

The David Hume Institute

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NEWS RELEASE

Latest DHI Research and associated Publication

‘Further Education, the Scottish Labour Market and the Wider Economy’

The David Hume Institute has today released a publication examining the Scottish further education sector in the context of the labour market and the wider economy. The report contains three substantive sections and an overview.

The first substantive section is by Lesley Sutton, until recently the Research Manager at the DHI. Lesley has brought together data and other available information on the performance and financing of the sector. Then Professor Kim Swales and colleagues at the University of Strathclyde report on a macro-modelling based analysis of the impact of one year’s output of the sector, examining the increase in human capital delivered. Finally Professor Ewart Keep from Cardiff University, who is also a member of the Scottish Funding Council’s Skills Committee, has examined the incentives people face when they are considering participation in education and training beyond school, noting that incentives may work less well at the lower end of the occupational and earnings spectrum. Jeremy Peat, the Institute’s Director, has provided an overview of the key findings and issues emerging from these three pieces of work – to enhance accessibility but also to help focus attention on some key findings.

The report was produced at the request of, and funded by, Scotland’s Colleges. However, as with all work undertaken by and for the Institute, the report is intended to be fully objective and evidence based. We have avoided direct comment on the state of funding of the FE sector, but are fully aware that this has become the subject of interest and comment during the period in which this report was being prepared.

Jeremy Peat, DHI Director, said: ‘This is a difficult time for the sector, facing the challenges of coping with constraints on funding, implementing rapid and substantial organisational change and of playing a key role in meeting the government’s challenge to provide an opportunity for all of those not in employment, education or training.

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This report shows that the FE sector in Scotland is also important to the maintenance and enhancement of skills through the labour force, providing input to skills at different stages of careers, thereby both assisting individuals to progress and improving the competitiveness of the Scottish economy at a time when being competitive is absolutely critical.

The evidence from this report is that the sector is cost-efficient and crucial in economic and social terms. There clearly will be scope for enhancing efficiency – there is in every sector. However, change must not be at the cost of the crucial role the colleges play in providing opportunities to many from diverse parts of society; nor must the critical close relationships with local businesses be placed at risk. The FE sector reaches parts of society that other elements of the education system find hard to reach. It must strive to meet the fresh challenges whilst also continuing to help to ensure that the best use is made of all potential members of our labour force.’

Commenting, **John Henderson, Chief Executive of Scotland's Colleges, said:** ‘This is a very helpful piece of research which demonstrates just how much colleges contribute to the Scottish economy, with the boost to skills equating to 1% of GDP over an eight year period. That's a significant contribution, showing the key role colleges have in economic growth and recovery. A group of learners leaving from colleges with a qualification see their collective incomes increase by £150,000 every year. Colleges are also shown to have strong and valued links with business, helping them adapt to emerging economic needs.

The research importantly also shows that the value created by the sector is not just in the economic return, but is also felt in tackling inequalities. Colleges unique nature is in serving a diverse group of learners, and providing a wide range of opportunities and flexible approaches to help them succeed’.

The Findings

One of the key findings from *Professor Swales et al* is that the cohort of learners studied increased earnings and productivity substantially and increases GDP in the long run by 0.12%. As described by Jeremy Peat in his overview ‘taken over an eight year period, the enhancement to their skills that colleges impart to their students increases Scottish GDP by approximately 1%, or £1.2 billion.’ This is based upon some heroic assumptions but does indicate that the impact of the sector is most certainly of significance.

The analysis by *Lesley Sutton* suggests that this performance is delivered whilst FE is being funded at a markedly lower level per head than is the case for the HE sector or indeed for secondary school students.

In addition to this financial return via enhanced earnings there are a range of wider benefits noted by Swales – including enhanced competitiveness and wider supply side effects – and by Sutton. Lesley Sutton demonstrates that the FE sector is important in terms of ‘inclusiveness’ and social impact – helping to reduce inequalities.

The colleges have reached parts of society that other components of our education system find hard to reach – and thereby provided flexible opportunities to very diverse group of learners – distinctly more diverse than for Higher Education – and delivered a remarkably high success rate given the limited qualifications of many entering the college system.

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The colleges work closely with local businesses – a set of relationships which must be maintained as the regionalisation process proceeds. There is also a suggestion that college students may become more willing to set up their own businesses – helping to nurture that critical entrepreneurial spirit.

One message to take from the very thoughtful paper by *Ewart Keep* is that standard incentive mechanisms may not work as well as might be expected at lower levels of the wage and occupational spectrum.

To quote from his paper ‘those on the lower rungs of the occupational ladder will tend to face weak or non-existent incentives to learn’. This poses a real challenge to Scotland’s education and training system. How will it rise to it? And can Scotland’s colleges, with experience in meeting the needs of a diverse student group play a particular role? Overall it is important not just to provide training to help people to find jobs, but to work to ensure that they make best use of their skills and capabilities to progress in the labour market – to move up the employment ladder. This finding also points once more to the importance of the priority being given to ‘early years’.

Kim Swales said: ‘In this paper we have attempted to identify the supply-side impact of one year’s output from the Scottish Further Education Colleges (FECs). The impact has been captured solely through the increase in human capital, so the study does not consider any demand-side impacts of the expenditures of FECs and their employees, or wider supply-side effects. The increase in human capital is measured by the wage premium identified in previous econometric studies as attaching to the qualifications delivered by Scottish FECs. The modelled impact on GDP and employment is significant and continues over the whole time period that the cohort is in the labour force. The increase in human capital has a positive effect on Scottish competitiveness and therefore Scottish exports and investment.’

Ewart Keep said: ‘Some of the key tensions and difficulties that Scottish skills policy faces stem from the patchiness and weakness of the incentives to engage in learning. This is particularly so for those who are not heading towards higher education and who are liable to end up working in the bottom half of the occupational and earnings spectrum. For many of these individuals the incentives on offer (in terms of better pay and prospects) are weak and uncertain. Thus the wage returns to many lower level vocational qualifications are relatively poor, and their role in initial recruitment and selection, and in subsequent progression within the organisation and wider labour market, is more patchy and limited than is often assumed. Time and energy invested in acquiring qualifications may not pay off, and uncertainty about the scale and likelihood of a positive payoff is weakest for those who usually have more limited resources to invest.

Even if all the barriers to learning (such as lack of time to study) could be removed, it is unclear whether many adults would be motivated to learn. These problems are deeply embedded within the design of vocational qualifications, and within the structure and operation of the lower end of the labour market. On their own, colleges and other educational actors can only do a limited amount to change this picture.’

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Professor Ewart Keep is deputy director of the ESRC Centre on Skills, Knowledge and Organisational Performance, and is based at the School of Social Sciences, Cardiff University. He has a first degree in modern history (London) and a PhD in industrial relations (Warwick). He has been a full-time researcher on education, training and skills for 26 years, and has written extensively on lifelong learning, apprenticeships, the incentives to learn, employers' attitudes towards skills and training, and the formulation and implementation of UK skills policy. He has advised parliamentary committees at Westminster and Holyrood, and is a member of the Scottish Funding Council's skills committee. He has also acted as a consultant to H M Treasury, the Cabinet Office, SSDA, National Skills Task Force, UKCES, NAO, DfES, DIUS, DBIS and the governments of Australia, Queensland, New South Wales and New Zealand.

Professor J Kim Swales is a graduate of Queens' College Cambridge. His main research interests are in regional economics and policy and environmental and energy modelling. In 1989 he joined the Fraser of Allander Institute to become a key member in an ESRC-funded project to develop a macro-micro model of the Scottish economy (AMOS). He has published widely in the field of regional economics, regional modelling, regional policy and energy and environmental modelling. He has served on management committee of the Urban and Regional Study Group, the Regional Science Association, British and Irish section, and was Associate Editor of Regional Studies from 1991-96. He is at present Director of the Fraser of Allander Institute in the Economics Department at the Strathclyde Business School.

A PDF of the publication is available at the Institute website at www.davidhumeinstitute.com

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