

Independent Higher Education submission to the UK Government's Spending Review 2021

September 2021

Overview

1. The UK needs a tertiary education system which helps everyone to fulfil their ambitions for career and personal development, and in so doing supports the flexible and responsive labour market needed for a growing economy.
2. This submission sets out proposals which would further strengthen this tertiary system by supporting an ecosystem of diverse, innovative and high-quality provision across its three critical components of higher (and higher technical) education, access to higher education, and professional learning.

About Independent Higher Education

3. Independent Higher Education (IHE) is the UK's representative body for independent providers of higher education, professional training and pathways. Our 60 members are highly student and teaching-focused and include many small and specialist providers, as well as innovative start-up and scale-up providers.
4. One of IHE's principal aims is to facilitate an SME model of higher education, enabling new approaches and innovation to flourish within a flexible regulatory environment.

Introduction

5. IHE supports many of the Government's objectives for this spending review, in particular the focus on levelling up, productivity and strengthening the UK's place in the world.
6. Our members are the adaptive layer between education and skills provision and the labour market, opening pathways into higher education and into specific industries as well as facilitating retraining and up-skilling later in life. They are committed to playing a major role supporting economic development across the UK as befits their close ties to employers, and the types of professional and flexible education and training they offer.
7. Most IHE members are specialists and deliver employer-led provision that can be niche or bespoke, and designed to fill labour market gaps or upskill the workforce of a specific organisation or sector. This type of training provision can have a direct impact on productivity within organisations, particularly when new technological and digital platforms are used to customise training to fit the organisation.
8. As has been recognised by the Government, not least in its commitment to deliver its 600,000 target for international students, our international exports are a key part of the

UK's economy and soft power abroad. Education amplifies the UK's values, culture and economic exports. Many of our members and pathway providers provide a pipeline for almost every part of the UK's education system. They contribute to strengthening the international reputation of the UK's education system, and in turn, the UK's place in the world.

9. Following the release of our SME Manifesto for Higher Education in 2019, we call on the Government to establish a new strategic relationship with SME education providers, and to deliver targeted support to develop a competitive SME tertiary education ecosystem.
10. Our members have a cross-departmental footprint and yet are often left out at the design and development of policy. For the UK economy to fully benefit from the innovation we see from SME providers, they must be central to higher education and skills policy making across government – including within the regulation of the education sector, business policy and investment, eligibility for funding to expand innovative educational provision, and the UK's export strategy.
11. For this spending review, and as part of its ongoing reform agenda for FE and HE, we are calling on the Government to look beyond the dominant models of post-16 education and agree funding for a modern, innovative and targeted tertiary system that can deliver the skills needed to rebuild from this global crisis across three strands of provision:
 - **Formal higher education programmes** spanning academic and technical disciplines which are fully funded for both learning and living costs so as to support time out from the labour market. These would be predominantly funded by student loans which are repayable over their career and contain sufficient learning to lead to good career outcomes either in a chosen industry or for generalist graduates.
 - **Access programmes** including fully funded standalone foundation years which facilitate entry to higher education (including specialist and postgraduate provision) for both young and mature learners. These would attract maintenance loans to cover living costs for adults who need to take time out from the labour market or are currently unemployed, and be designed around a model which allows specialist institutions to deliver the most industry-relevant and rich learning pathway but still awards a portable certificate for transfer into undergraduate or postgraduate provision elsewhere if the student chooses.
 - **Short professional training courses** and modules for adults who need to retrain or upskill in order to change career or progress to new roles in their industry. This should be funded by a mixture of government funding for particular industries or occupations (potentially via the National Skills Fund) and a more targeted employer levy (expanded for use beyond apprenticeships) allowing government to focus on the skills that are needed for recovery and to support our most promising and fast-growing industries. Both the targeted government funds and the employer levy funds could be used to top up the money which will become available to individual learners on loan via the new Lifelong Loan Entitlement, and this overall allowance could also

be topped up privately (by a learner, their employer or through e.g. charitable foundations) with tax efficient contributions.

12. Our proposals for new spending measures to support this vision of a tertiary education system reflect three priorities for maximising its value to the UK economy:

- **Teaching funding and regulatory reform** to promote a diverse, dynamic and competitive market for high-quality, innovative and flexible provision.
- **Targeted funding and interventions to support a more diverse ecosystem** of SMEs, specialist institutions and professional education providers
- **Targeted government support for the diversification and promotion of new education exports** in line with the International Education Strategy.

Teaching funding and regulatory reform

Funding higher education programmes, including Higher Technical Qualifications

13. Funding for all higher education programmes, including the new Higher Technical Qualifications, must be sufficient to support a high-quality learning environment and the delivery of teaching without cross-subsidy from other income streams.

14. In addition, **maintenance funding** must be kept under review and be sufficient to cover the full living costs of students on higher education programmes, including higher technical, flexible and accelerated models. We would emphasise the following key points the Government must take into consideration:

- Labour market conditions and the particular impact of COVID-19 on sectors such as hospitality have made it harder for students to rely on part-time and casual work.
- Higher Technical Qualifications must attract the full equivalent maintenance funds to succeed as a viable alternative for all students to an undergraduate degree.
- Students on accelerated programmes have more intensive timetables and work through traditional holiday periods so may require a higher level of maintenance funding to cover their living costs.
- Students on flexible programmes often miss out on maintenance currently as the system is not designed to adapt to part-time or part-year learning.

15. Additional recurrent grant and capital funding is also needed to cover the higher cost of delivery and facilities at our world-class and industry-leading specialist providers. In particular, the institution-specific targeted allocation (ISTA) funding which was increased by £10 million for 2021-22 must be opened in full to a competitive bidding process in order to cover the full range of existing specialist providers in the expanded higher education sector and to support new specialist start-up providers.

16. New capital funding is also needed specifically to re-design courses, build new facilities and develop institutional capacity for the high-quality provision of Higher Technical

Qualifications. This includes the following key requirements:

- Funding for upskilling industry staff to better support teaching and delivery.
- Funding for course design should not be limited to large multi-subject institutions. There should be guaranteed funding for specialist providers.
- Ensure no minimum thresholds for grant funding which might exclude SME providers, as courses which may seem niche can be essential to preserving skills and a pipeline into roles which are integral to their larger linked industries.

17. Funding should also be allocated for **Information, Advice and Guidance (IAG)** designed for adult learners, allowing older students to search for flexible learning models, start dates which work for them, and industry placements and training alongside more formal qualifications. The current Discover Uni website, and the UCAS system, still push students towards the dominant three-year degree model. If the Government is to achieve its aim of up-skilling the nation, IAG needs to change to meet the specific needs of the COVID-19 generation of learners.
18. Finally, as part of the Government's tax reforms, urgent consideration should be given to extending VAT-exempt status to all higher education programmes which attract government funding or loans, and any privately funded course with the equivalent regulation.

Funding professional learning and career development

19. Facilitating access to professional learning would create a more flexible labour market by supporting adult UK residents who need to retrain or upskill in order to change career or progress to new roles in their industry. There is now the opportunity to fund these **shorter professional training courses** and standalone modules through the Lifelong Loan Entitlement due to be introduced in 2025, and this form the core of a wider radical overhaul to stimulate a more diverse and competitive market in provision as well as to widen access to workers who cannot pay for themselves or rely on employers to do so.
20. A new **national skills and professional development fund** should be built using a combination of the government funding already committed in the 2019 Conservative Manifesto and greater employer contributions generated through a more targeted levy scheme expanded beyond its original focus on apprenticeships.
21. The Government should fund the creation and maintenance of a **UK-wide skills platform** to provide prospective learners with a one-stop shop for authoritative information, advice and guidance on the full range of professional training courses offered by regulated providers.
22. All professional training courses which attract government funding or loans, and any privately funded course with the equivalent regulation, should be exempt from VAT. Exempting these courses from VAT would incentivise students to choose these shorter and more targeted courses.

Funding access to higher education programmes

23. Access programmes play a pivotal role in facilitating entry to higher education for adults who need further study to advance in their careers as well as in opening up specialist provision to younger learners whose schools cannot offer the necessary preparation in their chosen specialisms.
24. Studies of the different models of access programme have found higher rates of success for degree students who enter via foundation years than for those who arrive with an Access to HE Diploma, which is the main standalone model currently. (*Office for Students, 2019, Preparing for Degree Study*)
25. Foundation years are particularly valuable for entry to specialist higher education institutions, offering an industry-relevant and rich learning pathway which prepares students for degree-level study in an environment which motivates their passions.
26. The standard model of a foundation year should remain funded and be developed further to lead to the award of a portable certificate which allows students to transfer to another provider for their higher education programme if they so wish.
27. Foundation years, both integrated and standalone, should be fully funded and reported as standalone courses so that the quality of their delivery and outcomes can be properly regulated and their impact on widening participation in higher education can be assessed at a system level.
28. Current standalone 'access to HE' programmes are funded by ESFA and contingent on high volumes which can only be achieved through non-specialist provision. ESFA reform to resolve this would take years to achieve, while funding via the HE loans system would allow for the more efficient but still controlled expansion of this provision to specialist higher level providers.
29. Foundation years and other access programmes should attract maintenance loans or bursaries equivalent to level 6 qualifications in order to cover adequately the living costs of adults who need to take time out from the labour market or are returning to study after a period of unemployment.
30. The Government should also make funding available for access programmes leading to postgraduate study, often known as 'pre-master's courses', and could facilitate this most simply by accepting the recommendation of the Augar review to remove the restriction on Equivalent or Lower Qualifications (ELQ) and include these programmes within the standard higher education finance system. This would help to widen access to the postgraduate study which is essential for many professions today.

Targeted funding and interventions to support a more diverse ecosystem of SMEs, specialist institutions and professional education providers

Reducing regulatory burden and cost to support new entrants to the tertiary sector

31. A tertiary education sector which supports the career ambitions of all UK residents and the levelling up of economic development across the country needs to be diverse in the models of provision available and flexible in the pathways that individual students can follow. Inadequate funding for regulation has a negative impact on this diversity, as the impact of bureaucratic burden and delays falls most heavily on the small and the innovative provider just starting out or starting to grow.
32. We welcome the Government's commitment last year to reducing bureaucracy within the research, innovation and higher education sector, and in particular the commitment to a 10% cut in registration fees from the Office for Students (OfS). The OfS has so far failed, however, to deliver an efficient registration process, and much more work is required to ensure that the Register is open to higher education providers of all shape, size and specialism who are well managed and governed and offer provision of a high quality, and that new applicants for registration can be assured of a swift progression through the relevant stages of the process, with these being clearly signposted along with reliable estimates of the time it is likely to take.
33. The **new provider discount** should be extended to cover the next three years as an important incentive for encouraging new entrants to the higher education sector and offsetting the significant costs of preparing for OfS registration. When these providers decided to become registered, the decision was taken in the context of the existence of the new provider discount and micro provider subsidy which they have not been able to access through no fault of their own. It would be unfair now to change this policy retrospectively. Additional incentives should be considered for providers launching new or expanded provision in tertiary education cold spots.
34. The existing **micro provider subsidy** should be maintained and expanded to cover all **small providers**. OfS has so far not delivered any of the activities identified in the Government's March 2019 impact assessment on OfS fees, which were designed to reduce the acknowledged disproportionate burden and cost for small providers. The registration process has now become a disincentive for small providers seeking to enter the higher education sector, and the Government should actively consider and prioritise financial mechanisms to compensate for this.
35. While the Government is right to bear down on the overall costs of registration, and should move to impose a limit to the **unit cost per student** of the statutory regulation of higher education, it must provide additional funding to ensure that the OfS registration application process is properly resourced, efficient and fulfils its aim of supporting new and innovative providers, including SMEs. Every student receives the same benefits from the existence of the regulatory framework in England and so the contribution they each make to its costs should be capped.

Dedicated SME Plan to promote higher education start-ups and scale-ups

36. Government reforms to higher education have sought to facilitate new entrants by establishing a level playing field for regulation and funding while removing any unnecessary barriers. It is clear from the track record of the Office for Students in its first three years that higher education remains a challenging market to enter and that SMEs in particular struggle to fit the regulatory mould. When it comes to funding, there is little in the way of capital grants available which could enable HE start-ups to catch up with the decades of public investment in English universities.
37. Leaving funding and formal regulatory requirements to one side, higher education is itself characterised by complex organisational structures and somewhat opaque administrative processes, which act as their own barrier to entry. There are few sources of authoritative advice and support on which new start-up providers of higher education can call, while many of the features of a traditional university model are unaffordable or impractical to replicate in the context of an SME.
38. The challenges faced by SMEs and start-ups in other sectors dominated by large incumbents, where the burden and complexity of regulations can act as a drag on innovation, are well recognised. Government has responded to these challenges by adopting a proportionate approach to the regulation of SMEs, providing targeted funding to support their growth, and ensuring they have access to suitable advice, guidance and where appropriate shared services to spread their cost base. The same approach could be transformative in the higher education sector.
39. Business accelerators and incubators exist across the economy but have had a notable impact in the technology sector, where government support has been instrumental in the success of Tech Nation and others in promoting a thriving ecosystem of innovative start-ups. In education, the New Schools Network offers a useful model for how government support can facilitate access to the resources and expertise needed to support new and innovative provision which responds to local demand. **An equivalent service for higher education** (to encompass higher technical education and professional training as well) could extend the nationwide impact of flagship government programmes such as the Institutes of Technology by stimulating a surrounding ecosystem of specialist provision which draws upon private, corporate and charitable investment.
40. IHE's Launchpad scheme has recently been relaunched and exists to support new entrants and organisations moving into the regulated higher education sector for the first time. With targeted Government support this could be developed into a fully-fledged incubator and accelerator service, covering all of the common strategic and operational challenges faced by new higher education providers, and offered free at the point of use, whereas currently it is charged as a commercial service so as not to divert our general subscription funds away from supporting our member institutions who pay them.
41. Funding and support for new innovative provision and the regional expansion of existing and proven-successful higher education and lifelong learning provision could be targeted specifically at regional cold spots and areas of economic deprivation, making full use of

the new Levelling Up Fund, the UK Shared Prosperity Fund and UKRI's Strength in Places Fund.

42. This targeted funding matched by a new set of government-backed HE Start-up loans or grants through the British Business Bank. A complementary suite of support services and financial products could also be directed towards higher education businesses looking to scale up to the next level of regional, national or international provision. At this scale-up stage, higher education providers could be supported to expand beyond teaching into applied research and community knowledge exchange.

Targeted government support for the diversification and promotion of new education exports

43. The UK will only achieve the ambitious targets of the 2019 International Education Strategy (and restated in its 2021 update) and maximise the economic returns from exporting education by successfully diversifying its offer and the global markets it sells to. Diversification of the UK offer begins with an SME Export Plan for Higher Education to support new start-up providers to export for the first time and established providers to tailor their education and training portfolios in response to global market testing.
44. The British Council has a critical role to play in promoting UK education internationally. Their funding should be protected and increased with specific allocations ringfenced to provide more support to SMEs and to initiate activity in Europe and other non-ODA countries.
45. Government should ensure that SME providers of higher education and professional training can contribute as much as possible to the diversity and agility of the UK's education offer to the world by allocating funding for training and advice to help them secure a Home Office licence to sponsor European and other international students, along with meeting the associated educational oversight requirements.

Contact IHE

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