The Post-18 Education and Funding Review

Establishing a world-class education and skills system in England

February 2019

People and Skills

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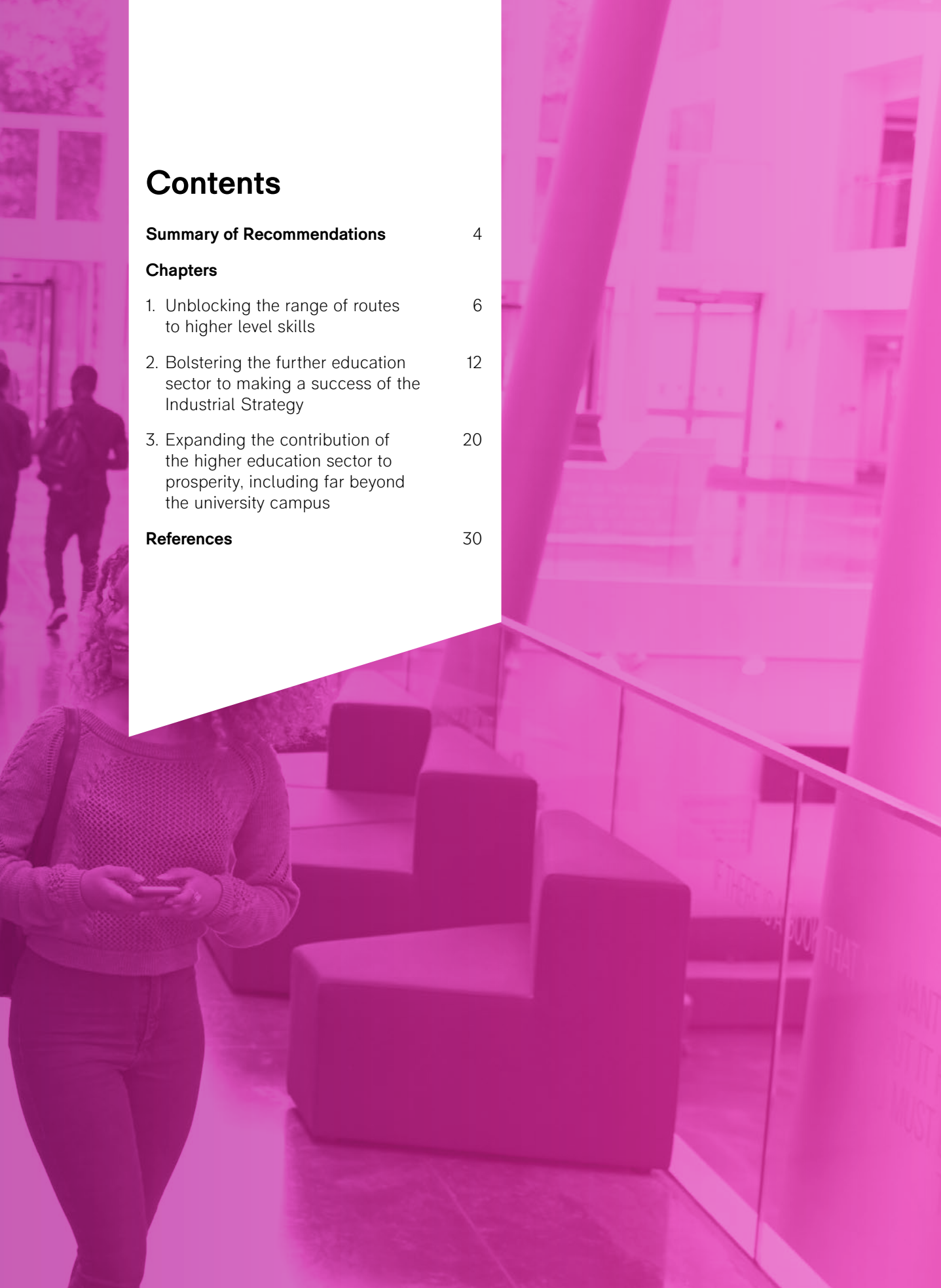

Summary of Recommendations

Recommendations for Government:

1. The post-18 education sector should support a wide range of courses, academic and vocational, to enable our future workforce to remain competitive, recognising the need to foster a broad and adaptable skills base in response to the Fourth Industrial Revolution.
2. Consider how a more modular education and funding system in post-18 education could be adopted to enable students to study at a time and pace which suits them.
3. Provided an individual does not hold a qualification at an equivalent or lower level, allow Advanced Learner Loans to be written off after the completion of a level 3 or level 4 qualification, as opposed to only being written off after completing a level 6 qualifications.
4. Support the expansion of level 4 and 5 qualifications across a wider range of sectors and industries in order to increase the routes to higher skilled jobs.
5. Improve information, advice, and guidance so that students have greater awareness of level 4 and 5 qualifications.
6. Given the economic and social contribution of the tertiary education sector Government should ensure that the level of funding given to universities and colleges is sufficient to support a world-class sector. The CBI will outline the fiscal implication of this in more detail ahead of the 2019 Spending Review.
7. Provide clarity to students and taxpayers on the split between university graduates and taxpayers in funding higher education to give greater certainty for future public spending.
8. Publish an annual impact report of widening participation spending and outcomes to Parliament.

Recommendations for Universities and Colleges:

1. Work with business to ensure course content and delivery is relevant and responds to labour market needs.
2. Build on the relationships between educational providers (including schools, further education colleges, universities, and alternative providers) to create clear pathways for learners from further education colleges into university and create a single framework for progression.
3. As the CBI-UUK work on flexible learning highlighted, given employers who do not have existing relationships with universities report that they find it difficult to begin engagement, work with Government and business on the review of the Teaching Excellence Framework (TEF) and development of the Knowledge Exchange Framework (KEF) to provide firms (and other stakeholders) with information on potential partnership opportunities.

Recommendations for Business:

1. Work with universities and colleges to help them ensure course content is relevant and matches labour market needs.
2. Work with providers to ensure programmes can be delivered on a more flexible basis in order to address the evidence in the CBI-UUK work on flexible learning, which highlighted employers can face barriers in working with universities due to the length of available courses.
3. Work with Government to help improve the provision of level 4 and 5 qualifications across a wider range of sectors and industries. Where provision is already established, firms should seek to share best practise with Government on how these types of qualification can become more widely available.
4. Business organisations, including the CBI, should improve awareness of the value of level 4 and 5 qualifications.
5. Work with the Careers Enterprise Company – in partnership with colleges and universities – to deliver high-quality information, advice and guidance about the whole range of post-18 options.
6. Work with the Government and universities on the review of the Teaching Excellence Framework (TEF) and development of the Knowledge Exchange Framework (KEF) to help ensure it is an accessible and provides a useful tool for those wanting to partner with a university.

Unblocking the range of routes to higher level skills

The post-18 education and funding review presents an opportunity to secure a world-class education and skills system in England…

The Prime Minister announced in February 2018 that the Government would be looking at reviewing the post-18 (tertiary) education sector in England to ensure more people have a genuine choice of high quality technical and academic options. This is a welcome ambition and one the CBI supports.

England is already home to a world-leading higher education sector and our universities are at the heart of making the industrial strategy work through the skills, innovation and entrepreneurialism they drive. Maintaining this contribution is an important priority during the review. Yet to truly build a modern and effective industrial strategy, the role of our post-18 further education sector must be strengthened, particularly in ensuring we have more levels 4 and 5 qualifications developed on the scale needed by businesses, and in flexible forms, that open up routes to great careers for people.

Achieving this will be ambitious, but it is urgently needed. Unblocking the pipeline to higher level skills is a key priority. Brexit may dominate the headlines, but gather any group of businesses together, anywhere in England, and discussion is certain to cover skills challenges.

…To achieve this vision, we must avoid pitting universities and colleges against one another.

The post-18 review is about creating more choice for students wanting to develop higher level skills, which ever route they choose. Too often the debate around tertiary education is framed as a binary choice between either academic or technical and vocational education. This is unhelpful and a false dichotomy.

The opportunity presented to us through this review is to create a far more joined up system; a system of bridges and ladders which enables students to benefit from a range of different types of learning depending on their needs and preferences. Universities are already delivering substantial vocational and technical education, and some 10% of all undergraduate higher education is in delivered in a further education college setting **(Exhibit 1)**.[1] Building on this collaboration – in partnership with business – is key.

Exhibit 1

The Open University - working with the further education sector to offer additional routes to higher-level skills

For 50 years, the OU has developed and incorporated best-in-class use of education technologies, making HE opportunities more accessible to individuals and employers, wherever they are in the world. Because of the unique way that the OU has evolved to deliver flexible distance learning, they are also able to offer packages to local FE colleges that not only enable them to build their own HE portfolio, but also enables them to build around OU online content, creating a more flexible, blended programme.

This brings many benefits to colleges and the learners in terms of more people being able to participate, and efficiencies in programme running costs. Equally important is the way that FE colleges build in a high level of local support, which again, makes the HE offering more viable for more learners with differing support requirements.

As an example of this collaboration, the OU has been working with Middlesbrough College to validate their higher education courses. Through this partnership, the College is now offering a portfolio of programmes mapped to the local economy and skills requirements, with programmes ranging from level 4 – 6, and in many cases incorporating an exit award at level 5 with the option to progress to level 6.

Dudley College of Technology – meeting the needs of the local economy in partnership with local universities

In response to the rising number of high-skilled Engineering jobs across the West Midlands, Dudley College of Technology has developed a range of initiatives working with its local Higher Education Institutions to meet the future higher level skills needs.

Working in partnership with Aston University, The University of Wolverhampton and Birmingham City University (BCU), the College has developed unique bridging programmes between its Higher National Certificate (HNC) programmes in Engineering disciplines to allow for a seamless transition from HNC to degree. They have also closely mapped the contents of their HNC delivery against the contents of their partner programmes to allow for maximum uptake. All of which have been driven as a response to employers, who have explicitly shaped the course contents to meet their specific needs.

The degree of flexibility on offer at Dudley, with courses running entirely in an evening, mean that about a fifth of their HNC students' who are typically in full-time work, progress to degree pathways every year.

Middlesex University – partnering with local colleges to support learners from a wide range of backgrounds

Middlesex University works closely with a network of further education colleges to clarify progression pathways through FE and HE to encourage learners from a broader range of backgrounds to progress to higher level skills and qualifications.

The University has developed a strategic partnership with Capital City College Group (comprising City and Islington College, Westminster Kingsway College and the College of Haringey, Enfield and North East London) to create progression agreements which will allow seamless learning pathways for people of all abilities, ages and needs.

Reaching 40,000 students, the collaboration encourages more alignment between the HE and FE apprenticeship offers by mapping provision and streamlining progression pathways across different subject areas, particularly in public services.

In a changing world of work, the UK's flexible and dynamic labour market is a huge strength...

Our economy is changing. While headlines about the scale of future job losses may be overstated, technological change will alter the make-up of the jobs in our economy. Maintaining our record high employment level will depend on how we adapt to this. Throughout successive revolutions – agricultural, industrial, information – the UK labour market has adapted well. However, if people are going to succeed in roles now – and in future – the skills they have, as well as their ability to upskill and retrain, will be a major determining factor. And, as we learned from economic changes in the 1970s and 1980s, regional growth and prosperity will depend on how we navigate this process.

The Fourth Industrial Revolution, the creation of innovative new products and services, or even changes to complex or new regulations, mean that people's jobs often require a higher level of education and skill.

This makes predicting future skills needs challenging. We do know however that the UK already has skills shortages in many areas – including STEM. We also know that our future success depends on a broad and balanced education offer at higher levels – beyond A-levels but not necessarily at degree level.[2] Our vibrant creative industries contribute more than £100 billion to the UK economy, demonstrating the important role arts and creativity have in driving growth in this area, alongside STEM.[3] Indeed, as the Institute for Fiscal Studies (IFS) has warned, a move towards a skills system which is focused on developing specific occupational skills could leave people more vulnerable to economic change, positive and negative. This underlines the importance of maintaining a post-18 education system with a wide range of courses and disciplines.[4]

...More needs to be done to help support those who face disruption to retrain and upskill alongside existing commitments.

The pace of economic change means that our education system needs to better adapt to our flexible labour market – something business and the education sector need to work together to deliver. With two thirds of the workforce of 2030 having already left full time education, our success in this area rests on the ability of the post-18 education system to allow people to upskill and retrain alongside existing commitments.[5] While it has been common practice to encourage employees to continue learning and developing throughout their careers, it is now becoming a necessity to upskill and retrain employees to stay competitive.

For a range of reasons – whether work, family, or other commitments – if someone can't study flexibly, they don't study at all. This matters not just for businesses who are looking to hire people with a higher-level skills to raise productivity or adapt to economic change, but also for the individual, for whom flexible studying offers an important chance for personal development or to change careers and retrain. The reality is that current funding mechanisms are tailored in favour of study for full qualifications. This leaves a gap for funding that encourages flexible learning where learners can study in modules.

Business is ready to play their part in facing this challenge. Nearly two thirds of firms (62%) in the CBI's 2018 Education and Skills Survey reported that they expected to retrain at least some employees to take up new roles in the year ahead.[6] This support can often be in the form of assistance with fees for relevant courses and time off for study or exams.

The Government also needs to play its part. The post-18 education funding system should become flexible enough to facilitate additional and alternative routes into 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 between work and study. As a result, learners could step-on and step-off formal education over their lifetime to build up to a full qualification, progress to higher levels of study, and credits could be transferred and accumulated.

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"Too often the debate around tertiary education is framed as a binary choice between either academic or technical and vocational education. This is unhelpful and a false dichotomy."

Bolstering the further education sector to make a success of the Industrial Strategy

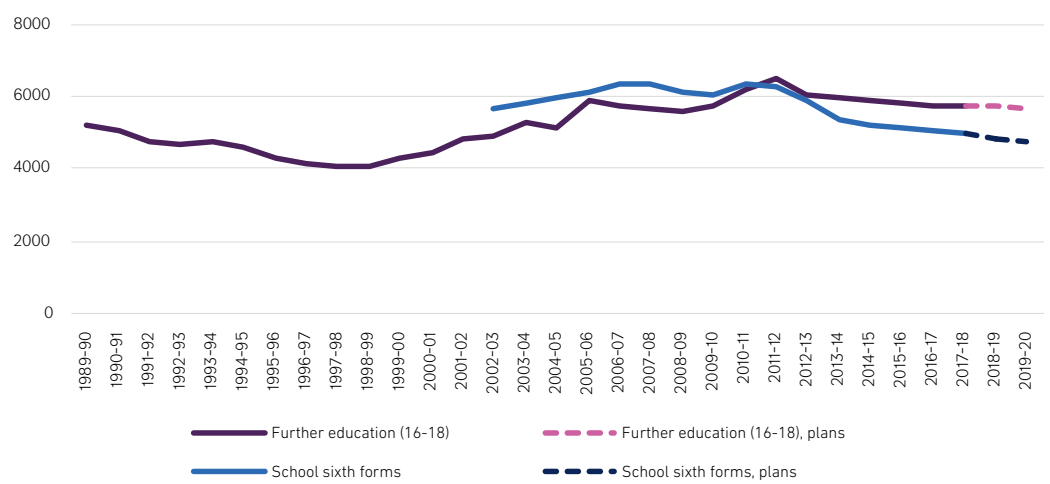
England's further education sector has been a historically neglected part of the education and skills system...

Further education funding has been squeezed significantly in recent years. As research by the IFS has shown, funding for 16- to 18-year-olds and for general further education has fallen significantly **(Exhibit 2)**. By 2019–20, funding per young person in further education will be at about the same level as in 2006–07, and only 10% higher than it was in 1989-90 – thirty years ago.[7]

On top of this, the increase to the school leaving age means that sixth forms and colleges are holding on to an increasing proportion of 16 to 18-year old learners, meanwhile the higher education sector – making the most of the lifting of the student number cap – have accepted growing numbers of school leavers. Taken together, these developments have meant that the post-18 further education sector has had parts of its traditional markets steadily eroded.

Exhibit 2 Spend per FTE student in 16-18 further education and school sixth forms

Source: IFS, 2018 Annual Report on Education Spending in England



...Strengthening the further education sector should not however come at the expense of higher education...

A high-quality technical route that is of equivalent value and esteem as the well-established academic route is a long-held ambition for business. But so too is protecting our world-class higher education sector. In seeking to create parity of esteem between academic and technical education, it is important we boost the prominence of technical education, rather than knock-down the academic route.

...The further education sector does has a vital role to play in tackling our skills challenges and improving social mobility as one of a range of routes to higher-level skills.

High quality technical and vocational options, which offers people clear progression, is a vital part of building a education system fit the modern world.. Change in this area is not going to be straightforward and we must not underestimate the scale and complexity of the challenge.

Alongside apprenticeship reforms, the Government's proposals for T-levels (at level 3) and higher T-levels (at Level 4 and 5) are welcome and will go some way to providing a high-quality technical route that is of equal value and esteem as the academic A-level at age 18. As business leaders often tell us, the ladder for academic routes to skilled jobs is clear – GCSEs, A-levels, university degree – but for many other sectors there is not yet an equivalent coherent, high quality, and widely known technical route.

The role of colleges and the further education sector is central to this reform if access is to be widened and fair. Further education colleges have particular strengths in reaching out to non-traditional learners – particularly mature and part-time students – and equipping them with the skills, knowledge, and capabilities to succeed. For instance, both full-time and part-time learners in further education colleges are more likely to come from geographical areas that traditionally have the lowest rates of participation in higher education.[8] Their success in this area should be a cause for celebration and underlines the important role of England's further education sector in improving social mobility as one of a range of routes to higher level skills.

With funding for further education falling in real terms in recent years, the 2019 Spending Review must reverse this to allow the further education sector to improve high-quality technical routes that set learners up with clear progression opportunities to further study, an apprenticeship, or employment. The CBI will outline the fiscal implication of this in more detail ahead of the 2019 Spending Review.

One of the key challenges is creating more opportunities to study for qualifications which sit between A-levels and a university degree...

Part of the development of a high quality, technical route to skilled jobs is the opportunity to study for qualifications which sit between A-levels and a university degree. This is a crucial missing part of the education system and needs to be addressed through this review.

The CBI recently partnered with Universities UK (UUK) looking at how, in a changing world of work, we can develop additional and more flexible routes to higher level skills. Evidence from this project, as well as that from the Government, shows employers clearly value and place a great emphasis on level 4 and 5 education.[9] Yet, at present, for those who reach a level 3 qualification (equivalent to A-levels), the lack of visibility or awareness of opportunities at sub-degree level (levels 4 and 5) means there is a perception that people need to go straight to degree level provision (at level 6) if they are to continue learning.

This creates an imbalance in our post-18 system and means that provision is not aligned to demand or the needs of business. Analysis by Government suggests redressing this imbalance could help boost productivity as well as improving people's pay and living standards.

Looking at the median earnings of the 2004/5 GCSE cohort, those who have achieved level 4 or 5 qualifications by the age of 23 have a median income around £2,000 higher at the age of 26 than those whose highest qualification is at level 3.[10] On top of this, those with a level 4 or 5 qualification were also consistently more likely than those with level 2 or level 3 qualifications to be in sustained employment.[11]

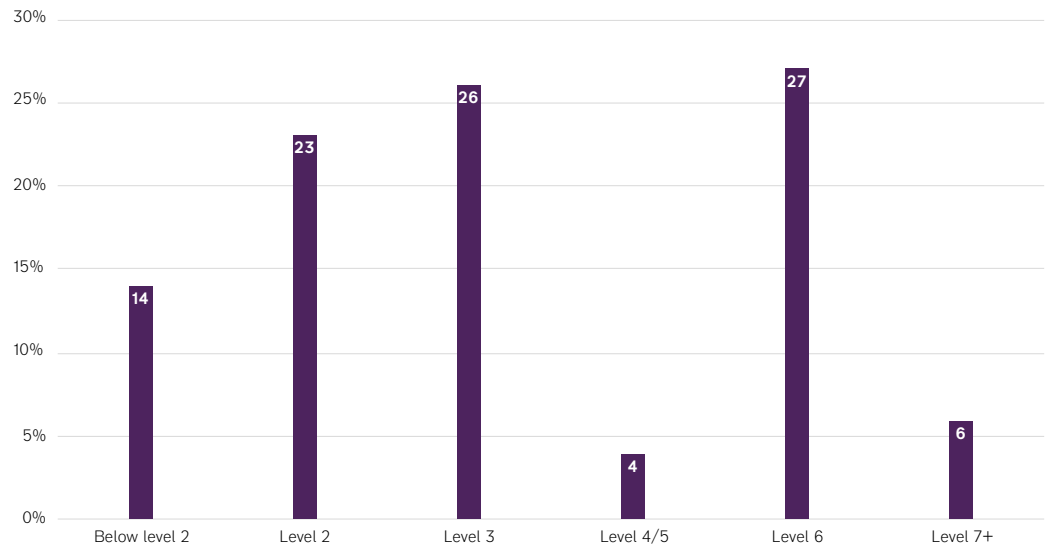
...Government should look to encourage this type of qualification to help provide additional routes to higher skills...

In order to address this, we need to tackle what the Education Secretary identified recently as the UK's 'hour glass' shaped skills problem.[12]

As well as expanding provision at level 4 and 5, young people must have access to high quality career guidance, addressing the all too common situation where school children can receive asymmetric information that emphasises the well-known route towards university at the expense of other options.[13] The lack of learning opportunities between A-level and degrees therefore acts as a brake on people progressing to intermediate and higher level skills or the perception that learners need to go straight to level 6 (or degree-equivalent level) study in order to progress. Whilst the increased number of students attending university is welcome and desirable, the lack of awareness over alternative routes to higher level skills is not **(Exhibit 3)**.

Exhibit 3 Highest Level achieved by 25 - England, cohort that undertook GCSEs 2004/05

Source: DfE, Post 16 Education Pathways, cohort study of individuals who undertook GCSEs in 2004/05



The Government's level 4 and 5 review, along with their backing for the expansion of higher level apprenticeships and higher T-levels, is part of the solution but awareness of level 4 and 5 provision appears to be weak and often concentrated in certain sectors. Where this is the case, firms inevitably tend to focus their recruitment towards more established routes, including school leavers and graduates.[14] There is a strong case, therefore, for greater support for those wishing to progress into level 4 and 5 and provide a clear pathway into higher levels should they wish to progress further.

This could be achieved through Government supporting collaborative activity between employers, higher and further education, targeted at sectors in need of level 4 and 5 skills. This activity could include developing and providing flexible courses at levels 4 and 5 to meet the needs of learners and employers, backed and co-designed with employers. As well as stimulating learner demand for level 4 and 5 skills and helping align provision to the labour market, this approach could also help to build long-lasting partnerships between higher and further education institutions and employers.

As such, provided an individual does not hold a qualification at an equivalent or lower level, the Government should consider writing off Advanced Learner Loans after the completion of a level 3 or level 4 qualification, as opposed to only a level 6 qualification. CBI analysis shows that writing off advanced learner loans for level 3 and level 4 qualifications will cost on average £158m per year if applications were to remain constant.* However, as this recommendation will incentivise more learners to participate in level 3 and 4 qualifications by taking out an advanced learner loan, the cost is likely to be substantially more depending on the impact on demand. As part of this, the Government should also pay close attention to non-completion rates at level 3 and 4 to ensure that learners who do not complete their qualifications due to financial concerns, or due to reasons beyond their control (such as institutional failure), are not then burdened with additional debt. While this cost is significant, the potential economic return from more people progression beyond level 3 is clear.

...Getting more people to level 4 and 5 also means supporting progress from GCSEs to level 3...

The challenge therefore lies in expanding the middle section of this skills hourglass. As the CBI's *In Perfect Harmony* report highlighted, there remains a significant group of adults who do not have basic skills – 17.2% of those in the working-age population are effectively below GCSE level.[15] Separate analysis by the Higher Education Policy Institute (HEPI) shows a similar picture for young people – with many appearing to step off of education at GCSE and A-levels rather than progress onto higher level skills, regardless as to whether they are provided through a university, college or via in-work training.[16]

As such, the shortfall of people studying higher technical qualifications (at level 4 and 5) appears not to have been caused by the increase in those studying at degree-level, but by the high number of learners who fail to achieve level 3 qualifications – the level which opens up progression onto levels 4 and 5 provision, as well as degree-level provision.

* *This analysis is based on applications for advanced learner loans and loan amounts from the dataset: Advanced learner loan application information statistics to September 2018, Department for Education and Education and Skills Funding Agency. It assumes the write off rate for applicants will be close to 100% given those that pass will see their loan written off and those that fail or do not complete the qualification are highly unlikely to meet the criteria to pay back the loan.*

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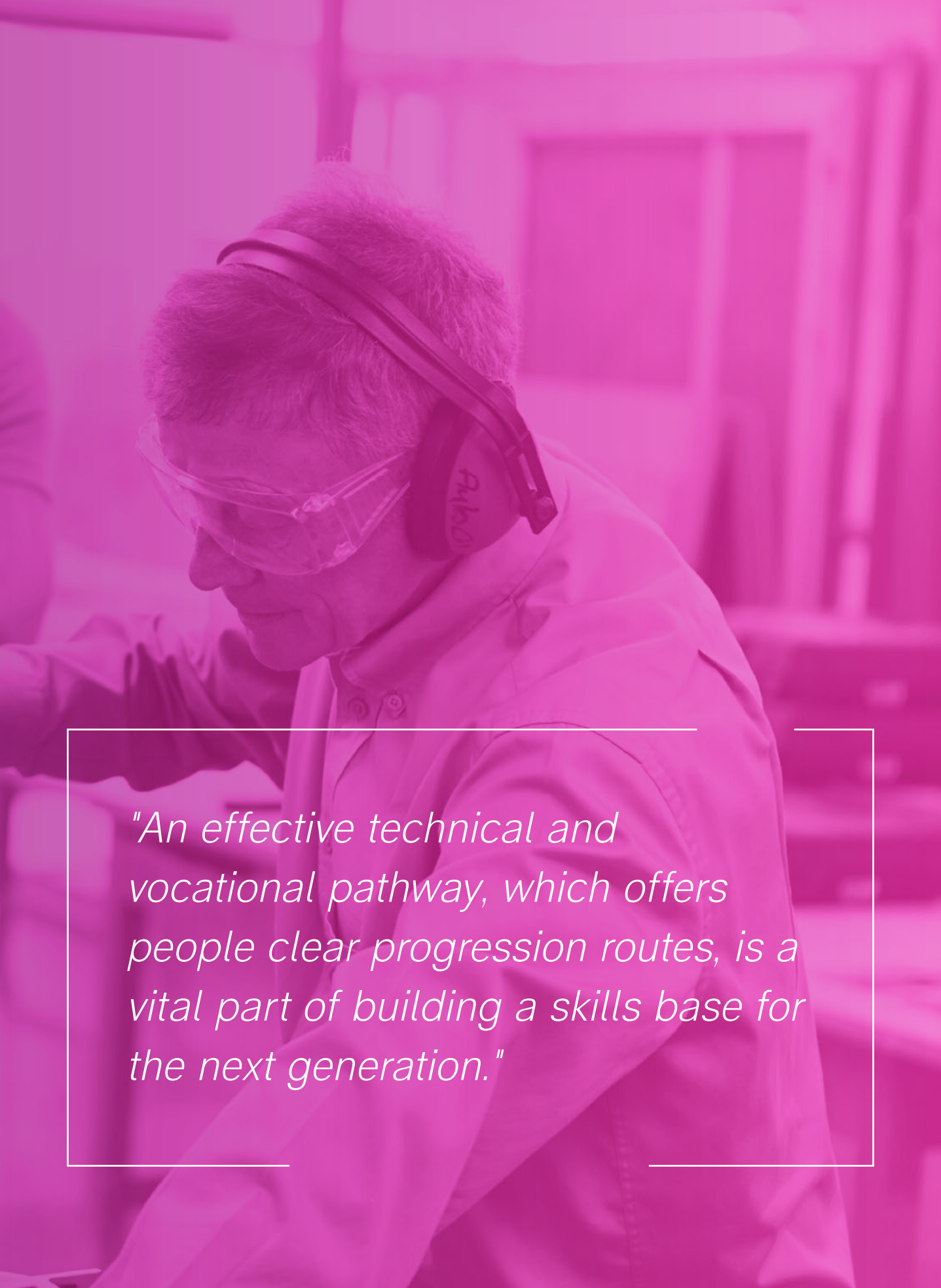


"An effective technical and vocational pathway, which offers people clear progression routes, is a vital part of building a skills base for the next generation."

Expanding the contribution of the higher education sector to prosperity

The contribution the university sector makes to prosperity is vast and extends far beyond a university campus...

Higher education is an area where England is a genuine world-leader and is home to several of the world's finest universities – including the top two ranked institutions in the world.[17] They are at the heart of making the industrial strategy work through the skills, innovation and entrepreneurialism they drive.

With the Government keen to increase exports, our universities represent a clear success story. The sector represents a major UK export industry and generated £13.1 billion in export earnings in 2014-15.[18] The economic effect of this is substantial. Not only are the benefits felt by those who work within and alongside universities, but the ripple effect is much broader and impacts across a wide range of goods and services. UK universities, together with their international students and visitors, generated £95 billion of gross output in the economy in 2014-15 and supported almost a million jobs.[19]

Universities also play an essential role within research and innovation, driving forward innovation. This makes them key to realising the Government's aim to increase investment in R&D to 2.4% of GDP by 2027. The most recent exercise measuring the quality of UK research, 76% of the work submitted by universities was regarded as internationally excellent or world-leading. Despite the UK having just 4% of the world's researchers, they generate 16% of the most highly-cited papers. From the development of new products and services, to furthering our understanding of the world, universities punch well above their weight **(Exhibit 4)**.

Universities stand shoulder-to-shoulder with other giants of our economy, making them an indisputable international competitive advantage.

Exhibit 4

King's College London – driving forward 5G research

The UK is establishing itself as a global leader in developing, trialling, and implementing 5G solutions and King's researchers are capitalising on the university's position in the heart of the city to trial ground-breaking 5G technology that will transform how we communicate and connect.

This technology offers not just higher bandwidth, but also greater capacity, security and productivity. In 2017, King's made history by achieving the UK's first successful 5G test independent of existing 4G technology. Alongside experts from Vodafone and Swedish telecoms company Ericsson, a team of King's academics used a prototype device that employs multiple antennae to send and receive data more efficiently in crowded areas.

This equipment uses multiple antennae to send and receive data more efficiently in crowded areas where vast numbers of people try to connect at the same time. It is hoped that the improved technology will allow smartphones to reach data speeds in excess of 500 megabits per second, with data transmission expected to be around 10 times faster than 4G.

The University of Manchester – bringing clean water to the world

Nearly one-fifth of the world's population – 1.2 billion people – live in areas plagued by water scarcity. Breakthrough research involving the two-dimensional material graphene has demonstrated a possible much-needed solution.

World-leading work from a team led by Professor Sir Andre Geim at The University of Manchester has shown that graphene could provide simple, efficient technologies for ready access to clean water. The research team at Manchester's National Graphene Institute have succeeded in making artificial channels just one atom wide for the first time. The new capillaries, which act like natural protein channels, are small enough to block the smallest ions like sodium and chloride but large enough to allow water to flow through freely.

These structures could be ideal for the next-generation of efficient desalination and filtration technologies across the globe. This could mean affordable water filtration in countries that cannot afford large-scale desalination plants, giving clean water to millions of people who need it most. The revolutionary properties of graphene – flexible, strong and conductive and just one-atom thick – have been inspiring scientists and captivating industry ever since the material was first isolated at The University of Manchester in 2004.

...businesses demand for university graduates continues to rise.

Businesses have increased their demand over recent years for the type of skills and capabilities that higher education aims to develop in students. The CBI's 2018 Education and Skills Survey found nine in ten businesses that employ graduates (87%) have either maintained or increased their levels of graduate recruitment over the past year.[20] Graduates and postgraduates still also enjoy large earnings premiums compared to non-graduates.[21]

Moreover, recent innovations in learning and teaching demonstrate how universities have evolved to meet the changing needs of our population and economy. Degree apprenticeships are one of the latest examples of how universities and colleges are developing new approaches to learning and teaching and our work with UUK on flexible learning found many good examples of employers working with the tertiary sector to ensure they are better meeting the needs of the labour market.

There is still much more that universities and colleges can do to work with business (and vice versa), but we also need to celebrate progress in this area and recognise the willingness of the sector to respond to the changing needs of students, business and the wider economy **(Exhibit 5)**.

Exhibit 5

The University of Portsmouth – supporting local community services

In 2015 the University of Portsmouth's Institute of Criminal Justice Studies started a formal partnership with Hampshire Constabulary through the Forensic Innovation Centre (FIC). The FIC is an innovative and unique partnership and the first operational police forensic research facility in the UK to be based on a University campus. It combines police investigators with an advanced learning facility for researchers, students and serving police staff.

Hampshire Constabulary use the centre for some of their own research work and, in return, offer placement and intern opportunities to students. Through mutually beneficial projects in the FIC, students are gaining important, unparalleled experience of working on the frontline of police forensics, while police staff gain access to teaching support and University resources which can help with their own professional development.

In addition, Hampshire Constabulary has instant access to a pool of potential future employees who have been fully vetted, trained to its own specifications and, in some cases, taught or mentored by police staff. The University is now starting to see some of their students achieving full-time employment with the police as a direct result of their immersive work experience during their studies.

The University of Sheffield's AMRC Training Centre – identifying and providing the skills needed by local manufacturers

The AMRC Training Centre – part of the research-intensive University of Sheffield – is regarded as the 'Centre of Excellence' for apprenticeship and CPD delivery within the Yorkshire & Humber region. The state-of-the-art centre offers the very best in practical and academic training.

Working with employers, the AMRC Training Centre works to identify and provide the skills required that manufacturing companies need to compete globally, from apprenticeship through to doctorate and MBA level. As part of this work, the Centre has developed a range of learning pathways from traditional to higher apprenticeships.

These pathways are opening degree opportunities in engineering to both learners and industry in a region where higher-level skills are in short supply: skills that are critical to driving improvements in productivity and in attracting inward investors such as Rolls-Royce, Boeing and McLaren. Since the Training Centre was established six years ago, more than 300 small and medium-sized manufacturing companies in the Sheffield City Region have sent in excess of 1,300 learners to be trained at its facilities.

Reductions in funding for universities risks undermining the contribution the sector makes to the economy...

Business recognise and value the contribution that the UK's world-class higher education sector makes towards the economy. Universities also play a significant role within the local community with the benefits being felt far wider than just on a university campus. They work alongside local businesses and act as major hubs for investment, for example. Reductions in funding would undermine this.

Reducing tuition fees to £6,500 a year, without this funding being replaced, could lead to a shortfall in funding of almost £3 billion across the sector.[22] A loss of funding on this scale could seriously undermine the sustainability of some institutions and force universities to cut back investment in those areas which are not central to an institution's core mission.

Whilst it is impossible to predict with any precision those areas which would be impact by this cut in funding, evidence suggests that a reduction in funding towards our higher education sector risks:

- Reducing the breadth of subjects **(Exhibit 6.1 & Exhibit 6.2)** provided by universities (particularly those which are more expensive to deliver, such as science and engineering courses).
- Undermining the teaching and research excellence (with less funding available for capital investment and facilities).
- Stalling progress in widening participation which has enabled far more young people from disadvantaged backgrounds to benefit from the opportunities that come with a university education.

Exhibit 6.1 Cost of lab-based science and engineering subjects

Source: Russell Group, Average undergraduate teaching costs compared with income under the proposed fee and grant changes in 2018/19

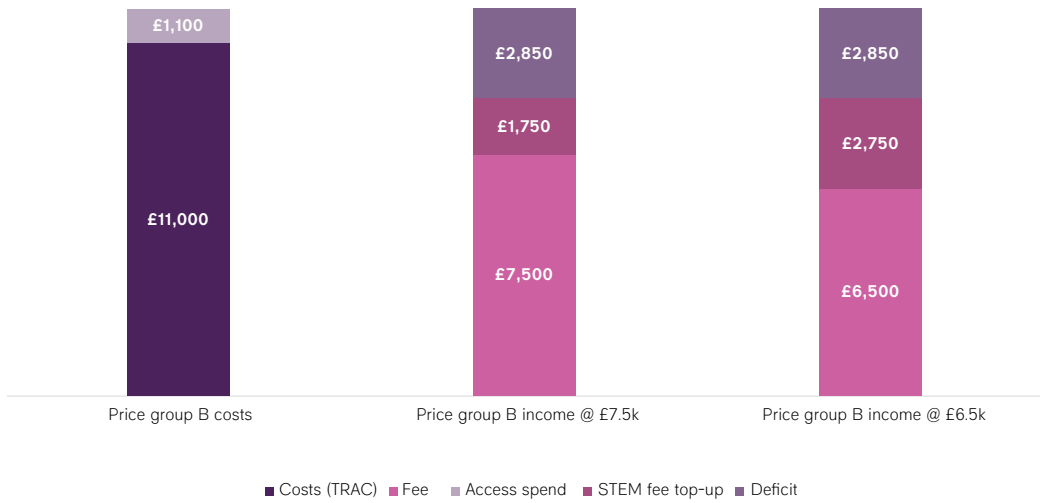


Exhibit 6.2 Cost of other high-cost subjects (such as archaeology and creative arts courses)

Source: Russell Group, Average undergraduate teaching costs compared with income under the proposed fee and grant changes in 2018/19

...the impact could also be regressive and risk reversing progress in widening participation and access.

The income-contingent loan system means that students applying to university do not have to pay for their contribution up-front. Instead, repayments only occur once a graduate is in employment and above a certain income-level (currently 9% of earnings over £25,000).

This creates a progressive repayment system whereby graduates pay back only what they can afford, with the highest earning graduates paying back the most.[23] Since the 2012 reforms, it takes much longer for the richest graduates to repay the full amount of their loan – meaning they make by far the biggest contribution– whilst having only a negligible impact on the lowest 20% of earners, given they never repay the full amount of their 'debt' **(Exhibit 7)**.

A cut in university funding would also put huge pressure on funding available for outreach and widening participation. Since 2012, universities and colleges wanting to charge the maximum graduate contribution (currently £9,250) must meet certain conditions on widening participation and fair access in the form of an Access Agreement, detailing how they will use a portion of the additional income to help more students from disadvantaged backgrounds. These reforms have been important to improving access to higher education with participation to university growing significantly over recent decades, with a marked increase in participation from those at the lower end of the income distribution and a record percentage of young people from disadvantaged backgrounds now entering university.[24]

The gap in participation rates however between the most and least advantaged remains significant, with universities needing to better measure the impact of their widening participation activities. Importantly though, progress is being made.

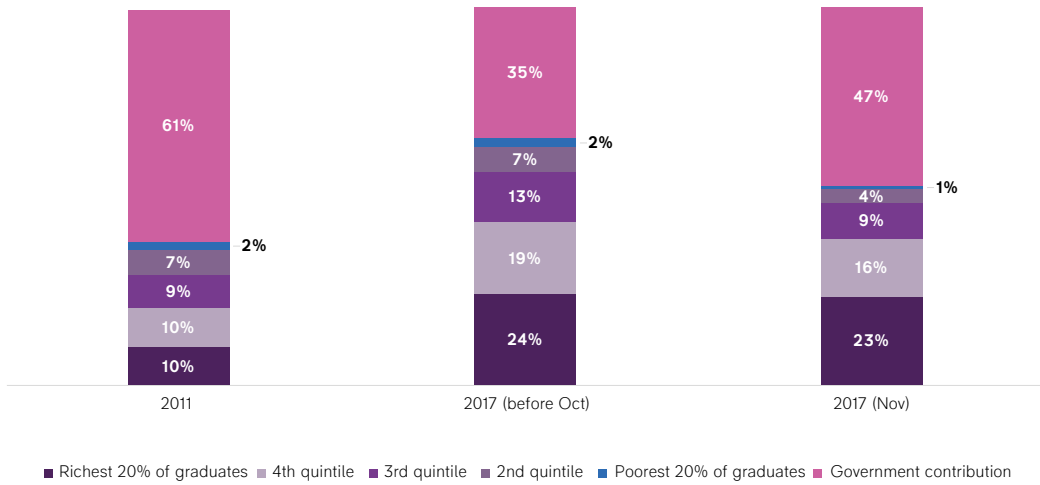
A fair and progressive system for university funding should balance the costs between graduates – as the primary beneficiaries of a university degree – and taxpayers...

Prior to the introduction of tuition fees (or a graduate contribution towards higher education), university's teaching income was funded almost entirely via teaching grants from the Government. This has now shifted much more towards student's contributing towards their education in the form of tuition fees.

Importantly, the income-contingent loan system means that students applying to university do not have to pay for their contribution up-front. Instead, repayments only occur once a graduate is in employment and above a certain income-level (currently 9% of earnings over £25,000). This creates a repayment system whereby students are not prevented from attending university due to financial reasons, but it also makes repayments progressive with graduates only paying back what they can afford, and the highest earning graduates paying back the most – regardless of what they studied **(Exhibit 7)**. As routes into graduate careers become more complicated and the jobs themselves are changing, this is an important principle to maintain. The alternative, such as setting tuition fees on the basis of course studied or predicted labour market outcomes, is risks perverse and unintended consequences.

Exhibit 7 Projected student loan repayments by quintile

Source: IFS, Presentation to the Russell Group board



...to preserve the long-term sustainability of the system, the post-18 education review should outline what they consider to be an optimal split between the contribution of graduates and taxpayers...

The past 20 years have fundamentally shifted the financing of higher education in England away from grants towards loans. As Exhibit 7 shows, the 2012 reform combined a large increase in the graduate contribution with a large cut in teaching grants. This reform has, however, meant the long-run taxpayer contribution towards higher education has become considerably less certain.

The 30-year repayment term means the cost to the taxpayer for the 2017–18 cohort will for example depend on graduate earnings up to and beyond 2050.[25] Recent forecasts estimate the potential write-off (or 'RAB charge') to be between 40-45% of the total loan book. Had this RAB charge been applied to the student loans issued in 2016–17, the level of write-off in the DfE Accounts would be between £6.2 billion and £7 billion of the £13.6 billion of loans issued.[26]

...And better explain this split to students, graduates, and taxpayers.

The decision by the ONS to reclassify how the Government' classifies the student loan book and maintenance loans is the right one. Greater transparency on how taxes paid by individuals and business are spent, including on universities, is essential and ultimately improves policymaking. The Review, however, should use this as an opportunity to outline what they regard as an optimal split between graduates and taxpayers in order to provide greater certainty for future public spending and preserve the long-term sustainability of the system.

Students must be able to easily comprehend the student loan system. Given the writing off of a significant proportion of student loan book is a deliberate feature of the system – in other words, to ensure the system is both progressive (in balancing the costs between graduates and taxpayers) and to enable an investment in our country's future skills base – more could be done to communicate this fact to students and taxpayers.[27]

Summary of Recommendations

Recommendations for Government:

1. Given the economic and social contribution of the tertiary education sector Government should ensure that the level of funding given to universities and colleges is sufficient to support a world-class sector. The CBI will outline the fiscal implication of this in more detail ahead of the 2019 Spending Review.
2. Provide clarity to students and taxpayers on the split between university graduates and taxpayers in funding higher education to give greater certainty for future public spending.
3. Publish an annual impact report of widening participation spending and outcomes to Parliament.

Recommendations for Universities & Colleges:

1. As the CBI-UUK work on flexible learning highlighted, given employers who do not have existing relationships with universities report that they find it difficult to begin engagement, work with Government and business on the review of the Teaching Excellence Framework (TEF) and development of the Knowledge Exchange Framework (KEF) to provide firms (and other stakeholders) with information on potential partnership opportunities.

Recommendations for Business:

1. Work with the Government and universities on the review of the Teaching Excellence Framework (TEF) and development of the Knowledge Exchange Framework (KEF) to help ensure it is an accessible and provides a useful tool for those wanting to partner with a university.

"As anchor institutions, universities play a significant role within the local community with the benefits being felt far wider than just on a university campus."

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