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# **Response to the Call for Evidence “The economics of higher education, further education, and vocational training”**

September 2017



# The Education Policy Institute's response to the Call for Evidence "The economics of higher education, further education, and vocational training"

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

<i>The UK's record for youth unemployment is no better than other advanced countries, despite good overall employment figures.</i>	Unemployment in the UK is low compared to other OECD countries. 4.5 per cent of the UK's labour force was unemployed in the first quarter of 2017, below the OECD average of 6 per cent or a much higher 8 per cent on average for all EU28 countries. <sup>1</sup> On youth unemployment, the UK performs slightly better than the OECD on average (12.4 per cent compared to 12.7 per cent), but is in a worse position than other advanced economies such as the US (10.2 per cent) or Germany (6.7 per cent). <sup>2</sup>
<i>Insufficient vocational education provision may be one of the factors behind persistent youth unemployment, as well as poor productivity.</i>	In the <i>Building our Industrial Strategy</i> Green Paper, the government recognised that post-16 education needs to be reformed to fulfil the potential of the British economy and reduce unemployment. Insufficient and inadequate vocational education provision was listed as one of the issues that needed fixing to bridge the productivity gap between the UK and other advanced economies. <sup>3</sup> According to the OECD, the UK output per hour worked was 13 per cent below the average for the G7 countries in 2015 (latest year available). <sup>4</sup>
<i>A much higher proportion of young</i>	The productivity gap exists despite the high proportion of young people going to university. 44 per cent of young people in the UK are expected

<sup>1</sup> OECD, 2017, 'Harmonised unemployment rate (HUR) (indicator)'. doi: 10.1787/52570002-en (Accessed on 23 August 2017) <https://data.oecd.org/unemp/harmonised-unemployment-rate-hur.htm#indicator-chart>

<sup>2</sup> OECD, 2017, 'Youth unemployment rate (indicator)'. doi: 10.1787/c3634df7-en (Accessed on 21 August 2017) <https://data.oecd.org/unemp/youth-unemployment-rate.htm>

<sup>3</sup> HM Government, 2017, 'Building Our Industrial Strategy'

<sup>4</sup> OECD, 2016, 'Level of GDP per capita' (Accessed on 23 August 2017). [http://stats.oecd.org/index.aspx?DataSetCode=PDB\\_LV#](http://stats.oecd.org/index.aspx?DataSetCode=PDB_LV#)

<i>people expect to graduate with a bachelor degree, compared with other advanced countries...</i>	to obtain a bachelor degree over their lifetime, well above the OECD (38 per cent) and the EU22 average (35 per cent). Other advanced economies with a smaller proportion of young people expected to complete a bachelor degree are Germany (32 per cent), Norway (39 per cent) or the US (39 per cent). <sup>5</sup>
<i>...while few young people pursue shorter tertiary and vocational upper-secondary qualifications...</i>	Only 4 per cent of young people in the UK are expected to graduate with a short-cycle tertiary degree (for example HNDs) <sup>6</sup> , which are generally shorter and more practical than bachelor degrees, compared to 7 per cent in the EU22 or 11 per cent in the OECD on average. Similarly, the number of young people whose highest qualification is a vocational upper-secondary degree is low by international standards. Only 15 per cent of our 25-34 year olds hold such qualifications, compared to 25 per cent in the OECD countries or 29 per cent in the EU22. For instance, 49 per cent of young Germans have a vocational upper-secondary degree as their highest qualification. <sup>7</sup>
<i>... level 4+ vocational qualifications...</i>	In a joint publication with the Education Policy Institute, Alison Wolf concluded that the UK needs to redress the balance between post-16 vocational and academic education, since it currently favours academic education provided by universities. The report suggested that, while in 2014/15 UK universities awarded 395,580 full first degrees, only 11,400 out of more than eight million vocational qualifications achievements were awarded under the adult skills budget at level 4 or higher. <sup>8</sup> This increased to 14,100 in 2015/16. <sup>9</sup>
<i>...and apprenticeships.</i>	The government has explicitly used countries such Germany, Norway, and Denmark as models of how to develop its apprenticeship system and work-based learning. <sup>10</sup> However, while in those countries apprenticeships are a qualification aimed at school leavers, in the UK they have also been used to upskill or re-skill existing workforce. Since the end of the Train to Gain programme in 2010, learners over the age of 25 have accounted for nearly half of all apprenticeship starts. <sup>11</sup>
<i>All this may be a cause of the UK having the fourth highest proportion of</i>	Although it could be argued that the UK might have an economic structure that justifies a focus on degrees over other forms of provision, the data around qualification mismatch suggest otherwise. Data from

<sup>5</sup> OECD, 2017, 'Education at a Glance 2017'

<sup>6</sup> OECD, 2015, 'ISCED 2011 Operational Manual Guidelines for classifying national education programmes and related qualifications'

<sup>7</sup> OECD, 2017, 'Education at a Glance 2017'

<sup>8</sup> Education Policy Institute, 2016, 'Remaking Tertiary Education: can we create a system that is fair and fit for purpose?'

<sup>9</sup> Department for Education, 2017, 'Further education and skills: July 2017'

<sup>10</sup> Department for Business, Innovation, and Skills, and Department for Education, 2016, 'Technical education reform: the case for change'

<sup>11</sup> <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships>

<i>over or under qualified workers, out of 35 advanced countries</i>	the OECD shows that 30.2 per cent of our workforce is over-qualified for the job they perform, compared to 21.7 per cent in the OECD on average. Adding up over- and under-qualification mismatch, the UK has the fourth highest qualification mismatch of 35 economies. <sup>12</sup> The ILO has come to a similar conclusion and has warned about a trend of <i>overeducation</i> in the UK, especially among young people. <sup>13 14</sup>
<i>Furthermore, the private returns to a degree aren't necessarily higher than to vocational education.</i>	It has been claimed that attending university leads to higher wages than the alternatives. The evidence casts doubt on this assumption. <sup>15</sup> In our report, <i>Apprenticeships for Northern Growth</i> <sup>16</sup> , we found that former level 4 apprentices appear not to have lower wages than graduates on average, while former level 5 apprentices seem to have higher income than those who graduate from university. In addition, returns to university degrees largely depend on the subject studied and the HE institution awarding it, as the recently published LEO data showed. There are in fact graduates doing very poorly in the labour market, certainly worse than former apprentices. <sup>17</sup>
<i>There is a funding gap between Higher Education and other forms of provision</i>	The Higher Education sector has become the best funded educational stage in England by far, while institutions such as FE Colleges have seen their funding fall, in some cases sharply. The gap has continued to widen since the introduction of tuition fees in September 1998. <sup>18</sup>
<i>The increase in HE fees has detrimentally impacted some groups of part time students.</i>	Despite the increase in fees for university-based tertiary education, there has been an increase in the proportion of disadvantaged students going to university. However, the increase has resulted in fewer part-time students going to HE institutions, as the funding arrangements available to them are less generous. This has been found to have a more detrimental impact among mature and black students, which in turn could result in a waste of talent which the UK cannot afford. <sup>19</sup>
<i>And the system has become very expensive for the taxpayer.</i>	The current system was expected to create price competition between universities, but virtually all are charging the top level of fees, without evidence that all of them offer value for money. In addition, it has expanded three-year degrees, while other forms of provision have

<sup>12</sup> OECD, 2013, 'Skills Outlook 2013'

<sup>13</sup> ILO, 2014, 'Skills mismatch in Europe'

<sup>14</sup> Both *over-qualification* and *overeducation* refer to individuals with a qualification higher than the one required to perform their jobs.

<sup>15</sup> Wolf, A., 2002, 'Does Education Matter? Myths about education and economic growth'

<sup>16</sup> Education Policy Institute, 2017, 'Apprenticeships for Northern Growth. Challenges, trends, and current reforms'

<sup>17</sup> Department for Education, 2017, 'Employment and earnings outcomes of higher education graduates by subject and institution: experimental statistics using the Longitudinal Education Outcomes (LEO) data' and related publications

<sup>18</sup> IFS, 2017, 'Long-run comparisons of spending per pupil across different stages of education'

<sup>19</sup> Education Policy Institute, 2017, 'University applications: what does the latest UCAS data tell us?'

	declined. This has resulted in a very expensive system. The Office for Budget Responsibility forecasts that public debt resulting from student loans will mount to more than 11 per cent of the GDP in 2040. <sup>20</sup>
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## Conclusion

Despite a high proportion of young people with university degrees by international standards, the UK faces challenges around productivity and youth unemployment. Some of this may be explained by the low proportion of people with vocational qualifications, failing to equip workers with skills demanded in the labour market. This imbalance between vocational and academic education stems from funding arrangements, which favours university education, and little availability of high-level vocational qualifications. Concerning skills mismatches and an expensive post-compulsory education system are consequences of this.

## If not, what changes are required to develop a system that meets the needs of enterprise and the labour market whilst providing good value for students and Government?

<i>We need a more balanced vocational and academic education provision.</i>	As we have set out previously, young people, employers, and UK taxpayers may not be benefitting from the current weighting towards academic degree level routes over vocational and other alternatives.
<i>The Post-16 Skills Plan may help...</i>	The government has stated and made clear its intention to clarify the provision of vocational education with the publication of the <i>Post-16 Skills Plan</i> and the establishment of fifteen vocational routes. <sup>21</sup> This mirrors the vocational education system in Norway, which also operates a range of routes. With all vocational qualification organised in such way we should expect students to easily navigate the system and reach higher levels of skills.
<i>...but there needs to be more clarity for young people...</i>	For anyone wishing to enter a post-16 academic route, the steps to follow are fairly clear: most people will sit their A-levels or an equivalent qualification granting access to university, and then enrol at a HE institution. For a student wishing to enter a vocational route after compulsory education, navigating available options, and where they might lead can be challenging. The system needs to be clearer than it is today, with sound pathways and connected provision at different levels of skills.

<sup>20</sup> Office for Budget Responsibility, 2016, 'Fiscal Sustainability Analytical Paper: student loans update'

<sup>21</sup> Department for Business, Innovation, and Skills, and Department for Education, 2016, 'Post 16 Skills Plan'

<p><i>...with improved careers advice...</i></p>	<p>Even if vocational routes are clarified and they are linked to jobs available and skills needed in the labour market, the UK will need to significantly improve its careers advice. The provision of careers advice has been found to be poor and patchy, failing to provide students with up-to-date information around qualifications and the labour market, with many left to make uninformed decisions. Counsellors are often (well-intended) teachers or other professionals lacking the necessary qualifications to provide such guidance.<sup>22</sup> This differs from what happens in other advanced countries. In Finland, counsellors are required to be fully-trained teachers and obtain a guidance and counselling qualification, and students are provided with 76 hours of counselling in primary and secondary education.<sup>23</sup> In Germany, where the education system is complex, students receive regular classroom-based guidance and visit career information centres.<sup>24</sup></p>
<p><i>... more provision of higher level qualifications...</i></p>	<p>If the current offer of level 4+ vocational qualifications is not expanded, progression to higher levels of skills will be unfeasible for most students. Furthermore, there are growing concerns that some apprenticeship standards are either too wide or too narrow to equip learners with the desirable level of knowledge and command.<sup>25</sup></p>
<p><i>...and more equal short-term financial incentives for young people to undertake apprenticeships or other vocational courses.</i></p>	<p>The short-term financial incentives for people to do level 4+ apprenticeships or other vocational qualifications may be weak. First, because the offer of higher and degree apprenticeships is still very small, but also because an apprentice earning the minimum wage (for many, £3.50 per hour) would obtain less income than they could get from a student loan. Although it is true that apprentices and college-based learners do not pay fees, university students do not face upfront costs either, and they will only pay their loan back if they do well in the labour market.</p>
<p><i>There needs to be clarity around how the government will spend the apprenticeship levy, while avoiding perverse incentives introduced by the system</i></p>	<p>The apprenticeship levy is intended to equip the vocational education sector with additional funding, and has been introduced in other countries before.<sup>26</sup> However, it remains unclear how the government expects it to be spent. Although the government estimates that it will raise an average of £2.675 billion from big employers in 2017/18, its expected expenditure is £2.010 billion for the same year,<sup>27</sup> which might make it difficult to meet its target of 3 million apprenticeship starts</p>

<sup>22</sup> House of Commons, 2016, 'Careers education, information, advice and guidance'

<sup>23</sup> Euroguidance, 2012, 'Lifelong guidance in Finland'.

<sup>24</sup> Hensen-Reifgens, K. A., Hippach-Schneider, U., 2014, 'Germany, VET in Europe – Country report', CEDEFOP

<sup>25</sup> Policy Exchange, 2016, 'The skills we need and why we don't have them'

<sup>26</sup> Department for Education, 2017, 'Funding and expenditure in post-16 education: an international review'

<sup>27</sup> Department for Education, 2016, 'Information on apprenticeship levy Data broken down by size and sector and the total apprenticeship budget'

	<p>between 2015 and 2020.<sup>28</sup> There is potential however that there may be a rush to meet this target, resulting in poorer-quality apprenticeships which, in turn, may fail to meet the needs of the British economy.<sup>29</sup> In any case, the government needs to present employers with a clear strategy, as some of them will be paying large levy bills and their investment in training needs to focus on plugging actual skills shortages and the needs of the economy, rather than subsidising or replacing existing training.</p>
<p><i>The funding gap between post-16 vocational and academic education needs to be more balanced</i></p>	<p>It is unlikely that vocational education can present an attractive alternative to university if the funding gap remains as wide as it is now. Even after the announcement of an additional £500 million a year for 16-19 vocational education <sup>30</sup> and £170 million to build Institutes of Technology, <sup>31</sup> vocational education is still considerably behind the HE sector, which has an annual income of £33.2 billion.<sup>32</sup></p>
<p><i>...and switching some of the three-year higher education provision to two-year programmes could help achieve this.</i></p>	<p>As we set out previously, universities have almost stopped offering short degrees. In our research, we estimated the potential savings to the taxpayers and the government from switching part of the HE provision to 2-year courses, through which some subjects may be more suitably delivered. We found that switching 30 per cent of current university students to 2-year courses would reduce the long-term tax payer costs (the RAB charge) by 17 per cent for a single cohort, or 34 per cent if those switching are students more likely to be low earners. This is equivalent to between £650m and £1.29bn per cohort, which could be used for other priorities such as vocational education provision.<sup>33</sup></p>
<p><i>Individual entitlements to tertiary education could help achieve a more balanced and financially sustainable provision</i></p>	<p>Our report <i>Remaking Tertiary Education</i> suggests the introduction of an individual entitlement that people can get in the form of loans in as many instalments they please, to study at an approved tertiary institution whenever they want. Such a system could create actual competition among universities to provide more value-for-money education, and reduce the incentive of young people to embark into three-year degree at a young age while ensuring they can acquire new skills later in life.</p>

<sup>28</sup> Department for Business, Innovation, and Skills, 2015, 'Government kick-starts plans to reach 3 million apprenticeships'

<sup>29</sup> IFS, 2017, 'Target of 3 million of apprenticeships and new funding system risk poor value for money'

<sup>30</sup> <http://feweek.co.uk/2017/03/04/chancellor-to-announce-over-500m-per-year-in-extra-funding-for-post-16-skills-reform/>

<sup>31</sup> HM Government, 2017, 'Building our industrial strategy'

<sup>32</sup> Universities UK, 2016, 'University funding explained'

<sup>33</sup> Education Policy Institute, 2016, 'Remaking Tertiary Education: can we create a system that is fair and fit for purpose?'

## Conclusion

The expansion in the provision of high quality vocational education in different forms might lessen the skills gap, whilst also reducing the overall costs of the current tertiary system. Clear pathways and better careers advice could make the value of technical education clearer to young people, families, and employers. Funding issues should be addressed, both to ensure provision of quality vocational education and to reduce the burden on the taxpayers. An individual entitlement to tertiary education at any stage of one's life could contribute to a more balanced system.

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