



Select Committee on Economic Affairs

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

Tuesday 13 March 2018.

3.35 pm

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Members present: Lord Forsyth of Drumlean (The Chairman); Baroness Bowles of Berkhamsted; Lord Burns; Baroness Harding of Winscombe; Lord Kerr of Kinlochard; Lord Lamont of Lerwick; Lord Layard; Lord Sharkey; Lord Tugendhat; Lord Turnbull.

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Questions 154 – 176

Witnesses

I: The Rt Hon Anne Milton MP, Minister of State for Apprenticeships and Skills; Mr Sam Gyimah MP, Minister of State for Universities, Science, Research and Innovation.

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Examination of witnesses

Anne Milton MP and Sam Gyimah MP.

Q154 **The Chairman:** Welcome, Ministers. It is not often that we have two Ministers of State in front of the Economic Affairs Committee at the same time.

I am sure you are aware that we have been looking at the whole issue of higher and further education and whether they represent value for money for the taxpayer and the economy as a whole, and for the students, which has turned out to be quite topical.

Perhaps I might begin by asking about the terms of reference for the Government's review of post-18 education and funding, which say that the present system does not "comprehensively deliver the advanced technical skills that our economy needs". What evidence is there to support this?

Anne Milton MP: It has to be the case that the skills shortage is not unique to this country. I was at a conference in Abu Dhabi at the end of last year, and what was maybe a little depressing, but reassuring for me, particularly as a relatively new Minister in the department, was that every Minister there, including from countries such as Singapore and Germany, felt that we had a world skills shortage. I think that is recognised even in countries that have quite well-developed skills systems and do quite well at levels 4 and 5.

We have a shortage. I hope that some of the changes that we have brought in will address that. Alongside the post-18 education and funding review, we are also doing a review of levels 4 and 5 technical qualifications, and of course you will be familiar with the introduction of T-levels and the apprenticeship programme. All of these are running towards the same end, which is making sure that we have a skilled workforce.

From a personal point of view, there are also moral imperatives upon us to make sure that young people, and indeed older people, get the opportunity to have rewarding and fulfilling careers across the board.

The Chairman: On STEM skills, for example, do you agree with the National Audit Office that the problem is more about the quality of existing training rather than a lack of people pursuing STEM qualifications? If so, is that something your current policy will take into account?

Anne Milton MP: Yes. I think we have to attack this at every level. I am not the Schools Minister, but obviously we need to embed better English, maths and the STEM subjects at a younger age, and I think there is some evidence—although, as I say, I am not an expert on the school system—to suggest that we have not been doing that.

We want 16 year-olds coming out after GCSE with a good foundation. If you look at the discrepancies between boys and girls in education at five,

six and seven, their interest in STEM subjects—science and maths in particular—is equally high. In the current system, we manage to beat it out of many of the girls by 13 or 14. There is a belief among young teenagers, I think, that either you can do maths or you cannot, or that you are good at science or you are not. So a lot of the work that we are doing in schools will, I hope, result in ensuring that when children leave school they have a better grounding in all the STEM subjects.

We are doing a lot to encourage young people to take STEM subjects. The Chancellor announced, I think in the Budget, that we would pay an extra £600 per year for children doing A-level maths, which I think will encourage more colleges and schools to encourage young people into those subjects. At the conference I mentioned, one of the Ministers—I think he was from Singapore—said that one of the reasons why their education system is better, although he accepted some weaknesses, is because of a solid foundation in maths and English. That matters to me. Before we get on to the next bit, we have to make sure of that, so we need to attack this at every level.

The Chairman: I see the problem about schools. The National Audit—

Sam Gyimah MP: If I could add—

The Chairman: I will just finish this point. I will quote from the National Audit Office report on the point about there being no shortage of people with qualifications but a shortage of people with the skills that are needed. It said: “This includes particular technical skills that employers expect graduates to have, or ‘softer’ employability skills. This indicates that, in some areas, there are sufficient people with high-level STEM skills to meet demand, but these individuals do not possess all the skills required by employers. This problem is generally attributed to some higher education institutions not possessing the right equipment, courses being more focused on theoretical topics than vocational application, and a lack of work experience opportunities”. That is quite damning.

Anne Milton MP: Absolutely.

The Chairman: Do you agree with it?

Anne Milton MP: I am not in a position to argue with the National Audit Office. Perhaps you feel I should, but I do not feel able to. I will let Sam—

The Chairman: He can argue with it.

Anne Milton MP: No, no. I would say exactly that. I can sound like a cracked record. The workplace now is not just about knowledge, it is about knowledge and skills. A degree might give you knowledge, but it will not necessarily give you skills. All the changes that we are making on apprenticeships and T-levels are designed to address exactly that point so that people have the knowledge and, critically, the skills.

That is exactly what the amazing apprentices I met last week, which was National Apprenticeship Week, said. One employer I talked to last week

reckoned that it takes about 18 months—this is not in a particularly technical area—to get a graduate up to speed in his organisation. With a degree apprenticeship, at the end of three or four years the apprentice will have the skills and the knowledge. For him, it represents good value for money in his organisation.

The Chairman: The Committee has had sessions with apprentices and with employers, which have been very moving. I am sorry, Mr Gyimah, I interrupted you.

Sam Gyimah MP: Not at all. Your original question, which referred to the terms of reference for the post-18 review, asked what evidence there was. As you have alluded to, there are a number of reports out there. There are two by the NAO, one on the HE market and another on STEM, and there is a good Government Office for Science report on the future of skills and lifelong learning. Reading those reports, what strikes me is that we have very high levels of employment, but at the same time we have skills mismatches, the underutilisation of skills and a lack of advanced skills in STEM in particular areas, which I think is what your question is alluding to. That is why the post-18 review will look at this.

In terms of what the department is looking at now, we believe that the answer to the skills mismatch is a combination of a better understanding of what the country needs and better information to prospective students to guide their choices. We are addressing both these issues. The biannual *Employer Skills Survey*, sector deals, skills advisory panels and local industrial strategies all help give us better information.

We are doing much to ensure that people understand the labour market and their employment prospects when they make choices. Just this week, for example, I announced the subject-level teaching excellence framework, which will rank university courses gold, silver and bronze, based on teaching quality but also on salary outcomes at years one, three and five. That will give prospective students more clarity about what they are doing. The LEO data, the longitudinal data, also sheds a lot of light on this.

Finally, the new regulator, the Office for Students, will consider current and future skills needs. It will make the sector more dynamic and ensure that higher-quality providers enter the market. Those are some of the things that are being done now. But to understand this on a broader level it is helpful for the review to look at this in the context of higher education and of further education. As Minister Milton said, we need skills at all levels, not just one particular level.

The Chairman: I am sure we will pick up some of these points throughout the afternoon.

Q155 **Lord Layard:** I would like to follow that up. Obviously, a big part of the problem is the lack of people getting applied skills at levels 3, 4 and 5. Is that not connected with the difference between the way we fund that and the way we fund the standard academic route through A-level and

university? There, essentially, the money follows the student.

If the student qualifies to do A-levels or to go to university, they are automatically funded, whereas you have a budgeted, capped system of funding for applied skills formation at levels 3, 4 and 5. That is not a very efficient or very fair difference between these two different routes. Will you not have to reconsider that in your inquiry? Since level 3 is such an important feeder of levels 4 and 5, does your inquiry include level 3, most of which is post 18?

Anne Milton MP: Your point is well made, and to some extent that is the background to the review. Anecdotally, I have to agree with the National Audit Office report, although I have not done the extensive and rigorous research that the National Audit Office has done. A lot of the reforms that we have brought in have addressed some of the problems, although they have not addressed the issue of public funding, and I think the post-18 education and funding review will look at that much more closely. The idea of T-levels is to plug one of these gaps, which is why they will be level 3.

There are so many areas in which we need to intervene, it is impossible to go through them all. The Minister talked about students understanding the value of a degree and what it gives them. Similarly, we have to make sure that young people get that sort of information in school. But the T-levels and the changes to apprenticeships, which have brought more money into the system, and the levels 4 and 5 review will all feed into that.

Employers that have a long history of doing this themselves—BAE Systems is the obvious example, but there are others—have embedded skills and knowledge into their organisation because they never lost the belief that unless they did it nobody else would, and they are good models for embedding knowledge, and indeed skills, at all levels. A lot of those organisations will take people on to do a level 2 qualification and then feed them through their organisation.

As I say, this review will be on top of the reforms that we are undertaking and will provide valuable information in answer to the questions: are we getting value for money? Is taxpayers' money distributed evenly and appropriately? What can we expect employers to spend?

Lord Tugendhat: I have a very brief question. We have heard a lot about the wonders of Germany, and indeed Korea, during our inquiry. But when you look at other Commonwealth countries or other European countries, do you feel that our skills shortage is greater than the average, or much the same, or that others are worse served? Where do we stand?

Anne Milton MP: It is an interesting question. Going to the WorldSkills Conference was fascinating. It was slightly reassuring, because we tend to believe that we are worse than places such as Germany or Singapore—the obvious ones—and that is not the feedback that I got. The Institute for Apprenticeships and the apprenticeship levy were applauded by many other Ministers as being an innovative way of doing this.

Mr Gyimah and I are going to do a joint visit to Germany, because it would be useful for us to see the evidence on the ground. We have a world skills shortage. I am very mindful that the danger is always that we will plug the gaps that we have now, but we need to make sure that we plug the gaps that are coming down the road in the future. I am very mindful of that. The enlightened businesses that I talk to are also mindful of it. There is the figure that, in 2030, 80% of the jobs done we will not have even heard of today.

Sam Gyimah MP: I am very conscious, by the way, when we compare ourselves to Germany that the shape of its economy is very different from ours. The size of the manufacturing sector there is 23%, compared with 10% in the UK. When you talk about the institutional framework that you need to deliver the skills, it might not necessarily be exactly the same in Germany as here.

When employers are surveyed about skills and they all say, "We are not getting enough of the skills we need", part of me is sceptical about them saying this when they should actually be paying to train people themselves. It should not be up to the education system to produce graduates with all the skills that employers need, given how fast the market is changing. There are jobs that exist today that did not exist when I graduated 20 years ago. I bet that in 10 years' time there will be some jobs that exist today that will be completely different. I treat some of the employer surveys with a degree of scepticism.

That said, to answer Lord Layard's question about whether we have enough applied skills versus people going down the academic route, again, some technical training happens within universities or the higher education sector and some technical training happens in the FE sector. It is not either/or. I also think that we should be careful not to cast this debate in such a way that being a graduate is seen as not really applicable and not useful. I would suggest that many people around this table have done a number of jobs over their time and are graduates. So it is possible for graduates to be adaptable and to change and learn new skills over time. That is my personal note of caution in this debate.

Q156 **Lord Sharkey:** The terms of reference for the Government's post-18 review say, "In recent years the system has encouraged growth in three-year degrees for 18 year-olds, but does not offer a comprehensive range of high quality alternative routes for the many young people who pursue a technical or vocational path at this age".

To what extent do you think the funding system is responsible for that? Do you think that the removal of the cap on student numbers has made the problem worse, with universities being incentivised to recruit students for whom an undergraduate degree may not be the best option?

Sam Gyimah MP: I do not think that having a thriving higher education system and a thriving further education system is a zero-sum game. Your question suggests that somehow the funding system discriminates in favour of one over the other. But if anything the state involvement, or

the amount of taxpayer money, going into HE has actually been reduced over time, and the burden falls more on the student rather than the taxpayer.

Lord Sharkey: Is there not a slight accounting problem with that? It depends on how you treat the write-off.

Sam Gyimah MP: Even if you factor in the write-off—the RAB charge—the state contributes roughly 45% at the time the loan is written off, rather than immediately. The bulk of the burden falls on the student, except for high-cost subjects such as medicine, science and engineering, where there is additional state subsidy in the form of the teaching grant.

I do not think that the same thing drives the two systems. Removing the number cap might have encouraged more people to go to university than otherwise would have done. Politically I would say that not putting a cap on aspiration is a good thing, and the last thing you want is a Minister in Whitehall deciding how many people get a university education. If you are going to deal with the right people going to university or taking alternative routes—

Lord Sharkey: Estimates have shown that 40% of graduates—sometimes more than that—are employed in non-graduate jobs. Does that not suggest that the number of graduates we are producing is greater than the number of graduates we have jobs for?

Sam Gyimah MP: First, it depends on whether you think that the sole purpose of getting a degree is to fulfil the requirements of the labour market. If you believe there are societal reasons for people to be better educated, you might not necessarily think that is a bad thing, especially as they bear a huge share of the burden.

Having said that, that does not mean that there are too many people going to university. You could ask a further question about whether all people going to university are doing the right courses, because that impacts on their participation in the labour market. If you take a course such as business studies, for example, within three years or so of graduating from one university you could earn £50,000, and from another university £17,000. So in one case you could have someone earning a non-graduate salary and in another someone earning a graduate salary. It is doing the right subject in the right institution that delivers the return.

Lord Sharkey: Does that mean that you do not think it was a mistake to aim to send 50% of people to university?

Sam Gyimah MP: By OECD standards, which is a reasonable comparison, we are estimated at 42%. The average is 45%. In the United States it is 53%, in Japan 58% and in New Zealand 58%. We are not out of kilter, but it is legitimate to ask whether it is appropriate for everyone who goes to university to go to university, and whether they are getting

the best education that suits their skills and their needs in a higher-education context.

Lord Burns: You are not denying, are you, that the taxpayer is spending more money on people who go to university than on people who are doing other forms of further education?

Sam Gyimah MP: The taxpayer has made a deliberate choice to underwrite the non-repayment of loans through the university system. As a consequence of that, more taxpayer money is going into the higher education system. There has also been a retrenchment—I need to choose my words carefully—of the money going into FE.

The Chairman: Is a retrenchment a cut?

Lord Burns: It is a cut.

Sam Gyimah MP: It is not a zero-sum game.

Q157 **Lord Burns:** Hang on, how can you say it is not a zero-sum game when we are spending per head a great deal more taxpayers' money on one group of people and a good deal less on another group of people? That is not a zero-sum game. That is one group of people benefiting more from the taxpayer than another group of people. It is the other group of people whom we have been focusing on, and the question has arisen as to whether they are getting a fair deal.

Sam Gyimah MP: Absolutely. The numbers are quite stark. The point I am trying to make is that there will be people who will repay their loan in full, in which case they will have saved the taxpayer a great deal of money.

Lord Burns: One issue that we have been probing is the extent to which we are treating fairly the group of people who are going to university against the group of people who are not going to university and who we consider should be obtaining more skills in other walks of life. Is it a reasonable outcome that more taxpayer money goes to the group of people, who in any case will probably earn more than the people who are not going to university, than to further education?

Sam Gyimah MP: It should support both, which is why the review is looking at post-18 education overall.

There are also appropriate ways of funding the different streams. The apprenticeship levy, for example, which Minister Milton can talk about, brings in employers to fund FE in a way that it is difficult to get employers to fund HE. So, yes, we should look at it, but there are different funding streams. In one case, it is the taxpayer and the student. In the other, it is part-taxpayer but also part-employer. Whether or not the funding levels are right, I look forward to the review's conclusions.

Q158 **Lord Turnbull:** This question is for Mr Gyimah. We had a very interesting session with some students. Somewhat surprisingly, they

were not particularly steamed up about the conditional repayment system. They grudgingly accepted its logic.

Two things, however, they were very steamed up about. One was the change in maintenance loans, but I want to concentrate on the interest rate, which is currently 6.1%. Why was this change made? I recognise that this happened before your time. One answer we were given was that it was to make the system more progressive. Have you really studied this and realised that it does not achieve that?

Sam Gyimah MP: I spend quite a lot of time going around universities. I have been doing a tour, so I have been speaking to a number of students about their experience, not just of university but of the finance system. The system we have is a hybrid between a loan and a graduate contribution system. It is neither one nor the other.

The Chairman: I think we understand the system. The question is whether or not it is progressive.

Lord Turnbull: We were told in some of the evidence that if you leave university and go into a relatively low-paid job and stay there, you will get to the end and you will not pay very much of it back—less than half, perhaps. If you are smart like you and join Goldman Sachs, you will end up paying this thing off rather quickly.

But there is a group in the middle—let us call them the £40,000-ers—who, because they make repayments all the way up to year 20 and year 30, are paying a lot more than the people who are lucky enough to pay it off early. There is no simple straight line of progressiveness. I just hope that when you come to look at this thing, you will study this evidence and try to find a fix that will sort it out.

Sam Gyimah MP: Absolutely. It is not the only feature of the finance system that we need to look at.

The point I was making, Lord Chairman, is that repayments are linked to income, not to the amount borrowed or the interest rate. If you went to work at Morgan Stanley—to choose another bank—and you were earning megabucks, you would be paying 9% of your income, so even if you paid it off early you would be paying a lot more back than others.

Lord Turnbull: The real variable is not the interest rate but how long you go on paying it for. That is what is really harsh on these middle earners.

The Chairman: Do you accept that by increasing the interest rate you have made this problem worse, not better?

Sam Gyimah MP: We have also raised the threshold of repayment, so as of—

The Chairman: That is a separate point.

Sam Gyimah MP: But it means that the point at which your repayments kick in is a lot later, as of 1 April.

Lord Turnbull: My request to you is that you look at that.

Sam Gyimah MP: Sure.

Q159 **Lord Turnbull:** In the last few hours, the OBR has said that much of the accrued interest will eventually be written off rather than repaid. The national accounts methodology for measuring interest does not reflect fiscal reality. It described it as a “fiscal illusion” within the public sector net borrowing calculation.

My successors in the Treasury spotted that if you raise the interest rate, you raise what counts as income and therefore that reduces the borrowing requirement. The fact that a lot of that interest is never repaid is way down the line, long after George Osborne has left the *Evening Standard*.

This is a pretty cynical manipulation of the rules. Are you going to look at this and see whether this effect of increasing the write-off by raising the interest rate and then pushing it years down the line is really a good way of accounting for this whole system?

Sam Gyimah MP: You will be aware that the national accounts are prepared in line with the European system of accounts, which requires items to be recorded where they occur. The RAB charge, which you pointed to, is reported in the Department for Education’s accounts. These, again, are in line with international financial reporting standards. In the same way as the IFS can see through the national accounts to what you describe as an illusion, so can the financial markets when they look at the Government’s accounts.

Generally on the point about the interest rate, it definitely should be studied, and the review will study it, but the price tag is also quite heavy. You are talking about something like £3.5 billion if you were to do something dramatic and effective on the interest rate.

Lord Turnbull: I would suggest that if the financial markets really did see through the illusion and there was no money, the Chancellor would not have done it. He did it because it enabled him to show progress towards the target on borrowing.

I have one more point on this. There is a strong feeling that when it suits the Government to uprate something and they are the payer, they use the CPI, and when they are getting money back they use the RPI. There is usually a gap of about 1%. Again, this seems a pretty cynical “Heads I win, tails you lose”. I hope that in your review you will come back to the CPI, particularly as the ONS has more or less disavowed the RPI as a decent way of measuring inflation.

Sam Gyimah MP: I guess that if Her Majesty’s Treasury did not behave in that way, we would all be criticising it as well. RPI is a widely recognised measure of inflation.

Lord Turnbull: It is historically widely recognised, but currently it is increasingly recognised as defective.

The Chairman: That is enough torture. Lady Harding.

Q160 **Baroness Harding of Winscombe:** I feel that I am heading in the same direction, in different terms. I want to challenge your description about there being no zero-sum game between HE and FE.

This discussion on the interest rate and the RAB charge really does matter, because HE is benefiting from this fiscal illusion and FE is not. Therefore, if we are to look at a fair allocation of investment in higher education and further education, you have to look at what it is really going to cost society, rather than what it appears to be in the books, because we are pretending in the books that we do not have to write off these loans in 30 years' time.

How can the review really look at both if it is using as its base the accounting treatment as per the national accounts, rather than the cash cost to our children and grandchildren?

Sam Gyimah MP: Sorry, I do not understand what you mean by "cash cost".

Baroness Harding of Winscombe: The national accounts do not account for the fact that in 30 years' time our children and grandchildren will be paying to write off all these student loans. Per the national accounts, if you compare the costs, higher education looks relatively cheaper than further education, which does not have this same illusion. So there is real zero-sum effect here: if you do not look at the actual cost, you will always end up prioritising putting more money into higher education, because it does not cost you so much in your accounting treatment.

Sam Gyimah MP: I am not sure how to take that. Mass higher education is a new challenge for us—we have never had mass higher education as a society before—and it is expensive, as the Committee has rightly observed.

I said that it was not a zero-sum game. Looking at what we need to do on FE purely through the lens of what is happening on the HE side could actually damage FE. We need to look at the choices for students post 18. We need to make sure that there are viable alternatives to university. I am not so sure that it is right to say that for one to improve you need to divert resources from the other, when in one case we have a proven world-class system.

Baroness Harding of Winscombe: Does that mean that the review will consider increasing the total size of the pie—increasing the amount of investment in the combined higher and further education sector—or is the total size of the pie fixed?

Sam Gyimah MP: The terms of reference for the review are that it will look at the student finance system. It is an independent review that is free to recommend what it thinks needs to be done on the FE side.

Lord Sharkey: Do the terms of the reference not prohibit the review from doing anything that will add to the deficit or the debt?

Sam Gyimah MP: It has to be within the current fiscal framework.

Lord Sharkey: So that is a yes.

Sam Gyimah MP: That would be a consideration for any review, but it can still make its recommendations.

Lord Sharkey: You are not suggesting, are you, that there is an unlimited amount of money available, some of which can be put into FE? It seems to me that an upper band has been set, more or less in the review terms, for the amount of money that currently goes into HE and FE. If FE is underprivileged and underfunded, does it not follow that the money will have to come from HE if you are going to do anything about it?

Sam Gyimah MP: It is not something that I have considered. That is for the review panel to look at. My instinct is that we are comparing apples and oranges. In one system, you are loading up the student with a lot of the cost, and the other system is significantly taxpayer-funded. They are not the same. When you say that the money will come out of HE, I do not know what money you are saying will come out of HE to go into FE.

The Chairman: The argument is that people are going to university to do higher education courses and then finding that they cannot get degree jobs, and had they been encouraged to do other, more vocational, courses they might have been able to have a better life and better employment, and make a bigger contribution to the economy as a whole.

The way the funding system operates, from the schools downwards, they are encouraged to go to university. The grant and the loan funding are all in place. There is a distortion, which has resulted in there being fewer opportunities for people to do what would be more appropriate courses.

I was very struck, Mr Gyimah, when you said that you were going to measure the effectiveness of university courses on people's earnings; I think that was the announcement that was made today. I just wonder how that is actually going to work. Does that mean that if a university is training people to be nurses or university lecturers or whatever, it will be marked down and the value of a university is determined by the people's salaries when they leave? Is that not rather a blunt instrument?

Sam Gyimah MP: The objective is not to grade universities by the graduate outcomes. The objective is to provide prospective graduates with better information so that they can make better choices. The information they will be provided will cover the quality of teaching at the

university and the drop-out rates of different courses, but also a sense of what the earnings prospects are.

People know this. People at the top schools in the country know that if you want to do economics, this is a good place to do economics but it might be better to do a politics course somewhere else. Given that almost one in two of 18 to 30 year-olds now go to university, there are a lot of people who do not have that knowledge and understanding of the system. We want to provide them with that so they can make informed choices.

The Chairman: We will probably come on to that later.

Lord Layard: I want to clarify something. When it says that the review has to be within the fiscal framework, does that mean that some qualifications have to be fiscally neutral? Does it mean something else? Is the review constrained to have no consequences for the total budget deficit, or is it somehow to have regard to fiscal responsibility but if necessary imply a rise in the deficit?

Sam Gyimah MP: I think it is constrained, but it is an independent review.

Lord Layard: I was just referring to the sentence in the terms of reference that they have to be fiscally neutral.

Sam Gyimah MP: Yes.

Q161 **Lord Layard:** I see. I will ask my question now.

Following on from our previous discussion, if one is thinking about levels 4 and 5, which have not flourished in recent years, is there any reason why they should not be funded in the same way as degrees and therefore have the same degree of automaticity of access for students and providers knowing that they can get funding if they can attract the students? Rather than thinking of two separate budgets for FE and HE, embracing all tertiary education within a single HE funding system and putting it all under the Office for Students seems to be a much more straightforward approach.

Sam Gyimah MP: I do not think this is the first time this sort of idea has been floated. We know what happened to individual learning accounts, which would be a way of crystallising in policy terms the idea you have just outlined. It is for the review to look at.

My instinct is that you fund both in the appropriate way. The apprenticeship levy proves that you can get employer involvement and funding at a level that you would not get for someone going to study even chemistry at somewhere like Imperial College. We need to have the appropriate funding system for each route.

Increasingly, the FE route, which Minister Milton can talk about much better than I can, has more work and employer-based work and study.

That is a very different model from doing something that is generally quite theoretical.

Anne Milton MP: Mr Gyimah's point about apples and oranges feels valid, particularly sitting next to him talking about it. I feel as if I am in a different world, really.

When it comes to the levels 4 and 5 review, I do not have the precise figures, but something like 7% of the qualifications in this country are at that level. In Canada and Ireland, about a third of qualifications are at that level. Levels 4 and 5 are poorly developed here. What is quite important, alongside the level 4 and 5 review, is to look at FE and HE together. That is the critical thing. They are completely different worlds. If it is the case that FE is underfunded compared to HE, the students in FE do not moan and the students in HE tend to moan. I shall probably get a Twitter deluge as a result of that comment. It is interesting that they do not complain.

Obviously, the colleges would like more money and feel that they could do more. We have done a huge amount of work. The FE sector is not just the colleges; the independent training providers are an important part of the mix. Of course, the HE students are putting in their own money, but when I meet FE students I have the pleasure of dealing with a group of happy young people who feel that they are getting trained and getting qualifications.

I met two students. One was doing level 7 and one had done a degree and was also doing level 7—one had done it as an apprenticeship and one through university—and both were working for the same organisation. It was interesting listening to them and their different stories, because you do not often get two people doing the same level coming from different routes. This review is really important, because it does feel like apples and pears.

The Chairman: I do not know if you have started anything on Twitter, but Lord Turnbull might have done.

Anne Milton MP: Have you tweeted, Lord Turnbull? Please do not. I have a university in my constituency.

Lord Turnbull: I am a complete novice. The department gave us some written evidence, dated 27 September, containing some figures. It said that for further education the cost to government was £9.6 billion and the participation in further education was 3.5 million students. My basic arithmetic tells me that that is £2,742 per head. For higher education, the cost to government was £7.6 billion—that is, less—but the participation was 1.5 million, making that £5,068 per head, getting on for twice as much.

Anne Milton MP: I do not know, and I have good officials sitting behind me, so I would be interested to interrogate that. For instance, the Treasury made available £700 million for the restructuring facilities in FE.

There are additional pots of money. We spent quite a lot of money and a great deal of time trying to stabilise the FE and sixth-form college sector. I would be interested to know what is included in that figure, and I do not. I am a cheerleader for the FE sector, so keep going.

Sam Gyimah MP: When we talk about FE, what do we mean by that? I have a table here which I will ask the department to share with the Committee. When you look at FE, there is the 16-19 budget, school sixth forms, sixth-form colleges, independent training providers and further education colleges. Are we actually comparing like with like?

Lord Turnbull: I am simply quoting the figures that your department has given us.

Sam Gyimah MP: I will go back to the department and ask whether we are comparing like with like for analytical reasons. But there is also the other reason: it will always cost more to train a medic or an engineer than someone who is gaining a skill to work. They are different.

The Chairman: I think that is one of the points that we want to make.

Anne Milton MP: It may be useful for you to have a breakdown of how that figure is arrived at. It would probably give a bit more detail, which I would like to have.

The Chairman: Another Treasury man, Lord Burns, has a question.

Lord Burns: Do you have any doubt that, on a per annum basis, we are spending much more on people who go to university than on people who are doing levels 4 and 5? Do you doubt that?

Anne Milton MP: Do I doubt it? Are you asking us both?

Lord Burns: Yes. We may quibble about the numbers, but they are so far apart that I find it difficult to believe that we are not spending a good deal more of taxpayers' money per head for the people who go to university than for people who go to other forms of further education, particularly on levels 4 and 5.

Anne Milton MP: I feel ill qualified in front of this Committee to comment on anything to do with the economics of either HE or FE, I have to say, particularly as I have absolutely no background in it.

Lord Burns: We are trying to help you.

Anne Milton MP: I know, and I much appreciate it. Anecdotally, probably yes. One must not forget that, increasingly, FE does a lot of purely degree courses, so it is awarding a lot of degrees. It is a complex market with a complex funding structure, and it does a remarkably good job. But if I go to an FE college and a university—I have one on my patch—I do feel that the facilities are very, very different.

Sam Gyimah MP: If one was to take—

The Chairman: Sorry, we need to move on to the next question.

Q162 **Baroness Harding of Winscombe:** I am sorry to take you back to the maths, but what percentage of student loans in 2017 and 2018 does the department estimate will not be paid back? Is the department still targeting 36%? What is the RAB charge?

Sam Gyimah MP: The RAB charge is roughly 45%.

Baroness Harding of Winscombe: We had some evidence from James Barber at the Treasury in November. It has to be said that the quote is not totally comprehensible, but in it he says, "The target is currently 36%".

Sam Gyimah MP: The number I have given you is higher than the number you have.

Baroness Harding of Winscombe: I know we covered this earlier, but those student loan write-offs will have a very large distorting effect when they finally hit the public accounts in 30 years' time. Do you think it would be more sensible to allow for a better discussion of where funding should be allocated if those write-offs were recognised in the public accounts when the loans are issued, rather than 30 years later, so they are spread through the life of the loan?

Sam Gyimah MP: It is not for me to say, but let me answer the question this way. The repayment of the loan, you could argue, is also based to some extent on our economic performance. If we have an economy that is doing well and is highly productive and people are being paid well, those repayment rates will go up.

It is also theoretically possible that if the UK economy booms, the RAB charge will come out better than is currently being estimated in the Treasury accounts. Yes, a provision is essentially being made, but it does not follow that because a deliberate choice, a deliberate decision, has been made, 45%, which is the figure that I have, will be the number that is written off. Actually, it could be better.

Lord Sharkey: Irrespective of what the RAB charge turns out to be, the question is: would it not be better if the write-offs were recognised in the public accounts when the loans are issued, irrespective of the RAB charge?

Sam Gyimah MP: It is for the Treasury to answer questions on how it accounts for public spending, not me.

Lord Sharkey: Just to be clear about this, do the terms of reference of the Government's review allow the recommendation to be made that the Treasury should consider things like this?

Sam Gyimah MP: It is looking at the whole student finance system.

Lord Sharkey: But according to its terms of reference, it cannot place a cap on the number of students who can benefit, it cannot talk about

taxation, and "its recommendations must be consistent with the Government's fiscal policies to reduce the deficit and have debt falling as percentage of GDP". Does that not seem to say that it cannot do that?

Sam Gyimah MP: If it did that it would affect the current deficit. That would follow logically, yes.

Q163 **Lord Burns:** I want to move on to maintenance grants, which I think we touched on earlier. We have spoken to a lot of students during this inquiry, and one issue for them has been the interest rate. The other issue that achieves a great deal of attention has been the move of maintenance grants to loans. Do you feel in retrospect that this was a mistake?

Sam Gyimah MP: Not at all. Pre 2012, a student could get means-tested maintenance of £2,906 for new students, increasing to £3,299. In the 2012 reforms, students could get £3,593 as a means-tested grant. The loan was £4,400, so it was split between a loan and a grant. To have mass higher education now and 100% maintenance grants now and convert the roughly £10,000 that you can get fully into a grant for everyone would be incredibly expensive.

Can something be done for more hard-pressed students? I would like the review to look at that. But under the current system, when you apply to university, there is no financial barrier to you starting, which is important.

Lord Burns: But the net result is that, when students from poor backgrounds complete their degree, they end up with a much larger loan than people from better-off backgrounds. That seems to have attracted a great deal of attention. So what is the response? How do you persuade people that this is not an anomaly whereby people from poor backgrounds end up with a much larger debt at the end of their degree course?

Sam Gyimah MP: The Prime Minister mentioned this when she announced the post-18 review, and it is something for the review panel to look at. But we still have a system where you do not have to pay it back. From 1 April, you pay 9% of your income if your income is above £25,000. That is particularly important, and we cannot not lose sight of that. If you look at the evidence so far, someone from a disadvantaged background is 50% more likely to go to university now than in 2009. So it clearly has not been a deterrence.

My own experience of being at university when I could not get family support and I had to get a loan from my college in Oxford was that if you are reliant on that support and it is not there, that could be the difference between you dropping out or not. We have a system here where the barrier to getting in is zero. Should something more be done for our poorer students while they are at university? The cost of living comes up all the time, yes.

Lord Burns: I agree with the point about the numbers who are now going and some of the benefits that there are from the system, but in the

process it seems also to have created a great deal of resentment. Although, as you say, it is an income-contingent payment and we tell people that they should ignore the size of the debt, it is very difficult for many people to ignore it—and, of course, they have no assurance that it will not change under some future Administration.

Do you recognise that it has been something of an own goal to end up with a system that looks a great deal more disadvantageous to students than it is likely to turn out to be in practice?

Sam Gyimah MP: We cannot have it both ways. We cannot on the one hand say that the taxman is putting too much into universities versus the alternatives to university and on the other hand look at other elements of the student finance system and say that the taxman should pick up the tab for maintenance loans. In essence, only two people can pay for university: the taxman or the individual. I do not think we can have it both ways. It is causing resentment politically because there is an option on the table that you can have it all for free. That is why it is causing resentment.

Lord Burns: I would say from the evidence we have received that it goes much further than that. It is difficult to make people concentrate simply upon the income-contingent payment that they are going to have to make and to ignore the debt that they have, which is increasing by this 6.1% interest rate year on year, and very often the increase in the debt will exceed the amount that they have actually paid off in the early years. Elements of the system may make a great deal of sense, but it happens to have created a monster in many people's eyes in terms of what they could be liable for.

Sam Gyimah MP: The review will look at that. Given the experience around the Committee, you will appreciate why, as Universities Minister, I think that is something the review should look at rather than for me to reply to. Do I understand the situation in which students find themselves? Yes. I might say that it is really a contribution system, but you get a statement with an interest rate, a loan balance and repayments on it, so it looks like a loan and sounds like a loan, so people react to it like it is a loan even though it is not a commercial loan.

Anne Milton MP: This is not an economic point, but the point about resentment is quite important. One reason why I have the pleasurable business of meeting people who are very happy is because there has been no option. Until quite recently, if you stayed on at school to do A-levels, that is what you did. This is perpetuated by parents whose belief is that university is the only option. There is a terrible intellectual snobbery in our society about degrees. That would be fine—we spoke earlier about the earnings you can expect—if it got you motherhood and apple pie at the end of it.

The truth of the matter is that it does not. Everything that Minister Gyimah is doing with the Office for Students and informing students better is really important. I met a young man the other day who bailed

out after two years of a chemistry degree and switched to a degree apprenticeship. So the resentment is not simply about the money. I think they were sold something that has not necessarily turned out to be true.

Baroness Harding of Winscombe: Going back to the maintenance loans being another source of resentment, what has been really striking when we have met students and young people doing apprenticeships, is that—exactly as you have said, Minister Milton—the apprentices were massively happier than the students, and one reason was that the students were really struggling to avoid to live. It was really striking to us that they struggled even to afford the bus fare to come to see us. It was quite humbling to realise that.

What are your reflections on whether the maintenance loans are too small—not that we should necessarily switch them from loans back to grants, but are we setting students up to not be able to be the full-time students that we were in our youth because the only way they can make ends meet is to work not just in the holidays but at night and during weekends while they are studying?

The Chairman: That does not help with Lord Burns' point about the poorest students ending up with the biggest debt.

Baroness Harding of Winscombe: It does not, I know. It is a "cake and eat it" question, I appreciate that.

The Chairman: Please do not use that phrase. We are not going to discuss Brexit.

Sam Gyimah MP: You will have to reflect this point in your report, Lord Chairman. If you look at the dropout rates of some disadvantaged students and the attainment levels at university, you will see that disadvantaged students lag behind other students. Access needs to be looked at quite seriously, not just in getting to university but being able to participate fully at university and make the most of it. Going through financial stresses and strains will stop someone being able to participate fully in university life, because they are worried about that or have to work while studying and cannot really focus. These are very serious points and I am very alive to them.

With regard to how you deal with it in the student finance system, I will not comment on what you should do through maintenance grants, but it is a serious problem.

Q164 **Lord Kerr of Kinlochard:** Baroness Harding talked about happy apprentices in further education. I was struck by the difficulty that non-apprentice students in further education have in securing access to any maintenance loan. Lord Burns's line of questioning rather suggested that we did not much like maintenance loans. But consistency is not our middle name, so I ask the Minister: do you not think it would be helpful to social mobility and helpful to a sector that feels a bit squeezed—shrinking in size and in finance—if the same access to maintenance

finance was available there as it is in universities?

Anne Milton MP: It might do. You are right that the further education sector feels squeezed. The figures bear that out: it has been squeezed. Oddly enough, it is not an issue that comes up. Colleges have some discretionary funding and they use it very widely. But if we take the next steps that we want to, which are about T-levels and work placements, et cetera, we need funding to be available to support students who have limited means in making sure that they can access all the opportunities that a further education college or an independent training provider can give them. Of course it would help, yes.

Lord Kerr of Kinlochard: We visited Aston in Birmingham and were very struck by how local the young people in the FE college were. Choices are very limited for people going into FE. Maybe they want to live at home and go to the local college, but they do not seem to have much ability to go looking for the right course somewhere else in the country. That seems to be something that we ought to be encouraging but are not encouraging much at the moment.

Anne Milton MP: You are right that students at FE colleges doing apprenticeships tend to be drawn from the local area, which is why employers like them. Loyalty to the employer that is doing the apprenticeship with them is very high, and they tend to stay on because they have never moved away.

Are we limiting those young people's aspirations? Your world is probably limited by the place you were brought up in. If I think of the national colleges—digital skills and the four other national colleges that we have going—I think that is valid.

I hope that is looked at by the review. The danger is always that further education is seen as a lesser option—I do not want it to be seen as the lesser option—which limits you to the local area. That would be disappointing, because FE colleges and independent training providers offer a much broader experience. Often their links with employers are much greater.

Sam Gyimah MP: The attraction of universities, not just because of the graduate premium, which I am sure the Committee has heard a lot about, is the sense that it is a rite of passage, moving from a child to being an adult. You experience and are challenged in so many different ways. You can determine what you want your life to be. That is part of the attraction. Alternatives should allow for that kind of exposure on the FE side; otherwise, you will have the default of people wanting to go to university.

On apprenticeships, people have to decide more quickly what they want to do, so you need to know what skill you want to do and what kind of work, and university allows people to delay that decision for a while. These are all things the review should look at.

Lord Kerr of Kinlochard: I do not buy that at all, I am afraid. There is

an apples and oranges problem at the core of everything you say. Is it about education or is it about skilling? If it is about education, fine, it is a rite of passage, it is growing up. It is reading philosophy and going to the cinema—great. But if it is skilling us to deal with the world skills crisis, I do not believe that either. There has always been one.

Anne Milton MP: You are probably right.

Lord Kerr of Kinlochard: When Fred Flintstone was working on his stone he thought there was a world skills crisis. We have always needed to keep up with technology. But if we want to upskill the economy, we have to decide the importance of that relative to educating people, which is broadening their minds and preparing them for wider horizons. I do not understand how this review, which seems to place an emphasis on the salaries that they get at the end, is going to take account of education.

The Chairman: We need to move on.

Anne Milton MP: I do not think the review is focusing only on salaries.

Sam Gyimah MP: It is not.

Anne Milton MP: That is quite important, really. Are you perhaps suggesting that higher education is an outdated model?

Lord Kerr of Kinlochard: Absolutely not. I think we need to put more into further education, but not for the reasons you have given.

Q165 **Baroness Bowles of Berkhamsted:** I would like to explore the quality aspect. Can you explain why the department believes that higher education is well suited to market mechanisms for driving continuous improvement? That somewhat begs the question why you now need to start rating by subject quality. The reasons given in the department's October consultation were that there were large numbers of providers, that they could innovate, that there was a lot of information available—one might question that—and that the price of the service was known. But the reality is that this is a one-off purchase—you are not going for repeat customers—and there is very little switching going on. Everything else that we use as a measure for a market is not really there. How do you come to that conclusion that there is a market?

Sam Gyimah MP: The Competition and Markets Authority set out in its 2015 report on the higher education sector that, "competition and choice can play an important role in helping to deliver high-quality and student-focused services, provided they are implemented in a way which recognises the unique features of the sector". The point you made about this being a one-off purchase is one of those points. This is what our recent reforms have set out to do.

The National Audit Office report also notes in numerous places that higher education reforms that are now being implemented seek to address the challenges that are identified while driving continuous improvement outcomes from higher education. Both the teaching

excellence framework and the new regulator, the Office for Students, should help to drive the improvements that are needed in the sector and enable students to make better-informed choices.

Baroness Bowles of Berkhamsted: But how? We have heard evidence about the teaching excellence framework. One student told the Committee that their university offered to pay people £5 to fill in the survey, that there were lots of fake responses and that third-year students get pestered to death until they complete the form, and in the end they do something just to stop the pestering phone calls.

Then on the other side you get grade inflation—a university where you always come out with a first-class honours degree sounds good. How can you make sure that what you measure is going to be genuine?

Sam Gyimah MP: The NSS—National Student Survey—is not the only component of the teaching excellence framework. There are some quantitative metrics in there as well. The eventual gold, silver or bronze rating is judged and decided by an independent panel. If you look at the history of this sort of thing in the higher education sector, when the REF was introduced about 30 years ago to rank research quality it had a similar reaction, certainly from the sector.

Today, it has its flaws, but many universities still hang their hats on their research ranking. It is the beginning, but it is right that there is some kind of accountability in the system for what our universities are offering, given the considerable amounts of money that students invest in their education. That is what the teaching excellence framework, at institutional but also subject level, is there to help facilitate.

Baroness Bowles of Berkhamsted: Do you think a one-size-fits-all strategy is needed for higher education? It is assumed that students are infinitely mobile, whereas this is not the case, especially if you are from a lower-income category so you cannot get so much parental help or you are scared about taking out too much in a maintenance loan.

Some students prefer to stay more locally, not just for family reasons and family support but purely because they cannot afford to go somewhere distant. Is there self-selection there and should there be a regional strategy, or is there only ever going to be a national strategy?

Sam Gyimah MP: I am sorry, I am probably being obtuse, but I am afraid that I do not understand what you mean by “regional strategy”.

Baroness Bowles of Berkhamsted: There is great difference between the wealthy south and south-east and the north in the amount of funding that families have available. Should there be different strategies? There have been different strategies in Wales.

Sam Gyimah MP: I am not aware of the different strategies in Wales, but are you suggesting that if you are disadvantaged you go to the local university but if you are better off you can take your pick of universities

around the country? That is precisely why you need better information, not just about the choice of university but whether it should be HE or FE.

Take a system where you are in the dark and you have a no idea—law is a good example. It is highly unlikely that if you did A-level law and got on to a law degree you will become a lawyer, and it is highly unlikely if you do law at some universities that you will become a solicitor or a barrister. If you do not know that and you do law at your local university thinking that you could be a lawyer, that is actually worse for disadvantaged people. The only way to make them aware is to have more information and more transparency. If wealthy business-school students have detailed rankings to select which school to go to, surely an 18 year-old for whom every pound counts should have similar types of information.

Lord Tugendhat: There is a fundamental difference. If you go to business school, you are in business, and there is a relatively simple criterion by which you measure the relative success of the various options open to you. But university covers a whole waterfront of different subjects, and you go to university for a variety of different reasons; earning a big salary is an important one for some people but less important for others, and it is perfectly possible for someone to make a rational choice to read music, if that is what they want, in the knowledge that it is not going to lead to a big income. Your comparison goes to the heart of the problem of this sort of measuring.

Sam Gyimah MP: Once you introduce earnings into these things it always creates problems for the argument. Whatever you want to do, ideally you want to do it at a good place for doing it. If you want to do music and to go on to be a professional musician, it might be a good idea not to go to Imperial, for example; you might go somewhere else that is better at music, and if you want to do history, it might be better to go somewhere else.

But to enable that choice and to empower students, you need better information out there, whatever the reasons for which they are going to university. Without doing that, you are asking people to make a significant investment—the kind of investment that in any other walk of life would be exposed to a lot of information.

Q166 **Lord Sharkey:** I want to ask about the subject-level extension in TEF. I should have declared an interest as a council member of UCL.

When Ofsted inspectors go into a school to make an assessment, they watch people teaching. Is it envisaged that when the OfS makes an assessment of the teaching quality in universities, it will send people in to see actual teaching?

Sam Gyimah MP: No, it does not operate like Ofsted.

Lord Sharkey: Why is that?

Sam Gyimah MP: The purpose and methodology are not the same as Ofsted's.

Lord Sharkey: That is clear from your answer, but my question was why? Making an assessment of teaching quality via remote, indirect, proxy data seems to run terrible risks. Those risks are not taken by Ofsted, because it looks at people teaching. That is a prima facie case for suggesting that the OfS should do exactly the same thing.

Some of these proxies on the NSS, which currently forms half of the data points, are very remote, and there is reason to be suspicious about these things, as I think is generally widely admitted. The fact that there is a variation, maybe of plus or minus 2%, does not tell you that all these institutions are the same. It is as likely to tell you that the measurements are inadequate for distinguishing between these institutions.

Sam Gyimah MP: I am happy to write to the Committee with a detailed explanation of the methodology. While you are right that a lot has been written criticising it, I am also yet to see any constructive alternatives being provided.

The Chairman: I think we will provide those in our report. Lady Bowles, had you finished?

Baroness Bowles of Berkhamsted: Yes, except to comment that when you said that if you go to read law at some universities you stand very little chance of actually putting that into practice as a solicitor or barrister, that sounds like mis-selling to me. That is statement, not a question.

The Chairman: It is probably wise not to comment.

Q167 **Lord Tugendhat:** I think this question is less contentious. Could you please explain who is responsible for meeting the 3 million apprenticeship target and who is responsible for ensuring the quality of apprenticeships?

Anne Milton MP: I suppose that would be me. My personal interpretation of my job—we do not have job descriptions as Ministers any more than we do as Members of Parliament—is that it is about 3 million quality apprenticeships. The quality is terribly important. We have done a number of things to ensure the quality of apprenticeships. It is not perfect, but it is a system that is evolving. A lot of the changes came in in April last year.

I am very clear with employers and the Institute for Apprenticeships that I will flex the system as is needed to make sure that we get what we intended to get, which is quality apprenticeships. My aim is to meet the 3 million target. Somebody decided that 3 million was the right target. It was based on some historic data. But what matters is the quality. The anecdotal evidence about the previous apprenticeship system is that there were lots of people doing apprenticeships who did not even know that they were doing apprenticeships. It required no training. There was no currency in the qualification they got.

So, for me, quality is about giving apprentices a qualification that has a currency and employers an opportunity to recognise that currency. It is about both sides.

Lord Tugendhat: You want to up the quality, but you are targeting starts rather than completions. That seems the wrong way round.

Anne Milton MP: It does, because we have not looked at the completion point yet, because we started in April and an apprenticeship has to be for a year. There is a frustrating lag in data. Come April, we will look at the outputs at the other end. Anecdotally, businesses feel that the new system of standards has massively improved retention, so people are staying on their apprenticeships and are more likely to stay with their employer. Anecdotal evidence is good, but we will know the figures when we get past the first year.

Q168 **Lord Tugendhat:** The Government say that apprenticeships should be offered to existing employees only “where substantial training is required to achieve competency in their occupation”. Do you think that aspiration is being adhered to, or is it being abused?

Anne Milton MP: My first line on this is that the money is used for the purpose for which it was intended: creating quality apprenticeships. My second line, which is where the tension is with employers, is to prevent abuse of the system. I am very mindful of it, because that was the problem before. Everyone loves an apprenticeship; it is extraordinary. Successive Governments have tried to embrace this and create more apprenticeships—although I accept your point, Lord Kerr, that we will never satisfy the skills needs that we have—to do these things. One reason why we have not done these things is because, in order to meet short-term goals, we have allowed abuse of the system. It is not easy to police it, for want of a better word. I think we have got better at it and we are bringing in something that I think will help with that.

The Chairman: Can you explain how the 3 million target was arrived at?

Anne Milton MP: I have absolutely no idea.

The Chairman: Neither do we.

Anne Milton MP: I think it was based on historic data. Do you know, Lord Kerr?

Lord Kerr of Kinlochard: No.

Anne Milton MP: I was hoping that somebody might know. I do not know.

The Chairman: Thank you for that very honest answer.

Lord Turnbull: We know the answer.

The Chairman: Oh right, Lord Turnbull knows the answer.

Lord Turnbull: Nick Boles said, "We needed a target and the previous target was 2 million, so we thought we would make it 3 million".

Anne Milton MP: Maybe it has been a good thing. There has been a frequent change of Skills Minister, which in a way has been quite useful, because we all treat it with a fresh set of eyes. There is no room to change it, but we all have a fresh set of eyes on it.

Q169 **Lord Lamont of Lerwick:** The Association of Employment and Learning Providers gave us written evidence in which it said it feared that higher and degree-level apprenticeships would take only 50% of the funding. It felt that this would have "an adverse impact on the availability of apprenticeships for young people to take up, particularly entry level apprenticeships". Similarly, BIFM, the professional body for facilities management, said that there was "a focus from employers to participate in higher capped apprenticeships to ensure that most of the levy money paid into their ringfenced digital levy account can be recuperated", and it felt that this would risk some of the lower-level apprenticeships. Is there a risk that degree apprenticeships will crowd out the provision of apprenticeships at level 3?

Anne Milton MP: All those points are quite well made. What is not to like about a degree-level apprenticeship, really? You learn something, you earn something and you have no student debt. You come out at the end of it with a degree and possibly four years' experience in the workplace, compared to a graduate coming out of a higher education institution. The fear of a middle-class grab on these apprenticeships is valid. So I am watching and waiting.

The majority of apprenticeships are level 2 and level 3. I think they still make up 90%. But if you look at the starts, the one area where the starts have gone up is degree level. I would like to expand the programme. I would have to have that discussion—it is above my pay grade—with the Chancellor of the Exchequer. We have to have more money in the system.

Apprenticeships satisfy two things. At the higher levels they produce a more immediate set of skills for the workplace. For employment reasons, they are very positive. But they are also, if the system is designed well and used wisely, a tool for social mobility. What is quite interesting is the amount of good will among employers, who are also keen and recognise that taking somebody on to do a level 2 apprenticeship is an opportunity to spot talent that would otherwise not be available to them; maybe these people did not do well at school but are quite capable and able to work through their company and go on and do their degree-level apprenticeship.

You also raised the point about employers training existing employees up to higher levels. The trouble is that a lot of research comes out from organisations that have an interest in the result, but if it is to be believed that in order to improve productivity in this country, management and leadership skills are very important, the MBAs and the management

degrees have a value to the country as a whole and therefore to the organisation as a whole. Therefore, I would not mind about it. But I feel quite strongly about the fact that an apprenticeship can offer social mobility. So I sit and wait and watch.

There are levers which the Government can pull. We could distort the market. The reforms are very brave, I think, in many ways. Getting the levy through Parliament was a big step. I think that most businesses, although some of them are quite grumpy about it—the CBI is quite grumpy about it still—would love to have some flexibility in how they use it. But most of them have accepted it as a matter of fact.

However, bringing in the Institute for Apprenticeships and redoing the qualifications meant an awful lot of change in quite a short period of time, so I would be unwise to pull any levers just yet. But I watch it very carefully. Anecdotally, I think it is working quite well as a tool for social mobility. How widespread the mass effect of that is of course is impossible to tell at this stage.

Lord Lamont of Lerwick: Earlier Mr Gyimah said that when he met employers he often felt that they should be paying more for this.

Anne Milton MP: Well, they are.

Lord Lamont of Lerwick: We are also told that the UK is the only country in the EU where employers are spending less on training than they were before the financial crisis. Have we not become overdependent on low investment in training and high immigration simply because it is easier to do that than to actually invest and train?

Anne Milton MP: Yes, for sure. I will not go on except to say that from time to time I still encounter employers kicking and screaming, and I say, "Look around the world at the investment in training".

Lord Lamont of Lerwick: I take it that you would not be in favour of a proportion of the levy being reserved for level 3 apprenticeships.

Anne Milton MP: That is one of the levers I could indeed pull. I would not do so yet; it would be most unwise. Governments tend to fiddle with things too soon, in my view.

The Chairman: The Committee has heard evidence from employers who have openly admitted that they are using the levy to fund training they would have done anyway, and other evidence that people are being sent to do MBAs using the apprenticeship levy. That does not really seem to be the purpose.

Anne Milton MP: It does not seem to be the purpose. If that is a tiny proportion of the levy spend and it improves the productivity of that organisation, that is all well and good, but I need the bulk of it to be spent elsewhere.

The Chairman: We have also had evidence that it is going to take two or

three years to produce all the standards and that something like 300 out of 500 are outstanding.

Anne Milton MP: I think that 220 have been approved and that another 300 are in the making. The first thing I said to the new chief executive of the Institute for Apprenticeships was, "Speed right up. Get those out of the door by the end of this year". I said September, and he negotiated me down to the end of this year.

I cannot lean on employers about what they are doing with the levy if they do not have the standards. I am hearing a lot less about that. The Institute for Apprenticeships produced a document called *Faster and Better*, and for members of the Committee who have watched "W1A", it could have been taken straight out of that television programme.

The Chairman: I do not want to harass you, but Mr Jenkins gave evidence to us and he gave us the impression that he did not think it was his job—he could not tell us whose job it was—to drive this.

Anne Milton MP: Antony Jenkins is the chairman and Gerry Berragan is the new chief executive. He is very clear about what I want the Institute for Apprenticeships to do. I am dependent on it. In fairness, the organisation started in April. I would give it a break for a bit but not for much longer. It has to be operating as soon as it starts. I think it has taken on board a lot of my comments.

In an organisation such as that, which is dealing with employers, who are very diverse even within sectors, you need quite senior people doing the relationship management with those employers, making sure that they understand what is needed from them. We are coming up to a year, so we will review it. But it is responsible for doing this.

The Chairman: Your officials can see the evidence on our website.

Q170 **Lord Layard:** What you said about social mobility is really important. If you are really going to revitalise this part-time route, which has historically been the main avenue of social mobility in Britain, you will need many, many more places than there are at the moment. Three million sounds like a lot, but actually for a cohort it is not that many.

To follow up the Lord Chairman's question, we have the feeling that apart from the Minister, which is really great, but there are many other things that Ministers have to do, there is not really any concentrated place that is driving this system. There are five agencies: one doing the framework, another doing the qualifications, another doing the inspections, and so on. Do we not lack someone—some place—where there is strong, authoritative leadership involved in getting enough places? I am trying to think of institutions that could make this happen and put more pressure on the department. For example, supposing there had to be an annual report to Parliament on progress in apprenticeships, would that make a difference? There need to be more levers to make this happen, do there not?

Anne Milton MP: I feel that the buck stops a bit with me, actually. Your idea of an annual report to Parliament is not a bad one. That can serve quite a useful purpose, as long as it does not become a box-ticking exercise. Although I have a busy ministerial brief, my job title is skills and apprenticeships, so I feel responsible.

I feel also that the system is not bad. I have previously been a Minister in the Department of Health. Actually, it is working quite well. The drive among officials is very strong. The drive now within the Institute for Apprenticeships is strong. Gerry Berragan has a good background, having done the apprenticeships system in the Army, which, as we know, has a very well-developed system.

I think you are right and I hope that successive Ministers, after I am gone and forgotten, will keep the pressure on, because it will require that pressure. The trouble with HE and FE and apprenticeships and degrees is that we all say that apprenticeships are terribly important, but then everybody forgets about them. Actually, they are crucial for so many things—attempting to plug some of the skills gaps but also as a driver of social mobility.

The Chairman: We hope you will be there for quite a long time, because it is a big job.

Q171 **Lord Kerr of Kinlochard:** I congratulate you, Minister. Today the Chancellor announced £80 million to assist small and medium-sized enterprises in accessing the apprenticeships scheme. There you have clearly achieved a huge success. But I worry about the number of companies that say that the system is extremely bureaucratic. Some of them say that they regard the levy as a tax and that they do not expect to get anything back—it is not worth it. Others are clearly simply rebranding the training they are already doing and getting the money back for that.

There is also the problem with the numbers of apprentices being down steeply since you introduced the scheme, but I think we are semi-convinced that these are teething problems. When do you think the teething problems will end? Was one of the teething problems small and medium-sized enterprises finding difficulty in accessing the system? If so, have you cracked it with your £80 million?

Anne Milton MP: It will make a difference. I apologise that my answer will be slightly long. I did not entirely answer the last question. One of the drivers in the system of apprenticeships is the training providers—FE colleges and independent training providers—because that is how they get their bread and butter. That is their money. So they will approach employers. We have a bit of a hybrid system. For small and medium-sized companies, although the Government will pay 90% of their training costs, and in some instances 100%, the money is in the hands of the training providers, so they lobby businesses and tout for business to get apprenticeships. That will drive the system, but I do not think it will drive the system as much as we want it to.

It is quite interesting with different companies. I was with a company last week, a big levy payer, which in 2016 employed somebody to manage its levy spend. Come April 2017, it was ready to get off the blocks. It had its apprenticeship system all lined up: how many people at levels 2 and 3 and how many degree-level apprenticeships it wanted. That person will stay in post simply to manage that business's levy fund to make sure that it gets the maximum benefit out of it. Some companies will indeed say, "It's just a tax". We will claw the money back after two years. We take it month by month, so the money will come back to us and we will redistribute it among the small and medium-sized enterprises.

It is a bit like tasting the magic potion. Employers who have had an apprentice are evangelical. I was on "Money Box" and an employer phoned up and said, "I never used to employ apprentices. I'm now an apprenticeship evangelist". Once a company has taken those steps, it realises the benefits. Some companies in the retail and hospitality sector will spend 100% of their levy. They absolutely love it. Some are slow and stodgy, but that goes with the background of employers who did not invest in training and felt that somebody else should do it.

Sam Gyimah MP: There need to be alternatives to the three-year degree route that are vocational and technical in nature.

On the social mobility point, we should not slip into a position where we think that that route is good for social mobility because you expect less well-off people to use it. The real challenge in the system is that we need alternatives to the three-year degree that employers have confidence in and that parents and students also have confidence in to pursue.

Anne Milton MP: Again, the parental thing is a big issue. Personally, I think a lot of it is intellectual snobbery. That is not the government view.

Q172 **Lord Kerr of Kinlochard:** What about part-time learning, Minister? Why is part-time learning dropping so quickly? You would think that in the gig economy, with many changes of job during a working lifetime, keeping up with technology would be taking more and more people into part-time learning, but in fact it is the opposite.

Anne Milton MP: I was at ASDA recently. It is a big levy payer. It is now doing degree-level apprenticeships in food science and nutrition. I met a woman who is a part-time worker with young children and who is doing a part-time degree. That will answer that problem. There is an untapped source of talent, which we all know about, which is people who have taken time off work for caring responsibilities. Actually, they do not necessarily want to return to their job in finance in the City, they want to change careers. The opportunities to do part-time are huge with apprenticeships.

Q173 **Lord Kerr of Kinlochard:** Launching the post-18 review, the Prime Minister said, "We need to support flexible lifelong learning". Is that achievable within the constraints set out in the terms of reference of the review?

Anne Milton MP: Of the post-18 review? I would hope so. We are doing a lot of it anyway. There is a big returns programme. Flexible learning is absolutely key.

Q174 **The Chairman:** Mr Gyimah, you touched on student mobility, which is obviously very important. One thing I have found very surprising in the evidence we have had is that with the student fees above £6,000—the market theory was there would be differentials, but everyone charges £9,500—it is a condition that, on average, 25% of that extra £3,500 is spent by the universities on increasing access. Why on earth should students have to pay fees in order to promote access? As a government policy, should this not fall on the taxpayer rather than the student?

Sam Gyimah MP: Students' fees go to fund not just their own tuition. Capital for universities comes out of the fees that students pay, and all the facilities. It is a university fee, as it were, it is not just for their tuition.

The Chairman: Of course, the universities tell us that it does not cover the costs of tuition and that they have to rely on income from overseas students and other sources.

Sam Gyimah MP: Cross-subsidisation, yes, that is true.

To answer your question, a significant proportion of the access money, something like £384 million, is spent on financial hardship. Students are not just paying for their tuition, they are paying a university fee, and some of that money goes on hardship and some of it goes on access for disadvantaged students. It is a system that is currently delivering.

I am sure the review will look at it. It is delivering because of the great access work that has led to more disadvantaged students going to university, but, yes, I can see why the review should look at it.

The Chairman: We have one final question, from Lord Sharkey.

Q175 **Lord Sharkey:** I want to talk about sharia-compliant student finance. You will know that many people, Muslims especially, object to interest-bearing loans and are deterred from taking out loans to go to university because of their religious beliefs. The Government consulted on this in 2014 and said that they would introduce a sharia-compliant system, but not before 2016-17.

Since 2012, when this became a problem because interest rates became real, six cohorts of students have gone up to university. The disadvantage for people who object to paying interest continues. Those six cohorts have been disadvantaged. There is no sign in the near future of anything being done about this.

Why has it taken so very long? I point out that when the Treasury set up the sharia-compliant Help to Buy scheme, it took 18 months from beginning to end. You know that the takaful system is approved. You know that the Islamic community will accept that. You have been told by advisers, some of whom have spoken to us, that it can be done very

quickly, yet it has not been done. Why does this part of the community continue to be disadvantaged?

Sam Gyimah MP: I will have to write to you on that.

Lord Kerr of Kinlochard: It seems to me that part of the problem with the further education sector is there is no parity of esteem between higher education and further education. There is a sort of psychological feeling that one ought to go to university and that if one does not go to university one has in some way failed, and one sees an awful lot of people in further education whose aim is to get into university.

I do not really quite understand the balance between the broader education and the upscaling aims of the Government. I have not seen it clearly articulated yet. But if one is going to help the further education sector, and I really think we ought to—Germany, say, is very much better at technical education than we are, and there is a parity of esteem there—will we not somehow have to break the impression that it is a second-class sector and higher education is what really matters?

I think that impression grew with the aim of getting 50% of people into university and has perhaps gone a bit far. Will that come into the purview of the review that the Prime Minister has announced? How can you, Minister, help your clients in the further education sector have stronger morale and self-confidence? I have to say that the witnesses from that sector seemed rather downtrodden in comparison with the cavaliers from the universities.

Anne Milton MP: I could not have put it better myself, Lord Kerr. I see that as part of my job. Oddly enough, I do not see low morale in the sector. I do think it is downtrodden.

As to how we bring about parity of esteem, government cannot do this. I think the best way to do it is through schools. A lot of the changes we have made in the careers strategy are important to that. We need good role models of apprentices coming out. How do you change the institutional snobbery that is associated with a degree? I did not go to university. I was recently at a very successful independent girls' school and the head teacher said to me before I spoke to 400 girls, "Could you please say something to these girls about the options out there for them that do not involve Oxford, Cambridge, Durham or Warwick?" That was a breath of fresh air to me.

I have offered to talk to the head teachers' conference—any conference I can—to shake them up and say that it is no longer about what you know, it is about what you know and what skills you have. The world is changing. You might well say that it will continue to change, but we do have to break down those barriers and I will do all I can to do that.

Sam Gyimah MP: Parity of esteem is absolutely important, but we must also face the fact that the university as an idea has been around for hundreds of years, and on the further education side we have chopped

and changed the supply model so many times that nothing is institutionalised.

Employers have a huge role to play in parity of esteem. It is quite difficult to impose parity, but if employers have application forms that insist that you have a degree just to pass the sift, do not be surprised if the supply side responds to that. Ultimately, if we get the supply side right and employers respond correctly, we will get parity of esteem.

Anne Milton MP: The Prime Minister's speech was music to my ears, because she made the point that we have all thought that further education is a good idea—for somebody else.

The Chairman: You will start another Twitterstorm. We are running out of time. Lord Turnbull has a question, then Lord Layard.

Lord Turnbull: In the case of a woman who works for a while, then brings up a family and then wants to train in something else—I do not know where this falls between the two of you—there are rules on equivalent-level qualifications that are designed to prevent perpetual students but that seem to get in the way of someone who wants to take up a different field of activity. I hope that somewhere in these reviews you will get a chance to revisit those rules.

Anne Milton MP: I am a walking advert, but an apprenticeship is a great way of doing it. Perhaps you have been working in finance in the City but you want a job that is more local because you want to pick up your kids from school or whatever. If you have been working in the City there is nothing to stop you going into engineering in your 40s. There are stories—I am sure you have heard them—about apprentices changing careers at 50 and ending up in board-level jobs.

Sam Gyimah MP: I think we need to facilitate a more scenic approach to learning and people's career routes. You can start at any point. I met the pro vice-chancellor at Canterbury Christ Church University, who left school at 16, worked on the docks, became an engineer, then got a degree and is now the pro vice-chancellor of a university.

Q176 **Lord Layard:** Perhaps you could comment on two things that might make a difference to people's thinking on apprenticeships. If there were an apprenticeship application system, such as UCAS, where you apply only once instead of having to apply every single time, with a slightly different form, to all the different possible apprenticeships, that would make it easier.

Secondly, to focus attention on that, in your careers strategy you could have a requirement that every school dedicates one day to informing their children about apprenticeships and having some kind of standard list of presenters who could go into schools. The department could perhaps compile a list but make it an obligation that there is a presentation about apprenticeships and, linked to that, an easy application form.

Anne Milton MP: We are looking at that. Your point about the application form is well made. The National Careers Service is developing a very sophisticated website that will help with that. It is quite difficult with employers, but I am looking at that now. I think it was Lord Baker's amendment to the Technical and Further Education Act that puts an onus on schools by law: they have to invite in other education providers. If it would be useful background for the Committee, I am happy to send a summary of the careers strategy.

The Chairman: On your point about changing attitudes, I was told off for being politically incorrect when we visited the Jaguar Land Rover training college, when I said to the principal that to change attitudes you had to get at the mothers, and he said, "No, it's all parents". But, actually, when we asked the youngsters why they had chosen that route, it was invariably their mother who had told them to.

The other side of it was that if you did not do A-levels and you were not going on to university, schools were not so interested. That was universal. I am sure you have heard the same.

Anne Milton MP: Yes.

The Chairman: This has been an interesting session. We hope that our report will be agreed and published by mid-May and we hope it will be useful. We have spent a long time doing this. We have looked at the issues in detail. You are obviously very well aware of the problems, and we hope that we can contribute towards helping you resolve what are undoubtedly long-standing issues. We very much appreciate the time that both of you have given to the Committee this afternoon. Thank you very much.

Anne Milton MP: Thank you very much for having us.