



The Open
University

FIXING THE BROKEN MARKET IN PART-TIME STUDY

Foreword

Carolyn Fairbairn, CBI Director-General



Since I started as **Director-General of the CBI**, there is one message I have heard most often. Time and time again, across the country, the challenge nearly all firms talk about is the need to **invest in skills** to address current shortages and meet future needs.

According to our latest *Education and Skills survey*, 75 per cent of businesses expect to increase the number of high-skilled roles over the coming years, but 61 per cent fear that there will be a lack of sufficiently skilled people to fill them. As we work to build a more prosperous society, meeting this challenge by making sure we have a workforce with the skills to succeed is a responsibility shared by government, universities and other educational institutions, and business.

As our economy changes and we look to develop a modern industrial strategy, the skills issue should be at the heart of it. We will need to ensure that university provision is increasingly tailored to people's needs to maximise the benefits it brings - allowing learning to take place around existing responsibilities and commitments.

Over recent years, there has been enormous progress in opening up UK universities. Official statistics suggest that the proportion of 18-year-olds participating in higher education has increased by more than a quarter over the past decade, from 21 per cent to 27 per cent, with applications from those with less well-off backgrounds also going up. This progress has allowed more young people the advantages that come with learning new skills, developing new ideas and – ultimately – seizing new opportunities.

But it still feels as if we have yet to grasp the full potential of part-time and mature students. We have seen an alarming decline in applications – with a 61 per cent decline over the past seven years in the number of new part-time students in England – and it matters to individuals, businesses, and the wider economy that we reverse this trend. The days of the skills learnt in youth lasting a career are likely to be behind us, so we have to have models that enable earning alongside learning at every skill level.

For prospective students, greater flexibility in degree provision will help people access the life-changing opportunities that a university education can provide. Two-thirds of the 2030 workforce have already left full-time education and so allowing people additional routes to higher skills – such as through flexible 'learn-while-you-earn' higher education provision or apprenticeships – will be vital to allow people to upskill and retrain whilst in work.

For a host of reasons – such as work commitments, caring responsibilities, physical and/or mental health issues (to name just a few) – if certain prospective students cannot access flexible study, they do not study at all. This means we lose out on the potential of higher productivity and the chance to help boost wages, improve jobs, and raise standards of living for people across the UK.

Employers are also clear about the importance of higher skills. And as our latest *Education and Skills survey* shows, over the last 12 months more than eight in ten companies have maintained or increased their levels of graduate recruitment. According to work by the UK Commission for Employment and Skills (UKCES), almost half of all jobs by 2024 are predicted to require some form of higher education, so this is an issue that is not going to go away.

And of course, this matters to the economy and society overall.

Research has shown us that having a more educated society can help make the UK more productive as a country. As the CBI has previously illustrated in our *Unlocking Regional Growth* report, raising educational attainment drives productivity but a focus on schools alone is not enough. Later skills development is also important. This means the current skills gaps threaten to put a brake on growth.

With our economy and the world of work changing fast, developing additional and alternative routes to higher skills will matter more than ever.

For the UK to compete in a globalised knowledge economy, we will need greater dynamism in our higher education provision – including reforming traditional course delivery through sandwich and accelerated degrees – but also recognising the need to provide more in-work options like part-time, distance learning, and apprenticeships.

As we look to spread prosperity and make universities the linchpins of a modern industrial strategy, we are clear that collaboration between universities and businesses will be essential in helping to upskill our current and future workforce.

The CBI is keen to encourage discussions on how we can move forward on this critical issue and we welcome this important contribution from The Open University.

Carolyn Fairbairn
Director-General of the CBI
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Introduction



The crisis in learning and earning in England demands action

1. The market for part-time higher education in England is in crisis. That creates major economic and social disadvantages. The biggest cause of the fall in part-time study in England is government policy which has resulted in a broken market that now needs urgently to be fixed. To restore the market to health requires direct intervention by the UK Government. The need for that is immediate.

2. Since 2008/09, the number of first-year part-time undergraduates has fallen by an extraordinary 61 per cent, equivalent to a cumulative reduction of 660,000.¹ This collapse has hit learners from disadvantaged backgrounds particularly hard. Although the number of disadvantaged school leavers going to university has shown a welcome rise, **the total number of people from disadvantaged areas beginning an undergraduate course each year has fallen by 15 per cent or 11,500 per year since 2011/12.² This is entirely the result of the fall in part-time study.**

3. Why does this matter? It matters because part-time study, particularly the ability to learn and earn, is not only the key to tackling the UK's slow growth and low productivity but also a vital engine of social mobility. Employers already decry a lack of skills within the workforce, yet the shortfall cannot be made up simply from the ranks of young full-time graduates. Even with the increase in the number of such students, the figures just do not add up. If you add to the mix the growth of artificial intelligence and the Fourth Industrial Revolution, as well as the projected impact of Brexit on the availability of skilled foreign workers, the need to retrain the existing workforce becomes unarguable.

4. There is a clear consensus about the roots of the decline in part-time higher education in England among those who have studied the problem. Over the past ten years, successive UK governments have tinkered with the system, partly to the detriment of part-time study. But the real body blow was delivered by the unintended and unanticipated impact of the 2012 university funding reforms on the demand for part-time study. While reforms have undeniably supported growth in the full-time higher education sector, they have devastated part-time learning.

5. The scale of the adverse impact of the 2012 funding reforms on part-time higher education came as a surprise to many. As the independent Browne Review noted, previous experience of funding reforms affecting full-time students suggested that allowing part-time students to access the student loans system – meaning many would no longer have to finance the costs of study upfront – could outweigh much of the negative impact on demand of higher fees. This view was not at odds with the evidence that existed at the time. However, we now know that the assumption that part-time students would behave in the same as full-time students was catastrophically wrong.

6. The unanticipated decline of the part-time higher education sector has led the architects of the 2012 reforms to conclude that the current funding system for helping adults to study part-time is not fit-for-purpose. Other leading higher education sector figures have also emphasised the importance of tackling the decline:

- Lord Willetts, the Minister for Universities and Science at the time of the reforms, has said that the collapse in part-time student numbers is 'one of my biggest regrets about my time as Minister'. He now believes 'You need different models for different groups. We extended loans to part-time students thinking it would have the same beneficial effect on them as the loans for full-time students, and all would be fine. The evidence is that the loans for part-time students have not worked. There has been low take-up and people have been put off. We need new mechanisms for helping adults to study part-time, and I accept that the loan model has not delivered for them'.³

- Les Ebdon, the Director of Fair Access, has said that the decline in part-time numbers is further evidence of the need to support access to higher education for mature students, who are more likely to come from disadvantaged backgrounds. He has said 'The downward trend in mature student numbers is now one of the most pressing issues in fair access to higher education. Undoubtedly, the reasons behind the fall are complex and multiple, but universities and colleges should look to do what they can to reverse the decline in mature student applications as a matter of urgency'.⁴

• Alistair Jarvis, the Chief Executive at Universities UK, has said 'any consideration of how best the student funding system could evolve to improve social mobility and meet the skills needs of the economy must include work to address the worrying decline in the numbers of part-time and mature students'.⁵

7. Yet the collapse in learning and earning has, in many ways, been a hidden crisis. Most senior policymakers and media commentators followed the conventional route to higher education – entering university as a full-time student on a three-year degree course straight from school or college – and understandably this can colour their analysis of the issues. It is worth remembering that, despite the collapse in part-time higher education, about half of undergraduate university students are not following this route.⁶

8. In her speech to the Conservative Party Conference in October 2017, the Prime Minister championed her belief in free markets but added that she was prepared to reform them where they did not ensure that the economy delivered for all levels of society. She said 'While we are in favour of free markets, we will always take action to fix them when they're broken'.⁷

9. The market for part-time higher education is clearly broken. The UK Government has already partly acknowledged this and responded by relaxing restrictions on access to tuition fee loans for some students who already have higher education qualifications and allowing some part-time students to access maintenance loans.^{8,9} These measures are welcome but they do not go far enough.

10. That is why the Prime Minister's announcement of a major higher education review in England is so important. It is an opportunity for the UK Government to undertake a fundamental rethink of what has worked and what has gone wrong in the current system. Part-time higher education must be central to the review: a healthy part-time sector is of direct benefit to employers, workers and the economy.

11. An essential failing of previous reviews was their assumption that what works for full-time students also works for part-time students. It does not. They are two distinct segments of the higher education market with very different characteristics. A 'one-size-fits-all' approach addressing the challenges within the full-time sector will be ineffective in tackling the market failures in the part-time higher education sector.

12. There is a growing coalition of support for the learning and earning sector and the flexible, employer-led higher education it provides. Employers are clear that the adult skills system is not operating effectively to tackle the UK's chronic productivity problems, suppressing economic growth. As Carolyn Fairbairn says in the foreword to this pamphlet 'The days of the skills learnt in youth lasting a career are likely to be behind us, so we have to have models that enable earning alongside learning at every skill level.'

13. This pamphlet therefore:

- identifies the main benefits to the economy and society of a higher education sector that supports people to learn and earn;
- discusses the various market failures that affect the part-time higher education system's capacity to deliver these benefits; and
- proposes comprehensive and radical solutions to these market failures that should be considered in any forthcoming review of higher education in England.

14. Ultimately, if we are to truly provide the skills the country needs, **we need to put in place direct financial incentives to develop solutions to the market failures affecting part-time higher education.** An increase in the flexibility of loans that fit with the characteristics of part-time study could help. But truly transforming learning and earning will require new funding streams aimed at reducing the costs of study, targeted at where market failures are most chronic. Appropriately targeted, and using relevant incentives and available funding, this could be done in a fiscally responsible manner.

15. This is just the start of the debate and The Open University (OU) is keen to develop further the initial policy propositions in this pamphlet, in collaboration with others.



Peter Horrocks
Vice Chancellor

 The market for part-time higher education is clearly broken 

Learning and Earning the benefits

The evidence shows that enabling people to study towards higher level qualifications during their working lives has substantial benefits, both to the economy and wider society

Benefits to individuals

16. Higher education transforms people's lives. I have the great honour of presiding over Open University graduation ceremonies and hearing first-hand from our graduates about the benefits of their study. Many of them tell me of their immense pride in having obtained a new job or a promotion as a result of their study with the OU, often even before they have achieved their qualification.

17. These include countless people who, for whatever reason, were unable to achieve their full potential at school, were written off by their teachers and have spent much of their lives in jobs that do not use their talents to the full. They also include many people who have returned to higher education during their working lives to retrain and refresh their skills to allow them to move between different sectors and progress in their careers. Meeting these thousands of exceptional achievers always fills me with admiration. But it also saddens and frustrates me when I realise that policy failures in England have let down thousands of others who could be achieving like these graduates.

18. The evidence is not just anecdotal. It is backed up by the data on the outcomes achieved by part-time graduates:

- **Part-time study is less costly than full-time study.** The UK Government estimated in November 2015 that the Resource Accounting and Budgetary (RAB) charge for every pound lent – the cost to the public purse of part-time loans not being repaid in full – was 11 per cent lower than for full-time students.¹⁰ Some experts have suggested that the relative public subsidy attached to part-time loans is lower still and may even represent a net gain for the Exchequer.¹¹

- **The earnings gains from part-time study are large.** People who obtain undergraduate qualifications after the age of 25 – most of whom study part-time – enjoy substantially higher earnings over their working lives than similar individuals who do not study.¹² The lifetime earnings gains can be even higher for those who enter with non-traditional qualifications. For example, internal OU analysis estimates that the lifetime increase in earnings after tax for men with GCSE-level qualifications on entry achieving an undergraduate degree at the Open University are £117,000.¹³

- **Early outcomes for part-time graduates are better than for full-time graduates.** In the fourth year after studying, part-time graduates are as likely to be in employment, more likely to be in a higher-level occupation, and more likely to earn more than £20,000.¹⁴

Benefits to wider economy and society

19. The UK Government has reviewed the academic literature and identified several benefits to society from an individual participating in higher education, whether part-time or full-time. These include¹⁵

- increased tax revenues;
- faster economic growth;
- greater innovation and labour market flexibility;
- increased productivity of co-workers;
- greater social cohesion, trust and tolerance;
- lower crime;
- political stability;
- greater social mobility;
- greater social capital; and
- reduced burden on the public finances via, for example, a healthier population, lower crime and better parenting, among other things.

“When I started my degree I was asked by a colleague what my dream job was, well my dream job is actually the job I'm doing now and there's no way I would have got it without my OU degree”

Nathaniel Lawrence
Age: 34

Global Systems Engineer at Cisco



20. It is clear that these social benefits are substantial. For example, a study commissioned by the UK Government in 2013 estimated that a degree increases an individual's lifetime tax payments by an average of over £290,000¹⁶

21. Some of these social benefits are potentially much bigger for the types of students who are learning and earning. For example, in 2015/16, first-time part-time undergraduate entrants to universities in England were 50 per cent more likely to be from disadvantaged areas than first-time full-time entrants – 19.1 per cent versus 12.6 per cent.¹⁷

Supporting the UK Government's goals

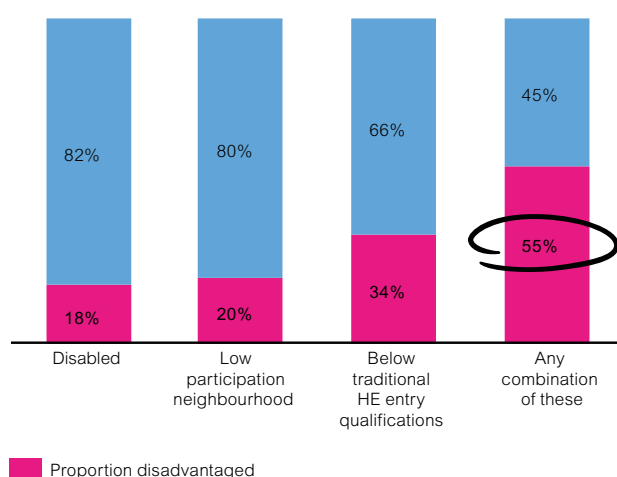
22. Helping more people to learn and earn would also support many of the UK Government's key priorities.

Improving social mobility and social justice

23. The Prime Minister has put social mobility and social justice at the top of her domestic agenda.¹⁸ People across the political spectrum share her aspiration of creating a society where how far people go in life depends on them and their hard work, not where they are from or who their parents are.

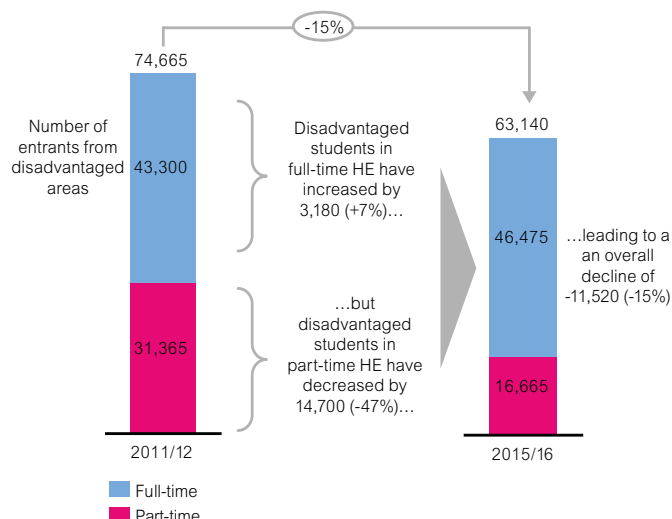
24. The mission of The Open University – and what motivated and inspired me to be part of this great organisation – is achieving that vision by helping people realise their potential. Almost one in ten of all first-time undergraduate entrants to universities in England from low participation areas are studying at The Open University and 55 per cent of Open University students in England are disadvantaged: either from a low participation area, having less than the minimum entry requirements for a course at a traditional university or declaring a disability (see Figure 1).^{19, 20}

Figure 1 – Characteristics of part-time students at the Open University²¹



25. However, the collapse in part-time higher education is making it more difficult for the UK Government to achieve this vision of a meritocratic society. There are now significantly fewer disadvantaged students entering university than there were before the 2012 reforms (see Figure 2).

Figure 2 – Undergraduate entrants from disadvantaged areas in England, 2011/12 to 2015/16²²



26. When I meet the OU's disabled students who struggle through physical or mental adversity, or the students who study while working full-time and bringing up a family, I am reminded of the type of people who the Prime Minister dedicated her Premiership at the door of Number 10: the 'just about managing', the 'strivers'. The Prime Minister had a direct message for them: 'I know you're working around the clock, I know you're doing your best and I know that sometimes life can be a struggle. The government I lead will be driven not by the interests of the privileged few, but by yours... We will do everything we can to help anybody, whatever your background, to go as far as your talents will take you.'²³ Everyone who works in part-time adult education echoes this. Now it is time to convert fine words into practical policy.

Supporting the industrial strategy

27. The Prime Minister has also emphasised the importance of a modern industrial strategy to deliver a strong economy and a fairer society by increasing productivity and reducing economic inequalities between the different regions of the UK.²⁴ A crucial pillar of this strategy is improving the skills of the working-age population. Key planks of this include tackling long-standing weaknesses in England's system of technical education to remedy England's shortage of highly-skilled technicians at sub-degree level and tackling the crisis in lifelong learning.

28. A part-time higher education sector that is effective in supporting learning and earning is an essential prerequisite for success in achieving these goals. The age distribution of part-time students shows how central they are to any consideration of increasing the skills and productivity of the workforce (see Figure 3)

Helping to ensure government spending is sustainable for the future

29. Ensuring government spending is sustainable continues to be a critical priority. Part-time higher education can help underpin the long-term sustainability of the public finances through:

- **Supporting economic growth** by rapidly increasing the skills and productivity of the current workforce. For example, research demonstrates the substantial productivity benefits of higher education ‘rub off’ onto students’ colleagues.²⁵
- **Improving the value-for-money of public subsidy to higher education.** Part-time students require lower loans than full-time students: average fees are significantly lower, students require less maintenance support and employment goals can often be achieved by shorter sub-degree study which costs less.²⁶ The public subsidy required for every pound lent to part-time students in England via the student loans system is lower than for full-time study.²⁷ Part-time students also pay more income and other taxes while studying: more than eight out of ten are in employment, most of whom are working full-time.²⁸
- **Helping people to get into and on in work,** increasing tax revenue for the Exchequer and reducing expenditure on in-work tax credits and out-of-work benefits, including disability benefits.
- **Greater flexibility and responsiveness to the needs of employers and students.** Part-time and distance provision can be more easily shaped around the needs of businesses and fit around the lives of employees. Less time out of work is required for these flexible study modes. Shorter, flexible study more rapidly creates the benefits that businesses require. And shorter sub-degree qualifications, whose loans can be repaid more quickly, benefit the public purse.
- **Spillover benefits.** Part-time higher education can help reduce a number of pressures on public expenditure, including health, education, and crime and justice.

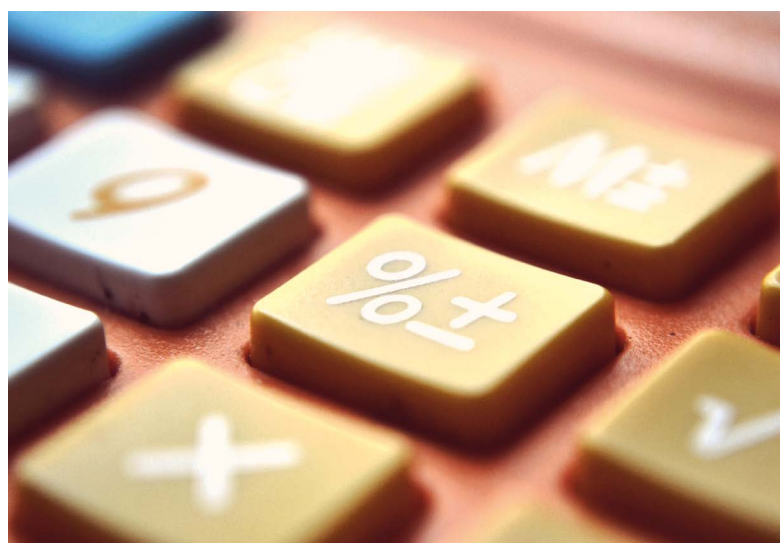
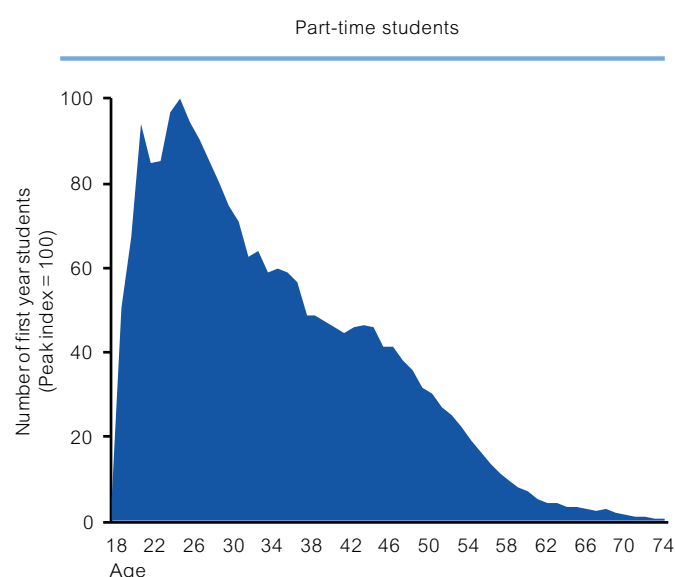
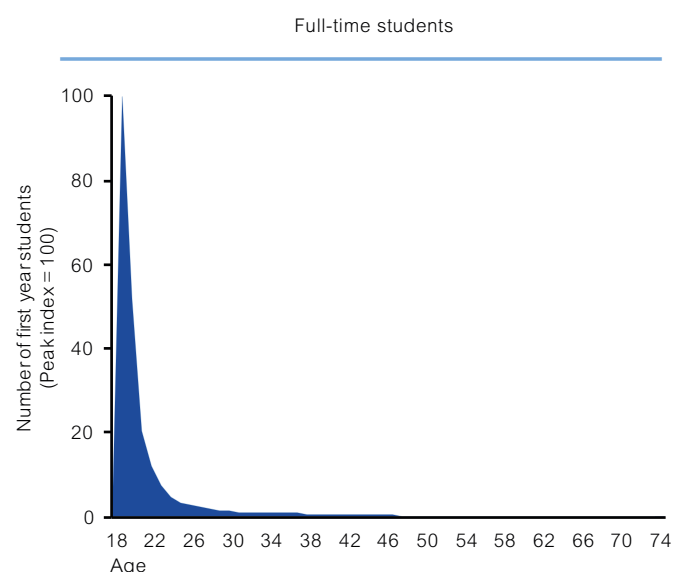


Figure 3 – Age distribution of undergraduate entrants by mode of study



Learning and Earning the market failure

Failures in the part-time higher education market mean that many choose not to learn and earn despite big individual and social returns

30. Failures in the part-time higher education market means that many people who would benefit from learning and earning do not study despite significant potential gains to both themselves and wider society from doing so.

31. We need more supply and plurality of choice if there is to be real competition and flexibility for students. That increased supply has not yet come through the UK Government's liberalisation of the higher education market. Both new providers and established ones need reform to the broken market for competition to then deliver. There is now a negative feedback loop whereby the decline in part-time higher education due to the market failure means less choice for students, which means a further decline in part-time higher education.

The drivers of the collapse in part-time higher education

32. HEFCE has identified a number of drivers which have contributed to the decline in part-time higher education. They include:²⁹

- removal of funding for students studying towards an equivalent or lower level qualification (ELQs) in 2008/09;
- phasing out of programmes to promote employer co-funded courses after 2011/12;
- the impact of the recession and slow recovery in real earnings in making it more difficult for students to finance their studies; and
- the reduction in the numbers of students funded by public sector employers to improve their skills via part-time higher education.

33. But the single most important driver is the 2012/13 changes to student funding in England. There is a marked cliff edge which coincides precisely with the significant increases in tuition fees (see Figures 4 and 5).

“We need more supply and plurality of choice if there is to be real competition and flexibility for students”

Figure 4 – English-domiciled first-year undergraduates by mode of study³⁰

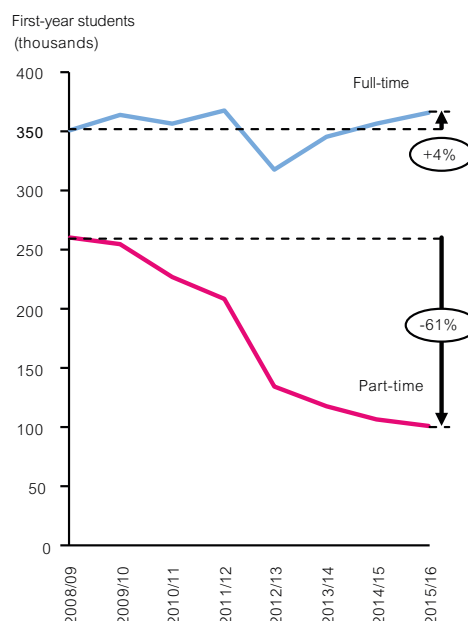
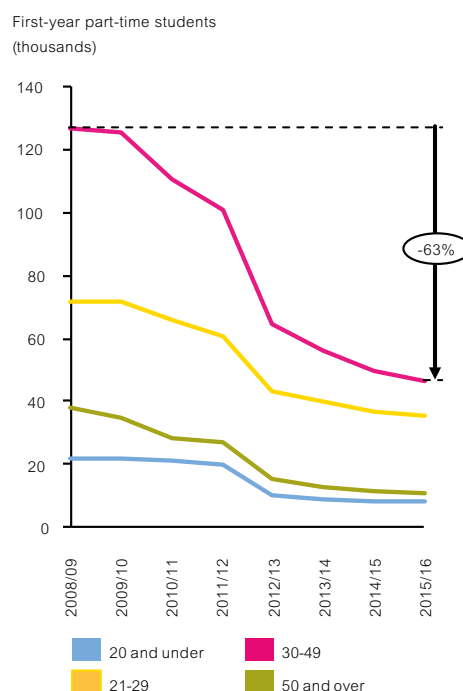


Figure 5 – English-domiciled first-year part-time undergraduates, by age³¹



34. It has been argued in some quarters that the main drivers of the decline in part-time higher education in England have been the strength of the labour market or the growth in the number of young people going to university over the last decade reducing the overall pool of students.³² Neither argument stacks up.

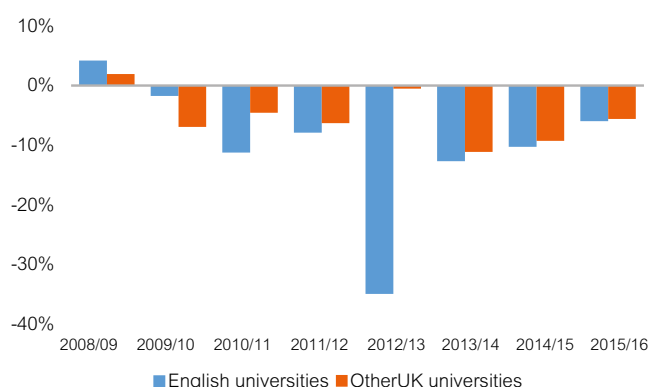
35. Analysis by London Economics looking at this concluded that:³³

- **A strong labour market tends to increase demand for part-time higher education.** The report concluded that recent weakness of earnings growth could explain some of the decline: people are less able to finance the costs of study than in the past, even if it would be a good long-term investment, as real earnings are still below their level before the recession.

- **The reduction in the pool of potential students can only explain a small part of the decline.** The report concluded that the decline in part-time study over the past decade is more than four times bigger than could be explained by the increase in full-time study. So increases in higher education participation rates for 18-year-olds are not the cause of the collapse in part-time higher education.

36. These arguments also cannot explain why there was a sudden collapse in part-time higher education in England in 2012/13, coinciding with the student funding reforms, or why this sudden collapse was not seen in Scotland, Wales or Northern Ireland (see Figure 6).

Figure 6 – Annual change in the number of part-time first-year undergraduate students³⁴



Is the collapse in part-time higher education in England just the market working effectively?

37. Some argue that the collapse in part-time higher education is simply the market working as it should. They contend that the previous funding regime subsidised many courses for which the cost exceeded the benefits to the individuals studying, employers and wider society. In this view, the collapse is due to a reduction in low-value learning, and has created a more efficient higher education system that is more closely aligned with the needs of students and employers.

38. There is little evidence to support this view. On the contrary, there is growing concern among employers that decline in

the part-time higher education sector is undermining the responsiveness of the adult skills system to the economic requirements for higher-level skills. The UK Government shares these concerns. Reducing the size of the part-time higher education sector was not an intended effect of the 2012/13 funding reforms and some action has been taken to reverse the decline. Ironically the Treasury seems initially to have sought to impose controls on the numbers of part-time students to manage the risks of an increase in part-time student numbers.³⁵

39. However, it is something that is worth dwelling on. Why is the collapse in part-time higher education a symptom of a broken market that is failing rather than one that is working effectively? Let us go back to first principles.

Government intervention to tackle market failures in the provision of higher education

40. The overall higher education sector is affected by many market failures which would, in the absence of action by government, lead to an inefficiently small higher education sector, with too few people gaining the skills that the economy needs to function effectively and access being rationed by family wealth rather than individual potential.³⁶

41. The state intervenes heavily in the higher education market in an attempt to remedy these market failures:

- **Providing significant public subsidies** via grants to providers and student loan subsidies to support the clear benefits to society of higher education teaching and research.
- **Providing income-contingent loans** to allow students to finance the upfront costs of study and insure themselves against the risk of low returns.
- **Regulating** the entry and exit of higher education providers, their activities, the qualifications they offer and the prices they are allowed to set.
- **Providing information and guidance** to potential students to encourage them to enter higher education and help them make effective choices.
- **Providing additional support to students from disadvantaged backgrounds** via grants to providers, regulation by the Office for Fair Access (OFFA) and subsidising providers' access activity through the student loans system.

Lessons from recent history – part-time students and full-time students need to be thought about differently by policymakers

42. One of the underpinning principles of the Browne Review was that 'part-time students should be treated the same as full-time students for the costs of learning'.³⁷ Upfront tuition fees for some part-time students were ended, eliminating a discrimination against part-time study for which providers, including the OU, had campaigned. Part-time students studying towards a first undergraduate qualification – roughly a third of part-time students in 2010 – were given access to the student loans system on the same basis as full-time students.³⁸

At the same time, most direct teaching grants to providers were removed. It was wrongly assumed that these changes would lead to an increase in the number of part-time students, despite the expected large rise in fees.

43. This was based on the lesson that Browne took from the 2006 increases in fees facing full-time students in England: allowing fees to be deferred and paid back gradually in adult life, contingent on income, could outweigh the negative impact increases in fees have on demand. It was thought that part-time students would respond to increases in deferred fees in the same way as full-time students.

44. The UK Government made a similar assumption, partly as it thought that more part-time students would be entitled to and take-up tuition fee loans than actually did so.³⁹ Its impact assessment on the 2012 funding reforms states that 'there is evidence from full-time students to suggest that participation is not adversely affected by increases in tuition fees (which are likely to happen if teaching grant for institutions is reduced) as long as loans are provided to cover the tuition fees and no-one has to pay up front. So, as far as students eligible for the fee loan are concerned, we would not expect a negative impact on the demand for part-time study'.⁴⁰

45. The experience of the last few years shows that this assumption, that all of us made, was catastrophically wrong. The misjudgement has led to a collapse in the number of students who are learning and earning that was entirely unintended. We now have more evidence that part-time students are a lot more price sensitive than full-time students. An obvious conclusion is that part-time students and full-time students are very different and need to be thought about differently by policymakers, as the primary political author of the reforms, Lord Willetts, has now openly acknowledged.

Market failures in the part-time higher education sector

46. However, this does not necessarily prove that there are bigger market failures affecting part-time higher education than there are affecting the full-time higher education market. For this we need to go one stage further and ask whether potential part-time students are more likely than full-time students to decide against entering higher education even where there are demonstrable individual and social benefits. The evidence suggests that this is indeed the case:

- **Part-time learners are more debt averse than full-time learners.** Academic research supports the findings of a recent equalities analysis of changes in student finance by the Department for Education, which noted that 'students from ethnic minorities, less advantaged backgrounds and mature students are more debt averse and cost sensitive than others. Additionally, research suggests that single parents and female students are more likely to be debt averse'.⁴¹

- **Part-time students are more sensitive to the cost of tuition than full-time learners.** The experience of the 2012 reforms demonstrates that part-time students are a lot more price sensitive than full-time students.⁴² This also seems to be the case for employers – the number of employer-funded part-time students also collapsed when fees were increased in 2012.⁴³

- **Part-time students are different to full-time students and many want to dip in and out of study: this can cause additional challenges in achieving successful outcomes.** Part-time students often combine their studies with work and significant family, caring and financial responsibilities. They are also more likely to be coming to higher education as second-chance learners. The nature of part-time study is different: students organise their studies to fit with the changing demands of their lives and finances, and many do not begin their studies with the intention of achieving a full degree. Part-time students also often require extra support during their studies.

- **Part-time students tend to pay back their loans at a faster rate than full-time students.** Many already earn above the threshold for student loan repayments when they begin their studies and make loan repayments regardless of whether or not their earnings increase.⁴⁴

- **While average earnings returns are good, part-time students may be put off study by the perceived risk of limited earnings returns.** The evidence suggests that, on average, there are substantial earnings returns to part-time study.⁴⁵ Providers need to be much better at communicating these returns and the student loan system needs to be more effective in insuring part-time students against the perceived risk of low returns.

- **There will be large benefits to society from participation in higher education by some groups of part-time students.** The public benefits of studying for higher-level qualifications can, for example, help those in receipt of Universal Credit increase their earnings so they no longer require in-work benefits; help support ex-offenders into sustainable employment and reduce the likelihood of re-offending; help people with disabilities find sustainable employment; help parents see the value of education and feel more confident in supporting their children, changing parenting behaviours in positive ways; and so on.

- **Less adequate information and guidance for part-time students.** The quality of adult careers advice is insufficient to support those looking to learn and earn in making effective choices. It is nowhere near as good as the support young entrants receive via the UCAS portal or from their schools and colleges. Adults need more help to fully understand the pros and cons of different options and how the funding system can support their learning.⁴⁶

- **Many part-time students face significant up-front costs.** Part-time students are only eligible for financial support towards tuition fees if they commit to studying a qualification and (with some exceptions) if they do not already have a higher education qualification at the same level. The UK Government estimated in 2010 that only one third of part-time students would be eligible for loans.⁴⁷ High up-front costs of study are a significant barrier for many – especially those who want to retrain – even if there are substantial social benefits from them participating in higher education. Many are not willing to make the financial commitment to a full degree, which may take six years or more to achieve.

- **Part-time students receive less public subsidy than full-time students.** As highlighted above, the public subsidy associated with part-time loans is lower than for full-time loans.⁴⁸

Where next: tackling market failure and incentivising a revolution in learning and earning

Achieving the UK Government's ambitions on lifelong learning requires radical action to tackle the financial barriers facing people who want to learn and earn

47. There are ways in which the UK Government could encourage, enable and support the part-time higher education market to respond more effectively to the economic imperative to significantly increase the number of people learning and earning.

48. In developing the ideas in this section, I have benefited from The Open University being akin to a public policy lab on 'what works' in supporting learning and earning. We are in a unique position as the only university operating in all four nations of the UK and providing the same basic product within four very different public policy environments. This allows us to see how some of these ideas could work in practice in improving our ability to achieve the OU's purpose 'to create educational opportunities and social mobility for all who seek to realise their ambitions and fulfil their potential.'

The role of providers: offering more attractive and flexible options that better meet the needs of those who want to learn and earn

49. The Open University is undergoing the most significant changes in its history to ensure that we can invest in the future needs of students and society. We are fundamentally transforming our curriculum, our research priorities, our teaching and student support model and our digital delivery systems. Through these changes, the OU will reinvent itself to have a range of courses and modes of study that provide the highly-flexible, lower-cost, employment-relevant forms of study that businesses and employees are crying out for. The OU will also maintain its focus on value-for-money for students by continuing to keep our tuition costs low: the costs of a degree at the OU are already around 40 per cent lower than at the majority of full-time higher education provider (£17,184 compared to the £27,750 fee cap at full-time providers).⁴⁹

50. Areas where part-time higher education providers should look to take further action include:

- developing a stronger commercial mindset, working closely with employers to match training needs and to develop flexible online learning materials (e.g. via FutureLearn, the open digital learning platform developed and owned by the OU) and ways of accessing teaching support;

- offering material by subscription to registered professionals or those with Continuing Professional Development (CPD) requirements to help them update their knowledge over their working lives;

- offering shorter versions of modules in smaller, cheaper bundles of learning as certificated professional development;

- actively promoting enrolment in stepping stone qualifications (for example, certificates or diplomas) that build towards degree programmes.

Making the market function more effectively within the current funding system

51. There are a number of areas where the UK Government could make improvements, within the current funding system, to help the market function more effectively. These include:

- **Improving the quality of information, advice and guidance.** Building a lifelong learning culture requires big improvements to adult careers advice. The UK Government's forthcoming careers strategy (due by the end of this year) should include individualised face-to-face career advice for adults and a single higher education applications portal for those wanting to learn and earn, as recommended in the Browne Review.⁵⁰
- **Strengthening pathways between further education and higher education to better support technical skills.** The Sainsbury Review – the Independent Panel on Technical Education – recommended that the UK Government develop clearer progression routes from lower-level technical qualifications provided by the further education sector to the more advanced sub-degree and degree-level technical qualifications provided by the higher education sector.⁵¹ The UK Government should learn from the system of articulation in Scotland. This allows many students who gain sub-degree qualifications in a Further Education College to progress to degree-level study in that subject at university without having to start right at the beginning of the course. Articulating students go straight into the second or third year of a degree programme in recognition of their prior learning.⁵²

- **Developing a universal credit transfer system.** A universal credit transfer system would enable learning validated by a university to have common currency throughout the higher education system, allowing people to move between universities or progress from sub-degree to full degree qualifications without having to start their studies from scratch. It would benefit student choice and competition, as well as smoothing pathways between further education and higher education. It is also a necessary step for the UK Government's ambition for greater innovation and student mobility within the sector to be realised.⁵³

- **Supporting people with the upfront costs of short courses.** Tuition fee loans could be made available for study on a module-by-module basis at approved providers. This should require limited public subsidy. For example, the OU's fee for a standard 30 credit module is £1,432: someone earning the full-time median annual salary of £28,800 would repay the principal of such a loan within five years in the current student loan system.^{54, 55} Eligibility restrictions and repayment rates could also be adjusted to help manage the cost to the public purse.

- **Allowing more people who are retraining to access student loans.** Technological change, an increasingly dynamic economy and longer working lives means that there is a growing need for people who obtained a degree in their early 20s to re-enter the higher education system later in life to update their skills. Further reform of the Equivalent and Lower Qualification (ELQ) rules could help support this.

- **More strategic use of OFFA-regulated access agreement expenditure.** Challenges in fostering effective collaboration between institutions make some of the UK Government's strategic objectives difficult to achieve.⁵⁶ One idea to address this problem would be for OFFA to centralise a proportion of Access Agreement expenditure and offer payment-by-results contracts for collaborative activity that targets some of the Government's strategic objectives that are neglected in the current model. The OU will be developing proposals in this area to put forward to the new Director of Fair Access and Participation at the Office for Students.

Transforming learning and earning: tackling the financial barriers

52. Each of the suggestions above would have some positive impact. But, even combined, they would not address the key underlying market failure affecting part-time higher education. **This is because they do not seek to tackle the underlying scale and cause of the crisis in learning and earning: the substantial financial barriers to participation caused by the impact of the 2012 funding reforms on tuition costs.**

53. Transforming learning and earning will require an ambitious fundamental reform – a return to direct funding of part-time providers or part-time students.

54. That would mean accepting that the assumption underpinning the changes made by the Browne Review – that those wishing to learn and earn would behave in similar ways to young full-time students when faced with a sharp increase in tuition costs – was wrong. It would also mean introducing new funding streams aimed at reducing the cost of part-time study, targeted at where current market failures are most serious.

Tuition fee top-ups

55. The most direct way in which the crisis in learning and earning could be addressed is through tuition fee top-ups for part-time students. This would represent, in effect, a return to a “part-time premium” for this form of study in England. As well as the experience in the UK, there are also examples in Europe, for instance in Belgium. It would have a number of benefits, including:

- incentivising more students to study part-time rather than full-time, with associated savings to the public purse and improvements in the responsiveness of the higher education system to the needs of the economy and employers;
- incentivising providers to enter the part-time higher education system and expand their offer, stimulating innovation, improving student choice and increasing competition; and
- making public investment in learning and earning is comparable to public investment in full-time study. This would help encourage students to consider learning and earning as an alternative to (more expensive) full-time study, improving fiscal value-for-money.

56. One way in which the top-up could be set is to reflect the extra costs per full-time equivalent student of delivering part-time study, relating to the administrative and other costs that are associated with non-standard delivery.⁵⁷

57. An alternative mechanism for calculating the part-time tuition fee top-up would be to set it at a level that reflects the savings to the public purse that would be achieved from someone studying part-time rather than full-time via lower tuition fees, lower maintenance loans, a lower RAB charge and higher taxes paid during study. This was one of the recommendations of the Diamond Review in Wales.⁵⁸ As I highlighted earlier in this pamphlet, internal OU analysis suggests that part-time higher education students required an estimated 27 per cent less public subsidy than full-time higher education students in 2013/14: further analysis is required to update this figure.

How could new learning and earning incentives be delivered?

58. One possible vehicle for facilitating tuition fee top-ups would be Personal Learning Accounts (PLAs). These could be used to fund tuition fees and maintenance costs for all further education, higher education, and technical study. They could combine more flexible loans and targeted direct support, with the funding mix being determined by policy priorities and fiscal parameters. Various models of PLAs have been proposed by a broad coalition of advocates.⁵⁹ PLAs would require robust systems to avoid the issues that affected Individual Learning Accounts in 2000.

59. Individuals and employers could be incentivised to save into PLAs through targeted government match funding or other incentives, for example:

- “[Learning and earning](#)” vouchers funded by central government to part-fund tuition costs for some students. These could be targeted on students, courses and qualifications for which wider social benefits are highest. This could either operate via top-ups to PLAs or as a grant to providers for every eligible student, conditional on abiding by lower fee caps.⁶⁰
- [Local skills shortage vouchers](#) funded by Local Economic Partnerships to part-fund tuition costs for students in areas where there are skill shortages or projected growth in demand for certain specialist skills.
- [Tax incentives for learning and earning](#) where employer and/or individual contributions to tuition fees on eligible part-time courses or to PLAs could be made tax free. The current business tax system is biased towards incentivising physical capital over investment in skills: the idea floated by the LSE Growth Commission for a ‘Skills and Training tax credit’, akin to the existing Research and Development tax credit, supported by the Institute of Directors merits further investigation.⁶¹

[Providing the right incentives for employers to invest in their staff studying at higher levels](#)

60. All the large employer groups in the UK have argued that the current apprenticeship levy system is too inflexible to respond fully to the economy’s needs for higher-level technical skills. This is particularly true for organisations where many staff already have degree-level and professional postgraduate qualifications and for more general skills and competencies.⁶² This may tilt employers towards less economically valuable training simply to be able to use their ring-fenced levy funds. This is clearly not the policy intention. The Skills Minister, Anne Milton, the Minister for Apprenticeships and Skills, recently acknowledged these concerns and has committed to look at ways of increasing levy flexibility.⁶³

61. The *Made Smarter Review* - commissioned by the UK Government as part of the Industrial Strategy and led by the UK’s largest technology companies – noted that full apprenticeship programmes may not always be suitable for upskilling workers in emerging technologies and recommended the adoption of ‘Modular Apprenticeships’.⁶⁴ Across a range of business sectors these would include modules covering relevant technical skills as well as soft skills, which could be plugged into existing standards or be combined to add up to a full apprenticeship. Further options include creating a ‘Graduate Levy’ as recommended by Bright Blue or broadening the apprenticeship levy to a Skills Levy, as recommended by both the CBI and the IPPR.^{65, 66, 67} There is no shortage of support for developing the levy further, from all sides of the business and political spectrum.



“Transforming learning and earning will require an ambitious and fundamental reform – a return to direct funding of part-time providers or part-time students”

Next steps

62. I want to return to the extraordinary graduates who receive their Open University qualifications at our graduation ceremonies. Anyone at those ceremonies who has previously experienced “conventional” university graduations remarks on the exceptionalism of students who study alongside life, rather than on a three-year break from life. There are still millions of our citizens who have the capacity to study at university level later in life, or whose initial higher education study is unsuccessful or fails to equip them for the future. There will be millions more in years ahead who desperately need high quality skills training to enable them to progress in their existing career or to switch to a new one.

63. These are the people whose struggles and backgrounds are insufficiently understood by many policymakers, politicians and journalists. But they are the people who will benefit the most from university. People who have made a determined decision to improve themselves in a way that will need the utmost discipline and hard work. For The Open University, the moral case to support these strivers is overwhelming. The fact that in supporting such students we can help repair our skills shortages, boost our economy, enhance social fairness and do it cost-effectively makes the case for supporting them unanswerable. But in England we have saddled ourselves with a system that has been designed around the needs of young people who go away to university. We need urgently to design a different mechanism for this huge and underappreciated part of our society.

64. If the UK economy is really going to thrive, then learning and earning needs to be at the centre of a modern economy and workforce. Financial incentives need to be in place to back it and intervene in the face of the acute market failures affecting the sector. Without them, the UK Government’s Industrial Strategy and its overall aims for higher education widening participation could both fail.

65. The Prime Minister’s founding mission statement was crystal clear: ‘We will do everything we can to help anybody, whatever your background, to go as far as your talents will take you’. So the UK Government’s course of action should now be clear – to do everything to ensure that, wherever people come from, they go as far as they can.



If the UK economy is really going to thrive, then learning and earning needs to be at the centre of the modern economy and workforce



References and end notes

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² HESA, *UK Performance Indicators: Widening Participation*, various years. Data refer to English-domiciled first year undergraduate students from low participation areas (defined as the 20 per cent of wards with the lowest young HE participation rate, as measured by POLAR3 Q1)

³ House of Lords Select Committee on Economic Affairs, *Oral Evidence: The Economics of Higher, Further and Technical Education*, 10 October 2017

⁴ Office for Fair Access, *Press Release: Further Evidence of the Need for Action – Comment on UCAS Application Statistics*, 13 July 2017

⁵ Daily Telegraph, *Theresa May is right to review tuition fees – but she must not cave to populist pressure*, 9 October 2017

⁶ ESA, *Higher education student enrolments and qualifications obtained at higher education providers in the United Kingdom*, 2015/16. 44 per cent of English-domiciled first-year undergraduate students are aged 20 and over

⁷ Theresa May, *Speech to Conservative Party Conference 2017*, 4 October 2017

⁸ Students studying towards engineering, technology, computer science and healthcare courses are now able to access student loans to finance the cost of tuition even if they already have an existing qualification. See <https://www.gov.uk/student-finance/who-qualifies> for an overview of the restrictions on part-time tuition fee loan access

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¹⁵ *The Benefits of Higher Education Participation for Individuals and Society: Key Findings and Reports "The Quadrants"* – BIS Research Paper No. 146, Department for Business, Innovation and Skills, 2013

¹⁶ Walker and Zhu, *The Impact of University Degrees on the Lifecycle of Earnings: Some Further Analysis*, BIS Research Paper No. 112, Department for Business, Innovation and Skills, 2013. The estimated present value of future tax payments made by the average graduate compared to similar non-graduates is £264,000 for male graduates and £318,000 for female graduates

¹⁷ HESA, *UK Performance Indicators: Widening Participation 2015/16: Tables 1b, 2a and 2b*, 2017. Data refer to UK-domiciled undergraduate entrants to HEIs in England in 2015/16 who had no previous HE qualifications from low participation areas (defined as the 20 per cent of wards with the lowest young HE participation rate, as measured by POLAR3 Q1)

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¹⁹ HESA, *UK Performance Indicators: Widening Participation 2015/16: Tables 1b, 2a and 2b*, 2017. This statistic refers to UK-domiciled undergraduate entrants to HEIs in England in 2015/16 who had no previous HE qualifications

²⁰ OU analysis. "Less than the minimum entry requirements for attending a traditional university" means lower than 2 A-levels at grade E or above or equivalent qualifications. "Disability" is based on self-declared data. 20 per cent of OU students live in a low participation area; 18 per cent declare a disability; 34 per cent do not have 2 A-levels or equivalent qualifications. The individual figures sum to more than 55% as many students have a combination of these characteristics

²¹ OU analysis

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²³ HM Government, *Statement from the new Prime Minister*, Theresa May, 13 July 2016

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Figure 1 HESA, first-year, English domiciled undergraduate students by headcount 2015/16

Figure 2 HESA data for first-year, English domiciled undergraduate students by headcount.

Figure 3 HESA – 2015/16 first-year undergraduate students at English HEIs by headcount. Index of 100 for full-time students is 195,055 at 18 years old with a total population of 440,740; part-time index of 100 is 4,820 at 24 years old with a total population of 107,430

Figure 4 HESA – English domiciled first-year undergraduate students by headcount.

Figure 5 HESA – English domiciled first-year undergraduate students by headcount.

Figure 6 HESA – first-year part-time undergraduate students by headcount by UK nation

ABOUT THE OU

OVER **2M** ALUMNI

174,000 STUDENTS

76% OF OPEN UNIVERSITY
STUDENTS 'LEARN AND EARN'

24,000 STUDENTS WITH
DECLARED DISABILITIES

88% OF FTSE 100 COMPANIES
HAVE SPONSORED STAFF ON
OU COURSES

LEADING PROVIDER OF
DEGREE APPRENTICESHIPS

IN 2012, THE OU FORMED THE
UK'S FIRST MASSIVE OPEN
ONLINE COURSE (MOOC)
PLATFORM, **FUTURELEARN**