



Youth Unemployment Committee

Corrected oral evidence: Youth unemployment

Tuesday 15 June 2021

11.40 am

Watch the meeting

Members present: Lord Shipley (The Chair); Lord Baker of Dorking; Lord Clarke of Nottingham; Lord Davies of Oldham; Lord Empey; Lord Hall of Birkenhead; Lord Layard; Baroness McIntosh of Hudnall; Baroness Newlove; Lord Storey; Lord Woolley of Woodford.

Evidence Session No. 15

Virtual Proceeding

Questions 157 - 161

Witnesses

I: Professor Ewart Keep, Professor Emeritus, University of Oxford; Professor Sandra McNally, Professor of Economics, University of Surrey.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of Witnesses

Professor Ewart Keep and Professor Sandra McNally.

Q157 **The Chair:** Welcome to this evidence session of the Youth Unemployment Committee. The meeting is being broadcast live via the parliamentary website. A transcript of the meeting will be taken and published on the committee website. You will have the opportunity to make corrections to that transcript where necessary.

On behalf of the committee, I extend a very warm welcome to Professor Ewart Keep and Professor Sandra McNally, and ask them to introduce themselves briefly.

Professor Ewart Keep: Good morning. I used to be the director of a research centre called the Centre on Skills, Knowledge and Organisational Performance. I am a member of the Oxfordshire Local Enterprise Partnership skills board, and an expert on the relationship between skills, labour market performance and, more generally, economic performance.

Professor Sandra McNally: I am a professor of economics at the University of Surrey. I specialise in the economics of education. I am also a director of the education and skills programme at the Centre for Economic Performance at the London School of Economics. I direct the Centre for Vocational Education Research that was funded by the Department for Education up to last year, for five years.

The Chair: Sandra, I will ask you the first question. It relates to the extent to which young people's education choices at the age of 16 are shaped by factors such as socioeconomic background and gender. To what extent is that the case?

Professor Sandra McNally: To start with the issue of socioeconomic background, there is a huge gap between people from disadvantaged and non-disadvantaged backgrounds; for example, defined by whether they are eligible to receive free school meals at school. This gap is evident before school, and it widens during school and then affects the whole trajectory. It affects people's choices post 16. The mechanism through which it affects choices is mostly via GCSE results. If you do not get good GCSE results, you can end up on a level 2 course in further education. From there, it can be difficult to progress to level 3 and beyond.

If you want to try to address the issues of socioeconomic disadvantage, you have to first try to make sure that those people do better at school, and then support people who are on level 2 courses in colleges by improving the transitions to upper secondary qualifications, which almost everybody should be able to get, rather than the bottom fifth or so never progressing to level 3.

The issue of gender is different. Girls have done better. For a start, the gender gap is smaller than the socioeconomic gap. The socioeconomic gap is of first order importance. The gender gap is there, but is not as big. Girls do better than boys at school, and they go into higher education in greater numbers, but the subject choices are really different. Girls are much less likely to choose STEM subjects in further education, in higher education and in apprenticeships. This is, to some extent, an issue in other countries as well. There are very good reasons for trying to address that, but there is a different set of policies there compared with, say, the socioeconomic gap.

Professor Ewart Keep: Choices of educational route at 16 are being determined, at least to some extent, by choices about fundamentally where people think they want to go, their identification of jobs and occupations, and then the subjects that lead there and that interest them. Therefore, Sandra is absolutely right. Gender is a huge problem in the sense that choices about what subjects are appropriate for girls to study can be very different from what boys see as being appropriate to study. That is partly about perceptions of what the labour market looks like for people from different backgrounds and people's self-perception of where they are heading.

Those choices go back way beyond 16. They go back to primary school. The performance gaps between socioeconomic groups appear very early on in people's lives. If you leave interventions to the point of just before 16, they are not likely to have much impact.

The Chair: Sandra, can I come back to you on trends? Is there any evidence to suggest that the patterns you have described are shifting, and are going to go on shifting, or, broadly speaking, is it a fixed picture?

Professor Sandra McNally: The GCSE gap between people from disadvantaged and non-disadvantaged backgrounds before the pandemic was about 27 percentage points, in terms of the probability of getting a good grade in GCSE English or maths. That is a grade C or grade 4 in the new system. That has been stable since 2011. There were no signs of that dropping pre pandemic. Post pandemic, while things will get worse, I do not know whether that will be reflected in GCSE results because they are going to be teacher-assessed this year. We know for sure that disadvantaged students have fallen very much behind, because of all the lockdowns, remote learning and so on. The gap in knowledge and skills is a huge concern moving forward.

The gender gap has not really changed that much. The curriculum changes make it a bit larger. When standards are raised, this tends to benefit girls more than boys, who fall a bit further behind. Both groups fall behind when you improve standards, but the gap gets a bit bigger because fewer boys meet the requisite thresholds. They have not changed very dramatically over time, but there are things that one

should try to address, particularly on subject choices. As Ewart was saying, that goes back to early school days.

The Chair: Ewart, you are nodding, so I take it you agree.

Professor Ewart Keep: Yes.

Q158 **Baroness Newlove:** I apologise to both professors that you cannot see me, but that might not be a bad thing anyway. This has been a fascinating session. I do not know whether I am any wiser, but the knowledge coming from the witnesses is excellent. My question is about employment. Sandra, how do employment and pay outcomes vary between young people who follow the academic path—A-level to university—and those who pursue technical or vocational qualifications? Can you explain how much outcomes vary, even among young people who pursue vocational and technical qualifications, please?

Professor Sandra McNally: To set the scene before I get into that, by age 22 about a third of people achieve level 2 or below, which is GCSE or a vocational equivalent, a third achieve A-levels or BTECs, and about a third achieve level 6, which is a degree. A very small number of people have sub-degree qualifications at levels 4 and 5, for a start. When you are comparing vocational and academic pathways, you are comparing very different things. Some people have far fewer years of education. If they take the vocational route, they typically stop at level 3. If they take the academic route, many of them stop at level 6.

There are huge differences in the number of years of education, which tend to make the earnings premium much bigger for people with academic education. Conversely, people with vocational education will enter the labour market more quickly, sooner, and will get more years of work experience. There is a payoff to work experience as well. If you compare people when they are still young, the gaps will look narrow, and then, if you look further away in time, the gaps may get bigger. That is indeed what we see.

The prior achievement of people taking different routes is very different. If you look at people who go to university, they come from the upper end of the GCSE distribution in large numbers. If you look at people who stop at level 3, they have a very different profile. They are much further down the distribution. If you look, interestingly, at people who do levels 4 and 5 at a young age (a small number of people), they look far more like the people who stop at level 3 than the people who go all the way to level 6. If you want to say more people at university should do levels 4 and 5, you need to bear in mind that they have quite a different profile than those with level 6.

To answer your question, if we look at people at a point in time, say, at age 26 or 29, there will be a large earnings premium for having done a degree. The most recent work on this has been the IFS work that

estimates returns to a degree using LEO. That is the administrative dataset that the DfE has. Once you take account of all the observable factors and characteristics that might differ between people who do and do not do degrees, this is a return of 8% for male graduates and much higher than that for female graduates.

If you look at people who do, say, levels 4 and 5, there are very few people who do those sorts of qualifications at that age, but they do quite well, and in some cases better than people with degrees. The reason for that is that level 4 and 5 qualifications are concentrated in particular areas, such as engineering and technology for men, or nursing diplomas for women. We know that what really drives returns is not just the level of education, but the subject. Comparing graduates with non-graduates is telling you something, but often the subject of study is as important as the level.

It is important not to have too narrow a view about what return to qualification actually is, even when you are talking just about labour market outcomes. There are other things that education will do for you. Part of the return to education is resilience in the face of shocks. It is being able to move around, retrain and get training opportunities at work. We know training opportunities are there much more for people who already have higher education. General education builds up and then you get more vocational training later in life if you are already more highly educated.

Part of the return to general skills is the facility to take on training later in life that people with high levels of general education have. We often talk about the distinction between vocational and academic education, but we should also place an emphasis on how much general education there is within vocational education options; otherwise, we could be doing people a disservice by preparing them for their first job but not necessarily for their career. Formal education should be about helping people in their whole career and not just entry to the labour market.

Professor Ewart Keep: Sandra is absolutely correct, but one of the little catches is that, in order to deal with this, very often people talk in terms of the average return for a particular level of qualification or type of student. The problem with averages is that they can be very misleading—not always, but they can be. There is massive variation with the graduate premium around the average graduate's wage. There are lots of people who earn massively more, but there are a scary number of graduates who earn massively less. As you probably know, there is currently a big argument about whether the repayment threshold for the graduate loan system should be dropped back to £19,390. The calculations that have been done on that suggest that, even if the graduate repayment threshold dropped to £19,390, which is low-paid on most standard definitions of wage growth, 16% of graduates would never repay a penny; in other words, across the first 30 years of their working life, they will never earn more than £19,390.

Doing a degree can pay off really well; it can pay off very badly. The same is true with other qualifications. There is often a very substantial dispersion. With different qualifications at different levels, the earnings overlap between them, rather like a Venn diagram. You can do a level 3 vocational qualification and end up earning more than a graduate. That will not normally happen, but it can happen.

Baroness Newlove: Both of your answers are very good. Sometimes, the policymakers and Governments past and present have made it so complicated, so how do we expect these young people to understand what route to go down? The rhetoric is, "Have a degree" or whatever, and now we are doing T-levels. I am a person who believes that we all have a lightbulb moment at different ages, and that is when we go for the career path that we end up on.

Q159 **Lord Davies of Oldham:** Let me say how much I appreciated the responses to the previous question. We got a dispiritingly accurate definition of just where some graduates might be in terms of the future pay that they would earn. Where people are particularly optimistic on the vocational side is in the area of apprenticeships. We even had one major company telling us a quite staggering figure that apprentices could receive before they fully qualified. What are the positions of the majority of apprentices? Do they land jobs that follow on from the apprenticeships with some regularity? Does their pay indicate the advantage of having spent, after all, several years in apprenticeships, on fairly low pay at the start?

Professor Ewart Keep: My previous answer was about how averages are misleading; so is talking about apprenticeship as though it were a single phenomenon or category. You can do that in Germany, to some extent, but in England you are really pushing your luck, because apprenticeships are very different depending on which sector, occupation and firm you do them in. An apprenticeship in BAE Systems or Rolls-Royce aerospace is very different from an apprenticeship in a small retail chain, and the outcomes that will follow from it are very different.

Do people get jobs? The last official figures that are relevant—because once Covid struck things got very complicated—are from 2018-19: 93% of apprentices who completed their apprenticeship ended up in work, 73% in full-time work. Completion rates vary enormously by sector and employer. On the old apprenticeship frameworks, the completion rate was about 68%, not fantastic, but for apprentices on the new standards, which are supposed to be replacing the old apprenticeship frameworks, the completion rate was only 46.6%.

Part of that is due to delays in getting in place the new endpoint assessment system. The honest answer would be that, in the world that we come out of Covid into, we do not know what a stable completion rate for apprenticeships is, but we know that the vast bulk of people who have completed apprenticeship get a job. In some sectors, particularly those

where apprenticeship is a traditional route into work, they are very high: 98% of apprentices who completed in construction got a job and 97% in engineering. Only 4% of apprentices in 2019 were recorded as unemployed. On the whole, that is definitely a success story.

Sandra will know more about this than I do, but the general evidence is that, when an apprentice has completed, they tend to earn more than people who have acquired a level 3 through other routes. There is an apprenticeship premium, if you want to put it that way.

Baroness McIntosh of Hudnall: I am slightly tracking back to Professor Keep's answer to the earlier question, but I think it ties into what you have just been talking about. I was thinking again about this question of the relationship between qualification and earning power, and wondering about the relationship between status and earning. This may seem a weird way of talking about it, but there are a large number of jobs available, if you can get sufficiently qualified to do them, that are very high status but quite low paid. Per contra, there are jobs that are quite low status—nobody gives you a big pat on the back for doing them—but can be quite high earning.

I am thinking about the design of our national curriculum and the influence of parents on the way that young people think about their careers. To be very precise about what I am talking about, the status of jobs in, for example, some of the creative industries can be very high, but they can also be very low paid and are often freelance. You could get a high-level qualification as a plumber and earn very nicely. My guess is that, in the way that people are being encouraged to think about their working lives, they are being asked to think more about earning power than anything else. Do you agree and, if so, is that right?

Professor Ewart Keep: I agree that policymakers have tended to encourage people to think about chasing relatively high returns. That is how we have framed the debate about participation in post-compulsory education for the last 25 or 30 years. Her Majesty's Treasury is probably very anxious that that drives things along, because the figures I quoted about students not repaying the loan, even on a much lower threshold, are not going to make the Treasury overwhelmingly happy.

There is a balance to be struck. Earning power matters, and it matters more to some people than to others, but there are a lot of jobs in our society that we need doing, such as social care work, childcare work, nursery teaching and whatnot, which are not spectacularly well rewarded, and in some cases, such as social care, are badly rewarded, but as a society, my goodness, we need people to do them. Focusing simply on wage returns, important though they are, is problematic. Because we have introduced a large element of loan funding for post-compulsory education, and the loans are from the Government, the Government are obviously very concerned that as much as possible of that should be repaid. That tends to drive the way in which this debate is framed.

There is a real tension, which we have not really resolved, and this will surface very strongly in whatever debate is going to happen about what happens to student funding in higher education.

Professor Sandra McNally: To go back to the original question about apprenticeships, we have done some empirical work on the administrative data to look at the earning and employment returns to doing a level 2 apprenticeship, over and above doing a level 2 vocational qualification in college, and the same with level 3, after taking account of other characteristics. We found, on average, a return that lasts, certainly to age 30 or so. We cannot look beyond that yet, but the differential was very different for people in different sectors.

Sectors such as engineering have a high return to an apprenticeship, and sectors such as child development have a much lower return. This leads to quite a bit of gender segregation because the fields that women go into do not earn very high returns compared with the fields that men go into.

On the second question, Ewart is quite right. There are lots of sectors in our economy that are not very well paid, such as social care. I would argue that things such as social care need better pay. We do not want to discourage people from going into an area such as that because it does not currently pay very well.

On people not paying back their full loans, let us remember that, before the loan system was introduced, the whole thing was fully subsidised by the taxpayer. It is now shared by the taxpayer and the student. Should we necessarily regard it as a bad thing that not everybody can pay back their loan if we believe that there may be external effects from people having higher education? Maybe they help other people be productive in the labour force as well. We should think about it in a broader way.

Q160 **Lord Storey:** I want to talk about mainstream education. I think you will agree with me that our current mainstream education system is very much geared to knowledge and academic provision, which, for probably about 40% of young pupils, is not ideal. They would be far better taking a vocational route, and yet schools want to encourage as many young people as possible to go into the sixth form, and then on to university, because in the sixth form the school gets more money per student.

How can we ensure that young people know all the opportunities and offers that are available to them? How can we ensure that the vocational route is paramount in the discussions that take place with them, if that is what is suitable for them?

Professor Sandra McNally: Currently, about half of students at age 17 or so will do A-levels, and the other half will do vocational, often because they cannot do A-levels because their GCSE scores are not good enough. A smaller proportion of people will do other level 3 courses at that stage.

There are various issues within post-16 education. One is that there is a very well-known academic track, and for vocational education there are quite a lot of different possibilities, they are quite narrowly defined, and it is quite hard to understand what the progression routes are. Even if you work in the area, it is hard to understand what the progression routes are. It is not just students themselves.

There are quite a lot of issues there. Is that an ideal system anyway? Even the academic system is very narrow, in that you are choosing only three subjects at A-level and you are giving up maths. That is not something that other countries do, even countries that specialise quite a lot. Most countries insist that people do maths up to age 18 and have a language as well. There are many different ways you can criticise the system itself. Some serious curriculum reform is needed in post-16 education, in the content of what is actually taught, as well as better teaching of the progression routes, how you progress from level 2 to level 3, to tertiary education. There are structural issues, and then there is how people can be informed about that in school.

I do not blame teachers for this because they explain the system that they know. They need to get people through their GCSE exams, and that is all very challenging. You need some proper career guidance much earlier on, but you need to deal with some of the structural problems as well and not deny that they are there. It is not a question, in my mind at least, of parity of esteem. There is no parity of esteem because it is not actually real in the system. It is a much better system for academic students than it is for vocational students in general, but even for academic students it should be seriously questioned.

Lord Storey: That is very helpful. You see those wretched banners that schools put up on their school gates, celebrating their GCSE and A-level results. You do not see any banners celebrating students' vocational qualifications. We create an ethos in parents' minds that there is only one route.

Professor Ewart Keep: I agree with Sandra that there is huge problem with careers information, advice and guidance. That is a deep problem because, yes, the pathways through our system are very complex. The labour market has changed very substantially. We know from various research evidence, both in the UK and across the OECD, that young people's understanding of what jobs are out there in their local labour market is often incredibly poor. They harbour beliefs about the shape of the future of the labour market which bear no relationship to the reality of the jobs that are available. Improving the quality of careers information, advice and guidance, which needs to start relatively early on in their overall school career, is critical to helping people make sensible choices rather than pursue things that are an illusion.

Lord Storey: Often we give careers advice, guidance or education to a teacher who does not have a full-time curriculum, maybe a French

teacher or a PE member of staff. Often they are not qualified either. You make a very strong point there.

Lord Baker of Dorking: You are the first and only representatives we are going to have from universities, so we are really glad to talk to you. It seems to me that most universities are now flat out to get as many students as they can. This is not the case at Oxford and Surrey, but many are. Each student brings in £9,000 a year. They have big operations and if you stop cycling you will fall off the bicycle. They really have to go for numbers.

At the same time, we now have graduate unemployment and graduate underemployment of a significant level. You have lots of graduates who have debts of £50,000 and now have to apply for job vacancies. Where are the job vacancies? They are in digital, which many of them do not have at all, in hospitality, where they can be waiters or washers up, or in agriculture, where they can be fruit pickers.

What is going to happen in the educational world? Are universities going to continue to expand and produce people who cannot get jobs? When I left Oxford in the 1950s, there were always a vast number of professional and managerial jobs you could apply for. AI has destroyed most of those. HSBC is laying off 30,000, and the first 5,000 laid off by Rolls-Royce were managers, not workers. Those have gone.

What is going to happen in this turbulent world? You are going to end up with a lot of very, very dissatisfied graduates. I welcome your comments on that.

Professor Ewart Keep: I do not want to derail this session, because this could be a huge, long conversation about a very knotty subject. It is plain that the current state of the student loan debt is giving the Treasury significant concern. Therefore, there is an issue about the appropriate size and balance for our higher education system, if you think of it in those terms. Some countries think in terms of tertiary education and, therefore, the levels 4 and 5 qualifications that Sandra was mentioning, the sub-degree qualifications, will become more important. There is an interesting issue about the balance between level 6 and levels 4 and 5.

Sandra is quite correct. Very few people do levels 4 and 5 in England, but you can skip north of the border, to that strange country called Scotland, and quite a lot of people do levels 4 and 5. They do them in colleges, not in universities. There is going to be a huge and fundamental debate about what our higher education system is for and what graduates are for. It is more than just earning money; I absolutely agree with Sandra about that. What size of higher education system can we afford? Do we weigh all of it towards 18 to 24 year-olds, or do we reinvent the kind of adult higher education that used to exist through the Open University back in the 1970s and 1980s?

There are really fundamental questions about what higher education will look like in four or five years' time. That will raise really big issues for some higher education institutions. We could spend the rest of the evidence session on how that is going to play out and probably not reach an answer.

Professor Sandra McNally: There are two aspects to the questions that were raised. One is about graduate unemployment. Clearly, education of any kind is not sufficient in itself to survive in a recession such as we are having. The young people get penalised in recessions whether or not they are graduates. Anybody graduating and coming into the labour market in a recession is going to be penalised by that. That is why we need the various government support programmes that were discussed in the last session.

Having graduate unemployment during a recession does not necessarily mean that your whole higher education system is producing too many graduates. I would disagree with that. Our higher education system is not out of line with the OECD average and is lower than some countries. The US and Canada will have more people in higher education than Britain. I would not say there are too many.

There is a question over the menu of possibilities. It seems a bit narrow in England. It seems that there is a three-year undergraduate degree and not much else, in terms of choice. On this idea of expanding the level 5 provision, there is an argument for that in areas where it is currently provided and successful, not necessarily across the board, but in those areas. I am not sure how it is then integrated with level 6. I would be interested in what the DfE would have to say about that. How does it all fit within the same picture? I do not like the divisiveness in education discussions here: that it is either vocational or academic, either sub-degree or not a degree, as though a person has to make these choices that almost cut off all other options for them. It would be much better to have a more integrated system where you can, if you wish, come back and do level 6 having done a sub-degree qualification previously.

Lord Baker of Dorking: Could I come back with a very quick point? Frankly, I do not quite agree with you that the recession is the reason you have graduate unemployment. Today in the *Times*, there is a forecast that a third of all law jobs will disappear within 30 years to robots. The jobs are simply not going to be there for what most universities try to produce. They are going to be much more technical, highly skilled in various ways, in cybersecurity, virtual reality and things of that sort. The point I would make is that there seem to be very few universities actually training that at the moment. I do not know whether Surrey University teaches virtual reality, cybersecurity or robotics. I have no idea, but many universities do not.

Professor Sandra McNally: I am not an expert on technological change, but there are many other academics who are, and the committee

might consider interviewing some of them on that. At previous times of technical change, these worries that jobs will disappear have happened before. Some jobs did disappear, but other jobs were created—jobs that you do not anticipate. This is part of the point in having enough general skills in place in the curriculum, because people will need to retrain because of climate change, pandemics and things we cannot possibly anticipate.

People need to have the basic tools in order to retrain, which means that there may be a need for further government intervention or employer help later on, to help people train for the new technologies. They are going to be able to do that if they have a certain level of skills: numeracy skills, literacy skills, digital skills or science knowledge. Those things will help people retrain, and this is part of the role of colleges, schools and universities. It is not to say, "This is the set of knowledge and skills you will need forever", but to say, "This is your foundation, and on this foundation you can build". If you do not give people the foundation, they cannot make the adaptations that they need to.

Lord Layard: What do you think the relevance and importance of the funding system is for this disparity between the academic and vocational routes? If you look at the academic route, the money automatically follows the student, and that has produced an incredibly dynamic system. Down the vocational route, you have a contracting system between the ESFA and the colleges around a capped budget. That capped budget has actually been cut and is now 50% of what it was 11 years ago. This is an extraordinary situation. We now have a system that does not in any way respond to student demand. It is a fragmented and anxious system living from year to year.

Is there any way in which we could dynamise the vocational route, unless we introduce demand-led funding, as in the academic route? I would be really interested in your comments on that.

Professor Ewart Keep: Yes. Funding for 16 to 18 year-olds in FE is to some extent demand-led.

Lord Layard: I meant 18-plus.

Professor Ewart Keep: Post 19, you are certainly into a very fixed budget, which has reduced by about 50%, in real terms, since 2010. There is a huge problem with adult learning on all sides of the fence. Employers are providing a lot less adult training to their existing employees, and the further education system and, indeed, private providers are constrained in what they can offer because there is a limited amount of core government funding. The aim is going to be that, by 2025, more of this will filter into the student loans system, and loans will exist for level 3 and above courses for adults. No one yet knows how that will work because none of the details has been decided.

Forget about the mechanics of the funding system. The simple reality is that, as an economy and a society, we are going to have put more effort and spend more on adult education and retraining. That means the public purse, to some extent the private purse, and to some extent employers, because the current levels of adult learning are just not going to cope with the changes that are coming in terms of green skills, digitalisation and all the rest of it.

Adult skills is going to be a really big issue. We are supposed to be discussing young people today, but obviously young people get older. There is a knock-on effect. However good we get initial education and training, we have to get adult and lifelong learning into a better place.

Lord Layard: I am thinking in particular about 18 to 24, which is actually the age at which people who have faltered in the educational system ought to be getting their level 3. I am talking about levels 2 and 3, which is where the British workforce is so weak compared with those on the continent. It is a really serious issue and I heard you say we have to spend more. I have heard that being said for the last 20 years, so it is not enough just to say we have to spend more. We have to have a different system that leads to more being spent.

That is why I am very interested in this issue of getting a comparable system of automatic funding, in-year, on a per-student basis, for further education. I would really like your comment on why you think anybody is going to spend more unless you change the system.

Professor Ewart Keep: You are absolutely right. Basically, our system is very front-loaded, so policymakers and the Treasury have made the assumption that people should finish their upper secondary or post-compulsory phase that is not university-based by the time they are 18. Funding reduces between 18 and 19 and then more or less stops in terms of what you can get, particularly if you have already been engaged in remedial level 2 at 16 to 18, so there is a huge problem.

In a sense, the decision is not how you distribute the funding. The decision is a decision that the Government want to fund this activity. One of the ways they have cut back is basically by paring back, putting in place an age gap and saying, "Right, once you get to 19, you've used up your funding". Unless you want to go to university and take out a student loan, there is not necessarily that much available.

Now, the decision to change that is fundamentally a spending decision. Once people have decided that they want to support that activity, how is that then funded? What funding mechanism is deployed is a secondary question. The key question is getting the Treasury to want to spend that money and we have not made much progress. In fact, we have gone backwards since 2010 on that. I am afraid that would be my comment.

Professor Sandra McNally: I agree with what Ewart was saying. The 18 to 24 falls within the adult education budget and that has been slashed by 50% over 10 years or so. Of course, these institutions are also dealing with the 16 to 18 year-olds, which affects what the institutions provide because that is part of the institutions' funding package. I presume that teachers will teach across different age groups and subject areas as well. The 16 to 18 year-olds have seen funding drops and there is no pupil premium within FE either for people from disadvantaged backgrounds. By multiple routes, they get less money to provide for people.

It is a very unforgiving system for people who make mistakes, so if you get to age 18 or 19, and you already have a level 3, you cannot then get funding to do another level 3 if it turns out that you made a mistake or the labour market has changed in some way. One response to that is to say, "We're in a pandemic. Please give people funding to do subjects that are actually in demand so that they can get jobs". That is a short-term solution. Another type of solution is to say, "Make sure that whatever you're doing between 16 and 19 is sufficient so that people have flexibility and can get jobs in more than one area afterwards".

Lord Woolley of Woodford: My question is focused to Sandra, but Ewart may have something to say on this too. Sandra, I was completely struck by your earlier remarks that GCSEs were such an important determinant in a young person's future prospects. You talked about the gender attainment gap. You might not be surprised to know that I am particularly concerned with the black Asian minority ethnic attainment gap, not least when the National Foundation for Educational Research said that it was particularly worried that that gap could get wider during this pandemic.

The question I am putting to both of you is this. I had a conversation just last week with heads of some schools in Ealing. When I asked them about the £1.7 billion recovery fund for catch-up in this particular area, they told me they were using the money not for catch-up but to plug existing gaps, not least because they were losing teachers. Are you aware of this? How serious a problem is this and could we be seeing a monstrous problem further down the line?

Professor Sandra McNally: Education budgets were already coming down per pupil before the pandemic and now their needs are even greater. They have not been promised any more money apart from the small amount of catch-up funding that has been committed. Is it sufficient? It was not sufficient before and it is even less sufficient now than it was, and it does not surprise me that people are using catch-up funds to plug holes.

Lord Woolley of Woodford: How problematic is it?

Professor Sandra McNally: It is very problematic because this is investing in our future as a society. It is investing in the people

themselves but also investing in our whole future. These are the people who are all going to be working when we are retired, and they are not getting the help now to invest in their own education and skills that will build up the economy, improve productivity and address issues of social mobility. It is extremely short-sighted not to fund this properly.

Lord Woolley of Woodford: Ewart, are you aware of head teachers using recovery money specifically to plug gaps in their existing budget?

Professor Ewart Keep: No, I am afraid I am not because I do not really look at schools education very much. I do further education and then how the labour market works, but schools are a bit beyond me, I am afraid. I am not at all surprised. This is probably happening because schools are under massive funding pressure.

The Chair: Lord Layard, was there something that you wanted to ask about the post-16 system?

Lord Layard: The issue of general versus specialist skills has been so well dealt with and Sandra gave such a splendid sequence of answers on that that I do not think it is necessary. I would like to come back once more to this question of funding, because the policy issue that Ewart raised has, to an extent, been settled by the Government's commitment to this lifetime skills guarantee up to level 3. They have said that anybody of any age should be entitled to a first course up to level 3. Can you think of any way of making such a guarantee a real thing unless there is demand-led funding?

Professor Ewart Keep: One of the key things is to try to stimulate demand from individuals. That goes back to careers advice and guidance beyond school age. That seems to me to be the first step on the road to making this happen. If loads of 19 to 24 year-olds present themselves to FE colleges under this lifetime guarantee and say, "Can you fund me a course?", that gives the DfE and Treasury something to think about quite hard.

My suspicion is that, first, the DfE has already delineated what qualifications you can do and has come up with quite a narrow list of approved qualifications. Secondly, it is not clear that money will follow student choice because this is discretionary. How the guarantee is guaranteed is still fairly unclear.

Lord Baker of Dorking: Can I just support what Lord Layard was asking? He was saying that the lifetime guarantee is splendid, but, if somebody at 40 wants to do a course for A-levels, let us say, and that person is unemployed, he has to pay £4,000 to £5,000 for that course. He then probably has to take out a maintenance grant because he is unemployed of £6,000 or £7,000. He, a man of 40, therefore has a debt of £10,000. He could do that today if he wanted to. He could do it today.

Lord Layard is really asking, "Should money follow the course?"—somebody who decides, in fact, to do level 3 at 40 gets the course for free. That is money following the actual course. That is what Lord Layard is saying and there is good sense in it, quite frankly. I do not think a lifetime guarantee means a button, because it is exactly what happens today. If they want to go to level 4 and level 5, the student has to pay £6,000 for their course and £7,000 for a maintenance grant. That is somebody who wants to do it at 40 who is unemployed.

The Government make a great thing about a lifetime guarantee. They are just guaranteeing what the position is today, where money is not backing their actual judgment. Am I not right, Lord Layard?

Lord Layard: The guarantee, as it has been described, is that they would not be paying, but the issue I am raising is whether there would be a course for them to go on. The way that the expansion of academic routes has happened is because a provider knows that, if they take students in, the course, where it is approved, will automatically be funded. That is not the case at the moment as a method of delivering this guarantee. It could be a right that, in practice, cannot be exercised because there is no assurance for the provider that the money will automatically come.

The Chair: I have a supplementary coming from Lord Clarke. Perhaps Professor Keep could answer.

Lord Clarke of Nottingham: It is on this point, which is extremely important. The difference between getting a £10,000 loan under this guarantee and having to borrow £10,000 anyway is that, under the student loan scheme—and it will be the same, I assume—you have to repay that loan only if your earnings rise significantly to enable you to repay it. That is not true if you go out and borrow the money from your bank. That is meant to be the attraction. This afternoon, we might discover more about how this is all meant to be operated.

The iron of the Treasury entered my soul some years ago, so can I just put this? Before we all decide that the only solution is open-ended funding for everything that providers wish to give, we have to have regard to the quality and the value to the people you take on of what you are offering. The Treasury will want to address the present university system to try to get some money for these other things, as has been rumoured in the press occasionally.

The snag with the present arrangements with universities is the financial incentive to take the same amount of money from every student, whatever you are offering. In practice, it has turned out that you get the £9,500. Then, of course, it is very advantageous that you can provide a rather low-cost course. It is not happening in Oxford and Surrey; it is not happening in most of our universities. The fact is that there is a fringe now developing of bad faculties in weak universities offering fairly useless degrees for which they get finance. You have to address it. This is why

we have so many unemployed graduates. It is because they are leaving with fairly useless degrees.

We should increase spending. This is one of the areas where I am in favour of increasing spending. You will always get demands for education generally. That is just life; it has always been the case and always will be. This actual skills training for employment and tackling youth unemployment will require more money. It is too easy to get swept along with just letting FE colleges get the same amount of money for whatever they can persuade a student to take up in the way we have done with universities. We have overdone it with universities

Professor Ewart Keep: There is absolutely a problem with provider confidence that there is sufficient student demand for them to put on courses. Insofar as the Government are expecting that, by 2025, when they institute this new student loan system for vocational provision below degree level, there are already government-backed career development loans. When they were introduced, the main effect was that the number of students taking courses at level 3 and beyond in further education colleges as adults fell very dramatically and has not recovered. A lot of people are very debt-averse. They do not want to take out a loan. Therefore, loans may not be the panacea that the Government believe.

It is a huge question. Education is now more or less compulsory up to the age of 18 in one form or another. The question of how we fund everything that follows beyond that, and the balance between different routes and kinds of students at different ages in terms of what the Government fund, are in need of a fundamental re-examination. That probably requires a major inquiry or royal commission to do it properly. The problem is that we tend to look at one bit at a time. We will go away and look at what is happening to the funding of higher education and the students who go through it without looking at the funding of post-19 adult education and people who do not go to university but want to carry on learning. We need to think about it in the round. We do not tend to do that in England.

Professor Sandra McNally: I would separate out the issues that we have been discussing about initial education and training up to 19, and early tertiary education, from adult retraining going back. They are very different. The kinds of education and training you would need to provide for young people going into the labour market are quite general. They need to support them for their whole careers.

The kinds of training people need when they are in the labour market, and they may be middle-aged, are different. They may be much more career-focused. There is some justification there for saying, "We will fund these courses, but we won't fund other courses", to make sure that the skills people are being trained on are aligned somewhat with the demand in the economy and, I would hope, integrated with plans in the economy. There is not much point in giving adults lots of skills they cannot use in

jobs that are in demand. As came out in the earlier sessions, you need to have some sort of integrated, cross-departmental approach to that. You are not talking about retraining in a vacuum. You are talking about where the demands are.

Within that, the new system, the lifetime loans, is only for people at level 4, level 5 and level 6. You still have the problem of level 3 and even level 2. If you have only level 2 or level 3 education, the chances are you are not going to be earning very much. Such people will be credit-constrained, so, even if there are loans available, they might not be interested. They might be very put off. So there is a case there for subsidising people at least for the fee, and allowing them to go back and do retraining in courses that are in demand. It should not be a free-for-all or just allowing people to pursue their hobbies; it should be doing stuff that will help them re-engage in the labour market and providing the funding for that.

Be aware that there are lots of gaps in the actual Bill. There is no scope for people who achieved level 3 20 years ago to go back and do something that is going to be useful for them in the labour market. There is no support for that, no loan, no grant, no nothing.

Lord Baker of Dorking: You are absolutely right.

Q161 **Lord Hall of Birkenhead:** Could I go back to apprentices and particularly what is happening to apprentices with the apprenticeship levy, which I used when I was an employer? The data is showing a pattern change in the nature of apprenticeships, probably caused by the levy. This is really to you, Professor Keep, but maybe Sandra wants to come in at the end. Given what we know now, are there reforms that should be made to the levy, apprentice pay or the structure of apprenticeship standards that you think would help to increase the quantity but also quality of apprenticeships for this younger demographic that we are considering?

Professor Ewart Keep: Apprenticeship does matter. I would re-emphasise my earlier point that, when we talk about apprenticeship, we are talking about a very broad spectrum of activity. In those sectors where apprenticeship has always formed the backbone of a skilled, technically qualified workforce, apprenticeship carries on working quite well. If you look at construction, engineering and hairdressing, they are all sectors with a strong tradition of apprenticeship. They have carried on and their things are working quite well.

The problem is once you get outside the traditional heartlands. Yes, apprenticeship has increasingly become a funding stream to fund a very varied range of activity. A lot of it is being spent on adults. The majority of apprentices are now aged over 25. Only 21% of apprentices are aged under 19, so it is not a big youth route any more. That makes us very

different from countries such as Germany or Switzerland in terms of what our apprenticeships look like.

A lot of what is called apprenticeship is adult retraining and a lot of it is actually management training. The most popular apprenticeship standard in terms of the number of apprentices doing it is team leader or supervisor. I do not think many 16 to 19 year-olds are being trained to be team leaders and supervisors. It is the adult workforce. This was a problem before the levy struck, but the levy has made it worse. Essentially, you have providers going round to employers saying, "You are having to pay this levy and you don't really want traditional apprentices, but you want to reclaim your levy money, so here you are. Here is a management course that you can put your existing adult workforce on and collect".

This problem was pointed out before the levy was introduced: some providers and employers would game the system. The Government have been slightly taken aback at the level of gaming, but it was always likely to happen. The Government are now stuck with quite an uncomfortable choice, one that I am glad I do not have to make. You could decide that you are going to live with this. There is a lot of pressure from many lobby groups, including the CBI, to turn the levy into a general training levy, admit defeat and say, "This isn't really for apprenticeship. It's for any old training that employers fancy doing, some of which might be apprenticeship, but it doesn't have to be. It could be for anything".

Alternatively, do you, as a Government, say, "Sorry, we have to try to toughen up. We had a vision of what apprenticeship was about, which we want you employers to share and get on board with. This means more young people, higher-quality provision and, preferably, over time, a broader conception of occupation so that people are studying for occupation"?

This comes back to a point that Sandra made, which is absolutely right and runs through everything we are discussing today. Our initial education and training tend to focus very narrowly. If you go to Germany or Switzerland to do an apprenticeship, they are for entry into a broad-based occupation such as retail. You get trained about things that you might need when you are not just a shop assistant. In England, we have a terrible tendency, which is enshrined in the new apprenticeship standards, to come up with very narrow, job-specific apprenticeships. We probably need to move away from that.

I say job-specific and I will give you three examples. Dual-fuel smart meter installer is an apprenticeship, which is pretty specific. Once all the dual-fuel meters are installed, they will be redundant because the only skills they have are essentially to do that. So is mineral weighbridge operator. I told that to German employers and they laughed in my face. They could not believe that that was an apprenticeship. It is so specific. The most specific of the lot is assistant puppet-maker. It is not just any

old puppet-maker but an assistant puppet-maker. We have this tendency to try to make apprenticeships initial training for a very specific job and we need to move away from that.

There is a real problem about getting employers to accept that apprenticeship is mainly meant to be for relatively young people who are entering the workforce. The question is whether the Government have the stomach for that fight. Ask a Minister.

Lord Hall of Birkenhead: That is really clear. Thank you very much. Sandra, did you want to say anything in addition to that?

Professor Sandra McNally: I was going to make very similar points to Ewart's. There are 600-plus apprenticeship standards live in England and 342 in Germany, and Germans think that is too many. This is a huge issue. It is fine for retraining, but it is not fine for initial training. There are some really good traditional sectors that do very well and are comparable with European standards. There are a lot of sectors that do not. The time it takes to do one of these apprenticeships unless you are on a high-level apprenticeship is very short, so you are not getting that much training.

If you are really going to make apprenticeships about young people, you probably need to restructure them over time, building on what we have and not trying to reinvent it or anything. For adult retraining, you should be thinking far more broadly than this because apprenticeships are not the only and best form of retraining for adults. Think about how to do that through the tax system, which discriminates in favour of capital over labour all the time. There are things such as R&D tax credits. There is nothing similar for human capital, but there could be, because there is such a thing as human capital tax credits. That would need a lot of regulation to prevent abuse and to make sure that people were getting trained in the right things.

I would say that adult retraining and incentivising employers needs to be more ambitious and thought about far more broadly than it is. We need to get away from talking about how you amend the apprenticeship levy to try to hit all kinds of targets.

Lord Clarke of Nottingham: The Bill this afternoon addresses this question of the multitude of apprenticeship standards and their quality. The institute and Ofqual are charged with reducing the numbers and protecting the quality. It is extremely vague about how this is all going to work, which is another reason why I want to take part in this afternoon's debate. A lot of this is very relevant to the broad provisions of this afternoon's Bill.

The Chair: There is going to be a lengthy consultation on the Bill as well. We are talking about three or four years or something like this, certainly for aspects of the Bill. Yes, the point is well made, but I hope the work of

this committee will feed into that further consideration. Now, Lord Hall, had you finished?

Lord Hall of Birkenhead: I had finished on apprenticeship levies. We have probably dealt with the issue of policymakers and how employers can be better incentivised to improve and utilise young people's skills.

The Chair: Ewart or Sandra, is there anything further that you would like to have said as we draw to an close?

Professor Ewart Keep: Yes, there is one thing. I will send you a two-page note on it—no more than that, I promise. It is very interesting that we have discussed today, mainly, problems about the education and training system. The previous session had a lot to say about transitions. In thinking about transitions from learning to earning, there are real structural problems with the way in which large parts of the labour market have become casualised and very precarious. Routes into jobs have become precarious for various forms of work trial.

For young people and adults, the most popular way of advertising a job these days is word-of-mouth recommendation from your own employees. So there are a whole series of issues about how people transition out of education at all levels, from initial education, into work. As the labour market has become more and more unstable, transitions have been made more and more unstable. There is a real structural problem. Even if we got all the ducks in a row on initial education and training, there would still be major problems about transitions into the labour market because of the nature of the labour market and employers' recruitment and selection practices. As I say, I will send you a two-page note on that.

The Chair: Lovely, thank you. Sandra, is that all fine?

Professor Sandra McNally: Yes, I have said everything I wanted to.

The Chair: I extend the thanks of the committee to you, Professor McNally and Professor Keep, for your contribution today. It has been much appreciated and a huge amount of ground has been covered. We will continue to take evidence for the next four or five weeks before we start to draft an initial report. On behalf of the committee members, I extend our thanks.