

# **GOING FURTHER: The case for investing in Further Education and adult skills**

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## SUMMARY

**Further education (FE) and skills are vital to delivering the government's levelling up agenda.** Low skill levels are a key factor in explaining the prevalence of low pay and progression in England. Skills gaps and poor skills utilisation have also both played a part in low and stagnant rates of productivity since the 2007/8 crisis. Furthermore, these challenges are all unequally distributed: the North - and the so called 'red wall' seats - consistently suffer disproportionately from low pay, low skills and low productivity. This means that driving higher skill levels and better skill utilisation is crucial to the government's levelling up agenda.

**Skills policy is also crucial to our ability to 'build back better' after the pandemic.** Unlike the 2007/8 economic crisis, the impact of the Covid-19 downturn will be felt disproportionately in the labour market. We are facing the worst jobs crisis in a generation. Notably, IPPR finds that up to 1 million people on furlough are in jobs that will not return after Covid-19. We find that these people are significantly less likely to have qualifications than the general population. In total, up to 130,000 of these people do not have equivalent to a level 2 qualification (GCSEs) and a further 250,000 do not have a level 3 (A levels). Our ability to support people who lose jobs in these sectors depends on the support available to them, to help them move into growing sectors.

**The government have started to undo a decade of underinvestment in FE and skills - but more must be done.** The 2019 Conservative Manifesto committed to ensuring that "Britain's workers have the skills they need to flourish". In a recent speech the Prime Minister announced "a 'Lifetime Skills Guarantee' to help people train and retrain" as part of the National Skills Fund, an investment of £500m per year over the parliament. This is welcome but falls far short of the investment that the skills system needs. If FE funding had kept up with demographic pressures and inflation over the last decade, we estimate that we would be spending an extra £2.1bn per year on adult skills and £2.7bn per year on 16-19 further education.

**The upcoming spending review and FE White Paper are an opportunity to address this.** FE should be excluded from the recently announced change in scope of the spending review to a 1-year settlement as the sector needs a significant long-term funding deal. This settlement should be used - as part of the upcoming FE White Paper - to achieve two key objectives.

- Firstly, the government should set out how they will ensure that every young person - not just those who take the academic route - has the skills they need to have a well-paid and meaningful career.
- Secondly, the government should set out how they will support adults in low-paid, low-skill occupations - or unemployed or on furlough - to upskill and progress or re-train to move sectors.

### Policy recommendations:

1. **Commit to increasing per pupil spend for 16-19 years in colleges and sixth forms from £5,200 today to £8,300 by the end of the parliament to help**

increase contact hours, increase staff pay, reduce college deficits and introduce a new 'disadvantage premium' for low income students.

2. **Immediately establish a Job Training Scheme (JTS) as part of the ongoing reforms of the Job Retention scheme.** This could provide a training budget worth around £4,000 for the 1 million people currently on furlough in jobs that IPPR analysis estimates are in sectors unlikely to rebound in 2021. This would cost up to £1bn.
3. **Immediately suspend conditionality on people on Universal Credit who want to or are retraining** as this currently discourages people from training whilst on UC by pushing them back into the labour market regardless of skill level.
4. **Build on the recent announcement of a level 3 entitlement for adults with the introduction of a maintenance loan on higher education terms for this group.** Over time this should be extended to all people studying for their first level 3, 4 or 5 qualification.
5. **Provide additional funding to fully fund the training component for apprenticeships for non-levy paying firms** and introduce greater conditionality on the expenditure of the levy to target it at younger people.
6. **Invest in colleges as key institutions in supporting the ambitions of people, productivity and places.** This should include providing funding to support colleges to form local networks and take on the role of innovation/skills hubs.

## INTRODUCTION

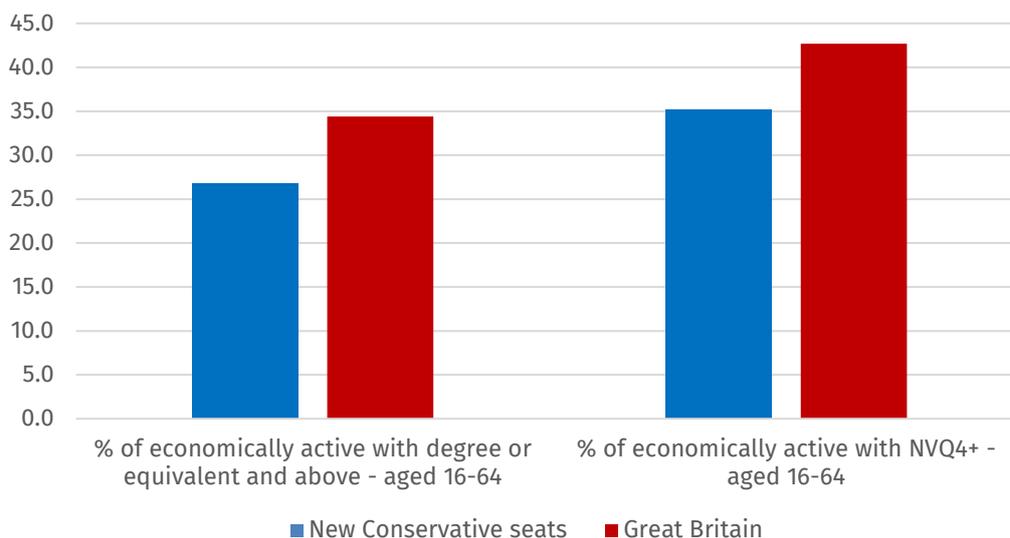
**The government have made further education (FE) and adult skills one of their main priorities.** The 2019 Conservative Manifesto committed to ensuring that “Britain’s workers have the skills they need to flourish”. It argued strongly that more investment and reform of skills policy was needed to truly “level up”. Since then, Gavin Williamson, the Secretary of State for Education, has reiterated this message and confirmed that the government intend to publish an FE White Paper in the autumn to drive this agenda forward. In July, he made a speech at the Social Market Foundation in which he said: “If you want to transform many of our left-behind towns and regions, you don’t do it by investing more money solely in universities. You invest in the local college – the beating hearts of so many of our towns”.

**They are right to focus on FE: skills gaps are holding back individuals and our economy as a whole.** Even before the pandemic, there were over 4 million workers living in poverty in the UK (JRF, 2018). As the labour market has hollowed out, many find themselves with limited progression opportunities. Low skills are a significant contributing factor as they lock people into low pay, low skill jobs and sectors. But, low skill levels are not just a problem of social justice - it also impacts negatively on economic performance. The UK has experienced low and stagnant rates of productivity since the 2007/8 crisis. Skills gaps and poor skills utilisation have both played a part in this. Furthermore, these challenges are all unequally distributed: the North - and the so-called ‘red wall’ seats - consistently suffer disproportionately from low pay, low skills (see figure 1) and low productivity (Quilter-Pinner et al, 2020).

**Figure 1**

### **New Conservative seats more likely to have lower skill levels**

*Share of economically active population with qualifications, Great Britain, 2019*



**Source:** Quilter-Pinner et al (2020)

**Skills and FE also have a vital role to play in driving a robust and just economic recovery after Covid-19.** The pandemic has made the case for investment and reform of FE and skills policy even more compelling. Unlike the

2007/8 economic crisis, the impact of the Covid-19 downturn will be felt disproportionately in the labour market. We are facing the worst jobs crisis in a generation. In particular, the lockdown and ongoing social distancing measures will result in a number of sectors - notably, retail, hospitality and entertainment - facing a sustained stagnation. This will result in a structural shift in the economy. Our ability to support people who lose jobs in these sectors depends on the support available to them, to help them move into growing sectors. This is also true of the challenges of the future such as automation and environmental breakdown.

**However, the FE sector will have to overcome a legacy of underinvestment in order to play its part in addressing these challenges.** Since 2010, per student spending on colleges and sixth forms fell by 12 per cent and 23 per cent respectively for 16-19-year olds (Britton and Sibieta, 2019). Spending on adult education (those over the age of 18) fell by 47 per cent (ibid). By contrast, specific spending on apprenticeships has increased, though from a relatively low base (ibid). These cuts have had a significant impact on colleges. Class sizes have been growing whilst contact hours have been shrinking for 16-19 year olds (Dabbous et al, 2020). Meanwhile, there has been a significant decline in the number of adult learners (by over 1 million people since 2010), as well as a decline in apprenticeship numbers since the introduction of the apprenticeship levy (Britton and Sibieta, 2019). Furthermore, around a third of colleges and sixth forms have experienced financial deficits and are facing workforce challenges (NAO, 2020).

**Recent government announcements are a big step in the right direction.** The government has started to turn its rhetoric on further education and skills into action. In a speech at Exeter College in October the Prime Minister announced that the “government will offer a ‘Lifetime Skills Guarantee’ to help people train and retrain— at any stage in their lives” (Prime Minister’s Office, 2020). This includes restoring an entitlement for adults without an A Level or equivalent qualification to a fully funded level 3 college course (over the age of 24) and making higher education loans more flexible so to encourage adults to retrain, including through high quality vocational courses in the FE sector. These reforms are broadly based on the recommendations of the independent Augar Review and are to be funded out of the governments £2.5bn National Skills Fund (DFE, 2019).

**But, these announcements will fall short of the investment that the FE sector needs.** Modelling by IPPR finds that if spending per head on adult education had increased in line with inflation and the number of adult learners had risen in line with the 18-64 population since 2010 we would by spending an additional £2.1bn today. Having factored in the extra National Skills Fund funding pledged by the government in the 2019 manifesto, we estimate that by the end of the parliament we would need to be spending an extra £1.5bn per year to compensate for a decade of underinvestment (see figure 4). Meanwhile, for 16-19s we find the spending shortfall today to be £2.7bn and forecast that without additional investment this would grow to £3.3bn by the end of the parliament (see figure 2). In total, this would require an additional £4.8bn investment per year today, rising to £6bn per year by the end of parliament. Additional spending measures needed to meet the government’s apprenticeship ambitions would add to this figure.

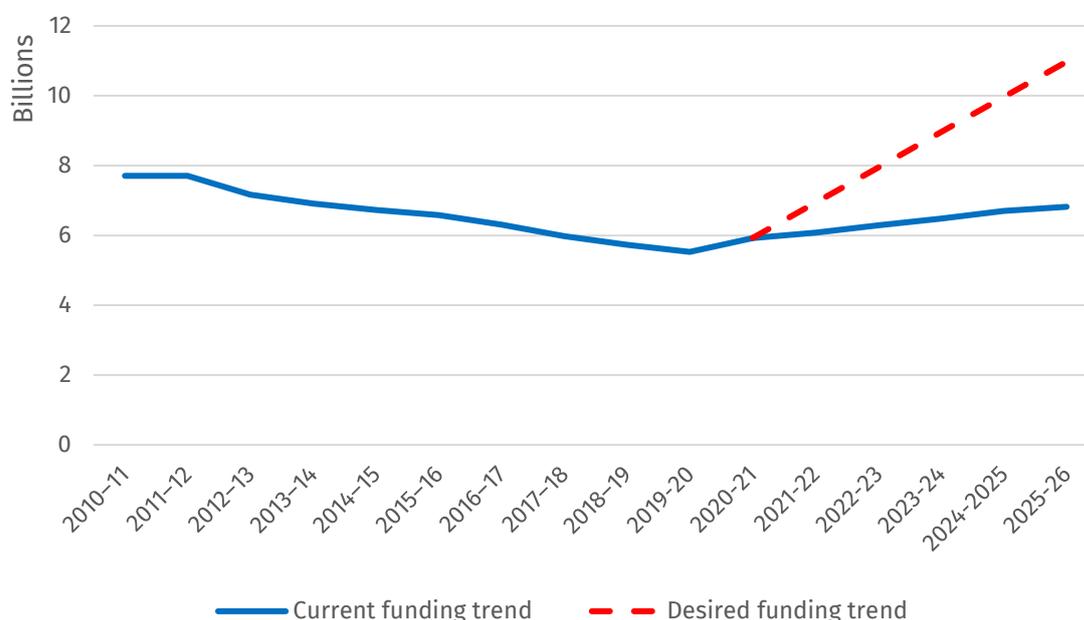
## POLICY RECOMMENDATIONS

**The upcoming spending review and FE White Paper are an opportunity to address this.** FE to be excluded from the recently announced change in scope of the spending review to a 1-year settlement as the sector needs a significant long-term funding deal. The government should commit not just to reversing the cuts in expenditure on further education seen over recent months but reaching the level investment that would have been had austerity not occurred. As set out in the previous section this would see an additional £6bn per year going into FE by the end of the parliament. The upcoming FE White Paper should set out how this investment could be used to achieve two key objectives:

- First, the government should set out how they will **ensure that every young person - not just those who take the academic route - has the skills they need to have a well-paid and meaningful career.**
- Second, the government should set out how they will **support adults in in low-paid, low-skill occupations - or unemployed or on furlough - to upskill and progress or re-train to move sectors.**

**Figure 2**  
**16-19 education funding will need to rise significantly over the parliament**

*16-19 further education budget – projected vs desired*



**Source:** Britton and Sibieta (2019) and author's analysis

**To achieve the first of these objectives, we recommend the government:**

- 1. Commits to a significant increase in funding per pupil for 16-19 year olds.**

The government must commit to increasing per pupil spend for colleges and sixth forms from £5,200 today to £8,300 by the end of the parliament. This is where funding would have been by the end of the parliament had austerity not occurred. A significant proportion of this funding should be invested in an increase to the base rate received for all colleges per student which could allow for an increase in teaching hours and help to ensure better staff recruitment and retention by allowing salaries to catch up with teachers in schools. But, it should also be used as an opportunity to increase funding for low income pupils through the 'disadvantage premium' and to increase funding for specific courses that result in qualifications and career paths that are aligned to the industrial strategy (e.g. sectors that are more resilient to automation, are aligned with our climate objectives and which are experiencing skills gaps).

**To achieve the second of these objectives, we recommend the government:**

**2. Immediately establishes a Job Training Scheme (JTS) as part of the ongoing reforms of the Job Retention scheme.**

IPPR's estimates suggest that up to 1 million people currently on furlough are in sectors that will not recover after the pandemic (McNeil et al, 2020). Our analysis suggest that this group are much less likely than the general population to have qualifications. Up to 130,000 of those whose jobs we think are at risk do not have equivalent to a level 2 qualification and a further 250,000 do not have a level 3 (see figure 2). As it stands those needing a level 3 qualification will not be able to access one free of charge, as per the government's recent announcement, until April. We recommend that as a bridging policy the government offer all those on furlough whose jobs are deemed unlikely to return, and who don't have a level 3, access to an 'opportunity grant' of up to £4000 to support them to do this. This would require up to an extra £1bn in investment (assuming full take up, which is unlikely). We also recommend that job search conditionality for people on Universal Credit who are retraining is immediately suspended as this currently discourages upskilling even where this might boost their employability (by pushing them back into the labour market regardless of skill level).

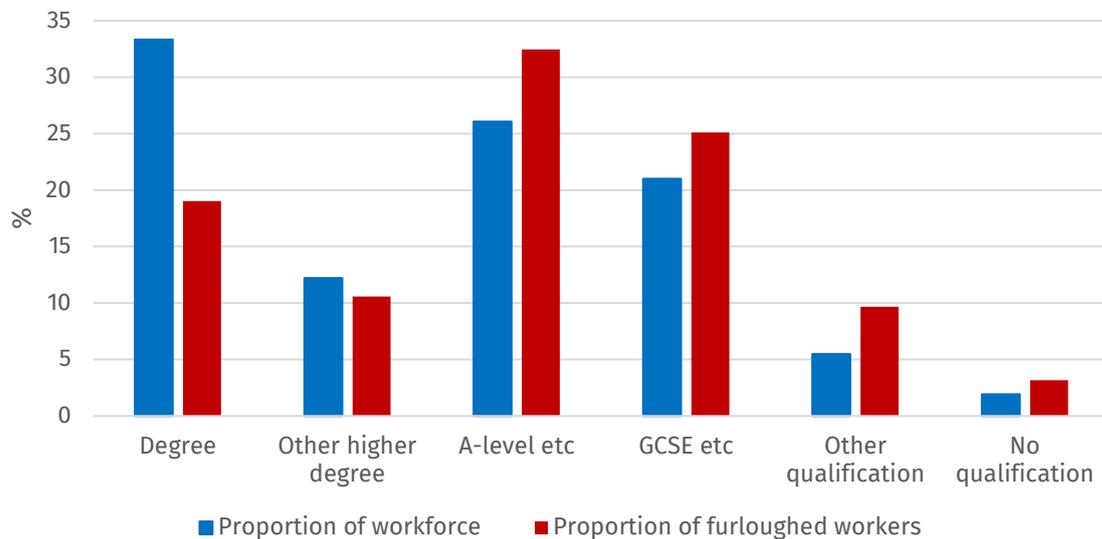
**3. Follows up promises of new funding for adult skills with a commitment on maintenance support.**

When the government's announcement of a 'Lifetime Skills Guarantee' comes into effect in 2021 it will make upskilling and retraining as an adult significantly cheaper and easier for the individual by reducing the current self-funding requirement (as it stands most adults have no state funded entitlement to training and are instead required to take out an advanced learner loan instead). However, there are still numerous barriers to participation in adult education. Notably, apart from small support grants made by colleges in some circumstances, further education qualifications do not attract any guaranteed maintenance support as higher education programmes of study do (bar those studying level 4 and 5 qualifications at National Colleges and Institutes of Technology). Over time IPPR recommends that access to maintenance loans should be extended to all people studying for their first level 3, 4 or 5 qualification. As a first step EPI have proposed the introduction of a maintenance loan on higher education terms for 19-23 year-olds doing their first full

level 3 qualification, at an estimated cost of between £205-360m which could now be extended to all age groups taking such qualifications (Robinson and Carr, 2019).

**Figure 3**  
**Furloughed workers disproportionately have lower qualifications than the population at large**

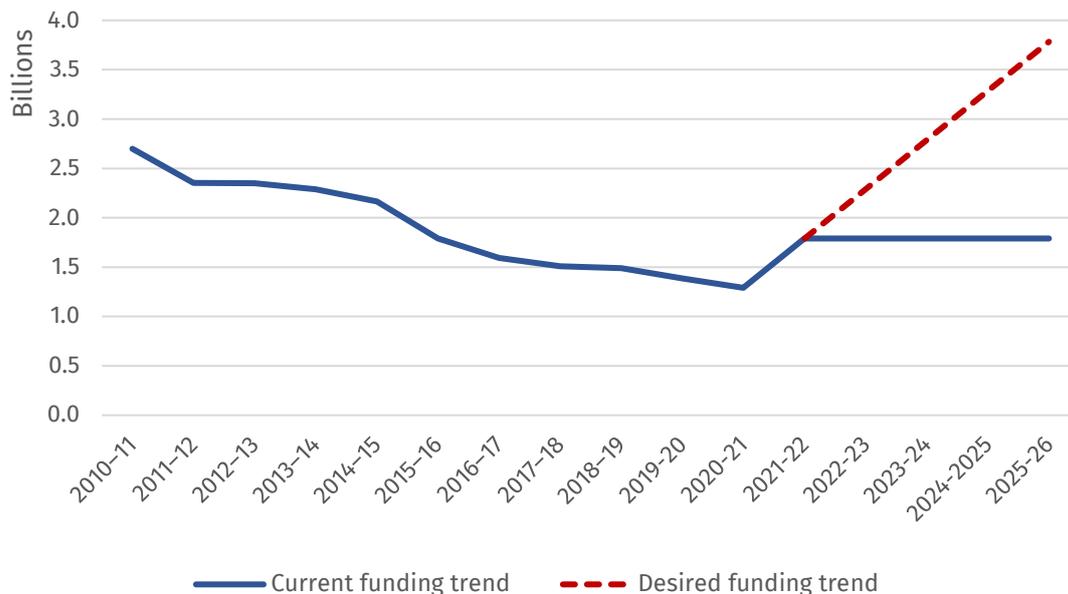
*Workforce and workforce furloughs as of June 2020 by qualification*



**Source:** Understanding Society and author's calculations

**Figure 4**  
**Adult education spend will need to rise significantly having fallen over the last decade**

*Adult education classroom budget, projection vs desired trend*



**Source:** Britton and Sibieta (2019) and author's analysis

#### **4. Reforms apprenticeship funding to ensure that the levy is being invested wisely.**

Despite spending on apprenticeships rising over the last decade, numbers have been declining since the introduction of the levy, especially amongst younger people (Quilter-Pinner, Webster and Parkes, 2020). This is largely because levy paying firms (larger employers) have been using the levy to invest in higher level, more expensive qualifications for existing staff within their organisations rather than new hires at younger ages and lower levels of qualification. As a result, prior to Covid-19 the apprenticeship levy was at risk of being overspent (ibid). Another factor is that non-levy paying firms have less of an incentive to create apprenticeships because of a requirement to co-fund the training component of any new apprenticeship. To address this the government should provide additional funding to fully fund the training component for apprenticeships for non-levy paying firms. This top-up may need to increase if levy payments decline as a result of the economic contraction caused by Covid-19. It should also consider creating greater conditionality on the expenditure of the levy - and new wage subsidy introduced as a result of the pandemic - to target it at younger people.

#### **5. Invests in colleges as a key institution in supporting the ambitions of people, productivity and places.**

Colleges play a crucial role in driving the skills of people, the productivity of business and the health of places. But, as this blog has set out, we have consistently underinvested in them, particularly in comparison to other educational organisations such as schools and universities. This must change. This is why we support recent calls for: colleges to form networks, alongside the wider educational infrastructure, in order to ensure that all local areas benefit from the breadth of services that colleges can deliver; colleges to take on formal roles as innovation and skills hubs, focussed on working with business to help innovate and grow strategically important sectors; and colleges to take on a role as anchor institutions within local regions, working with the third sector and other government services to improve health and reduce poverty (The College Commission, Forthcoming). These adaptations and expansions in the role of colleges will require additional investment but will allow them to fulfil their full potential.

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