

## Exit from the European Union and the impact on colleges

1. At the time of writing, there remains considerable uncertainty about the United Kingdom's departure from the European Union (EU). Whether we leave with or without a deal, there will be consequences for colleges and universities. These were explored in the paper published by the Scottish Funding Council (SFC) on 8 December 2018 entitled, *EU Exit and Scottish colleges and universities*<sup>1</sup>.
2. The purpose of this paper is to provide a strategic overview of the potential challenges facing the college sector in Scotland as a result of EU exit. This paper will also cover the wider known labour market challenges facing the further and higher education sectors in the next 10-20 years. This includes issues such as changing skills demands, demographic changes across the country and an uncertain economic environment.
3. Given the continuing uncertainty, this paper should be considered against any recent developments.

### Demographic context

4. Since 2000, The Registrar General's Annual Review of Demographic Trends<sup>2</sup> shows that Scotland's population has increased, mostly due to migration, and this trend was projected to continue over the next 25 years with future population growth projected to be entirely reliant on migration. In the year to mid-2017, 23,900 more people came to Scotland than left. This contributed to the increase in Scotland's population. In contrast, natural change (births minus deaths) has not contributed to Scotland's recent population growth, as there were 3,800 more deaths than births in the latest year of National Records of Scotland (NRS) data.

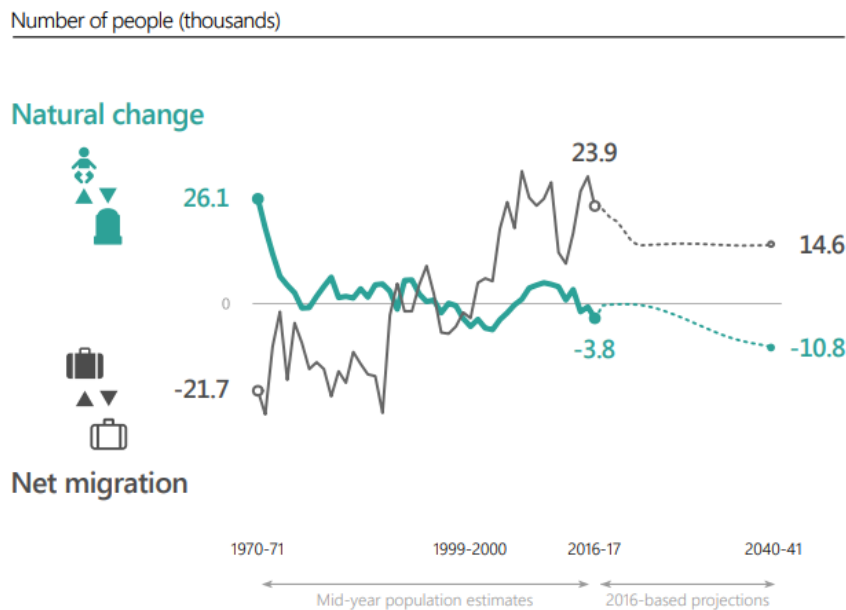
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<sup>1</sup>

[http://www.sfc.ac.uk/web/FILES/corporatepublications\\_sfccp012018/SFCCP012018\\_EU\\_Exit\\_and\\_Scottish\\_colleges\\_and\\_universities.pdf](http://www.sfc.ac.uk/web/FILES/corporatepublications_sfccp012018/SFCCP012018_EU_Exit_and_Scottish_colleges_and_universities.pdf)

<sup>2</sup> <https://www.nrscotland.gov.uk/files//statistics/nrs-visual/rgar-2017/rgar-2017-infographic-booklet.pdf>

Graph 1: Migration is the main reason for Scotland's population increase

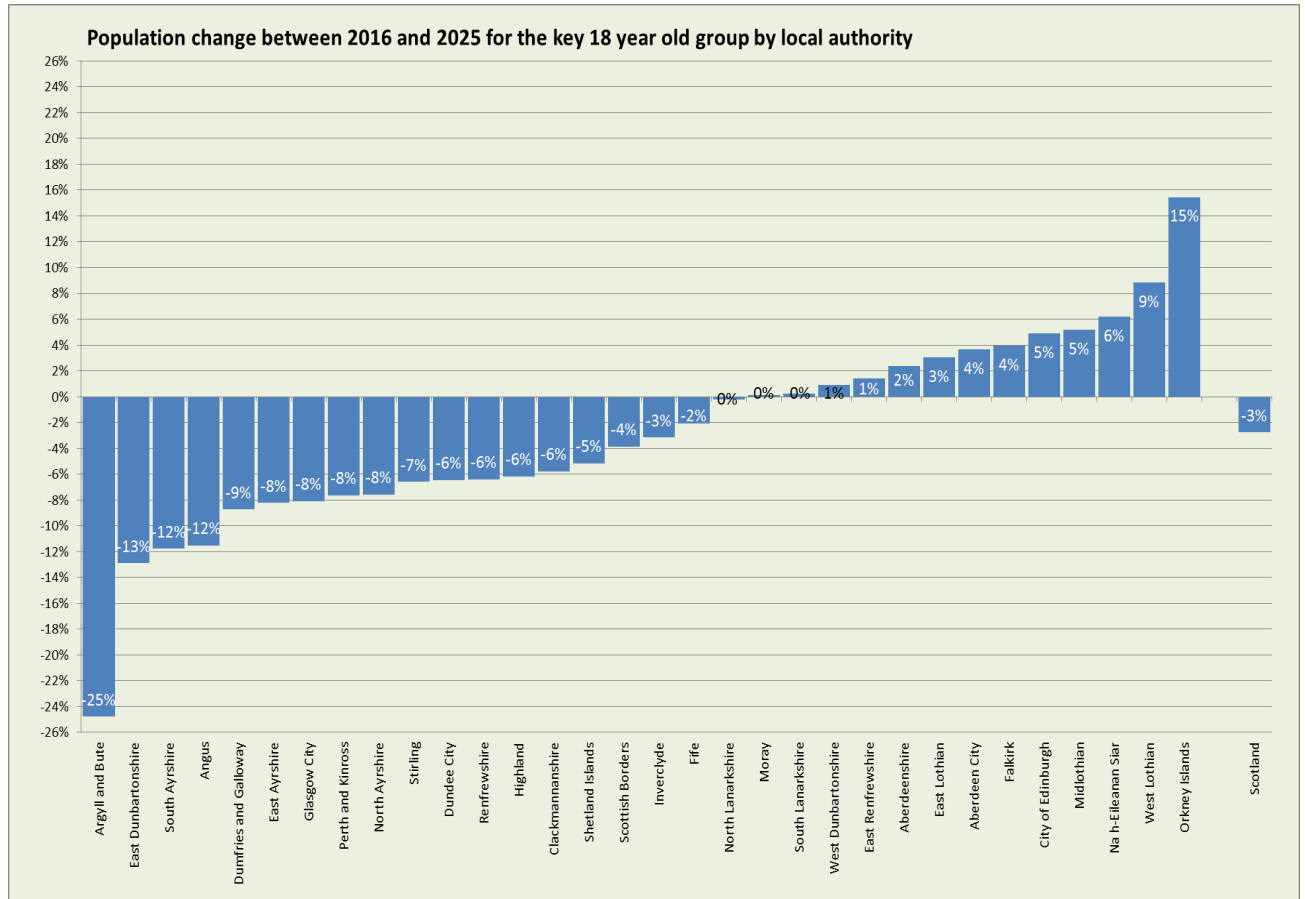


5. Some key points to highlight from this report include:

- The majority of people moving to Scotland from NRS 2017 data were of working age.
- In the year to mid-2017, the median age of a person moving to Scotland was 26.
- For people moving from the rest of the UK to Scotland the median age was 29.
- The fastest growing age group in Scotland is projected to be those aged 75 and over, increasing by **79%** over the 25 year period between 2016 and 2041.
- This is followed by those aged 65 to 74, projected to grow by 17% over the same period.
- In contrast, the population of all other groups (below age 65) is projected to decline over the 25 year period to 2041.<sup>3</sup>

<sup>3</sup> <https://www.nrscotland.gov.uk/statistics-and-data/statistics/stats-at-a-glance/registrars-general-annual-review/2017>

Graph 2: Population change between 2016 and 2025 for 18 year old group by local authority



6. Analysis by SFC illustrates that the college sector faces significant challenges over the medium to long term (particularly between the next 5-20 years) as a result of these demographic changes. As illustrated in the above graph, a decline in the number of 16-25 year olds in most regions is predicted to be most pronounced in the West of Scotland, with a slight increase in some regions in the East. This, coupled with an increase in population in the 64+ age cohort, presents a range of challenges for the education sector and for the Scottish economy including:

- An ageing population<sup>4</sup> and the impact that this will have on the demands on the health and social care workforce.
- The likelihood that an older population will be required to work until later in life, requiring refreshed skills to adapt to the changing economy.

<sup>4</sup> <https://www.nrscotland.gov.uk/news/2017/scotlands-population-is-projected-to-increase-and-to-age>

- Changing patterns of student demand. There has been an increase in young people staying on at school to complete S6 and an increase in the numbers of young people leaving school with Highers, resulting in a decline in the number of school leavers who apply directly to college.
  - A number of learner pathways are open to young people and colleges are competing with other providers. Young people are choosing instead to pursue different post-compulsory education pathway i.e.
    - Applying directly to university.
    - Enrolling in a Modern or Graduate Apprenticeship programme.
    - Moving directly into employment where it is anticipated that there is likely to be an increasing number of opportunities.
    - Taking up training with employers with their own education arms, for example 'big tech' companies like Amazon and Microsoft who have the capacity and scale to design and deliver online learning.
  - A reduction in central and devolved government tax revenues coupled with an increased pension bill is likely to lead to ongoing challenging funding settlements for public services.
7. These demographic trends, combined with a continuing move towards greater automation<sup>5</sup> in a range of lower skilled areas of the economy, illustrates the significant challenges that the college sector in Scotland faces in course delivery using the existing funding model. The impact of exiting the EU will provide further challenge over the coming years.
8. Whilst the current funding system does not prevent colleges from offering shorter courses which are linked to industry needs to help people to reskill and upskill, it does not actively incentivise this type of provision. Colleges need a system which enables them to act nimbly in the design of new qualifications, to respond to student demand and to keep up with the provision that is available online and from private providers. Alongside this, a more flexible student support offer, which funds those who wish to retrain or upskill in key areas, could help stimulate student demand.

### **EU exit, impact on colleges**

9. There are a number of potential direct and indirect impacts on the college sector in Scotland of leaving the EU. These are:

#### Direct impacts:

- Loss of funds e.g. ESF, Interreg etc.
- Loss of EU students and staff
- Loss of Erasmus+, either entirely or to be renegotiated under different terms.

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<sup>5</sup> [https://www.skillsdevelopmentscotland.co.uk/media/44684/skills-40\\_a-skills-model.pdf](https://www.skillsdevelopmentscotland.co.uk/media/44684/skills-40_a-skills-model.pdf)

Indirect impacts:

- Loss of indirect funds i.e. 3<sup>rd</sup> party EU funding via SDS or Local Authority.
- Change of status of EU students means that there is the potential for increased recruitment of Scottish domiciled HE students by universities. This could exacerbate loss of HE students from colleges due to continuation of CoWA activity providing students from SIMD20 direct entry into HEIs.
- Emerging skills gaps as skilled EU nationals leave the UK due to the potential loss of freedom of movement, the devaluation of the pound, and changes to the immigration/visa system.
- Increased likelihood of higher unemployment rates and economic downturn.
- Supply chain breakdown or cost increase - facilities companies, logistics providers, maintenance contracts etc.
- Loss of international curriculum development opportunities.
- Immigration impact on international activity.
- Loss of commercial contracts due to economic uncertainty for businesses which the college works with.

### Future regional policy and funding

10. In previous times of economic uncertainty, Colleges worked with the Managing Authority and the European Commission to mitigate the worst impacts through investment from the European Structural and Investment Funds (ESIF). Post Brexit, ESIF will be replaced by the UK Shared Prosperity Fund (UKSPF), however as yet there is little detail on the policy which will drive this, the quantum of funding which will be made available through the fund or the mechanisms by which it will be delivered. Colleges will therefore have to factor in a reduction in ESIF funding at least in the short-term.

### Declining volume of potential college students

11. In 2016-17, 98% of all college enrolments had a Scottish postcode upon application. So we know that the majority of the 16,060 EU nationals who enrolled on college courses were already residing in Scotland. This is a key difference from universities, where EU students move from their home country to Scotland to study. It is predicted that fewer working age EU nationals are likely to come to the UK to study, live, work and raise their families in the future due to the ending of freedom of movement and a number of other factors including:

- Drop in the value of the pound relative to the Euro.
- Tighter immigration controls limiting time that EU nationals can live and work in the UK without applying for residency.
- Loss of opportunities to study outside the UK as part of a FE/HE course.

- Loss of perceived international status and subsequent attractiveness as a country.
- Perception of being unwelcome as an EU national in the UK as a result of EU Exit and immigration policy.

12. EU net migration to the UK has fallen since the EU referendum in 2016, but is still positive - more EU citizens are entering than leaving. However, this is in the context of freedom of movement within the EU being maintained as the UK approaches the end of the Article 50 negotiation period. Post-EU membership immigration policy and how EU citizens will apply for residency or work in post-EU membership Britain remains uncertain. The finalising of the UK Government's immigration policy will provide clarity on this issue.

13. Year on year statistics, most recently published in November 2018 by the Office for National Statistics (ONS), entitled *UK and non-UK people in the labour market*<sup>6</sup> show that the decline in the growth of EU nationals migrating to the UK since 2016 has been marginally counteracted by a comparatively small increase in non-EU national migration:

- There were 2.25 million EU nationals working in the UK, 132,000 fewer than the previous year (the largest annual fall since comparable records began in 1997).
- There were 1.24 million non-EU nationals working in the UK, 34,000 more than the previous year.

14. It is difficult to quantify the projected loss of EU national students post-EU exit in the college sector. The loss of small numbers of EU national students may result in a risk of certain college courses becoming unsustainable in their current form if colleges are unable to adapt their delivery methods. The loss of substantial numbers of EU nationals is likely to aggravate the overall demographic shift and further exacerbate the student recruitment challenges. This is difficult to quantify accurately however, due to the various conflicting issues laid out in this paper.

15. An analysis of AY 2017/18 college enrolment data shows that there were 4,423 courses with at least 1 EU national enrolled, 3581 with 1-5 EU nationals and 79 courses with 100% EU nationals.

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/ukandnonukpeopleinthelabourmarket/november2018>

Table 1: 2017/18 college course enrolment data

<b>2017/18 College course enrolment data</b>	
<b>no of courses with 1 EU national</b>	2,085
<b>no of courses with at least 1 EU national</b>	4,423
<b>no of courses with less than 5 EU nationals</b>	3,581
<b>no of courses with at least 25% EU nationals</b>	726
<b>no of courses with 100% EU nationals</b>	79
<b>no of courses with 5 or more EU nationals</b>	842
<b>no of courses with no EU students</b>	9,008

### Deployment of university places

16. Currently, EU nationals attract the same tuition fee and teaching grant support as Scottish domiciled students in higher education. It is reasonable to conclude that free tuition for EU students in Scottish universities has enhanced the attractiveness of Scotland as a place to study. If, following the UK's exit from the EU, these students are required to pay tuition fees at the international student rate, Scotland will almost certainly see a decline in the number of EU students at undergraduate level in HEIs. An illustration of current international fees can be found in the table below:

Table 2: Undergraduate annual fee range for international students

<b>University</b>	<b>2019/20 Annual international UG fee range</b>
<b>Aberdeen University</b>	£15,300 – £40,500
<b>Abertay University</b>	£14,000 - £14,800
<b>Edinburgh University</b>	£19,800 - £32,100
<b>Glasgow University</b>	£16,320 - £45,000
<b>St Andrew's University</b>	£20,700 - £31,580
<b>University of Strathclyde</b>	£14,650 - £20,600
<b>University of the West of Scotland</b>	£12,000 - £14,000

17. There is no allocation for a specific quantity or volume of EU students in Scottish HEIs. In the event of the quantum of funding for the sector remaining static and no change in policy, consideration must be given as to how best to deploy this funding which is currently utilised for EU students. Some possible scenarios include (but are not limited to):

1. Continuing to fund EU students via a new scheme/scholarship.
2. Reprioritise these funds to enhance work to widen access to education for Scottish domiciled students.

3. Utilise funds to address areas with identified and growing skills gaps (i.e. STEM).
  4. Ensure that the overall financial health of institutions is supported.
  5. Reallocate some funds to other areas of the skills and education system.
18. Assuming that levels of university activity continue to be funded at the same level, but universities alter their entrance criteria with a view to recruiting more from the domestic student population and to meet Commission on Widening Access (CoWA) access targets to support students from the lower quartile of SIMD postcodes into HE, there is likely to be a significant secondary impact. It is fair to assume that Post-92 Universities are likely to 'lose' students to the 'Ancient' and 'Modern' universities, and subsequently colleges may lose students to the Post-92's. This is expected to result in demand for college higher education-level courses declining. This is a pattern which is already evidenced anecdotally.
19. Combined with the target of 116,000 FTE places to be delivered each academic year, colleges should have the flexibility to consider how best to structure the delivery of education and training in order to continue meeting labour market and learner needs, and to remain relevant and sustainable.

#### Emerging and worsening skills gaps

20. A further challenge which the UK's exit from the EU poses to colleges as a key provider in the skills training system will be the potential loss of skilled and unskilled EU nationals from the existing workforce. According to SPICe analysis of 2015 ONS data *EU Nationals Living in Scotland*<sup>7</sup>, across the UK, indications are that sectors most likely at risk include (but are not limited to) service sectors: hospitality and tourism, public administration, finance, health and social care and retail, as well as construction, agriculture and manufacturing. Almost a third of EU nationals in employment in Scotland in 2015 (33,000) were working in the distribution, hotels and restaurant sector. The Scottish economy is heavily reliant on these areas, particularly in remote and rural locations as well as in Edinburgh.
21. EU nationals were less likely to be in managerial and professional occupations, but more likely to be working in 'elementary occupations'. In total, around a third of EU nationals in employment were working in jobs classified as elementary occupations (31% or 35,000).

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<sup>7</sup> [http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB\\_16-86\\_EU\\_nationals\\_living\\_in\\_Scotland.pdf](http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_16-86_EU_nationals_living_in_Scotland.pdf)



22. According to the same dataset there were four local authorities which each had more than 10,000 residents with EU nationality, representing 58% of all EU nationals in Scotland:

Table 3: Local authorities with a high number of EU residents

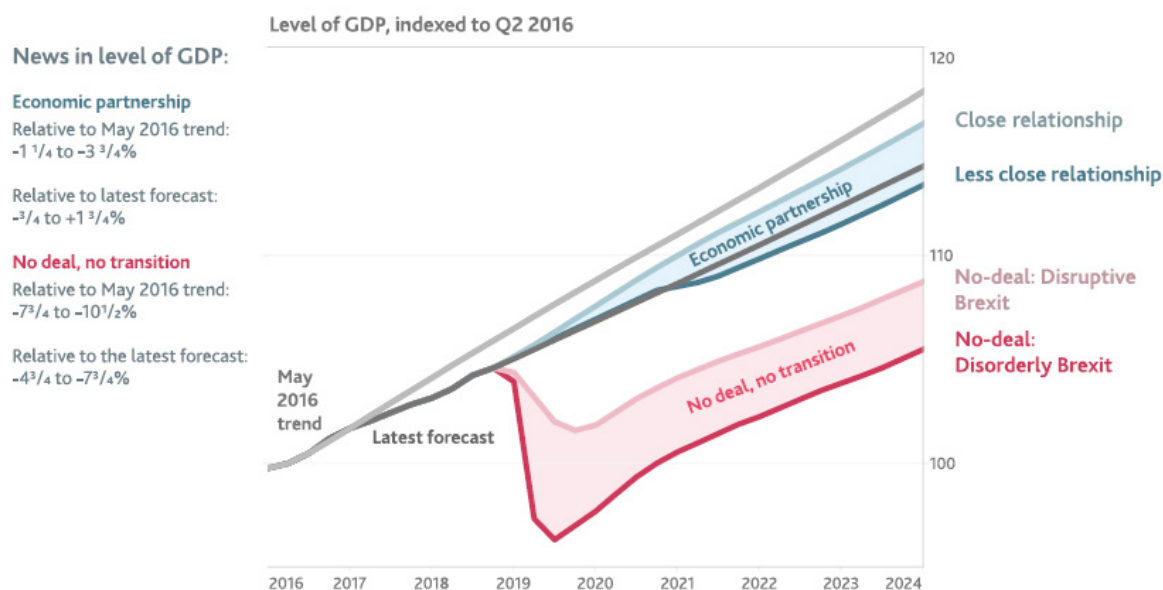
<b>Local Authority</b>	<b>Number of residents with EU Nationality</b>	<b>Percentage share of local population</b>
<b>City of Edinburgh</b>	39,000	8%
<b>City of Glasgow</b>	31,000	5%
<b>Aberdeen City</b>	25,000	11%
<b>Dundee City</b>	10,000	7%

23. For the Scottish population of working age as a whole, the employment rate in 2015 was 73.1%. Overall, EU nationals had a higher employment rate (78.9%). Replacing experienced and trained staff from a range of critical industries from a contracted pool of talent will present a unique test of the college sector's ability to adapt and flex its offer in order to continue meeting the needs of individuals, communities and businesses throughout and beyond the transition process.

#### **Increased likelihood of higher unemployment rates and economic downturn**

24. Following the UK's exit from the EU, all financial modelling scenarios indicate that there will be a reduced level of GDP, as indicated by the Bank of England's models below:

Graph 3: Modelled scenarios based on different assumptions about Brexit<sup>8</sup>



From the Bank of England response to the House of Commons Treasury Committee, *EU withdrawal scenarios and monetary and financial stability*:

*‘The impact of Brexit will depend on the direction, magnitude and speed of the effect of reduced openness on the UK economy.*

*Direction: The direction of the effects of a reduction in openness is clear: a weakening in both supply and demand, a lower exchange rate and higher inflation.*

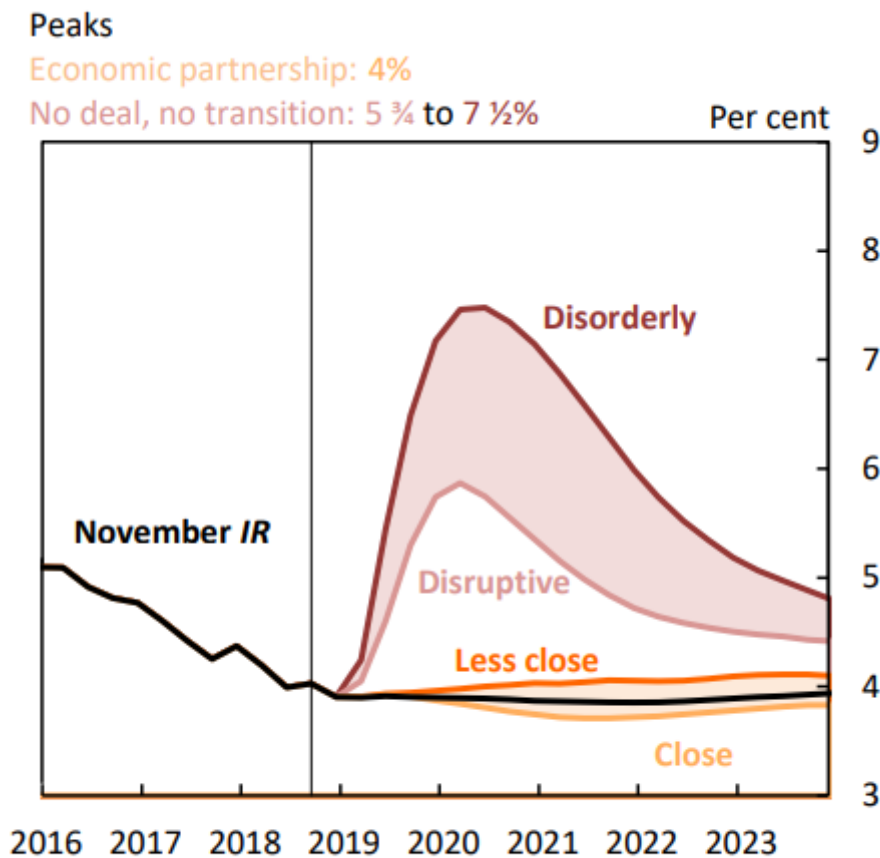
*EU withdrawal has already had consequences for the economy, providing some evidence of the nature of the Brexit adjustment. Productivity growth has slowed, sterling has depreciated and the increase in inflation has squeezed real incomes.’<sup>9</sup>*

25. In the case of a disorderly exit from the EU, it is anticipated that the UK will see a rise in unemployment rates up to 5.75 – 7.5% as illustrated in the Bank’s chart below.

<sup>8</sup> <https://www.bankofengland.co.uk/report/2018/eu-withdrawal-scenarios-and-monetary-and-financial-stability>

<sup>9</sup> <https://www.bankofengland.co.uk/-/media/boe/files/report/2018/eu-withdrawal-scenarios-and-monetary-and-financial-stability.pdf?la=en&hash=B5F6EDCDF90DCC10286FC0BC599D94CAB8735DFB>

Graph 4: Unemployment in EU withdrawal scenarios



Sources: ONS and Bank calculations.

26. The National Minimum Wage (NMW) rate is due to increase to £8.21 from April 2019 and to £8.61 in 2020. The Independent Low Pay Commission has recommended that the NMW should continue rising steadily to reach the official target of 60% of median earnings by 2020. The Commission has stressed that its forecasts were predicated on a negotiated EU exit deal with a smooth transition to a new relationship — albeit one with curbs on migration and less trade. Post-EU exit the pressure from statutory NMW increases combined with other economic challenges may result in worsening job losses where statutory wage increases are no longer possible. The Government’s aim of NMW reaching 60% of median UK earnings by 2020 may remain in place, however in the face of a disorderly exit from the EU this may be amended.
27. With a higher unemployment rate, colleges could play a significant role in retraining individuals with the necessary skills and qualifications to return to paid work as soon as possible. This will require the college sector to consider how best to meet their targets with a diminishing demographic of young

people, and how to ensure the sector remains reactive to the needs of the economy.

### **Work going forward**

26. As part of the work of the SFC EU Exit team, a programme of institutional visits was conducted across the college sector. At the point of writing, two colleges were yet to be consulted with. Discussions at each of these meetings were held with members of senior management and international teams. During these meetings, the colleges expressed a willingness to be flexible and adapt to meet arising challenges. There was a clearly expressed view that colleges see themselves as very well placed to offer solutions to some of the challenges that Brexit will bring.
  
27. In order to address the substantive issues highlighted in this paper, and any other issues which arise as a result of the UK leaving the EU, SFC will continue to adopt a partnership approach, working with colleges, Scottish Government and other partners, to support the sector and Scottish economy to ensure that vital skills and training are made available as required.