

Pearson response to the BIS Consultation Further Education – Future Development of Loans Expanding and simplifying the programme August 2014

I. Introduction

Pearson welcomes the opportunity to contribute to this consultation on the future development of FE loans. As the budget for adult skills is squeezed outside the priorities of younger learners and those with lower skills, it is crucial that we find a way to allow learners to invest in their skills, and their future career.

II. Pearson's approach

We have answered the consultation questions in Section V of this response. We have reflected on the broad objectives of the loans system throughout our response and explored how the proposed expansion might address these, namely to:

- provide access to learning for the widest possible group of people,
- simplify the current funding system, so it is easy to understand, and so that learners have greater control over their learning choices,
- strengthen incentives for learners engaging in training and skills development,
- widen access and strengthen alignment with Higher Education funding.

We make 12 recommendations which are summarised in Section IV in line with these four broad purposes.

Many of the questions in the consultation are more usefully answered by providers and learners and we know BIS and the Skills Funding Agency are engaging with both groups. As well as collating views from across Pearson, we ran a short survey with colleges and training providers. This small scale research has helped to inform the views expressed in this response.

Where we feel unable to respond usefully we have answered N/A.

III. Pearson information

Confidentiality & Data Protection

Yes, I would like you to publish or release my response

No, I don't want you to publish or release my response

Your details

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Are you responding as an individual or representing the views of an organisation?

Individual Response

Representing the views of an organisation

Please tick a box from a list of options that best describes you as a respondent to this consultation. This allows views to be presented by group type.

Awarding Organisation

IV. Summary of recommendations

This submission makes 12 recommendations in line with the four broad purposes of the expansion of the loan system programme as outlined on the previous page. These are expanded upon in the full response.

Providing access to learning for the widest possible group of people

Recommendation 1

- *Further research is required into the specifics of the expansion of level 2 loans. The further education sector needs to understand the number of qualifications and learners the change will affect, and the particular characteristics of these learners (such as age, prior achievement, location etc).*

Recommendation 2

- *Different funding and loan options, and the capacity of the budgets to cover them, should be modelled for younger learners (19-21) taking second level 2 qualifications and for older learners (24+) who do not have a first full level 2 qualification. A different funding/loan scenario could be explored for these learners to ensure they are they are not deterred from taking a level 2 qualification and the progression and earning opportunities this learning could offer. The possibility of applying an Access to HE type policy, whereby Student Finance England 'writes off' loans for a level 2 qualification once a higher level course is successfully completed, should be explored.*

Recommendation 3

- *Focus groups should be run (ideally by BIS in conjunction with relevant stakeholders) with affected learners, exploring attitudes to loans at this level. Research from focus groups could inform the sector about how best the new system, and its benefits, are explained to potential learners.*

Recommendation 4

- *Neither the unemployed nor the prison population should be included in the proposals for the expansion of loans.*

Simplifying the current funding system, so it is easy to understand, and so that learners have greater control over their learning choices

Recommendation 5

- *The concurrent rule should be abolished to simplify the system. Providers should continue to help learners make decisions about the level and volume of study they can cope with.*

Recommendation 6

- *The introduction of a maximum lifetime loan amount is attractive in its simplicity but it is doubtful that this would be helpful in reality given that the maximum may have to be set at a very high level for those learners having to take out loans to study from level 2. We recommend further work to model a maximum loan amount, the impact of its implementation on different groups of learners, and the potential effect on overall loan spending.*

Widening access and strengthen alignment with Higher Education funding

Recommendation 7

- *Provided it is done in a transparent manner, match funding could be considered, whereby employers offer to half fund their own employees, and the funding body contributes the other half. This is one mechanism for employers to influence funding allocations. Such a mechanism could be useful in addressing skills shortages in specific disciplines, thereby incentivising employers to support the educational cost.*

Recommendation 8

Funding could be used to encourage more employer engagement. However, we do not think the funding proposals in the consultation would have this effect. Instead, the following could be considered:

- *Development of a national awards and recognition scheme for employer engagement.*
- *Add 'employer engagement' to QAA criteria for skills shortage areas, and add employer representatives to relevant review panels.*
- *Incentivise employers to become more involved in target subjects and levels e.g. as part of any government-related tenders to companies in relevant skills shortage industries, include a section where they set out their contribution to the future educational development of students at college or university.*
- *Consider making the provision of internships in target subjects/levels/for certain students tax deductible/tax incentivised.*

Recommendation 9

Whilst we believe that transferring HNs into Advanced Learning Loans would prove counter-productive, there is undoubtedly scope for harnessing the funding system to encourage the take up of level 4 and 5 qualifications in areas of key skills shortages. The following measures merit further exploration:

- *To encourage students: preferential funding given through fee reductions (via subsidy); additional maintenance grant (some of the technical subjects demand more teaching and lab time than subjects such as history/literature etc, making it harder to work part time, therefore creating an argument for*

more maintenance); and the development of a job guarantee scheme (all these proposals would be for all equivalent level qualifications in skills shortage areas, not just HNs).

- To encourage educational institutions: anything that encourages students will encourage institutions to offer more places on such programmes so all of the suggestions above would stimulate provision; offer more teaching grants support to all providers (subject to a successful HER by the QAA); introduce reward funding (e.g. for students' scholarships and research) for institutions that manage to increase the number of graduates in target disciplines and levels.
- Finally, mechanisms for encouraging employers to become more involved in design, sponsorship, provision of work experience opportunities and outreach into schools should be considered (see questions 17 and 18).

Recommendation 10

- We support the aims of addressing skills shortages, while maintaining student choice and fostering social mobility. While the proposal under consideration would fail to achieve these goals, they can be effectively pursued through other mechanisms. These include: higher maintenance support, teaching grant equivalent offered to a wider range of providers, national scholarship funds targeted in these subject areas, and match funding for businesses part sponsoring student fees (see question 17). These mechanisms could be targeted at both shortage subjects and under-represented groups such as students from lower socio-economic backgrounds and women (who are significantly under-represented in most skills shortage areas).

Recommendation 11

- In order to encourage students to study key subjects, consideration should be given to creating preferential support for those courses. This could take many forms (see above at Recommendation 9 under 'to encourage students').
- Irrespective of subject choice, maintenance grants should be available to all students, recognising the vital role that funding parity between HNs and degrees plays in widening access across the socio-economic spectrum.

Strengthening incentives for learners engaging in training and skills development

Recommendation 12

- Whilst the incentives for 24+ learners following the introduction of loans for level 3 qualifications are understood to some extent, we would argue that the incentives for younger learners taking second level 2 qualifications, or older learners taking first level 2 qualifications, will not mirror these. Further analysis is required to establish the impact of these specific loans on these particular learners.

V. Response to the consultation questions

Question 1

How effectively is the current system of co-funding operating for the groups of learners in table 3 who are not already eligible for loans?

We are unaware of any particular issues with the current system of co-funding. Many providers have payment plans in place to help learners who might otherwise struggle with upfront payments for fees. Some providers we spoke to believe the expansion of the loans system to those currently *ineligible* for co-funding would be a positive step.

Question 2

Do you agree with the proposal to expand the loans system by age-group and by Level, so that it covers the groups and qualifications outlined in tables 3 and 4 above?

If yes, please explain why – what advantages would it bring?

If no, please explain which aspect you don't agree with, and state your reasons why.

Yes

Pearson supports the priorities for funding identified in the Government's Skills Funding Statement where eligibility is based on prior attainment, age and employment status. Given the reality of shrinking budgets for those not identified as a priority the key question is how to optimise access to learning for the widest possible number of learners outside these priority groups. We need then to make the following judgement about the expansion of the loans system for the groups of learners and qualifications identified in the consultation:

Whether it will increase or have no negative effect on the number of learners accessing learning, or whether it will decrease the numbers of learners accessing learning.

In general we agree that the expansion of the loans system could have a positive effect on uptake but would like to see BIS undertake further work to ensure there is sufficient evidence to support this view. We have reservations about the effectiveness of the policy that would require younger learners to take out a loan for their second level 2 qualification, and older learners, who don't already hold a full level 2 qualification to take out a loan for their first level 2 qualification. Further research is needed to give a clearer idea of the potential impact of the proposals on these particular groups. The different loan options the budget might accommodate for these groups should be researched as there may be specific issues arising from these particular proposals (i.e. the issues will not be the same as those arising from the introduction of the 24+ Advanced Learning Loans), for example:

- The fact that level 2 qualifications do not attract the same economic returns as level 3 qualifications may deter older learners taking out loans for their first full level 2 qualifications given the time and money they will need to

invest before they reach level 3 and above. The same situation applies if we require younger learners (19-23) to take out loans to take a second level 2, perhaps in a vocational sector after achieving a 'full' level 2 (with perhaps 5 GCSEs). Both groups may find it difficult to see a line of sight to earning a higher salary as a result of their studies.

Recommendation 1

- *Further research is required into the specifics of the expansion of level 2 loans. The further education sector needs to understand the number of qualifications and learners the change will affect, and the particular characteristics of these learners (such as age, prior achievement, location etc).*

Recommendation 2

- *Different funding and loan options, and the capacity of the budgets to cover them, should be modelled for younger learners (19-21) taking second level 2 qualifications and for older learners (24+) who do not have a first full level 2 qualification. A different funding/loan scenario could be explored for these learners to ensure they are they are not deterred from taking a level 2 qualification and the progression and earning opportunities this learning could offer. The possibility of applying an Access to HE type policy, whereby Student Finance England 'writes off' loans for a level 2 qualification once a higher level course is successfully completed, should be explored.*

Question 3

How will we best get an understanding of how well learners at level 2 will respond to the introduction of loans?

Understanding the response of learners is crucial to making a judgement as to whether this is the best method of utilising the adult skills budget to increase the number of learners accessing learning. Since the proposal to expand the loans system would not be implemented until 2016/17 at the earliest, we recommend that more be done to understand how learners might respond. BIS undertook a study of attitudes to 24+ Advanced Learning Loans (*BIS Research Paper Number 73 – Attitudes to Further Education Loans – May 2012*) and we would recommend that similar research is undertaken to assess learner response to these particular proposals.

Providers we have spoken to have suggested a wide range of ways to find out how affected learners will respond to the introduction of loans. The most popular methods recommended were:

- Focus groups.
- Questionnaires at school level and parental input.
- Speaking to Jobcentre Plus offices, and careers advisers.
- Contacting students to assess their experience.

- Monitoring prospective students who do not subsequently enrol.
- Piloting.

Recommendation 3

- *Focus groups should be run (ideally by BIS in conjunction with relevant stakeholders) with affected learners, exploring attitudes to loans at this level. Research from focus groups could inform the sector about how best the new system, and its benefits, are explained to potential learners.*

Question 4

Will the expansion of loans create any particular barrier(s) to access provision based on (i) race, religion or belief; (ii) disability; (iii) gender; (iv) age or (v) disadvantage? (Yes/No)

If yes, please explain what the potential barrier would be.

Yes

Further work needs to be undertaken to evidence this for the particular proposals, but based on evidence from the introduction of Advanced Learning Loans (for example in the *New Economy Report - Advanced Learning Loans (24+) Assessing the Impact on Greater Manchester Learning Providers - Evidence Base Report - December 2013*), and from providers, it is likely that the expansion of the loans system will create barriers to access for disadvantaged or less affluent learners.

If certain groups of learners are unevenly affected by the change we need to ensure that safeguards are built into the system to protect these groups. We assume an Equality Impact Assessment will be undertaken by BIS to explore the potential impact on accessing provision based on race, religion or belief; disability; gender; age, or disadvantage.

In response to our short survey with colleges and providers 61% said the expansion would have a negative impact on particular groups of learners and the predominant factor mentioned was income.

Question 5

Are you aware of any particular problems that those aged 24 or over and unemployed face with the operation of the loans system? If so, please give examples.

64% of the 125 providers who responded to our survey said that they were aware of particular problems faced by those aged 24 or over and unemployed with the operation of the loans system. The main issues identified were concerns about being able to find a job to pay back the loan, attitudes towards debt, a lack of knowledge about prospects, and finally, a lack of understanding of how the Skills Funding

Agency loan rules affect the Department for Work and Pensions (DWP) unemployment regulations.

Question 6

Are you aware of the reasons why take up of Advanced Learning Loans by prisoners has been low? Please give examples.

N/A

Question 7

What impact do you think the introduction of loans for level 2 qualifications would have on prisoners?

N/A

Question 8

Do you think prisoners should be included in scope of an expanded loans system (down to age 19 second level 2 and level 3 and level 4 qualifications)? (Yes/No) Please give your reasons.

No.

We support the second option outlined in the consultation, i.e. to continue to treat prisoners similarly to the unemployed and continue to fund all level 2 training for prisoners, and level 3 and level 4 training for prisoners aged 19-23.

Recommendation 4

- *Neither the unemployed nor the prison population should be included in the proposals for the expansion of loans.*

Question 9

Do you think the 'concurrent study rule' should be abolished? (Yes/No) If you answered yes, please explain why and explain whether you feel alternative safeguards might be required instead. If you answered no, please explain why.

Yes

We believe that this rule should be abolished. Learners should be free to access loans for concurrent qualifications if this is how they choose to study.

The survey we undertook with providers saw a high level of support for the removal of the concurrent study rule but this was coupled with concerns that we have a responsibility to the learner to ensure they do not take on 1) too much learning in

terms of hours and demand, and 2) too much debt. Concerns were also expressed about the 'fair' sharing of the adult skills budget.

Recommendation 5

- *The concurrent rule should be abolished to simplify the system. Providers should continue to help learners make decisions about the level and volume of study they can cope with.*

Question 10

Has current policy on number of loans/repeat study had an adverse impact that you are aware of, on learners or providers? (Yes/No)

If you answered yes, please give specific examples.

N/A

We feel that the rules on repeat study are somewhat arbitrary – i.e. a Level 3 Certificate cannot be repeated, but a Level 3 Certificate can be followed by a Level 3 Diploma. In cases where learners are taking two different subjects this rule does not have a strong rationale. If the repeat study rule were to be kept it might make more sense, and be easier to understand, if a limit was placed on the number of qualifications per level, rather than on the 'type' of qualifications per level.

Question 11

Do you think the rule on maximum number of loans should be amended?

If you answered yes, please state what you think the rule should be changed to.

Yes

If loans are to be introduced for lower level qualifications, many learners may need to take out further loans than previously, to take them through to level 4 and above.

We would recommend modelling be undertaken of the potential effects of this change. As this budget is not currently under pressure given the numbers taking up loans, it may not be a present concern, but budget pressures will need to be taken into account if loans at level 2 are introduced and take up of loans at level 3 continues to grow. The Select Committee Report on HE Student Loans (July 2014) notes that the Government is struggling to collect HE student loans effectively and recommends an urgent review of the sustainability of the student loan system. Given that loans for lower qualifications are less likely to be paid back than loans for higher level qualifications (the Government expects to write off 45p in every £1 loaned to undergraduates, but 65p in every £1 of the 24+ Advanced Learning Loans) it would be sensible to review the sustainability of increasing the number of loans available to individual learners, and the levels for which they are available.

62% of the providers we surveyed thought that the rule on the maximum number of loans should be amended. Concerns were raised however, about learners borrowing more than they are able to pay back the fact that learners will attract more debt, and the effect of the raising of individuals' loan entitlements on the 'fair' sharing of a limited budget.

Question 12

In light of your views on concurrent study and number of loans / repeat study, do you feel there is a case for simplifying through a more radical change such as setting a single maximum lifetime loan amount? (Yes/No)

No

The introduction of a maximum lifetime loan amount is attractive in its simplicity but it is doubtful that this would be helpful given the maximum would have to be set at a very high level for learners having to take out loans to study from level 2. We recommend further work be undertaken to model the maximum loan amount that could be set, the impact of its implementation on different groups of learners, and the potential effect on the pattern of loan spending.

Recommendation 6

- *The introduction of a maximum lifetime loan amount is attractive in its simplicity but it is doubtful that this would be helpful in reality given that the maximum may have to be set at a very high level for those learners having to take out loans to study from level 2. We recommend further work to model a maximum loan amount, the impact of its implementation on different groups of learners, and the potential effect on overall loan spending.*

Question 13

What would be the benefits/challenges of such an approach?

One benefit of this approach would be the simplicity with which the offer could be explained to prospective learners. The concept of a 'loan account' which learners can 'spend' until they reach their maximum is a simple idea and is easily understood. This would be a far more transparent way of explaining a learner's entitlement.

The challenge would be a practical one of working out what the maximum amount might be, whether every individual would be entitled to the same maximum lifetime amount, whether the amount would include HE as well as FE loans, and the question of inflation.

If every learner were to be given the same maximum lifetime loan amount, the maximum may need to be calculated using the amount a learner might need given the proposal to extend the loans to include level 2 qualifications, i.e. an amount that takes into account a journey from level 2. This may set the maximum at such a high

level it would be effectively redundant. In addition, learners will be entering the loan system from different starting points, and it may be that different learners should be entitled to different loan amounts. A learner with, for example, a degree, may be entitled to a smaller maximum lifetime loan amount than one who at 24, does not yet have a full level 2. Finally, if HE loans were to be included in the maximum loan amount then the limit would, again, be so high, it may not be worth setting. Excluding HE could be considered unfair, since those accessing HE would have a larger maximum loan amount than those not accessing HE. All these considerations would complicate an originally simple idea.

Further work needs to be undertaken to model the potential spend on loans. We need to understand the impact of setting a maximum lifetime loan amount on particular groups of learners better. Would this, for example, disadvantage those who may need access to loans for lower levels of learning compared with graduates who come back to FE to up-skill at a level lower than the HE qualification they hold? If the loan budget is limited we need to ensure that the priorities are set to ensure it is directed at those who most need it.

Question 14

Do you think there are any other aspects of the current system that could be changed to the benefit of learners or providers? (Yes/No)

If you answered yes, please describe the areas for improvement.

N/A

Question 15

Do you agree that the Sharia-compliant alternative finance options should be identical within both Higher Education and Further Education systems? (Yes/No)

Please explain your views

Yes

If the Sharia-compliant alternative finance options remove barriers to the educational aspirations of Muslim students then Pearson would welcome their introduction. We see no reason why the Further Education options shouldn't be identical to the Higher Education options.

Question 16

Is there any support that providers (or National Careers Service advisers) would want in order to raise awareness of the alternative finance product?

N/A

Question 17

Given that higher level vocational qualifications should be employment-focussed, how should government seek to engage employers in the allocation of loan facilities for level 4 and 5 funding?

Employers should certainly be encouraged to contribute to design and quality of higher education courses. Contribution to initial course design and ongoing updating, identification of skills and knowledge gaps, provision of opportunities for work experience, and design of benchmark statements or equivalent should all be welcomed. Additionally the choice of courses and education providers for their own employees should also, of course, be made by the employer.

However this question suggests that employers may be asked to make decisions about which educational institutions and courses are granted funding. This would not necessarily be appropriate as it would be difficult to manage this without either a perceived potential conflict of interest or a lack of expertise, potentially undermining public confidence in the process.

If employers were asked to contribute to decisions on funding allocations in their industry and area of expertise, this could create a risk of perceived or actual conflict of interest with their own competitors. The sphere of potential conflict is broad, as it would include supply chains and clients, not just direct competitors. On the other hand, if employers were asked to make a contribution to decisions outside their own industry, by definition there would be a lack of expertise.

Recommendation 7

- *Provided it is done in a transparent manner, match funding could be considered, whereby employers offer to half fund their own employees, and the funding body contributes the other half. This is one mechanism for employers to influence funding allocations. Such a mechanism could be useful in addressing skills shortages in specific disciplines, thereby incentivising employers to support the educational cost.*

See also question 18 below, in relation to the influence of employers on the quality and relevance of HN qualifications

Question 18

Do you agree that including Higher Nationals within scope of loans in Further Education would deliver strong safeguards over the quality of provision, in particular with respect to employer influence over the quality and relevance of these qualifications? (Yes/No)

Please state your reasons, including suggestions for what more we could do to improve quality and better meet skills needs.

No.

On the contrary the proposals are likely to compromise the quality of HNs.

Quality assurance as a whole

There are already rigorous safeguards in place, particularly given recent changes made in the sector over the past 18 months (see below for details). The quality of HN provision is subject to independent scrutiny from three different areas: Ofqual, the QAA and BIS/HEFCE. Ofqual regulates Pearson as the awarding body for HNs; institutions which deliver HNs are subject to scrutiny of their provision by the QAA; and for Alternative Providers who want their students to be able to access student loans, there is a new and more rigorous process applied by HEFCE/BIS for obtaining designation.

HNs are offered at Universities, Further Education Colleges and Alternative Providers.

Universities are subject to review by the QAA and the review scrutiny covers all courses of higher education including degree programmes and HN Programmes. The most up to date review method is 'Higher Education Review' (HER) and is already being rolled out across the sector, applying a consistent approach to universities, FECs and Alternative Providers. HEIs' HN provision falls within this scope.

Further Education Colleges (FECs) which deliver HNs are reviewed by the QAA in relation to their Higher Education programmes including HNs. The review method from 2013-14 onwards is the same as that for Higher Education Institutions, i.e. HER.

Alternative Providers whose HN programmes are designated for student loans are also reviewed by the QAA under the even more rigorous HER (Plus) method which incorporates HER, as undergone by HEIs (see above) and also Financial Sustainability, Management and Governance Checks undertaken by HEFCE on behalf of the QAA (the 'Plus' element). In addition, in order for their programmes to achieve designation for loans, Alternative Providers undergo further rigorous scrutiny from HEFCE and BIS as part of the designation application. This is part of changes in the QA of Alternative Providers made over the past 18 months in order to deal with quality concerns that have arisen recently and to create a more level playing field across the HE sector as a whole.

Therefore as a consequence of the introduction of HER, any HN provision which is subject to public funding is reviewed in exactly the same way as publicly funded degrees but in addition is subject to additional scrutiny (Ofqual, and, for Alternative Providers, Financial, Sustainability, Management and Governance checks as well as further checks by HEFCE and BIS).

All this is the result of a recent and detailed plan by government to create a more rigorous, single framework that applies to all providers and courses in the HE space, whether at universities, FECs or Alternative Providers, and whether degrees, FDs, HNs or diplomas. The government has gone to considerable lengths to create a more level playing field, and this is already being rolled out across the sector.

To move HNs to the Skills Funding Agency would create an entirely different system, and undo all the progress made towards a more level playing field and a consistent

approach to quality assurance. It would also mean that one course of higher education (HNs) would be under a different quality system to others, and would not be assessed by those bodies that specialise in HE (QAA, HEFCE). This is likely to compromise the quality of the qualification.

Given that HNs are classified as courses of higher education by statute, students studying such courses are entitled to both a quality system and a funding system consistent with other courses of higher education. To do otherwise would not be fair for those students. Additionally, any change to this is likely to require an amendment to statute.

Quality assurance concerns at some Alternative Providers

An implication in this consultation is that recently there has been too much rapid expansion in some Alternative Providers, leading to serious quality concerns, and that moving HNs to the Skills Funding Agency regime would resolve this. Pearson recognises the seriousness of these concerns and has made clear it is absolutely committed to the highest standards of quality assurance. Robust action to address abuse of the system is in the interests of the taxpaying public, learners, and all legitimate education providers.

However, it is important to understand these issues are already being addressed through actions currently in hand by several organisations with expertise and experience in quality assuring the HE sector. This includes the introduction of HER Plus, and additional checks at designation, as outlined above, as well as further checks by the SLC of student applications for funding, alongside new processes introduced at Pearson. All of this has been designed over the past 18 months in response to sector changes, and is already being implemented.

Pearson welcomes the fact that the new quality assurance regime to which Alternative Providers are subject is already resulting in the application of stringent standards – as evidenced by certain organisations failing to pass the new checks.

These changes are being carried out by organisations such as QAA, HEFCE and BIS, with considerable experience in the oversight of higher education providers. As HNs are a course of higher education by statute, set at levels 4 and 5, and a recognised progression route into honours degrees, they should be quality assured by bodies with HE sector expertise.

Further information about Pearson quality assurance can be found in the appendix.

To make the changes proposed in this consultation in order to tackle an issue that has arisen very recently in a small part of the HN sector, and is already being rigorously addressed, seems disproportionate, incoherent and unfair to students and colleges that value HNs. There is no doubt there have been some serious recent issues, but it must be remembered that HNs are offered at over 200 FECs, and over 30 universities under licence, as well as a number of respectable Alternative Providers. They have several decades of respectability as an alternative, more practical and less expensive route into degrees or employment, thereby providing a crucial route for expanding access to higher education and high levels skills

development. With over 20,000 students enrolled on HN courses last year in UK public institutions, HNs clearly have a vital role to play in the UK HE ecosystem.

Quality and employer engagement

Traditionally, employers have always had a strong link with HNs, and this is one of their features most valued by UK colleges. All HNs have been designed and updated with employer input. For HNs on the QCF, it is already a requirement of Ofqual that relevant sector skills councils or other employers need to be consulted when a new HN is created. HNs can also be designed or adapted to suit local employer needs – this flexibility is highly prized by colleges, employers and students. Pearson undertakes a periodic review of the suite about every five years (the last one being 2010), and is in the process of a particularly extensive review for 2014-2015 that will include (among other things) an in depth update of key subject areas over the next 18 months, working closely with employers and professional bodies. Pearson recognises the serious shortage of high level technicians, and the role HNs can play in addressing this. We have already made the commitment to invest significantly in updating HNs to suit the contemporary and changing needs of employers.

Funding changes of the type proposed in this consultation would not encourage employer engagement. In fact, the funding proposals would be likely to have the opposite effect. To create qualifications suited to the evolving needs of employers, investment is needed in their design and regular updating. This investment needs to be made by many stakeholders in the system, including Pearson, employers, colleges (public and private), and universities. Investment needs to be justified by an assessment of the likely take up of the qualification, and for qualifications moved into this proposed loan scheme, the chances of investment (including employer time) will be significantly diminished due to the very low likely take up.

Pearson is of the view that employer influence over the quality and relevance of HNs can be - and is - achieved without the need to change the way in which HNs are funded.

Recommendation 8

Funding could be used to encourage more employer engagement. However, we do not think the funding proposals in the consultation would have this effect. Instead, the following could be considered:

- *Development of a national awards and recognition scheme for employer engagement.*
- *Add 'employer engagement' to QAA criteria for skills shortage areas, and add employer representatives to relevant review panels.*
- *Incentivise employers to become more involved in target subjects and levels e.g. as part of any government-related tenders to companies in relevant skills shortage industries, include a section where they set out their contribution to the future educational development of students at college or university.*
- *Consider making the provision of internships in target subjects/levels/for certain students tax deductible/tax incentivised.*

Question 19

If Higher National Diplomas and Higher National Certificates transfer into Advanced Learning Loans, are there other equivalent qualifications it would be sensible to include and why?

Firstly, we would not recommend that any substantial (120 credits or one year's worth of full time study or more) programmes at levels 4 – 5 are moved to Advanced Learning Loans as the funding regime will create a disincentive to study them.

However if any such a transfer were to take place then it should apply equally to all equivalent level qualifications including FDs in particular, but also Certificates and Diplomas of Higher Education and potentially some professional programmes offered at this level. This would create a level playing field and encourage competition, innovation and different approaches, all of which are urgently needed if the qualifications are to play a role in addressing the gap in key technical skills. If such qualifications are not treated equally, then those with preferential funding will grow simply because of a funding advantage and not because they are inherently better or more suited to the needs of the UK economy.

Additionally, if one aim is for the Skills Funding Agency to 'control' the subjects that receive funding, this will have no effect unless all such qualifications are funded in the same way. Colleges and universities will simply offer FDs, Diplomas or Certificates (or full degrees) with no controls over subject, and students will continue to study business in large numbers and avoid the more technical subject areas.

Foundation Degrees in particular have a number of similarities with HNs, and to some extent fulfil a similar need, though in different ways. Both are defined as Courses of HE (Education Reform Act 1988, schedule 6, para. 1(c) and (e), should be designed with reference to employers, are set at levels 4-5, provide progression routes into full degrees and are delivered in universities, FECs and Alternative Providers. FDs (arguably) are seen as having higher academic status, and HNs (arguably) are seen as more closely linked with employers given their longer employer linked history, and more technically focused. Given the urgent need for the UK to improve and increase this level of qualification, both have an important role to play, and they should be kept on a level playing field.

If HNs and FDs were to move to Skills Funding Agency funding, then Diplomas and Certificates of Education should also do so in the interests of parity and because, as already indicated, if these were the only level 4 and 5 qualifications remaining in the current funding regime, the number of these programmes would increase purely because of their funding advantage, not because they are an inherently better qualification or better suited to the skills needs of the country. However, if Diplomas and Certificates of Higher Education were to move it would create the anomalous situation that those who enrolled on these would be under the Skills Funding Agency funding regime, whereas those who enrol on a full degree but do not succeed and instead exit with a Diploma or Certificate of Higher Education would be under the old funding regime and entitled to maintenance loans and a higher fee cap. This would be unfair to students.

Therefore if the intention is for the Skills Funding Agency to control level 4-5 qualifications in this way, all equivalent level qualifications should be managed in the same way, otherwise there would be a clear bias in favour of one set of qualification owners and their learners over another.

Recommendation 9

Whilst we believe that transferring HNs into Advanced Learning Loans would prove counter-productive, there is undoubtedly scope for harnessing the funding system to encourage the take up of level 4 and 5 qualifications in areas of key skills shortages. The following measures merit further exploration:

- To encourage students: preferential funding given through fee reductions (via subsidy); additional maintenance grant (some of the technical subjects demand more teaching and lab time than subjects such as history/literature etc, making it harder to work part time, therefore creating an argument for more maintenance); and the development of a job guarantee scheme (all these proposals would be for all equivalent level qualifications in skills shortage areas, not just HNs).*
- To encourage educational institutions: anything that encourages students will encourage institutions to offer more places on such programmes so all of the suggestions above would stimulate provision; offer more teaching grants support to all providers (subject to a successful HER by the QAA); introduce reward funding (e.g. for students' scholarships and research) for institutions that manage to increase the number of graduates in target disciplines and levels.*
- Finally, mechanisms for encouraging employers to become more involved in design, sponsorship, provision of work experience opportunities and outreach into schools should be considered (see questions 17 and 18).*

Question 20

Do you think there will be any unintended consequences (from an equality perspective or otherwise) that we need to be mindful of if the proposal to bring Higher Nationals within scope of Advanced Learning Loans were to be adopted in practice? (Yes/No)

If you answered yes, please give examples and specify which groups might be affected.

Yes

The primary intended consequences or purposes of this proposal in the consultation document appear to be:

1. To address the higher level skills and knowledge shortage in England by encouraging and supporting more students to complete level 4-5 technician level qualifications.

2. To encourage more students to study skills shortage areas instead of subjects such as business (through rigid loan facility controls i.e. only make the funding available for skills shortage areas).
3. To encourage more employer engagement in such qualifications.

A secondary implied intended consequence appears to be:

4. To address quality concerns that have arisen in some Alternative Providers by controlling loan facilities for the entire sector more rigidly.

Unintended consequences are likely to be:

Failure of objective 1

Moving HNs to Skills Funding Agency funding is likely to decrease the number of students studying skills shortage technician level qualifications. Three of the four top subjects in HNs are in skills shortage areas (Engineering, Construction and IT). Over 20,000 students enrolled on HNs at 200 public colleges and 38 universities last year. HNs are particularly well placed to fill the technical level gap, being technically-focused, set at levels 4-5, and well recognised as an exit qualification at this level. HNs operate in competition with FDs, Diplomas and Certificates of HE, and to some extent, full degrees. Changing the funding regime will make them much less attractive to students and colleges because of the strongly preferential funding that would then exist for these competing qualifications. Specifically:

- Students would be unable to claim maintenance grants and loans
- Unlike institutions offering HNs, those offering degrees would
 - have uncapped numbers
 - be able to charge up to £9k tuition
 - be able to make long term plans on the basis of ongoing access to loans
 - be free to choose subjects they want to deliver, whether in skills shortage areas or not
 - not have to go through Skills Funding Agency processes

The proposed change would drive more activity into the traditional degree space and away from these technically-focused qualifications.

This analysis is supported by the fact that the 24+ loan is currently under-utilised by students and colleges, despite the severe financial challenges of recent years. This demonstrates that it is a difficult facility to work with, and to extend this to other qualifications would only make those other qualifications equally unattractive from a financial perspective. Therefore, far from increasing student numbers using the loan, it seems more likely it would decrease the number of students completing the relevant qualification.

Failure of objective 2

Students will have more choice of higher education providers next year when number controls are lifted. Apart from nursing, the most popular subject for students is business. This is across the board at universities, FECs and alternative

providers. Trying to force HNs to cater for skills shortage areas only instead of business does not mean that more students will study skills shortage subjects. If they want to study business they will simply do a different qualification.

Undermining government policy of student choice and level playing field

There has been considerable modernisation and change in the HE sector in recent years, with the HE sector defined to include universities, Alternative Providers and FE (HE in FE). Much work has been done to achieve the following government policies in particular:

- Increase of student choice – students at the heart of the system
- A more level playing field across the sector as a whole
- More rigorous and more consistent QA rules

This proposal flies in the face of all three of these objectives, and undermines a considerable amount of work already undertaken and being implemented.

Under the proposal, student choice would be curtailed as students would only be able to select from a Skills Funding Agency controlled list of subjects, and colleges will be unable to offer others even where there is clear student demand (Business HNs being an example). This goes against government policy to have 'Students at the heart of the system'. Improving student choice is one of the main reasons for all the changes in the sector in the last two years. It is also inequitable that students studying FDs, Diplomas and Certificates of HE and Degrees should have a wide choice of subjects (and institutions be free to offer to provide choices), and those studying HNs should be restricted (and institutions be unable to respond freely to provide choices). This appears to be unfair and unjustifiable, and prejudicial to the interests of one group of students.

The proposal creates a completely different and unclear QA system out of kilter with the rest of HE for a qualification that is a course of HE.

As referred to above, HNs not only provide a route directly into employment, they also provide the opportunity for learners from non-conventional backgrounds to progress to degree-level. The proposed change to the funding method for HNs could have the following unintended effects:

Undermining HNs as courses of Higher Education

The Higher Education Reform Act 1988 defined Higher Education as meaning one of the courses listed at Schedule 6 to that Act. Schedule 6 specifically includes (at 1(c)) BTEC HN Certificates and HN Diplomas. The consultation states that the Government 'proposes to move these qualifications from the Higher Education funding system to the Further Education funding system'. It is hard to see how a qualification can be effectively legally re-categorised in the manner proposed. HNs have been part of the UK HE landscape for decades, offering an alternative route into degrees and/or a direct route into work at a highly skilled level. Students studying HNs are entitled to similar funding and quality assurance as students on other courses of HE.

The nature of the qualification will not change simply because of the funding regime. In fact, as part of Pearson's current periodic review, HNs will be aligned even more closely with HE quality processes, since our review shows the option of progression on to a degree, is of key importance to the majority of learners. For past, current and future HN learners, the perceived value of the qualification would be significantly reduced, and this would not be fair on the many thousands who have undertaken HNs in good faith.

Undermining alternative route into HE

For the majority of HN students the option of future progression on to a degree is very important. HNs are used both as a direct route into work or as an alternative, more practically focused route into degrees. This route is less expensive, more applied and skills based, and available at more local centres through the college network. Many of these students are, for a wide variety of reasons, unable or unwilling to attend traditional university for three years, and therefore HNs have a crucial role to play in opening up access to a wide variety of learners. The proposed changes would significantly undermine this option.

Narrowing participation and weakening learner diversity

The restrictive nature of Advanced Learning Loans means that providers will be unable to make long term plans for staffing and development of their HN provision, as funding is allocated annually. Government priorities on skills shortages will impact on how providers allocate their funds and the subjects they are willing to provide. It is envisaged that only subjects that address 'local' needs will be offered, rather than a wider range of subjects which encourage learners from all backgrounds to engage in Higher Education.

The inevitable reduction in HN subjects will have a detrimental impact on the UK's ability to widen participation in learning. Providers will either feel that offering HNs is too insecure due to changeable annual allocated budgets or learners may have to travel further in order to find a subject that they wish to study. This could lead to learners choosing not to study at all, as the additional costs may become prohibitive. Furthermore, the Further Education loan funding does not offer the equivalent of a maintenance loan or grant. This will not only have the knock-on effect of reducing the number of students achieving degrees (see 1 above) but severely restrict student choice and limit access to Higher Education when the thrust of government policy is to widen it.

Confusing the sector

If all HNs (including licensed HNs) were moved to the Skills Funding Agency funding regime, it is likely to lead to confusion, with Further Education being provided in Higher Education institutions and a Further Education qualification being listed on the FHEQ. It would also mean that Ofqual would regulate some qualifications provided by degree-awarding institutions while the QAA would regulate others even though the same academic structures, processes, procedures and quality assurance regime would govern both types of qualification. If, on the other hand, licensed HNs

remained as part of the Higher Education funding system and the remainder were moved to the Further Education regime, then an award with the same qualification would be governed by different funding regimes and would be treated as a Higher Education qualification for some purposes and a Further Education qualification for others. This would be both confusing and inequitable.

Recommendation 10

- *We support the aims of addressing skills shortages, while maintaining student choice and fostering social mobility. While the proposal under consideration would fail to achieve these goals, they can be effectively pursued through other mechanisms. These include: higher maintenance support, teaching grant equivalent offered to a wider range of providers, national scholarship funds targeted in these subject areas, and match funding for businesses part sponsoring student fees (see question 17). These mechanisms could be targeted at both shortage subjects and under-represented groups such as students from lower socio-economic backgrounds and women (who are significantly under-represented in most skills shortage areas).*

Question 21

If Higher Nationals (and equivalent qualifications) were moved into the Further Education funding system, what impact would a lack of maintenance loans have on undertaking higher level learning?

The lack of maintenance loans would have a direct impact on full time learners, and would be likely to reduce the numbers of students on these qualifications. Full time learners benefit from support for their living costs as they are only able to work, at most, part time. HN students are particularly restricted in their scope for undertaking paid work, as their courses often have more class hours each week than many degrees, while those doing technical subjects frequently have additional laboratory hours.

Removing access to maintenance loans means that many students who might consider studying these technician level qualifications will instead study degrees, where they can receive maintenance support. Some might decide to work full time and study part time, and therefore not need maintenance, but this is a difficult route for such a substantial qualification, as can be seen in the alarming decrease in part time student numbers in HE (46% drop over the past few years).

One of the main objectives of this consultation is to find ways to increase the number of students on technician level programmes. To do so we need to encourage uptake as well as provision. Access to maintenance funding on a par with degrees is vital to this end.

Recommendation 11

- *In order to encourage students to study key subjects, consideration should be given to creating preferential support for those courses. This could take many forms (see above at question 19 under 'to encourage students').*
- *Irrespective of subject choice, maintenance grants should be available to all students, recognising the vital role that funding parity between HNs and degrees plays in widening access across the socio-economic spectrum.*

Question 22

Are there gaps in the information that is provided in the links above? (Yes/No)
If so, please give examples.

N/A

Question 23

Is it easy to find what you are looking for? (Yes/No)
If not, what improvements could be made?

N/A

Question 24

Are there other ways we can reach this specific group of learners other than through providers, the National Careers Service advisers and Jobcentre advisers?

N/A

Question 25

Are there any courses, either qualification type or subject area, where you have seen an increased demand from learners as a result of loans?
Please give examples and describe what you think the reasons might be.

The increase in uptake of Access to HE courses given the favourable loan conditions for these qualifications (i.e. if a learner takes out a loan for an Access to HE diploma course and goes onto HE, the 24+ advanced learning loan will be written off once the HE course has been completed) is well documented and supported by our conversations with providers.

Question 26

Conversely, are there any courses where you have seen a drop in demand as a result of loans?

Please give examples and describe what you think the reasons might be.

N/A

Question 27

What impact do you think the introduction of loans has had on the price of courses?

N/A

Question 28

What impact do you think the introduction of loans has had on the quality of courses?

N/A

Question 29

Have there been any changes in learner motivation or reasons for taking a course as a result of loans?

One of the assumptions behind the introduction of loans is that requiring individuals to fund their own learning creates a stronger ownership of learning, and ensures a stronger incentive for individuals to hold providers to account over the quality of their provision. The thinking is that making users pay will lead naturally to an increase in quality. As set out in the Rigour and Responsiveness strategy (*Rigour and Responsiveness in Skills, April 2013*) the belief is that:

'...loans make the individual the purchaser of the training, motivated and encouraged to demand rigorous, high quality programmes directly related to workplace needs.'

And that:

'Colleges and providers will have clear incentives to attract learners by offering good quality qualifications that produce the skills needed in the labour market.'

The consultation asserts that these strengthened incentives should apply equally to level 2 qualifications, and the 19-23 age group, as they do to learners at levels 3 and 4.

It would be useful to see if 1) this view is borne out now that we have more data, and 2) this view is held for level 2 qualifications taken by the specific groups of learners this expansion is targeted at.

68% of the colleges and providers we surveyed were confident that they have seen a positive change in learner motivation and /or reasons for taking courses as a result of the introduction of loans.

Recommendation 12

- *Whilst the incentives for 24+ learners following the introduction of loans for level 3 qualifications are understood to some extent, we would argue that the incentives for younger learners taking second level 2 qualifications, or older learners taking first level 2 qualifications, will not mirror these. Further analysis is required to establish the impact of these specific loans on these particular learners.*

Question 30

Are there types of courses where learners have been reluctant to take on a loan – such as qualification type, subject, course length or cost? Please give examples.

N/A