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 FROM THE SECRETARY OF STATE

Industry Seminar file

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REC.	17 MAY 1984
ACTION	CST [to deal]
COPIES TO	

17 May 1984

Dear Nigel,

INDUSTRIAL SPONSORSHIP OF INDIVIDUAL STUDENTS

I have been reviewing the potential for increasing the sponsorship of individual students by industry. (The subject has also come up in the context of my discussions with colleagues, including Peter Rees, on the switch to engineering and technology, for which officials have recently produced a report.)

By "sponsorship" I here mean the payment by firms of financial bursaries to students during the academic portion of their courses: such payments are additional to mandatory maintenance awards, within a specified limit for 1984/85 of £980 per annum (consisting of £580 for scholarships or bursaries: £400 (aggregable) for all other types of income). Income from bursaries above £980 leads to maintenance awards being abated pound for pound.

We know from a recent survey that the majority of sponsored undergraduate students are on engineering courses. About one quarter of the engineering under-graduates at UK universities and polytechnics is said to be sponsored and about 10,000 undergraduates in all across all academic disciplines. Within engineering, sponsorship concentrates on electronic and mechanical engineering in which many are advocating an increase in graduate output and where, as I mentioned above, there is current inter-departmental consideration of the proposed switch within agreed student numbers. The attached article describing the recent research in more detail offers helpful background.

/The more students

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 Treasury
 Parliament Street
 LONDON SW1P 3AG

The more that students are encouraged to look to the private sector for part of their income - particularly if this improves course choices - the better. And sponsorship can be a source of signals to students when their choice of course is made. If students can see that a course in, for example, electronics engineering is likely to bring with it a good chance of financial assistance during student years, then their propensity to opt for that type of course is likely to be so much the greater. Increased sponsorship will also improve the ability of individual firms to select good quality future employees. These factors combined will make the benefit to our economy of well motivated students pursuing the right types of academic disciplines that much the greater.

To bring about such an increase I believe that two changes are necessary and should be introduced as soon as possible:-

- i. the current level of "disregard" of other income before student awards are abated should be raised considerably in relation to sponsorship income. I suggest that students should be able to 'disregard' £1200 in respect of sponsorship/bursaries, giving a total disregard of £1600. The awards cost of this would be negligible as existing sponsorship is almost wholly contained within the £980 ceiling. There could be some small implications for tax revenue since I gather that sponsorship payments to students pursuing courses directly related to the company's area of business operation are normally tax allowable;
- ii. the 'business' of a company should be seen as covering the range of skills and capacities (eg financial, marketing) that it needs and possesses to hold its competitive edge. This would enable the range of courses in respect of which companies may claim allowance against tax to be widened to allow, for example, sponsorship within the engineering and other relevant disciplines by any company rather than just those operating within the industry itself. Thus the sponsorship 'market' would be able to operate freely - and make it easier for others to see by its operation where industry's needs really lie.

The tax incentive to individual companies to offer sponsorship should also, of course, be maintained. Companies should see that it is well worth while to encourage and develop the bright young graduates that the economy will need in the future.

/I would now

I would now welcome your reaction, and those of others to whom this letter is copied, to these suggestions. The Prime Minister has also taken an interest in the subject and we shall no doubt want to report the outcome to her in due course.

Copies of this letter go to Norman Tebbit, Tom King and David Young.

Ernie - King

Students and industrial sponsorship

Richard Pearson*

In certain specialized areas the role of industry in supporting British undergraduates is significant. It can have unexpected consequences.

STUDENT finance has been high on the debating agenda for a number of years. The value of the means-tested grant for British undergraduates is currently £1,660 per annum plus fees although few students receive the full amount because of the means test, with many parents not making their full contribution. Although the real value of the grant was fairly stable throughout the 1970s, it has fallen by about 10 per cent in the past couple of years (Fig. 1). Even so, the British undergraduate is considered better off than his contemporary in Japan, who has to take out a loan, while students in most of Europe and North America have to rely on a combination of loans (often at low rates of interest) and grants, supplemented in some cases by scholarships. In the United Kingdom, the current pressure to reduce public expenditure means that loan

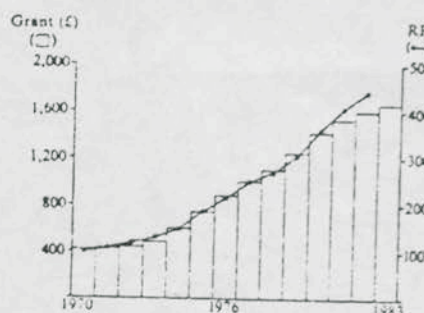


Fig. 1 The "real" value of the student grant in Britain.

schemes could well be reconsidered in the next few years, although opponents argue that loans lead to only limited cost savings, while seriously affecting certain groups, such as women and those from poorer homes.

One source of finance rarely considered in this debate is industrial sponsorship. The full extent, in terms of money spent and numbers involved, is unknown. Most sponsorship is, however, concentrated in the area of engineering, with a smaller involvement in some of the pure sciences and in business and related studies. A recent report¹ from the Institute of Manpower Studies has shown that more than 2,200 (one in four) final-year engineering students were sponsored in 1983, which suggests the total number of sponsored students in higher education is probably over 10,000. Total expenditure by industry is likely to be several million

pounds each year.

Sponsorship can take many forms. A student may be a salaried member of the staff of the sponsoring organization, he or she may receive a bursary worth up to £915 a year on top of the mandatory grant, or may have some mix of mandatory grant, bursary and salary when working in vacations or on periods of industrial work if on a sandwich course.

Employers sponsor students for a variety of reasons. For some it is a form of patronage, helping existing employees, often bright craftsmen and technicians, to advance their careers. For most, however, it is a means of guaranteeing a supply of well-trained recruits in the future, particularly in the "shortage" subjects of electronic and mechanical engineering. Sponsorship is also seen as providing an opportunity to make a detailed assessment of an individual's capabilities, as a means of influencing students' choice of subject and institution of study, as a way of attracting high quality school leavers, and to improve collaboration between industry and higher education. There is of course a financial cost involved, up to £4,000 per student over the duration of the course, and there is often the need to provide training and work experience.

In the past, some employers have sought legally to bind the student to the company for a period of years after graduation but this now happens only in the armed forces where the undergraduate becomes an employee. In recent years, 50-80 per cent of sponsored graduates have joined their sponsoring organizations, with each side rejecting the other in roughly similar proportions; some employers are, however, able to retain all those they want. Most students are sponsored from the start of their course, with the majority recruited directly from school, often only from local areas. More than half the employers limit their sponsorship students to particular universities, and in a few cases to particular polytechnics.

Among the 2,200 final-year engineering graduates sponsored in 1983, most were to be found in mechanical (38 per cent) and electrical/electronic (35 per cent) engineering, and relatively few in civil or chemical engineering. While two-thirds were in universities, the proportions of sponsored students, when compared on a subject basis, were similar in the universities and the polytechnics. Overall, 35 per cent of mechanical and 28 per cent of electrical/electronic engineers were sponsored (Fig.

2). It is interesting that it was the largest university/polytechnic departments (with over 50 final year students) that had the highest level of sponsorship and the middle-sized departments (25-49 final year students) that had the lowest.

In the past five years, more than 250 employers have been involved in sponsorship, some with only an occasional student, others with a regular intake of 50 to 100 a year. The number of companies sponsoring students has fallen as training budgets and recruitment levels have been cut back because of the recession. Nevertheless, the number of places on offer has grown slightly, with the number of places for electronic engineers increasing dramatically in response to expected shortages in future years.

Looking to the future, most employers expect to continue with their current sponsorship policies, while one in five expect to increase and one in seven to decrease their level of sponsorship. In the case of electronics, sponsorship has been rising rapidly. As a result, perhaps half of the graduates expecting to enter the labour

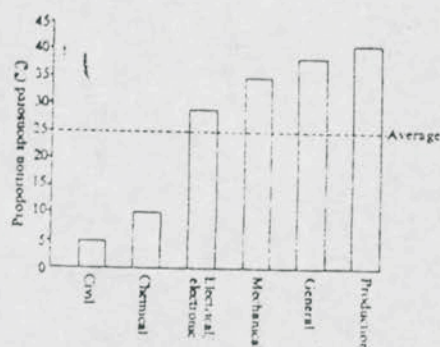


Fig. 2 Proportion of final-year engineering students at UK universities and polytechnics sponsored by an employer during 1983.

market in the next few years will already be notionally committed to a particular employer. While not all will join that employer, it seems that the "free" market of electronics engineering graduates seeking employment will be even smaller than the already inadequate supply than has been forecast. This will compound the future recruitment difficulties of all types of employers, although the sustained high level of sponsorship may have an influence on subject and career choice by would-be students.

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1. Gordon, A., Hill, R. & Pearson, R. *Undergraduate Sponsorship: Implications for the Labour Market* (Interim Report) (IMS, 1983).