Higher Education, Skills and Employer Engagement

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Introduction

1. Each year, the Secretary of State for Education and Skills writes to the Chairman of the Higher Education Funding Council for England confirming the Council's grant and setting out his priorities. The 2007 letter followed the report on skills commissioned by the Government from Lord Leitch, and placed great emphasis on the skills agenda, often referred to as the 'employer engagement' agenda reflecting the Government's belief in the importance of employer input.

2. Three related priorities emerge from the letter. The HE sector is asked to:

- <u>Target older learners</u>: increasing the participation of older people (over 30) already in the workplace participating in HE
- <u>Engage employers in determining what HEIs offer</u>, and more specifically to persuade them to shoulder a proportion of the costs of this expansion
- <u>Cater for young learners with vocational qualifications</u>: ensuring that universities are ready to provide for those with vocational level 3s.

3. This summary report addresses each of these priorities in turn[1]. It is not concerned more generally with the beliefs and assumptions that underpin the Leitch report, in particular 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[2]: 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 (CVE), is one that needs to be explored[3]. 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.

4. 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

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[1] A fuller version can be found at www.hepi.ac.uk.
[2] *Graduate Supply and Demand: a Consideration of the Economic Evidence* (HEPI, 2003)
[3] 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.

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

5. The shift of emphasis to older learners is welcome. Older learners may be a relatively small proportion of the HE population but providing opportunities 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 to judge the success of the Government's HE policy, funding bodies and institutions would respond to this incentive to divert resources from older to younger learners. So the emphasis on access for older learners is extremely welcome.

6. 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[4] 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[5]. However, that would be achieved entirely by the under-30s and has no bearing on the participation of older students.

7. In fact, although the 40 per cent figure is not a target, Leitch does state a target. He states that in order to be world class in skills we should aim 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

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[4] 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.

[5] 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.

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 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.

Engaging Employers

Responsiveness to students or employers?

8. In Leitch, a 'demand-led' system of HE is contrasted with the planning approach adopted by the Learning and Skills Council in further education. He argues that employers should influence – or even determine – what universities offer, either directly or through an intermediary, as occurs in the FE sector.

9. It is true that higher education is different from further education. While the total supply of places is planned (the Government funds HEFCE to provide increases in student numbers and HEFCE awards 'additional student numbers' – i.e. over and above their previous year's baseline – to individual universities), in practice these top-level decisions are taken on the basis of aggregate student demand and budgetary constraints rather than on the basis of strategic priorities. The actual courses offered by universities reflect student demand, not the priorities of economic planners: institutions want to fill their places and can do so only by offering courses which students find appealing.

10. A move towards employer-led demand in higher education as proposed by Leitch is, in principle, a move away from student demand as the main determinant of what is offered. There is a risk that what employers want will often not be what students want – especially where courses depend on attracting students who are not employees of an employer-customer. This process can be taken only so far. Students are the ultimate customer: without student demand, courses cannot run.

11. The current approach to funding higher education reflects student demand whilst dampening the volatility of an unregulated market. This approach has an unusual virtue – unlike many public sector pseudo-markets, it combines the low transaction costs of a planned system with the pressure for innovation of a market system. Moves towards a more planned approach risk undermining this virtue.

Securing employer financing

12. In addition to replacing students as the determinants of what universities offer, the Government is keen to secure greater financial contributions from employers. The current policy agenda is not just about aligning supply with employer preferences. 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:

> "The benefits [of higher education] 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."

13. 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.

14. We know a little about how this is to work, at least initially. HEFCE wrote to English HE institutions to tell them 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

15. Two things are clear – first that the initial ambition to support 5,000 FTE places means that the first phase of co-funded provision will represent a 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.

16. More important, the demand that provision should be 'co-funded' effectively *reduces* government support in future: employer contributions replace rather than supplement public funding that would previously have been provided. Official policy 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[6]. On the other hand, by insisting that such provision will attract a reduced rate of state funding it risks suppressing demand where it is already low.

17. None of this is problematic. A mixture of exhortation, the roll-out of the Train to Gain[7] brokerage model and the development activity funded through HEFCE's Strategic Development Fund could enable the HE sector to develop new products with a small but worthwhile set of customers. Given the sums involved[8] that could amount to a perfectly satisfactory result and a credit to all involved. 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.

18. 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 will distort the Government's approach, 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

[6] At the time of writing, funding for 11 such projects has been agreed through HEFCE's Strategic Development Fund (SDF), with a total value of nearly £22m.
[7] 'Train to Gain' is a programme administered by the Learning and Skills Council which 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 HE, the brokerage model is currently being piloted in three regions (the 'pathfinder' projects).
[8] Exhortation is free, £12m is budgeted for the Train to Gain Pathfinder projects, and SDF bids tend to be modest in size.

'demand-led' in the sense of replacing the primary demand represented by students with secondary demand, represented by employers or their proxies.

19. A golden rule should be established: 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.

20. 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.

21. There is no suggestion that they have been unsuccessful. However, The Guardian has reported[9] that the brokers have had little impact upon colleges. It reports that: "More than 80 per cent of [FE] 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 lower-level skills acquisition than to level 3 or 4. This is not evidence of failure – it is entirely consistent with the aims of Train to Gain – but it casts further doubt on whether Train to Gain is a good model for level 3, let alone for higher education.

22. 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 and student demand will continue to be the main driver of vocational and non-vocational education at level 3 and above.

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[9] P Kingston, *Network Fail*, The Guardian 10 April 2007

Indicators of potential demand for employer-funded higher education

Demand from employers

23. Demand for Foundation Degrees is analysed here as indicative of demand from employers, and in the main report a similar analysis is undertaken of sandwich courses and workplace learning with similar conclusions. However, these 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.

24. 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 diploma-level course. Consequently, the extent to which employers currently contribute to Foundation Degree course costs is an indicator of the overall strength of employer demand.

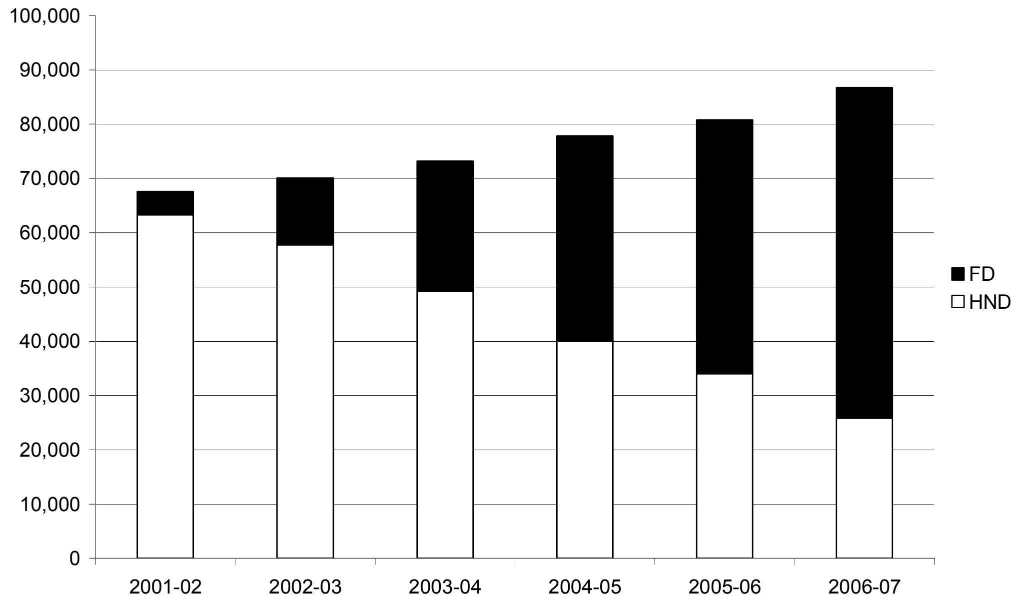
25. Of 2004-05 Foundation Degree entrants, only 2,045 (1,650 part-time and 495 full-time students) had their tuition fees paid by their employer. With half a million students entering higher education every year this means that employer funded foundation degree students represent roughly 0.4 per cent of the total. If Foundation Degrees with their focus upon employer requirements are supposed to herald a new age of employer-funded higher education, something very large has to emerge from what - at present - is a very small acorn.

26. It is worth recalling that the intention is to expand demand for employer-funded higher education by inviting universities to bid for places at reduced funding levels with employers filling the gap. The proposal for the development of employer co-funded provision assumes that demand will be stimulated by offering something that is, arguably, already available on more favourable terms.

Demand from students

27. It would be wrong to think of all student demand for Foundation Degrees as 'new' demand. In function they replicate the pre-existing Higher National Diplomas and Certificates (HNDs and HNCs), largely replacing the former, as Figure 1 shows.

Figure 1: Students studying for foundation degrees and higher national diplomas



Source: HEFCE

28. This pattern is not coincidental. HEFCE have also estimated more directly the number of Foundation Degree courses which can be described as 'conversions' from pre-existing HND or HNC programmes[10]. Where they 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'[11]. According to their 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[12] were 'probably developed from HNDs'.

29. These figures do not suggest that Foundation Degrees have revealed a large additional pool of potential demand for such courses. It may be there, but it has not yet revealed itself.

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[10] *HEFCE 2007/03*

[11] 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).

[12] 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.

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

30. Government budgets have to be set before the precise levels of demand for public services are known. The funding for the HE sector depends in the first instance not on what actually happens to the market, but what the Government believes will (or ought) to happen. It follows that it is in the interest of universities for the Government to remain 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. Collectively, therefore, universities are likely to make positive noises about the potential to develop employer funded higher education, if that is the only form of provision for which the Government is prepared to provide additional funding.

31. Will individual universities sign up? Many will hesitate to do so, as the new arrangements require them in future to make provision for less payment than in the past. At present, universities are free to engage with employers exactly as proposed by the Government, and may charge employers whatever fee they wish; and in addition they receive full HEFCE funding. Indeed, if they provide Foundation Degrees they receive a premium. In practice, co-funded places may prove simply to be places for which the Government provides a reduced rate of funding (on the assumption that universities will secure the balance from employers). This means that they will be unattractive to universities which can utilise their capacity in providing fully funded provision but will attract those that cannot.

32. HEFCE and the Government will also need to take account of the demographics as they develop their proposals. As noted in earlier HEPI reports[13] the demographics – and trends in A level study – suggest a weakening in young demand over the next decade. If such a softening takes place, universities may not need to take cut-price places for growth: they will have more than sufficient fully funded places. On the other hand, as they seek out students to fill these places, or if the Government cuts funding for mainstream HE in anticipation of such an event, there will be some universities willing to accept co-funded places, even where there is no co-funder. The reasons for this are cultural as well as rational – many English universities are accustomed to expansion and assume that revenue rather than cost recovery is the best measure of financial success.

33. 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 is funding method to accommodate the new arrangements. But there is a danger in all this: that the Government and

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[13] Most recently in *Demand for HE to 2020* (HEPI, 2006).

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'.

34. 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 they pursued growth at the expense of a sharp drop in the unit of funding per student; and through the 1990s the pursuit of research funding (in response to underfunded research grants from Research Councils and contracts from industry) led to substantial losses on research activity. The financial pressures created by this 'overtrading' resulted, among other things, in underinvestment in infrastructure. Those years of underinvestment have led to billions of pounds now being required for earmarked capital funding. It would be a serious mistake to allow this situation to reoccur by encouraging universities to agree to provide 'co-funded' places for which no co-funder exists. The funding arrangements have yet to be decided, and it is important when HEFCE sets its funding mechanisms in place that it guards against this.

Employer engagement in higher education and wider public service reform

35. 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.

36. 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 on the other hand that are interested in competing for new 'employer-led' provision are being presented with:

- 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 focusing on the needs of the latter)
- A reduced amount of state funding (the implication of 'co-funding' 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-focused provision is untested).

37. 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). There may be takers, but the real risk is that co-funding arrangements will create a new class of second-class provision offered only by those universities that lack alternative means of fully utilising their capacity.

Catering for young learners with vocational qualifications

38. 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)

39. There should be nothing controversial about the expectation that the HE sector should provide admission routes and appropriate courses for diploma-qualified students; but it is far from certain how successful diplomas will be at increasing the numbers of students with vocationally focussed level 3 qualifications seeking admission to higher education. Past attempts to achieve parity of esteem between vocational and academic routes by developing new vocational qualifications have not been successful and the more radical proposal of the Tomlinson Report – to abolish A levels and GCSEs and fold all 14-19 provision within the new diploma - was rejected. The continued differentiation between academic and vocational routes poses the risk that the diploma will increase the differences in perception rather than remove any barriers that may be faced by vocational learners. This has been recognised 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."[14]

40. Although the Government's aim of encouraging more holders of 'other' (i.e. non-A Level) level 3s to enter higher education is in most respects laudable, care is needed with this. A previous HEPI report[15] showed that 'other' level 3 students progress to higher education in roughly the numbers that would be expected, and in the same proportions as A level students, given their GCSE attainment. Unless more high achieving pupils take vocational level 3s, this aim will not be achieved without universities lowering their standards.

Conclusion

41. Nothing in this report is an argument against the 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 to success in this endeavour. It does however suggest, very simply, that caution is required on the following 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

- Unrealistic targets for the growth of employer-funded higher education should not be set either by government or by individual institutions. The size of the potential market – which is currently untested – should be established and that should limit the scale of the Government's ambition

- 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 in the way proposed will offer valuable opportunities to individuals but will not by itself address wider problems of educational and social stratification, whatever form the expansion takes. Indeed, unless handled carefully, it risks exacerbating these.

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[14] Alan Johnson speaking to the conference of the Association of School and College Leaders, 9 March 2007

[15] *Vocational A levels and university entry: is there parity of esteem?* (HEPI, 2007)