



Select Committee on Economic Affairs

Corrected oral evidence: The Economics of Higher, Further and Technical Education

Tuesday 5 December 2017

3.35 pm

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Members present: Lord Forsyth of Drumlean (The Chairman); Lord Burns; Lord Darling of Roulanish; Baroness Harding of Winscombe; Lord Lamont of Lerwick; Lord Layard; Lord Sharkey; Lord Tugendhat; Lord Turnbull.

Evidence Session No. 8

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Questions 81 - 97

Witnesses

[I](#): Professor Anna Vignoles, Lord Baker of Dorking and Baroness Wolf of Dulwich.

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Examination of witnesses

Professor Anna Vignoles, Lord Baker of Dorking and Baroness Wolf of Dulwich.

Q81 **The Chairman:** Lord Baker, Baroness Wolf and Professor Vignoles, welcome to the Economic Affairs Committee. Thank you for the evidence that you have submitted. I will start off with a pretty easy, general question. Can you indicate why, or whether, you think the universities have become such a focus of tertiary education? To what extent has this been at the expense of other options?

Baroness Wolf of Dulwich: This is my specialist subject. The answer is quite simple: it is the funding system that makes it much more attractive and easier for young people to opt for a three-year full-time degree, compared to the funding system in non-higher education tertiary education, which has been both underfunded and enormously complicated. There has been a huge increase in tertiary participation all around the world, so we are not peculiar about that. We are extremely peculiar in the degree to which it has been concentrated in the universities. It is overwhelmingly the result of government policies and financial arrangements that pushed people in that direction, although there have also been independent failures in the apprenticeship system.

This has undoubtedly been at the expense of other options. You get a virtuous circle of growth at the university end and a vicious circle of decline at the non-university end.

The Chairman: You wrote an article for *Prospect* magazine.

Baroness Wolf of Dulwich: I did.

The Chairman: You made the point that this is a general phenomenon, but that it was particularly extreme in the United Kingdom.

Baroness Wolf of Dulwich: I did. Other countries have managed to maintain quite high levels of high-quality tertiary, post-A-level but sub-degree provision far better than us. It is not everybody, but a good number of people. It is not just Germany.

The Chairman: You put that down to differences in the funding system.

Baroness Wolf of Dulwich: I do. I do not think it is just that the English psyche—it is particularly acute in England, less so in Scotland where there are other issues—has a unique prejudice against technical or vocational education. We were not so peculiar quite a short time ago. You can explain this very rapid divergence and precipitous decline in sub-degree but higher-level tertiary qualifications only by looking at the incentives and mechanisms that the Government have been creating, not with that objective but with that result.

Lord Baker of Dorking: Funding could be an element, but the principal reason is that the target for all head teachers is three A-levels and university. That is what they think their school is going to be judged by.

When they talk about the record of their schools, this is the one thing that they can quote. They sell the school on: "I got so many into universities; some into Oxford and some into Cambridge". That is reinforced by the press and parents, who think it is the right thing to do. We are talking now about the first generation whose parents were likely to have been to university. It seems automatic that they should go there too, as happened in their own family. The concentration on that as the sole purpose of education is totally wrong.

This reflects on the appalling reputation of careers services in schools. Quite frankly, they just do not know about the alternatives. Anne Milton made a statement in the last two or three days about improving careers services. That is to be welcomed, but the university technical college movement has already made changes. We have pressed the department to make two significant changes. One is for all local authorities to write to year 9 and year 12 parents, explaining to them the alternative educational provisions in their area. That means that they get a formal letter from the council saying that the child does not need to stay on at school. They could consider university technical colleges, studio schools, apprenticeship providers and FE colleges. That has certainly led to a 21% increase in recruitment to UTCs in a year.

As from January, as a result of an amendment I moved to the Technical and Further Education Bill, the heads of all these different bodies will have the right to go into a local comprehensive school to explain to it, and its students, the sort of education they offer. This will happen from January next year and will make a huge improvement to careers advice. This may be the biggest improvement for many years, because the heads of alternative providers will be able to explain alternative ways forward to the children. Particularly at a time when going to university no longer guarantees a golden job, and there is a lot of graduate unemployment and underemployment, schools must think of other alternatives.

Q82 The Chairman: The expansion of the UTCs is brilliant, but there is obviously room for more. Is it your experience that the parents take up the offer rather than the traditional route?

Lord Baker of Dorking: Oh, yes. As a result of this letter going out, we have had lots of parents' evenings where the parents turn up with the child and ask more about it. An interesting side issue that we have discovered over the years is that the mothers are much better informed than the fathers in most cases. When you ask a student how they heard about a college, they invariably say it was from their mother.

The point is that parents like what we are doing with UTCs. We take a very mixed range of students; some are very difficult ones who have virtually failed in the education system and we make remarkable transformations. The parents often write gushing letters to us, saying that it is the first time their child has ever like a school. UTCs are very practical. On two days a week the youngsters are designing and making things with their hands, with academic subjects on three days. This is the sort of education that is needed in our schools. There are 49 open at the

moment and I would like to see many more. In UTCs we are most proud of the destinations of our students. We had 2,000 leaving last July and only 26 NEETs. That is an unemployment rate of 1%. The unemployment rate for all 18 year-olds went up to 12.2% this year. We know that we have the right model. It just needs to be expanded more vigorously. I have suffered from Secretaries of State who are not very keen on this. Michael Gove was totally opposed to it. Nicky Morgan—to the extent that she had any ideas on anything—was cool. Justine Greening is rather more interesting; she likes UTCs, so we will have more of them in future.

The Chairman: I know that some other Members will want to come in, but does anyone else on the panel have anything to add?

Professor Anna Vignoles: There are three things. First, the average economic return to a degree has remained high. Since students are often optimistic about themselves and believe themselves to be above average, it should not come as a surprise that they would still like to pursue the higher education route. The second issue is the need for careers guidance to inform students that they might not be above average if they were to pursue the higher education route. We also cannot get away from the fact that the quality of the vocational offer has been variable. It has been subject to repeated reforms. It adds to the complexity, so navigating it is very tricky. It is actually easy to say that we will have good careers guidance, but delivering that with the complexity of our current system is a challenge.

Finally, it is worth reminding ourselves that we have a system that sorts pupils by what I will call achievement—lots of people will describe it as ability—at the age of 14. From that age onwards, students are directed into routes on the basis of their demonstrable achievement. Needless to say, if you expand higher education when you have that kind of system, the implication is that the marginal student who up to that point was not able to access higher education, now views themselves as able to do so. We cannot underestimate the school-based processes that are driving the expansion of higher education.

Lord Tugendhat: I have a brief question for Lord Baker. I read an article in the *Times Educational Supplement* about the UTCs that said that you get very few girls—26% or something—and I wondered why that was. I suppose ab initio that one would expect there to be fewer girls, but that seemed a very low figure.

Lord Baker of Dorking: Each UTC has two specialisms. Usually engineering is one of them. Computing, the built environment or life sciences might be the other. Where you find girls who want engineering, they are very passionate about it and are sometimes some of our best students, strangely enough. We have various programmes that try to persuade younger girls to go into engineering. We often encourage classes in primary schools to come in and see a UTC. We also do that with secondary schools in various different fields. We have one UTC, in Smethwick in the west Midlands, that just does health, because the NHS trust came to us and said, “We can’t employ youngsters from

Wolverhampton School who will stay with us". We said, "Well, create your own curriculum". It has, and it teaches technical equipment in hospitals for assistants to technicians or surgeons. It also has a paramedics course, which quite a lot of girls apply for. In fact, in that particular UTC we have over 50% girls. I think there will be several more health UTCs, because this is a classic example of where one department, in this case education, can significantly help another department, health, with its problem, because 11% of NHS staff come from overseas.

Lord Turnbull: Am I right in saying that to go to a UTC you have to leave the school that you have been in?

Lord Baker of Dorking: Yes.

Lord Turnbull: That means that you leave the football team and all your mates behind, so there must be inertia in that.

Lord Baker of Dorking: There might be inertia, but it is nothing compared to the positive hatred of the head teacher of the previous school who is going to lose students, because every student who we get comes carrying about £5,000 and £6,000. So they slander us, attack us and do not let us in, but as of January this year we have the right to go in.

Lord Turnbull: What does the "U" of UTC signify? I have never quite understood why it is in there.

Lord Baker of Dorking: Because if you look at technical education since 1870, absolutely every attempt to improve it has failed because of parity of esteem. People, not least parents, do not value technical education. So when we devised this model back in 2007-08, we said, "We must involve a university. We must get university into it". So we asked universities to take an interest in 13 and 14 year-olds even though they are only usually interested in 16 and 17 year-olds, and it works very well indeed. Employers and universities are in control of the governing body; they have the majority. We find that universities like it very much. They take the students back and show them the enormous riches of the university, the enormous extent of specialist equipment that is available and that sort of thing. It is very important to build up the esteem of these colleges, so that is why we have the word "university" in the title.

Q83 **Lord Darling of Roulanish:** I apologise that I will probably have to leave slightly early, so do not worry; it was nothing you are about to say—I was going anyway.

I want to ask about funding, and perhaps we can start here with Baroness Wolf. As you know, the Government and just about everybody else are interested in how the system of funding students in tertiary education should be structured. As Lord Forsyth said, we read the article that you wrote earlier this year. When you answer the question, I am interested in two aspects of this. First, if we gave you the keys and said that you were in charge, how would you structure the student funding system?

Secondly, I am also interested in the other point of view. You made the point that ever since the polytechnics went 20 or 30 years ago, FE and the education that the polytechnics used to carry out has been rather pushed to one side. I am interested from the student point of view, but also with regard to how we ought to be looking at the funding of institutions that, as I think you and others would argue, are not all the same, even though they are all called universities.

Baroness Wolf of Dulwich: I do have an answer.

Lord Darling of Roulanish: Good.

Baroness Wolf of Dulwich: I have written about this at some length. Briefly, I acknowledge that in this country we have already made a commitment to any young person that they can have the funding for three years of tertiary education. We now have no cap on university numbers or entry requirements in British universities, so any young person who is offered a place at a university can then go to the Student Loans Company and get a loan.

Lord Darling of Roulanish: And that will cover tuition fees and the cost of living?

Baroness Wolf of Dulwich: They also get a maintenance loan. So we in this country have a universal entitlement. However, as Anna said, it works easily if you go for a three-year university degree but not if you go for anything else, and you have no way of saying, "Well, I'll use some of it now and keep some of it for later". One of the reasons why so many 18 year-olds opt for university is not just that they do not understand that alternatives might be wonderful; it is that they feel that so many options are closed to them but this option is easy, it would be daft not to do it, a degree cannot hurt and there is nothing to be gained by not doing a full degree.

What I would do is very straightforward: I would transform this into a tertiary requirement entitlement for a certain amount of money as opposed to for three years of fees, and I would make it something that people could use at different times, so if they decided to do an intensive one-year tertiary qualification at 18 they would know that the rest of the money is there to be called on as part of their entitlement for later. In this context, as I am sure everyone here knows by now, a very large part of the shortfall in the repayment of the loans comes from the third year. If everyone did only two years, most of it would in fact be paid back, although I am not saying they should do that. That is the first thing that I would do.

The other reason why I would do that is that I can think of no other way of getting competition and real variety into the higher education offer. This comes to the second point: ever since the Government lifted the cap on places, abandoning any form of central planning and giving what is in effect a universal entitlement, we have had enormous movement within the sector, with some institutions getting larger and larger and others

bleeding students. The vice-chancellors who I talk to of what are often ex-polys have a distinctive profile. Compared with universities such as my own or Cambridge, they are already much more local and more rooted. They have two sorts of students, either local or international. You do not travel from London in order to go and study at Northumbria University; that is not how it works. I think they would very much like to offer more and be closer to local industry. Again, the incentives in the current system do not make that easy. If you changed the funding system, you would find that it would make more sense for them to come forward with things that were much more like the old polytechnic offers.

Lord Darling of Roulanish: Are you saying that if there were a set sum that a student could draw upon and, say, use their year one money when they left school, but they then decided to use the rest later, the institutions would respond to that by saying, "There are so many pots around, and perhaps we could offer something that was very tailored or specialist, part-time or full-time", and that that is where you would get the competition, rather than everyone saying, "It's exactly the same wherever you happen to go"?

Baroness Wolf of Dulwich: Yes. It would not be immediate. It would not be a miracle. However, one of the things that is very striking about both universities and further education colleges is that they are remarkably fleet of foot when there is an opportunity. They do not go on doing the same thing year after year. They are very responsive to markets and, above all, to financial flows. I have tried to think of any other way around it, but I still think that is the best way, so that is what I would do if I had total power.

Lord Darling of Roulanish: Before I ask your colleagues, does anyone else do this?

Baroness Wolf of Dulwich: In a way, America is more like that. Although its student loan systems are in some ways much less good than ours, because you do not get the income contingency so you get terrible stories of people being bankrupted by it, those loans are more to the student. Most countries have not done that, because most countries have more centrally planned systems, which are much closer to what we used to have until, say, 10 years ago.

Lord Darling of Roulanish: Right. I have a similar question for both the other witnesses, but perhaps you could answer this in light of what you said, Lord Baker. I was interested in the whole psychology of the thing. You said that head teachers were almost incentivised and pressurised to say that university is where you ought to go, and nowhere else. It struck me as you spoke that that sounds very interesting, but there also has to be the availability of non-university choices. I do not know whether that will lead on from what Baroness Wolf was saying, but I would welcome your views on the structure of student finance, both for institutions and from the students' point of view.

Lord Baker of Dorking: The alternatives for non-universities have been very limited in the past, but what has opened up very considerably is the business of higher apprentices going into universities, possibly. We are finding that quite a lot of our students at 18 apply to be higher apprentices. They usually win the battle to do that; they can persuade a company to employ them because of two things. They have academic subjects, such as A-level maths, physics, chemistry or life sciences but they also have a technical qualification, such as a BTEC extended diploma. That makes them highly employable at 18.

Companies such as Rolls-Royce, National Grid, Network Rail and the Navy recruit higher apprentices quite extensively and pay them very high salaries. The Navy, for example, offers a salary of £28,500 at 18. Rolls-Royce, the National Grid and Network Rail pay about £15,000 to £20,000. I think the National Grid is now going to £30,000. They are doing that, the Navy is paying that much, because they cannot get enough technicians and engineers to run the aircraft carriers. It is as simple as that.

Those students will be employed by the Navy, which will put them through level 4 of a diploma qualification immediately and then possibly even level 5 of a foundation degree, so those students will get a degree with no debt. That has proved very popular with many of our students. We had 500 apprentices out of the 2,000 leaving this year. That is going to increase significantly, in my view. Students know immediately that this is a way of getting a degree without incurring any debt. In fact, some of our brighter students go on to do a part-time degree at Warwick in general management, and things of that sort. That is going to increase.

The other thing that is undoubtedly going to increase in the universities, particularly in the former polytechnics, will be degree apprenticeships. They are already devising degree apprenticeships, which means that they will have the student for one or two days of the week, and for the other three days the student will be employed by some company. I think that is going to be much more attractive, quite frankly, because there is such a huge skills gap. You will see in the papers I have submitted to you that the skills gap is absolutely enormous and is not being met by the university system at the moment. It is simply not, and we have to seriously do something about it as a country. It goes back to what you do in schools, as I will say later, if I may, but the skills gap is critical and will get worse after Brexit.

Universities already recognise that. The three-year degree, which was absolutely standard in the past, will become more like a two-year degree, and a part-time degree, a degree apprenticeship. That is all to the good.

Professor Anna Vignoles: We also need to be careful about what we are trying to achieve. One outcome might be rebalancing the offer in higher education. We can see that, as Baroness Wolf has said, other systems have expanded higher education but have ended up in a different place. China and other parts of Asia have ended up with 40% of their graduates in STEM, for example. It is not a given that higher

education does not produce STEM or technical qualifications; it is that our higher education system does not.

In terms of funding, if we have a system that is inherently linked to some notion of a market, we need to be mindful of the problems that we have in the existing market. Universities do not compete on price, and if we extended that system to other institutions we would have to be careful of a number of things. One is information; if students are not properly informed, it is not clear that they are going to make the choices we would like them to make. Free entry and exit and the regulation of providers have also become an issue. It was a huge issue when we tried something that you could argue is not dissimilar, which was the individual learner accounts system, and we had a massive problem with quality of provision.

We also need to be clear that some subjects cost more to offer. Therefore, universities tend to cut them out.

Lord Darling of Roulanish: I appreciate all the problems, but what would you like to see?

Professor Anna Vignoles: Of course. Baroness Wolf's system is right in principle in that we have to start to think about students having a free choice that is not constrained by the funding system, but in my view you cannot do that without regulation of provision. I do not think that if you let the market rip you will end up with a system with more of the skills we are talking about. I think you will end up with more of the skills we have ended up having in higher education, which in recent years has been on the arts and creativities side, for example. I would be cautious of that and would say that we need regulation of supply alongside funding opportunities for students to take different routes.

Baroness Wolf of Dulwich: Can I just say that I was not suggesting that this would be an unregulated system? I absolutely was not. We have major information problems in the current situation, and we have just passed an Act that will hugely increase the regulation of the sector and will hopefully increase the amount of information. Anything like this has to be a highly regulated system: I just want to put on record that I was not proposing an unregulated marketplace.

Lord Darling of Roulanish: I understand that.

The Chairman: We will hear from Lord Layard, because he has been very patient.

Q84 **Lord Layard:** We are all groping for some way of treating FE in the same way, within a single system, as universities. Is not the obvious thing to do just to extend the university system of funding to FE? Essentially, you are telling a provider, "You can take in as many people as you can attract and we will fund you". It could be partly a per capita grant. It could be partly something the student later contributes to in a repayment. Why could we not simply aim at that same system, whereby anybody who

puts on a course automatically attracts the funding for the course? Of course, they have to be vetted for quality, but it seems to me that that is a much simpler system than an entitlement, which is very complicated. I think you want to deal directly with the provider and enable them to be funded to do anything for which they can attract the student.

Let me outline one way of formulating that, going back to my Robbins experience. Robbins said that university or higher education courses should be provided for anybody who could benefit from them. Why should we not just extend the Robbins principle to all post-school education and have the funding on a similar footing, cost-related, right across the board?

Lord Baker of Dorking: If I understand what you are suggesting, it is that one should give a lot of money to FE colleges equivalent to university status. I do not think that would work, because the FE colleges do not measure up to anything like the standard they should in this country at the moment. FE colleges here are not in the same class as really good technical schools in Europe, quite frankly. FE colleges have great difficulty in recruiting good maths and English teachers. They do not do curriculum studies, they sell courses, they sell bums on seats. They get people in and give them course training. That is fundamentally different from other sorts of training. That is one reason why they have not really measured up to it. If FE colleges were as good as they should be, we would not have the sort of skills gap that we have now: 750,000 short in digital technicians and 400,000 short in STEM graduates.

Lord Layard: Is this not a chicken and egg problem? They are like that because they have not been funded to be better. You have to move to a new system where they have assured funding and can offer a quality course, although, of course, how much they can charge for it has to be related to its quality.

Baroness Wolf of Dulwich: I am happy to argue with the noble Lord later, but I do think there is a fundamental problem with his proposal. We have been trying it at university level and it has not worked.

Q85 **Lord Sharkey:** There is an irony in this in that the Department for Education's own figures for 2017-18 show that FE will cost £9.6 billion, while HE will cost £7.6 billion.

Baroness Wolf of Dulwich: That is direct spending as opposed to money that is advanced through the loans.

Lord Sharkey: It is direct spending, yes. So there is already more money being spent by the department.

Baroness Wolf of Dulwich: Well, only if—

Lord Sharkey: Can I ask the second part of the question? I want to ask about the regulation of provision. Would you care to expand on exactly what that might mean and the consequences of that for the architecture of the system?

Professor Anna Vignoles: It is also very relevant to your comment about funding. One reason why the funding for HE is not transparent in the system is that the total amount of public subsidy for higher education will depend very much on what graduates do in the labour market over the next 20 or 30 years. So we would expect the total funding of HE to be far higher than current expenditure would suggest. That is part of the issue about regulation; while regulating quality and linking that to the price might be what we want to do, it is a very tricky part of the process.

Baroness Wolf's point about higher education is that there has been no competition on price, and one might argue that there has not been a huge amount of competition on quality. There has certainly been competition on reputation. If you were to extend this system to FE, you would get a very expensive system that you would be repaying over the next 40 years if those FE graduates did not do very well in the labour market. However, Lord Layard is exactly right that one reason why FE does not produce people with the right skills is precisely because it has been underfunded and, crucially, that the pay for its teachers is lower than for teachers in the school sector. We cannot be surprised if that produces poorer outcomes.

Baroness Wolf of Dulwich: As I am sure you are aware, it appears that the department is spending less on higher education because it is not counting in the £17 billion a year per cohort that is being paid out in loans. We now know that on current predictions, 40% to 45% of that is never going to come back; it is going to be borne by the taxpayer. I completely agree with Lord Layard and Professor Vignoles that FE has been starved of funding. Above all, it has been given no sensible way of making investments in expensive courses that may or may not have people coming in. The problem with saying that we will fund anyone who comes along is that you get basically what we have had, both in this system and in the old apprenticeship system: this huge expansion of courses that are easy to grow and shrink with demand, where you know that you can cover your costs and indeed make a profit. What we have ended up with—you can see this particularly clearly in the alternative-provider sector—is huge growth in the number of business courses. Higher national diplomas, for example, are now overwhelmingly in business, and hardly any of them are in science.

I come back to the fact that we have tried this system. We tried having extremely fabricated pricing mechanisms handed out by the Government, and it did not work very well. I would like to see a single system, because FE is highly variable. I disagree with Lord Baker somewhat; there are still some fantastic FE colleges out there. Again, if you ask why they are worse in key respects as a sector than they were when I was a child and they were known as the local tech, again you have to ask, "What is there in the system that funded and established them that has made their quality decline?"

Q86 **Lord Layard:** This question is about a skills shortage, essentially, and what that tells us about what kind of development is necessary in the

university sector and what kinds of developments are needed elsewhere on the basis of the relative skills shortages that are showing up for different types of labour. Could you comment on that?

Lord Baker of Dorking: I do not think it starts in universities at all; it starts in schools. In the evidence that I gave you, I showed you what is happening in British schools at the moment. We are committed to a curriculum that is based on the EBacc and Progress 8. That is, in fact, a very narrow academic range of subjects that is virtually similar—almost word for word—to the curriculum announced by Dr Morant in 1904 as advice to the Board of Education, except that he added one technical subject: drawing.

British schools are now committed to the EBacc, and I am totally opposed to it. Take computing science, for example. I believe that computing science should be in every sixth-form curriculum. It is a tough exam, but to meet the problems of the future children should be fully aware of digital technology in a serious way. It is a demanding exam, but it is in only half of our secondary schools at the moment. I would make it completely compulsory. We cannot complain that there is a shortage of computer scientists when computer science is not a main subject. The country that is most successful in Europe digitally is Estonia. Its major export is computer scientists, it has a digital economy that is well in advance of ours, and indeed its former Prime Minister has just been appointed by the European Commission to design a digital strategy for Europe.

We have to start in schools. There has to be much more technical education in schools. In the charts that I have shown you, you can see that education below the age of 16 is being virtually squeezed out of schools at the moment. It is a declining graph, and that is a huge mistake, because it means that by 16 many students will have had no experience of technical education. I went to a grammar school in Southport in 1945, and the only lessons I can remember were the carpentry lessons where I learned to dovetail tenon joints and use a chisel and plane. That has all gone. It has disappeared from schools, so you are bound to have a narrowing of interest on the part of students.

That is why I have been campaigning for university technical colleges and more technical education. I do not think that the Government or our society have really taken on board what the digital revolution is going to do to jobs. It is going to destroy them on a massive scale. What sustained the British education system in 1870 was the large number of unskilled jobs at the bottom: warehousemen, messengers, drivers—all those sorts of jobs lapped up the failures of the English education system. Those jobs are going to go very quickly, but the biggest drop will be in middle management. We hear that RBS is closing a large number of branches, and the jobs that are going are not bank clerks but middle managers. Middle managers are the people who used to go to university and do a humanities degree and then expected to lead a comfortable life thereafter. It is not going to happen like that. The whole education system in schools has to change. I believe that very strongly.

Professor Anna Vignoles: We should listen carefully to what the labour market is telling us. It is saying that the average economic value of a degree has remained high but there is growing variability. When we look into that, it looks as if there is variation by university but also by subject. You might then say, "If some subjects pay more in the labour market, why are students not choosing those subjects?" The first obvious explanation is that we have muted the relationship between what students pay and what they get back. Essentially the risk of them not repaying their loan falls on the state, not the student, so they might prefer to do, say, one of our low-earning subjects such as drama, because the risk is going to be taken by the state.

The second, crucial issue comes back to what Lord Baker was saying. By the age of 19 or 20, a student might realise that a particular route is probably a better economic one for them, but it is too late because they dropped mathematics or other subjects at 16 or did not take particular subjects at that time, so that route is off limits. It would be tempting to say that our school system needs to be reformed, particularly for 16 to 18 year-olds, in order to really crack this problem, but I suspect that is off the table. As a second-best option, I refer back to what was said earlier about lifelong learning. Really, you need opportunities for students to change their minds, gain the skills that they need in the labour market and perhaps start again on a degree, or indeed a vocational route, that is likely to have a higher economic value.

Baroness Wolf of Dulwich: I think the Committee may come on to T-levels later, so I will not talk about them. Part of the problem with skills is that the shortages are specific and the causes are varied. As this is a tertiary-level inquiry, I do not want spend ages talking about the worst shortage, which is in construction skills, because that is not a tertiary issue. Again, it is to do with the fact that we may need to regulate the market more than we have done. Some skills are quite specialised, so if you are a college or university it is quite difficult to put on something when you are not sure you are going to have enough people coming from your particular catchment area to make it viable.

When you put that specific problem alongside the dynamics of the current higher education system, you get the sort of situation that we now have with technicians. A colleague of mine, Paul Lewis, has sent some papers to you. All around the country, people are hiring graduates who, first, did not really intend to be technicians and, secondly, often do not have the specific technician skills that the employers want. There are quite a number of very specific and major skill shortages of that type. There has been a response to some of them. For example, the new university in Herefordshire is aiming very much at filling skill shortages in the engineering supply chain. We have a combination of supply deficiencies in specialist areas and an oversupply of graduates. If you are an employer, you think, "I will hire a graduate", rather than spending large amounts of time rushing round trying to find a college that can do some technician training for you.

Lord Layard: Perhaps I should have put my question better. Skill shortage is one way of putting it. The other way is asking where the social rate of return is highest. Is it to existing university-type courses, or is it to non-university courses, including the lower-level ones? We are not ruling out the lower-level issues of technical education. Where are the rates of return highest?

Lord Baker of Dorking: The rates of return to what? The Government?

Professor Anna Vignoles: We are thinking about social rates of return overall and private rates of return to the individual.

Lord Baker of Dorking: First let me say something on skills. The school-leaving age is now really 18. Very few people leave at 16. At 18, students have to have a range of skills, not just academic qualifications. They should have the skills of having worked in a team, because life is about that. No school does that. They should have the skills of problem solving. Schools do not do that. They should have the skills of making things with their hands. Schools do not do that. They should have experience of designing things on computers, which ordinary schools do not do. Those are the sorts of life skills they will need in a changing employment market. It is going to vary enormously and there will be a great deal more part-time work and self-employment in the days ahead. They have to have that sort of range of skills. If I was reconstructing the education system, I would ensure that that happened.

On the rate of return, if you can get a rate of unemployment of 1%, which is what UTCs have, compared with a national average of 12%, you make an enormous saving in welfare over a lifetime. The University of York has said that the lifetime cost of someone who starts life unemployed is £56,000. If you do that with 130 students you get a saving of £7 million straight away. That sort of calculation is never taken into account when considering different types of education.

Lord Layard: Can Professor Vignoles tell us about some of those studies?

Professor Anna Vignoles: Very briefly, the economic rates of return are highest in subjects where there is a great deal of competition: economics, and medicine come out very strongly; creative arts come out very weakly at the higher education level. In vocational education, the most competitive courses are high-level NVQ qualifications, particularly high-level apprenticeships, and they give you a very good return. There is very mixed or weak evidence of strong returns to lower-level vocational qualifications. The trouble with vocational qualifications is that they are so varied and it is difficult for students to understand that many of them do not end up with strong labour-market returns.

Q87 **Lord Tugendhat:** Let me ask you a question about the main impediments to more flexible pathways through tertiary education and what policy changes you would like to see to address them. Baroness Wolf has suggested that there should be provision of more options. Could

you enlarge on that?

Baroness Wolf of Dulwich: Yes, I do think that we need to create a situation in which both further education colleges and universities have an incentive to put on one-year and two-year tertiary qualifications more easily. There should also be some way of accessing the investment, and this is where the Government come in. A lot of the qualifications that are not university degrees and have very high returns are, as you might expect, those that have highly specialised equipment and requirements.

I am going to have to turn to T-levels at this point and I declare an interest as one of the panel that recommended them, although we did not have the wonderful idea of calling them T-levels. What we have lacked in this country for a long time is a technical route that also has a pathway out towards tertiary education. In a contemporary society it is really important to know that there will be a few, very particular, individuals who know exactly what they want to do at 13. They do not care about higher education but go and make whatever. However, the overwhelming majority of teenagers do not want to take an option that has a dead end at 18. North America, France, or any country that I know at all well, have moved to a system that has an exit at 18 that directly, indirectly, immediately or later gives you a tertiary option. In American phraseology, you cannot get people on to something that is not a college-bound course.

T-levels have the potential to be both good and attractive to people, but only if they also lead to something other than trying to get into university and then discovering that you cannot get into the one you want to because it prefers A-levels and there is no clear, broad route to either a degree apprenticeship or to a modern equivalent of an HND.

Lord Baker of Dorking: I think it has to start much earlier than 18. Tertiary education should start much earlier in schools. We are saddled with 11 to 16 and 11 to 18 schools. The reason why 11 became the age of transfer in Britain is entirely historical. In late Victorian England, the only schools that taught beyond that age were the grammar schools, so 11 became the witching age to change. We are the only major country left that still divides children at 11. Hardly any other major country does it. Europe is moving towards upper and lower secondary at 14. If you want a real return on education, look at Austria. It has the lowest level of youth unemployment in Europe. It stops the national curriculum at 14 and has a series of highly specialist colleges: academic, engineering, agricultural, transport and creative arts. That is very effective. If I was asked today, as I was in the 1980s, to design the national curriculum, I would stop it at 14 and move slowly to that better system.

In the UTC movement, we have certainly found that youngsters at 14 can decide quite clearly where their interests lie. We also find that by giving them a proper education we make them highly employable. I say again: the unemployment rate of UTCs is 1%. It is so much lower than any other record of schools in our country. You have to start technical education as soon as possible and other things will flow from that. I am

not, of course, saying that everybody should do technical education, but it should be a very big option at that age.

Q88 Lord Turnbull: I have a question for Baroness Wolf. You say that T-levels are designed to have an outlet into tertiary.

Baroness Wolf of Dulwich: I said that they need to be. They are designed not to, but they need to be. That is why the whole tertiary sector needs so much to be thought of as a unity.

Lord Turnbull: Simply setting up T-levels in schools could be a bit like some of the schemes that David Young devised 30 years ago, which had similar kinds of names. You have to design, at the same time, the things into which there is an outlet. What are those? What is the outlet?

Baroness Wolf of Dulwich: The problem is that we are awash with qualifications. We are not short of them on the books of this country. We have literally thousands of level 4 and 5 qualifications. It is not that there is nothing in principle that they could lead on to. It is that nobody is offering them.

Lord Turnbull: I will put the question a different way: how do you get people to offer them?

Baroness Wolf of Dulwich: I am sorry to sound like a stuck record, but there are two possibilities. One is by kind of wholesale bringing the whole thing together, which Lord Layard sympathises with, and giving institutions a general incentive and in specialist cases some special money, as the Government are doing to some extent, saying, "You are one of the designated specialist centres for biotechnology technician training", for example. That is one possibility. The other possibility, which you could combine with it, is, as I said, to make it much more attractive for young people to take a short tertiary technician or higher or degree apprenticeship course, knowing that that does not preclude or make it difficult for them to return later to do a degree course because they have some entitlement left.

The problem is not the design of qualifications. The Department for Education and the people whom it uses have designed many qualifications in my lifetime. Many of them are exemplary—they are the result of huge amounts of time, money and thought—but it just so happens that no one is taking them, partly because no one is offering them. No one is offering them because they do not see their way to having a viable market for them, even though we have a skills shortage.

Professor Anna Vignoles: Perhaps I could add to that. It is also part of a bigger problem of fluidity in the tertiary sector. If you had a universal accreditation system of some description, it would enable people to move not only from something that currently looks like an FE offer into an HE offer but between HE institutions. We have a market in HE that, as I said, does not compete on price and is not necessarily able to compete on quality because it is a one-shot purchase. If, once you were in a higher education institution and it did not live up to what you were hoping for,

you could move, that would improve things in that respect. It would also, meet Baroness Wolf's point about being able to move across the two elements of tertiary.

Lord Baker of Dorking: Destination outcome is very important. We certainly find that one of the biggest considerations for young people today is where they will get a job. That is the first thing that parents ask when they come to see us: "Where is this going to lead, please?" We have a low unemployment rate, but 47% of our students go on to university, whereas 25% become apprentices. That is the pattern. That is a very profitable route. The drafts that I have sent you show how much the salaries of apprentices can be better for a graduate. You have to appreciate that there is an enormous amount of graduate unemployment and underemployment these days. It is absolutely massive. Two years ago, only one in four law students was employed in the law. What are the others doing? They are trying to find a job somewhere else. Some will be flipping hamburgers. Some will be driving Ocado vans. Only 10 days ago we had an Ocado delivery from a very polished young man, who was an unemployed graduate.

Lord Tugendhat: I do not think that anybody else has raised in all the sessions that we have had the point about people moving from one institution to another before getting a degree. My understanding—correct me if I am wrong—is that in some continental countries, such as Germany, that is not an uncommon thing to do, but it is an extremely uncommon thing to do in this country. Did I understand you correctly when you said that you would like to see that become a less uncommon phenomenon?

Professor Anna Vignoles: Absolutely. It also speaks to people taking time out, coming back in and being more flexible with their learning. You cannot do that unless you have some system that accredits learning that has already happened. In particular, if people get pots of money or a number of years of study, it is crucial that they can bank it and then come in at a higher level to a second institution. At the moment, many students, including at our own institution, would have to start at the bottom again. That limits the responsiveness of universities to student needs. More crucially, such a system would enable someone who was pursuing one route to switch direction and possibly back again. As you say, that happens in a lot of countries, including the US.

Q89 **Lord Burns:** May I pursue this issue of flexible pathways through the tertiary system? You talked about the fact that universities have been expanding and taking over so many of the students. Part of my question is whether one should in that case acknowledge that universities are going to be the vehicle for tertiary education and so should be encouraged to get into a much greater variety of types of education. Would this not also mean doing away with the idea of no cap on the numbers? We know that the cap on fees has been a mixed blessing. Would it not require a much greater regulation of the system as far as numbers et cetera were concerned? We hear that there is no competition

in quality or price, but there has certainly been competition in numbers, with people trying to fill courses in whatever subjects they can manage to attract people to. Therefore, if one is to have this flexible pathway, will it not require some interventions in terms of the numbers of people who can go on certain types of courses within institutions?

Baroness Wolf of Dulwich: I would be happy to go back to the Browne report, and some of Robbins, so that for the first time this country had some kind of entry requirement for courses. It is extraordinary that we have absolutely no entry requirements. I would rather do that than bring back caps, which are arbitrary and have all sorts of disadvantages in incentive terms.

Lord Burns: But without caps are they not going to attract more and more people to these—

Baroness Wolf of Dulwich: We are moving into a world where universal tertiary education of some sort is the rule. Many countries are close to that; we are close to that. We have a phenomenal number of accredited individuals out there. When you look at how many British adults, whether fruitfully or not, have taken additional qualifications post 18 and the proportion of the population that has higher qualifications, you see that, although we have managed to combine that with huge skills shortages, we are in fact a phenomenally qualified people. If it is manageable, I would rather introduce the controls by having proper entry requirements into courses than by having a government department saying, "Well, you can have 50 of those, 100 of those and 6,000 of those". One thing we know is that, when you hand out numbers, people manage to fill them, which is not necessarily great either.

Lord Baker of Dorking: It was probably a mistake for David Willetts to end the restriction of numbers in tertiary education. That was a step too far, because the funding system is so generous to universities. Every student who appears brings in £27,000 on a certain contract over three years. That multiplied by thousands or tens of thousands is a huge borrowing capacity. Every university that I go to now is a building site. The universities are building big buildings, which they have to fill with more students, and so it goes on. At some stage, there has to be some sort of check on that. That comes back to whole question of how you do student funding. The Committee might find it interesting that I was the one who introduced the first student loan, back in the 1980s in the Thatcher Cabinet. Incidentally, I could not have got fees through the Thatcher Cabinet in the 1980s—you might think that extraordinary—but I got a student loan and per capita funding through. Those were the two paving stones eventually to fees. The system that I recommended, although I did not persuade the Chancellor—and I do not think that I will persuade a former Chancellor or a former head of the Treasury—was to have a student tax. I was in favour of hypothecation in, but it did not get through. I think it is by far the best way of recovering the cost of education from students.

Lord Burns: So when we say that a lot of what has happened has been

the result of the funding system, that has not only been the incentives on students to go but the consequent impact that this has had on the funding of universities, which has then led to these supply-side responses in the number of students that they take and the kinds of courses that they are putting them into.

Lord Baker of Dorking: But it has not increased student satisfaction very much. Some of the charts in the studies that I sent you show that, before the 1980s, about 80% of graduates thought that they got good value from universities. That is now down to 20%.

Baroness Wolf of Dulwich: We did not pay, of course, so we certainly got good value.

Q90 **Lord Turnbull:** Can we backtrack to the discussion about skills? Baroness Wolf said that construction is not a tertiary issue. This Committee has spent a lot of time on housing. We are supposed to be increasing the number of houses built by 100,000 at least and there is supposed to be a lot more infrastructure. We seem to be heading for a major crisis. It seems to me that, if you look at the way buildings are built and the technology that is going into them, it is absolutely a tertiary issue.

Baroness Wolf of Dulwich: It is partly a tertiary issue, but I do not think that it is primarily a tertiary issue. An attempt to solve the housing crisis by starting with tertiary qualifications is completely misconceived. We could have a long conversation about this.

I think the construction crisis starts absolutely at the craft level. We also know that a very large number of the best builders who have gone right to the top have come through that, and would be absolutely committed to it. I do not think higher education is the best place to be doing a lot of this.

Going back to the question of whether we have to think about universities doing a lot of the sub-degree stuff, yes, I think we do. However, thinking back to FE and how starved it has been, one of the really terrible things that has happened to further education in this country over the past 30 years is that its ability to deliver high-level construction training, starting with introductory craft and going right through to what we would now call tertiary-degree level, has been largely wiped out for a whole variety of reasons. If we think about where these sorts of skills are best done, they have to be quite local and be spread right around. You are only going to get really effective instruction, education and training if people are going in and out of workshops to sites. Although it includes tertiary, my own strong view is that we should be thinking about this in terms of provision where the same institutions are going from introductory craft right through to tertiary level and are spread right across the country, whereas with other highly specialised areas you might not want to do that but instead be much more concentrated.

Lord Turnbull: You are swapping between tertiary and higher education.

If you had said, "This is not primarily a higher education issue", I might have believed you, but it is absolutely tertiary: that is, the bit of education that is not the university.

Lord Baker of Dorking: Some of it is university.

Lord Turnbull: Some of it is, but we are told that it is not—

Baroness Wolf of Dulwich: Not primarily.

Lord Baker of Dorking: There are courses in the built environment. When you do construction, people think you just train people to do biblical trades. That is not it is all. Now you are dealing with highly sophisticated methods of construction, such as 3D printers are now building parts of houses in America. It is that sort of thing that requires a great deal of sophistication and understanding.

Professor Anna Vignoles: One thing that we tend to forget when we are talking about any of our skills shortages, whether in numeracy, literacy, construction or high-level STEM, is that in order to produce the skills, we need to have the teachers, whether in schools, higher education or FE, to teach the subject. Construction is an example of where there is a problem. As the labour market gets tighter for these skills, we will find it harder and harder to retain teachers, particularly in FE, where conditions are materially worse than in schools. This comes back to Lord Layard's point that if you underfund a major sector for long enough you are going to struggle to get the quality of teachers in that sector and therefore you will not produce the skills that you need.

Q91 **Baroness Harding of Winscombe:** My apologies, but I have to leave in six or seven minutes, so I need to ask my question quickly. I would like to ask about lifelong learning. I agree with Lord Baker's analysis of how much the world is going to change in the next 10 to 20 years, and how the digital revolution is going to change dramatically the jobs available and the jobs that need to be done. I am very struck by the statistic in the Taylor review that two-thirds of the 2030 workforce have already left full-time education, secondary or tertiary. Therefore, if as a country we are going to be equipped to cope with those changes, we have to look at how people who are much older than the 18 year-olds that we have been discussing today equip themselves to cope. It has been quite shocking in this inquiry to see how much part-time tertiary education has been decimated. I would be really interested in each of your views on what we need to do to tackle, incentivise and provide the opportunity for lifelong learning and the skill shifts that we are going to need to effect.

Professor Anna Vignoles: Your diagnosis is absolutely right: we need to re-skill. The part-time fall-off in student numbers is caused by a combination of factors, including a fall-off in employers' training and in public sector funding for training. Marginal students who were doing it for a multitude of reasons stopped doing it when fees increased, but in any case, that is actually not the group you want to reach. We have always had a low incidence of lifelong learning among the group that we want to

reach, which are the lower-skilled, the level 2 and level 3 qualified individuals, who need to be upskilled.

The other point that I would make, coming back to the business of graduates and whether a degree is worth it, is that non-graduates are twice as likely to be unemployed. If a graduate loses their job or their career, they are more likely to be able to re-engage with the labour market. We cannot ignore the fact that higher education gives you some skills on the flexibility front that make it more likely for you to be able to engage in lifelong learning. It is not simply about channelling them into very narrow curricula at a very young age and then expecting them to be able to reskill at the age of 50. In terms of being able to get people back into the education system, we have no obvious mechanisms for encouraging people to do that, particularly those who have already had a bite of the cherry and got a level 3 or 4 qualification.

The Chairman: If the graduate is employed in McDonald's and is preventing someone without a degree from getting that job, is that really an advance?

Professor Anna Vignoles: This business of overeducation is interesting. Richard Freeman did some work on this in the 1970s, and we did some in the 1980s and 1990s. At that time, research suggested that around one-third of graduates were overeducated, so we have had that as a perennial issue for quite a long time. When we have looked into it, though, we have found that the graduates who are overeducated are underskilled. That is supported by the OECD PIAAC data. When you look at the skill levels of graduates in non-graduate jobs, they tend to have lower levels of skill than the average graduate. It is an issue of the quality of the HE provision that they have experienced, as much as the fact that our labour market cannot absorb more graduates; I do not think there is evidence for the latter.

Baroness Wolf of Dulwich: I would like to come back to the question of lifelong learning, which I do not think most countries have much of a grip on. There are two things that have changed. The first is one that Anna referred to: in this country, employers have become much less likely to provide entire or partial support to people going back to do additional education, not necessarily whole degrees but small chunks. It would be very interesting to look at countries where this has not happened and where there is still significant input by employers other than through apprenticeships, because there is no question that it has fallen.

The other thing on which I am not sure where I stand at all but which has also changed in this country is the amount of support for adult learning that is not qualification-oriented. The budget for general learning has really fallen away. Vince Cable used to talk about this particularly eloquently and about the fact that there are benefits to it over and above immediate skills shortages. It is always hard to justify, because it tends to be used disproportionately by people who are largely middle-class, but we in this country have managed to combine an absolute obsession with qualifications that then tend to be pseudo-vocational or para-vocational

with neglect of the fact that just having contact with education in later life, not necessarily for a particular purpose, is associated with a large number of positive outcomes including enhanced employment but, above all, mental and physical health. Without having a very clear view on this, I think we have cut back too far. As I said, though, it is a hard one to deal with, because it tends not to reach those people who we might feel want it most.

Lord Baker of Dorking: I doubt lifelong learning is going to be a great boost to the apprenticeship system. The definition of apprenticeships is not just 16 to 18 year-olds but people in their 20s, 30s or even 40s being called apprentices, which is really adult education. The real answer to your question is that when children leave at 18, you have to give them a whole range of skills—I talked about this earlier—that are digitally based. A lot of the process of acquiring new skills in future will be through the internet; there is no doubt in my mind about that. There are already a whole range of different studies that you can do on the internet. Once again, India is leading the way; it is using the internet to teach maths to 10 to 18 year-olds, hundreds of thousands of students, because they are so good at software that they have created attractive learning programmes, some of which you can buy in Britain. People who have been used to manoeuvring through various jobs and who are looking to retrain will realise that the internet is the way to do it.

The Chairman: Baroness Harding, I know you have to go. Does that cover your question?

Baroness Harding of Winscombe: Yes, it does.

Q92 **Lord Sharkey:** I want to ask a short question about lifelong learning. I should declare an interest as member of council at UCL. I forgot to do that earlier. In his written evidence, Professor Virgo, who I think is a colleague of Professor Vignoles, said that two-thirds of institutions that did provide part-time and lifelong learning—and for mature students too—had closed down and stopped providing them. So the machinery to provide lifelong learning is either vanishing or is not there. If we are going to be serious about providing lifelong learning, who is going to do it and how are they going to be incentivised?

Baroness Wolf of Dulwich: We will do it if people come and enrol. That is the simple answer. Places close down because enrolments have vanished.

Professor Anna Vignoles: And that is linked to the funding. Clearly some of the higher education institutions that have tried to harmonise fees between part-time and full-time students have found that the market will not bear the pro rata part-time fee for someone who may be studying for interest, for mental health or for a “what if” situation. The market has collapsed; that is about the right word for it.

Lord Baker of Dorking: I do not think you need many institutions for lifelong learning. A whole number of people are already creating all sorts

of services—you are probably not aware of this—which you can buy and learn how to do things. It exists already. We are in a digital age. When I ask youngsters this, that or the other, they say: “I found it last night on the net”. That is going to be the future of adult learning.

- Q93 **Lord Lamont of Lerwick:** I move on to apprenticeships. We now have a new policy framework and the levy. Of course we had a levy before and people did not like it. Employers did not like it in many ways and the previous Government decided to get rid of it. Now we have gone back, and I am not sure what is different now from how it was before and why it should work this time if it did not then. I notice that Dr Andrew McGettigan described it as the biggest infusion of funds into apprenticeships for a long time. However, he also said: “No one is quite sure what it is being spent on”, which made me a little bit sceptical.

Baroness Wolf of Dulwich: It is different, is the answer. The last levy, which was indeed deeply unpopular, went to training boards that put on courses and so on.

Lord Lamont of Lerwick: Now it is a voucher.

Baroness Wolf of Dulwich: Now you, as an employer, buy your training. It is much closer to the French model, for example, where you have approved providers but you decide where your apprentices go, with much more freedom. We are more like the French than the Germans in the way we are doing it. That is a really fundamental difference. It is not, alas, hypothecated, because your previous department would not let it be, but it is different in that sense. It is too early to say whether it is going to work really well and we do not know where it is being spent because most places have not yet decided where it is going to be spent. It has just come in and you have two years in which to spend it before it goes to the Treasury. There is some moderately encouraging evidence that the level of apprenticeships is going up.

Lord Lamont of Lerwick: The numbers fell, did they not?

Baroness Wolf of Dulwich: The numbers have fallen, but they had to because we had a system that was basically target driven. You met the target by shelling out huge numbers of low-level, cheap, short apprenticeships. There was a very dramatic fall-off after a peak just before the levy came in. It has fallen down now. If it stays down, that is really bad news, although the Treasury will get the money. If the more encouraging indicators hold up, we will find that the numbers will go up over the next 18 months. With luck, companies will decide that they would rather spend actual hard cash on stuff that is worth while rather than on a combination of rubbish and a gift to Her Majesty’s Government. That is the optimistic view.

The problem is always that when you are trying to recreate a system that was fairly comprehensively broken, your information is not there; your high-quality providers are not there; the old-style commitment to an understanding of apprenticeships that went from many companies has to

be recreated. It is too early, but—this is a personal view—the basic idea, which is common to a large number of other countries, that you will get quality better by giving the spending decision to the employer, is still a convincing argument.

Lord Baker of Dorking: Broadly I agree with that, certainly in the companies that we deal with. Our movement deals with over 600 companies. The big ones—the Jaguars and Rolls-Royces of this world—are all increasing their own internal apprenticeship training in order to get back the levy money. Medium-sized companies are still wondering how to do it, and I agree that there will be an increase when they resolve this. The problem is how the little companies will benefit from this. There has to be a system whereby a medium-sized or very small company will get some sort of financial assistance out of it to actually do it. That is where there is a great need for apprenticeships.

Professor Anna Vignoles: There are parallels between the risks that we have in higher education and the apprenticeship system. There are problems of regulating quality; the issue of dead-weight loss, so that firms are just substituting the apprenticeship funding into some training they would have provided already; and employer engagement. Given that such a tiny proportion of employers are actually paying the apprenticeship levy, we have to think very hard about how it will transform the system. Previously, going back decades, a far higher proportion of employers were involved in apprenticeship training.

Lord Baker of Dorking: The sixth forms of our colleges are now going to provide their own apprenticeship training. JCB, for example, has 200 apprentices at the moment in that college, alongside the 600 students.

The Chairman: The Committee will visit Jaguar next week.

Lord Layard: Is it right to think of an apprenticeship as a way of introducing someone to a career, rather than continuing professional development? If I am right, it should be focused on people who are getting started and are, say, under 25. Is there not a danger that under the existing regulations almost anything would get through and it would be used as continuing professional development?

Lord Baker of Dorking: I think that is a real danger. The real apprenticeships are at 16 and 18. I would actually bring back young apprentices at 14. All the great inventors in the Industrial Revolution—Wedgwood, Stephenson and Brunel—all started at 14. None of them went to university.

Lord Burns: My question is related to this. I have read stories about people using the apprenticeship levy to send people to business schools.

Baroness Wolf of Dulwich: They are indeed, which is completely bizarre.

Lord Burns: What restrictions are there on what this can be spent on? You talked earlier about entry requirements. It seems to me that there is

almost no entry requirement for this either. Are institutions simply going to gobble up this money? They are going to find ways. From what we have learned about universities and the way they are behaving, I think the first thing they will do is make sure they get their hands on this money, by one means or another, by inventing and designing courses that bear no relationship to what most of us regard as apprenticeships.

Baroness Wolf of Dulwich: I could not agree more. I was as shocked as everybody else when I read about this. I have not quite found out why, or how to get it changed. If you can find out, that would be great. The idea is that an apprentice should be somebody starting a new job. I am perhaps a bit schizophrenic about the age thing.

Going back to retraining and lifelong learning, we introduced adult apprenticeships for the worst possible reasons: to be able to meet government-imposed targets. You could just put anyone on your staff on to a training programme, call them an apprentice and give the numbers in. As a result, we have ended up with a system where, in the best of all possible worlds, or even something approaching a good world, an apprenticeship when you are older is a way of retraining and starting a new career. The premise has to be that this is someone starting a new job. It is not a form of continuing professional development. The business groups are lobbying very hard against this, obviously enough. This is a real pressure on government. If this requirement is never properly introduced or is allowed to be ignored in its application, perhaps because of a desire to get the numbers up, the whole reform will have been a waste of time.

Lord Baker of Dorking: The big problem is with the public sector. It has huge levy payments, and the danger is that they will relabel people in their 30s and 40s as apprentices and send them on shoddy courses.

Lord Lamont of Lerwick: How do we know that the content of the apprenticeships is superior to those that were done by the levy boards before? After all, they did not operate in complete isolation. I know there was a lot of criticism of them, but I think I am right in saying that employers were involved in them. How do we know that these courses, devised outside a firm itself, are the right content and appropriate?

Baroness Wolf of Dulwich: An apprenticeship has to be based on standards that have been developed by specific employer groups. The key difference, and the thing that the industrial training boards did not have, is that while there were employers on those boards the money basically went to a separate organisation and was then put into training. The key protector of quality in all the apprenticeship systems that are good is that the employer is involved on a day-to-day basis with the training being given to their apprentices. That means that they have an enormous incentive to ensure that the training is relevant and worth while because these are people that they are employing and that they hope to go on employing. It is that day-to-day involvement of the employer that is the absolute precondition for any good and successful apprenticeship system, because again it is about aligning the incentives.

The employers are paying the money so they have a strong incentive to find training that is appropriate for their employees, and they have the control because they can haul the apprentice out if they do not like it.

Lord Lamont of Lerwick: The whole concept of a levy is designed to get around the "poaching" argument, is it not?

Baroness Wolf of Dulwich: The whole idea of the levy is to get around the poaching, yes.

Lord Lamont of Lerwick: Do you think that 3 million is an attainable target?

Baroness Wolf of Dulwich: I think it is an abomination.

Lord Sharkey: But does that mean that it is attainable or not?

Lord Baker of Dorking: The public sector will be encouraged to make quite sure that that target is met, I assure you.

Baroness Wolf of Dulwich: Alas, it will be attainable, but "alas" is the right word.

The Chairman: Can you explain why you think it is an abomination?

Baroness Wolf of Dulwich: Because it is like any target: you try to reach it as fast as possible. The way to reach this target easily is by sending half the senior managers in this country on MBA courses and ticking it off.

Lord Burns: Nothing that I have heard tells me that there is any mechanism for preventing this simply being spent on ongoing professional training.

Baroness Wolf of Dulwich: But there should be. The 3 million target has no rationale other than that it is bigger than the old 2 million one.

Lord Baker of Dorking: It is not so much about the MBA; it is about a whole lot of spurious business studies courses that are nothing like an MBA. The public sector will deliver the numbers.

Q94 **Lord Sharkey:** I want to ask about devolution and regional powers. Under the devolution deals, some powers over post-16 education have been given to mayors, typically to redesign post-16 FE systems, apprenticeship grants for employers and, next year, adult skills funding. Is that enough? Is it too much? Do you think more powers should be given to regional mayors?

Baroness Wolf of Dulwich: Personally, I do not think that more powers should be given immediately to regional mayors. This is a hard one: on the one hand they are much closer, but on the other hand when you are close it is hard not to just give everyone a lollipop. It is a good idea to start by devolving. It would not be a bad idea to give them a bit of the unspent apprenticeship levy because then they could actually invest in

building up the technical powers of local FE colleges. This is a personal opinion without my having thought it through very hard. My sense is that at the moment they will not be able to do that much, because so much of the money goes on is statutory, such as English and maths entitlement, which they have to meet. If they could have a bit of the unspent apprenticeship levy, it would be interesting to see what happened.

Lord Baker of Dorking: Something is happening already with LEPs. LEPs have responsibility for co-ordinating skills in their area, and they have funds to spend on that.

Professor Anna Vignoles: There is also a difference between devolving the funds and responsibility for planning skills provision in the local area and recognising that you need a regional strategy for systems that might be national. There is a preconceived idea that graduates are mobile, and obviously at the top end they are, but at the bottom end they are very much not. On graduate earnings, for example, it is obvious that there are graduates who are stuck in a local labour market and can be in quite dire straits, and you need to think about the provision of education and skills in that labour market, but that does not necessarily mean that it has to be planned at the local level. That applies particularly to higher education.

Lord Sharkey: Yes, I was talking about technical education and further education.

Q95 **The Chairman:** I have one last question, and I suspect I know what your answers are going to be. To what extent are higher education qualifications now about signalling for the labour market, and to what extent do you agree with the Government that an increase in university graduates leads to higher economic growth and productivity?

Professor Anna Vignoles: The evidence on this is conclusive that in sectors with higher proportions of graduates you see more rapid increases in productivity and economic growth and spillover effects from higher education in surrounding areas. You see both private economic returns to graduates that are positive and high and social returns to graduates that are positive and high. I do not think we can argue that there are too many graduates, although you can argue that the right kind of higher education provides a necessary but not sufficient condition for economic growth. I would also point out that many have put our productivity problem down to a shortage of physical capital, but you need complementary human capital for that to work as a way of stimulating economic growth. It would be a mistake to think that all the return to an individual graduate was a signalling effect.

Lord Baker of Dorking: On the point about the productivity of universities, it is of course very important. Great centres such as Cambridge are enormous centres of creativity. There is a concentration of talent. There is a zone that is going to be built, involving Milton Keynes, whose economic strength is now bigger than the city of Liverpool. That was an imaginative scheme in the Budget and I approve of it. There is no

doubt that centres like that create an enormous amount of wealth for their countries. However, a great deal of other wealth is created by inventiveness. One of the areas in which we digitally almost lead the world is in the creation of games. I suspect that quite a lot of the people in that industry—and there are sectors all over the country that do this, not just London—did not go to university; they have learned their digital skills in other ways. In the games business, you need very creative people, artistic people who bring music and colour together. Many of those probably did not go to university.

Baroness Wolf of Dulwich: My students certainly think that quite a lot of it is signalling. They look at the league tables and try to get to the university that is highest up the table because of the signal that that provides, not because they think they will necessarily be better taught there, although hopefully they will. Some recent work that I have been doing has shown how enormously much, as a university with international students, you can put your international fees up just by virtue of being in the right group.

Clearly it is not just about signalling—I hope I am not wasting my time day in and day out; I hope people are actually learning something from me—but there is an element of it. The more the world is awash with graduates, the more difficult it is for people to know what a degree means other than through signals. Year after year, parts of government, at least, have mistaken relative returns for absolute returns, and have taken the fact that graduates earn more than non-graduates to mean that the whole country gets absolutely richer.

Of course, the counterfactual may be that we would be even worse off if we had not had as many graduates, but in the US, for example, which has also had a huge increase in the number of graduates, median wages, including the wages of male graduates, have fallen. So there is no simple relationship between expanding higher education and growth. I am quite convinced that there is a signalling element in the modern world, but not just signalling.

The Chairman: So you do not agree with the Government?

Baroness Wolf of Dulwich: No, I do not. I think there is signalling. Are there too many graduates? That is a “how long is a piece of string?” question. If the system were different, a significant number of young people who currently go and do a three-year degree at 18 would not choose to do that. I also think that if the system were different we would not have this bizarre situation in which we have ever more graduates and yet have severe, identifiable skill shortages.

Q96 **Lord Turnbull:** I think you might have answered my question. Professor Vignoles, you mentioned a couple of times that the average graduate premium is positive. You say that that is evidence that there are not too many graduates. If you take the marginal student in the marginal university doing a marginal subject, that is where you find the last 10%. In a world with better guidance and better provision in the non-university

tertiary sector, would that group of students be better routed through a different channel?

Professor Anna Vignoles: For example, taking the bottom 23 universities in our analysis of graduate earnings, the median earnings for men in those institutions was less than the median non-graduate earnings. In other words, the graduates from those institutions were below the non-graduate median for the country as a whole. There can be good reasons for that—regional differences, et cetera—but I totally agree. There will be a marginal student who might be better off taking a different route. Would they go back and in through another, possibly vocational, route?

Lord Turnbull: If it were better.

Professor Anna Vignoles: The other thing they might do is go back and make different choices at 16, do a very different degree subject and then end up with very different earnings. I do not think that we can avoid the problem that we have at the moment. The greatest increase in graduate numbers has been in creative arts, for example. In our data at least, that subject is showing very low median earnings. We might be concerned about that. Are students doing it from an informed position?

Lord Baker of Dorking: The answer to your question is that many would be better off doing something different.

Q97 **Lord Layard:** There are obviously issues about what clever people—the top 50% or 60%—should be doing, but there is also the issue of what we can do for the other 40%. The political parties all say that inequality is a big issue in our society. How far do you seriously think that a better educational and skills deal for the bottom 40% would be the most effective way of tackling inequality?

Lord Baker of Dorking: It is the single most important thing that we have to do as a civilisation. There are going to be a lot of very disappointed people in that group, because the jobs they have gone to in the past are not going to be there. That is going to create a huge range of political and social problems. I am doing my best, but there should be many more doing it. That group, which has got by in the past, will find it much more difficult to get by in the future.

It is not only a problem for our country. It is a problem for America, in a very big way, and for nearly every country I know. It will be an enormous challenge, because before the digital revolution there was always a sufficiently large number of activities that they could somehow end up in. There is not going to be that number in the future. Things are going to be done in a much easier way, not just with robots. Keynes and Bertrand Russell both thought of this in the 1930s. They said that it would be wonderful if we had a four-day week and only 20 hours of work a week. Everybody could then have a wonderfully cultured life, watching "Strictly Come Dancing" every day, instead of just on Saturdays. It is not going to happen that way.

Baroness Wolf of Dulwich: We have tended to put too many eggs in the education basket. I do not mean that it does not matter. Having a really good basic education that allows you to do things later really matters. If, instead of asking me whether there are too many graduates, you asked me if I would put yet more money into the Student Loans Company rather than other things, including infrastructure and stuff, I do not think I would.

Professor Anna Vignoles: I find myself in the bizarre situation, as a professor of education, of agreeing with that point. I do not think that education in and of itself will solve the inequality problem. For example, regulation of the labour market might have a bigger material impact on the lives of those at the bottom. That does not imply that we do not want the bottom 40% to have better skills than they currently do, but it will not solve the inequality issue. It has not done so yet.

Lord Burns: Just to raise spirits, I had an email from the Treasury this week, saying that there is going to be a four-year degree-level apprenticeship programme to deliver first-rate professional economists for the public, private and third sectors. The apprentices will split their time between university study and the workplace and are employed throughout the course.

Lord Baker of Dorking: Not necessarily better economists, just more of them.

The Chairman: On that note, can we conclude this session? I thank all three of you for a very educational one: Baroness Wolf who has certainly educated us; Professor Vignoles for your robust defence of the higher education sector; and Lord Baker who has clearly not lost any of his zeal for educational reform. We are grateful to you for sharing it with us.