



ASSOCIATION
OF COLLEGES

House of Lords Economic Affairs Committee Enquiry

Economics of Higher, Further and Technical Education

Association of Colleges response

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Association-of-Colleges

Background

1. The Association of Colleges (AoC) represents nearly 95% of the 288 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 and training for 3 million young people and adults and thousands of employers. In doing this, they support people into careers as well as strengthen the economy. Colleges are inspirational places to learn because education and training is delivered by expert teaching staff in purpose built facilities.
3. Colleges offer first rate academic and technical teaching, particularly at advanced level, and cover a broad range of disciplines including science, engineering, IT, construction, hospitality and the creative arts.

Is the current structure of post-school education and training, and the way it is financed, appropriate for the modern British economy?

Institutions

4. Education involves the transmission and acquisition of knowledge and skills. Given the constraint on government resources, it is necessary for institutions and the Department for Education (DfE) to maximise the efficiency of the teaching process by minimising pay costs per teaching hour, maximising group sizes and minimising support and administration costs. Average salaries and the amounts available per student vary considerably between education type, as outlined below:

	Average Funding levels
Secondary (11-16)	£5,700
Sixth form (16-17)	£4,500
Higher education	£8,500

	Median pay levels
School	£35,000
College	£30,200
Higher education	£43,000

5. The approaches taken at different levels of post-16 education vary but are influenced by policy choices. Despite years of austerity, there are areas of significant inefficiency in post-16 education for example small A Level group sizes or high university overheads.
6. For most of the last century, local councils were responsible for schools, colleges and polytechnics. Although there was considerable national direction from DfE, the institutional landscape varies considerably in different areas. Institutions have gained more autonomy in recent decades and this has helped make their characteristics even more different. There are differing views about whether it is better to have more diversity to promote innovation (for example by creating new free schools) or whether it would be better to encourage rationalisation and secure economies of scale. In the college sector self-government has helped colleges respond more effectively to student and employer demand and to keep their practices up to date.
7. Securing change takes time. There were 480 colleges in England in 1993 when the government transferred them out of local government control. Now, 25 years later, there are 288. DfE's post-16 area review programme involved 37 reports covering every part of the country, During this period, there have been 33 college-to-college mergers with around 15 more due in the next 18 months. Around 25 sixth form colleges are expected to convert to become academies. This is an extensive change programme and has involved every college taking a long, hard look at their current position and future plans. However there are risks associated with too much focus on structural change. Nevertheless there are downsides to the proliferation of institutions in post-16 education.
8. In England, post-16 education and training takes place in an already crowded marketplace:
 - 2,100 state school sixth forms¹,
 - more than 600 private schools²,
 - 288 colleges³,
 - 110 universities or university colleges⁴,

¹ AoC analysis of Education Funding Agency allocations

² Estimate from Independent School Census which classifies schools as senior and all-through

³ AoC data

⁴ HEFCE register overview

- 112 alternative providers with specific course designation
 - 1,700 registered apprenticeship training providers (some of whom are colleges and charities)
 - 70 independent and charitable post-16 institutions for students with learning difficulties⁵
9. Policy making towards schools, further education and higher education has run on separate tracks for many years resulting in areas of duplication, fragmentation, inefficiency and poor incentives for both students and institutions. There are particular issues to be aware of:
- Although there are many strong state school sixth forms, there are more than 1,100 which have fewer than 200 students⁶. This is the minimum number used in DfE tests to ensure viability for new sixth forms. At current funding rates, small sixth forms act as a financial and educational drag on the rest of the school. There is anecdotal evidence from Ofsted that quality drops as numbers fall but no proper research from Ofsted or DfE on this issue. There is also evidence that 11 to 18 schools use the funding allocated for Key Stage 3 and 4 pupils to prop up uneconomic sixth forms⁷. Around 20% of young people who start A Level programmes in schools leave after a year⁸ which means they often have to stay in education at the age of 18 (at which point funding is cut by 17.5% to a national rate of £3,300). Places with lots of school sixth forms like London and Kent also have lots of 18-year-olds in education.
 - There are very low numbers of students taking higher skills courses at Level 4 or 5⁹. The default choice for young people at 18 obtaining A Level or Level 3 qualifications is a full-time degree taking three years and costing them upwards of £50,000 in student loans.

16 to 19 education

10. There is a significant drop in funding per pupil/student at age 16 (and again at age 19). DfE's current national funding formula proposals anticipate a £4,312 Key Stage 4 base rate, a £935 secondary pupil premium and several additional funding factors worth one quarter of the schools budget¹⁰.

⁵ DfE list of institutions approved under section 41 of the Children and Families Act

⁶ AoC estimate from DfE funding allocations for 16 to 18 year olds

⁷ SFCA Costing the Sixth Form Curriculum, 2015

⁸ Data estimated

⁹ Baroness Alison Wolf "Remaking Tertiary Education", Education Policy Institute 2017

¹⁰ DfE consultation on national school funding formula, March 2017

Meanwhile the 16 to 18 formula pays just £4,000 to those in Key Stage 5, no pupil premium and a more modest set of additional factors. These funding differences undoubtedly put pressure on schools and colleges educating those over 16 at sixth form level. There is a growing gap between the funding made available to educate this age group and the actual cost of delivering a high quality curriculum. This has had a significant impact on students as the current funding levels mean that most young people only receive around 16 hours of teaching and support per week. This is considerably less than in other high performing education systems in other countries. The funding shortfalls also make it harder to ensure that those from poor and working class backgrounds get the support they deserve and need.

Technical education

11. The Government has plans to improve technical education in England and has published a Skills Plan which sets out a map for reforming the system between now and the mid-2020s. This plan involves organising the system into new technical education routes which make it easier for young people to acquire skills they need for particular occupations. This will involve introducing new qualifications – known as T Levels – which will be set mainly at Level 3 and which will replace existing qualifications. The expectation is that some students will have a transition year at 16 because their school achievements are insufficient and that there will be progression onto courses at Level 4 and above. The intention is that the new programmes will involve substantial work placements and that total teaching time will be set at 900 hours a year rather than 600 which is the current expectation. The Treasury has provided additional funding for this reform which will rise to more than £400 million in England by 2022-23. DfE has not explained its funding assumptions but the figures suggest that there will be funding available for around 20% of the age group¹¹. Those on T Levels will be funded on programmes at 24 hours a week rather than 16. There are lots of questions about these plans but some obvious ones are at the boundaries. Young people taking academic programmes (A Levels) will be funded at a lower level than those on technical programmes. This is normal in other Northern European countries but it is not clear how differential funding levels will work in a decentralised system like England's where institutions and students can choose what they offer and study. It is also unclear how funding will work for adults wanting to take T Levels or whether employers will offer sufficient number of work placements.

¹¹AoC estimate

Apprenticeships

12. The apprenticeship levy creates a new independent funding stream for apprenticeships worth an estimated £2.6 billion a year from 2017-18¹². The official case for introducing the levy¹³ noted financial benefits for both individuals¹⁴ and employers¹⁵. A compulsory system is seen as a means to reverse a 20-year decline in employer spending on training, to narrow the 20% productivity gap with other G7 countries and to increase the number of apprentices. A key principle of the levy is that it is a hypothecated tax with the funds being under the control of employers. The rules allow levy paying employers to bank their funds for up to 24 months before spending them.
13. Every part of the apprenticeship system is being reformed in 2017 and this creates a risk that numbers in training will fall. Although the levy and public sector targets have generated new interest in apprenticeships, many large employers appear to be waiting until they are confident that the new standards work and until they have sufficient funds in their levy account. It will take some time for the full impact of the changes to be clear but no-one should underestimate the change. In just one financial year, exchequer funding which used to provide almost 100% of the apprenticeship budget has been replaced by levy funding. The 20,000 employers who pay the levy are able to direct training spending equivalent to 110% of the tax they pay though budgets are built on the assumption that they won't. The money they don't spend has been redistributed in 2017-18 to fund training in small companies and for apprentices who started before 1 May 2017.
14. The impact of the levy is unclear. There is likely to be an underspend in 2017-18 because this has been the pattern for several years and because this is the first year of the new system. Larger levy paying employers are likely to be cautious while smaller employers may have been put off by new co-funding requirements. Meanwhile colleges and providers have had to struggle with new Education and Skills Funding Agency (ESFA) procurement and allocation systems which have made it harder to access funds.

¹² HM Government "Apprenticeship spending and expected levy payments" August 2016 estimates that 19,000 employers will pay the levy.

¹³ HM Government, English apprenticeships: Our 2020 Vision.

<https://www.gov.uk/government/publications/apprenticeships-in-england-vision-for-2020>.

¹⁴ Completing an apprenticeship brings a return of between £48,000 and £74,000 extra over a working life for a Level 2 apprenticeship and between £77,000 and £117,000 for Level 3.

¹⁵ 70% of surveyed employers reported that apprenticeships had improved the quality of their product or service.

15. HM Treasury normally takes back underspends to plug fiscal gaps elsewhere in the budget but it would be a mistake to recover and keep any 2017-18 apprenticeship underspend because this would harm the training supply side and because demand is likely to build up in 2018-19. New education and training schemes typically run on a boom then bust cycle but there is an extra twist with apprenticeships because larger employers are likely to act toward the end of 2018 at the 18 month point where their funds start being cancelled.
16. There should also be a review of the rules that grant levy paying employers control of 110% of their funds. This gives larger employers the first call on training funds and squeezes smaller employers into second place. In summer 2017, these arrangements forced ESFA to cut non-levy allocations in comparison to existing activity. Penalties on the agency if it overspends make it very difficult to manage the uncertainty associated with possible decisions by levy paying employers. The new system also transfers control over a large part of the training budget to large employers headquartered in the South East. Putting employers in control of spending has many benefits but the economy and jobs are changing. Today's employers are getting a larger share of training funds but may be in sectors that will get smaller in future. They may perpetuate English training patterns which are currently biased towards Level 2 skills in low value service roles. To guard against this, it would make sense for the Treasury and DfE to scale down the 110% offer to 75% to release funds to address failures in the training market. Money should be used to widen access by tackling both gender and ethnic disparities in key sectors. There are longstanding issues about segregation by gender¹⁶ and ethnic origin¹⁷. Funding should also support Level 3 and 4 programmes and to bolster training in regions or sectors where numbers are lower.
17. Although employers have substantial control over apprenticeship spending, DfE has measures to guarantee minimum training quality and to ensure that training only happens in approved providers. These controls are necessary to develop strong training organisations and a cadre of trainers able to deliver on-the-job supervision and off-the-job training. However the way in which ESFA has managed the procurement for the register and for non levy allocations has drawbacks. Successive tender invitations have covered the entire country and the entire activity. This has put every college

¹⁶ Fuller and Unwin "The challenges facing young women in apprenticeships" 2015 available via www.educationandemployers.org.

¹⁷ Newton and Williams "Underrepresentation by gender and race in apprenticeships: A research summary" Unionlearn 2013.

at risk of losing all of their non-levy business irrespective of the quality of their provision, the on-going relationships they have with employers or their pipeline of prospective apprentices. The apprenticeship programme requires strong engagement with small and medium sized enterprises (SMEs) and with potential apprentices. Both will only be secured if the majority of existing college and independent providers are successful in the procurement. New entrants will not be able to deliver the scale and quality required in short time. ESFA should manage the procurements in more manageable packages, should give existing providers more credit for their track record and should allocate a smaller part of the budget for new entrants.

18. The priority should be better quality apprenticeships built around strong employer involvement and proper off the job training. There should also be more apprentices at Level 3 and above and in science technology engineering and maths (STEM) sectors. This implies high cost facilities and dual-professional staff. Getting to this point requires more stability and confidence for colleges and training organisations to encourage them to invest. This, in turn, requires ESFA to develop a clearer supply-side strategy to develop the market over the long run for high quality economically relevant apprenticeship provision.

Higher education (HE)

19. There is a great deal of political and media interest in university fees. There have been suggestions that the full-time fee cap should be reduced to £7,500 and that teaching grants should be reintroduced. Any decision on higher education teaching will have consequences for colleges. There are around 200 colleges delivering HE though in some cases this only involves very small numbers. 75 colleges have access agreements in 2017-18 which means that they charge fees above the £6,000 threshold. 48 colleges have approval to charge the full £9,250 fee for some or all of their courses. Colleges have taken a variety of strategies towards fees with some finding that it helps to differentiate foundation degree or higher national courses by charging less while others find price makes no difference to demand. Although fees are important, there are wider issues concerning the impact on the choices available to young adults.
20. The HE student fees and loan system in England supports much high quality teaching but it is expensive and offers unhelpful incentives. The average full-time student course graduates with have a student loan debt

of £50,000 which only 30% are expected to repay in full within 30 years¹⁸. Student loans have protected HE at a time of public spending cuts but the system lacks mechanisms to keep costs down. The fact that repayments start after graduation and are income contingent creates an obvious incentive for institutions to increase fees towards the fee cap (£9,250), particularly as many people equate higher tuition fees with higher quality. Meanwhile the fact that 48% of young people enter HE contributes to a widespread view that a degree maximises their chances in the professional labour market. This, in turn, may result in an oversupply of graduates given that automation and Brexit may bring economic change. The strong cultural bias towards full-time residential HE adds more costs because relatively few students live at home.

21. The alternatives to full-time residential higher education are underdeveloped. Young adults who opt for courses at Level 4 or 5 have no access to official maintenance support. Part-time students can take tuition and maintenance loans but seem to be more sensitive to higher fees and more wary of student loans. There has been a serious decline in the number of mid-career adults taking higher education courses and there are low numbers taking higher education courses below degree level. This may be holding back both the prospects for individuals but also the skills available to employers and public services.
22. The task of rebalancing the HE system is not a simple one and will take time because of the long application cycle. Possible measures could include a reintroduction of number controls targeted on certain subjects, accelerated degrees and reform of maintenance loans to support home based study and Level 4 and 5 courses.

Adult learning

23. There is a need to help adults learn, train and acquire skills so that they can gain employment, get promotion or change careers. The current Adult Education Budget is a very modest fund for supporting this work and has fallen drastically over the last 10 years. This drop in Government funding also came over a period in which employer investment in training dropped as well. Adult participation in learning, skills and training has therefore fallen significantly. The number of adult students has fallen by 1.1 million between 2006 and 2016 (from 2.7 million to 1.6 million) at a time when the population of England has risen by 4 million from 53 to 57 million¹⁹. The

¹⁸ Figures derived from IFS "Higher Education Funding in England" 2017, Pages 10 and 11

¹⁹ AoC estimates from DfE statistical releases and ONS population data for England

number of adult apprentices has risen from 0.2 million to 0.7 million in the same period, but apprenticeships are only for people who can take full-time jobs. The £40 million investment in pilots to examine how best to turn this around is welcome, but overall the Government investment post 19, outside of HE does look inadequate, particularly given the increased pressure from employers facing widening skills gaps as skilled immigration falls.

What changes are required to develop a system that meets the needs of enterprise and the labour market whilst providing value for students and the Government?

Strengths and weaknesses of the English education system

24. The UK has an economy with many strengths including a high employment rate and large numbers of people in well paid jobs in advanced manufacturing, professional services, finance, research and many other sectors. The English education system has a significant role in supporting these successes both in terms of its academic strengths but also, at the other end of the spectrum, the strong push for inclusivity and support for all young people. Notwithstanding these strengths, the decision to leave the European Union casts a sharper light on weaknesses in our society and economy, in particular the shortfalls in workforce skills. Our economy has relied for a long time on a labour market with large numbers of skilled and semi-skilled people from the EU and beyond. Brexit will bring economic change and is likely to lead to lower migration from the rest of the EU. A national aim should be both to be outward looking and welcoming to people from all backgrounds, but also to be self-sufficient in skills.

Public spending context

25. Public spending on education is 4.5% of GDP in 2016-17²⁰ and is forecast by the Office of Budget Responsibility (OBR) to fall to 3.9% by 2021-22²¹. OBR predicts spending will stay below 4% of GDP for the long-term. During the early years of the 2000s, spending was 5% of GDP and rose during the financial crisis to a peak at 5.8%. Some of the difference is explained by the increase in HE tuition fees and the introduction of the student loan

²⁰ Public Spending Statistics 2017, Table 4.4.

²¹ Office for Budget Responsibility, Fiscal Sustainability Report, 2017, Page 56.

scheme²² but a significant explanation of the change has been the squeeze in spending on schools and colleges. The Treasury and DfE are holding down funding at a time when the total number of pupils and students is rising²³. The squeeze in spending involves reduction and restraint in cash allocations to state funded schools and colleges combined with policies to replace public spending with private contributions. The student loan scheme means that there is substantial private spending.

26. There is a positive economic case for greater spending on education and training both for individuals and employers²⁴. Exit from the EU makes this issue even more critical because skills are identified by many businesses as their major concern. If there are reductions in immigration, employer behaviour will need to change. In some sectors, the non-UK EU workforce is 15% of the total²⁵. Government action is needed to ensure that the young population is properly prepared for the future but also to help train adults to fill future vacancies. Regardless of what happens in other countries, the UK should be spending more on education and training than less.

Proposals

There are a number of specific proposals that would contribute to improvements in the English education and skills system:

Increased investment in skills to support the Government's Industrial Strategy

- HM Treasury should set a target to spend 5% of GDP on education by 2025.
- Skills should be a major part of the national industrial strategy with a plan that redirects European Social Fund contributions to UK priorities, maintains the real terms value of the Adult Education Budget, involves combined authorities in improving the skills system, guarantees a Citizen's

²² Total UK education spending in the UK as a share of GDP is relatively high. In a recent report OECD describes the UK as "spending the highest proportion of its wealth on primary to tertiary education institutions" with total spending recorded at 6.6% of GDP compared to an OECD average of 5.2%. This comparison should not induce complacency and should be treated with caution because the data relates to 2014 and takes no account of population age structure. The UK has an unusually high level of private (household) spending on education because of fees paid for university tuition, private schools and international students.

²³ DfE National Pupil Number Projections July 2016 forecast a rise in the 5 to 15 age group in schools from 6.5 million to 7.0 million.

²⁴ "Estimation of the labour market returns to qualifications gained in English Further Education, December 2014" Department for Business, Innovation and Skills (BIS), Research Paper 195).

²⁵ Keohane, Broughton and Ketola "Working together: European Workers in the UK", SMF, June 2016.

Skills Entitlement, funds a national retraining scheme and explores a new system of personal learning accounts.

A fair funding formula for schools, colleges and universities

- DfE should introduce a £200 per student uplift in funding in 2018-19 to improve the education and support offered to 16-19 students.
- DfE should conduct a review of 16-19 funding to ensure it is linked to the realistic costs of delivering a rounded, high quality curriculum.
- DfE should invest in proven methods to achieve the goal that young people attain necessary English and maths standards by age 19 and should review funding levels to ensure they are sufficient for the task.
- In the implementation of the technical education reforms, DfE should ensure there is adequate funding for the transition year and for three years of study for those who need it.
- DfE should simplify the overly complex high needs funding system to provide more clarity and certainty for young people and their families.
- DfE's scheduled review of higher, further and technical education funding should ensure that the student loan system provides good incentives for young people and adults while distributing public money efficiently.

A period of stability to build quality apprenticeships

- In the longer term, DfE should earmark up to 25% of levy funds to ensure widening access, quality improvement, progression to Level 3 and addressing disparities in regional and sectoral spending. In the short-term, any underspend in the 2017-18 financial year should be used for these purposes.
- DfE should develop a clear delivery-side strategy for apprenticeships and technical education that supports colleges to make long-term investments in equipment, facilities, teaching staff and employer relationships.

Building strong colleges and institutions

- HM Treasury and DfE should carry out a short review to establish whether the restructuring facility introduced in 2016 is achieving the goal of making colleges financially sustainable by 2019.

- DfE should allocate capital funding to repurpose the college estate, as well as supporting the use of new learning technologies, improve the equipment for technical education and to create the additional education places that will be needed after 2020.
- DfE's Schools Commissioner group should carry out targeted reviews of school sixth forms and university technical colleges to ensure they are financially sustainable and offer quality and breadth for young people.

Support for people to access education and training

- DWP should extend child benefit and other social security payments to teenagers on apprenticeships, in line with those who stay in education.
- DfT should support local authorities to invest in support for transport up to age 18 not just 16 as part of the contribution to the industrial strategy.

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