



ASSOCIATION  
OF COLLEGES

# The Post 18 education and funding review

Written evidence submitted by Association  
of Colleges

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## Background

1. The Association of Colleges (AoC) represents nearly 95% of the 279 colleges in England incorporated under the Further and Higher Education Act 1992.
2. Colleges are drivers of social mobility, economic growth and community development. They provide high-quality technical and professional education, particularly at advanced level and cover a broad range of disciplines ranging from science, engineering and IT to construction, hospitality and the creative arts.
3. Colleges educate and train 3 million young people and adults, including 300,000 apprentices. In doing this, they support people into careers as well as strengthen the economy.
4. The review has asked 16 questions and asked for responses of no more than 4,000 words. AoC's draft response to the questions (which are written in blue) are as follows.

**Q1. This review will look at how Government can ensure that the post-18 education system is joined up and supported by a funding system that works for students and taxpayers. The panel would like to understand your priorities. What, if any, are your principal concerns with the current post-18 education and funding system?**

- A1. The current system works much better for well qualified 18 to 30-year-olds than for everyone else. There are several aspects to this market failure:
- **the financial squeeze in education** - public spending on education as a proportion of GDP is due to fall below 4% of GDP by 2021-22<sup>1</sup> - at a time when the core school population is rising, when the education system is struggling to recruit and retain good teachers and when our economy will need people with better skills.
  - **the cost of higher education** - the use of student loans to finance higher education and the cultural bias towards a residential full-time degree model leaves England with an expensive system, with graduates and government picking up the long-term costs. Student loan debt is not counted within the Treasury's fiscal target but is nevertheless due to double from 4.9% of GDP now to over 10% of GDP by 2030<sup>2</sup>.

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<sup>1</sup> Office of Budget Responsibility "Fiscal Sustainability Report 2017"

<sup>2</sup> OBR FSR2017

- **alternative higher education routes** – efforts to develop alternative higher education routes at sub-degree levels (Level 4 or 5) are difficult in a system where universities have stronger brands and control validation.
- **access to higher education** - despite two decades of outreach and widening participation strategies, there are large social class and other gaps in access to different types of higher education. The underfunding of 16 to 18 education and the lack of capacity in the large number of small school sixth forms will undermine efforts to tackle these issues.
- **a reduced part-time higher education offer** – the reduction in the number of part-time higher education (HE) students since 2008 means adults who have taken up opportunities as full-time students have fewer chances to do so when in full-time work. College HE partially fills this gap, but is under-developed because of a lack of investment and support for colleges coupled with a lack of financial incentives for adults to improve their skills.
- **unbalanced choices at age 18** - the Government provides a 45% loan subsidy<sup>3</sup> to those aged 18 and over who take out a higher education student loan, while cutting the funding rate for a full-time Level 3 course by 17.5% to £3,300<sup>4</sup>.
- **Issues with the recent reform of apprenticeships** - the devolution of spending control to 20,000 levy paying employers is resulting in short-term decisions on apprenticeships. New degree apprenticeships are emerging, but many of the new apprentices taking higher level courses are mid-career managers. The chaotic nature of the new market is harmful to the sustainability of specialist training activity in colleges.
- **adult education and training** – younger adults need to prepare for 50 year working lives, but public spending is front loaded towards under 25 year olds and community-based adult education provision has largely disappeared with few alternatives in their place.

## Part 1: Choice and competition across a joined-up post-18 education and training sector

**Q2. How do people make choices about what to study after 18? What information do they use and how do they choose one route over another: for instance, between academic, technical and vocational routes?**

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<sup>3</sup> Estimate of the RAB charge in IFS Higher education reform note BN217 2018

<sup>4</sup> ESFA Funding guidance for young people, rates and formula Page 11

A2. There are well developed systems and routes for young people wishing to take an academic or technical course in higher education. Students have been applying via UCAS and its predecessor systems for more than fifty years which means it is widely understood and becomes the default option. The information is simple because the vast majority of young people will be applying for a full-time bachelors degree, allowing for easy comparisons between institutions. Most decisions are made based on expected grades with the aim of accessing the highest tariff score university.

Young people wishing to take a different route, for example a technical course at Level 3, 4 or 5 have a more confusing set of options. It is harder to find information. Universities are marketing traditional HE options more heavily, making more use of unconditional offers and are developing Year Zero courses. The limited amount of independent careers advice means that too many individuals will have incomplete and out of date information when it comes to taking decisions.

**Q3: How do people make choices later in life about what further study to undertake?**

A3. People wishing to take a HE course later in life can apply via UCAS or direct to the institution in a similar way to their younger counterparts, but are likely to have less help in the process. Most mature students will study close to home and therefore need a local offer which is flexible and can fit in with care, work and life commitments. Meanwhile, the HE system has shifted increasingly towards the young with those over the age of 30 accounting for only 5% of full-time entrants to HE<sup>5</sup>. Part-time HE numbers have fallen considerably and there has been a 1 million (40%) fall in the number of adult learners outside HE or apprenticeships in the ten years from 2006 to 2016<sup>6</sup>. Government funding for adult education has halved in this period.

**Q4: In recent years we have seen continued growth in three-year degrees for 18 year olds. Does the system offer a comprehensive range of high quality alternative routes for young people who wish to pursue a different path at this age? How can Government encourage provision across a wider range of high quality pathways to advanced academic, technical and vocational qualifications?**

A4: The English HE system offers a wide range of choice of places to study for the young people who participate in the system. Around 45% of young people enter HE between the age of 18 and 30. If they meet the entry criteria and are prepared to take on student fee and maintenance loans, they are free to study at any one of 130 universities and more than 300 other colleges and providers. However, choice of the type of study has become more limited because universities have over sold the benefits of full-time honours degrees at the

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<sup>5</sup> HEPI "Demand for higher education up to 2030"

<sup>6</sup> AoC note on adult learning numbers, May 2018 on [www.aoc.co.uk](http://www.aoc.co.uk)

expense of other provision. More courses take three years and lead to full-time degrees.

Choices for the 55% of 18-year-olds who will not enter HE by the age of 30 are much more limited still. There is no maintenance support, limited support for travel and choice is mainly dictated by the geography and availability of local courses. The student lifestyle which is increasingly promoted as the norm in university marketing is a turn off to some students with different religious or social norms and may put off mature applicants who want a faster or flexible and slower route to a particular occupation.

To encourage provision across a wider range of pathways, Government needs to balance the system away from full-time honours level HE by developing a stronger higher technical route. This may require:

- **Development and validation of courses** – university control of validation creates considerable risks and is stunting development of higher technical courses. There have been attempts in the past to tackle this which provide lessons for what might or might not work in future.
- **Investment to develop the new route and in new areas** - Funding changes are needed to support course development, to secure the employment of the right teaching staff and to provide incentives to institutions. Options include new public spending, redirecting the existing HE teaching grant or a time-limited additional higher technical levy to provide development funding. DfE and OfS need to anticipate rising numbers of young people in the 2020s. Preparations for this should include investment in colleges located in areas designated as cold spots to ensure equal access for young people and adults who do not want to take on the debt of living away for a full degree.
- **Financial support arrangements need to change** - changes to financial support arrangements should provide a minimum income during study so that costs of living, travel, childcare and loss of earnings do not become an unnecessary obstacle.
- **Changes to how employers select recruits** - Employer behavior needs to change if we are to avoid an expensive graduate arms race. There is a chicken-and-egg problem here because employers are reluctant to make decisions until they have confidence in new programmes but without their support, the alternative route will be stunted. There is the large, more stable recruiters here, for example the large scale public services like health, education and defence or, in the private sector, big utility and infrastructure suppliers.

AoC will be discussing the case and options for the reform of the system in a paper which we will circulate later in May 2018.

**Q5: The majority of universities charge the maximum possible fees for most of their courses and three-year courses remain the norm. How can Government create a more dynamic market in price and provision between universities and across the post-18 education landscape?**

**A5:** Almost all universities - and many colleges offering high cost courses in subjects like engineering and social work<sup>7</sup> - charge the maximum possible tuition fees for full-time courses. There are few incentives to charge less and a higher fee protection? income because there are no upfront costs. The incentives to charge the maximum include perceptions of quality attached to the price – for instance, a lower fee might imply an inferior experience.

It is not easy to introduce price competition into the education and training system. There is also surprisingly little price competition in self-paying parts of education, for example in private schools or in HE for international students. Ministers have tried to encourage employers to negotiate the price of apprenticeship training by introducing price ranges for different standards. The typical employer response is to accept the price at the top of the range while negotiating on the services supplied.

There are, however, other ways in which the market can be made more dynamic:

- **Part-time and older students are more price sensitive.** A small amount of funding could make a big difference if it resulted in lower fees and more prestigious alternatives at Level 4 and 5 could prove very attractive.
- **Government could provide funding to develop new programmes at the higher technical level.** Foundation degrees were developed in the early 2000s with marketing and development support from government, preferential funding arrangements and support from employers in curriculum design and providing routes into employment. Recent work to develop degree apprenticeships have used similar approaches.

**Q6: What barriers do current and new education and training providers face in developing innovative or diversified provision?**

**A6:** HE in England has a bias towards old institutions - the Times Higher Education list of new universities defines new as “less than 50 years old”. Despite this, there is room for innovation and change. Two fruitful areas for investigation are:

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<sup>7</sup> 75 colleges offering higher education courses charge fees above the £6,165 threshold, 48 have approval to charge the highest fee for some or all of their courses

- Validation powers for all types of degree are concentrated in the hands of universities. After sustained efforts lasting ten years, just seven FE colleges have secured foundation or teaching degree awarding powers. Control over validation concentrates power both over what is offered but also the cost and the terms. The Higher Education and Research Act creates powers for OfS to develop alternative approaches; it could make this cheap and easy to access for colleges who can prove their capacity and capabilities to deliver high quality
- New technology may make a difference in education in the next decade just as it has transformed other sectors like media, politics and retail in the last decade.

**Q7: How can Government further encourage high-quality further education and higher education provision that is more flexible: for example, part-time, distance learning and commuter study options?**

**A7:** There is scope to develop more flexible provision. There is latent demand that could be served if courses became available. There are several considerations to address:

- Part-time students have different needs and interests to full-time. Colleges have shown that they can offer a different experience for part-time, often mature students by not treating them as fractions of full-timers. National and local governments could take a lead in developing centres of excellence in part-time and flexible HE.
- Distance learning has high set up costs and – in the recent past – higher marginal costs than anticipated because of the need for tutorial and other support. Students nearly always want and need some face to face as part of their course. Again, a concerted effort to harness investment from Government and the private sector might be necessary to make a difference.
- There are already large numbers of commuter students. The average distance travelled by college students aged 19 and over to Level 4+ courses is 10 miles. There are small but important issues relating to timetables, travel routes, childcare support and access to facilities that might make student commuting more attractive.

**Q8: To what extent do funding arrangements for higher education and further education and other post-18 education and training act as incentives or barriers to choice or provision: both at the individual and provider level? How does this impact on the choices made by prospective students and learners? What can Government do to improve incentives and reduce barriers?**

A8: The current funding arrangements have constrained choices because Government has made public spending decisions in the last decade (and more) that have:

- Protected and preferenced residential full-time higher education.
- weakened the institutions and routes offering alternatives, particularly colleges

There is already a strong cultural bias towards the traditional academic route as the default route for young people. The student tuition fee and maintenance loan systems support this - particularly as there are also additional funds available via teaching grants, targeted student support and widening participation funds which have almost totally focused on young people accessing three-year Bachelors degrees. This funding package and the increased competition for students associated with the phasing out of number controls has contributed to a full-time residential monoculture in HE. Meanwhile, the number of older HE students, part-time courses and students taking courses at Level 4 and below have fallen as a result of public spending reductions and decisions by students to take the default route.

There is, of course, plenty of choice within the catalogue of full-time HE courses, but the system as it is now involves courses that are more expensive than they need to be while educating almost 50% of the young adult population to graduate level in a labour market which leaves a substantial number of them with non-graduate jobs.

The UK derives some benefits from having a university sector considered to be world class on many measures but there is a case for encouraging and stimulating alternatives by changing rules and providing funding. In our view, the scale of the UK's education and skills challenges in the 2020s require higher (not lower) public spending on a wider range of education opportunities across the life course.

## Part 2: A system that is accessible to all

**Q9: What particular barriers (including financial barriers) do people from disadvantaged backgrounds face in progressing to and succeeding in post-18 education and training?**

A9: Participation of 18 to 21-year-olds from disadvantaged groups in HE has increased since improving widening participation (WP) became a strategic priority in the late 1990s, but the gaps between them and their peers has not closed. Equally, enrolment of students from disadvantaged backgrounds in the most selective universities has flat-lined for a decade and could get worse as a result of the funding squeeze in pre-18 state education combined with the end of maintenance grants for new HE students from 2016 onwards.

Many colleges who do not have any access agreements enrol on average 15% more WP students than universities. Some colleges take in up to 50% of their HE students from disadvantaged backgrounds.

Measures that could make a difference in assisting people from disadvantaged background to progress and succeed in post 18 education and training include:

- a tougher approach by OfS in holding selective institutions to account for poor admissions performance, particularly where there are available measures that might make a difference (for example contextual admissions).
- a move to post-qualification applications in higher education to reduce the bias in the system towards private schools.
- development of a stronger alternative higher technical route
- use of the widening participation funds to support alternative options and older potential students.

**Q10: How should students and learners from disadvantaged backgrounds best receive maintenance support, both from Government and from universities and colleges?**

A10. The annual cost of HE student support is £2.7 billion while the annual cost of adult further education student support is less than £0.2 billion.

Support in higher education (HE) includes:

- maintenance loans of up to £10,000 a year. 1 million HE students take out loans whose total value is £5 billion and whose annual cost is £2 billion (given a 45% RAB charge).
- targeted support for specific groups of students including £190 million spent via Disabled Student Allowance and £190 million on several different grants to HE students who are parents<sup>8</sup>.
- bursaries and scholarships worth £400 million a year top sliced from university tuition fee income.

Support for adult further education (FE) students includes:

- institutional bursaries for childcare and other costs paid from Adult Education Budget allocations. The last available figures on discretionary learner support report spending of £86 million.

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<sup>8</sup> SLC finance statistics November 2017 report spending on Adult Dependents Grant, Parental Learning Allowance, Childcare Grant and Travel Grants

- institutional bursaries worth around £35 million on bursaries for those taking advanced learner loans<sup>9</sup>.
- no nationally administered maintenance loans.

There is definitely a case to look at the re-introduction of HE maintenance grants for students from disadvantaged families, for example, those on income levels equivalent to that used to set the pupil premium. However, an equivalent priority is to look at financial support across the system. Adult FE students fill the gap by relying on savings, family support or the benefit system. Or they do not study at all. There is a good case for a minimum income policy (as being developed in Scotland) but, as a first step, there should be maintenance loans for Level 4 and 5 courses.

### Part 3: Delivering the skills the UK needs

**Q11: What challenges do post-18 education and training providers face in understanding and responding to the skills needs of the economy: at national, regional and local levels? Which skills, in your view, are in shortest supply across the economy? And which, if any, are in oversupply?**

A11: Since they were established in the 1890s, colleges have been focused on the skills needs of the economy for decades. -. In the words of a recent official report, ‘the sector is all about work<sup>10</sup>’. Colleges nevertheless face considerable challenges in understanding and responding to demand, because the immediate demands from employers relating to recruitment or problem solving often differ from the longer-term needs of individuals and the wider public interest in having an educated and skilled population. The recent trend in Government education policy has been to put the immediate user in control of public funding such as the employer in control of apprenticeship funds, the student in control of enrolment and loan decisions – leaving a risk that other needs will be side-lined. In several areas of the system, Government has now reinforced this trend by taking a transactional approach to purchasing services from education and training suppliers rather than a strategic approach of supporting strong institutions.

The national and local Industrial Strategy requires colleges, universities and other education organisations to work with employers, local government and local enterprise partnerships as partners. The partnership needs to be local, related to current and future workforce needs and aimed at stimulating the local labour market to work more effectively. An effective local labour market will send strong signals about skills needed by employers, allowing people to make better decisions about what to study and how much to invest in time and money. Colleges can complement this by helping to raise aspirations, working with

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<sup>9</sup> SFA annual report and financial accounts 2015-16

<sup>10</sup> ETF “It’s all about work...excellent vocational education and training” 2013

employers to develop new strategies, to ensure that skills gaps can be filled (including replacement demand as people retire) and to help address current economic weaknesses.

**Q12: How far does the post-18 education system deliver the advanced technical skills the economy needs? How can Government ensure there is world-class provision of technical education across the country?**

A12. There is currently a shortfall in advanced technical skills which employers are filling - either with migrant workers or with graduates working below their qualification level. The Government's Skills Plan sets out a map for reforming the system between now and the mid-2020s, but is incomplete when it comes to the development of routes at Level 4 and above. The numbers of students at Level 4 and 5 are already low, and there is the prospect that a rising number of young adults in the 2020s will be funnelled into traditional forms of HE which may not serve them well as preparation for a 50 year working life. There is a case for Government to work with the education sector to develop a higher route that is sufficiently attractive for young people and adults to be able to avoid a £50,000 student loan debt and doesn't require an expansion of residential university provision in the 2020s to meet demand. In our view (and as explained earlier), this requires reforms to validation, funding, student support and employer recruitment behaviour. We will explain our proposals in a separate paper.

## Part 4: Value for money for graduates and taxpayers

**Q13: How should students and graduates contribute to the cost of their studies, while maintaining the link that those who benefit from post-18 education contribute to its costs? What represents the right balance between students, graduates, employers and the taxpayer?**

A13: The current student loan system works well in some ways in that it removes upfront costs of taking courses and charges people at the point after course completion when they have more money. The system has some of the features of the graduate tax. Given current generational inequalities, there may be a case for reviewing the case for an all-age graduate tax (i.e. covering older graduates whose HE was free). This would be a significant technical challenge and any money raised needs to be hypothecated.

The rising number of young adults aged 18 to 24 combined with rising expectations mean that there will be more costs for the taxpayer in the 2020s. If nothing changes, these costs will be incurred via a rising student loan book, much of which will not be recovered. We think the longer-term interests of the taxpayer will be better served by some upfront spending on improving the system and developing a stronger higher technical route. This might redirect the rising student population away from residential full-time study towards something more appropriate for their needs and ambitions.

**Q14: What are the most effective ways for the Government and institutions to communicate with students and graduates on the nature and terms of student support?**

A14: The Government has developed very effective methods for communicating with the public by using a variety of channels ranging from the gov.uk website to targeted advertising<sup>11</sup>. Awareness of policies is high when communicated in this way and supplemented locally by colleges and universities using their own communications.

**Q15: What are the best examples of education and training providers ensuring efficiency in the method of course provision while maintaining quality? And what are the challenges in doing this?**

A15: Instructional costs at all levels from nursery to postgraduate involve a combination of common factors:

- teaching staff pay
- teaching staff contact hours
- student hours (per week or year)
- group or class size
- support costs (managerial, administrative, premises running costs, equipment and VAT if payable)
- capital financing costs (surpluses, depreciation, interest on borrowings)

Universities and colleges in England are responsible for all six elements of these costs (unlike in some systems where government has a role). The post-18 system has some areas of inefficiency. For example, the high cost of undergraduate programmes facilitated by the design of the student loan system or capital financing costs which may be higher than necessary because of a competitive race to recruit students by spending on teaching and non-teaching facilities. At the same time, there are areas of higher efficiency. Colleges typically manage their HE courses with smaller group sizes and higher weekly student contact hours than universities by tighter control of teaching pay costs: instructional staff have higher contact hours but are not simply redeployed research students. Meanwhile, adult education funding rates in colleges have been cut so low that many courses are no longer economic because colleges cannot recruit sufficient numbers of students to cover costs at the funds available. There are no simple solutions to improving efficiency.

**Q16: What are the ways that Government can increase the value for money of post-18 education?**

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<sup>11</sup> UK government communications plan 2016/17

A16: In our view, the scale of the UK's education and skills challenges in the 2020s require higher not lower public spending on education, supplemented by higher employer contributions and a fair individual contribution. This implies more money, but we believe the Government could get proportionately more value by shifting the undergraduate market away from a singular focus on full-time residential three-year degrees, by encouraging and stimulating strong higher technical alternatives and by developing a more sustainable approach to development by employers, in which they invest more in their staff, but compete at a higher level on the basis of their skills.

Association of Colleges

2 May 2018