

## million+ response to the Business, Innovation and Skills Committee's inquiry on the Productivity Plan

### Introduction

1. million+ is a university think-tank which provides evidence and analysis on policy and funding regimes that impact on universities, students and the services that universities provide for business, the NHS, education and the not-for-profit sectors.
2. In recent years million+ has published The Innovation Challenge (2014), Smarter Regions Smarter Britain (2014), Research that Matters (2011), International Higher Education: Missing an Opportunity (2011) and a Postgraduate Strategy for Britain (2010) which all considered the role of science and research in supporting the UK economy. We have also engaged in a number of consultations published last year that considered science and research investment – on the long-term framework and on capital investment.<sup>1</sup> We welcome the opportunity to continue this discussion with the committee.
3. Britain needs a strong and competitive university sector to provide the graduates for the workforce of tomorrow, reskill the workforce of today, translate research to benefit businesses and contribute to productivity and the overall well-being of society by providing new opportunities to participate and study for a degree. Modern universities are well placed to deliver this agenda. They already deliver more opportunities than other institutions in the sector, offer courses aligned with new and emerging markets, support high-quality teaching and world-leading research, and deliver healthcare education and professional development for the NHS and other public and not-for-profit sectors.
4. This submission principally addresses the second and third of the committee's questions, on increasing long-term investment and creating a more dynamic economy. Our evidence examines the effectiveness of measures relating to higher education announced in the plan, as well as touching on related issues of interest to universities.
5. Overall, we would urge the Government to commit to understanding the higher education sector, particularly existing vocational and technical pathways in universities. Many universities have well established relationships with employers with respect to the design and delivery of higher level vocational and technical education. Modern universities in particular have long-standing experience in delivering vocational, professional and technical qualifications, including HNCs, HNDs and higher level apprenticeships qualifications, often with partner further education colleges, within vocational fields that provide skilled graduates to local employers.

<sup>1</sup> See [http://www.millionplus.ac.uk/documents/million+\\_response\\_to\\_HEFCE\\_invite-Science\\_and\\_Innovation\\_Strategy\\_2014\\_\(June\\_2014\)\\_2.pdf](http://www.millionplus.ac.uk/documents/million+_response_to_HEFCE_invite-Science_and_Innovation_Strategy_2014_(June_2014)_2.pdf) and [http://www.millionplus.ac.uk/documents/million+\\_response\\_to\\_BIS\\_consultation\\_on\\_long\\_term\\_capital\\_investment\\_for\\_science\\_and\\_research\\_\(July\\_2014\).pdf](http://www.millionplus.ac.uk/documents/million+_response_to_BIS_consultation_on_long_term_capital_investment_for_science_and_research_(July_2014).pdf)

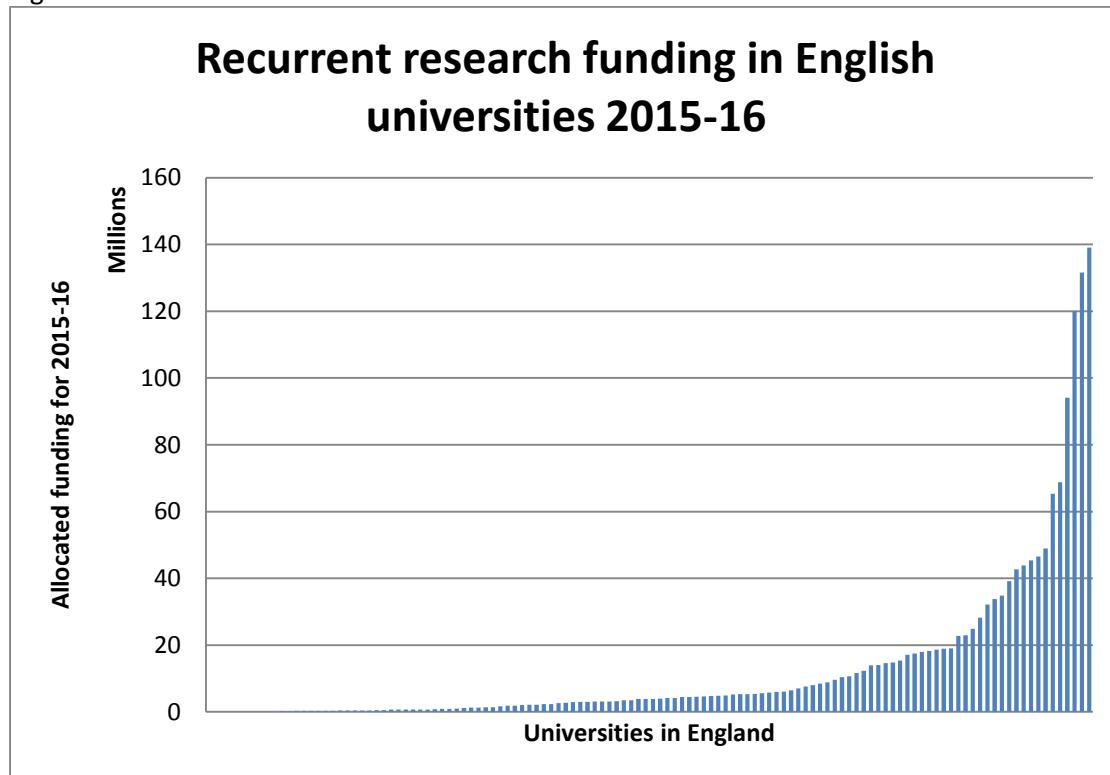
## **Increasing long-term investment – ensuring Productivity Plan measures contribute to growth**

### **High quality science and innovation**

6. Universities across the UK are engaged in excellent research and seek to work with businesses and those delivering public services in their region to promote innovation. Research funding is increasingly concentrated in 10-20 universities and further concentrated geographically (see Figure 1). In 2015-16:

- 35 universities receive less than £1m in recurrent research funding
- 37 universities receive between £1m and £5m in recurrent research funding
- 15 universities receive between £5m and £10m in recurrent research funding
- 16 universities receive between £10m and £20m in recurrent research funding
- 13 universities receive between £20m and £50m in recurrent research funding
- 6 universities receive over £50m in recurrent research funding (almost 40% of the total budget)

Figure 1



Source: <http://www.hefce.ac.uk/funding/annallocns/1516/>

7. The Government's Science and Research budget is largely invested in areas of market success but the Chancellor has acknowledged that Britain is failing in translating much of its ground breaking research discoveries into practical and economic uses for the benefit of Britain and the economy.

8. It also leads to geographical concentration – In July this year, Jo Johnson MP, Minister for Science and Universities, acknowledged that 46% of investment goes to the golden triangle of universities (Cambridge, Oxford and some London institutions).<sup>2</sup>
9. The CBI has pointed out that medium-sized businesses (MSBs) are the UK's 'forgotten army' with the potential to inject as much as £20bn into the economy by 2020<sup>3</sup>. MSBs make up 1% of firms, 23% of revenue and 16% of employment but MSB productivity has grown at less than 0.5% of large firms. In contrast German MSBs contribute twice the number of jobs.
10. There is a particular problem in engaging SMEs and MSBs throughout the country in research. This is an area of potential market failure. The impact of modern universities on SMEs and their local economies is not captured in the Research Excellence Framework<sup>4</sup> while the Higher Education Innovation Fund<sup>5</sup> is small (£150m per annum, with all universities eligible) in comparison to the funds allocated via quality-related (QR)research funding allocated by the Higher Education Funding Council for England.<sup>6</sup> HEIF is based on assessment of knowledge exchange strategies, and on external income secured by universities, rather than the impact on local economies.
11. A fund for translational research would support universities with demonstrable excellent research to apply that to support businesses in their locality. One solution is to mobilise the existing valuable assets of universities that historically have not benefitted from large amounts of research funding to help them work more closely and support the research and innovation needs of local SME and MSBs.
12. In all, seventy-two universities in England received less than £5m per annum in taxpayer-funded support for research. These universities support excellent research and have very strong records of working with SMEs and MSBs<sup>7</sup>. The concentration of research funding leads to under-investment in projects to translate research into practical applications that promote innovation and improve systems, supply chains and productivity especially in smaller and medium sized businesses. Some of these universities are located in semi-urban and more rural areas in regions that need to develop capacity. Translational research should provide a minimum institutional threshold allocation with outcomes evaluated.

## **Encouraging a dynamic economy**

### **A trading nation – open to investment**

13. The Government places a high value on exports and trade, stating “the government will now mobilise the whole of government behind exporting.” It places special emphasis on “improving export performance, especially to emerging markets.” UK higher education is an export success story and for that success to be maintained, and grow, the Government must genuinely coordinate cross-Whitehall support so the sector can flourish.

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<sup>2</sup> JO Johnson MP, 16 July 2015: <https://www.gov.uk/government/speeches/one-nation-science>

<sup>3</sup> CBI Pulling together: Unlocking growth in the UK's medium-sized businesses  
[http://www.cbi.org.uk/media/1196347/cbi\\_future\\_champs\\_a5summary.pdf](http://www.cbi.org.uk/media/1196347/cbi_future_champs_a5summary.pdf)

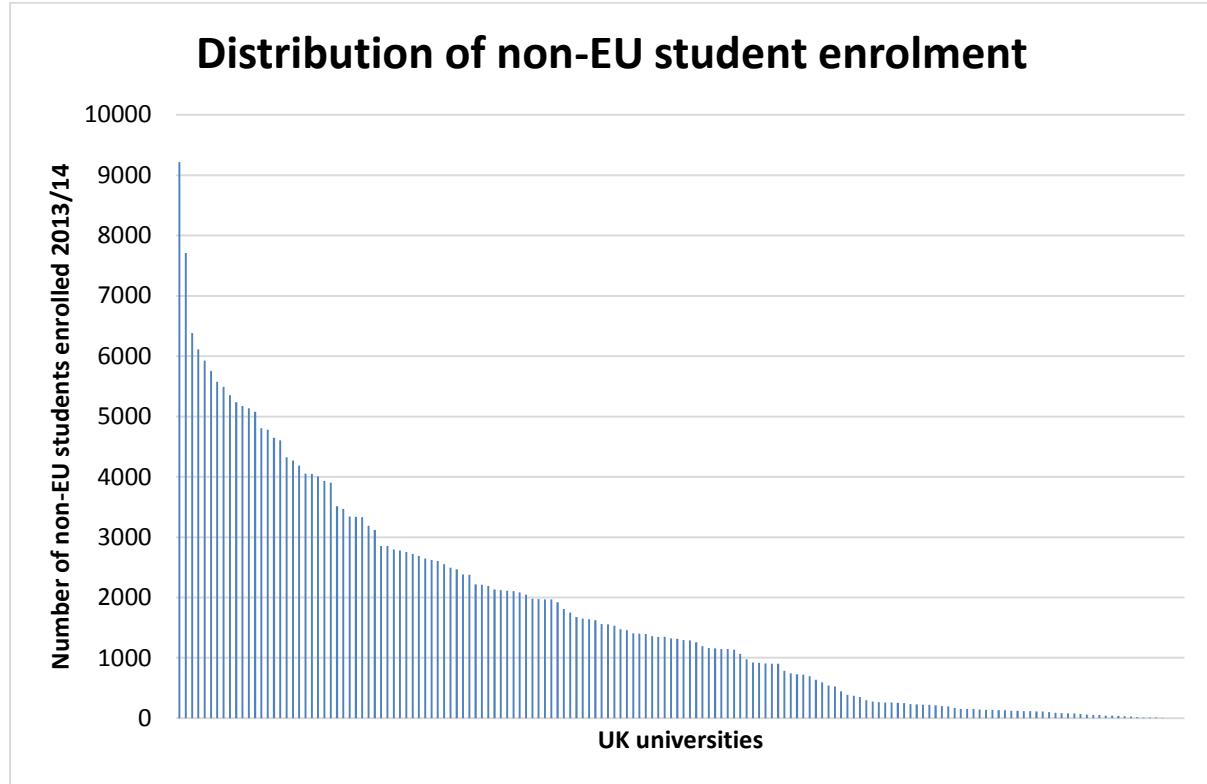
<sup>4</sup> <http://www.ref.ac.uk/>

<sup>5</sup> HEIF has become more selective since 2011 as a result of changes to the distribution formula

<sup>6</sup> <http://www.hefce.ac.uk/rsrch/funding/mainstream/>

<sup>7</sup> Smarter Regions Smarter Britain pg. 9, million+ March 2014

14. In 2011-12, UK higher education exports were worth £10.7 billion. Of this, non-EU students studying in the UK generated £7.2 billion. Universities UK analysis demonstrates that £4.9 billion of this is non-tuition fee, off campus spending, i.e. money on goods and services in the wider UK economy, not cash going to the education sector itself. This income is incredibly valuable, not only to UK higher education institutions but to the communities they serve and the wider economy. Overall, education exports were worth £17.5bn to the UK economy in 2011, and by 2025 it is estimated that this figure could be £26.6bn – with nearly £17bn coming from higher education.
15. Twenty per cent of universities recruit half of international students; the remaining 50 per cent of non-EU enrolments is spread over 80 per cent of institutions. Although there are a small handful of institutions with large and well-known international operations, the true value to the UK economy comes from efforts right across the university sector.



Source: HESA 2013-14

### Supporting a flexible and dynamic workforce

16. A number of changes to higher education funding regulations would make higher education more flexible and responsive to student demand and the needs of employers.
- i. Open up access to student loans for people looking to retrain who already have degrees
  - ii. Encouraging small and medium-sized businesses to improve employee skills and productivity
  - iii. Enabling professional development in the NHS
  - iv. Creating new opportunities for part-time students
  - v. Creating flexibility to deliver two-year degrees

17. These changes are relatively straightforward but they would remove disincentives that either deter access or return to study including professional and technical qualifications and programmes.
18. The Government could also introduce tax or National Insurance credits for small and medium-sized employers preferring to invest in their existing workforce, to incentivise flexible working arrangements and contributions to study costs.

**Opening up access to student loans for people looking to return to study on a full or part-time basis**

19. The Government has stated that it wants the UK workforce to be one of the most flexible and productive in Europe. A key feature of this flexibility has to be an education and training system that supports people returning to education and training as well as into education for the first time, when it is right for them and their job prospects.
20. Currently people who hold a degree have to pay fees up front, in cash, in full, if they want to access opportunities to retrain for higher education qualifications. This means that only those with significant amounts of ready cash can reskill. This is the result of the “Equivalent and Lower Qualification” policy, introduced at a time when undergraduate student numbers were capped and Government paid the majority of the cost of university tuition through the direct grant. The policy removed institutional teaching funding in respect of ELQ students to protect funding for first-time applicant numbers.
21. Since 2010, the Government has made two changes that render the ELQ policy unnecessary. First, undergraduate tuition funding changes mean that students bear the majority of the cost of their tuition but defer payment until after their earnings reach the repayment threshold. Second, the centrally allocated “student number control” system has been abolished with effect from 2015-16. As a result, universities can make offers to meet student demand with limited Government interference. The combination of these changes means that graduates returning to study and retrain in England would make no call on direct Government funding for teaching other than for high-cost subjects; nor would they take university places away from first-time students. It would also mean that potential students are able to improve their skills and qualifications through undergraduate and postgraduate courses on a part-time basis while still in the workplace – bringing benefit to both the individual and to the employer.
22. BIS has relaxed the policy to allow those with a degree to access fee loans in order to study part-time for some STEM courses from the 2015-16 academic year at an estimated BIS cost of £5m. Costs of extending the policy can be assessed based on the pool of potential applicants using the Labour Workforce Survey together with an estimate of elasticity of demand. Those returning to study to retrain and gain new qualifications will not trigger a significant additional call on direct teaching funding since this is limited to high cost subjects and is, in part, taken into account in the relaxation of the ELQ policy for part-time STEM in 2015-16. A way to extend it further in the first instance is to provide access to loans to graduates once they have paid off the previous loan, or have been registered continuously with the Student Loans Company for 10 years or more.

**Encouraging small and medium-sized businesses to improve employee skills and productivity**

23. The UK’s larger companies have a relatively good record of investment in re-skilling and retraining their workforces. For smaller and medium-sized businesses, this investment is more challenging. The decline in part-time study has been associated in particular with a decline in the

study of higher education qualifications. SMEs have been less willing to provide direct support for the participation of their employees on ‘open’ courses under the higher fee regime.

24. The productivity benefits of reskilling workers are well documented. Alongside supply-side measures, there are monetised and non-monetised benefits of measures to remove barriers and incentivise SME and MSB demand and support for employee engagement in reskilling, studying for degrees and higher education qualifications.
25. Easing the restrictions on the ELQ policy and introducing a tax credit for employers would support people who, for employment reasons, needed to undertake additional training and reskilling. In many cases, the best option is through university courses and modules that are ordinarily part of a degree (e.g. a year 1 or year 2 course), or are at a lower level than a degree (e.g. HNCs and HNDs). Employers do not necessarily need or want their employees to undertake full degrees to support business growth, but rather shorter courses at a range of different levels (including sometimes at postgraduate level). Larger businesses have resources to commission courses that meet their needs – smaller organisations cannot do that so these policies would provide new incentives to develop their workforces.
26. The involvement of universities in vocational, professional and technical education is also beneficial in ensuring progression routes for those students who want to continue with their studies, and for those employers who want to increase the skill base of their workforce. Universities are able to provide flexible, local solutions to employers, in particular small and medium enterprises, and can link the provision of skills with the expertise of research and knowledge transfer to ensure businesses can maximise their opportunities for growth.

#### **Enabling professional development in the NHS**

27. There are over 670,000 nurses and midwives, over 237,253 Health and Care registered health professionals and over 100,000 registered social workers in the UK.
28. In liaison with healthcare providers and the professional organisations that set regulatory requirements, the contribution of universities to NHS professional education is wide-ranging, including widening entry routes through bridging programmes, supporting career development, and enabling staff to undertake interdisciplinary research to develop innovative solutions.<sup>8</sup>
29. Working alongside the wider workforce, these health and social care staff and the universities and education providers that support their education and professional development are key to the delivery of high quality patient care, innovation and the more integrated approach outlined in the NHS’s Five Year Forward View.
30. Health Education England (HEE) is responsible for medical and dental training and the education and training of nurses, midwives and allied health professional staff such as radiographers, podiatrists, physiotherapists, paramedics and healthcare support staff. Currently, the overwhelming majority of HEE’s budget is focused on the education of doctors and dentists.
31. To deliver Government commitments to NHS efficiencies, 7-day delivery and the integration of health and social care, the training and education budget of Health Education England should be increased and re-focused.

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<sup>8</sup> More information about the role of universities in support NHS professional education is available in the million+ publication A Manifesto For Health Education (March 2015) - <http://www.millionplus.ac.uk/research-policy/reports/latest-reports/a-manifesto-for-health-education>

### **Creating new opportunities for part-time students**

32. Full-time students have access to both tuition fee and maintenance loans and pay both back in the same way. Part-time students have access to tuition fee loans provided they study at 25% pro rata but have different repayment conditions compared to full-time students and have no access to maintenance support. Since 2012, demand for part-time education has declined by 40%. The design of the student support system should be such as to allow students to make choices on the most appropriate study pathway based on the method of delivery rather than whether or not they have access to particular financial support.
33. The Government has announced that maintenance grants for full-time students will be replaced by higher student maintenance loans with effect from the 2016-17 academic year. This change will reduce the direct call on the BIS budget and removes one of the cost barriers to the creation of a more unified student support system previously identified. This measure would support access and flexibility for part-time students, and the retention of students who need to switch their mode of study. Making part-time study more accessible is likely to result in more individuals participating or continuing in higher education than would otherwise be the case.
34. Maintenance grants for full-time students will no longer be available from 2016-17. Unlike their full-time peers, part-time students are required to commence repayment of their fee loans after a period of study and before they have completed their course if they earn in excess of the loan repayment threshold.
35. There are efficiency gains associated with the extension of maintenance loans to part-time students from 2016-17. Specifically, the impact of this policy would be to provide an alternative option to students thinking about leaving full-time higher education. Currently full-time undergraduates are faced with the choice of quitting university or considering studying on a part-time basis without any access to maintenance support.

### **Creating flexibility to deliver two-year degrees**

36. The Government has a commitment to remove barriers in the market and encourage the provision of two-year undergraduate honours degree programmes. The fee system is fixed in such a way that there are disincentives to individuals and universities to participate in and offer accelerated courses. Currently institutions are limited to charging a maximum fee of £18,000 for an honours degree undertaken in two years compared to £27,000 for a three-year programme.
37. Students on a two-year course trigger similar institutional costs to those on longer programmes, including teaching hours, room hours and facilities, marking, and academic and pastoral support. There are also central costs associated with student enrolments, quality assurance, design of courses and materials, marketing and training of lecturers although some of these costs are driven by head count rather than mode of study. Universities, like all organisations, seek efficiencies in their methods of delivery so the current funding system is a strong disincentive to develop accelerated programmes.
38. Organisations outside the higher education sector have noted the current system discourages two-year provision. In a letter<sup>9</sup> to the Secretary of State for Business, Innovation and Skills of June 2015 the Chief Executive of the Competition and Markets Authority recommended, “that BIS explore whether accelerated degrees could be encouraged within the overall funding cap to

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/437530/Letter%20from%20Alex%20Chisholm%20to%20Sajid%20Javid.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437530/Letter%20from%20Alex%20Chisholm%20to%20Sajid%20Javid.pdf)

provide more choice for providers and users, and more opportunity for competition to drive efficiency.”

39. For students, living costs and the more limited ability to work part-time are major barriers to entry to an accelerated programme. Access to maintenance loans equivalent to the weeks/length of the course would help to mitigate these challenges.

## **Summary**

40. The drive for further efficiency savings must be balanced with investment if the government’s wider ambitions are to be realised. We believe the measures outlined in this submission demonstrate how higher education can support the government’s policies to address the productivity challenge.
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For more information on this submission or on the work of million+, please contact:

Alan Palmer  
Head of Research and Policy  
[alanpalmer@millionplus.ac.uk](mailto:alanpalmer@millionplus.ac.uk)  
0207 717 1659