

## **University Alliance Budget representation: harnessing universities to help build a stronger economy for the future**

**February 2012**

### **Introduction**

1. This Budget representation draws together a broad range of research in support of five proposals ahead of the 2012 Budget. These proposals are focussed on how Government can best work with universities to lever a wealth of knowledge and resources that are essential within an innovation-based economy and competitive global environment.
2. This issue is a significant focus for University Alliance, a group of 23 major, business-engaged universities committed to delivering world-class research and a quality student experience around the UK. At University Alliance our aim is to deliver evidence-based policy and foster close links with Government and business in order to improve higher education policy; to the benefit of the economy and society.

### **The right talent to build a stronger economy**

#### **Proposal one**

3. As the supporting evidence below demonstrates, current economic indicators suggest that there is an undersupply of graduates in the UK labour market. However, current Government policy has resulted in a reduction in university places for 2012-13 of around 25,000.<sup>1</sup> We propose that Government should ask the Higher Education Funding Council for England (HEFCE) to monitor the four economic indicators identifying graduate saturation levels so that they can advise Government on the projected equilibrium point to ensure optimum student numbers are reached and maintained. Universities need to work together with Government to find long-term sustainable solutions to increase public and private investment in order to deliver the number of graduates the future labour market will require.<sup>2</sup>

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<sup>1</sup> The January 2012 Grant Letter to HEFCE confirmed that 10,000 modernisation fund student numbers will not be consolidated and that an additional 5,000 student numbers will be removed to reduce the risk of over spend resulting in 15,000 fewer HE places. Of the 20,000 Core and Margin numbers top sliced from the sector (the vast majority of which have come out of HE numbers in universities) around 10,000 have been allocated to universities and around 10,000 to FE Colleges. The result is a further reduction of around 10,000 university places and a total of around 25,000 fewer places in English universities in 2012-13 compared with the previous year.

<sup>2</sup> More than half of the 20 jobs that grew fastest between 2001 and 2009 were in occupations where the majority have post-A-level qualifications. At the other end of the spectrum, more than half of the jobs that declined the fastest during this period were in occupations where the majority of people are qualified to level 2 (GCSE A\*-C and equivalent) or below. Labour Force Survey data, 2010

### Supporting evidence

4. It is popularly commented that ‘there are too many graduates’ in the UK. However, looking at the evidence, we can demonstrate that the UK economy is not presenting any of the labour market signals that would suggest this is the case.<sup>3</sup> Graduate vacancies continue to grow, jobs in high skill areas are an increasing proportion of the total workforce and there is still a significant graduate premium.<sup>4</sup> Despite the rapid expansion in the number of graduates in recent years, the graduate employment rates have been maintained and the earnings premium for university graduates remains high.
5. Andreas Schleicher at the OECD considered the question of whether we have too many graduates in the labour market already and whether we need more graduates. He concluded that the most reliable method of answering this question is to look at the labour market incentives that will act as an indicator of whether the UK has reached saturation in the supply of graduates to the labour market.<sup>5</sup> In doing this he has identified four economic indicators for assessing whether there is an over-supply of graduates in the labour market.
  - a. *Labour market value (graduate premium)*: if there was an over-supply of graduates, you would see a reduction in the labour market advantage of graduates. Schleicher demonstrated that there had been no decline – indeed, quite the opposite had occurred. Indeed, the net present value (NPV)<sup>6</sup> for graduates in the UK is not only one of the highest across OECD countries but it is still increasing in terms of the increased earnings advantage and employment advantage over non-graduates. This indicator shows no sign of the over-supply of graduates.
  - b. *The proportion of graduates in non-graduate jobs*: Schleicher demonstrated that “under-employment” in the UK is below the natural level of around 25 per cent of graduates. With more than three-quarters of all graduates in graduate level employment, he concluded that this indicator was not yet demonstrating a saturation of graduates to the labour market.
  - c. *Displacement*: whether graduates are doing jobs that would previously have been classified as non-graduate and undertaken by non-graduates. Again, Schleicher found no evidence of this in the UK

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<sup>3</sup> Schleicher A, 'Is the sky the limit to educational improvement?', UUK Annual Conference, September 2010, OECD and UUK, Cranfield, 2010

<sup>4</sup> Universities Scotland, What was/what next? 2009

<sup>5</sup> Schleicher A, 'Is the sky the limit to educational improvement?', UUK Annual Conference, September 2010, OECD and UUK, Cranfield, 2010

<sup>6</sup> The net present value (NPV) of a graduate is calculated by comparing the costs (fee, loss of earning during study – much higher than fees - , additional tax over a lifetime and additional social contributions) to the benefits (additional earnings over a lifetime and employment advantage (lower risk of unemployment)) of going to university. The NPV of going to university in the UK is one of the highest in the OECD and is increasing.

with graduate level job growth accommodating graduates. Recent evidence from the US and the UK demonstrate there is a shortage, not surplus, of graduate attributes and capabilities.<sup>7</sup>

- d. *Cost of labour*: If employers are unwilling to pay high prices for graduates in comparison to non-graduates, this is a sure sign of saturation of supply. Again, Schleicher found no evidence of this in the UK where the price employers were paying for graduates is high.

### **Proposal two**

6. Government and universities need to work together to identify ways of providing essential financial support for those postgraduate students that are not supported by an employer. In the short-term, the Government should confirm that they will continue to support the provision of Professional and Career Development Loans (PCDLs) and take action to encourage more banks to offer PCDLs to increase provision and encourage more competitive loan terms.

### **Supporting evidence**

7. Recent years have seen large increases in the proportion of the total workforce with postgraduate education. In 1996 around four per cent of the workforce had a postgraduate degree. By 2011 this had increased to around 10 per cent.<sup>8</sup> However, despite this increase in the supply of postgraduates, the wage differential compared to those holding undergraduate degrees has increased from around five per cent to over 10 per cent<sup>9</sup> in the same period.<sup>10</sup> Evidence indicates that changes in the labour market have led to increased demand for postgraduates.
8. At present, postgraduate students do not have access to fee loan or maintenance loans. Whilst it might be possible to design a postgraduate loan system that is cost neutral to Treasury in the longer term (e.g. by reducing the income threshold for repayment)<sup>11</sup>, we recognise the difficulties involved relating to a corresponding increase in public borrowing. Extending progressive, income-contingent loans to postgraduate students is of critical importance but it is not going to be resolved in the short-term future.
9. For existing postgraduate students on full-time, part-time or distance course Professional and Career Development Loans (PCDLs) are still available. Up to 80 per cent of course fees can be borrowed to a maximum of £10,000 and the

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<sup>7</sup> Autor D, The polarisation of job opportunities in the US labor market: implications for employment and earnings, Department of Economics and National Bureau of Economic Research, MIT, The Centre for American Progress and The Hamilton Centre, Washington D.C. 2010

<sup>8</sup> Labour Force Survey (1996-2011)

<sup>9</sup> Ibid

<sup>10</sup> Lindley and Machin, Postgraduate education and rising wage inequality, CEP Discussion Paper 1075, 2011

<sup>11</sup> Tim Leunig, mastering postgraduate funding, 2011

Skills Funding Agency cover the interest payments for the duration of the course making it affordable for postgraduates while studying. However, Barclays are the only bank that still offers PCDLs and the uptake of these loans remains low with only around 1,750 being taken up by postgraduates in 2008/9.<sup>12</sup> Government need to confirm that they will continue to support this scheme and take action to encourage other banks to offer PCDLs to increase provision and encourage more competitive loan terms. Postgraduates should also be able to access good information, advice and guidance regarding PCDLs and other financial support available.

### **Proposal three**

10. We strongly support the Wilson Review proposal that HEFCE, should establish a mechanism whereby universities are incentivised to expand sandwich programmes through changes to the student number controls that it operates. Alongside that, Government should support companies that host students on full sandwich placement years through a tax credit or grant mechanism.<sup>13</sup>

### **Supporting evidence**

11. The added benefit of placements during study for employability is well documented<sup>14 15</sup> – this is a vital ingredient for creating job ready graduates<sup>16</sup> However, despite this evidence, as Wilson remarks, there has been a decline in participation in these schemes in recent years from 9.5 per cent of the total full-time cohort in 2002/2003 to 7.2 per cent in 2009/2010.<sup>17</sup> There are a number of potential barriers to students taking up opportunities in this area and Universities have a central role to play in ensuring that we reverse this downward trend. Changes to student number control mechanisms alongside this would be a great support.

## **Capitalising on the export potential of universities**

### **Proposal four**

12. We fully support the launch of HE Global as an online information and advice portal for HE institutions wishing to expand abroad, as announced in the Chancellor’s Autumn Statement.<sup>18</sup> We would also highlight the recently published Wilson Review recommendation in this area that UK Trade &

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<sup>12</sup> 1994 Group, The Postgraduate Crisis, 2012

<sup>13</sup> Wilson T, Review of Business-University Collaboration, February 2012 <http://www.wilsonreview.co.uk/review/>

<sup>14</sup> Hall M., Higson H. and Bullivant N. 2009 ‘The role of the undergraduate work placement in developing employment competences: Results from a five-year study of employers’ Aston Business School, Birmingham

<sup>15</sup> Mason G., Williams G. and Cranmer S. (2006) ‘Employability skills initiatives in higher education: what effects do they have on graduate labour outcomes?’ London: National Institute of Economic and Social Research

<sup>16</sup> CIPD Labour Market Outlook, August 2009 [http://www.cipd.co.uk/NR/rdonlyres/B825A8B2-7022-4D8A-B321-1AB38F1999B2/0/Labour\\_Market\\_Outlook\\_summer\\_09.pdf](http://www.cipd.co.uk/NR/rdonlyres/B825A8B2-7022-4D8A-B321-1AB38F1999B2/0/Labour_Market_Outlook_summer_09.pdf)

<sup>17</sup> Higher Education Statistics Agency (HESA) Performance Indicators [http://www.hesa.ac.uk/index.php?option=com\\_content&task=view&id=1650&Itemid=278](http://www.hesa.ac.uk/index.php?option=com_content&task=view&id=1650&Itemid=278)

<sup>18</sup> [http://cdn.hm-treasury.gov.uk/autumn\\_statement.pdf](http://cdn.hm-treasury.gov.uk/autumn_statement.pdf)

Investment (UKTI) should reconsider the role of universities in providing critical intelligence, support and ambassadorial engagement with potential investors.<sup>19</sup>

13. Alongside initiatives such as these it is vital that there is cross Government support for the international work of our universities and the significant number of jobs this creates. In particular, we should be minded at all times to ensure that immigration policies do not unduly restrict growth in this area.

#### **Supporting evidence**

14. As one of the UK's major successful export industries, universities have the capacity to leverage investment in a number of ways:
  - a. *Attracting international students:* In 2010/11, according to HESA data, there were 298,130 international (non-EU) students at UK higher education institutions within a total student population of 2,501,320. International students make a significant contribution to their local economies; in 2007/08 off-campus expenditure by international students was around £2.3 billion.<sup>20</sup>
  - b. *Leveraging investment from global companies:* Building on strong partnerships with business, as described above, universities have been able to leverage significant investment from global companies both in relation to research and innovation and towards the future skills base.
  - c. *Exporting UK higher education through trans-national education:* The UK International Unit have highlighted a number of different approaches to delivering trans-national education (TNE) – where a higher education programme is delivered across international borders.<sup>21</sup> This is a growing area of interest for UK universities particularly as they seek to diversify income streams following recent changes to university funding arrangements.

### **Making the UK the best place in the world for university-business collaboration**

#### **Proposal five**

15. In keeping with the newly enhanced role for the Technology Strategy Board (TSB), we strongly support the Wilson review recommendation that the TSB should work with universities, research funders and business to establish a boundary-scanning capability with intelligent brokering to facilitate innovation.<sup>22</sup>

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<sup>19</sup> Wilson T, Review of Business-University Collaboration, February 2012 <http://www.wilsonreview.co.uk/review/>

<sup>20</sup> Universities UK, The impact of universities on the UK economy, 2009

<sup>21</sup> International Unit, A Guide to UK Higher Education and Partnerships for Overseas Universities, July 2011

<sup>22</sup> Wilson T, Review of Business-University Collaboration, February 2012 <http://www.wilsonreview.co.uk/review/>

### Supporting evidence

16. As Wilson suggests, this role could include open innovation projects exposing existing research information on challenge areas, providing a valuable resource for business. When established, this facility should have the capability to reciprocate its service, linking companies in relevant sectors to universities seeking collaboration to develop applications for its research. Alongside this, the innovation voucher scheme announced in the Autumn statement will be an important tool in the TSB's armour for supporting innovation.
17. As the Wilson Review highlights, there are numerous ways in which universities are supporting businesses to grow and innovate. For example in Alliance universities strong partnerships with both national and international businesses have an impact across their activities to the extent that there is active business engagement in curriculum design, collaboration on specific programmes to embed graduate skills, research and innovation activities as well as the university delivering consultancy. Through this approach, universities are able to play a dual role to both generate and diffuse knowledge - something that NESTA has identified as critical if we are to fully exploit the innovation capacity of the UK.<sup>23</sup>

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<sup>23</sup> NESTA, Local knowledge, March 2010