

# **Higher Education, Skills and Employer Engagement**

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## Introduction

1. It looks as though we are acquiring a national skills policy once again. Late last year, the Government published Lord Leitch's report into adult skills<sup>1</sup>. The report stressed the importance of a 'demand-led' system in which the preferences of employers dictate the pattern of post-compulsory education whilst at the same time presenting analysis which suggests a link between the aggregate level of skills and productivity.

2. Intellectually, Leitch did not resolve the tension between targeting provision to meet the needs of employers and allowing providers to respond directly to student demand (which is the most efficient means of maximising aggregate skills levels but not necessarily of ensuring a match between those skills and the needs of employers). For all practical purposes, however, the message was clear: providers of post-compulsory education need to be much more focussed upon what employers want.

3. In the unfolding of this agenda, it is the role of government which is at stake and not (directly) that of universities, colleges, students and employers. In the past, government has been either a sleeping partner allocating funding in response to shifting patterns of student demand (in higher education) or an active planner directly controlling supply (in further education). The Leitch concept of an 'employer-demand-led' system is a quite distinct third way. It represents a shift away from the notion of the student as the primary customer of post-compulsory education to a new emphasis upon the preferences of employers. The student remains indispensable (courses cannot run if no-one wants to study them) but where the new principles apply, employer preferences will determine whether or not the Government is prepared to contribute to the costs of education.

4. This leaves the question of how employer preferences are to manifest themselves. Given that the demand from employers to contribute directly to the costs of higher education is weak, it is likely that a greater sensitivity to employer preferences will not be achieved through market pressure (unless employers are awarded vouchers to spend in educational institutions). Meaningful implementation of the Leitch agenda in higher education is likely to involve government agencies articulating employer views to universities and using the Government's funding muscle to ensure that they are given due weight. In other words it implies a move away from responsiveness to (student) demand towards a model in which the state becomes a 'hands-on' investor.

5. Each year, the Secretary of State for Education and Skills writes to the Chairman of the Higher Education Funding Council for England

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<sup>1</sup> *Prosperity for all in the global economy – world class skills*  
[http://www.hm-treasury.gov.uk/independent\\_reviews/leitch\\_review/review\\_leitch\\_index.cfm](http://www.hm-treasury.gov.uk/independent_reviews/leitch_review/review_leitch_index.cfm)

confirming the Council's grant and setting out his priorities. This year, Alan Johnson placed particular emphasis upon the implementation of the Leitch report:

" On employer engagement, Sandy Leitch's recent report has set out the importance of developing a high-skills workforce, with an ambition that by 2020 over 40 per cent of the population aged 19 to State Pension age should be qualified to level 4 or above. That is a rise from around 29 per cent at present."

2007 HEFCE Grant Letter <http://www.hefce.ac.uk/news/HEFCE/2007/grant/letter.htm>

6. The Leitch report also recommended that "a portion of higher education funding for vocational courses, currently administered through HEFCE in England [should] be delivered through a similar demand-led mechanism as Train to Gain. This should use government funding to lever in greater investment by employers at level 4 (undergraduate certificate level) and level 5 (undergraduate diploma level)"

7. The Secretary of State endorsed this in his instructions to HEFCE:

"It will be important that the Higher Level pathfinders through Train to Gain operating in three regions are successful and lessons can be learned in good time so as to inform the expansion of Train to Gain<sup>2</sup>. I will look to you and the Learning and Skills Council to work closely together to provide assurance that the ambition set out by Sandy Leitch for the expansion of Train to Gain and Higher Education can be delivered by building upon the skills brokerage model already successfully implemented for the lower level skills."

8. He also urged HEFCE to ensure that universities are ready to cater for the products of vocationally focussed level 3 courses designed (unlike much vocational provision in the past) to enable individuals to progress to HE:

"I would like the Council to consider how it can help the HE sector to prepare for our reforms to the system of 14-19 education. Most of the reforms will be of direct interest to Higher Education Institutions. Potentially, large numbers of students could be applying to higher education with the new Diploma qualification and it is important that higher education is engaged in its development and that institutions are aware of the impact Diplomas will have on their own curricula."

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<sup>2</sup> Train to Gain in the FE sector has two elements: a 'brokerage' service designed to stimulate demand for employer-led provision by strengthening local links between colleges and companies wishing to purchase training for their employees and a funding element linking a part of government support to the success of colleges in attracting more business from these employer-customers. In Higher Education the brokerage model is currently being piloted in three regions (the 'pathfinder' projects). At the time of writing the extent to which government funding for HE will be directly linked to employer demand and the mechanism to be used are still unclear.

9. The following sections of this report look at each of main elements of the emerging agenda and consider some of the challenges the HE sector will face in meeting them. In turn they consider the issues of:

- Targeting older learners: increasing the participation of older people already in the workplace participating in HE
- Employer engagement: providing employers a stronger voice in higher education and persuading them to shoulder a proportion of the costs of vocational courses
- Catering for young learners with vocational qualifications: ensuring that universities are ready to provide for young people with vocational level 3 qualifications.

10. These are the subjects of this report, which is not concerned more generally with the beliefs and assumptions that underpin the Leitch report. In particular it does not address the belief that higher levels of educational qualifications equate to higher productivity, and are self-evidently desirable. The question of the relationship between levels of education and national wealth was treated in an earlier HEPI report<sup>3</sup>: the relationship is in fact complex and is not self-evident. More particularly, the Leitch report's assumption that it is the possession of level 4 qualifications that leads to higher productivity rather than, say, short modules of continuing vocational education, is one that needs to be explored<sup>4</sup>. The arguments and the relationships are subtle, but are not discussed in this report, which accepts at face value the Leitch view that higher levels of qualification are desirable.

11. Nor does this report discuss the somewhat narrow view that Leitch takes of what constitutes higher level skills – he appears to define them largely in terms of the knowledge an employee needs to do an immediate job of work for an employer, disregarding the analytical skills and deeper more generic knowledge that it has in the past been uniquely the function of higher education to provide. This report is concerned with the practicalities and the implications of the Leitch report and the Government's proposals so far.

## **Targeting older learners**

12. The shift of emphasis from targets for young participation in higher education to older learners is welcome. Older learners may be a relatively

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<sup>3</sup> *Graduate Supply and Demand: a consideration of the economic evidence* (HEPI, 2003)  
<http://www.hepi.ac.uk>

<sup>4</sup> There is no doubt that there is great scope for increasing the HE sector's share of the CVE market: the HEFCE 2006 Business and Community Interaction Survey puts universities' income from CVE at about £285 million of a total market estimated to be worth several billion pounds.

small proportion of the HE population but the provision of opportunities for older learners to access HE is disproportionately important to those who fail to maximise their potential at school. There was always the risk that, had participation targets focussing exclusively upon young learners been used over a long period to judge the success of government HE policy, funding bodies and institutions would respond to this incentive to divert resources from older learners to younger ones. So the Leitch emphasis on access for older learners is extremely welcome.

13. However, the Leitch target that 40 per cent of the 19-65 population should hold a level 4 qualification by 2020 is in fact no target at all: it is his estimate of the proportion of the 19-65 population that will have level 4 qualifications if the Government's present targets for higher education are met. And the only Government target for higher education on which this is based is to "work towards" 50 per cent of the 18-30 population participating in higher education by 2010 – there are no targets for older students. The Leitch report contained no details of the modelling that led to its conclusions, nor has it been possible subsequently to replicate the calculations. However, putting that on one side, and putting on one side also that "working towards" is a peculiar sort of target, it may nevertheless be plausible that around 40 per cent of the working age population will hold level 4 qualifications – or at least will have participated<sup>5</sup> in higher education – by 2020, if at some point between now and then the participation rate of the under 30s rises to 50 per cent<sup>6</sup>. However, that would be achieved entirely by the under-30s and has no bearing on the participation of older students.

14. In fact, although the 40 per cent figure is not a target, Leitch does go beyond this. He states that in order to be world class in skills (which he thinks we should aim to be) we would need to have 45 per cent of the 19-65 population educated to level 4 by 2020. That is hugely ambitious, implying the participation of a further 1.5 million students. To put that into context, Leitch estimates that there are currently something like 8.7 million holders of level 4 qualifications. If the Government's 50 per cent target is met there will be 12 million. To achieve the Leitch 45 per cent target there would need to be 13.5 million holders of level 4 qualifications in the working population. There is little scope for plausibly increasing the target for participation by the under-30s, so this increase will need to come from those over 30, whose participation is almost exclusively part-time. The forthcoming HEPI report on Demand for HE estimates that

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<sup>5</sup> In fact the Leitch targets are stated in terms of the number of qualified workers, but for consistency and convenience the discussion here is in terms of participation. It should be noted though that especially in terms of part-time students this has the effect of significantly understating the numbers that will be required to meet the Leitch numbers.

<sup>6</sup> However, even that is not a foregone conclusion. The Higher Education Initial Participation Rate has been stuck at around 40-43 per cent for several years since it was first calculated 7 years ago, so it will take an increase of 15-20 per cent to achieve the 50 per cent target, whereas there has been little movement recently.

there are around 320,000 part-time students over 30. Achieving the Leitch target implies increasing this number by 50 per cent, and maintaining that increase for a decade. That seems unlikely, particularly if, as is suggested below, Government and HEFCE funding policies may well have the effect of reducing the appeal both for universities to supply the places and for employers to take them up on behalf of their employees. This, however, is an argument against the choice of target, not against the ambitions behind the target.

15. A more wide-ranging argument against targets of this sort is that their fulfilment depends upon both demand and supply. The government has good instruments to control the size of the supply and some influence over the nature of the supply but unless there is a large pool of potential demand available to respond to the right offer, targets of this sort cannot be met. If they are not met, this may simply show that those who set the target have been over-optimistic in estimating the potential demand. To demonstrate the potential for HEIs to expand significantly on the basis of employer-led provision, planners would have to show that employer demand is increasing strongly. The evidence for this proposition is examined later in this report (paragraphs 59-67).

### **Prior entry qualifications**

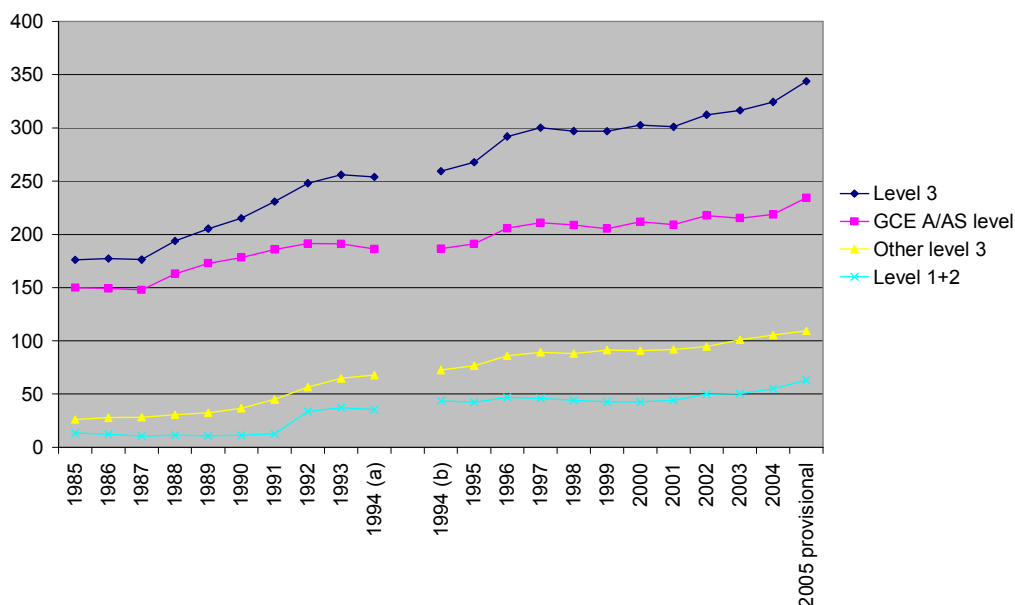
16. One peculiar aspect of the higher education economy has the potential to dissuade some HEIs from engaging fully with the needs of older learners. The widespread use of prior entry qualifications as a proxy measure for the quality of a university's intake can make university managements fearful of broadening their intake for fear that it will make them appear unsuccessful – not least to their own governing bodies. It is not within the power of government to prevent universities or compilers of newspaper league tables from using entry qualifications as a performance measure in this way but, were this to emerge as a significant obstacle to progress, the Government would be in a position to create measures of its own which deliberately avoid indicators – such as entry qualifications – with a particularly strong tendency to create perverse incentives.

### **Potential impacts upon participation at level 3**

17. Whilst the focus of the Government's attention is on older students, young people leaving full-time vocational level 3 study at 18 or 19 represent another potential pool of demand for employer-led provision (either as students sponsored by the employer or as 'autonomous' students absorbing capacity by filling extra places). Consequently the size of this pool is relevant to the prospects for developing sustainable provision. The impact of expanding higher level opportunities upon demand at level 3 is also worth considering. A government concerned about the UK's intermediate level skills must take an interest in the impacts of HE policy upon those studying at level 3.

18. At first glance, it appears that participation in education and training at 17 is on a strong and sustained upward trend as Figure 1 shows:

Figure 1: 17 year olds in education or training

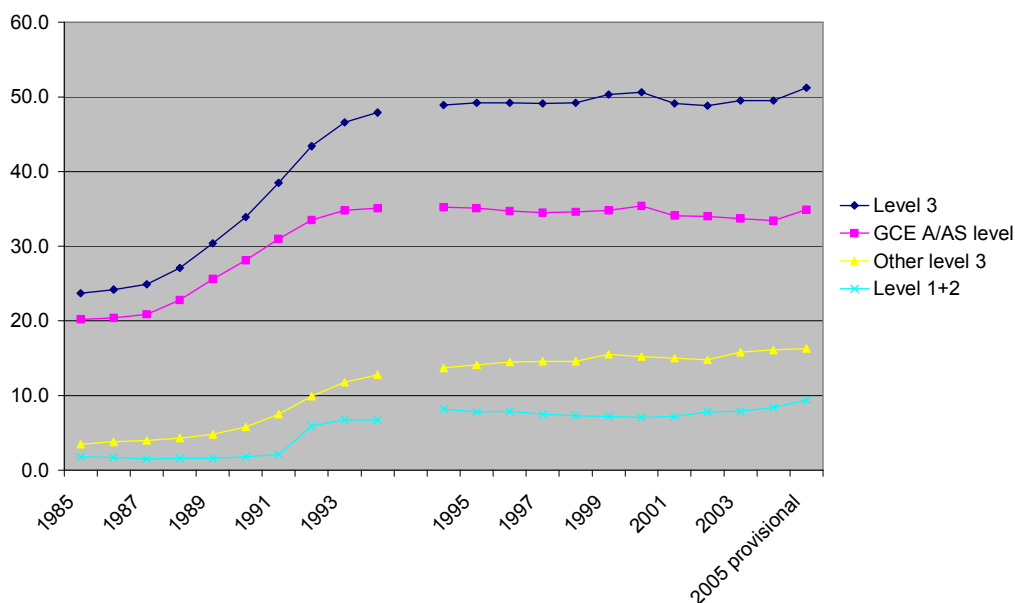


Source: DfES

19. In fact, this pattern is heavily influenced by changes in the size of the cohort and does not reflect an increase in the propensity of 17 year olds to access education and training. Figure 2 shows that the percentage of 17 year olds in education and training has remained remarkably steady for a decade, with around 50 per cent studying at level 3 and a further 10 per cent at level 1 or 2. Given that the proportion achieving five good GCSE passes has been increasing this suggests that some factor other than the successful attainment of level 2 qualifications is preventing increases in level 3 participation.



Figure 2: Percentage of 17 year olds in education or training



Source: DfES

20. The last ten years have seen increases in participation levels (but not participation rates) driven by an increase in the number of 17 year olds. These increases have fed into increased demand for HE. That increase is about to go into reverse as HEPI has previously reported<sup>7</sup>.

21. HEPI has previously shown that the impact of the demographic dip on demand for higher education is likely to be mitigated by the fact that the dip is sharpest amongst social classes which historically have had a lower propensity to participate in HE. That, however, is no comfort to those seeking to attract non-traditional students into HE through non-traditional routes. The impact of the demographic dip upon their prospects is exacerbated by the disproportionate dip in number of young people from under-represented social classes.

22. It could well be that pupils with GCSEs are leaving education because they are not attracted by academic study, and believe that two years in employment will be worth more to them than vocational level 3 qualifications. These are the pupils who are being targeted by the new level 3 diplomas, and if this hypothesis proves correct, then the new qualifications could have the same effect of boosting post-16 study as the introduction of the GCSE did in the late 1980s.

23. On the other hand, it is easy to envisage a situation in which level 3 vocational provision is badly squeezed. The problem is not what happens to those students who, at 16, see such courses as a stepping stone to

<sup>7</sup> Supply and Demand to 2020 (HEPI, 2006) <http://www.hepi.ac.uk>. The decline in the size of the young population will, of course, hit level 3 providers two years before HE is affected.

higher-level study (who will be incentivised by increased opportunities to progress to level 4 and beyond). The problem is that the incentives for those who do not harbour such aspirations to embark on such training at all are getting weaker for two reasons:

24. As the number of 16-18 year olds gets smaller, the demand for their labour will presumably increase, shrinking the returns on further study.

25. Increasing numbers of people with vocationally focussed higher qualifications reduces employment opportunities for 18 year olds leaving education with terminal qualifications at level 3.

26. Any 'higherisation' of vocational education and training therefore is a massive gamble. If the pull factor of higher level study is a real lure for large numbers of 16 year olds who would otherwise reject vocational study it may have positive effects; but if the majority of those considering vocational level 3 offerings do not aspire to enter HE, it is likely to reduce the numbers in education at a time when the cohort size is shrinking. This concern is discussed in more detail in the next section.

## **Employer engagement –skills planning and employer financing**

27. There are two distinct reasons why the Government appears to be interested in increasing the engagement of employers with higher education.

- Better skills planning: if the courses offered by HE institutions can be better aligned with the needs of employers it might be thought that productivity will improve
- Cheap growth: if employers can be persuaded to contribute financially there is the prospect of increasing the pool of highly qualified people at reduced cost to the exchequer.

### **Better skills planning**

28. If the Government is interested in changing higher education (rather than simply expanding it at minimal cost to the taxpayer) it may well end up considering using its power as the major funder of the sector to bring about change. At its most extreme, this could involve planning higher education provision to ensure that it fits skills needs as identified by government agencies or employer organisations. This section addresses the arguments for such an approach.

29. Although the current activity around employer engagement is targeted on stimulating what might be termed 'high employer input' provision another type of intervention is possible: one in which the

Government uses its influence upon universities to oblige them to do what it thinks employers want. This section discusses the weaknesses of such a model.

### ***Problems of planning***

30. A model in which intermediaries (such as industry bodies, sector skills councils or funding councils) represent employers to institutions on behalf of the Government in effect involves a de facto extension of planning control. Some general discussion of planning is therefore appropriate.

31. The factor limiting the Government's influence on the nature of what is provided by HEIs is not a lack of clout – the Government's importance as a funder gives it enormous power. The issue is that government has a finite ability to distinguish between genuine responsiveness to its demands and box-ticking compliance. It therefore has almost limitless power to disrupt (by imposing bureaucratic requirements which institutions dependent upon its funding are forced to accept) or to distort (by rewarding things which it cannot properly monitor) but only a limited power to influence the pattern of provision in a constructive way. HEFCE's task is to establish where its power to bring about intended consequences ends. The current system of planning at the margins within a framework which allows universities to reflect student demand appears to work – indeed, it is hard to think of a public sector resource allocation model which distributes similar sums with fewer problems. There should, therefore be a presumption against additional intervention.

### ***The importance of responsiveness to students***

32. In Leitch, the goal of a 'demand-led' system is contrasted with the planning approach adopted by the Learning and Skills Council in further education.

33. higher education is different. It is true that the total supply of places is planned (the Government funds HEFCE to provide increases in aggregate student numbers and HEFCE awards 'additional student numbers' - i.e. over and above their previous year's baseline - to individual universities). In practice, though, these top-level decisions are taken on the basis of student demand and budgetary constraints rather than on the basis of strategic priorities. The actual courses offered by universities reflect student demand rather than the priorities of economic planners: institutions want to fill their places and can do so only by offering courses which students find appealing.

34. A move towards employer-led demand in higher education is, in principle a move away from student demand as the main determinant of

what is offered especially if it involves government making employer approval a precondition for funding. There is a real risk that in many cases what employers say they want will not be what students want – especially where courses depend upon attracting a proportion of students who are not employees of the employer-customer.

35. This process can be taken only so far for three reasons:

- The student is the indispensable customer of all post-compulsory education: without student demand, courses cannot run
- Making the student the primary focus has advantages for universities: it is easier to maintain quality by responding to the preferences of students (who have a day-to-day experience of the service they provide) rather than to the opinions of more distant sponsors or regulators
- Whilst there is a very large overlap between the needs of students and those who currently or will in future employ them it is easier for universities to respond to the needs of one set of customers (students) than two (students and employers) or even three (students, employers and government).

### ***Subject lobbies and the skills debate***

36. The current approach to funding university education reflects student demand whilst dampening the volatility which would exist in an unregulated market. This approach has an unusual virtue – unlike many public sector pseudo-markets, it combines the low transaction costs of a publicly planned system with the pressure for innovation found in a market system. For this reason, any move towards a more planned approach is to be resisted.

37. This analysis, however, is not universally accepted and it is worth considering the critique that the HEFCE model does not in fact reflect market pressure in any meaningful way. Some<sup>8</sup> argue that “it is clear that the market is not getting a look in” on the basis of data showing that the graduate earnings premium is low in some subjects.<sup>9</sup> This is a simple but common conflation of two quite separate markets.

38. Such arguments are extraordinary and naïve. That is exactly how markets work – the simple fact that salaries are higher for the graduates of some disciplines than others is hardly an indication that the current arrangements are failing to respond to the market. If there were

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<sup>8</sup> For example Julian Brazier MP in *Between a rock and a hard place: some reflections on higher education* (Brazier, 2006) <http://www.cornerstone.org.uk>

<sup>9</sup> The validity of attempts to infer the value of a degree from comparisons of graduate and non-graduate earnings is questionable. See *Why average rates of return will fail to persuade* (HEPI, 2003) <http://www.hepi.ac.uk>

sufficient graduates in these subjects to meet all the market need, then the salary differential with other subjects would reduce and in due course reverse, and that is precisely what will happen if the market is allowed to operate. This is a simple but common conflation of two quite separate markets. Such analyses consider the value of a degree in the graduate labour market. Unsurprisingly, though, HEFCE funding for university teaching responds to shifts in demand for university teaching by reflecting actual recruitments in the size of each university's grant.

39. Another case is made against the HEFCE funding model: that HEFCE does not pay a sufficient premium for science courses to reflect the extra cost of providing science degrees. This reflects a misunderstanding of the way universities are funded: the differential between the income demanded by universities for undergraduate science courses and non-science courses is met by HEFCE leaving students paying (in most cases) the same fee for both. This represents a differential subsidy favouring science.

40. The notion that HEFCE's cost weightings are gerrymandered to understate the difference between the real costs of teaching science and non-science is also wrong. The weightings are based on what universities actually spend on each type of subject. At present the relative expenditure of departmental cost centres is used<sup>10</sup>. In any case, this is not an argument of principle but a simple empirical one that can easily be addressed, if true. There may be arguments in favour of more central control (albeit based on employer demands), but this is not one of them

### ***Success of mainstream higher education***

41. The best argument against the adoption of a planning approach in preference to the present market-led approach to higher education skills policy is the success of the existing approach. There are two ways of measuring employer satisfaction<sup>11</sup> with existing provision: one is to survey employers of graduates for their views, the other is to look at their actual recruitment behaviour. Both measures suggest that the existing (student focussed) HE sector is doing a good job. The 2005 National Employers' Skills Survey<sup>12</sup> found that 81 per cent of employers were satisfied with the quality of the young graduates they had recruited (compared to 60 per cent and 69 per cent for school and college leavers respectively). Graduate unemployment rates continue to be much lower than the national average and graduate earnings much higher (although it is very

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<sup>10</sup> This is an imperfect method but there is no obvious reason to assume that it is biased against science subjects. HEFCE has floated plans to move to a more sophisticated system for establishing subject costs based upon the actual usage of resources drawing upon data from the Transparent Approach to Costing (TRAC) process.

<sup>11</sup> Employer satisfaction is not an end in itself but it is an indicator of a graduate's ability to make an economic contribution which is one of the ways in which graduates deliver a return to the society which has part-funded their education.

<sup>12</sup> National Employers Skills Survey 2005 (LSC 2006) available at <http://readingroom.lsc.gov.uk/>

difficult to prove definitively that higher level study causes higher earnings)<sup>13</sup>. Furthermore, the National Student Survey<sup>14</sup> shows high levels of student satisfaction and graduates also report<sup>15</sup> high levels of satisfaction with their jobs.

42. This is important because it shows that a system based on student demand is capable, in most cases, of producing graduates who are satisfied and, compared to non-graduates are more employable, earn more and satisfy employer expectations more successfully. There are of course examples of graduates who obtain none of these benefits from higher education but that is to be expected. An issue would arise if there were real evidence that double failure (failure to meet both personal and employer expectations) was a probable and predictable result of studying a particular kind of course. Were that shown to be the case, there would be an argument for reviewing state support for that provision. This does not appear to apply to any identifiable segment of English higher education.

43. Unlike further education, higher education already has many of the features the Government seeks to replicate elsewhere. For example:

- Universities are independent third sector bodies providing publicly funded services whilst drawing in very large revenues from other funders (they are, in fact, the outstanding examples of this model)
- There is already contestability in higher education. Universities depend upon demand from their service users (students) to maintain viable provision. Unsurprisingly, the mix of subjects offered by each institution is extremely sensitive to shifts in demand
- Unlike most social providers, universities are accustomed to judging themselves against international competitors and perform well according to the available measures.

44. A comparison with the Government's schools policy demonstrates that the HE skills agenda is a reflection of public sector success rather than failure – and therefore that it should not be used to drive radical reform of higher education. The academies programme and the move towards trust schools seek to draw private bodies into social enterprise and by doing so to provide social sectors with new approaches. The employer engagement drive in higher education is attempting to do the

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<sup>13</sup> *The economic benefits of a degree* (PWC, 2007) available at [www.universitiesuk.ac.uk](http://www.universitiesuk.ac.uk)

<sup>14</sup> In the 2005 National Student Survey, 81.4 per cent agreed that 'Overall, I am satisfied with my course'. For more details of the NS response see *The National Student Survey 2005: Findings* (Surrudge, P) at <http://www.hefce.ac.uk/pubs/rdreports/2006/>

<sup>15</sup> See for example *The value of a degree and the demand for graduates* (Elias & Purcell) [www.prospects.ac.uk](http://www.prospects.ac.uk)

reverse – to draw independent social enterprises (universities) into private-benefit activity (training for employers) thereby remedying perceived shortcomings in the in-work training provided by employers. It is almost certainly the case that universities have expertise which could benefit the economy if utilised properly by employers but if so, the best test of whether this applies in any given case is the willingness of employers to meet a reasonable proportion of the costs of the activity.

45. In the light of the above, the correct approach for government is to provide initial pump-priming, as it is doing at present (see paragraph 55 below for details of the funding HEFCE is providing for 'product development'), and then to leave the market to decide whether employer-led HE becomes a major part of the HE landscape or a niche product. The mood music is important as well: the Government should make very clear that its position is to fund what works in this area rather than to make sure that something happens. This would be extremely helpful in concentrating the minds of employers, government agencies and universities on developing arrangements which offer genuine and lasting benefits to all parties.

46. The central point of this report is that the one thing that will determine how much higher education will be employer funded or employer-led is the strength of demand from employers. The ambition of government and the willingness of funding bodies or universities to play their part can more or less be taken for granted but will not by themselves bring about major change. Consequently, there is nothing to be gained from setting unrealistic targets because the outcome depends upon the behaviour of private organisations which are not accountable to government. The effect of targets would be to oblige publicly funded organisations to devote time and money to processes which they can do little to influence. It is never a good thing to divert effort and resources from areas where we can have an effect to areas where we cannot.

47. The experience of Train to Gain in the FE sector - in particular the flagship 'brokerage' element - acts as a reminder that demand-stimulating measures tend to be more effective at stimulating demand in well-defined niche areas than in creating the kind of volume demand which has an impact on the national pattern of provision. In Train to Gain, the Government spent £30m on skills brokers with a brief to provide a free service to small businesses who find it difficult to identify the most suitable training packages for their staff.

48. There is no suggestion that they have been unsuccessful in this regard. However, The Guardian has reported<sup>16</sup> that the brokers have had little impact upon colleges. It reports that: "More than 80 per cent of (FE)

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<sup>16</sup> P Kingston, *Network Fail* The Guardian 10 April 2007

colleges have gained less than 10 per cent of their T2G business through brokers, and 60 per cent have not seen a single person walk through their doors courtesy of a broker". The issue is not just brokerage – it is the nature of demand. The Guardian has reported that all but 15,000 of the 107,000 studying under Train to Gain qualifications in FE are at level 2 (GCSE equivalents) suggesting that the model is much better suited to basic or lower-level skills acquisition than to level 3 or higher learning. This is not evidence of failure – it is entirely consistent with the aims of Train to Gain – but it casts further doubt on the notion that the Train to Gain model is transferable to level 3 let alone to higher education.

49. The Government to its credit recognises that its innovations cannot be depended upon to create a step-change in demand. The skills minister Phil Hope is quoted in the same Guardian article as saying that "we didn't expect large numbers of employees to come through the brokerage system". There are therefore grounds for optimism that the employer engagement agenda will evolve in a sensible way – focussing on the development of niche employer focussed training packages whilst recognising that public funding will continue to be the main driver of vocational and non-vocational education at level 3 and above.

### **Cheaper growth**

50. The current policy agenda is not just about aligning supply with employer preferences, and replacing students as the main determinants of what universities offer. It is also about trying to persuade employers to contribute financially. The government and its agencies have been open and clear about the fact that they believe it is right to expect a direct contribution from employers. Appearing before the House of Commons Education and Skills Select Committee the Chief Executive of HEFCE, David Eastwood said that:

"I think there is a consensus that those who benefit from higher education should pay for it. The benefits are to the individual, the benefits are social and the benefits are economic, so a triangulation between contributions from the individual, from the public through taxation and from employers seems to me to be right and I think that is now commonly accepted."

51. It is unlikely that this employer contribution will take the form of a levy upon those employing graduates from established courses or that the rate of government support for higher education will face an across the board cut. It appears that what is envisaged is the use of employer contributions to part-finance the further expansion of higher education. In return for their largesse employers will gain a degree of control over the new provision.



52. We know a little about how this is to work, at least in the initial phase. In 2006, the then Acting Chief Executive of HEFCE wrote to the Heads of English HEIs :

"HEFCE's grant letter from the Secretary of State in January this year (2006) called on HEFCE to lead radical change in higher education (HE) by incentivising and funding provision which is partly or wholly designed, funded or provided by employers. HE Minister Bill Rammell's address to the HEFCE annual conference in April emphasised the strength of the Government's interest in this agenda, in particular in encouraging growth in undergraduate student places that are co-funded by employers."

HEFCE Circular Letter 06/2006

53. Since then, the emphasis on co-funding has been strengthened. Earlier this year the current HEFCE Chief Executive wrote that funding was being made available to:

"..deliver 5,000 FTE [full-time equivalent] students - the contribution from employers making up around half the cost of delivery. Where provision is for employee development for a specific employer - at any level, and including foundation degrees - we would expect this to be co-funded."

HEFCE Circular Letter 04/2007

54. Two things are very clear. Firstly the initial ambition – to support 5,000 FTE places - means that the first phase of co-funded provision will represent a very small proportion of the HE sector. In 2004-05, the total FTE student count was 1.39 million of whom over 200,000 were 'other undergraduate' (sub-degree) students.

55. More importantly, the demand that provision should be 'co-funded' effectively reduces government support meaning that in future employer contributions will replace rather than supplement existing funding for the relevant provision. Government policy (HEFCE is clearly following a government lead here) is pulling in opposite directions. On the one hand HEFCE is providing funding for product development – funding projects designed to improve the capacity of institutions to work with employers to deliver tailored courses. If successful these projects will stimulate demand. At the time of writing funding for 11 such projects has been agreed through HEFCE's Strategic Development Fund, with a total value of nearly £22m. On the other hand, it is insisting that such provision will in future attract a reduced rate of state funding – a sure means of suppressing demand where it is already low. Taken together, these policy strands suggest an attempt to create a niche product offering some very limited expansion of the HE sector at minimal cost to the taxpayer rather than a revolution in higher education.

56. None of this is in any way problematic. Let us suppose that a mixture of exhortation, the roll-out of the Train to Gain brokerage model and the development activity funded through HEFCE's Strategic Development Fund

enable the HE sector to develop new educational products which find a small but worthwhile set of customers. Given the sums involved (exhortation is free, £12m is budgeted for the Higher Level Skills Pathfinder projects and SDF bids tend to be modest in size) that could amount to a perfectly satisfactory result and a credit to all involved.

57. The current approach therefore is cautious and sensible. The danger is that unrealistic expectations of the potential size of the market for employer-co-funded higher education distort the Government's approach to the funding of higher education, diverting funds from courses which have a solid base of demand from students, and which satisfy students and employers alike, to employer-focussed provision for which in many cases there is no authentic demand from either students or employers. That is not happening yet but it will if the Government becomes too excited by Leitch's suggestion that: "a portion of Higher Education funding for vocational courses currently administered through HEFCE in England be delivered through a similar demand-led mechanism as Train to Gain. This should use government funding to lever in greater investment from employers at level 4 and level 5". As is discussed above, such a mechanism is only 'demand-led' in the sense of replacing the primary demand represented by students with secondary demand, represented by employers or their proxies.

58. A golden rule should be established in this area: that the scale of the Government's ambition for employer-funded education and training should be determined by real evidence of employer demand. It would be quite wrong to divert funding from provision which is meeting a need to provision for which no need can be demonstrated. What is badly needed is some evidence of likely demand – both about the nature of the provision and the size of demand – on which to base policy. On the other hand the present proposal offers the opportunity to test – and perhaps even create – an entirely new model of higher education and also – and this is to be welcomed – to secure additional funding from employers.

### ***Indicators of potential demand for employer-funded higher education***

59. There are two aspects considered here to the demand for employer-funded higher education: the demand from employers and the demand from students.

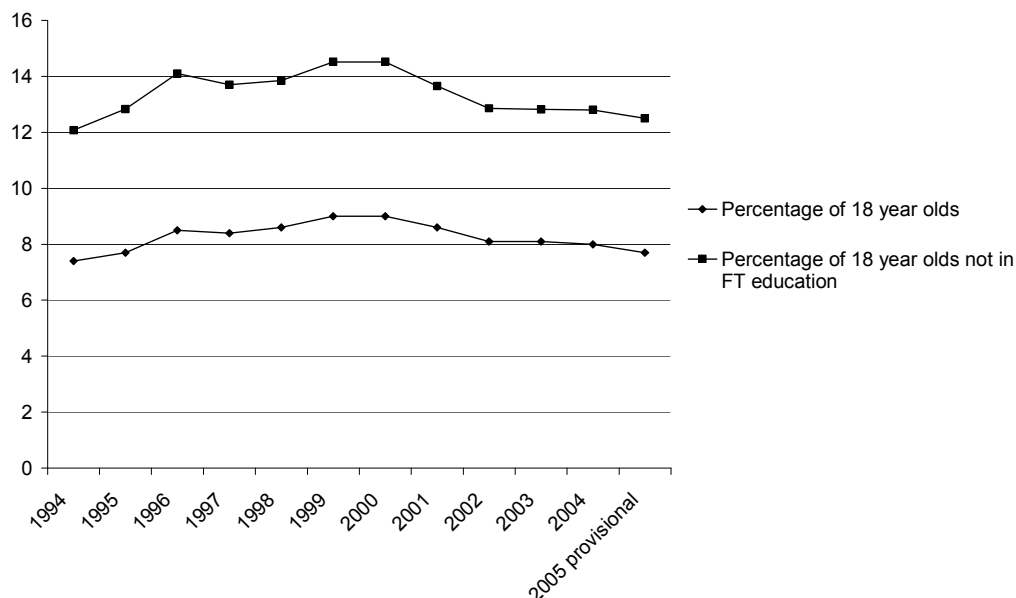
#### Demand from employers

##### *Investment in training by employers*

60. There is little evidence of a pent-up demand amongst employers to invest in the education of their staff. Figure 3 shows the number of 18 year olds in workplace learning schemes shown both as a percentage of the total 18 year old population and of those not in full-time education. In

both cases the early years of this century have seen a steady decline (the decline in workplace learning for 16 and 17 year olds has been even steeper and much more sustained since the high water mark of the Youth Training Scheme in the late 1980s)

Figure 3: Percentage of all 18 year olds and percentage of 18 year olds not in full-time education accessing workplace training (England)



Source: DfES

### *The foundation degree experience*

61. Foundation Degrees were launched in 2001-02 with the intention of stimulating interest from both employers and students in employer-led HE. Courses have been developed with extensive input from employers and marketed as a more vocationally focussed form of degree course. Consequently, the extent to which employers currently contribute to Foundation Degree course costs is an indicator of the overall strength of employer demand.

62. As Table 4 (reproduced from HEFCE's recent summary of Foundation Degree statistics<sup>17</sup>) shows, of 2004-05 Foundation Degree entrants, only 2,045 (1,650 part-time and 495 full-time students) had their tuition fees paid by their employer. With approximately half a million<sup>18</sup> students entering higher education every year this means that employer funded foundation degree students represent roughly 0.4 per cent of the total entry. If Foundation Degrees with their focus upon employer requirements are supposed to herald a new age of employer-funded

<sup>17</sup> *Foundation Degrees Key Statistics 2001-02 to 2006-07* (Readdy, L.) <http://www.hefce.ac.uk>

<sup>18</sup> Table UG39 in annex C of Readdy (above) gives the figure of 504,095. The figures given here for FD entrants are produced on the same basis as that figure.

higher education, something very large has to emerge from what - at present - is a very small acorn.

Table 4: Tuition fee payment (2004-05 foundation degree home entrants registered at English HEIs and FECs)

Source of tuition fee	Full-time		Part-time	
	Number	%	Number	%
No support	5,140	40	3,965	51
Statutory student support (part or whole)	5,035	39	660	8
Department of Health and related bodies	390	3	65	1
Other payment by public bodies or charities	100	1	110	1
Employer	495	4	1,650	21
Other	305	2	495	6
No fee or fee waived	490	4	375	5
Unknown	795	6	495	6
<b>Total</b>	<b>12,750</b>	<b>100</b>	<b>7,815</b>	<b>100</b>

Source: HEFCE (referenced below)

### *The impact of co-funding*

63. It is worth recalling that the intention is to expand demand for employer-funded higher education by inviting universities to bid for places at a reduced level of funding with the expectation that employer funding will fill the gap. In other words, the proposal for the development of employer co-funded provision assumes that demand will be stimulated by offering something which is already on offer on more favourable terms (up to now it has been possible for employers to pay universities to tailor provision to their needs without the Government withholding a portion of its own support for the same provision).

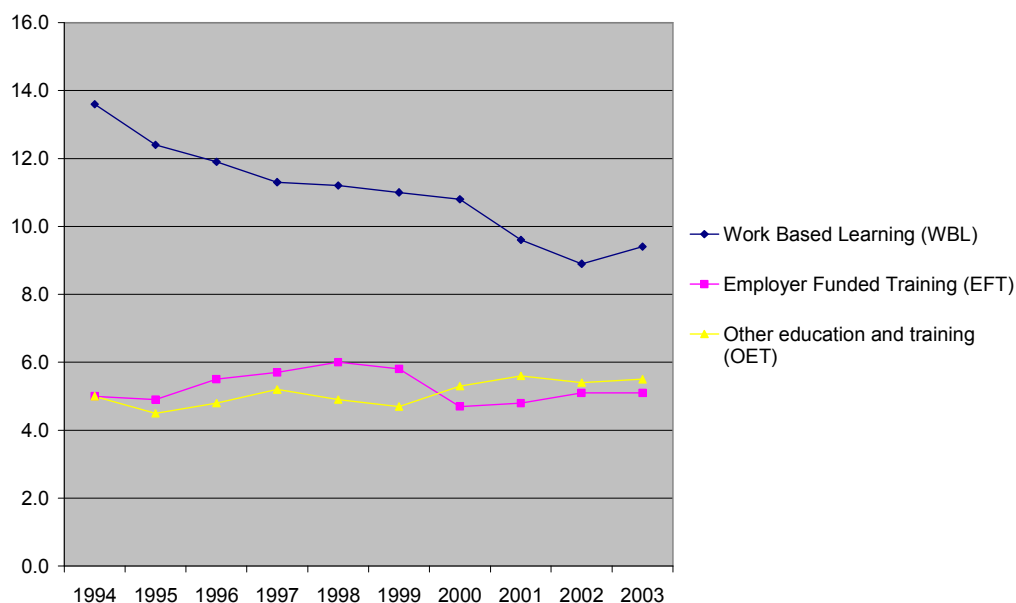
64. This does not mean that universities will not agree to provide the places. As explained below in paragraphs 77-90 there are good reasons to suppose that some universities will accept what is in effect a reduced level of state funding to provide additional places even where there is little prospect of securing an employer contribution. What is less clear is whether in such cases there will be anything distinctive about the provision thus funded, except for a strong focus by the university upon minimising costs.

### *Workplace learning*

65. The proportion of 16-18 year olds in workplace learning is actually falling as a result of a decline in participation amongst 16 and 17 year olds (see Figure 5 below). Whilst this is not a particularly good indicator of the willingness of employers to support vocational learning at level 4 it does

suggest that the capacity to support workplace learning for young employees is likely to be in decline – something which has implications for the development of workplace learning options at level 4.

Figure 5: Participation rates in part-time level 3 education and training (16-18 year olds, England)



Source: DfES

### *Vouchers*

66. One means of stimulating employer demand for vocational education would be to issue employers with vouchers. Voucher schemes are extremely expensive to administer – the issuing authority has to establish who is entitled to receive the voucher and to set up a system to keep track of the issue and spending of the vouchers themselves. Current systems are not designed to enable money to ‘follow the student’ in this way, nor are they set up to distribute vouchers to third parties. The cost of designing an administrative system capable of handling a voucher system would be very large indeed. There could be no half-measures: unless rolled out on a massive scale a voucher scheme would be uneconomic because of the enormous administrative cost; and there is a real risk of a repeat of the problems which plagued Individual Learning Accounts in the late 1990s – something which should give the Government real pause for thought.

67. More fundamentally, vouchers are unlikely to resolve the tension between employers (who will want the voucher money to be additional to the normal unit of funding to enable them to demand a premium service from HEIs) the Government (which will want to deduct some or all of the ‘voucher money’ from the funding the institution would otherwise receive as a means of avoiding ‘double funding’) and institutions (which will want

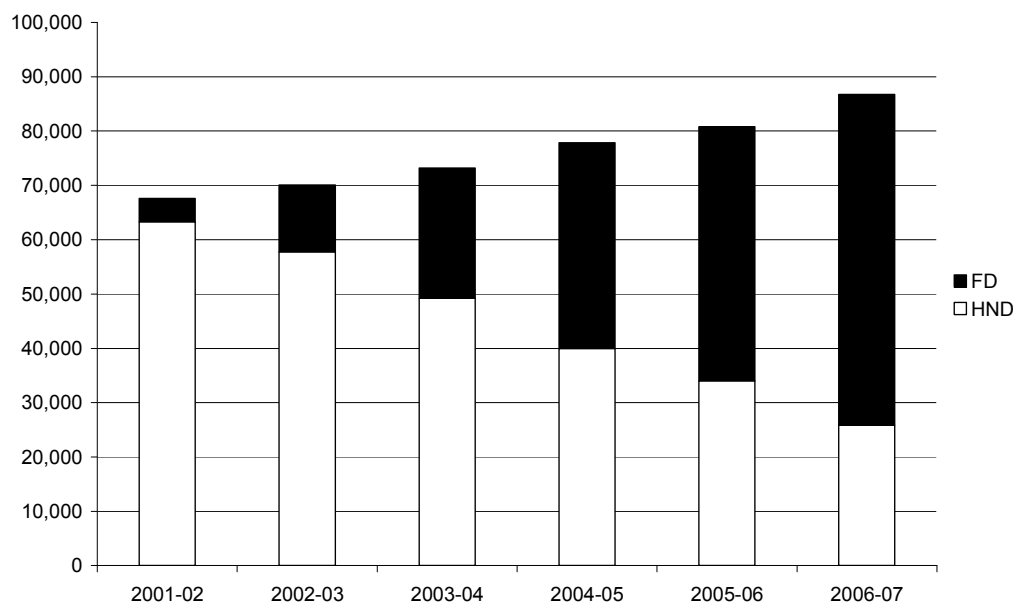
to be compensated for the administrative costs associated with voucher schemes). There is a high likelihood that many institutions will refuse to participate in voucher schemes unless they offer highly advantageous terms.

### Demand from students

#### *The foundation degree experience*

68. As noted above, in many ways, Foundation Degrees are the template for employer-led higher education: employer representatives are heavily involved in their development; and they have been designed specifically to equip learners with the competences necessary for what have become graduate level jobs. In function, if not in form they replicate the pre-existing Higher National Diplomas and Certificates (HNDs and HNCs). They have – to a large extent – replaced the former as Figure 6 shows.

Figure 6: Students studying for foundation degrees and higher national diplomas



Source: HEFCE

69. As the HEFCE report referred to above also notes, HNCs (not shown on the chart) have also been in decline<sup>19</sup>. It is probable that the total number of HNDs, HNCs and Foundation Degrees still shows an increase. It is also clear however, that this increase is much less dramatic than the increase in foundation degrees alone might imply.

70. HEFCE have attempted a more direct estimate of the number of Foundation Degree courses which can be described as ‘conversions’ from pre-existing HND or HNC programmes. Where Foundation Degree courses

<sup>19</sup> *Foundation Degrees Key Statistics 2001-02 to 2006-07* footnote 9

offer the same combination of subjects as HND/C programmes which were discontinued no more than two years before the Foundation Degree course began admitting students they have been coded as 'conversions'<sup>20</sup>. According to the HEFCE analysis, in 2004-05 over half (51 per cent) of Foundation Degrees were HND and/or HNC conversions. Of that 51 per cent, 46 per cent<sup>21</sup> were 'probably developed from HNDs'.

71. It is clear from these figures that a large part of the apparent success of Foundation Degrees is down to displaced demand: students who would have opted for other vocational sub-degree qualifications choosing instead to study for Foundation Degrees. This is probably a good thing – we must presume that Foundation Degrees are on the rise because they offer more to students than pre-existing qualifications. However, whilst the positive verdict on Foundation Degrees as a product is not affected by evidence of displaced demand, the grounds for believing that their success is indicative of a great untapped demand for diploma-level vocational higher education is much weakened.

72. Analysis of foundation degree subjects<sup>22</sup> suggests that take up of foundation degrees has been disproportionately high amongst associate professionals in the public sector. This is significant because the experience of previous attempts to promote vocational HE through the development of new qualifications is that it is easier to embed new qualifications in the public sector than elsewhere (the DipHE, for example has become an established professional qualification in nursing but is less prominent in other sectors).

73. In 2004-05, home entrants in social work, education studies (excluding teacher training and combined education) and subjects allied to medicine (excluding medical science, pharmacy and nursing) totalled 5,925 of whom 2,245 were full-time. It is probable that most of these entrants were associate professionals in healthcare<sup>23</sup>, social work or education. However, this means that these groups (the most readily identifiable public sector associate professionals) amount for no more than 29 per cent of the total 2004-05 Foundation Degree entry.

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<sup>20</sup> It is a reasonable inference that this procedure is likely to underestimate the true level of conversions because false negatives (courses which have replaced existing courses but are not identifiable using this procedure) are likely to be greater than false positives (courses which by complete coincidence begin around the time that a similar sounding HND/C is discontinued by the same institution).

<sup>21</sup> Strictly speaking, it would not be accurate to extrapolate that only 5 per cent were HNC conversions because the 46 per cent figure includes courses where both a relevant HND and a relevant HNC were discontinued.

<sup>22</sup> All figures in this and the following paragraph are taken from *HEFCE 2007/03 Foundation Degrees: Key statistics 2001-02 to 2006-07* Tables 6 and 7 and paragraph 77 <http://www.hefce.ac.uk>

<sup>23</sup> The groups included in the subjects allied to medicine category include very firmly established professions such as dentists as well as newer professional groups.

### *Sandwich courses*

74. The experience of sandwich courses provides another window on the strength of student and employer demand for vocational higher education. The willingness of students to enrol in sandwich courses is an indicator of student demand; the willingness of employers to take them on for a sandwich year is an indicator of employer demand.

75. On the former at least the picture is straightforward. Between 1998-99 the number of students enrolled in sandwich courses was flat at best (it actually declined by 10 per cent between 2001-02 and 2004-05). As a proportion of overall undergraduate provision it declined notably suggesting that in a static or falling HE population, sandwich courses may well have seen a large decline. Even the absolute decline in sandwich student numbers between 2001-02 and 2004-05 is, at just over 11,000 (shown in Table 7, below) more significant as the Government's plans to support an extra 10,000 Foundation Degree and co-funded places announced in HEFCE's recent circular letter<sup>24</sup>.

Table 7: Numbers of sandwich students 1998-99

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Undergraduates on sandwich courses	112,705	119,265	116,905	117,870	114,305	110,695	106,770
Sandwich students as percentage of undergraduates	9.16	9.56	9.27	8.94	8.28	7.86	7.39
Sandwich students as a percentage of full-timers	13.29	14.11	13.90	13.75	12.51	11.95	11.32

Source: Little and Harvey <sup>25</sup>

76. It should be noted that the discussion of evidence of demand in the preceding paragraphs are extrapolations based on existing forms of provision. It could be – and indeed this is what the Government hopes – that completely new forms of provision will be created, which will stimulate completely new demand. That is the hope, but there is no evidence for this at present. One thing that is urgently needed as policy unfolds – and before too many hopes are invested in its implementation – is to obtain evidence about the nature and extent of likely demand.

<sup>24</sup> HEFCE Circular Letter 03/2007 <http://www.hefce.ac.uk>

<sup>25</sup> See annex to *Learning through work placements and beyond* (Little & Harvey 2006), available at <http://www.open.ac.uk/cheri/index.htm> This analysis is credited by the authors to HEFCE Analytical Services.



## ***Supply issues – will universities be interested in co-funded provision?***

77. Public service reforms in other sectors have involved a trade-off: public bodies being required to accept greater risk and/or a new requirement to raise some of their own funding in return for greater operational independence and sometimes additional state funding. Universities interested in competing for new 'employer-led' provision are being presented with the worst of all worlds:

- Less freedom to develop their own provision to meet the needs of their service users (because they have to satisfy both employer-customers and student-customers rather than focussing on the needs of the latter)
- A reduced amount of state funding (the implication of 'co-funding' arrangements is that the employer meets some of the costs currently met by the state)
- The requirement to raise additional funding from employers
- A greater level of risk (because employers can render new capacity unviable by walking away and because the demand from students for employer-focussed provision is untested).

78. If universities are not compensated for this by some other route, it will be attractive only to those in the weakest position (the price-takers rather than the price-setters); if such compensation does exist, the taxpayer is effectively paying a higher rate than is officially advertised. If such a higher rate is to be paid it should be paid in the simplest way to aid transparency.

79. It is unclear whether such compensation does in fact exist. In addition to supporting Higher Level Skills 'Pathfinder' projects in three regions and providing direct funding for the costs of teaching HEFCE has committed to funding (at the time of writing) eight projects related to employer engagement under its Strategic Development Fund (SDF). It is expected that the majority of employer-led HE places will be supported by SDF funding<sup>26</sup>. This does not necessarily constitute a back-door means of inflating the level of public funding directed towards employer led provision. It could do so, however, if institutions are able (in practice) to use special funding to meet some of the direct costs of provision in addition to genuine transitional costs. It is important that all parties are

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<sup>26</sup>As of 22 March 2007, a total of almost £22m has been allocated to the 11 employer engagement projects agreed thus far under the HEFCE Strategic Development Fund (figures kindly supplied by HEFCE). Even if all the institutions concerned meet their recruitment targets this works out at over £12,000 per FTE student.

aware that pump-priming, whilst it may be necessary has the potential to distort assessments of the long-term viability of the activity and the costs of supporting it: it will not be clear whether the activity is viable in the longer-term until the pump-priming (the SDF funding) has worked its way through the system.

80. In the light of this discussion, it is reasonable to ask whether any ambitious plans to expand employer co-funded higher education will fall foul of supply constraints. This is actually very unlikely. The HEFCE funding model, sometimes criticised as a barrier to the development of new forms of higher education is in fact quite the opposite: a device for ensuring that if there is student demand there is always a group of willing suppliers without imposing burdensome planning controls. In this it succeeds brilliantly and, arguably, too well.

81. Government budgets have to be set before the precise levels of demand for public services are known. Therefore, the funding for the university sector depends upon the number of funded places the Government agrees to support, not the actual recruitment. This means that funding depends not on what actually happens to the market but what the Government believes will (or ought) to happen (of course, trends in recruitment will influence the Government in deciding whether to fund more places). It follows that it is in the interests of universities for the Government to remain extremely optimistic about the demand for new forms of HE – especially if the Government makes clear its intention to restrict the supply of new funding for non-vocational HE as it has done in recent years. In short, if the Government says 'more vocational HE' the collective interest of universities lies in saying 'how much more?' rather than 'what are the terms?'

82. A further complicating factor is that the HEFCE funding model does not directly reflect student numbers. To simplify the position greatly, grant levels are adjusted only when a university's average revenue per student for fundable teaching (including employer and student contributions) differs from the norm by more than 5 per cent in either direction (and then not automatically). It is possible, therefore, that the device by which HEFCE will impose co-funding arrangements will be to 'assume' an employer contribution for the new provision which means that whether or not such a contribution is made, HEFCE will for funding purposes assume that it has been. In that case universities will not need to show that employers have provided a contribution, they will simply have to accept a reduced rate of funding calculated on the assumption that they have. This is precisely the way that part-time students are funded.

83. The effect of bidding for part-funded provision on a university's HEFCE funding is, therefore, complex. There will be some universities

under pressure to expand (because they appear 'expensive' and risk having grant deducted) and these may well accept additional numbers on unfavourable terms to avoid the more serious prospect of downward revisions in their baseline grant levels. The tighter the squeeze on 'mainstream' HE the more universities will be in this position.

84. Such a squeeze is not unlikely. As noted elsewhere in this report the demographics – and trends in A level study – suggest a weakening in young demand for HE over the next decade. This softening may or may not materialise – in the past HE demand has proved resilient when demographic analysis has suggested it will not - but what is of immediate importance to universities is whether the Government plans for a reduction in student numbers. If it does, the budget it allocates to HEFCE will fall and with it the opportunity for universities to expand. The government will decide very soon whether it wants to take a 'demographic dividend'<sup>27</sup> out of higher education. This means that a lot is riding upon the ability of universities to persuade the Government that new sources of demand can be found – and adult skills is the most obvious candidate. This is another reason why supply constraints are unlikely to be raised as a problem if the Government opts for an ambitious strategy.

85. In theory, English universities could take the view that expansion on unfavourable terms is worse than a stasis or contraction which protects current levels of cost recovery. Some will, but it is unlikely that collectively the sector will take such a stance. Expansion matters to English universities – particularly those who receive a high proportion of their income from teaching - for a subtle reason. The Government is pledged to maintain funding per student – the so-called 'unit of resource' relative to inflation. From 2006-07 fee increases are also pegged to inflation. However the cost of the things universities need to spend money on in order to provide higher education tends to rise faster than inflation. This means that, if student numbers are static, universities lose out. But if student numbers rise, this effect is offset by economies of scale because the marginal cost of teaching additional students is less than the mean cost per student. Over the long-term, expansion helps to balance the books.

86. Most English universities have a strong preference for expansion which reflects perfectly rational considerations. Expansion of funded student numbers has other benefits for universities: it provides a safety valve, enabling them to bid for additional funded places if they find themselves in financial difficulty; it finances discretionary spending and senior posts creating opportunities for ambitious staff and making universities easier to manage; it increases the number of people who have

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<sup>27</sup> If the Government plans its support for higher education on the basis of an assumption of reduced demand it can cut funding for the sector, freeing up resources for other activities. That is what is meant by a 'demographic dividend'.

a stake in higher education and therefore broadens political support for investment in the sector and perhaps most importantly it helps to position the higher education sector as a potential solution to vocational skills shortages and educational inequalities rather than as a contributor to those problems, thereby justifying public investment.

87. Less rationally, these real considerations have created a cultural effect: universities often measure their business success – or the success of particular activities – using revenue figures, meaning that expansion even on the most unfavourable terms can look like success. It is also worth noting that management approaches have evolved around the reality of expansion; very few people currently working in the sector have first-hand experience of strategic management in an English teaching-led university in an environment where expansion is impossible. It is reasonable to suppose, therefore, that current systems and the current generation of university administrators are better equipped to meet the challenges of expansion than the rather different challenges of stasis.

88. In short, collectively and individually, culturally and economically, as a result of cyclical and demographic factors and as a result of the clever engineering of the funding methodology, some English universities will be disposed to respond eagerly to the emergence of new sources of demand and new sources of funds. Supply issues are unlikely to constrain the growth of employer-funded, employer-led or vocational higher education<sup>28</sup>. On the other hand, the demographic decline could have the opposite effect. Universities may not need to take cut-price places: they will have more than sufficient fully funded places to meet any student numbers they might realistically recruit.

89. It is difficult to know if these new arrangements will lead to significant numbers of places taken up by universities at lower levels of HEFCE funding. Much will depend on how HEFCE adapts its funding method to accommodate the new arrangements. But there is a danger in all this: that the Government and HEFCE are relaxed about growth taking place with a declining unit of funding per student. That is what would be implied when 'co-funding' is assumed without any guarantee of a 'co-funder'.

90. This represents a risk as well as an opportunity for the Government. The phenomenon of English universities pursuing revenue at the expense of the quality of provision and financial stability has been seen before. In the late 1980s and early 1990s universities pursued growth at the expense of a sharp drop in the unit of funding per student and throughout

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<sup>28</sup> This explains in part the resistance among universities to the proposal to grant Foundation Degree awarding powers to colleges of further education and suggests that government can afford to take claims that this will deter universities from continued involvement in Foundation Degrees with a hefty pinch of salt.

the 1990s the pursuit of research funding (in response to underfunded research grants from Research Councils and contracts from industry) and the associated prestige led to substantial losses on research. The financial pressures created by this 'overtrading' resulted in underinvestment in infrastructure. As a country, England is still paying for those years of underinvestment by providing billions of pounds in earmarked capital funding. It would be a serious mistake to allow this situation to repeat itself by encouraging universities to expand by agreeing to provide 'co-funded' places for which no co-funder exists, and it is important when HEFCE sets its funding mechanisms in place that it guards against this.

## **Catering for young learners with vocational qualifications**

91. As noted in paragraph 8 above, the Government anticipates that the creation of new vocational level 3 qualifications designed to equip young people for further study at higher level will create a new type of student demand for higher education. As the Secretary of State Alan Johnson has written:

"Potentially, large numbers of students could be applying to higher education with the new Diploma qualification and it is important that higher education is engaged in its development and that institutions are aware of the impact Diplomas will have on their own curricula."

HEFCE Grant letter 2007 [www.hefce.ac.uk/news](http://www.hefce.ac.uk/news)

92. There can be nothing controversial about the expectation that the HE sector should prepare itself to provide admissions routes and appropriate courses for diploma-qualified students; but it is far from certain how successful the diplomas will be at increasing the numbers of students with vocationally focussed level 3 qualifications seeking admission to the academy. Past attempts to achieve parity of esteem between vocational and academic routes by developing new vocational qualifications have not been conspicuously successful and the more radical proposal of the Tomlinson Report – to abolish A levels and GCSEs, and folding all 14-19 provision within the new diploma was rejected by the Government. The continued differentiation between academic and vocational routes poses the risk that the diploma will increase the stigma attached to vocational qualifications rather than removing the barriers faced by vocational learners. This has been emphasised on a more recent occasion by Alan Johnson himself:

"It's a huge challenge, I accept that. This could go horribly wrong, particularly as we are keeping A-levels and GCSEs...(The decision to retain A levels and GCSEs)...does mean that there is a danger of the diplomas becoming, if you like, the secondary modern compared to the grammar."<sup>29</sup>

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<sup>29</sup> Alan Johnson speaking to the conference of the Association of School and College Leaders, 9 March 2007 <http://news.bbc.co.uk/1/hi/education/6435563.stm>

93. In 2006, 61 per cent of English 16 year olds achieved 5 or more GCSE passes at grade C and above. The last time it was measured, in 2000-01, Age Participation Index (API - the proportion of 18-19 year olds progressing to higher education) was 33.4 per cent. This means that roughly a quarter of the population are achieving significant success at GCSE level but not progressing to higher education. There will, of course be many others who, whilst not achieving five 'good' GCSE passes have demonstrated the potential to benefit from intensive formal education beyond 16.

94. Unless they subsequently enter HE, this group are worse off as a result of the expansion of higher education. They are excluded from occupations for which their qualifications would previously have fitted them because employers are now able to demand degrees from all applicants. The expansion of HE presents a danger which no responsible government could ignore – the potential emergence of a society which educates one half of the population to degree level whilst failing to provide any credible post-16 qualifications for the other half. That would be neither a fair reflection of any distribution of innate ability known to science nor sensible in economic terms. As a nation, England gives every sign of valuing the post-compulsory education of one group more than the other. As Frank Coffield<sup>30</sup> has noted: "the best resourced routes, which also happen to be the most clearly signposted, are for those students who find learning easiest, while the poorly resourced routes, which are the most complicated to follow, are for those who find learning difficult."

95. The radical solution to this problem is to attack educational and social stratification by eroding the distinction between the 'routes'. In a political climate where diversity in education is lauded as the means of promoting excellence, that is not going to happen – that is what Tomlinson proposed. There are two less radical ways of addressing the problems of those obliged to navigate the 'poorly resourced', 'most complicated' routes.

96. The first is to further increase the supply of higher education, allowing some of that group the possibility of accessing the 'best resourced', 'clearly signposted' routes. The other is to focus upon the credibility of vocational level 3 qualifications as terminal qualifications in an attempt to ensure that those who leave full-time education at 18 have something of value in the labour market in return for their two years of post-compulsory study. The fact that these two approaches are in conflict is not properly understood but it is quite straightforward: if level 3 is seen

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<sup>30</sup> Frank Coffield quoted in *Reeking hypocrisy? New Labour and widening participation in higher education* (Brown, R., in draft as seen by the author).

as a stepping stone to HE it becomes more attractive to those who envisage a progression to higher-level study (because it offers a credible route for such progression) and less attractive to those who do not (because the value of level 3 qualification as terminal qualifications is diminished by the availability of a pool of people with higher level vocational qualifications covering similar areas - and because the choice parts of the level 3 offering itself are increasingly adapted to the needs of the 'progressors').

97. The choice between expanding HE and focussing upon the credibility of level 3 qualifications is in effect a choice between investing more broadly in the fifth of the young population who participate full-time in level 3 courses other than A levels and concentrating that investment on the subset of that group who can be shepherded into HE.

98. The Government has the difficult task of balancing the interests of those who will be drawn into HE by the creation of new routes and those who will remain on the outside. The only responsible advice to offer the Government at this stage is to make absolutely sure it has a full assessment of the impacts of expansion upon both groups and the effect of both impacts upon its ultimate aim - improved levels of intermediate and higher-level skills. Otherwise there is a risk that policies intended to enhance the HE sector's contribution to vocational learning will have an adverse effect upon the contribution made by the FE sector.

## **Conclusion**

99. Nothing in the preceding sections of this report is an argument against government encouraging universities to pursue vigorously the prospect of tempting employers to invest directly in higher education. Nor does the report contain any argument against moves to link opportunities to expand success in this endeavour. It does however suggest that caution is required on six points:

- In setting policies, the Government needs to appreciate what works about the current settlement as well as what can be improved. What might be termed 'mainstream' higher education works well for most of those who access it and most of those who employ them. The current system of reflecting demand from students in determining public funding delivers more than a planning approach is likely to
- Unrealistic targets for the growth of employer-funded higher education should not be set either by government or by individual institutions in their planning. The size of the potential market –

which is currently untested – should be established and the scale of the Government’s ambition should be limited by it

- The Government should shy away from a ‘planning’ based approach to encouraging responsiveness to employer preferences. Government intermediaries are not good at capturing employer preferences and cannot substitute for real employer-customers (although they can advise them on their dealings with HEIs)
- There is unlikely to be a clamour of demand from universities willing to provide notionally ‘co-funded’ provision at a reduced rate of state funding. Nevertheless, the risk is that expansion of this type will repeat the pattern of underfunded growth and overtrading seen in the 1990s
- Expansion of higher education will offer valuable opportunities to individuals but will not by itself address wider problems of educational and social stratification. It is impossible to address these issues by simply targeting HE participation rates - a much wider perspective is needed
- If there is to be a large-scale expansion of vocational higher education, the impact upon the value of level 3 qualifications as terminal qualifications should be considered as should the impact upon the holders of those qualifications and their attractiveness to prospective students.