering HE, and that borrowers on low incomes should be protected from making repayments. However, the design of the existing system results in too high a proportion of borrowers repaying very little: about 70 per cent of student borrowers are currently not expected to clear their loans (including the interest) before the 30-year end point, and overall only 55 per cent of the total value of loans will be repaid. [9] The taxpayer will foot the bill for the other 45 per cent of the loans (the government's resource accounting and budgeting – RAB – charge) and the taxpayer contribution to the HE system rises to 50 per cent when grants are included.

We question whether it is right to have a fee and loan system where so few borrowers can expect to clear their debt fully. Although our proposals to reduce the maximum student fee to £7,500 would enable more students to clear a greater proportion

of their loan, and maintenance grants would improve this still further for eligible borrowers (see Chapter 7), the current loan terms would still write off very significant amounts of money unless they are changed. We believe that the state should reduce this write-off in a way that is principled and affordable for student borrowers.

Because the student finance regime has figured so heavily in the debate about post-18 education, we consider its principal features in turn below, each followed by a recommendation. We emphasise from the outset that it would be unfair to adjust loan terms retrospectively for existing borrowers and that the core recommendations in this chapter are proposed as a package that constitutes a new system of student contributions that would apply to future students after an implementation period. There is one exception – Recommendation 6.6 – which is covered later.

The overall system for collecting contributions

Some commentators and some respondents to our call for evidence called for the current system to be replaced by the abolition of or major reduction in student fees and a graduate tax. We believe that universal eligibility for a government loan to cover student fees combined with an income-contingent system of loan repayments is the fairest way to collect a contribution from students. We cannot know a student's lifetime earnings benefit in advance; this system protects borrowers from being required to contribute while they are not earning but ensures that they pay towards the cost of their education when they can, in a progressive way. It is preferable to a graduate tax, which would not cap the total amount any graduate contributes, and of course high earners in the UK are already subject to progressive earnings-linked income tax.

Recommendation 6.1

Continue the principle of loans to cover the cost of fees combined with income-contingent contributions up to a maximum.

The contribution threshold

A key determinant of the level of written-off loans is the income threshold at which repayments start. By increasing the threshold from £21,000 to £25,000 in 2018, the government took many borrowers out of repayment at very significant cost to the taxpayer. The raising of the threshold reduced the estimated student contribution from 65 per cent to 50 per cent (see Figure 6.2), equivalent to additional public expenditure of £2.3bn per year.[10] The current repayment threshold of £25,000 is higher than the median graduate salary three years after graduation of £22,800[11] (2015-16 prices) and also in excess of the median earnings of all working age non-graduates which is around £23,000[12] (2017-18 prices). We question the justification for a system which excludes so much of a borrower's earnings from any repayment and which helps to reinforce the "no win, no pay" element in student choice. We note recent research carried out for the DfE which found that 52 per cent of people agreed that the £15 per month paid by those earning £27,000 is too low.[13] This research also found that people would prefer higher repayments in return for lower fees and interest rates.

We believe that there should be a stronger expectation that student contributions will be made once a financial benefit is secured. For students in degree-level education we therefore recommend that the most suitable threshold is median non-graduate earnings. In 2018-19 prices, this would mean reducing the threshold from £25,000 to £23,000. However, the panel would expect this change to be implemented alongside changes described in chapters 3 and 7, beginning in academic year 2021/22. At this point – on current earnings forecasts – the recommended threshold would have risen to approximately £25,000, around the same nominal level as today. By the time the first typical cohort of 3-year students would be due to contribute repayments under these new terms – in financial year 2025-26 – the recommended income threshold is forecast to be approximately £28,000. Once introduced, that threshold should continue to increase with average earnings over time, as is currently the case.

The threshold has been set by reference to differences in earnings between graduates and non-graduates because degree-level graduates make up the majority of borrowers. However, this threshold is fair to all borrowers, because those leaving education with lower-level qualifications can on average expect to earn less, and so will on average find that a lower proportion of their earnings is subject to contributions.

We recommend retaining the principle that the real interest charged should be increased linearly between the repayment income threshold and an upper threshold in order to protect borrowers on relatively modest incomes while charging real interest rates to those on relatively high incomes. This is one of the components of the system that leads to progressive outcomes. The interest thresholds should therefore be retained and shift in line with the initial repayment threshold to £23,000 and £43,000 in 2018-19 prices. Once again, we expect this change to be implemented in academic year 2021/22 and for the levels to track earnings.

Recommendation 6.2

Set the contribution threshold at the level of median non-graduate earnings so that those who are experiencing a financial benefit from HE start contributing towards the cost of their studies. This should apply to new students entering HE from 2021/22.

Adjust the lower interest threshold to match, with the higher interest threshold moving by the same amount. This should apply to new students entering the system from 2021/22.

The contribution period

A second feature of the current system with an impact on the level of loan write-offs is the 30-year limit on repayments (which was raised from 25 years in 2012). It can result in a substantial portion of a borrower's lifetime earnings being ineligible for repayments: earnings data shows that the median graduate continues to earn more in their 50s than early in their working life.

Figure 6.4: Median salary of graduates of different ages, from the Graduate Labour Market Statistics for 2017 (2017 prices)[14]

Graduates	Median Salary (nearest £500)
Age	
21-30	£25,000
31-40	£38,000
41-50	£42,000
51-60	£42,000

The large amount of student debt not cleared by the 30-year point is covered by the taxpayer through loan write-offs. Given the financial benefits that accrue to most students over their lifetime from their HE and the major investment the government makes on borrowers' behalf through loan write-offs, we believe borrowers should continue to repay their loan for as long as they benefit; we judge this to be 40 years after study has ended. This would enable the contribution threshold to stay relatively high (Recommendation 6.1), protecting graduates from high repayments when they are lower-earning, but recouping payments later in life when graduates are likely to be earning more. This would bring the system closer to other state contribution systems such as national insurance, but borrowers would still be protected by the other features of the student finance system, in particular the income-contingent basis of contributions and the termination of payments once the loan is cleared. This is consistent with the recent research completed for DfE which showed that people would prefer a longer repayment period in return for lower fees and interest rates.[15]

Recommendation 6.3

Extend the repayment period to 40 years after study has ended so that those who have borrowed continue to contribute while they are experiencing a financial benefit. This should apply to new students entering the system from 2021/22.

The rate of interest while a student is studying

Previous chapters have reported the decline in the proportion of students who think they are getting value for money and growing concerns about student debt and the risk of this deterring some prospective students from entering higher education. Our proposals to lower the maximum student fees to £7,500 and to reintroduce maintenance grants for students from low-income households would reduce upfront student debt. Nonetheless loans would remain substantial and the nominal debt would grow over time as a result of real interest rates.

Currently students are charged an interest rate 3 percentage points above the level of inflation whilst studying – i.e. before the point when they can reasonably be expected to begin to make repayments. This particular feature has attracted widespread criticism, including in responses to our call for evidence. At current inflation rates, a new student doing a one-year Level 4 HE course in 2018, taking out maximum HE maintenance and fee loans, will take a loan of £17,950 and by the time they enter their repayment term this will have increased to £19,250 – a rise of £700 for inflation with an addition of £650 in-study interest. A new 3-year degree student in 2018 taking out maximum HE maintenance and fee loans will see £3,800 added to their debt during their study years because of the above-inflation interest element. Students on longer courses will accrue even greater in-study interest, owing to both their larger balance and the longer duration spent under the in-study interest regime. A student studying for 5 years could accrue £10,000 in real interest while they are studying (e.g. if a student enrolled on a 4-year Master's course and retook one year). Figure 6.5 sets out the nominal loans taken, the inflation adjustment, and the real interest added, for borrowers taking maximum (outside London) loans, in HE for different numbers of years.

Figure 6.5: Nominal maximum debt, split into loan and interest elements, for a student starting a new course in 2018 outside London

Length of Course	Loan Amount (Year 1) Maximum fee plus maximum non-London maintenance	Total of Nominal Loan Amounts on entering repayment[16]	Interest Added		Total Debt on entering repayment
			Of which, inflation adjustment	Of which, real interest (3ppt on top of inflation)	
One year full-time HE	£17,950	£17,950	£700	£650	£19,250
Three year full-time HE	£17,950	£55,450	£3,800	£3,800	£63,050
Five year full-time HE	£17,950	£94,650	£9,600	£10,000	£114,300

Note: Figures are rounded to the nearest £50 and may not sum

A key part of the government's case for in-study interest is that it deters students from taking on student loans if they can self-finance their education.[17] In the absence of any in-study interest students would have an incentive to take out a loan and instead of using it to pay their student fees, could invest it. The in-study interest also has the effect of increasing the overall contribution made by high earners because it is they who predominantly repay this interest – helping to

make the system progressive – whereas most lower earners will not repay it because it will form part of the remaining debt written off at the end of their loan term.

However, this interest serves to increase all borrowers' debt balances when most borrowers are in no position to make payments, adding to concerns about rising debt levels as outlined in Figure 6.5. Furthermore, some lower earners - albeit a minority - will repay this interest. These repayment terms apply not only to students taking full degrees with large loan balances but also to many other borrowers, for example those taking Advanced Learner Loans (ALLs). ALLs, which are typically taken out by older adults with quite low initial achievement levels, can be far smaller and these borrowers may well repay in full – including in-study interest. We consider that there should continue to be a single set of repayment terms at Level 6 and below, across different routes, and that this should be as fair as possible for all borrowers. Furthermore, the extension to the repayment period we are proposing would increase the proportion of students having to eventually repay this interest.

We consider it unfair that students should incur an above-inflation increase in their debt while studying full-time at a time when they are unable to generate earnings to start to repay their loan. We do however believe it is fair to increase loan balances with inflation during study, to maintain the real value of the debt and to mitigate the risk of wealthy students taking on debt for investment purposes.

Recommendation 6.4

Remove real in-study interest, so that loan balances track inflation during study. This should apply for new students entering the system from 2021/22.

The rate of interest after a student finishes their studies

Some of our respondents argued that student loans should never attract real interest – not even for borrowers who have left education and begun earning. We do not accept this view: a level of real interest should continue to be charged on the grounds that it would be imprudent and wasteful for government to provide entirely costless finance. It is worth reiterating the point that the variable interest rate mechanism protects low earners from high real interest rates, while increasing the contribution from higher earners. The provision of loans at zero real interest throughout the whole loan period could encourage almost all students to take out loans (as opposed to paying fees with their own funds) and to continue to hold this 'debt' throughout the contribution period as it may eventually be written off. This would be at considerable additional cost to government at the expense of investment elsewhere in tertiary education.

Recommendation 6.5

Retain the post-study variable interest rate mechanism from inflation to inflation plus 3 per cent.

The inflation index to which interest rates are linked

Some feedback in the call for evidence questioned the use of the Retail Price Index (RPI) rather than the Consumer Price index (CPI) as the appropriate measure of inflation in the student loan system. We have also considered recommendations from the House of Lords Economic Affairs Committee's recent report Measuring Inflation[18], and the joint letter from this committee and the House of Commons Treasury Committee to the UK National Statistician regarding the need to reform the RPI measure.[19] We recognise widespread concerns about the quality of the RPI measure, but note that HMT continues to use RPI in a range of cases, especially for inward payments (e.g. interest) as

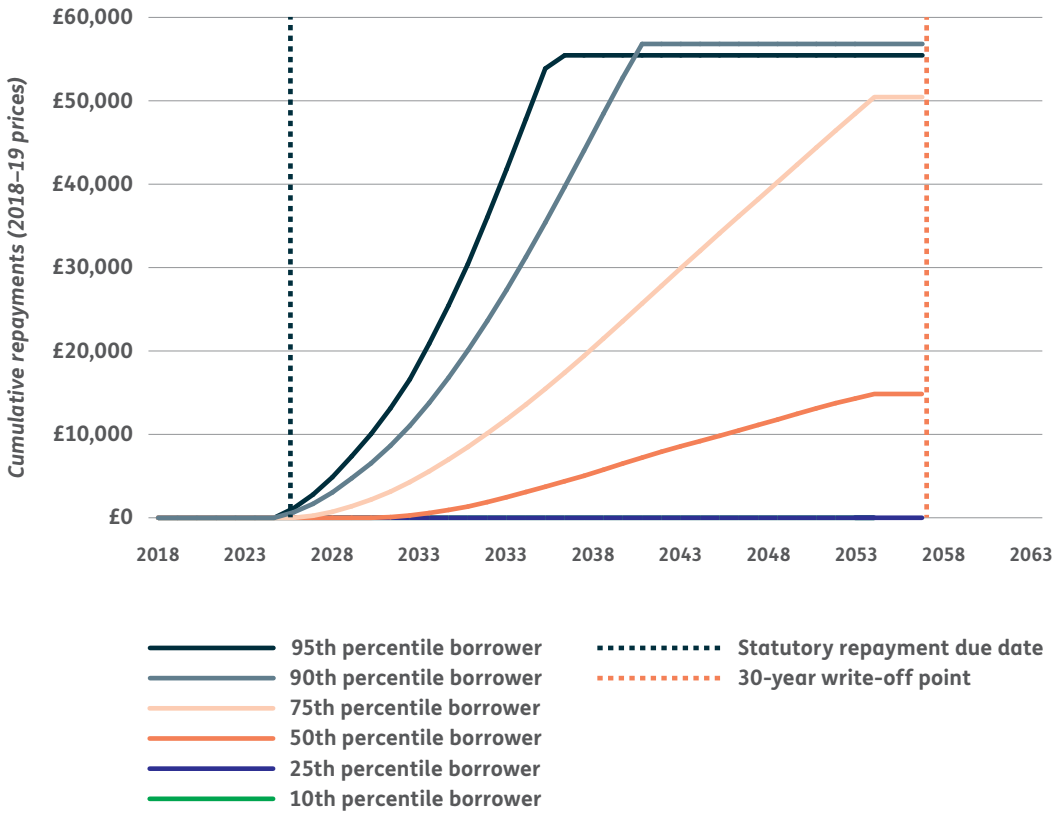
distinct from outward payments (e.g. pensions). This is a matter for the Treasury; different inflation measures are in use in different areas of public finance and we recognise a change would need to be considered in a wider context than the student loan system alone.

Concerns about the non-progressive nature of lifetime contributions in the upper end of the earnings range

A student borrower's debt and repayment profile is particularly sensitive to the trajectory of their lifetime earnings. In a system with real interest some borrowers will repay more than 100 per cent of their initial loan, and those that pay back more slowly – in the middle to upper end of the earnings distribution – can pay proportionally more than the very highest earners who are exposed to real interest for a shorter time. In the words of the Treasury Select Committee Report into student loans: "...the civil servant, the teacher and the accountant pay broadly similar amounts for their loan, but a graduate joining a "magic circle" law firm pays less, owing to rapid pay growth in the early stages of their career."[20]

Figure 6.6 shows this effect. The earner at the 95th percentile repays more quickly and spends less time accruing interest than the earner at the 90th percentile, resulting in the 90th percentile borrower repaying more in real terms over their lifetime, for the same starting balance. The system is therefore not producing progressive outcomes for this part of the earnings distribution.

Figure 6.6: Cumulative lifetime student loan repayments, for a set of illustrative borrowers with the same initial loan balance, deflated in to today's prices by average earnings[21]



We acknowledge that over the longer repayment period recommended by the panel the problem would be somewhat exacerbated. We considered a wide range of options for solving this difficult issue. If real interest is charged, some borrowers are bound to accrue more interest than others, so we have sought mechanisms to limit the extent to which the highest earners paid back into the system less than those in the deciles below.

Options we considered included the adjusting of interest charges and thresholds; the addition of a further higher threshold with higher interest charges; forgiving unpaid interest each year; and an additional fixed charge on the highest earners who had cleared their loan. Many of these resulted in higher costs to the taxpayer due to the inefficient targeting of borrowers, benefiting fast high earners in particular. Some options incentivised fast high earners to opt out of the loan system altogether or to accelerate the repayment of their loan; in such cases the highest earners of all would be contributing less in interest overall to the system than borrowers with lower earnings. Other options would have been scored as a tax under accounting rules and hence are beyond our terms of reference.

We concluded that the most efficient way of addressing this problem would be to introduce a cap on real terms total repayments. Any borrower that reached the cap would have the remainder of their loan written off at that point (all of which would be accrued interest). We propose that this cap be set at a multiple of 1.2 times the initial loan in real terms. This level of cap broadly limits borrowers to a similar maximum level of repayment to that which was being contributed by the highest earners (relative to the initial loan). Because the protection of the cap is only triggered if a borrower has already fully repaid the real value of the initial loan, it is well targeted at a specific group of borrowers. Because it scales with the initial loan amount it would protect borrowers with any size of loan in a proportional way. Given the number of permutations of initial balance and earnings in each year of a borrower's working life, there could be some instances where borrowers with lower lifetime earnings would repay proportionally slightly more than someone with higher lifetime earnings, but we believe this mechanism is the best available for limiting the number and extent of such instances.

We would expect the Student Loans Company (SLC) to monitor the real value of the initial loan, alongside the other data it holds on repayments, and regularly notify the borrower of the proportion of the real loan repaid and when the cap had been reached. Although the cap is a component of the new system we recommend that the government implement the same cap for graduate borrowers who are still repaying their Plan 2 loans. While this would not affect most borrowers, it would increase the fairness of the system.

Recommendation 6.6

Introduce a new protection for borrowers to cap lifetime repayments at 1.2 times the initial loan amount in real terms. This cap should be introduced for all current Plan 2 borrowers, as well for all future borrowers.

The terminology used to describe the system

It is widely recognised that the current terminology used to describe student finance (loans, debt, interest, liability etc.) can be unhelpful and misleading. For conventional debt such as bank loans, mortgages and consumer credit, total balance and interest rates are central to a correct understanding of what will ultimately need to be repaid. The student finance system by contrast behaves quite differently for most borrowers, for whom it operates in effect as an additional tax on earnings for the length of the repayment period. This leads to a gulf between perception and reality, to a misalignment of concern about how much is owed and how much will in fact be repaid. Indeed, the consumer champion Martin Lewis, and the Treasury Select Committee in its 2018 report on student finance, have advocated scrapping the term 'loan' altogether.[22]

Commentary on the student finance system tends to focus on total debt balances. This makes for attention-grabbing headlines but is often misleading because a borrower's monthly repayment amount is linked to earnings, not the debt, as is their total lifetime repayment. Misperception is reinforced by annual statements from the SLC, which present borrowers with their total balance and the interest accrued but do not, for example, include any reference to the government subsidy or to the predicted scale of write-off. We note the helpful recent work of the Russell Group and Martin Lewis in testing a new student loans statement which emphasises these points.[23] We have also heard students point out that the name 'Student Loans Company' does not aid understanding because some borrowers perceive it as a commercial enterprise that profits from the interest rates charged on student loans.[24]

In 2018 a Universities UK survey found that only 43 per cent of 16 to 24-year-olds agreed that they "have/had sufficient information about the full long-term cost to me of studying at university".[25] We recommend that communication of the student finance system, including by government departments and agencies, should be significantly improved and updated. Specifically, the unique protections and benefits it offers borrowers beyond conventional debt obligations should be emphasised and the way in which it operates as a limited-period supplement to income tax rather than as a conventional loan should be prominent. The language of loans and debt is deeply embedded in public discourse about the student finance system and will not be eradicated without a comprehensive, targeted and sustained communications strategy.

We envisage that our proposals would become a new student finance plan with a new name to represent more accurately the new system: the "student contributions system". This should include a public engagement campaign to introduce wider changes being made to the student finance system and ensure they are properly understood by students, parents and the media from the beginning. In parallel, government should consider how understanding of ALLs could be improved. Finally, government should also consider renaming the 'Student Loans Company'.

We recognise that the primary legislation underpinning the student finance system uses the term 'loans' and the terminology common to loans (borrower, rates of interest, repayment, liability, etc.) and that this constrains the extent to which the government is able to change the terminology used. We believe that the government should seek changes to this terminology ahead of the introduction of a new system.

Recommendation 6.7

Introduce new finance terms under the banner of a new 'student contribution system'. Define and promote the system with new language to make clearer the nature of the system, reducing focus on 'debt' levels and interest and emphasising contribution rates.

Implementation

A comparison of our proposals for a new student contribution system and the current system is presented in Figure 6.7 below.

Figure 6.7: Proposals for a new student contribution system with a comparison to the current system, including the forecast threshold levels for the first year in which we would expect repayments to be made in the new system (2025-26)

Parameter	Current system	Proposed contribution system	
	2018 prices	2018 prices	2025 prices
In-study interest rate	RPI+3 per cent	RPI only	
Post-study interest rate	RPI to RPI+3 per cent variable	RPI to RPI+3 per cent variable	
Post-study interest thresholds	£25,000 and £45,000 annual earnings	£23,000 and £43,000 annual earnings	£28,100 and £52,525 annual earnings
~~*Repayment threshold*~~ **Contribution threshold**	£25,000 annual earnings	£23,000 annual earnings[26]	£28,100 annual earnings
~~*Repayment rate*~~ **Contribution rate**	9 per cent	9 per cent	
~~*Repayment period*~~ **Contribution period**	30 years from the April after study has ended	40 years from the April after study has ended	
Maximum real terms repayment above initial loan value	All of the interest accrued	Remaining debt and accrued interest written off if total repayments reach 1.2 times the real initial loan value	

If accepted, these student finance proposals should be implemented as a package, with the exception of the 1.2 times real terms cap on repayments, which we are keen to see introduced immediately. This would be a new plan type, defined by new regulations within the framework of existing primary legislation, but as proposed above, we urge the government to rebrand the system and adopt a new terminology. We expect the government to be able to introduce the new system for 2021/22 entrants, synchronised with the introduction of lower fees and the improved arrangements for maintenance to avoid any one cohort of students being particularly advantaged or disadvantaged. More detail on the impacts of the proposals and the implementation timeline are set out in Chapter 8.

It is important that students should be able to access finance support that is compatible with their religious beliefs. The government will need to consider carefully how the changes we are proposing to the student finance system affect plans to introduce a system of alternative student finance for students who feel unable to access interest-bearing student loans for reasons of faith.

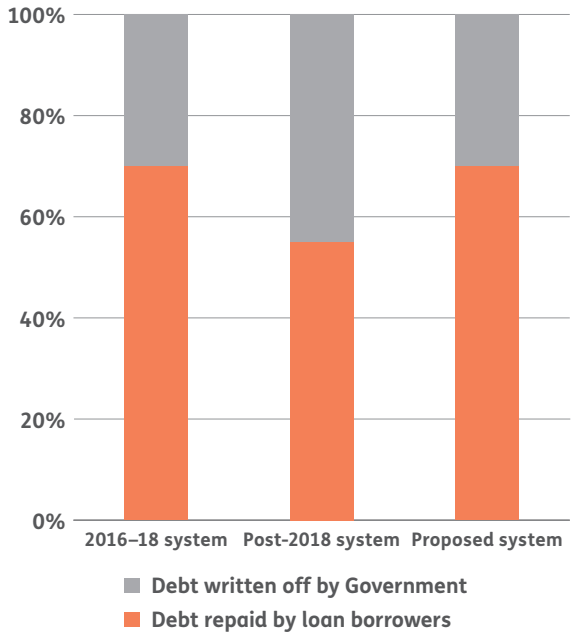
Education policy, including student loan repayment terms, is devolved. However, England and Wales have set the same repayment terms for their loans since 1998. All student loans in the UK are administered by the Student Loan Company. The majority of loan repayments from UK borrowers are collected by HMRC on behalf of England and the devolved administrations. Due to the commonality of loan terms, the Welsh Government in particular may wish to consider the implications of any changes made to repayment terms in England.

Impact

Impact on the balance of contributions between the state and graduates

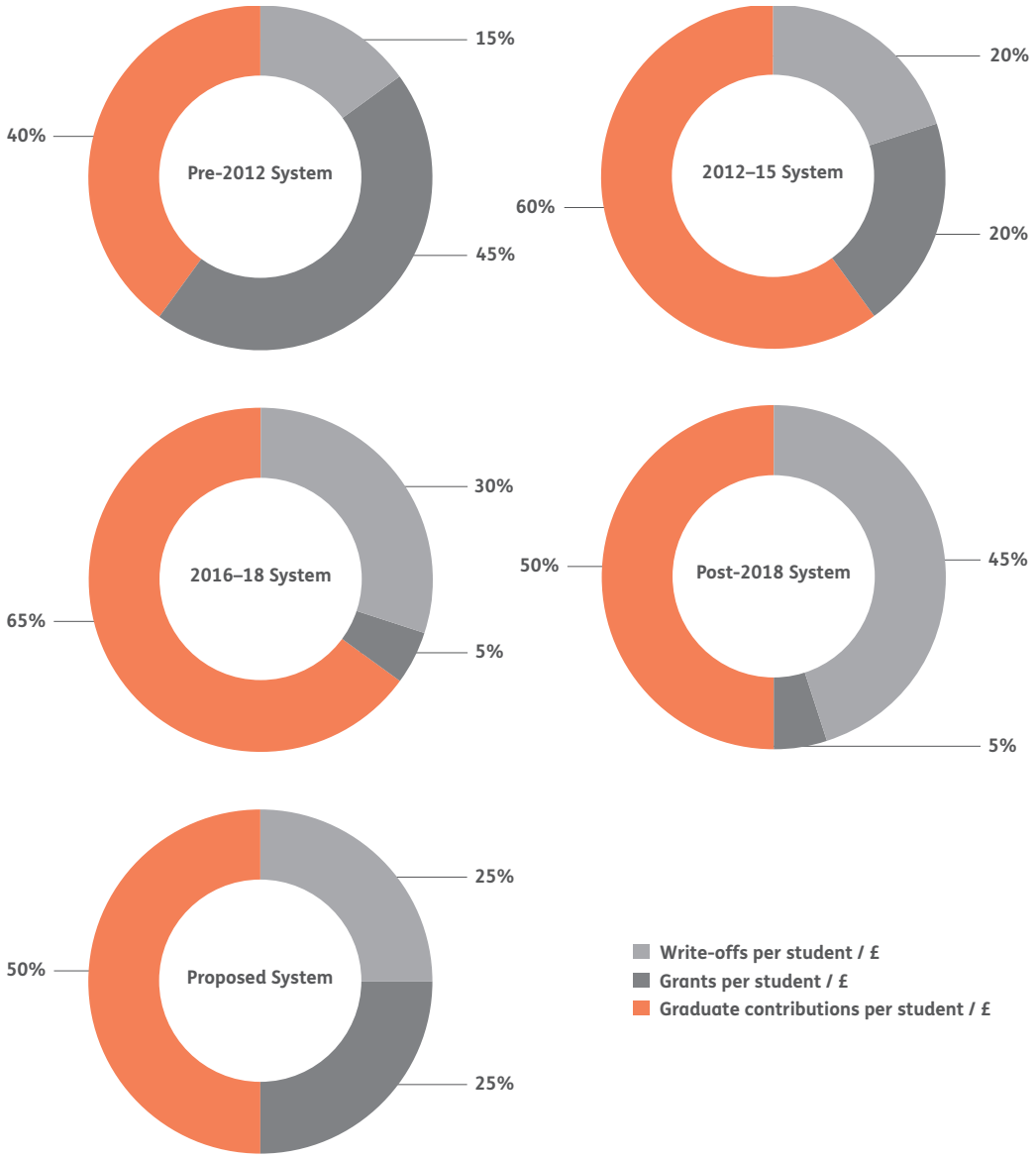
Our proposed changes to the student fee, government funding, maintenance support and the student contributions system would result in a lower initial borrowing requirement for students; more direct government investment in post-18 education; but also in graduates repaying a greater proportion of their reduced loans. We estimate that the population of graduate borrowers as a whole would repay approximately 70 per cent of their smaller loans (Figure 6.8) under our recommendations.

Figure 6.8: The proportion of debt repaid by borrowers and the proportion written off by government, under recent loan systems and the proposed system[27]



After accounting for the proposed increase in government grant funding this would represent a 50 per cent student contribution to the total costs of HE (Figure 6.9). This is a similar balance to the current system but with more grant support for both teaching and maintenance and therefore lower levels of student debt. Because the proposals include a resource freeze for universities, while the proportional contribution of government and students would remain similar, they would both be reduced in real terms.

Figure 6.9: Relative contributions of the taxpayer (grants and loan write-offs) and students to the costs of full time HE in the proposed system, compared to the pre-2012, 2012-2015, 2016-2018 and current (post-2018) systems[28]



Impact on the contributions made by graduates with different earnings

We consider that in return for the substantial taxpayer subsidy and the income-contingent protection of their loans, students should be required to contribute to those costs once they benefit financially. This is the basis for our recommendation that the income threshold for starting contributions should be aligned to non-graduate median earnings and should continue for 40 years or until the loan is fully repaid, whichever is the earlier. The maximum change in payments that any borrower could experience, relative to the current system, is £15 per month in 2018-19 prices, with those earning lower than £25,000 seeing a smaller increase and those earning below £23,000 seeing no increase at all. In every case, monthly payments are lower than the loan system that existed before 2018 which had its repayment threshold frozen at £21,000 until 2020-21. This is set out in Figure 6.10.

Figure 6.10: Monthly repayments for borrowers with different salaries, under the 2016-2018, post-2018, and proposed system (all compared at 2018 threshold levels)

Annual Earnings	Monthly Loan Repayment (£)		
	2016-2018 terms	2018-19 terms	Proposed terms
	£21k threshold	£25k threshold	£23k threshold
Up to 21,000	0	0	**0**
23,000	15	0	**0**
25,000	30	0	**15**
27,000	45	15	**30**
30,000	68	38	**53**
40,000	143	113	**128**
50,000	218	188	**203**
75,000	405	375	**390**
100,000	593	563	**578**

The impact of all the changes combined, on different borrowers' lifetime contributions, and on the percentage of the loan that they repay, is shown in the two figures below.

Figure 6.11: Average total of lifetime repayments, by borrowers' decile of lifetime earnings for a sample cohort, under the current and proposed loan systems, deflated to today's prices by forecast CPI

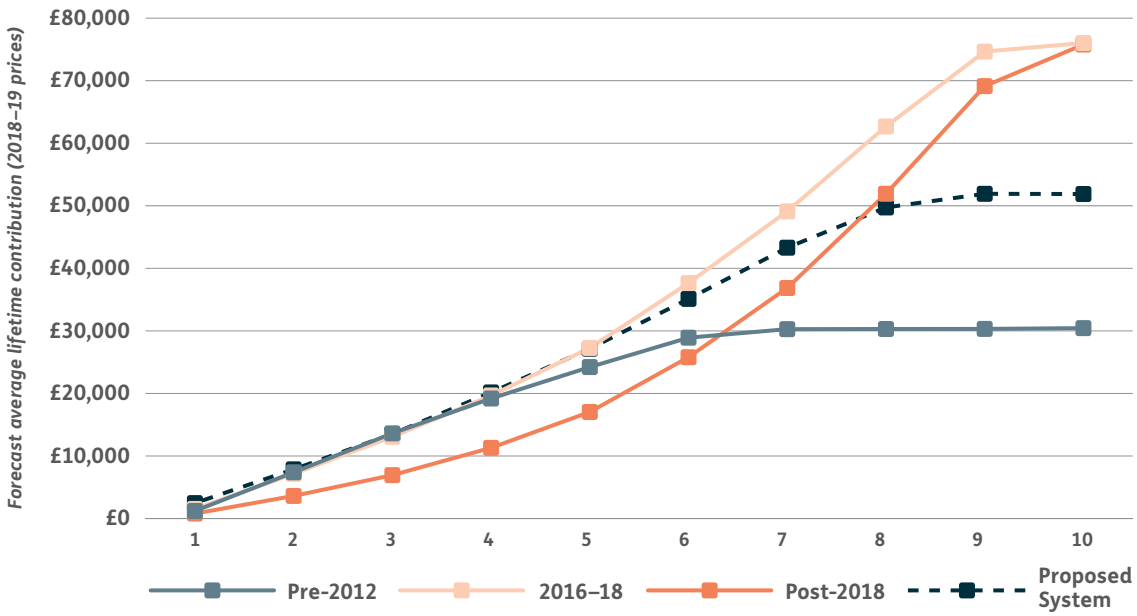
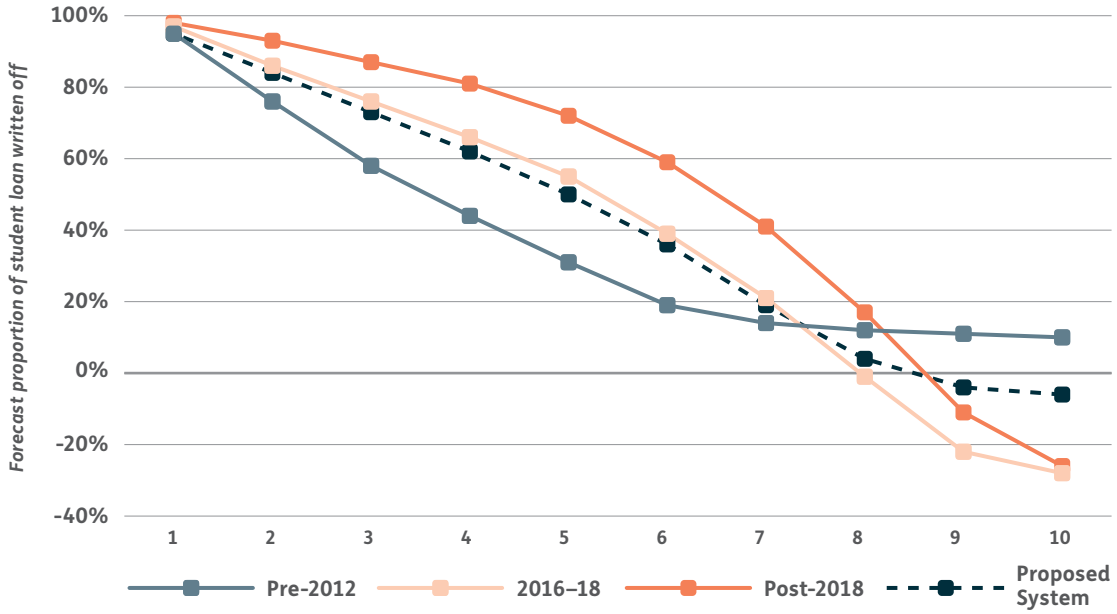


Figure 6.12: Proportion of loans written-off by government, by borrowers' decile of lifetime earnings, under the current and proposed systems



We are clear that student fees should not exceed the reasonable costs incurred by universities, further education colleges and other institutions in providing a student's course of study and so have proposed a cut in the maximum student fee to the level of the lowest cost degree programmes. We are also clear that charging interest above inflation during study is unfair in principle, and should be eliminated from the graduate contribution system. Both of these changes, together with the cap on lifetime repayments, would mainly impact those borrowers who expect to repay their loans in full by directly reducing their debt and therefore their lifetime repayments, or by stopping their payments when they reached the cap. On average, the top 30 percent of earners would benefit most from these changes. We consider this fair: these students would still repay more than the real-terms value of their initial loan and would receive the lowest state subsidy. The plain fact is that the affordability of the whole system depends on those that repay their loans in full.

The lifetime contributions made – on average – by lower earning deciles under our proposals would be similar to the contributions made under the 2016-2018 and pre-2012 systems, but higher than under the current system, as shown in figure 6.11. For this group, our proposals are intended to collect a fair contribution – they would only repay if they were earning more than the median non-graduate – and retain a considerable government contribution in the form of loan write-offs and grants. Loan write-offs are shown in figure 6.12. The overall outcomes of the proposed system remain very progressive: the more someone earned in their lifetime the more they would pay back.

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4 House of Commons Treasury Committee Report – Student Loans, 6 February 2018, https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/478/478.pdf

5 House of Commons Committee of Public Accounts Report – The higher education market, 6 June 2018, https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/693/693.pdf

6 These figures are based on a comparable cohort of full-time undergraduate entrants to all prescribed HE courses - predominantly degrees but also Level 4 and 5 courses - and include fees and maintenance costs. They include the contribution from students that pay fees up front and do not take out a loan, to accurately represent the balance of contributions for the whole cohort. They exclude postgraduate loans (both masters and doctoral). For methodology see Annex: Estimating the changing cost of the English Higher Education system to taxpayers and students.

7 This figure is based on a comparable cohort of full-time entrants to all prescribed HE courses - predominantly degrees but also Level 4 and 5 courses - and include fees and maintenance costs. They include only those students that took out a loan for some or all of their costs. For methodology see Annex: Assessing the Impacts of HE Student Finance Systems by earnings decile.

8 Annex: Assessing the Impacts of HE Student Finance Systems by earnings decile.

9 Student loan forecasts, England: 2017 to 2018. https://www.gov.uk/government/statistics/student-loan-forecasts-england-2017-to-2018

10 IFS press release 3 Oct 2017: New higher loan repayment threshold is a big (and expensive) giveaway to graduates, https://www.ifs.org.uk/publications/9965

11 Graduate Outcomes (LEO) 2015 to 16, Table 3 https://www.gov.uk/government/statistics/graduate-outcomes-2015-to-2016

12 Graduate Labour Market Statistics 2017, capturing non-graduate earners aged 16-64 https://www.gov.uk/government/statistics/graduate-labour-market-statistics-2017

13 Looney, S., Drummond, A. and Grayson, C. (2019) Attitudes towards the student finance system. Report by Opinium for the Department for Education.

14 DfE (2018) Graduate labour market statistics: 2017: Graduate, postgraduate and non-graduate employment rates and earnings for England, p1. https://www.gov.uk/government/statistics/graduate-labour-market-statistics-2017

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16 Borrowers enter their repayment period in the April after study has ended.

17 House of Commons Treasury Committee Evidence Session 19 December 2017, Question 199. http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/student-loans/oral/75969.html

18 House of Lords Economic Affairs Committee: Measuring Inflation https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/24603.htm

19 Joint letter from the HoL EAC and HoC TC, to the UK National Statistician (Feb 2018) https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/2017-19/Joint-letter-to-UKSA-060219.pdf

20 House of Commons Treasury Committee (2018) Student Loans: Seventh Report of Session 2017-19, p15.

21 Based on Department for Education modelling. Full details and methodology are contained in the Annex: Estimating the lifetime contributions of example borrowers

22 House of Commons Treasury Committee (2018) Student Loans: Seventh Report of Session 2017-19, p29-32.

23 Graduate Contributions Statement. Russell Group & Martin Lewis. https://russellgroup.ac.uk/news/graduate-contributions-statement/

[24] This view was also expressed by the SLC's non-executive chair in discussion with the Education Committee https://www.parliament.uk/business/committees/committees-a-z/commons-select/education-committee/news-parliament-2017/accountability-hearings-student-loans-evidence-17-19/

[25] Universities UK and the National Education Opportunities Network (NEON) Report – The financial concerns of students, 20 June 2018, https://www.universitiesuk.ac.uk/news/Pages/students-need-better-information-about-tuition-fees-and-student-loans-.aspx

[26] This new threshold has been determined by the level of median non-graduate earnings; a more principled approach to the threshold as outlined in recommendation 6.2.

[27] For methodology see Annex: Estimating the changing cost of the English Higher Education system to taxpayers and students.

[28] These figures are based on a comparable cohort of full-time entrants to all prescribed HE courses - predominantly degrees but also Level 4 and 5 courses - and include fees and maintenance costs. They include the contribution from students that pay fees up front and do not take out a loan, to accurately represent the balance of contributions for the whole cohort. For methodology see Annex: Estimating the changing cost of the English Higher Education system to taxpayers and students.

Chapter seven:

A post-18 maintenance system

Introduction

The English higher education (HE) maintenance system provides financial support for living costs while an individual is studying. It is distinctive by international standards in consisting entirely of loan support, with no government grants, and it is also noteworthy that the level of support is generous by this country's historical standards. In further education (FE), there is no universal support for living costs: some learners are eligible for the full HE loan package; others are entitled only to small, often discretionary awards. It is another story of the cared for and the neglected.

The belief that 'everyone should have the opportunity to be educated after the age of 18' is the second of the principles we set out at the beginning of this report. To achieve this, we believe that maintenance should be available to all learners on equal terms, whether in HE or FE. This should apply to higher levels of study (Levels 4 to 6), adjusted for the duration and intensity of study. We believe that maintenance support should be fair and affordable, set on a principled basis, and reflect the needs and characteristics of learners at different levels and across different modes of study. This chapter sets out our recommendations in this key area.

Context

The English maintenance system is open to all full-time and some part-time degree level students attending an HE institution (HEI).[1] Maintenance is available for some but not all Level 4 to 5 students. Level 4/5 courses in the Office for Students (OfS) regime, including Higher National Diplomas (HNDs), Higher National Certificates (HNCs) and Foundation Degrees are eligible for the full HE maintenance package. However, approximately 20 per cent of Level 4/5 courses – those not 'prescribed' as part of the OfS regulated system for HE, are not eligible: these include professional Certificates and Diplomas.[2] A separate, combined fee and living cost loan is provided for postgraduate Master's degree students at Level 7 and postgraduate doctoral degree students at Level 8. Small-scale support is available for Level 3 and below. The table below summarises this provision.

Figure 7.1: Post-18 maintenance support in England

Level	Nature of support for 2019/20
Level 3 and below + Non-prescribed Level 4/5 provision	**Full and part-time:** No access to maintenance support. Small-scale support through bursary funds administered by providers for non-fee costs such as books, travel and childcare and in exceptional circumstances of financial need.
Prescribed HE Level 4/5 + Level 6 (undergraduate degree)	**Full-time:** Income contingent loan of up to £8,944 per year (£11,672 in London) for students attending courses with the amount available partially means-tested according to household income.[3] **Part-time:** pro-rata access to the same income-contingent loan support for Level 6 students attending courses from 2018/19.[4]
Level 7 (postgraduate Master's degree)	**Full and part-time:** combined loan towards fees, course costs and living costs of up to £10,906.
Level 8 (postgraduate doctoral degree)	**Full and part-time:** combined loan towards fees, course costs and living costs of up to £25,700 over the course. However, the majority of PhD students receive government support directly from one or more of the research councils, and students in receipt of such funding are ineligible for loan support.

The patchwork provision below prescribed HE is complicated for students to navigate and has no doubt reinforced the perception that a full-time degree is the most advantageous path for post-18 education. This chapter develops a single, principled maintenance offer for students taking post-18 qualifications at Level 4 and above, and then considers what support should be made available for those taking Level 3 qualifications and below.

Maintenance: past and present

Over the past 40 years the English maintenance system has changed on several occasions and at times has been provided as all-grant, as all-loan and as a combination of the two. A major recent change abolished maintenance grants, at the time £3,387 for the 2015/16 cohort of full-time new undergraduate students, moving England to an all-loan system. [5] At the same time, the maximum amount (outside London) was increased by 10.3 per cent in cash terms over the previous year, making the level of cash support, in real terms, higher than at any point before. The level of the loan was then increased by retail price index (RPIX) inflation for each academic year since 2016/17.

England's HE maintenance system is relatively expensive. The outlay in loans was £5.5bn in the 2017/18 financial year and is currently projected to be around £7.5bn in 2020/21.[6] Although the level of support is reasonably generous compared to many countries, as noted later, our discussions with learners and submissions to the call for evidence, as well as plentiful survey evidence, all reveal that the cost of living is a preoccupation of students across HE and FE. Accommodation costs are a particular concern.

The English HE maintenance system will, in 2019/20, provide up to £8,944[7] of loan per year for those living away from home and studying full-time outside London.[8] The amount received is partially means-tested: students in households with income below £25,000 receive the maximum of £8,944, and students in households with income above £62,212[9] receive the minimum of £4,168 with the amount scaled linearly in between. The premise is that for young students (aged 24 or below on the first day of the academic year) in households with income above £25,000, families will contribute on a sliding scale according to their income. In 2016/17, of those students taking out a loan, just under 40 per cent[10] of students received the maximum level of support and around 40 per cent received the minimum level of support.

The figures below show the maintenance support allowances at different household incomes, and how the level and form of maintenance support have changed over time.

Figure 7.2: Maintenance support available to new students entering the academic year 2019/20 (rates given are for new entrants living away from home and studying outside of London)

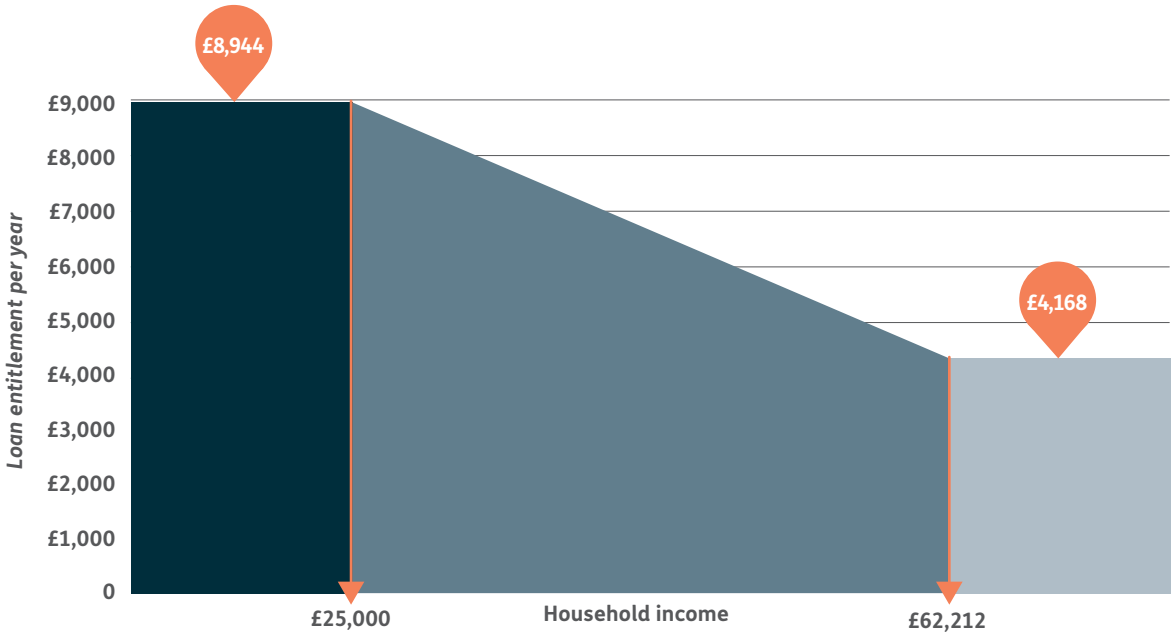
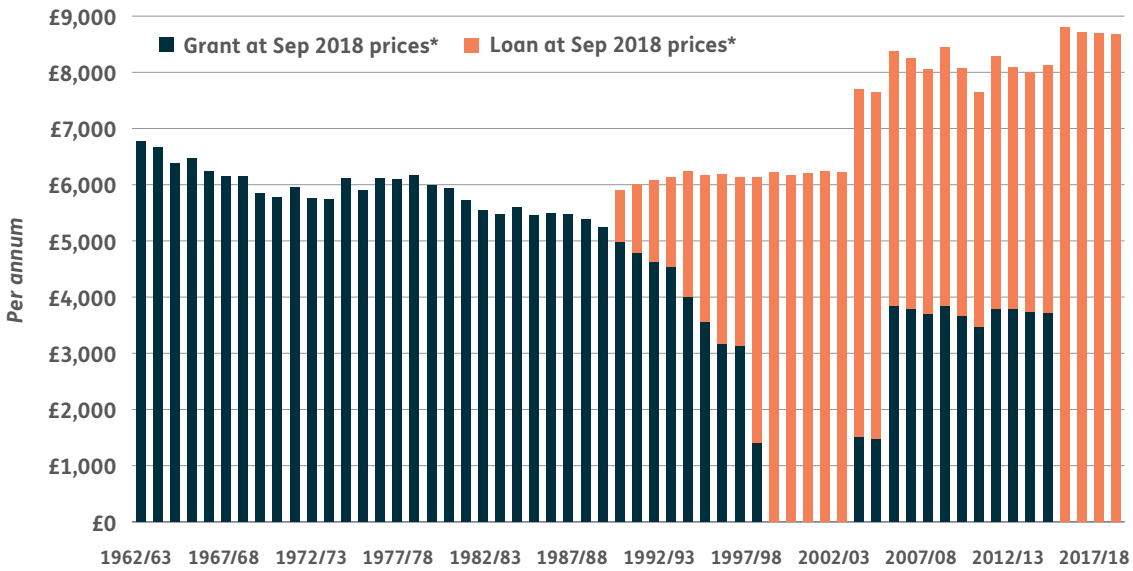


Figure 7.3: English maintenance support levels/types over time[11]



*Adjusted using start of academic year (September) RPI data to 2016/17, OBR projections thereafter.

Our findings

The current system works well for most groups but debt is still a deterrent for the disadvantaged

Despite the tripling of tuition fees in 2012, and the replacement of maintenance grants with loans from 2016, participation rates in HE for 18 to 21 year-olds has steadily increased since 2012, and participation rates for the most disadvantaged groups in POLAR 3 areas have increased the fastest. However, participation remains lower among the more disadvantaged and evidence suggests that those from lower and middle-income families are more debt-averse than those from high-income households and that the gap has grown in recent years.[12] As reported in chapter 3, the panel have concluded, with concern, that debt adversity appears to deter entry into HE for those from lower income households.

Disadvantaged students leave with higher levels of debt

Since the removal of maintenance grants, students from low-income households are likely to graduate with the greatest debt, because they are entitled to a higher level of loan. The difference in debt compared with their more privileged peers can be as much as £15,000 for someone living away from home and studying outside London undertaking a three-year degree. They potentially face considerably higher lifetime repayments purely as a result of their family background.

There are growing concerns about the student cost of living

A significant theme in the call for evidence was concern about the student cost of living; indeed several surveys[13] have found that this is often a greater cause of anxiety for students than the level of debt incurred from tuition fees. The Accommodation Costs Survey[14] calculates that in 2018/19 weighted average rents for student accommodation absorbed 73 per cent of the maximum funding available to students in the form of grants and loans, up from 58 per cent in 2011/12, reflecting the significant recent increase in accommodation costs described later in this chapter.

Median expenditure by full-time students living away from home and studying outside London is £11,679[15] in 2018/19 prices, significantly higher than the £8,700 maximum level of loan available in that year for such students. Not surprisingly, therefore, 52 per cent[16] of students earn some income from employment alongside their study in order to supplement their loan support.

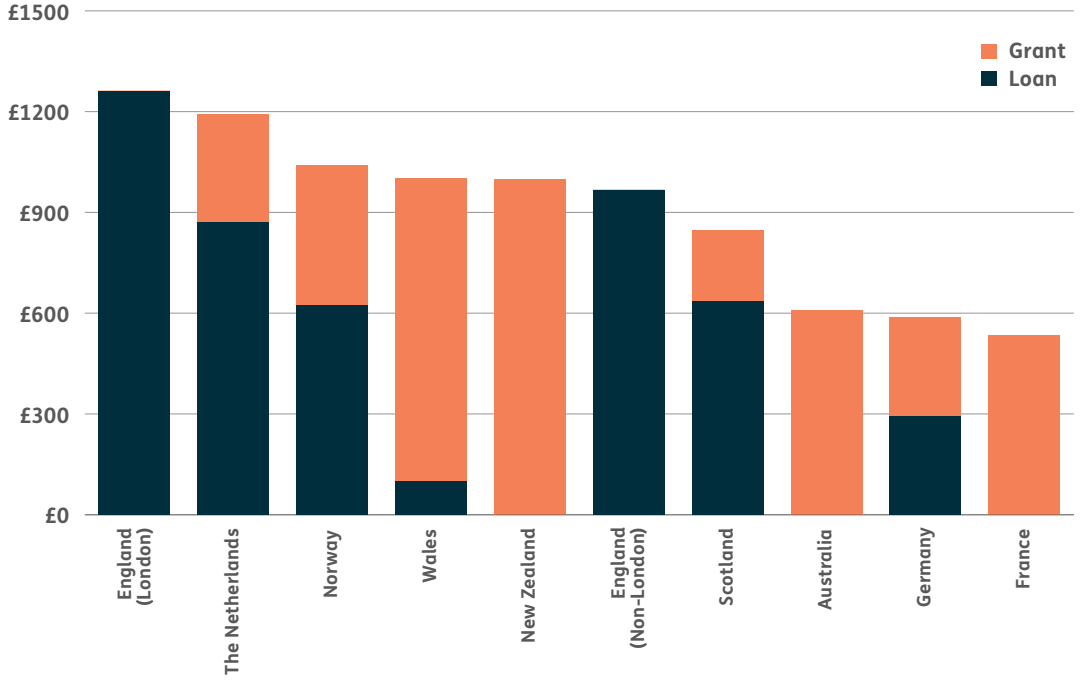
In considering the evidence on maintenance costs, we do not doubt that the cost of living is a problem for students but are mindful that the overall level of support provided is high by historical standards, and competitive by international standards as illustrated in Figure 7.4.

International approaches to maintenance support

A comparison of maintenance support between England and ten comparator countries identifies four distinctive features of the English system:

1. Most countries use a combination of loan and grant funding, with the majority of funding coming from loans. Only France and Australia have a predominantly grant-based system and England is alone in having a system of loans only.
2. The maximum cash support available in England for students' living costs is higher than that provided by central governments in the USA, Canada, France, Germany, Norway, Scotland, New Zealand and Australia, whilst only Wales and the Netherlands offer a comparable amount.[17] A lower level exists outside London, but even so, this is competitive with the maximum awarded in most other countries.
3. Most countries subject loans and grants to a means test with higher levels available for those with greater financial need or from more disadvantaged backgrounds.
4. Most countries make an implicit or explicit assumption that parents will contribute to the living costs of children while in study. Indeed, some countries have no minimum maintenance entitlement. For example, all maintenance is means-tested in Germany; students from the most affluent backgrounds receive no support from the German federal government.

Figure 7.4: International comparison of maximum maintenance support available from central government, per month of study[18]



Notes

With the exception of the England (non-London) figures, the figures in this chart represent the maximum maintenance available to students studying in that country; this is usually dependent on a student's means and in some cases region. These figures reflect only funding provided by central government and therefore do not include any funding offered by regional or local government. Figures have been converted into GBP based on currency rates as of July 2018.

Different countries provide funding on different time bases; these have been adjusted to a monthly basis assuming that an academic year consists of 9 months of study.

Maintenance funding in Norway is provided initially as a loan, with up to 40 per cent being converted into a grant upon graduation.

The USA and Canada do not separate out maintenance from tuition funding; consequently they are not included on this chart.

Wales offers a higher rate of funding for Welsh-domiciled students studying in London; this is not reflected in the chart as it shows maintenance available for students studying in their home country.

The assumption of a parental contribution raises access issues

Concerns were raised in the call for evidence about the impact on access made by the assumption of a parental contribution to students' living costs. In particular, the absence of any explicit information about the expected level of parental contribution appeared to result in many students receiving less support than they need; in some cases parents made no contribution at all even though the maintenance system assumes that they could afford to do so. Students from families with multiple children at or close to university age were particularly affected. Lower than assumed levels of parental support might also lead to some students deciding that they needed to live at home, restricting their choice of university.

Differences in maintenance eligibility are a factor in student choice

We have no doubt that the lower levels of maintenance support for some Level 4 and 5 study courses deter students from pursuing them. Many of these are higher technical routes which we note elsewhere in this report are economically and strategically important yet under used.

Analysis and recommendations

Maintenance support is a key enabler in the post-18 system. A fair maintenance system is essential to ensuring that all individuals with the desire to do so can be educated after the age of 18 to the benefit of society, the economy and a fast changing labour market.

Maintenance grant

Calls for the reinstatement of maintenance grants

The call for the reinstatement of maintenance grants was one of the dominant themes in the call for evidence and has been advocated by several external reports and think tanks:

House of Lords Economic Affairs Committee: "...the loans impose the greatest burden on students from the poorest households; the most disadvantaged students graduate with the largest debt...] 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."[19]

Education Select Committee Report: "Based on the overwhelming evidence we have heard during the inquiry, we recommend that the government return to the pre-2016 system and reinstate the means-tested system of loans and maintenance grants."[20]

Higher Education Policy Institute: "The abolition of maintenance grants in 1998 was an error that had to be reversed in 2004, when it was recognised that too little progress had been made in improving access to higher education among more disadvantaged parts of society. It was just as big an error when the abolition of grants was repeated in 2016."

Intergenerational Foundation: "This review states the need for the student finance system to be "progressive." To achieve this, it is imperative that maintenance grants are reinstated as a means of supporting students from less well-off backgrounds."

Although participation in HE has continued to grow among the most disadvantaged, an access gap remains when compared with the more affluent. The panel are persuaded that this gap partly arises from the fact that it is the disadvantaged who are most likely to be deterred by loans, and we note the strong concern expressed in the call for evidence about the highest levels of debt being incurred by disadvantaged students as a result of grants being abolished in 2016. We recognise that the income-contingent feature of loan repayments means that the scale of graduates' repayment of loans over their lifetime is determined by their earnings, not the size of the loan. Nevertheless, we believe that the size of loans has an appreciable impact on prospective students' perceptions of debt, particularly amongst the disadvantaged, and acts as a deterrent. More pertinently, a disadvantaged student who progresses to a high earning career will pay more for their education than a student from a more affluent background, purely as a consequence of the circumstances of their birth.

We therefore propose that students from low-income households should receive a substantial part of their maintenance support in the form of a grant in order to reduce their level of debt on graduation. We recommend a minimum grant

of £3,000 per year for those with the maximum entitlement. The precise amount of grant would be for government to determine in the context of public spending but the combined value of the grant and loan for such students should be set at a principled level, which we discuss further on. Combined with the reduction in the level of tuition fee recommended in chapter 3, this recommendation would see the maximum debt for a disadvantaged student on graduation from a 3 year degree decrease by £15,000, from approximately £60,000 to approximately £45,000.

We would expect the additional call on public funds from this proposed change to be fairly modest. The cost to the taxpayer of replacing loan funding with grant funding depends on the level of loan repayments that would have been made. As earnings tend to be lower for graduates with lower prior attainment and from disadvantaged backgrounds,[21] that level of foregone loan repayments from students from low-income households is likely to be low.

Parental contribution

The panel considered carefully the maintenance policy adopted in Wales following the Diamond Review, in which no parental contribution is expected for any student and a full loan at the highest level is available to all students, irrespective of their household income.[22] Although attractive in principle, we do not believe that the large state subsidy this would incur in the form of loan write-offs should be a priority for additional investment in tertiary education in England and we do not recommend such an approach.

> *"Currently, the MoneySavingExpert.com website explains how much parents are expected to contribute to their student children's living costs. But the government has refused to publish this information, which hinders the abilities of families to prepare for their children's higher education."*
>
> HEPI

Approximately 40 per cent of students in England who apply for a loan are entitled to the maximum maintenance support because their household income is below £25,000. A further 40 per cent either have parental income above the maximum threshold or do not apply for the higher levels for other reasons.[23]

The loan entitlement of students from the more affluent families will be approximately £4,800[24] below that of their more disadvantaged counterparts in the year 2019/20. This difference has increased from £4,350 since 2016/17.[25] Parents are implicitly expected to make up the rest but data show that only 15 per cent of full-time students received parental income at or above this level.[26]

This is consistent with concerns we heard that parents are often uncertain about the provision they will need to make to cover their children's living costs whilst at university and evidence that some families earning above £25,000 do not make the expected level of parental contributions. Not all parents are aware of the contributions expected of them and greater clarity in communicating this expectation is a matter we expect the Student Loan Company (SLC) to address. The expected parental contribution should be made explicit in all official descriptions of the maintenance support system.

Parental income is taken into account only for young students (age 24 and below). Older students or students who are married, have children, or have certain parental circumstances such as estrangement are assessed on their own – and where applicable, their partner's – income regardless of age. This means that such students should be able to access the highest available level of maintenance support. This approach should be retained but needs to be sensitively administered according to family circumstances. We note that most universities operate hardship funds to help students who need additional support through exceptional circumstances and we encourage universities to further develop and promote such support.

Recommendation 7.1

The government should restore maintenance grants for socio-economically disadvantaged students to at least £3,000 a year.

Recommendation 7.2

The expected parental contribution should be made explicit in all official descriptions of the student maintenance support system.

Maximum level of support

The panel believe that maintenance support should be set with reference to an established standard linked to minimum wage rates. We have concluded that the age 21 to 24 national minimum wage (NMW) provides an appropriate level for the majority of students – 80 per cent of undergraduate students[27] are under 25 in age – with the level set assuming 37.5 hours a week of study and 30 weeks a year. Higher levels of support should continue, as now, for courses which are longer in duration. This would produce a level of £8,663 for April 2019, only slightly lower than the 2019/20 maximum maintenance level after an expected above inflation increase in the NMW in April 2020. Our view is that this marginal reduction would be acceptable given the future benefits of fixing maintenance to a principled benchmark and the proposed reintroduction of grants.

Figure 7.5: NMW and current maximum maintenance entitlement for 2019/20 and 2020/21 (national rates)

	April 2019 (19/20 AY)	Projected 2020 position
Current maximum maintenance entitlement	£8,944	£9,212
Age 21 to 24 NMW for age 21 to 24 (37.5 hours per week, 30 weeks per year)	£8,663	£9,095

Notes: Assumes maintenance entitlement increases by 3 per cent[28] and assumes NMW increases in proportion with the national living wage, estimated to be £8.62 per hour by 2020.[29]

We noted that this recommended level of maximum maintenance support is slightly lower than the median amount spent by students outside London, detailed earlier in this chapter. As also noted above, student income and expenditure survey (SIES) data shows that over half of students are able to – and do – work alongside their study. We do not believe that students, who in practice are often studying for less than 37.5 hours, should receive a higher income than the minimum received by young people in full-time employment.

Recommendation 7.3

Maximum maintenance support should be set in line with the National Minimum Wage for age 21 to 24 on the basis of 37.5 hours per week and 30 weeks per year.

Detailed design: loan and grant thresholds

A system which expects parental support needs to set family income levels at which the maximum and minimum levels of support would be provided. Similarly, a system with a grant component needs to set income thresholds for grant support.

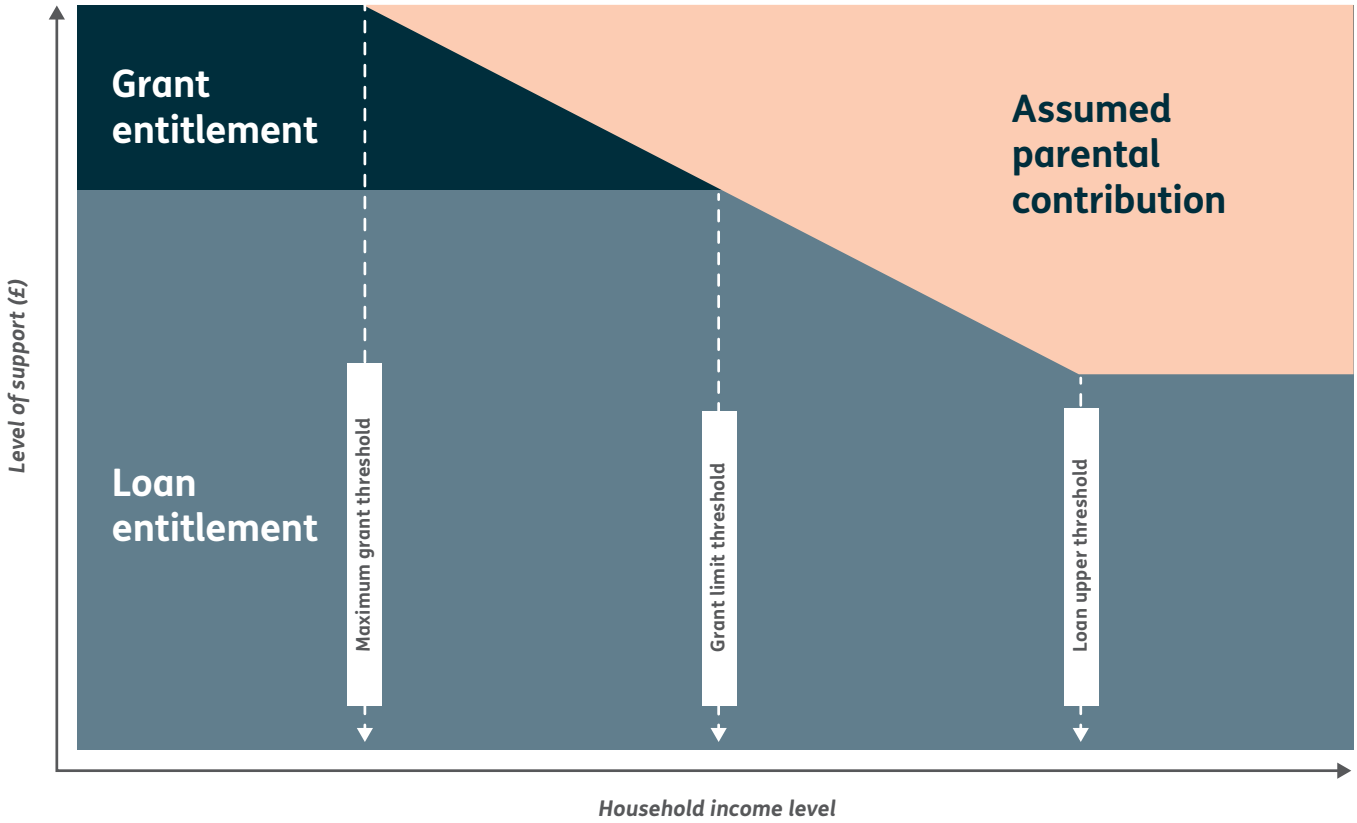
The natural starting point for receipt of the full level of maintenance grants is family income of £25,000, below which maximum support is currently available, with the amount of grant tapering downwards as family income rises up to £42,620 (in 2015/16 prices), the previous ceiling for maintenance grants. [30] However, the lower income threshold has been frozen at £25,000 since 2008/09 and so has fallen in real terms. The higher income threshold – above which minimum loan support is received – has remained at the current level since the changes in 2016/17. We therefore recommend increasing the grant and loan thresholds in line

with inflation to extend both grant and higher loan support up the family income spectrum.

We considered recommending that the minimum level of support should be increased significantly, given the evidence suggesting that the level of parental contribution is frequently below means tested assumptions and concerns about students' living costs. However, this would come with a significant cost to the taxpayer and our view is that the need to provide grant, and invest in other aspects of the post-18 system are greater priorities.

Our proposals are illustrated in the diagram below.

Figure 7.6: Illustrative post-18 maintenance package



Recommendation 7.4

In delivering a maintenance system comprising a mix of grant, loan and family contribution, the government should ensure that:

- The level of grant is set as high as possible to minimise or eliminate the amount of additional loan required by students from disadvantaged backgrounds.
- The income thresholds within the system should be increased in line with inflation each year.

Eligibility for maintenance at Levels 4 to 6

Although the current system of maintenance offers some financial support to all students following courses at Levels 4 to 6, the amount and structure of provision differs according to the type of qualification. We believe that this variation should cease and that all students at Levels 4 to 6 should be treated equally under a single system of maintenance.

The current system of maintenance distinguishes between study for 'prescribed' HE qualifications at Levels 4 and 5, such as Foundation Degrees, HNDs and HNCs and 'non-prescribed' qualifications at Levels 4 and 5 such as professional Certificates,

Diplomas and Awards including those awarded by City and Guilds.[31] In 2016/17, at least 20 per cent of Level 4/5 students took these non-prescribed courses.[32] The prescribed courses are eligible for the full HE maintenance package described earlier but students on non-prescribed courses are much less well supported. If they are taking out an Advanced Learner Loan (ALL) to fund their tuition, they have access to a bursary fund through the ALL facility delivered direct from their provider, which is limited to contributing to the costs of study such as books, course equipment, accommodation, travel and childcare, but does not extend to general living costs. FECs and other local providers allocate bursaries to individual students on a case-by-case basis according to national rules.[33]

The unsatisfactory result is that students at the same institution and in the same circumstances (e.g. both living at home) are eligible for widely differing levels of support purely on the basis of the type of qualification for which they are studying. This creates unnecessary confusion and complexity for students and providers alike, and if not addressed will continue to act as a brake on the expansion of provision at Levels 4 and 5.

We therefore propose that the full range of qualifications at Levels 4 to 6, should be eligible for maintenance on the new terms recommended earlier. Maintenance support should be reserved for those studying at a minimum level of intensity, currently 25 per cent intensity, or, as proposed in chapter 2, one 30 credit module, with the amount of support (both loan and grant) over this point being scaled to reflect part-time and modular study. In due course, once the new 'kitemarked' Level 4/5 qualifications have been fully rolled out as described in chapter 2, government should consider the status of and support for non-kitemarked qualifications.

Recommendation 7.5

The new post-18 maintenance support package should be provided for all students taking Level 4 to 6 qualifications. The government should take steps to ensure that qualifications which are supported through the maintenance package are of high quality and deliver returns for the individual, society, economy and taxpayer.

A system that flexes for different circumstances

The current system adjusts the levels of maintenance support available to students to reflect a number of circumstances other than their household income, in particular additional costs. We agree with this approach but make the following comments and suggestions for further enquiry.

- London weighting: living costs in London are higher than elsewhere because rents are higher but this is also a factor in some other towns and cities. This is a subject worthy of further enquiry.
- Students with children: we believe it is essential for students with children to be adequately supported. We have not examined closely whether the present arrangements adequately reflect the higher cost of living, as well as childcare, for families with children. This too is a subject worthy of further enquiry.
- Commuter students: leaving home to go to university is a deep-seated part of the English culture but approximately 18 per cent of full-time HE students with maintenance loans live at home.[34] These students currently receive a maintenance loan entitlement 20 per cent below the level for those who live away from home and is broadly equivalent to the spending differences between students who live at home and away.[35] We support the principle that the differential should be based on the different cost of living for those living at home but suggest a detailed study of the characteristics and in-study experience of commuter students and how to support them better.

- Age: the current system provides the standard loans for students up to the age of 60. We question whether this in the taxpayers' interest given that the level of repayments is likely to be minimal.

Accommodation

The panel have heard widespread and significant concerns about the cost of student accommodation. The 2018 Unipol Report[36] estimated that average rents increased by 6 per cent over the previous twelve months and have grown by a third since 2012/13, which amounts to an average yearly increase of 4.8 per cent on a compound basis, significantly in excess of inflation.

We recognise that the standard and nature of student accommodation has improved as shown in the accompanying box.

Increasing standard of student accommodation

The proportion of student accommodation that is ensuite has risen from 21 per cent in 2001/02 to 48 per cent in 2009/10[37] and further to 58 per cent in 2018.[38] Meanwhile, standard rooms with shared facilities have declined from 24 to 17 per cent of all student accommodation since 2012/13.[39] The proportion of studio provision has doubled from 4 per cent in 2012/13 to 9 per cent in 2018/19 and high-cost studios continue to be the fastest area of growth.

We also note that the private sector provision of student accommodation has increased significantly, from 39 per cent of rooms in 2012/13 to 50 per cent in 2018/19.[40] The concerns we heard about the cost of student accommodation extended to quality and to the lack of transparency about costs and profit. We believe that HEIs retain a responsibility for overall student welfare and delivering value for money and that this extends to university accommodation, whether or not they are the direct provider. We recommend that the government and the OfS should work with HEIs to:

- Ensure that students are given improved and more consistent data on the range and cost of available accommodation. This should include cost to student and cost to provider to highlight the level of surplus made and where this is directed.
- Improve transparency around rent models and profit levels for student accommodation.
- Devise appropriate benchmarks for the proportion of maintenance support spent by students on accommodation.

The public subsidy of student maintenance, much of which is spent on accommodation, gives the OfS a legitimate stake in monitoring the provision of student accommodation in terms of costs, rents, profitability and value for money. The government should also provide a clearer picture of private sector involvement in student accommodation by commissioning a comprehensive financial analysis of private developers and operators of purpose-built student accommodation to understand the profits that private business and investors are making from student rents.

Recommendation 7.6

The OfS should examine the cost of student accommodation more closely and work with students and providers to improve the quality and consistency of data about costs, rents, profits and quality.

Maintenance at Level 3 and below

Our proposed maintenance system for students at Levels 4 to 6 is a centrally-administered national scheme for the whole of England. We believe that such an approach would not be appropriate for learners at Level 3 and below and prefer a method of providing financial support that better reflects the characteristics of this group.

Around 70 per cent of FE students travel less than 10km from their home to their place of study; 50 per cent travel under 6km.[41] They are therefore less likely to need support for living expenses. Moreover, courses at Level 3 and below vary widely in terms of study intensity and length, some involving over 1,000 guided learning hours, others only 150 guided learning hours.[42] Many other courses at Levels 1 and 2, consist of just a few hours of study each week. Most adult learners continue working full or part-time, fitting in other commitments around study: 88 per cent of 19-24 year old FE learners study part-time, and this increases to 97 per cent for those aged 25 or older.[43]

Currently individual FECs administer their own bursary schemes for learners at Levels 1 to 3, funded from their adult education budget (AEB) and their ALL bursary fund,[44] in line with broad guidelines from the Department for Education (DfE). The two schemes' objective is to contribute to key costs such as books, travel and childcare, but not to support living costs. This approach, involving providers allocating funds directly to their students, gives providers the freedom to determine priorities (within a national framework) and to assess diverse needs on a case by case basis. We believe that this remains the best way to accommodate the variations in need among learners at Levels 1 to 3. However, FECs and other providers need to be clearer in their prospectuses and marketing material about available support so that learners can better plan their finances.

Our recommendation in chapter 2 to extend the free first Level 2 and 3 entitlements to those aged 24 and over is intended to increase the number of learners. We therefore recommend that the government increase the bursary funding in line with the resulting growth in numbers.

Recommendation 7.7

Funding available for bursaries should increase to accommodate the likely growth in Level 2 and Level 3 adult learners.

Recommendation 7.8

The support on offer to Level 2 and Level 3 learners should be made clearer by both the government and further education colleges so as to ensure that prospective learners are aware of the support available to them.

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8 Note that figures are shown for students living away from home and outside of London because they make up the largest proportion of full-time undergraduate students. The maximum rate is also provided for students eligible for certain benefits such as lone parents.

9 For a student living away from home outside London. This threshold varies for different circumstances. Source: DfE (2019) Loan, Grant and Tuition Fee Rates for Academic Year 2019/20: Memorandum: Support Available Under Higher Education Student Finance Regulations for 2019/20, p15, table A15. https://www.practitioners.slc.co.uk/media/1679/student-finance-memorandum-for-the-2019-20-academic-yearpdf.pdf

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[23] Student Income and Expenditure Analysis: Analysis of income and expenditure as evidence for Post-18 Review of Education and Funding.

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[25] BIS (2016) Loan, Grant and Tuition Fee Rates for Academic Year 2016/17: Memorandum: Support Available under the Education (Student Support) Regulations for 2016/17, p9, table A6. https://www.practitioners.slc.co.uk/media/1149/201617-financial-memorandum.pdf

[26] 15% of full-time students received income above £4,350 according to SIES: these figures are based on 16/17 costs using RPIX. DfE, (2019), Student Income and Expenditure Analysis: Analysis of income and expenditure as evidence for Post-18 Review of Education and Funding.

[27] HE student enrolments by personal characteristics 2013/14 to 2017/18. https://www.hesa.ac.uk/data-and-analysis/sb252/figure-4

[28] Maximum grants and loans increased by forecast RPIX, 3.2 per cent in 2018/19 and 2.8 per cent in 2019/20.

[29] Low Pay Commission (2018) Up to 5 million workers benefited from the National Living Wage in 2018. https://www.gov.uk/government/news/up-to-5-million-workers-benefited-from-the-national-living-wage-in-2018

[30] DfE (2015) Loan, Grant and Tuition Charge Rates for Academic Year 2015/16: Memorandum: Support Available under the Education (Student Support) Regulations for 2015/16, p7, table A6. https://www.practitioners.slc.co.uk/media/1130/201516-financial-memorandum.pdf

[31] Prescribed HE refers in the main to degrees, foundation degrees, higher nationals and postgraduate provision awarded by an institution with degree awarding powers. Non-prescribed HE refers in the main to regulated qualifications at Level 4, which are predominantly technical and vocational and awarded by Ofqual-regulated awarding organisations.

[32] DfE (2019) Review of the Level 4-5 qualification and provider market: Research report, p79. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782160/L4-5_market_study.pdf.

[33] Except for childcare expenses, which go from the FEC/HEI directly to the childcare provider.

[34] Based on English domiciled students only. DfE (2019), Student Income and Expenditure Analysis: Analysis of income and expenditure as evidence for Post-18 Review of Education and Funding.

[35] Ibid.

[36] NUS and Unipol (2018) Accommodation Costs Survey 2018, p8? https://www.unipol.org.uk/acs2018.aspx

[37] Unipol and NUS (2012) Accommodation Costs Survey 2012/13, p35. https://www.unipol.org.uk/getmedia/4bdec877-428c-44c2-9701-543e7121ecf4/Accommodation-Costs-Survey-Report-2012-FINAL.pdf.aspx

[38] NUS and Unipol (2018) Accommodation Costs Survey 2018, p9. https://www.unipol.org.uk/acs2018.aspx

[39] Ibid.

[40] Ibid.

[41] BIS (2016) Understanding the Further Education Market in England, p7. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/544310/bis-16-360-fe-market-england.pdf

[42] Ofqual (2019) The Register https://register.ofqual.gov.uk/Download; UCAS (2019) Adviser guide: Applied General and Tech Level qualifications. https://www.ucas.com/file/142366/download?token=R2fL4jzO

[43] Hupkau, C. and Ventura, G. (2017); Further Education in England: Learners and Institutions, p12, table 3. http://cver.lse.ac.uk/textonly/cver/pubs/cverbrf001.pdf

[44] There are two schemes with identical aims, objectives and parameters. The AEB learner support fund supports learners up to and including Level 3 learners who access funding through the AEB (i.e. they are fully funded to undertake the course); the ALL bursary fund supports learners who have taken out an ALL to fund their learning, at Levels 3 to 6.

Chapter eight:

Impact of the proposals

Impact

This chapter provides a summary of the impact of our proposals on different groups within the post-18 sector. It also sets out a high-level summary of the costs of the package, alongside key implementation considerations.

Students

Group	Impact
Students	• No student to pay more for post-18 education than the reasonable cost of provision on any subject • Consistent maintenance support for all approved higher technical and degree courses • Reintroduction of maintenance grants for the most disadvantaged students on higher technical and degree courses • Reduced debt from lower tuition fees at degree level and lower in-study interest rates for all students who borrow • Reformed higher technical qualifications as alternative to degrees • OfS to bear down on poor value courses • Lifelong learning loan allowance for Levels 4 to 6 to encourage part time study, retraining, modular and 'second chance' learning • Clear, accessible information, advice and guidance on the full range of post 18 education options • Renamed student contribution system with clearer explanations of how much students would pay and when • Funding for adults 24 and over for first full Levels 2 and 3 qualifications • Better funded, high quality FE college network, offering high value provision, well distributed across the country
Borrowers	• An expectation of a higher proportion of loans being repaid through a lower repayment threshold and a longer repayment period • The highest earners - on whose contributions the system depends - would continue to pay the most but less than now due to lower fees, reduced in-study interest and a lifetime cap • More middle-earning graduates would repay their loans in full, with slightly higher contributions each year • Some middle earners would pay less over their lifetimes, for example those completing 1 year higher technical courses • Low earning graduates would remain protected by repayment threshold: nothing to pay if they did not earn above that threshold
Current students and graduates with existing student loans	• Current fees and loan terms remain unchanged • Higher-earning graduates could repay less than current expectations by applying the 1.2 times cap on repayments to existing Plan 2 loans
Disadvantaged students	• Maintenance grant of at least £3,000 for all approved higher technical and degree courses • Disadvantaged students would see the greatest reduction in debt on graduation • Better support while at university from increased Student Premium • More effective Access and Participation Plans through OfS focus on outcomes

Group	Impact
Older and / or part time students	• Lifelong learning loan allowance for study and reskilling later in life • Modular funding for learning in smaller chunks, allowing study to fit around work and other commitments and for qualifications to be built up over time and at learner's own pace • Interim qualifications within degrees to allow students to pause study or transfer courses or institutions more easily • Full funding for adults 24 and over for first full Level 2 and Level 3 qualifications
Apprentices	• Higher quality learning programmes through better regulation • Alignment with local skill gaps and employer needs • Better information on apprenticeship wage returns • Funding for degree apprenticeships prioritised on those who have not already undertaken a publicly-supported degree • Protection for all apprentices in the event of provider closure or insolvency

Taxpayers, parents, employers

Taxpayer	• Increased control over and better value from public spending on tertiary education • Public investment aligned with Industrial Strategy • Socio-economic benefits from: – Fairer deal for those not attending university – National network of properly resourced FE colleges – More and better directed resources for disadvantaged students
Parents	• Greater clarity on expected contribution to maintenance costs • Lower contribution to living costs expected of middle-income households through uprating the income thresholds for maintenance support • Improved information, advice and guidance enabling better support for prospective students' choices
Employers	• Graduate workforce better equipped to meet the economy's needs • More young people with higher technical skills • More opportunities to upskill and reskill older workers through the extension of the Level 2 and 3 entitlements and lifelong learning • Rejuvenated FE network better able to collaborate with employers and regional bodies • Streamlined and flexible apprenticeship system to support SMEs in key sectors

Providers

HE providers	• Existing freeze in overall funding extended to 2022-3 • All institutions expected to use resources more efficiently • Change in mix between tuition fee and teaching grant by cutting fees from £9,250 to £7,500 and topping up with better-directed grant • Funding more effectively targeted on cost of provision and characteristics of students: – Institutions providing predominantly high value and/or high cost provision likely to receive a boost in funding – Institutions providing predominantly low value and/or lower cost provision likely to see a reduction – Protection for high quality specialist institutions – Some providers might choose or need to diversify provision to adjust their market position. – Renewed focus and more resources for disadvantaged students while studying • Academic autonomy remains protected • Funding for research is outside the scope of this review. It is for government, business and other interested bodies to fund this adequately and directly
FE Providers	• Restore prestige by clarifying mission, protecting title and refunding the sector • Increased student numbers and funding through reformed Level 4/5 qualifications, full funding for first Level 2 and 3 qualification and increase in core funding rate for 18 year-olds • Clearer regulatory approach and simplification of funding rules enabling more response to local labour market needs • Significant injection of capital funding • Additional revenue funding and workforce reform to allow colleges to better train, recruit and retain staff • Rationalised college network to address under-supplied rural areas, wasteful duplication in others and enable the strongest colleges to widen their influence
Apprenticeship providers	• Clearer regulatory approach and simplification of contracting process • Simpler and more transparent standards approval process

Devolved administrations

Devolved administrations	The English system retains enough similarities, and differences, with systems in Northern Ireland, Scotland and Wales that we do not anticipate any major change in cross-border student behaviour as a result of our proposals

Costings of the proposals

We believe that the proposed package of reforms would result in a system that delivered better education for students, a fairer sharing of costs, and supported a stronger economy and more high skills workforce. The table below sets out our estimates of the likely annual costs. The subsequent box explains the uncertainty around these estimates.

Recommendations[1]	Deficit impacts		Debt impacts
	One-off capital investment (spread across multiple years)	**Estimated ongoing annual costs** (based on 'steady state' in 2024-25)	**Estimated ongoing annual costs** (based on 'steady state' in 2024-25)
Student finance and funding Net savings from changes to repayment terms, reduction in tuition fees, freeze in per-student resources in HE, and re-introduction of maintenance grants[2] and increase in teaching grant		-£0.5bn	-£0.5bn
Level 4 and 5 Additional investment in tuition and maintenance		£0.3bn – £0.6bn	£0.6bn – £1.2bn
Foundation years Savings from removal of funding		-£0.2bn	-£0.8bn
Levels 2 and 3 Cost of extending entitlements		£0.5bn	£0.5bn
FE Capital Cost of additional investment spread across a number of years.	£1bn		
Other recommendations Including FE Teaching Grant, Careers Strategy, increases in Level 2/3 bursary and in 18 year-old base rate		£0.2bn	£0.2bn
Net increase in spend on post 18 education in England	**England Total**		
	£1bn	£0.3bn – £0.6bn*	-£0.1bn – £0.5bn
Funding for devolved administrations under the Barnett formula[3] is estimated to add an additional cost of approximately £0.9bn.	**Total UK Costs**		
	£1.2bn	£1.2bn – £1.5bn	£0.7bn – £1.4bn

*Note: figures may not sum due to rounding. Figures are rounded to the nearest £0.1bn.

The estimates above are underpinned by established models[4] and methodologies used in the DfE's main estimates of the student finance system.

In December, the Office for National Statistics (ONS) announced their decision to reclassify the way that student loans are treated in the national accounts so that some of the spending on student loans will be included in the deficit when the money is first lent to students, instead of at maturity after 30 years. The work to develop the methodology for this treatment is ongoing, and will not be implemented in the national accounts until September 2019. This means that there is significant uncertainty around the cost of the panel's proposed package of reforms in the meantime, and these numbers could move significantly once the ONS decision is fully incorporated. In addition, further work is required to understand fully the incentive effects on students and institutions, as well as the implementation and ongoing administrative costs of the reforms before we can reach a complete understanding of the costs of the package.

Implementation of the proposals

Implementation must be planned carefully with adequate consultation and transition time. If introduced individually and out of sequence many of the reforms could lead to suboptimal results. For instance, the changes to the HE fee, repayment terms and maintenance support would need to be made simultaneously to avoid students in the transition year getting a better or worse deal than those on either side. These changes should be introduced for successive new cohorts only, in order to give providers adequate time to respond.

We are aware that many students who would be eligible to go to university from 2020 might be concerned about whether or not to delay their plans. However, these are recommendations only; the government response is unknown. If implemented, the impact of our recommendations on the level of eventual repayments for any student would depend on their future earnings. As shown by the graphs in chapter 6, many students would pay marginally more under our proposals than under the current system, and thus might theoretically be advantaged by attending university before any new system came into effect. However, the differences are small, future earnings trajectories are unknown and we believe that students should set these considerations aside and make their decision in the light of trusted advice and their own personal circumstances and interests.

List of recommendations

CHAPTER 2: SKILLS	
2.1	The government should introduce a single lifelong learning loan allowance for tuition loans at Levels 4, 5 and 6, available for adults aged 18 or over, without a publicly funded degree. This should be set, as it is now, as a financial amount equivalent to four years' full-time undergraduate degree funding.
2.2	Learners should be able to access student finance for tuition fee and maintenance support for modules of credit-based Level 4, 5 and 6 qualifications.
2.3	ELQ rules should be scrapped for those taking out loans for Levels 4, 5 and 6.
2.4	Institutions should award at least one interim qualification to *all* students who are following a Level 6 course successfully.
2.5	Streamline the number and improve the status of Level 4/5 qualifications.
2.6	The OfS should become the national regulator of all non-apprenticeship provision at Levels 4 and above.
2.7	Government should provide additional support and capital funding to specific FE colleges in order to ensure a national network of high quality technical provision is available. Government should work with the OfS to determine how best to allocate this using, for example, quality indicators and analysis of geographic coverage.
2.8	From 2021-22 the fee cap for Level 4 and 5 qualifications currently prescribed by the OfS should be £7,500 – the same as that proposed for Level 6 qualifications and in line with current arrangements for prescribed HE qualifications. Longer term, only kitemarked Level 4 and 5 qualifications that meet the new employer-led national standards should be able to charge fees up to the Level 6 cap and be eligible for teaching grant. From that point, any other Level 4 and 5 courses should have a lower fee cap.
2.9	The current age cap should be removed so that a first 'full' Level 3 is available free to all learners whether they are in work or not.
2.10	Full funding for the first 'full' Level 2 qualification, for those who are 24 and over and who are employed should be restored.
2.11	The careers strategy should be rolled out nationally so that every secondary school is able to be part of a careers hub, that training is available to all careers leaders and that more young people have access to meaningful careers activities and encounters with employers.
CHAPTER 3: HIGHER EDUCATION	
3.1	The average per-student resource should be frozen for three further years from 2020/21 until 2022/23. On current evidence, inflation based increases to the average per-student unit of resource should resume in 2023/24.
3.2	The cap on the fee chargeable to HE students should be reduced to £7,500 per year. We consider that this could be introduced by 2021/22.
3.3	Government should replace in full the lost fee income by increasing the teaching grant, leaving the average unit of funding unchanged at sector level in cash terms.
3.4	The fee cap should be frozen until 2022/23, then increased in line with inflation from 2023/24.
3.5	Government should adjust the teaching grant attached to each subject to reflect more accurately the subject's reasonable costs and its social and economic value to students and taxpayers. Support for high-quality specialist institutions that could be adversely affected should be reviewed and if necessary increased.

3.6	Government should take further steps to ensure disadvantaged students have sufficient support to access, participate and succeed in higher education. It should do this by: • Increasing the amount of teaching grant funding that follows disadvantaged students, so that funding flows to those institutions educating the students that are most likely to need additional support. • Changing the measure of disadvantage used in the Student Premium to capture individual-level socio-economic disadvantage, so that funding closely follows the students who need support. • Requiring providers to be accountable for their use of Student Premium grant, alongside access and participation plans for the spend of tuition fee income, to enable joined up scrutiny.
3.7	Unless the sector has moved to address the problem of recruitment to courses which have poor retention, poor graduate employability and poor long term earnings benefits by 2022/23, the government should intervene. This intervention should take the form of a contextualised minimum entry threshold, a selective numbers cap or a combination of both.
3.8	We recommend withdrawing financial support for foundation years attached to degree courses after an appropriate notice period. Exemptions for specific courses such as medicine may be granted by the OfS.
CHAPTER 4: FURTHER EDUCATION	
4.1	The unit funding rate for economically valuable adult education courses should be increased.
4.2	The reduction in the core funding rate for 18 year-olds should be reversed.
4.3	ESFA funding rules should be simplified for FE colleges, allowing colleges to respond more flexibly and immediately to the particular needs of their local labour market.
4.4	Government should commit to providing an indicative AEB that enables individual FE colleges to plan on the basis of income over a three-year period. Government should also explore introducing additional flexibility to transfer a proportion of AEB allocations between years on the same basis.
4.5	4.5.1 Government should provide FE colleges with a dedicated capital investment of at least £1 billion over the next Spending Review period. This should be in addition to funding for T levels and should be allocated primarily on a strategic national basis in-line with Industrial Strategy priorities. 4.5.2 Government should use the additional capital funding primarily to augment existing FE colleges to create a strong national network of high quality provision of technical and professional education, including growing capacity for higher technical provision in specific FE colleges. 4.5.3 Government should also consider redirecting the HE capital grant to further education.
4.6	4.6.1 The structure of the FE college network, particularly in large cities, should be further modified to minimise duplication in reasonable travel to learn areas. 4.6.2 In rural and semi-rural areas, small FE colleges should be strongly encouraged to form or join groups in order to ensure sustainable quality provision in the long term.
4.7	Government should develop procedures to ensure that – as part of a collaborative national network of FE colleges – there is an efficient distribution of Level 3, 4 and 5 provision within reasonable travel-to-learn areas, to enable strategic investment and avoid counterproductive competition between providers.
4.8	Investment in the FE workforce should be a priority, allowing improvements in recruitment and retention, drawing in more expertise from industry, and strengthening professional development.
4.9	The panel recommends that government improve data collection, collation, analysis and publication across the whole further education sector (including independent training providers).
4.10	The OfS and the ESFA should establish a joint working party co-chaired by the OfS and ESFA chairs to align the requirements they place on providers and improve the interactions and exchange of information between these bodies. The working party should report to the Secretary of State for Education by March 2020.
4.11	FE colleges should be more clearly distinguished from other types of training provider in the FE sector with a protected title similar to that conferred on universities.

CHAPTER 5: APPRENTICESHIPS	
5.1	The government should monitor closely the extent to which apprenticeship take up reflects the priorities of the Industrial Strategy, both in content – including the need for specific skills at Levels 3 through 5 – and in geographic spread. If funding is inadequate for demand, apprenticeships should be prioritised in line with Industrial Strategy requirements.
5.2	The government should use data on apprenticeships wage returns to provide accessible system wide information for learners with a potential interest in apprenticeships.
5.3	Funding for Level 6 and above apprenticeships should normally be available only for apprentices who have not previously undertaken a publicly-supported degree.
5.4	Ofsted become the lead responsible body for the inspection of the quality of apprenticeships at all levels.
5.5	No provider without an acceptable Ofsted rating should receive a contract to deliver training in their own right (although a provider who has not yet been inspected could sub-contract from a high-quality provider pending their own inspection).
5.6	The IfATE and the DfE (through the ESFA) should undertake a programme of work to better understand the barriers that SMEs face in engaging with the apprenticeship system and put in place mechanisms to address these, including raising awareness of the programme and making the system easier to navigate.
5.7	The IfATE improve transparency when processing standards that have been submitted for approval. Trailblazer groups and providers should have a clear indication of progress, available on-line, so they can start to plan, recruit and invest within workable timelines.
5.8	All approved providers of government-funded training, including apprenticeship training, must make clear provision for the protection of learners in the case of closure or insolvency.
CHAPTER 6: STUDENT CONTRIBUTIONS	
6.1	Continue the principle of loans to cover the cost of fees combined with income-contingent contributions up to a maximum.
6.2	Set the contribution threshold at the level of median non-graduate earnings so that those who are experiencing a financial benefit from HE start contributing towards the cost of their studies. This should apply to new students entering HE from 2021/22. Adjust the lower interest threshold to match, with the higher interest threshold moving by the same amount. This should apply to new students entering the system from 2021/22.
6.3	Extend the repayment period to 40 years after study has ended so that those who have borrowed continue to contribute while they are experiencing a financial benefit. This should apply to new students entering the system from 2021/22.
6.4	Remove real in-study interest, so that loan balances track inflation during study. This should apply for new students entering the system from 2021/22.
6.5	Retain the post-study variable interest rate mechanism from inflation to inflation plus 3 per cent.
6.6	Introduce a new protection for borrowers to cap lifetime repayments at 1.2 times the initial loan amount in real terms. This cap should be introduced for all current Plan 2 borrowers, as well for all future borrowers.
6.7	Introduce new finance terms under the banner of a new 'student contribution system'. Define and promote the system with new language to make clearer the nature of the system, reducing focus on 'debt' levels and interest and emphasising contribution rates.

CHAPTER 7: MAINTENANCE	
7.1	The government should restore maintenance grants for socio-economically disadvantaged students to at least £3,000 a year.
7.2	The expected parental contribution should be made explicit in all official descriptions of the student maintenance support system.
7.3	Maximum maintenance support should be set in line with the National Minimum Wage for age 21 to 24 on the basis of 37.5 hours per week and 30 weeks per year.
7.4	In delivering a maintenance system comprising a mix of grant, loan and family contribution, the government should ensure that: • The level of grant is set as high as possible to minimise or eliminate the amount of additional loan required by students from disadvantaged backgrounds. • The income thresholds within the system should be increased in line with inflation each year.
7.5	The new post-18 maintenance support package should be provided for all students taking Level 4 to 6 qualifications. The government should take steps to ensure that qualifications which are supported through the maintenance package are of high quality and deliver returns for the individual, society, economy and taxpayer.
7.6	The OfS should examine the cost of student accommodation more closely and work with students and providers to improve the quality and consistency of data about costs, rents, profits and quality.
7.7	Funding available for bursaries should increase to accommodate the likely growth in Level 2 and Level 3 adult learners.
7.8	The support on offer to Level 2 and Level 3 learners should be made clearer by both the government and further education colleges so as to ensure that prospective learners are aware of the support available to them.

References

1 It is assumed that all policies embed in AY 2021/22, for new students.

2 This assumes a £3,000 maximum maintenance grant. The student finance changes all interact and as such need to be costed as a package as the cost of changing any one item depends on the parameters of the others

3 These are initial estimates. The additional amounts given to devolved administrations would ultimately be determined by the Barnett formula in the usual way

4 DfE (2018) Student Loan Forecasts, England: 2017 to 2018. Accessed on 26/02/2019 via: https://www.gov.uk/government/statistics/student-loan-forecasts-england-2017-to-2018

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