

Select Committee on Economic Affairs: The Economics of higher education, further education and vocational training

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The Centre for Vocational Education Research is funded by the Department of Education and was launched in 2015. It is funded to produce high quality and policy relevant research on vocational education, with a particular focus on large-scale quantitative research in an economic framework. Our website is <http://cver.lse.ac.uk/> and email address is cver@lse.ac.uk

We intend to address areas of interest to this Call for Evidence as it relates to post-16 further education and training.

Complexity of post-16 provision and challenges of reform

1. The complexity of post-16 education for those entering further education is well-known. We document this for a recent cohort of students in a recent paper (Hupkau et al. 2017). Given that only about 40-45 per cent of a cohort undertake A-levels and about 35-40% of a cohort enter university¹, reforms are urgently needed to address post-16 education for the majority of young people in England. In particular, the simplification of post-16 options and clear 'routes' are badly needed.
2. While the implementation of Lord Sainsbury's recommendations would greatly improve the system of further/technical education, there are considerable challenges. One challenge is to ensure that the current system of competing awarding bodies for delivering qualification comes to an end. This is a source of obscurity within the system and serves no useful economic purpose. There are many more awarding bodies within further education than within academic education.
3. Another challenge is to address the needs of students who cannot immediately get on to one of the new routes through a well-implemented 'transition year'. If the aim of the transition year is to bring students up to 'level 3' courses, it will require supporting at least 25% of a cohort (see Hupkau et al. 2016). Our work in progress looks at the impact of just failing to get a Grade C in English at GCSE for a recent cohort of students (Machin et al. 2017). We show that students of approximately the same ability have significantly different educational trajectories depending on whether or not they pass this exam. Three years later, students who just fail to achieve the required threshold have a lower probability of entering Level 3 courses (vocational or academic). Those who fail to pass the threshold are also more likely to drop-out of education by age 18. The moderately high effect of just passing or failing to pass this

¹ Note that the opt-cited higher education participation rate is not actually the percentage of a cohort entering university by a given age and tends to give an inflated view of the actual percentage of young people attending university.

threshold is source of educational inequality with high potential long-term consequences for those affected. It suggests that the post-16 education system often fails 'marginal students'.

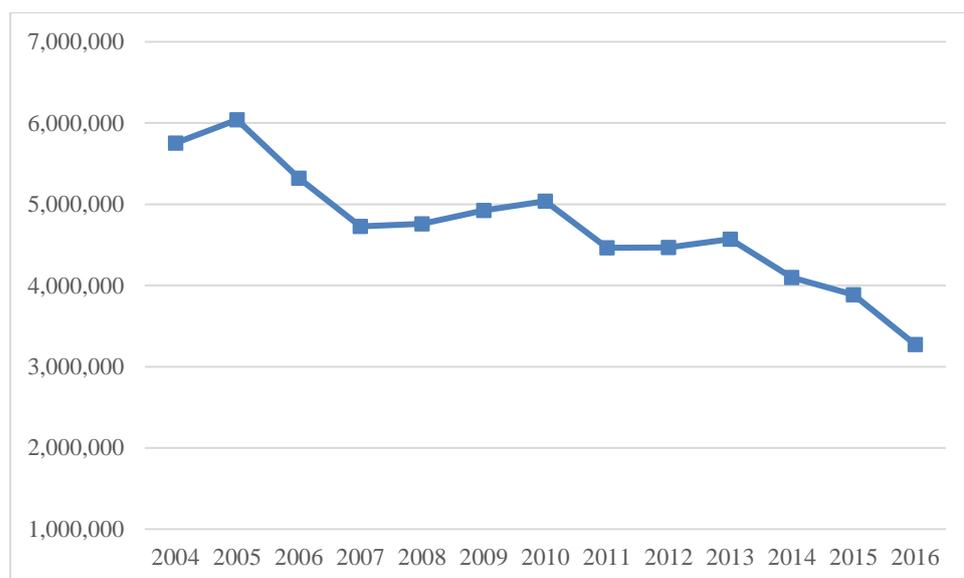
Consistency of apprenticeship 'trailblazers with post-16 reforms

4. Reforms to post-16 education should lead to reflection on apprenticeship 'trailblazers'. The new standards preceded the post-16 plan and do not align to it in some important respects. For example, there are concerns about a large number of narrow and overlapping standards (NAO, 2016). This needs to be addressed as otherwise the apprenticeship system will not produce the adaptable workforce that the country needs, especially as the labour market changes.
5. Another issues is that it is not a requirement for all apprenticeships to lead to the attainment of specified vocational qualifications. Unwin (2017) reviews the experience of other countries and in all the countries examined finds that nationally recognised and validated forms of accreditation are regarded as important and apprentices receive some form of certificate or diploma. Apprenticeships need to be formulated with the needs of students (and their future employers) in mind and not only the need of current employers. Qualifications play a signalling role in the education system generally, as well as in the labour market. It is not at all clear why they have been abandoned in the reforms to apprenticeships and we suggest that this be reconsidered urgently.
6. It should be noted that most new apprenticeships in England are not for young people. The main growth in new apprentices has been for those older than 24, currently accounting for over half of new apprentice (Hupkau and Ventura, 2017). This is not the only way in which apprenticeships in England are very different from other countries (Steedman, 2010). For example in other countries the minimum legal duration is at least two years whereas in England it is only 12 months.

Publicly provided education and training

7. It is hard to get figures on expenditure for adult education. However, we can get numbers on the total number of learners receiving public funding in the Individual Learner Record (which covers educational provision outside schools and universities). This covers those from age 16 onwards who attend general FE and tertiary colleges, sixth form colleges, private training providers and other publicly funded providers. The evolution of this educational provision is discussed in Hupkau and Ventura (2017). The below Figure shows updated figures to 2016. This shows a dramatic fall in the number of publicly funded learners over the last few years and is driven by a fall in post-19 learners (DfE, 2017). This is the net effect of increasing apprenticeships and reductions in other forms of provision. It isn't clear what has driven this, although the change in how further education is funded (with more costs been passed to students through the loans system) is certainly a strong contender. Unless the fall in the number of learners has been compensated for by an increase in the quality of learning provision, it would appear that public investment in post-16 and adult provision has fallen sharply over the last few years.

Figure 1: total number of post-16 and adult learners receiving public funding in education institutions outside schools and universities



Source: derived from the Individual Learner Record. See Hupkau and Ventura (2017)

- Belfield et al. (2017) document how funding of 16-18 year olds in further education has been particularly badly hit by cuts in recent years (relative to schools). In 2015-16 spending per students was 10% lower in further education colleges (compared to secondary schools) at around £5,600 per student. Although the Chancellor committed to an increase in funding for the implementation of T-levels (£500 million per annum), it is not clear to what extent this will address the overall shortfall in further education on top of the requirements of the reforms. For example, the new qualifications will involve a 50% increase in hours. Amongst other recent pressures is the requirement (since 2015) for colleges to give remedial education (on a compulsory basis) for all students who fail to get a Grade C in English or maths at GCSE. The fact that only about one third of students get a Grade C in their resits should raise questions about the adequacy of resources for this task (and more broadly whether this is a sensible policy at all).

The apprenticeship levy and incentivising employers

- The number of apprenticeships looks set to increase with the recent implementation of the apprenticeship levy. This is a 0.5% tax on employers' wage bills over £3 million per year. It affects about 2% of employers. In exchange for this tax, they get credits that they can use to cover the direct costs of training their own apprentices. Whether or not they actually do this depends on the indirect costs too (which employers have to fund themselves). Also, we should expect substantial substitution between current training provision and the type of training funded under this system (i.e. apprenticeships). This is very common with this type of subsidy and can be so large as to generate no additional training as in the case of the Employer Training Pilots (Abramovsky et al. 2011). Whether or not this happens is an empirical question that will need to be evaluated in the future with the use of firm-level data.
- There are concerns about the other 98% of employers who are not levy-payers. Although the direct costs of apprenticeships will also be greatly subsidised, funding gets allocated to a

separate budget which goes directly to training providers. There are concerns that providers will not be able to meet the needs of small and medium-sized enterprises because of very severe cuts to non-levy funding allocations. There are three ways to address this imbalance. Firstly (and most obviously), a possibility is to fund providers properly for non-levy business. This could be done as the amount of money estimated to be raised by the levy far exceeds the projected spend on apprenticeships (Armin-Smith et al. 2017). A second possibility is to stop linking how funding is raised for apprenticeships and training (via the levy) to how it is spent. It is notable that although the levy applies across the UK, it is only in England that large employers have digital accounts that will enable them to subsidise the direct costs of training apprenticeships. It is not clear that subsidising large employers to fund apprenticeships necessarily represents best value for money. For example, one could make a case for more targeted expenditure on skills for particular sectors as well as more flexibility on the type of training to be subsidised. A third possibility is to develop other forms of incentive for firms to invest in skills.

11. The LSE Growth Commission addresses the need to incentivise firms to invest in skills. The current tax system favours investment in physical capital, computers and machines but offers few incentives for investment in human capital. The Commission recommends a new system of tax breaks for skills investment which would place investment in staff training, courses and education on the same footing as investment in plant and machinery. This could take the form of a Skills and Training tax credit which is similar in spirit to the existing R&D tax credit.

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