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Free to choose

How ‘Individual Education Budgets’ can revolutionise tertiary education

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Executive Summary

Our post-18 education system is broken. The total value of outstanding student debt has already passed £100 billion and is forecast to reach around £450 billion by the middle of this century. With the vast majority of universities charging £9,250 per year for undergraduate degrees, students are typically finishing their courses with £40,000-£50,000 of debt. Worse still, almost one-third of graduates are now in non-graduate jobs and can find themselves earning less than if they hadn't attended university at all. Not only is the plight of graduates creating significant political and financial problems, colleges and apprenticeships remain under-funded and under-utilised after successive governments have chosen to emphasise the supposed benefits of attending university at the expense of other options available to learners of all ages. Hence, from multiple perspectives – long-term viability, financial sustainability, educational equity and social mobility – the current system is failing to deliver consistently positive outcomes for students, taxpayers and employers.

In recognition of these deep-rooted issues, the Prime Minister Theresa May launched a review of post-18 ('tertiary') education in February 2018. The review, led by Philip Augar, was tasked with focusing on four areas:

- **Choice**: identifying ways to help people make more effective choices between the different options available after age 18;
- **Value for money**: looking at how students contribute to the cost of their studies to ensure funding arrangements are transparent;
- **Access**: enabling people from all backgrounds to progress into post-18 education, while also examining how disadvantaged students receive additional support;
- **Skills provision**: future-proofing the economy by making sure the post-18 education system is providing the skills that employers need.

Inevitably, the political sensitivity of university tuition fees has meant that it continues to dominate media coverage of the 'Augar Review'. However, in her speech that launched the review, it was striking how often the Prime Minister referred to 'tertiary education' and she was clear that the review will look at "the whole post-18 education sector in the round, breaking down false boundaries between further and higher education, to create a system which is truly joined up." Consequently, this report seeks to deliver the Prime Minister's ambition by creating a single funding system to underpin a single tertiary education system in which universities, colleges and apprenticeships can all thrive. To this end, instead of focusing on *how much* the government should invest in tertiary education, this report focuses

on *how* the government should invest. If the objective is to reduce spending on tertiary education while meeting the Prime Minister's four goals for the Augar Review, students will have to start making different choices about what they study, where they study and how they study after age 18. The simplest and most effective way to achieve this is to put the funding for tertiary education in the hands of the students themselves.

The concept of handing control of public funding to users – often referred to as 'personal budgets' – is not new. Other sectors, most notably social care, have been operating such models for many years. The last notable attempt to introduce a similar model in education was implemented in 2000-2001 by the previous Labour Government, only to end in ignominious fashion with accusations of fraud and millions in wasted taxpayers' investment. Nevertheless, the problems faced by ministers and civil servants at the time (e.g. ineffective quality assurance systems) are eminently solvable in the present day. Other countries such as France and Singapore have already rolled out schemes of this nature in recent years accompanied by substantial financial backing from their respective governments. The Prime Minister's review of tertiary education provides the ideal opportunity to reopen the conversation about personal budgets for education and training, given that they are the most effective mechanism for creating a level playing field between universities, colleges and apprenticeships.

New Individual Education Budgets for young people and adults

RECOMMENDATION 1

After completing compulsory education at age 18, each learner in England will be eligible to access an 'Individual Education Budget' (IEB) in their name. This IEB will act as a 'learning account' into which the government will place up to £20,000 to be spent on education and training, with the precise sum being dependent on a number of factors (e.g. whether or not a learner is from a disadvantaged background).

The current system for funding HE and FE is heavily based around student loans, in the sense that there is little up-front funding available (which historically came in the form of grants) as students are instead expected to accrue debts in the form of student loans to fund their learning. This means that a large proportion of government investment in HE and FE comes in the form of providing subsidised loans and then writing-off unpaid debts over time. This report proposes a shift away from this model, at least in part, by reintroducing a form of grant funding to be paid to learners before they enter tertiary education while also maintaining access to loans if they are still required. This report outlines three models for deciding the level of grant funding that will be placed into learners' IEBs, with each model being based on

a different set of underlying principles. That said, the significant weighting of funding towards learners from the most deprived backgrounds is a core feature of all three models to reflect the consistent finding within the research literature that these individuals are the most averse to accruing student debt. The three models are based on a 'sliding scale' of deprivation, with learners from the most deprived backgrounds receiving up to £20,000 at the age of 18 to spend on education and training. Providing this funding to all learners will cost £1.7-3.4 billion per year depending on the precise model and combination of deprivation factors.

RECOMMENDATION 2

Adults who have left compulsory education but have not previously taken out a student loan will be able to open an IEB. They will receive a small opening contribution from government towards the cost of training courses and programmes, depending on the highest level of qualification that they currently hold. Adults who have already taken out a student loan will be rolled into the new IEB system.

Even if learners have already finished their formal education, ensuring that they can access financial support for upskilling and reskilling in future remains an important consideration. Consequently, adult learners should also be entitled to open a new IEB and those with the lowest levels of qualifications should receive greater investment from government. This report includes several scenarios for how much this would cost, starting at £844 million to provide a £150 investment for all adults qualified below Level 2 (GCSE standard). It is envisaged that any adults with existing student loan debts will have access to the same IEB system as new entrants and adult learners, and whatever loan they have already received would count towards their new 'lifetime loan limit' (see Recommendation 6). This would mean that all learners, regardless of their age or prior qualifications, would be treated in the same way and have access to the same support.

Creating the necessary infrastructure

RECOMMENDATION 3

The new IEB system for young people and adults would be operated by the Student Loans Company. Any funding given to each learner when they open their IEB would be credited as a 'negative balance' in their account.

Rather than setting up a parallel system for IEBs to run alongside the Student Loans Company (SLC), it is envisaged that the loan accounts operated by the SLC will essentially become the new IEBs. When a learner opens an account with the SLC, they will be notified of their

entitlement to an investment by government into their IEB (the level of investment being dependent on which of the models described in this report is chosen by government). Whatever investment a learner receives will be credited to their account with the SLC as a 'negative balance' e.g. if a learner is entitled to receive £6,000 of government investment, their IEB (student loan account) will display a balance of -£6,000 to represent the fact they, in effect, are owed that money by government. If and when a learner chooses a course or qualification that they wish to spend their funds on, the SLC will simply disburse the relevant sum to the provider (e.g. a university), as they do now, and the learner's balance on their account will be adjusted accordingly. After an IEB is opened by a learner, the account will stay with them over time, irrespective of whether they change jobs or careers. This is a crucial facet of any successful lifelong learning strategy, as shown by France, Singapore and other nations.

RECOMMENDATION 4

The money in each IEB can be spent on any approved and regulated qualification from Level 2 upwards.

The new funding system of IEBs should give learners the opportunity to select any approved and regulated qualification from Level 2 (GCSEs) up to Level 8 (doctoral level). This will encourage the learner to choose the most appropriate course to meet their needs at any given time, ranging from basic skills training (e.g. Functional Skills) up to more advanced academic and technical courses. To accompany this flexibility for learners, government will need to be clear about which courses and qualifications it deems eligible for funding at each level to prevent IEB funds being spent on inappropriate courses (e.g. those that lack rigour and / or do not have valid and reliable assessments).

RECOMMENDATION 5

IEB funds and student loans must be spent at a registered provider that is regulated by either the Office for Students or Ofsted.

The quality assurance systems now in use across the different areas of tertiary education in England will provide a much more robust defence against malpractice compared to what was in place during the Labour Government's experiment with 'learning accounts' in 2000-2001. This report recommends that the funds given to each learner in their IEB and any student loans that they choose to access must be spent at a regulated provider. This could be a university or other HE institution regulated by the Office for Students or a college or private training provider regulated by Ofsted.

A new student loan system

RECOMMENDATION 6

The IEB system would be supported by a single student loan system that encompasses all provision. It will cover the costs of tuition at all levels and will also offer maintenance support for courses at Level 4 and above. Each IEB would have a lifetime loan limit of £75,000 for each learner, which would come into effect once their initial funds from the government have been depleted.

This report proposes that the government convert the existing student loan system into a lifetime 'draw-down' account available to all learners. This will cover the costs of tuition for all forms of provision and can be accessed multiple times, unlike the current student loan system that operates as a 'single shot' account. At Level 4 and above, the loan system will also be available to cover living costs (i.e. a maintenance loan), meaning that learners will be able to access the same financial support irrespective of whether they are studying at university or college.

As the loan system will now act as a lifetime draw-down account available to learners across all forms of tertiary provision, it will be necessary to place a 'cap' on the total amount of loan support available over a learner's lifetime. A student studying an undergraduate degree followed by a PhD is currently able to borrow a total of approximately £75,000 in tuition and maintenance loans over the course of their studies. This sum therefore represents a sensible 'cap' for accessing financial support from the government over their lifetime.

RECOMMENDATION 7

Up to the £75,000 cap, the unified student loan system will operate with a single repayment threshold, repayment rate, interest rate and repayment period for all forms of tuition and maintenance loans that a learner requires. The repayment threshold and the interest rate should be reduced from their current levels and the repayment period should be extended.

The range of loans currently available from the SLC, and the variety of terms and conditions attached to each type of loan, is bewildering. It is much harder to explain and justify the student loan system to learners, parents and employers when there are so many different permutations of repayment thresholds, repayment rates and interest rates. This complexity is unnecessary and unhelpful in the context of building a coherent tertiary education system that supports lifelong learning. Up to the £75,000 cap, the single loan system will in future operate with one set of repayment terms and one interest rate for all forms of tuition and maintenance support that learners choose to draw down.

Selecting the right combination of a repayment threshold, repayment rate, repayment period and interest rate will require considerable thought and it is essential that this conversation is approached differently to how it has been treated in the past, when political considerations have typically dominated the discussion. Constant tinkering by successive ministers and governments has resulted in the repayment threshold for student loans rising from £10,000 to £25,000 – leaving taxpayers exposed to billions in additional unpaid debts each year.

Should a learner use up all their IEB funds, they will have to take out a loan to cover the remaining costs of their current course or programme as well as any future provision. This dynamic of significant up-front funding coupled with a supporting loan system contrasts with the current loan-dominated model. Unlike now, any decision by a learner to take out a loan after using up all their IEB funds will therefore be an active choice, not a necessity. In light of this change of emphasis, the government has every right to attach more stringent repayment terms to the loans seeing as learners will have, by definition, already used up thousands of pounds of government investment.

London Economics, a leading policy and economics consultancy, were commissioned for this report to assess the impact of different repayment thresholds and repayment rates on government finances. Following an analysis of the modelling by London Economics, this report recommends that the repayment threshold is lowered from £25,000 to £12,500 for all learners who open an IEB. This would reduce the cost of each cohort of students from £8.7 billion to £2.3 billion, with the RAB charge falling from approximately 46% under the current system to just 7%. Providing substantial funding of up to £20,000 for every learner through IEBs, accompanied by a clear expectation that learners should pay back their loans in full over the course of their career, is a much healthier and more sustainable proposition than the existing setup, where loans are rarely repaid and taxpayers are forced to pick up the resulting multi-billion pound tab. Even if the government selects the most expensive option in this report for IEBs (£3.4 billion), the saving of £6.4 billion generated by lowering the repayment threshold would comfortably cover this investment each year as well as any additional investment in IEBs for adults.

Another significant saving to taxpayers can be generated by adjusting the 'repayment period' over which graduates pay back their loan. It seems incongruous to have a repayment period of 30 years when most graduates are likely to be working for 40-45 years after they finish their degree. London Economics has previously calculated that extending the repayment period for student loans from 30 to 40 years would save the government £1.71 billion (under the current funding system) for each cohort of students. Consequently, this report recommends that the repayment period should be extended to 40 years to reduce the burden on taxpayers.

Once the loan system has been placed on a more sustainable footing, there will be no need for punitive interest rates designed solely to help stabilise government finances. The interest rate should be reduced from its current level of up to RPI + 3%. This report recommends that the government gives serious consideration to returning the interest rate back to the rate of inflation (where it still is for pre-2012 loans) so that the real interest rate is zero throughout the entire duration of each loan.

RECOMMENDATION 8

A significant proportion of outstanding student debt should be written off in line with what previous student cohorts would have theoretically received under the new system. Alongside this, all existing loans should be aligned with the new single repayment threshold, repayment rate, interest rate and repayment period over the course of 15 years.

It is important to balance the needs of learners who have already accrued debt with the SLC with those who have not and open an IEB instead. First, the government should write off a large proportion of each previous learner's outstanding debt with the SLC in line with whichever funding formula is chosen for new IEBs available to young people. This could be done by, for example, using the residential postcodes supplied by learners when they originally applied for their loans to estimate their level of deprivation at the time. By doing this, all learners past and present will effectively be treated in the same way because it will be as if all learners had started with an up-front grant followed by using loans to pay the remainder of their costs/fees. Once this is done, all previous learners will now be able to access additional support up to the £75,000 cap.

Second, the government should incrementally align the repayment thresholds, repayment rates, interest rates and repayment period for previous learners so that over time they all match the single set of terms now offered to new learners. For example, the £25,000 repayment threshold could be reduced by, say, £800 a year for 15 consecutive years until it reaches the new threshold set by government in the IEB system. Similarly, interest rates should be gradually lowered so that they too become aligned with the more favourable 0% real interest rate offered to new learners.

This package of a generous loan write-off coupled with the new £75,000 loan facility and new repayment criteria should provide a mechanism through which the proposed single loan system can, in effect, be extended backwards to learners from previous cohorts. This is another important component of building one single loan system that is easily understood and accessed by learners of all ages. Careful modelling will be required to ensure the transition from the old loan system to the new repayment terms represents a fair deal for students.

Conclusion

The reason that this report is called 'Free to choose' is two-fold. First, by placing the control of the tertiary system (and most of the associated funding) in the hands of learners, they will now be free to choose the most appropriate course or programme for them and the government's funding will follow their choice. Second, this report seeks to tilt the tertiary education system in favour of the most disadvantaged learners without unduly restricting the support available to others. Should a learner from a disadvantaged background open an IEB with £10,000-20,000 of funding, the cost of tuition for a huge swathe of courses across the tertiary system will be mostly, if not entirely, covered. This means that disadvantaged learners will be able to access many courses and programmes for free without even taking out a loan – something that is a distant prospect for almost everyone under the current arrangements. Ensuring that these learners are free to choose the right course for them without the prospect of a large debt burden hanging over them would be a laudable outcome in the broader pursuit of educational equity, even if the Augar Review had never been set in motion.

Crucially, a tertiary system that revolves around IEBs also meets all four criteria set out by the Prime Minister for the Augar Review: more informed choices and greater transparency about different education options; better value for money for students and taxpayers; a strong emphasis on providing the most financial support to learners from the most disadvantaged backgrounds; and promoting a greater diversity of provision, with the aim of reinvigorating part-time university and college courses as well as higher-level technical qualifications that are valued by employers. What's more, the IEB model can be implemented regardless of any changes to tuition fees proposed by the Augar Review because IEBs are simply a vehicle through which the government provides funding for learners.

It is plainly apparent that the government needs to reduce the overall cost of tertiary education. The package of reforms described in this report can help achieve this without unfairly hindering any specific type of institution or group of learners. What's more, even including the generous up-front investment in IEBs each year, the annual cost of operating the IEB model is estimated to be £6 billion per student cohort – a saving of £2.7 billion compared to the current system. This leaves plenty of scope to invest in adult learners in the coming years while also easing the financial pressure on taxpayers.

Every new funding model will inevitably encounter some challenges and obstacles as it is developed and implemented. Nevertheless, the framework described in this report for IEBs shows how a fair, sustainable and effective tertiary education system can be built using nothing more than the existing infrastructure, processes and procedures. As a result, it is hoped that this report makes a valuable contribution to the government's post-18 review and the future of our education system.

1. Introduction

> *"Most politicians, most journalists, most political commentators took the academic route themselves, and will expect their children to do the same. And there remains a perception that going to university is really the only desirable route, while going into training is something for other people's children. If we are going to succeed in building a fairer society and a stronger economy, we need to throw away this outdated attitude for good and create a system of tertiary education that works for all our young people."* [1]

As the Prime Minister Theresa May launched the review of post-18 education in February 2018, it was striking how she referred to 'tertiary education' on numerous occasions. Many, if not all, of her predecessors had maintained the distinction between universities (which they were keen to be associated with) and other educational programmes available at higher levels (which remain a mystery to most politicians, even today). The respective fortunes of Higher Education (HE) and Further Education (FE) have diverged dramatically in recent decades as a result. When Lord Robbins published his landmark review of HE in 1963, only 4% of each age cohort were choosing to move into HE, with another 2% choosing courses in FE.[2] Fast forward to the modern era, and the landscape looks very different. In 2017, 757,300 undergraduate and postgraduate qualifications were obtained by students in HE[3] compared to just 11,100 apprenticeships and 5,100 classroom-based qualifications at higher levels (Level 4+).[4] The number of part-time students has also declined by 63% since 2009/10[5] – further illustrating the current dominance of full-time HE degrees.

In her speech, the Prime Minister declared that the review will look at "the whole post-18 education sector in the round, breaking down false boundaries between further and higher education, to create a system which is truly joined up."[6] The review was therefore tasked with focusing on four areas:

- **Choice**: identifying ways to help people make more effective choices between the different options available after 18, so they can make more informed decisions about their futures;
- **Value for money**: looking at how students and graduates contribute to the cost of their studies, to ensure funding arrangements across post-18 education in the future are transparent and do not stop people from accessing higher education or training;
- **Access**: enabling people from all backgrounds to progress and succeed in post-18 education, while also examining how disadvantaged students receive additional financial support from the government, universities and colleges;

- **Skills provision**: future-proofing the economy by making sure we have a post-18 education system that is providing the skills that employers need.[7]

The financial stakes of the Prime Minister's review could not be higher. Each year, more than £16 billion is loaned to HE students in England and the total value of outstanding loans has already passed £100 billion.[8] The long-term trajectory of student loan debt is more alarming still. The government forecasts that the value of outstanding loans will reach around £450 billion (in 2017-18 prices) by the middle of this century, which is largely driven by the fact that only 30% of current full-time undergraduates who have taken out loans will repay them in full.[9] The average student debt for those finishing university is expected to be more than £40,000, rising to around £53,000 for students from the poorest families.[10] In short, the student loan system has become financially unsustainable.

As if delivering a successful review of tertiary education was not enough of a challenge for ministers, the decision by the Office for National Statistics (ONS) in December 2018 to change the way that student loans are accounted for by government was a hugely significant moment. The two key changes were that:

- Government expenditure related to the cancellation of unpaid student loans will be accounted for in the periods that loans are issued (i.e. now) rather than at maturity (in 30 years' time)

- Government revenue will no longer include interest accrued on student loans that will never be paid back

The cumulative effect of these changes is that public sector net borrowing in the financial year ending 2019 will rise by approximately £12 billion.[11] This means that, at the same time as the government is attempting to reshape the tertiary education landscape for the next generation, the Treasury will simultaneously be seeking ways to reduce (perhaps substantially so) the cost to taxpayers of supporting the very same landscape.

The government's post-18 review is to be informed by independent advice from an expert panel drawn from across education, business and academia chaired by Philip Augar, a leading author and former non-executive director of the Department for Education (the 'Augar Review'). Ministers are expected to announce their final plans for the post-18 sector in the months following the publication of the Augar Review. Numerous media outlets have released what they claim are proposals for reform that the Augar Review is contemplating. For example, in November 2018 The Times reported that the Review was considering reducing tuition fees to between £6,500 and £7,500 a year from their current level of £9,250[12]

to alleviate some of the strain on the student loan system. In the following month, the Sunday Times claimed that the Augar Review was also considering restricting access to HE loans to those students who achieved three D grades or higher at A-level.[13] The Times Higher Education magazine added that the Augar Review was looking at using the government's new earnings data to block access to student loan funding for particular degree courses that lead to low graduate salaries.[14] Regardless of the precise mechanisms, these leaked proposals indicate two things. First, the government sees the reduction of tuition fees as solving both a political and financial problem. Second, ministers may be about to directly intervene in the types of courses and institutions that students can choose in future.

This would be a mistake. It is wrong for a government to dictate who can go to university. Arbitrary grade or salary thresholds will inevitably drag ministers into difficult (and unwinnable) debates about which degrees are 'valuable' and which are not. That said, it is perfectly legitimate for any government to encourage students to make different choices about the courses and programmes that they pursue after leaving school. The alarming levels of debt accruing in the student loan system, driven in part by the relatively low earnings of many graduates, suggests that some students could be making sub-optimal choices after they leave school. Recent analysis by the ONS found that almost a third of graduates are now in 'non-graduate' jobs (i.e. they have more education than is required for their job) – rising to around 45-50% of graduates with degrees in the arts, humanities and media and information studies.[15] The 'Longitudinal Education Outcomes' dataset that links higher education records with HMRC tax data has also shown that some graduates end up earning less after finishing their degree than if they hadn't gone to university at all.[16]

However, policymakers should not be surprised when students choose undergraduate courses that generate low economic returns because government policy has strongly encouraged this sort of behaviour for years. In fact, successive governments have consistently sent out the message to students that they could and should be indifferent to the value of an HE or FE course. For example, the student loan repayment threshold was originally set at £10,000 around 20 years ago,[17] but this threshold has been repeatedly raised under the guise of 'protecting' graduates who end up on lower incomes[18] and now stands at £25,000.

In this context, it is not realistic to expect students to rationally evaluate all their options across different types of providers when they are constantly being told (erroneously, in many respects) that the most expensive course of action – a full-time, residential undergraduate degree – is essentially risk-free in terms of paying back their loan. It would therefore be awkward for politicians to now complain that students are making bad choices that are costly for taxpayers when their own policies have encouraged said choices. Given the unsustainable nature of the student loan system, savings will undoubtedly need to be made. Nevertheless, rather than trying to generate savings by tinkering with tuition fees or banning students from

pursuing certain courses and programmes, this report argues that it is far more sensible to get students to generate the savings instead.

If the government is determined to create a level playing field between all forms of post-18 education within a single tertiary system, the overall quantum of funding that they choose to spend on universities, colleges or apprenticeships will only ever be part of the answer. It is just as important, if not more so, to consider the signals (both explicit and implicit) sent to learners by the way in which tertiary education is funded, and how these signals can be adjusted so that any biases between different institutions and programmes are dampened or even eradicated. Inevitably, the political sensitivity of university tuition fees has meant that media coverage of the post-18 review has focused almost exclusively on *how much* the government should invest in tertiary education. In contrast, this report focuses on *how* the government should invest.

A coherent and sustainable post-18 education system can only be created if it is underpinned by a set of coordinating principles and objectives that apply to all learners and all forms of learning. These principles should read as follows:

- No-one is better placed than learners themselves to make choices about the next steps in their educational journey;

- Each type of provision – be it in a lecture hall, classroom or workplace – should be available and accessible to all students irrespective of their background;

- The government should treat all types of provision fairly and equally as much as possible while also ensuring that they do not (inadvertently or otherwise) introduce incentives into the system that favour one type of provision over another;

- The most disadvantaged learners in our society deserve the greatest support from government.

If the objective is to reduce spending on tertiary education while also meeting the Prime Minister's four post-18 review goals, students will have to start making different choices about what they study, where they study and how they study after age 18. The simplest and most effective way to achieve this is to put the funding for tertiary education in the hands of the students themselves.

Putting students in control of the funding would create a major cultural shift in the decisions that they make, primarily through three long-recognised and widely-researched psychological phenomenon:[19]

- **Endowment effect**: the term, created by Professor Richard Thaler in 1980, refers to the fact that people often demand much more to give up an object than they would be willing to pay to acquire it;
- **Status quo bias**: coined by William Samuelson and Richard Zeckhauser in 1988, this is the notion that individuals have a strong tendency to remain at the status quo, because the disadvantages of leaving it loom larger than the potential benefits from taking a different course of action;
- **Loss aversion**: devised by renowned psychologists Amos Tversky and Daniel Kahneman in 1979, loss aversion refers to the subjective value of losses outweighing the subjective value of equivalent gains.

Giving money to students up-front in their own name in some form of 'account' would promote an entirely different mindset because it engages all three psychological concepts described above. Compare this to the current setup, which explicitly tries to hide the cost of tertiary education from students, and one can see that the scope for changing students' decision-making process is considerable.

The psychological evidence strongly suggests that when someone owns something, regardless of how it came into their possession, they are much less willing to part with it and they need to be convinced that the benefits of doing so would substantially outweigh their desire to keep hold of it. Using these insights to overhaul the way that students evaluate, and subsequently choose, education programmes is far from theoretical conjecture. As will be discussed in the next chapter, schemes that have put cash sums into 'accounts' for individual learners in other countries have typically led to a dramatic change in learners' engagement with, and interest in, further study. The potential for positive and lasting change is there – it is merely a question of whether politicians in this country want to tap into it.

This new report outlines how the concept of giving students a 'budget' to spend on tertiary education can be designed and delivered in a way that meets the four goals set out by the Prime Minister – choice, value for money, access and skills provision – and creates a level playing field between universities, colleges and apprenticeships. Such an approach might seem radical but, as this report explains, all the elements required to put it into practice can be achieved through existing structures and processes. It is hoped that the analysis and recommendations in this report make a valuable contribution to deliberations over the future of post-18 education within all political parties.

2. Personal budgets in public services

The concept of handing control of public funding to users – often referred to as 'personal budgets' – is not new. Other sectors, most notably social care, have been operating such models for many years. Before attempting to follow the same path in tertiary education, it is important to consider what has been learned through implementing personal budgets in different areas of public services. This chapter will start by assessing the use of personal budgets in social care before moving onto analysing various attempts at implementing 'learning accounts' in the education sector in this country and abroad.

Personal budgets in social care

In the context of social care, a 'personal budget' is a sum of money that a local authority allocates to a user to meet their assessed social care needs. Since 2015, all users must have their care paid for through a personal budget of some form:

- **An authority-managed personal budget**: the local authority commissions services for the user
- **An individual service fund**: this operates as a personal budget managed by a provider or other third party
- **Direct payment**: local authorities pay the money into a dedicated bank account or payment card in the user's name[20]

The authority-managed budget is by far the most common approach, with 84% of users using this model.[21] Irrespective of the precise form of the budget, the commissioning of services for each user is supposed to follow three steps:

1. The local authority assesses the eligibility of each user and provides them with an indicative 'budget' based on their needs alongside information about the prices of services.
2. The users identify their desired outcomes of the care they receive, and the user and care workers try to put in place a care package that meets the chosen outcomes. The final budget is then determined and allocated accordingly.
3. The local authority provides on-going support and monitors outcomes during the delivery of services to ensure that the user's needs are met and they can exercise choices effectively and efficiently.[22]

Through this mechanism, users can tailor their care either by adjusting the way services are delivered or by changing the type of service. The National Audit Office (NAO) report in 2016 found that the most common use of personal budgets is for ‘Care and support services’ (chosen by 64% of users), followed by ‘Personal assistants’ (42%), ‘Community or leisure services’ (28%) and ‘Equipment’ (6%).[23]

The first iteration of ‘individual budgets’ was launched by the Department of Health in 2007. It was found that, six months after their assessment, younger users overall reported better quality of life, higher quality of care and more satisfaction with the care they received, and greater control over their lives (older users were less likely than younger users to report improvements).[24] Between 2009 and 2012, the Department piloted personal health budgets for around 2,000 adults with long-term health conditions across 20 sites. Patients reported “significant improvements in their quality of life and wellbeing”, which was associated with good information about the budget amount, greater choice of services and flexibility over how the budget was managed.[25] Although the personal health budgets did not have an impact on health status over a 12-month follow-up period, it was concluded that personal health budgets were cost-effective and this supported the wider roll-out in recent years.

The NAO found that around 500,000 users were now accessing long-term community care with personal budgets.[26] The data on user experience and outcomes suggests that many of the benefits identified in earlier pilots are still evident today. Despite the target group for personal care budgets being, by definition, a relatively vulnerable population facing significant health issues, 74% of users reported that they “find it easy to find information about services”, 77% said the personal budgets give them “control over their daily life” and 65% were “satisfied with their care and support”.[27] The NAO acknowledged that other smaller surveys of users had reported more negative findings than those from the major surveys but felt that “they do not have robust sampling methods and may be biased towards dissatisfied users.”[28]

When the Public Accounts Committee (PAC) in Parliament published their report on personal budgets within social care in 2016, the messages were equally positive:

> *“We heard from the representatives of the care sector that personal budgets have transformed the lives of many users for the better. Eighty percent of 4,000 users responding to a survey in 2014 reported that personal budgets made a significant difference to the quality of their care and the quality of their lives. Research by the charity Scope found that the mechanism of a personal budget was the biggest factor enabling users to have more choice and control over their care services. We heard that England is ahead of the rest of the world in personalising social care for users.”* [29]

Despite these glowing remarks, both the NAO and PAC reports identified some problems with personal budgets. For example, the NAO noted that local authorities were sometimes struggling to create accurate 'indicative budgets' for users and maintain an overview of the service providers in their local area.[30] They were also concerned that the positive evidence for personalising commissioning was occasionally from older iterations of the scheme and that some local authorities were finding personalising commissioning a challenge as they tried to save money.[31] The PAC report echoed this, stating that "choice and control can […] be limited by local authorities' responses to financial pressures" and "funding cuts and wage pressures will make it hard to fulfil their Care Act obligations".[32] Furthermore, the PAC wanted the government to undertake much deeper research into how the different ways in which users can receive personal budgets lead to improved outcomes as well as the impact of personal budgets on a user's quality of life.[33]

The reliance thus far on relatively small pilot schemes restricts any attempt to collect data on long-term outcomes such as health conditions among service users. While cost savings are not necessarily the objective of personal budgets within a social care setting, it is also uncertain whether schemes of this nature result in lower overall spending compared to other service delivery models. Nevertheless, the evidence suggests that the use of personal budgets in social care has been widely welcomed and continues to give users more control over their lives through promoting more flexible, responsive and individualised services.

Personal budgets in education

'Individual Learning Accounts'

In line with a pledge in the Labour Party 1997 Manifesto to encourage people to invest in and take more responsibility for their learning, the then Department for Education and Skills (DfES) set up 'Individual Learning Accounts' (ILAs) in England. These new accounts were to be available to everyone, although the government was keen to target people with particular learning or skill needs e.g. young people without qualifications.[34] The original plan was to create something akin to bank accounts into which individuals could save money for learning, but this did not prove popular with stakeholders. Instead the DfES opted for a system of subsidised training courses under the banner of ILAs. In June 2000, the DfES signed a contract with Capita (the sole bidder) to develop and operate ILAs, which included operating a call centre for enquiries about accounts as well as an administrative centre for registering learners and providers, processing new accounts, maintaining records of learning started and notifying the DfES of amounts owing to providers.[35]

In September 2000, the ILAs became operational. The accounts offered three financial incentives to learners:

1. An initial incentive of £150 towards the cost of eligible learning for the first million account users, with a small contribution of at least £25 from the account holder;
2. A discount of 20% on the cost of a broad range of learning, capped at £100;
3. A discount of 80% on the cost of a limited list of basic IT and mathematics courses, limited to a total discount of £200 per account.[36]

The DfES set a target of having 1 million £150 account holders by March 2002.[37]

Anyone wishing to open an ILA had to apply to the Individual Learning Account Centre (ILAC) and register with the provider when they had identified the learning they wished to undertake. When registering for learning, the account holder then gave their unique account number to the provider and was required to pay the minimum contribution (see above). Providers were free to market their services to prospective learners and were responsible for entering the proposed learning onto the ILA database along with the amount of the learner personal contribution, but could not make a claim until they were able to confirm that the learner had started the learning.[38] The DfES wanted to encourage more flexible delivery of learning through a wider range of providers, especially those operating in niche markets and attracting new non-traditional learners. Providers had to be registered with the ILAC and produce evidence of public liability insurance yet, remarkably, the DfES decided against requiring providers to be subject to quality assurance and there was no contractual relationship between providers and the DfES or Capita.[39]

The NAO investigation into ILAs, published in 2002, reported that "the popularity of ILAs took the Department by surprise".[40] The target of 1 million account holders was exceeded within eight months.[41] It quickly became clear that not all these accounts represented actual learners. The NAO learned that fraud investigations and compliance visits during 2001 showed that thirteen providers each registered over 10,000 account holders and two providers had over 30,000 learners, while "a significant number of accounts were opened and incentives claimed without the knowledge or agreement of the account holder".[42] The DfES's own research indicated that over a quarter of learners registered as having started their training had not done any training at all.[43] Numerous courses were undertaken through ILAs that were not even supposed to be eligible for funding, including 'Transcendental meditation, 'Chronic Cats', 'North star crystals' and 'Summer Glastonbury'.[44] The NAO also found it hard to ascertain whether the DfES had achieved various objectives that it set out at the beginning of the scheme. For example, in September 2000 some 2,241 providers were registered but this grew to 8,910 providers in just over a year. What's more, there was no data available on the

level of training undertaken by 45% of learners and the DfES did not have comprehensive data on whether the scheme reached its target groups.[45]

The DfES soon became aware of the likely overspend on ILAs. Between May and September 2001, expenditure had doubled to £180 million and there was "growing evidence that some companies were abusing the system offering low value, poor quality learning".[46] In October 2001, the DfES announced the withdrawal of the scheme. Ironically, this move – which was designed to control public expenditure – led to a huge surge in the booking of learning and claiming of incentives on existing accounts.[47] Following yet more allegations of malpractice concerning a potential access breach in Capita's database as well as a large number of account details being circulated for sale, ministers decided (in line with police advice) to close the scheme immediately - a fortnight earlier than had originally been announced.[48] Capita's subsequent investigation suggested that registered providers were trawling the database for unused accounts, with a small number of providers repeatedly accessing the system during the last days of the scheme. Even so, the DfES simply did not know which or how many providers were taking advantage of the system.[49]

While the NAO recognised that ILAs "represented innovative policy-making, which succeeded in attracting considerable new interest in learning", their report highlighted numerous failings with the scheme. This included the fact that the value of individual transactions was low, so the DfES initially considered that the risks of fraud were low too. The decision by DfES not to accredit providers or put quality assurance procedures in place was also a regrettable oversight.[50] The inadequate monitoring by the DfES of account numbers and expenditure was another cause for concern. The NAO discovered that the DfES was unaware that 20 providers had received payments in excess of £1.5 million.[51] 133 providers, who between them had managed to claim £67 million, were still being investigated by the DfES when the NAO published their report. In the end, the total expenditure reached £273 million by June 2002 against a budget of £199 million and some 2.6 million accounts were opened, even though only 58% had been used by the time the scheme closed.[52]

When the Education and Skills Committee published their own report into ILAs, also in 2002, they were highly critical of the government. The DfES told the Committee that the scheme had "enabled a minority of unscrupulous learning providers to act against the ethos of the programme".[53] Worryingly, the Committee noted that "the actual level of fraud, misuse and abuse of the ILA scheme may never be established, partly because no common understanding of 'misuse and abuse' has been achieved."[54] Moreover, the Committee were scathing about the IT security surrounding the payments to providers, commenting that "Capita's ILA Centre gave any provider who joined the system unlimited access to individuals' accounts" and "an unscrupulous provider could trawl the database and submit claims for having trained any individual on the system whose account had not already been spent."[55] In fact, it got so bad

that "until remedial measures were taken in the summer of 2001, Capita's ILA Centre could not prevent unscrupulous providers creating accounts for individuals whom they had not trained, or who did not even exist."[56]

The Committee were adamant that "it should have been possible to design a scheme to encourage new providers that was not wide open to fraud or abuse by unscrupulous people posing as learning providers, but the lack of quality assurance made it almost inevitable that it would be abused." In addition, the Committee were unimpressed that "the DfES confused quality assurance with registration [of providers and] it is this confusion which lies at the heart of the ILA debacle."[57]

The DfES told the Committee that their experience with ILAs had led them to reach several conclusions about operating such a scheme. These included:

- The need to build in stronger quality assurance mechanisms to minimise the chance of unscrupulous providers benefiting from the programme, while still preserving as much as possible of the simple processes which have also been key to engaging new learners and providers
- The need to develop better intelligence about unscrupulous providers and ensure that this is shared amongst different funding and contracting agencies
- Ensuring that an appropriate balance is struck between openness and security[58]

In October 2001, the then Secretary of State for Education Estelle Morris announced plans to develop an ILA-style successor programme that would 'build on the best' of the original scheme.[59] In truth, the experience of ILAs was such a high-profile embarrassment for the government that not only did the successor programme never materialise, no government since has restarted a genuine conversation about ILAs for fear of suffering the same consequences.

In their 2009 'Skills Strategy', the Labour Government floated the idea introducing 'skills accounts' to "put the learner's choice at the forefront of driving improvement and quality in the skills system and ensure more people train at the best institutions".[60] On closer inspection, though, these accounts were little more than a signposting tool for learners to see what training they were entitled to, the levels of public funding available and any fees they needed to pay. This is indicative of the level of concern among politicians and policymakers, still evident today, of revisiting the ILA saga. The Conservative Party consulted on bringing in 'lifelong learning accounts' in the run-up to the 2010 General Election on the basis that "it should be possible to conceive of a new system of learning accounts which is structured to

avoid many of the problems experienced" with ILAs,[61] but their plans never materialised once they were in office.

More recently, five proposals that share similarities with ILAs have rekindled the debate over the merits of an account-based model:

- In 2018, the Resolution Foundation proposed a £10,000 'citizen's inheritance' for all young adults "to support skills, entrepreneurship, housing and pension saving".[62]

- Also in 2018, academics at the Institute of Education in London proposed "a national learning entitlement which would enable free access to publicly provided, or publicly recognised, education and training for the equivalent of two years for all those aged 18 and above".[63] This entitlement - totalling around £10,000 - would be valid for further and adult education colleges as well as higher education and it could also be used flexibly for part-time study and spread over a lifetime.

- In 2016, Professor Alison Wolf – a member of the Augar Review expert panel – called for "a financial entitlement which is held by the individual and can be used for tertiary education of any sort, whenever the individual wishes [as this] would allow England to move away from the current dysfunctional system".[64]

- A year before Professor Wolf's report, the Policy Exchange think tank had similarly proposed a "neutral system of post-secondary education with a unified funding system under user control".[65]

- Earlier this year, the Independent Commission on Lifelong Learning organised by the Liberal Democrats proposed opening a universal 'Personal Education and Skills Account' for all learners at the age of 18 to encourage saving towards the costs of education and training (although the funds would not be available until age 25).[66]

Even though each of the above proposals offered a slightly different perspective on the problem that needs to be solved, they shared a strong commitment to putting learners in charge of their own education through monetary accounts.

International examples of personal budgets in education

England is not the only country to experiment with the concept of personal budgets. The Netherlands, Scotland, Austria, Switzerland, Belgium and Sweden have all implemented some form of account-based funding system in recent years.[67] As with ILAs, the first iterations

were usually based around the idea of 'savings accounts' to support training, with the state making some form of contribution (e.g. tax reductions or higher interest rates on the savings). This model was not followed for ILAs due to a lack of popularity. Research on European equivalents has shown that the amounts saved by learners into such accounts tend to be fairly small, and those on lower incomes find it harder to engage with this type of scheme.[68]

Vouchers and training accounts have proved more popular than savings-based approaches. The amount of funding provided by governments can vary considerably, but the majority are limited to under €300 a year.[69] Furthermore, there is little evidence to suggest that the investment by government leads to significant increases in the amount spent by learners on future training[70] and the number of highly qualified participants is generally disproportionately high i.e. the people who receive the most training are typically the ones who are better qualified to start with.[71] Unsurprisingly, research on European training accounts showed that "the vouchers or learning accounts should only be used with accredited institutions, to prevent misuse and poor service quality"[72] – an unsubtle nod to what happened with ILAs in England.

One of the most developed training account models in use today can be found in France, who have pioneered the use of universal training accounts (*Compte personnel de formation*; CPF) since 2015 for all workers (see box overleaf). These accounts are used to record the training entitlements that each employee has accrued. In just its second year of operation, nearly 500,000 requests for using the training accounts were approved – a 139% increase compared to 2015.[73] The training accounts follow employees as they move jobs or move into, and out of, employment. As a result, 65% of the approved requests in 2016 were from job-seekers and 35% were from employed workers, with basic skills training being the most popular courses among the former and language and IT certificates most popular among the latter.[74]

The funds dedicated to the CPF reached nearly €1.8 billion in 2016, €1 billion more than in 2015.[75] This has raised the question of whether the system would be sustainable. Far from retreating, though, the French government announced that from January 2020, each worker, including those who work part-time, will be able to spend €5,000 over their careers on training courses of their choice, increasing to up to €8,000 for those with no qualifications.[76] Such a bold financial commitment from the French government to investing in training alongside putting learners in charge of their education suggests that progress in this area is entirely feasible in the modern era.

CASE STUDY: Personal Training Accounts in France

Since January 2015, all private sector employees aged over 16 have been given a 'personal training account' (*Compte personnel de formation*) that is in place from the moment they first join the labour market until they retire. Every employee is entitled to receive 24 hours of training per year worked (for a full-time post) until they reach a threshold of 120 hours, and after they have reached the 120 hours threshold, 12 hours a year until they reach the threshold of 150 hours. The account is accessible via an online service. The training accounts were extended to all workers, including individuals who are self-employed and public servants, in January 2018.

An employee who changes jobs or alternates between work and unemployment takes their training rights with them as they change roles. The number of available training hours stated on the account can be topped up by the employer, the account holder, the professional branches of industry or by the national employment agency. If the holder is unemployed, their account can be supplemented by the state or the regional employment authority in the area which the person lives in.

To be eligible for the personal training account, courses must be training programmes awarding a professional qualification which meet the anticipated needs of the economy in the short or medium term and which benefit the employee by safeguarding their career path. The list of such professional qualifications (slightly over 40,000 courses) is set by social partners at national or regional level and representatives of each sector. The personal training account can also be used to acquire basic knowledge and skills (e.g. French language or maths) or to validate professional experiences.

The account cannot be debited without the consent of the account holder and is transferable between different jobs. An employer can ask an employee to use the account for specific training but cannot force them to agree to it, and refusal to do so cannot be penalised.

Another example of a concerted attempt to stimulate more learners to engage in training can be found in Singapore. 'SkillsFuture' is the name given to Singapore's "national movement to provide Singaporeans with the opportunities to develop their fullest potential throughout life, regardless of their starting points".[77] Alongside a careers portal to help learners make informed choices at any stage of their career and a collection of employer-endorsed training programmes, one of the most prominent strands of the 'SkillsFuture' scheme is the 'SkillsFuture Credit' that aims to encourage individuals to become more involved in their own skills development and lifelong learning through providing financial support for training.[78] In addition, they offer a 'Post-Secondary Education Account' which is essentially a bank

account opened in the name of all eligible Singaporeans into which parents are allowed to earn interest on their deposits that can be subsequently used to pay for courses at universities, polytechnics, technical training institutes and other training providers.[79]

CASE STUDY: SkillsFuture Credit in Singapore

This scheme aims to encourage individual ownership of skills development and lifelong learning. Since January 2016, all Singaporeans aged 25 and above have had access to a 'SkillsFuture Credit' account in their name. On opening, the Government places a $500 (£290) credit into each account and this credit does not expire to ensure that it can support learning throughout an individual's career.

Learners can submit claims to use the credit as soon as they have received an account activation letter. Once a course has been selected by a learner, they can transfer credits to their chosen training provider directly through the Government's 'MySkillsFuture' platform. The credit can be used on top of existing Government course subsidies to pay for a wide range of approved skills-related courses at Institutes of Technical Education, polytechnics, universities, the Singapore University of Social Sciences and some specialist providers e.g. arts colleges.

The Government is intending to provide periodic top-ups, meaning that credit can accumulate over time, although they have not yet decided on the timing and amounts of any future payments.

The scheme in Singapore has already won many international admirers. In their March 2019 Budget, the Canadian Government announced a new non-taxable benefit called the Canada Training Credit (CTC) that is based on the SkillsFuture Credit scheme.[80] Eligible workers between the ages of 25 and 64 will accumulate a credit balance at a rate of $250 per year, up to a lifetime limit of $5,000. The CTC can be used to refund up to half the costs of taking a course or training programme at a university, college or other certified institution.

Inevitably, any account-based scheme will face challenges irrespective of its precise form, financial generosity or policy objective.[81] For example, previous account-based schemes tended to be quite small-scale and run alongside existing systems for funding education and training programmes, which can make it hard for them to gain traction when much larger government subsidies are available elsewhere (e.g. full-time HE courses). Providing support and guidance for account holders is also important to help them make informed choices, while marketing and communication strategies to inform people of the scope and amount of funding available are equally vital (especially when trying to reach disadvantaged groups).

This report argues that all these issues are surmountable with the necessary political will for reform. The next chapter explains how what has been learned from past experiences in England and abroad can be brought together to put learning accounts at the heart of a future tertiary education system in this country.

3. Individual Education Budgets for young people

The previous chapter highlighted several important considerations when implementing any 'personal budgets' model, illustrated by the experience gained from these schemes across different public services and different countries:

- It is essential that any funding model for personal budgets must be premised on **a simple and transparent system for calculating each learner's funding entitlement** so that learners, providers and government can easily communicate the system to all stakeholders and allocate funds accordingly.

- The experience of ILAs in England made it abundantly clear that personal budgets must be based on **strong quality assurance mechanisms** to ensure that the money is spent at suitable providers and on appropriate courses and qualifications.

- It is not sufficient to use personal budgets to merely confer 'entitlements' as this does not truly devolve power to the individual or create a demand-led system. Personal budgets must be used to **give learners genuine control over cash sums in their own name** so that they are encouraged to carefully consider each choice that they make.

- It is no use having personal budgets that are attached to a single type of provision or type of provider or stage of employment. To be effective, **personal budgets must be portable over time and between jobs** so that learners feel constantly engaged in decisions about when to use their funding.

Drawing on these four lessons from past experiences with account-based funding models, this chapter will describe how to construct an 'Individual Education Budget' (IEB) for learners in England to underpin the tertiary education system in future.

RECOMMENDATION 1
After completing compulsory education at age 18, each learner in England will be eligible to access an 'Individual Education Budget' (IEB) in their name. This IEB will act as a 'learning account' into which the government will place up to £20,000 to be spent on education and training, with the precise sum being dependent on a number of factors (e.g. whether or not a learner is from a disadvantaged background).

The current system for funding HE and FE is heavily based around student loans, in the sense that there is little up-front funding available (which historically came in the form of grants) as students are instead expected to accrue debts in the form of student loans to fund their learning. This means that a large proportion of government investment in HE and FE comes in the form of providing subsidised loans and then writing-off unpaid debts over time. This report proposes a shift away from this model, at least in part, by reintroducing a form of grant funding to be paid to students before they enter tertiary education while also maintaining access to loans if they are still required (see Chapter 6 for details of how student loans will operate in future).

This first recommendation provides three alternative models for deciding the level of grant funding that will be placed into each learner's IEB. Each of the three models is based on a different set of underlying principles that determine the amount of up-front funding provided to learners. These principles were chosen on the basis that they are all factors that will be considered when calculating funding allocations for schools through the upcoming 'National Funding Formula' (NFF).[82]

The modelling for the different options described in this chapter is based on the Index for Multiple Deprivation[83] (IMD; see box below).

What is the 'Index of Multiple Deprivation' (IMD)?

The IMD is the official measure of relative deprivation for small areas in England. It ranks every small area – known as Lower-layer Super Output Areas (LSOA) – in England from 1 (most deprived area) to 32,844 (least deprived area). These ranks are determined by the IMD 'score' that is calculated for each LSOA on the basis of seven 'domains'. The domains for calculating the score (and their relative weightings) are as follows:

- Income Deprivation (22.5%)
- Employment Deprivation (22.5%)
- Education, Skills and Training Deprivation (13.5%)
- Health Deprivation and Disability (13.5%)
- Crime (9.3%)
- Barriers to Housing and Services (9.3%)
- Living Environment Deprivation (9.3%)

The deprivation score for each LSOA is represented on a scale of 0 to 1, with 0 being the lowest possible score and 1 being the highest.

The IMD metrics include the number of dependent children living in each local area ('Lower-layer Super Output Areas'; LSOA). Using this data, the percentage of all dependent children in England living in each LSOA was calculated. By grouping the LSOAs based on their IMD scores, this report has constructed a deprivation scale – similar to the one proposed for the NFF[84] – that allows learners to be placed into one of seven categories representing the level of deprivation in their local area (see Table 1). In 2020, the government has calculated that there will be 587,245 19-year-olds in England,[85] and this figure has been used as the foundation for calculating the number of learners who would fall into eight proposed deprivation categories ('bands') in Table 1.

The estimated number of 19-year-old students in each deprivation 'band' shown in Table 1 (right-hand column) will be used as the basis for costing three IEB models. Each of the three models will be devised with a 'low', 'medium' and 'high' option, referring to the total cost to government of providing financial support to a single cohort of students. These different models are presented for illustrative purposes as this report does not express a strong preference for any particular proposal.

Table 1: estimating the number of students in each proposed deprivation band in England

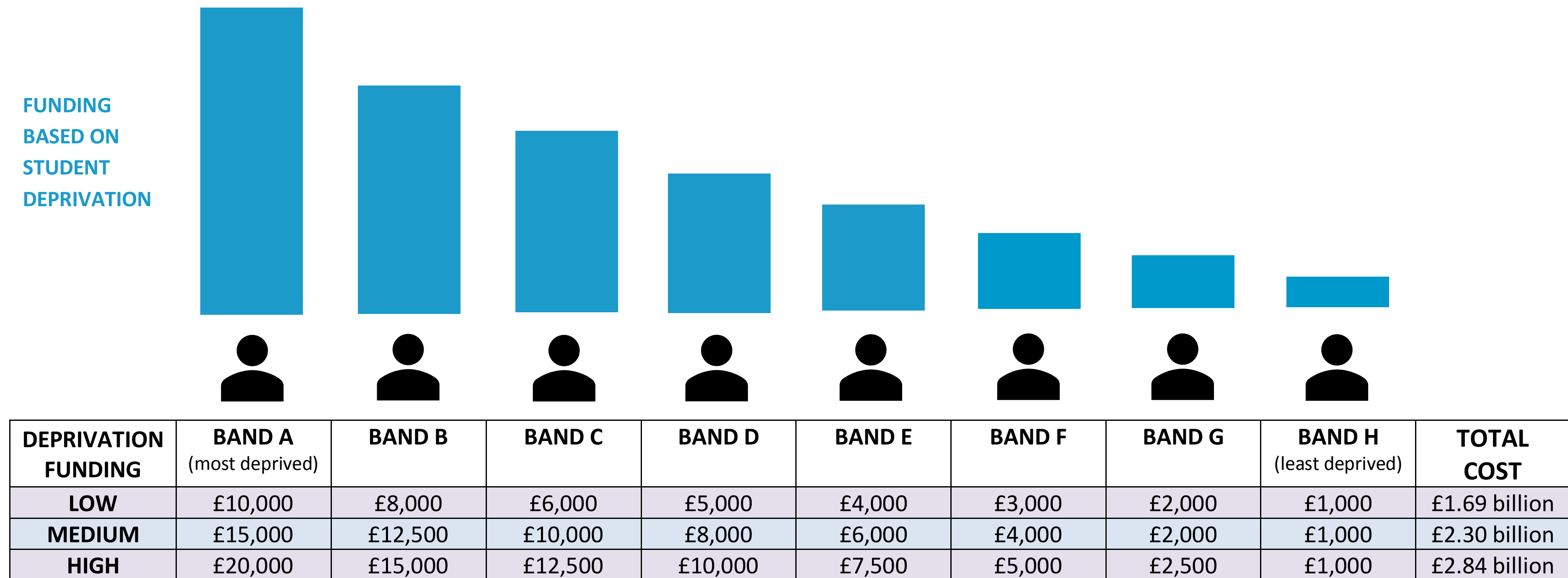
Range of IMD scores in the proposed deprivation bands (1 = most deprived, 0 = least deprived)	Number of dependent children aged 0-15 living in LSOAs within the range of IMD scores	Percentage of all dependent children in England living in LSOAs within the range of IMD scores	Estimated number of 19-year-olds in England in 2020 living in LSOAs within the range of IMD scores
BAND A 0.7 - 1	98529	0.97%	5712
BAND B 0.6 - 0.7	259641	2.56%	15051
BAND C 0.5 - 0.6	504568	4.98%	29250
BAND D 0.4 - 0.5	850685	8.40%	49314
BAND E 0.3 - 0.4	1277060	12.61%	74031
BAND F 0.2 - 0.3	1835512	18.12%	106405
BAND G 0.1 - 0.2	2823178	27.87%	163660
BAND H 0 - 0.1	2480985	24.49%	143823
		TOTAL NUMBER OF 19-YEAR-OLDS IN 2020	**587245**

That said, the significant weighting of funding towards learners from the most deprived backgrounds is considered a core feature of all three models. This is designed to reflect the consistent finding within the research literature that these individuals are the most averse to accruing student debt. For example, a 2017 study found that "debt averse attitudes remain much stronger among lower-class students than among upper-class students, and more so than in 2002" as well as noting that "debt averse attitudes seem more likely to deter planned higher education participation among lower-class students in 2015 than in 2002."[86] Last year, another report from the same author showed that "prospective students with tolerant attitudes towards debt were one and [a] quarter times more likely to go to university than those who were debt averse" and that those most tolerant to debt were pupils attending independent schools and pupils from the highest social classes."[87] In addition, when surveying students who were unsure about whether to attend university, "half cited not wanting to build up debt as a reason for being unsure about HE entry, rising to over three quarters from the poorest households."[88]

Once a student has opened their IEB, it will stay with them throughout their career. They are under no obligation to use the funds in their IEB straight away, and if they move jobs then the IEB will remain available to them. This portability between jobs, careers and different forms of education is a vital feature of this new funding system because, as will be explained in later chapters, it opens up a range of possibilities with regard to supporting lifelong learning, retraining, upskilling and much more.

MODEL 1: IEBs based on funding for student deprivation

Should the government wish to implement IEBs, they could base their spending on deprivation scores as the sole determinant of how much money each student should receive in their account. This would mean that the most deprived students would receive the greatest investment into their IEB, with a sliding scale down to the least deprived students.

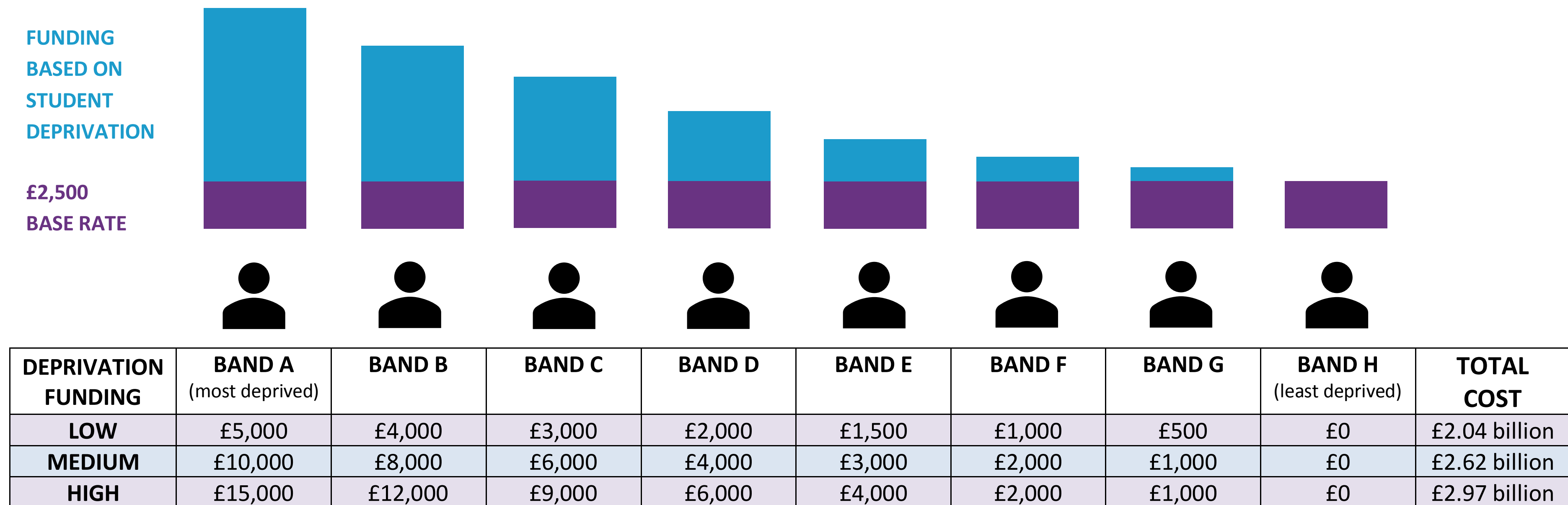


DEPRIVATION FUNDING	BAND A (most deprived)	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H (least deprived)	TOTAL COST
LOW	£10,000	£8,000	£6,000	£5,000	£4,000	£3,000	£2,000	£1,000	£1.69 billion
MEDIUM	£15,000	£12,500	£10,000	£8,000	£6,000	£4,000	£2,000	£1,000	£2.30 billion
HIGH	£20,000	£15,000	£12,500	£10,000	£7,500	£5,000	£2,500	£1,000	£2.84 billion

MODEL 2: IEBs that incorporate a 'base rate' plus funding for student deprivation

Instead of investing in IEBs based solely on student deprivation, this model combines the notion of greater funding for more deprived students with a 'base rate' of funding that all students receive. This would reduce the differences between the funding received by different students while still emphasising the need to provide more support for the most deprived students, albeit to a lesser extent than Model 1.

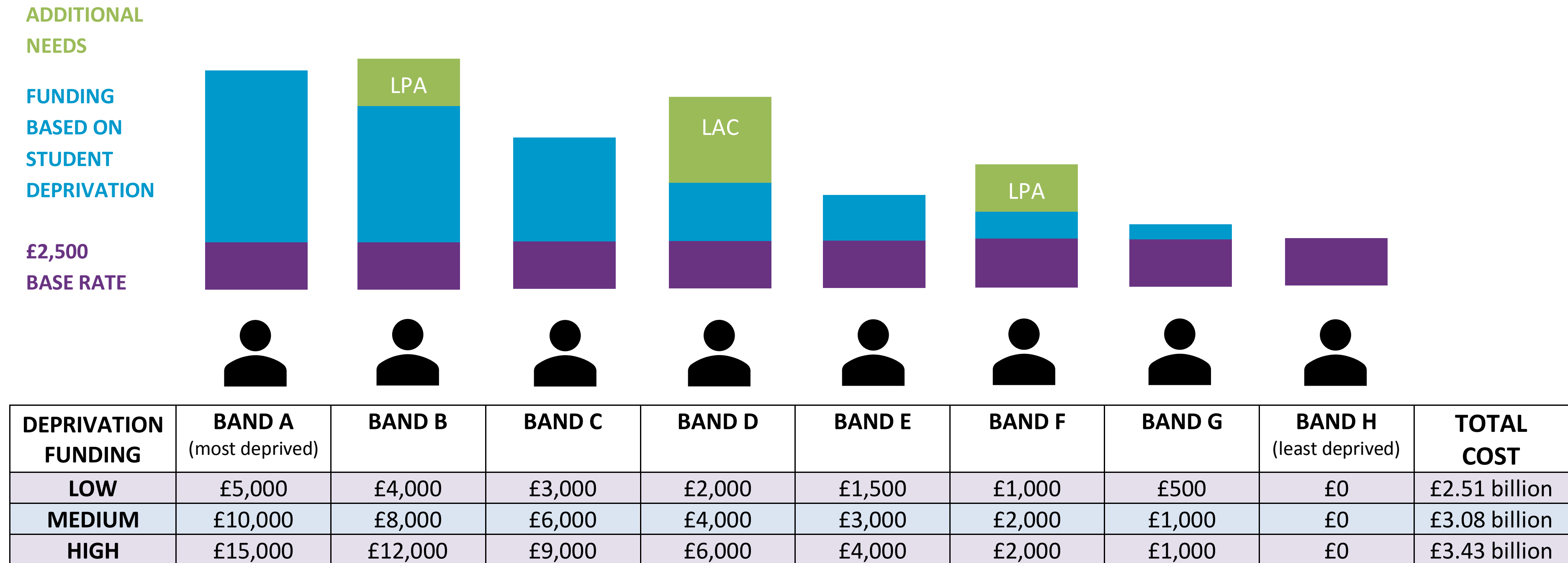
In this example, the base rate is set at £2,500 per student. Providing this investment to all students would cost £1.47 billion a year. This is included in the 'total costs' shown below.



DEPRIVATION FUNDING	BAND A (most deprived)	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H (least deprived)	TOTAL COST
LOW	£5,000	£4,000	£3,000	£2,000	£1,500	£1,000	£500	£0	£2.04 billion
MEDIUM	£10,000	£8,000	£6,000	£4,000	£3,000	£2,000	£1,000	£0	£2.62 billion
HIGH	£15,000	£12,000	£9,000	£6,000	£4,000	£2,000	£1,000	£0	£2.97 billion

MODEL 3: IEBs that incorporate a 'base rate' plus funding for student deprivation and additional needs

This model includes three elements: (i) student deprivation; (ii) a base rate of £2,500; and (iii) 'additional needs'. In this context, additional needs could include students with low prior attainment at the age of 19, as 14.7% of 19-year-olds are still not qualified at Level 2 (GCSE standard).[89] Moreover, 62 out of every 10,000 children under the age of 18 are classed as 'looked-after children' (mostly in foster care),[90] which is equivalent to 3,641 19-year-olds in each cohort. Providing an extra £5,000 for students with low prior attainment and an extra £10,000 for those who were previously looked-after children would cost £468 million (which is included in the 'total costs' below). For purely illustrative purposes below, two students have been randomly selected as having low prior attainment (LPA) and one student as having been a looked-after child (LAC).



DEPRIVATION FUNDING	BAND A (most deprived)	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H (least deprived)	TOTAL COST
LOW	£5,000	£4,000	£3,000	£2,000	£1,500	£1,000	£500	£0	£2.51 billion
MEDIUM	£10,000	£8,000	£6,000	£4,000	£3,000	£2,000	£1,000	£0	£3.08 billion
HIGH	£15,000	£12,000	£9,000	£6,000	£4,000	£2,000	£1,000	£0	£3.43 billion

4. Individual Education Budgets for adults

The previous chapter concentrated on building a new system of IEBs for those entering tertiary education for the first time at age 18. There is no question that this age group dominate discussions in political and media circles, yet they are not the only learners who need financial support from government. A survey last year by the Learning and Work Institute showed the number of adults reporting that they are learning is now at its lowest level in two decades.[91] This was backed up by a report from the Social Mobility Commission in January 2019, which found that adult training is often only available for workers who are already highly paid or highly skilled[92] - sometimes referred to as the 'Matthew Effect'.[93] Other key findings from this report included:

- The poorest adults with the lowest qualifications are the least likely to access adult training despite being the ones who would benefit the most;
- 49% of adults from the lowest socio-economic group receive no training at all after leaving school, compared to 20% from the highest socio-economic group;
- Graduates are three times more likely to receive training than those with no qualifications, while professionals and managers are about twice as likely to receive training as lower-skilled workers;
- The UK spends two-thirds of the EU average on adult training.

The 'Getting Skills Right' report from the OECD in February 2019 raised similar concerns about the lack of support for adult learners. Their international research showed that:

> *"Low-skilled adults are most in need to develop further their skills, but the least likely to participate. They can find themselves in a 'low-skill trap', working in low-level positions with little development opportunities and low returns to training, moving in and out of unemployment"* [94]

Previous OECD research had shown that 49% of UK adults participated in job-related learning during the previous 12 months but that share dropped to 28% for low-skilled adults and 29% for long-term unemployed people. In addition, workers in jobs with a significant risk of automation have a participation rate in training that is 21 percentage points lower than workers in jobs with a low risk of automation.[95]

If IEBs are to truly become the centrepiece of a tertiary education system, the question of how adult learners can be brought into the same system as younger learners must be addressed. As the OECD noted, the use of loans for upskilling and re-skilling adults is less common than

other instruments such as grants and subsidies, but some countries still utilise them. For example, Poland offers a zero-interest loan to unemployed learners that must be paid back within 18 months of the completion of their training, while the Netherlands offers adults a 'lifelong learning loan' for training at secondary and tertiary levels that comes with a preferential interest rate and monthly repayments that are linked to a learner's income.[96] England already has 'Advanced Learner Loans' available for individuals aged 19 or above to undertake approved qualifications at Levels 3 to 6 at an approved provider.[97] It is therefore sensible to incorporate the existing loan support for adult learners into the new IEB model.

RECOMMENDATION 2

Adults who have left compulsory education but have not previously taken out a student loan will be able to open an IEB. They will receive a small opening contribution from government towards the cost of training courses and programmes, depending on the highest level of qualification that they currently hold. Adults who have already taken out a student loan will be rolled into the new IEB system.

Even if learners have already finished their formal education, ensuring that they can access financial support for upskilling and reskilling in future remains an important consideration. Consequently, adult learners should also be entitled to open a new IEB, although they will not receive the same level of up-front financial support as younger learners. Given how England and other countries have tried to support lifelong learning accounts in the past, a small investment from government into an account that is portable over time and between jobs is a sensible basis for such a policy and the proposed IEBs will therefore adopt the same approach.

Instead of basing the investment from government on factors such as student deprivation, as used for 18-year-olds, it is more feasible to use the highest level of qualifications already held by adults as a proxy for prior investment in their learning. The learners with the lowest levels of qualifications should therefore receive greater investment from government.

As noted earlier in this report, ILAs in England offered around £150-200 to each learner while international models tend to hover around the £200-300 mark. Moreover, according to statistics from the DfE[98] the 32.9 million working-age adults in England (aged 19-64) are qualified to the following levels:

- Percentage of adults qualified at **Level 2 and above**: 83%
- Percentage of adults qualified at **Level 3 and above**: 66%
- Percentage of adults qualified at **Level 4 and above**: 44%

This means that the number of adults qualified at different levels can be summarised as follows:

- Number of adults qualified **below Level 2**: 5.63 million
- Number of adults qualified **below Level 3**: 11.19 million
- Number of adults qualified **below Level 4**: 18.47 million

Using these figures, Table 2 provides an indication of how much the government would have to invest to cover all learners at different qualification levels.

Table 2: indicative costings for allowing working-age adults with different qualification levels to open an IEB

	GOVERNMENT INVESTMENT INTO AN ADULT LEARNER'S IEB			
ELIGIBILITY	**£150**	**£200**	**£250**	**£300**
For adults qualified **below Level 2**	£844,321,050	£1,125,761,400	£1,407,201,750	£1,688,642,100
For adults qualified **below Level 3**	£1,678,767,000	£2,238,356,000	£2,797,945,000	£3,357,534,000
For adults qualified **below Level 4**	£2,769,965,550	£3,693,287,400	£4,616,609,250	£5,539,931,100

Unlike the costings provided in the previous chapter for 18-year-olds, it is not anticipated that these sums would be spent in a single year, irrespective of which combination of eligibility and investment is chosen, because opening an IEB would be entirely optional for adults. Seeing as the experience with ILAs in England suggests that IEBs may prove popular, it would be prudent for the government to use a phased rollout with IEBs for adult learners using strict eligibility criteria e.g. starting with adults qualified below Level 1, then Level 2 etc. Even with this approach, detailed modelling would need to be undertaken to understand the cost profile over successive years for investing in adult learners.

It may appear inequitable to give young people more up-front funding than adult learners, but this is likely to be necessary for two reasons. First, the sheer volume of adults compared to young people will make it hard to provide generous up-front grants to millions of adults simultaneously, although there is no reason why government could not make additional contributions into the IEBs of adults in future (see Chapter 7). Second, the up-front grant is only one feature of a more generous offer for adults that is built into the IEB model (see Chapter 6).

Once the government has decided how to deal with adults with low or no qualifications, it would then need to consider how to bring learners who have already taken out a student loan into the same system too. It is envisaged that learners with an existing debt burden will have access to the same IEB mechanisms as new entrants and adult learners, and whatever loan they have already received would count towards their new 'lifetime loan limit' (described in Chapter 6). This would mean that all learners, regardless of their age or prior qualifications, would be treated in the same way and have access to the same support.

5. Creating the necessary infrastructure

RECOMMENDATION 3

The new IEB system for young people and adults would be operated by the Student Loans Company. Any funding given to each learner when they open their IEB would be credited as a 'negative balance' in their account.

As a result of the expansion of HE along with the introduction of student loans, the Student Loans Company (SLC) now services around 1.8 million applications per year and manages over 8 million individuals repaying or due to repay student loans.[99] In their annual report, the Chairman of the SLC noted that they "will be ready to advise on the delivery implications of any proposals that emerge" from the government's post-18 review, although he also recognised that "any changes to student funding policy could have significant implications" for the SLC.[100] This report seeks to reduce the scale of the reforms necessary to implement its new proposals by aligning the new IEB system with the current student finance mechanisms operated by the SLC.

Rather than setting up a parallel system for IEBs to run alongside the SLC, it is envisaged that the student loan accounts operated by the SLC will essentially become the new IEBs. When a learner opens an account with the SLC, they will be notified of their entitlement to an investment by government into their IEB (the level of investment being dependent on which of the three models described in this report is chosen by government). Whatever investment a learner receives will be credited to their account with the SLC as a 'negative balance' e.g. if a learner is entitled to receive £6,000 of government investment, their IEB (student loan account) will display a balance of -£6,000 to represent the fact they are, in effect, owed that money by government. If and when a learner chooses a course or qualification that they wish to spend their funds on, the SLC will simply disburse the relevant sum to the provider (e.g. a university), as they do now, and the learner's balance on their account will be adjusted accordingly.

After an IEB is opened by a learner, the account will stay with them over time, irrespective of whether they change jobs or careers. This is a crucial facet of any successful lifelong learning strategy, as shown by France, Singapore and other nations. The account will remain with the SLC in the learner's name so that they can access the available financial support at any time during their career. What's more, the money placed into a learner's IEB will be 'divisible' i.e. if a learner receives £10,000 of government investment in their IEB and subsequently selects a course that only costs £6,000, the remaining £4,000 will remain in their IEB. This will make

every IEB operate like a standard cash account, giving the learner full control and complete transparency over how their funds are being used.

RECOMMENDATION 4

The money in each IEB can be spent on any approved and regulated qualification from Level 2 upwards.

The new funding system of IEBs supported by student loans should give learners the opportunity to select any approved and regulated qualification from Level 2 (GCSE standard) up to Level 8 (doctoral level). This will encourage the learner to choose the most appropriate course to meet their needs at any given time, ranging from basic skills training (e.g. Functional Skills) up to more advanced academic and technical courses. To accompany this flexibility for learners, government will need to be clear about which courses and qualifications it deems eligible for funding at each level to prevent IEB funds being spent on inappropriate courses (e.g. courses that lack rigour and / or do not have valid and reliable assessments). Below Level 4, this could be based on the qualifications included in performance tables because they have already undergone several quality assurance checks.

Singapore only allows their SkillsFuture Credit funds to be spent on approved skills-related courses because their government believes that "technology and globalisation are changing the nature of jobs in the future [so] it is important for Singaporeans to upgrade their skills to stay relevant and meet evolving needs of the economy."[101] Similarly, France restricts their new training accounts to programmes that lead to a professional qualification that is related to economic needs (as expressed by employers) in the short or medium term. Although the proposed IEBs will be broader in scope than the accounts used in Singapore and France, it is important to maintain a similar focus on courses and qualifications that contribute to economic growth and professional development in recognised careers and occupations.

RECOMMENDATION 5

IEB funds and student loans must be spent at a registered provider that is regulated by either the Office for Students or Ofsted.

One of the biggest mistakes made during the design and implementation of ILAs in the early 2000's was the failure to put in place suitable quality assurance mechanisms. For example, training providers were not subject to appropriate checks on their activities and were able to create 'learning accounts' for individuals whom they did not train (and might not have even

existed). These design flaws were entirely avoidable. Research conducted by the UK Commission for Employment and Skills recognised that one of the key learning points from the English ILA experience was that "any new scheme needs to bear in mind the need to minimise the possibility of fraudulent use by unscrupulous suppliers [and] the Scottish and Welsh experiences [with similar initiatives] appear to suggest that this is perfectly possible without the need to impose overly bureaucratic monitoring arrangements."[102]

The quality assurance systems now in use across the different areas of tertiary education in England will provide a much more robust defence against malpractice compared to what was in place during the ILA debacle. This report recommends that the funds given to each learner in their IEB and any student loans that they choose to access must be spent at a regulated provider. This could be a university or other HE institution regulated by the Office for Students or a college or private training provider regulated by Ofsted. This requirement will provide a great deal more protection for students and taxpayers than was evident in ILAs.

That said, there is still an element of confusion about who exactly is responsible for regulating certain higher-level programmes. It was recently discovered that thousands of apprentices have started training on programmes where there is no organisation responsible for regulating the quality of their training. The DfE has apparently assumed that responsibility for the oversight of Level 6 and 7 programmes lies with the Office for Students because Ofsted says it has no power to inspect these higher-level programmes. However, the Office for Students claimed their remit only extends to those apprenticeships that include a prescribed HE qualification such as a degree.[103] In response to the increasingly complicated regulatory setup, the House of Lords Economic Affairs Committee recommended in June 2018 that one regulator – the Office for Students – should take responsibility for regulating the whole higher education sector.[104] Even if this is not necessarily the ideal solution, it is clear that something needs to change.

6. A new student loan system

RECOMMENDATION 6

The IEB system would be supported by a single student loan system that encompasses all provision. It will cover the costs of tuition at all levels and will also offer maintenance support for courses at Level 4 and above. Each IEB would have a lifetime loan limit of £75,000 for each learner, which would come into effect once their initial funds from the government have been depleted.

When each student opens their IEB, the government will inject their initial funds in line with what the learner is entitled to, be they an adult or young person. A learner is under no obligation to use these funds immediately as the funds will stay in their account indefinitely. However, should they choose at any point to use their IEB funds on a course or qualification that costs more than the sum left in their IEB, they will immediately gain access to a new unified student loan system to help pay for it instead.

This report proposes that the government convert the existing student loan system into a lifetime 'draw down' account. This will cover the costs of tuition for all forms of provision and can be accessed multiple times, unlike the current student loan system that operates as a 'single shot' account. At Level 4 and above, the loan system will also be available to cover living costs (i.e. a maintenance loan), meaning that learners will be able to access the same financial support irrespective of whether they are studying at university or college. The constraint of only being able to access maintenance loans for university degrees instead of college courses and apprenticeships is one of the most striking examples of how distorted and inequitable the funding landscape has become. It will only be possible to level the playing field across all forms of tertiary education when the disparity generated by such assumptions is removed so that learners can pursue college courses and apprenticeships in other areas of the country if they so wish. A single student loan offer available for all forms of tertiary education is therefore an essential step.

As the loan system will now act as a lifetime 'draw down' account, it will be necessary to place a 'cap' on the total amount of loan support that is available over a learner's lifetime. Otherwise, learners could find themselves, deliberately or otherwise, in a situation where they could use the loan system to undertake an unlimited number of courses or programmes without having to enter the labour market. This would be both costly and inefficient. A student studying an undergraduate degree followed by a PhD is currently able to borrow a total of approximately £75,000 in tuition and maintenance loans over the course of their

studies. This sum therefore represents a sensible 'cap' for accessing financial support from the government over their lifetime.

A similar system of a capped lifetime loan allowance already operates in Australia and is currently being reformed. Since January 2019, the Australian Government has operated a combined cap on the amount of tertiary education loan assistance that a student can access to cover their tuition fees for academic and vocational courses.[105] The loan limit is not renewable, meaning that once a borrower reaches the lifetime limit then they cannot borrow further funds. The proposed limits are $150,000 (£84,500) for students undertaking medicine, dentistry and veterinary science courses and $104,440 (£58,800) for other students, which the Australian Government described as "reasonable and sufficient."[106]

RECOMMENDATION 7

Up to the £75,000 cap, the unified student loan system will operate with a single repayment threshold, repayment rate, interest rate and repayment period for all forms of tuition and maintenance loans that a learner requires. The repayment threshold and the interest rate should be reduced from their current levels and the repayment period should be extended.

The range of loans currently available from the SLC, and the variety of terms and conditions attached to each type of loan, is bewildering (see Table 3 overleaf[107]). It is much harder to explain and justify the student loan system to learners, parents and employers when there are so many different permutations of repayment thresholds, repayment rates and interest rates depending on the circumstances of the learner. This complexity is unnecessary and unhelpful in the context of building a coherent tertiary education system that supports lifelong learning.

Up to the £75,000 cap, the single loan system will operate in future with one set of repayment terms and one interest rate for all forms of tuition and maintenance support that the learner chooses to draw down.

Table 3: different schemes available from the Student Loans Company for studying in England

	BASIC ELIGIBILITY	FUNDING AVAILABLE	REPAYMENT OF LOAN	INTEREST RATES
Undergraduate tuition loan	A student's first full-time or part-time undergraduate course at an approved HE institution	Full-time: Up to £9,250 a year (£6,165 at a private university or college) Part-time: Up to £6,935 a year (£4,625 at a private university or college) *Paid to provider*	9% of any income over £25,000	While studying: RPI plus 3% Income of less than £25,000: RPI Income of £25-45,000: RPI + up to 3% Income of over £45,000: RPI + 3%
Undergraduate maintenance loan	A student's first full-time or part-time undergraduate course at an approved HE institution	Up to £7,324 - £11,354 a year for full-time students when their parents earn less than £25,000, and then a sliding scale down to £3,324 - £6,625 if their parents earn more than £25,000 (support is also available for part-time courses) *Paid to student*	9% of any income over £25,000	While studying: RPI plus 3% Income of less than £25,000: RPI Income of £25-45,000: RPI + up to 3% Income of over £45,000: RPI + 3%
Advanced Learner Loan	Level 3-6 qualifications at an approved college or training provider	Dependent on the type of course, course fees and the maximum loan available for the course *Paid to provider*	9% of any income over £25,000	While studying: RPI plus 3% Income of less than £25,000: RPI Income of £25-45,000: RPI + up to 3% Income of over £45,000: RPI + 3%
Postgraduate Master's Loan	A student's first full Master's degree at an approved university or college	Up to £10,609 for the whole course to help with course fees and living costs *Paid to student*	6% of any income over £21,000	RPI + 3% (starting from the first of three loan instalments)
Doctoral Loan	A student's first full doctoral qualification at an approved university	Up to £25,000 for the whole course to help with course fees and living costs *Paid to student*	6% of any income over £21,000	RPI + 3% (starting from the first of three loan instalments)

RPI = Retail Price Index

Selecting the right combination of a repayment threshold, repayment rate, repayment period and interest rate will require considerable thought and it is essential that this conversation is approached differently to how it has been treated in the past, when political considerations have typically dominated the discussion. Soon after student loans were first introduced, the repayment threshold was just £10,000, subsequently rising to £15,000 in 2005.[108] For many years, the threshold increased in line with earnings but in 2012 it was abruptly raised from approximately £17,500 to £21,000. In 2017 the government said the threshold would be frozen in cash terms until 2021, only for the Prime Minister to announce in April 2018 that the threshold would be pushed up to £25,000 and rise in line with average earnings thereafter.[109] This decision had two important consequences. First, it has increased the proportion of graduates who are unlikely to fully repay their loans from 77% to 83%. Second, the proportion of the loan book the government does not expect to be repaid (known as the 'RAB charge') also increased from 31% to 45%. The cumulative cost to taxpayers of these changes is thought to be around £2.3 billion per year.[110]

Despite the frequent fluctuations in the repayment threshold, the repayment rate for student loans has remained relatively constant at 9% of any earnings over the threshold for undergraduate courses (6% for postgraduate courses). The same cannot be said of the interest rate on student loans, which has been tinkered with on numerous occasions. As shown in Table 3 above, the interest rate charged on new student loans depends on a graduate's earnings and what type of loan they have taken out. To further complicate matters, loans taken out before 2012 are treated entirely differently as the interest rate is set at, or close to, the rate of inflation. This means that new students taking out a loan for the first time face an annual interest rate of 6.3% during their studies and 3.3% afterwards, whereas pre-2012 students are only paying 1.75% interest a year.[111]

The reason that the whole conversation about student loans would need to be approached differently following the introduction of IEBs is that the government is now investing huge sums up-front in each learner. Should a learner use up all their funds, they will then have to take out a loan to cover the remaining costs of their current course or programme as well as any future provision. This dynamic of significant up-front funding coupled with a supporting loan system contrasts with the current loan-dominated model. Unlike now, any decision by a learner to draw down a loan after using up all their IEB funds will therefore be an active choice, not a necessity. In light of this change of emphasis, the government has every right to attach more stringent repayment terms to the loans given that learners will have, by definition, already used up thousands of pounds of government investment.

As discussed above, the financial consequences for taxpayers of raising the repayment threshold for student loans are severe. Conversely, the consequences of reducing the repayment threshold will make the loan system fairer on taxpayers. London Economics, a

leading policy and economics consultancy, were commissioned to assess the impact of different combinations of repayment thresholds and repayment rates on government finances[112] – the results of which are shown in Table 4. The 'baseline' used for these calculations is the existing repayment threshold (£25,000) and repayment rate (9%), which together mean that the total cost to the Exchequer of the current HE fee and loan system is £8,738 million for each cohort of students. This includes the cost of writing off unpaid tuition loans (£4,588 million) and maintenance loans (£2,838 million) after 30 years as well as the cost of teaching grants[113] (£1,312 million). The teaching grants remain unaffected in the modelling scenarios presented below.

Each cell in Table 4 contains three numbers:

- The cost to the Exchequer of each repayment threshold / rate combination (red figures represent a higher cost compared to the current baseline; green figures represent a lower cost)
- The RAB charge for each combination (shown in light blue)
- The percentage of graduates who never repay their full loan (shown in purple)

Table 4: the cost to the Exchequer of the HE finance system using different repayment thresholds and repayment rates change

Current baseline: £25,000 threshold 9% repayment rate Cost: £8,738m		**Repayment threshold**			
		£25,000	**£21,000**	**£17,000**	**£12,500**
Repayment rate	**9.0%**	**£8,738m** **45.9% 80.7%**	**£6,809m** **34.1% 73.6%**	**£4,714m** **21.5% 68.1%**	**£2,284m** **6.9% 56.0%**
	7.5%	**£9,628m** **50.8% 85.5%**	**£7,750m** **39.4% 83.6%**	**£5,684m** **26.8% 77.5%**	**£3,362m** **12.7% 66.3%**
	6.0%	**£10,674m** **56.8% 90.1%**	**£9,065m** **46.7% 84.4%**	**£7,228m** **35.3% 82.2%**	**£4,935m** **21.3% 79.7%**
	4.5%	**£11,970m** **64.2% 92.3%**	**£10,679m** **55.8% 90.1%**	**£9,175m** **46.3% 88.4%**	**£7,293m** **34.4% 86.1%**

Key:

Figures in **Green**	**Lower** cost to the Exchequer
Figures in **Red**	**Higher** cost to the Exchequer

Percentages in **Blue**	RAB Charge
Percentages in **Purple**	% of graduates who never repay full loan

Providing substantial up-front funding for learners through IEBs accompanied by a clear expectation that the vast majority of learners will pay back their loans in full is a much healthier and more sustainable proposition than the existing setup, where loans are rarely repaid and taxpayers are forced to pick up the resulting multi-billion pound tab. A recent report by the House of Lords Economic Affairs Committee on financing post-18 education stated in no uncertain terms that "it is unacceptable to expect future taxpayers to bear the brunt for funding today's students."[114] This report recommends a substantial reduction in the repayment threshold to counterbalance the up-front funding being provided to learners through IEBs. Such are the potential savings to taxpayers illustrated by the modelling in Table 4, there is a strong case for reducing the threshold down to the personal tax allowance (12,500 in 2018-19) as this would generate savings of £6.4 billion for each cohort of students. The repayment rate does not necessarily have to change along with the threshold, although it is still important to consider the various options outlined above. Inevitably, any reduction in the repayment rate will increase the burden placed on taxpayers rather than students. On that basis, there is a persuasive case to keep the repayment rate constant.

Another significant saving to taxpayers can be generated by adjusting the 'repayment period' over which graduates pay back their loan. At present, a graduate repays their student loan up to a maximum of 30 years after they leave university, at which point any remaining loan is written off by the government. However, this presents two problems. First, it is taxpayers who yet again will be left facing the bill for any unpaid student loans. Second, it seems incongruous to have a repayment period of 30 years when most graduates are likely to be working for 40-45 years after they finish their degree. London Economics has previously calculated that extending the repayment period for student loans from 30 to 40 years will save the government £1.71 billion for each cohort of students.[115] Consequently, this report recommends that the repayment period should be extended to 40 years to reduce the burden on taxpayers.

Once the loan system has been placed on a more sustainable footing, there will be no need for punitive interest rates solely designed to help stabilise government finances. The interest rate should be reduced from its current level of RPI+3% followed by the RPI rate. This report recommends that the government gives serious consideration to returning the interest rate back to the rate of inflation (where it still is for pre-2012 loans) so that the real interest rate is zero throughout the entire duration of the loan. As with the single repayment threshold and repayment rate for all learners, this would form part of the overall movement towards a simple and equitable loan system for all learners. The House of Lords Committee estimated that reducing the interest rate down to RPI+0.7% would cost an additional £600 million a year, so it is likely that returning the interest rate to the RPI rate would cost slightly more than this figure. This increased cost to the government will therefore need to be absorbed by the reduction in the repayment threshold and/or the extension of the repayment period.

An important consequence of these alterations to the repayment terms for student loans is that the decision by the ONS last year to change the way that the loans are accounted for by government might be reversed. A key driving force behind the ONS's changes was that the government knew a large proportion of the loan book would not be repaid (particularly with such a high RAB charge). The ONS decided that government expenditure related to the cancellation of unpaid student loans had to be accounted for now rather than when the loans matured in 30 years' time – adding £12 billion onto public sector net borrowing in the financial year ending 2019. Because the RAB charge under the proposed student loan system will be far lower than the current setup, the proportion of unpaid loans will be significantly reduced. As a result, public sector net borrowing will also be greatly reduced. It is therefore conceivable that the ONS will allow the proposed student loan system to be accounted for as loans rather than grants, thereby reversing their recent reclassification, although this will no doubt be subject to further discussions between the Treasury and the ONS should this new student loan system be developed.

RECOMMENDATION 8

A significant proportion of outstanding student debt should be written off in line with what previous student cohorts would have theoretically received under the new system. Alongside this, all existing loans should be aligned with the new single repayment threshold, repayment rate, interest rate and repayment period over the course of 15 years.

Even if the new loans available through the IEB system are fairer than the terms currently available, this does not address the issue of what to do about the increasingly byzantine student loan landscape. Introducing yet another change in thresholds, repayment rates and interest rates will only make matters worse unless there is a concerted effort to align the new system with previous ones.

On the one hand, any learner who took out a loan before the introduction of IEBs may feel that they have been treated less fairly on the basis that they did not receive the same up-front funding. On the other hand, any reduction in the repayment threshold for new learners entering the tertiary education system compared to the £25,000 threshold in place now might leave them feeling unfairly treated too. It is therefore sensible to introduce a balanced 'trade-off' between learners who have already accrued debt with the SLC and those who have not.

First, the government should write off a proportion of each previous learner's existing debt with the SLC in line with whichever funding formula is chosen for new IEBs available to young people. This could be done by, for example, using the residential postcodes supplied by learners when they originally applied for their loans to estimate their level of deprivation

at the time. By doing this, all learners past and present will effectively be treated in the same way because it will be as if all learners had started with an up-front grant followed by using loans to pay the remainder of their costs/fees. Once this is done, all previous learners will now be able to access additional support up to the £75,000 cap for new learners, whereas the current 'single shot' nature of the student loan system means that, even after a loan write-off, they would still be prevented from accessing further support for many courses and programmes.

Second, the government should incrementally align the repayment thresholds, repayment rates, interest rates and repayment period for previous learners so that over time they all match the single set of terms now offered to new learners. For example, the £25,000 repayment threshold could be reduced by, say, £800 a year for 15 consecutive years until it reaches the new threshold set by government in the IEB system. Similarly, interest rates should be gradually lowered so that they too become aligned with the more favourable 0% real interest rate offered to new learners.

This package of a generous loan write-off coupled with the new £75,000 loan facility and new repayment criteria should provide a mechanism through which the proposed single loan system can, in effect, be extended backwards to learners from previous cohorts. This is another important component of building one single loan system that is easily understood and accessed by learners of all ages. Careful modelling will be required to ensure the transition from the old loan system to the new repayment terms represents a fair deal for students.

7. Areas for further consideration

Eligibility for IEBs

Given the generosity of the IEB model in terms of up-front funding for all 18-year-olds, it will be necessary to put some simple procedures in place to prevent this generosity from being exploited. For example, students from other countries might be tempted to move to England shortly before their 18th birthday, or even as an adult learner, to access the funding available from the government. Restricting eligibility for IEBs, as is already done for accessing student loans at present, is therefore a key requirement of this new system.

The existing student loan eligibility criteria[116] are a sensible starting point for deliberations on this matter. To apply for a student loan, you must be a UK national, normally live in England and have been living in the UK for three years before starting your course. Some non-UK nationals might also be allowed to access the loans such as EU citizens, EEA migrant workers and anyone with 'settled status' (i.e. someone who has no restrictions on how long they can stay in the country). In addition, non-UK nationals who are under 18 and have lived in the UK for at least seven years, or who are 18 or over and have lived in the UK for at least 20 years (or at least half of their life), might be eligible too. Although some fine-tuning of these rules may be required for the new IEB system, such regulations should prevent widespread access to the up-front IEB funding from those who are not entitled to it.

In terms of age eligibility, the modelling in this report has assumed that there are essentially three groups of learners in the tertiary system:

a) new entrants at age 18
b) learners aged 19+ who have already taken out a student loan
c) learners aged 19+ who have not previously taken out a student loan

It could be argued that the 'new entrants' should be defined more broadly, i.e. anyone aged 18-24 who has not previously taken out a student loan. This would mean that 'adult learners' could also be defined more clearly (e.g. learners aged 25+). Adjusting the definitions would ensure that students who had temporarily delayed entering tertiary education (e.g. they had taken a gap year after leaving school) would not be unduly penalised for not making their minds up straight away about opening an IEB. Broadening the definition of 'new entrants' would inevitably have cost implications during the transition from the current system to the proposed IEB model. That said, the modelling in this report has assumed a 100% take-up rate of IEBs from school leavers, which is unlikely to materialise. On that basis, any unused funding for IEBs each year could be used to support the widening of the age-based eligibility criteria.

Different ways to calculate deprivation

Throughout this report the concept of 'disadvantage' has been captured by using the Index of Multiple Deprivation (IMD), given its status as the official measure of relative deprivation in England. In the financial modelling exercise, students who lived in the most deprived areas were allocated the most funding when they opened their IEBs. This principle of providing more financial support to the most disadvantaged students is a crucial foundation of both the IEB system and the government's post-18 review. What's more, the IMD offers a swift and straightforward mechanism for calculating the level of deprivation faced by a young person. Nevertheless, using the IMD to make a single point-in-time judgement about deprivation is by no means the perfect solution, particularly with such large sums of up-front government funding at stake.

The most obvious risk would be parents choosing to move home to (or potentially buying a second property in) a more deprived area shortly before their child reaches the age of 18 to become eligible for a more generous government investment into their child's IEB. This is not dissimilar to the kinds of problems faced by schools when some parents try to 'game' the admissions system by moving to a new house in an area with good schools or even buying or renting a second home in a catchment area or using a relative's address to gain access to a specific school.[117]

Several alterations could be made to the way that the IMD is used to curtail the impact of these (and other similar) behaviours when calculating an individual's up-front funding entitlement. For example, when opening an IEB, students could be asked to provide their postcode at age 18 and, say, age 6 or 12. The level of deprivation at these two addresses could then be combined when calculating the government's investment in a student's IEB to lessen the impact of a recent 'house move'. Postcodes from a younger age could be checked against the National Pupil Database (NPD). Alternatively, when applying to open an IEB at age 18, students could be asked to provide the postcode/address at which they have spent *the most time over the last five years* rather than just the address where they live now. Again, the aim would be to prevent house moves affecting the estimates of student deprivation while also allowing the information to be cross-checked against the NPD.

In addition, other options for calculating deprivation should be considered alongside the IMD. Parental income is already recorded when students apply for maintenance loans under the current system. This information could therefore be collected when a student applies to open an IEB and subsequently included in any calculation of deprivation alongside an IMD-based estimate. Seeing as this report's use of the IMD system was based on its role as one of the main factors used to calculate pupil deprivation for funding schools, the other main factor that will be used for schools – whether or not a pupil is eligible for Free School Meals (FSM) –

could also be included in the IEB system. Not only will the upcoming National Funding Formula award secondary schools an extra £440 for each pupil that is eligible for FSM, they will get an additional £785 for all their pupils who have been recorded as eligible for FSM at any time in the last six years.[118]

Another mechanism for calculating deprivation has been devised by the Universities and Colleges Admissions Service (UCAS): the multiple equality measure (MEM). This is the main measure of equality used by UCAS to calculate the probability of different groups of students entering HE at age 18. The MEM combines information on several dimensions for which large differences in the probability of progression into HE are known to exist. These dimensions include gender, ethnicity, where people live (using the 'POLAR3' classification that breaks students into five groups), secondary education school sector (state or private) and income background (i.e. whether a student was in receipt of FSM at school).[119] These dimensions are combined using statistical modelling techniques and this is used to aggregate pupils into groups, where group 1 contains those least likely to enter HE and group 5 contains those most likely to enter HE. The composition of these groups, and their entry rates, can then be calculated and assessed over time. The use of multiple dimensions of 'inequality' provides another lens through which the allocation of money to IEBs could be viewed, which would contrast with simply relying on one or two measures such as FSM eligibility and the IMD.

No method for calculating deprivation to support the new IEB system will be entirely immune to fraudulent claims or misrepresentation. When deciding how to calculate a student's level of deprivation, the objective should be to strike an appropriate balance between the accuracy of the proposed measure and the administrative burdens needed to successfully implement it (including any steps required to prevent the misuse of funds). This is never an easy balancing act, which is why the government should consult widely with stakeholders across the education sector before deciding exactly how deprivation should be measured and accounted for in the IEB system. The modelling in this report hopefully provides a useful basis for these discussions.

Sources of investment in IEBs

This report has concentrated on the financial support provided by government when a learner opens an IEB. Even so, the full potential of this funding model extends far beyond a single one-off grant when a learner first interacts with the IEB system. Bearing in mind that each IEB will follow a learner throughout their career as they move between jobs and even occupations, it is conceivable that additional investments into an IEB could be opened to other actors in the education and skills system: government, employers and parents.

- **Government**: as described earlier in the report, Singapore has created 'SkillsFuture Credit' accounts for all Singaporeans aged 25 and above. On opening, learners receive a $500 (£290) credit into their account and this credit does not expire to ensure that it can support learning throughout an individual's career. In addition, the Singaporean Government is intending to provide periodic top-ups, meaning that credit can accumulate over time. By giving learners in England an IEB in their name, this option of future top-ups from government would also be available to ministers should they wish to support a specific group of learners or specific training programmes.

  For example, the £100 million 'national retraining scheme' announced by the Chancellor Philip Hammond in October 2018 is intended to "give every worker the opportunity to upskill or retrain for the new economy" through a combination of occupational training, careers guidance, online learning and transferable skills.[120] This is precisely the kind of scheme that would be perfectly suited to the IEB system in that ministers could target those workers with the greatest training needs in selected industries and could even add a geographical dimension to the support they provide.

- **Employers:** the latest 'employer skills survey' commissioned by the DfE paints a bleak picture of employers' investment in training. On average, employees in England only receive four days of training a year.[121] A third of employers that offer training to their staff report that at least half of this 'training' was in fact related to staff induction or health and safety (12% said that *all* their training in the last 12 months was just staff inductions or health and safety).[122] Furthermore, only 11% of employees were given training related to a nationally recognised qualification over the last 12 months and only 9% of employees were trained at Level 4 or above.[123]

  While it would be too ambitious to expect IEBs to overturn years, if not decades, of under-investment from employers in training, giving employers the facility to invest in their staff through adding funds into their IEBs could provide a powerful mechanism for aligning employee and employer interests in terms of upskilling and training. Employers would provide the funding and employees would choose the most appropriate recognised course / qualification for them regardless of the stage they have reached in their career. Government could also offer tax incentives for employers who invest in IEBs, in much the same way that employers can currently claim tax relief against the cost of many forms of employee training.

- **Parents**: although they are no longer available, 'Child Trust Funds' (CTFs) were introduced by the then Labour Government in 2002 to encourage parents to save for their children.[124] CTFs operated as a tax-free savings account that could be opened with a starting payment voucher of £50 or £250 that was sent to eligible parents by HMRC.

Parents, other family members and friends could then invest up to £4,260 (2018/19) between them each year into a CTF. The money deposited in a CTF belonged to the child, but it was 'locked in' until they turned 18.

Should the government wish to extend the IEB model, allowing family and friends to invest in these accounts would be an obvious step. The deliberate focus in this report on providing more financial assistance to learners from the most deprived backgrounds inevitably means that those from more well-off families receive less support from government. In response to this, giving family and friends the option of investing their own money would be a sensible facility to include in the design of IEBs.

Careers advice and guidance for IEBs

It is hard to see how a level playing field can be created in tertiary education without learners having access to good information and guidance about their options. Under the current system, the dividing lines between HE, FE and apprenticeships are all too evident through the existence of multiple application systems, huge variability in the financial support available and different places where opportunities and vacancies are advertised. It is not realistic, and arguably not desirable, to try and eliminate any differences between the three tertiary options in terms of how you identify and apply for these opportunities and vacancies. That said, the single tertiary funding system described in this report opens the door to the creation of a more streamlined and coherent platform for helping students decide on their next steps.

A report into understanding student choice captured many of the challenges inherent in providing information, advice and guidance to school leavers. For example, a majority of the prospective HE students described their decision-making process "as a 'chaotic', 'bits and pieces' process" and "very few believed that prospective students balance the costs and benefits of higher education participation in a methodical way."[125] In addition, the report found that "in some cases, a large and complex menu of options can result in a 'paradox of choice' where people opt for the 'default' option or disengage from the decision-making process entirely". This was supported by other studies that "have also highlighted how prospective students can find the choice process complex and difficult and often do not engage with the information that is available."[126] Worryingly, it was also discovered that "prospective students from lower socio-economic groups consult fewer sources of information".[127] In short, the current system of HE, FE and apprenticeships battling it out with each other does not appear to be serving the interests of learners, and information is not always easy to comprehend even when learners find it.

In terms of recommendations, the report suggested that "one way of addressing these issues is through making information more easily accessible in a single source" – something that would become more achievable under a single tertiary funding system. However, the report added that "simply providing more information – especially quantitative data – is unlikely to be sufficient to facilitate effective student choices [because] this information would require introduction and translation, either by individuals with knowledge and/or experience of higher education, or through guidance on how to interpret and navigate the data."[128] The reforms required to deliver such improvements in the quality of careers, information and guidance are beyond the scope of this report. Nonetheless, the proposed IEB model could provide the impetus towards designing a single information portal for the three main tertiary routes, even if students must still fill in course applications elsewhere. The fact that all students must access the same funding mechanism offers a unique opportunity to ensure they have considered all their options before making a final decision.

The variety of courses available through IEBs

Earlier in this report, it was recommended that the new IEB system should allow learners to select any approved and regulated qualification from Level 2 up to Level 8 so that they can choose the most appropriate course to meet their needs at any given time. This would require the government to be clear about which qualifications it deems eligible at each level in order to prevent IEB funds being spent on inappropriate courses.

A separate but related question is whether the government should express any opinion on the mode of delivery for courses / qualifications as well as their content. The growth in recent years of massive open online courses (MOOCs) and other online provision at tertiary level will require the government to decide if such provision should be included in the IEB system, particularly when some or all elements of approved and regulated qualifications can be delivered through these channels. What's more, modular courses (i.e. courses broken up into smaller components that can be combined to form a larger qualification) are often promoted by employers as a means of upskilling staff and providing professional development. For example, adult learners may benefit from 'micro-qualifications' or some other form of credit accumulation rather than spending their IEB funds on large qualifications that take longer to complete and may be less relevant to their individual needs. If IEBs are to form the backbone of a funding system that supports lifelong learning and career development, there is likely to be pressure to consider opening IEB funding to this type of provision. While the DfE must remain committed to only funding rigorous and respected courses and qualifications that are underpinned by suitable quality assurance procedures, introducing some flexibility regarding various modes of delivery and qualification structures could potentially increase the value of the IEB model.

Conclusion

> *"Higher education is so obviously and rightly of great public concern, and so large a proportion of its finance is provided in one way or another from the public purse, that it is difficult to defend the continued absence of co-ordinating principles and of a general conception of objectives. However well the country may have been served by the largely uncoordinated activities and initiatives of the past, we are clear that from now on these are not good enough. In what follows therefore we proceed throughout on the assumption that the needs of the present and still more of the future demand that there should be a system."* [129]

Judging by this quote, the seminal 'Robbins Report' on Higher Education in 1963 was plainly aware that, although the system of post-18 education at the time had many strengths, this was not a reason to stand idly by. The absence of any coordinating principles or a clear sense of what the post-18 system was supposed to achieve was as undesirable then as it is now. The Robbins Report was adamant that such coordination and clarity should not be interpreted as a demand "that all the activities concerned should be planned and controlled from the centre", but rather that "there should be co-ordinating principles and that individual initiative must not result in mutual frustration."[130] The truth is that in the modern era, universities, colleges and apprenticeships are too often seen as, and consequently treated as, different worlds that only occasionally collide. Inevitably this leads to 'mutual frustration' as universities have dominated the education agenda in recent decades, leaving the rest of the tertiary landscape struggling for political air as well as money.

The reason that this report is called 'Free to choose' is two-fold.

First, by placing the control of the tertiary system (and most of the associated funding) in the hands of learners, everyone will now be free to choose the most appropriate course or programme for them and the government's funding will follow their choice. For too many years, ministerial whims have driven the system one way or another while current and future learners were left passively observing whatever changes were enacted. This will all change now that learners are free to choose their own educational path, safe in the knowledge that the available financial support will follow them.

Second, this report seeks to tilt the tertiary education system in favour of the most disadvantaged learners without unduly restricting the support available to others. Should a learner from a disadvantaged background open an IEB with £10,000-20,000 of funding, the cost of tuition for a huge swathe of courses across the tertiary system will be mostly, if not

entirely, covered. This means that disadvantaged learners will be able to access many courses and programmes for free without even taking out a loan – something that is a distant prospect for almost everyone under the current arrangements. Ensuring that these learners are free to choose the right course for them without the prospect of a large debt burden hanging over them would be a laudable outcome in the broader pursuit of educational equity, even if the Augar Review had never been set in motion.

Crucially, a tertiary system that revolves around IEBs also meets all four criteria set out by the Prime Minister for the Augar Review:

- **Choice**: now that all the tertiary routes are treated in the same way, learners can make more informed decisions about the best course or programme for them. The IEB model will be much simpler and more transparent than the existing setup that treats universities, colleges and apprenticeships as separate education systems, making it easier for learners to compare courses and understand their options.

- **Value for money**: the IEB model employs a fairer and more sustainable approach involving greater up-front support for learners backed up by a loan facility. This will strongly encourage learners to think about how best to use up their IEB funds rather than assuming that full-time, residential undergraduate degrees are always the best option. A lower repayment threshold and lower interest rate also ensure that taxpayers receive a much better deal in future.

- **Access**: the deliberate emphasis on providing the most financial support to learners from the most disadvantaged backgrounds is intended to reassure them that all tertiary options are accessible with their IEB regardless of which route they select. Bringing adult learners with low or no prior qualifications into the same system is also designed to promote social mobility through increasing their commitment to skills development and lifelong learning.

- **Skills provision**: by putting universities, colleges and apprenticeships on a level playing field, vocational routes (both in the classroom and workplace) will be more visible than at present. This will, in turn, promote a greater diversity of provision as well as a closer link between tertiary programmes and the training that employers need to sustain and grow their organisations. As the nature of IEBs will put cheaper and more direct ways of entering different occupations alongside more expensive full-time residential degrees, the demand for different types of tertiary provision could change significantly. The lifetime loan limit will also make it easier for learners to change careers, which only becomes more important as technology and innovation continue to drive changes in our workforce and labour market in the years ahead.

In much the same way that IEBs do not express a preference for any type of learning or institutional context, this report does not seek to promote any form of tertiary provision. That said, it is possible (arguably, likely) that the IEB model described in this report would result in an overall decline in the number of students opting for full-time university degrees for two reasons. First, the introduction of greater price transparency between HE, FE and apprenticeships will make students more aware of the expensive nature of many forms of HE as well as how they might be able to achieve the same career goal through different and less financially burdensome means. Second, the IEB model is intended to encourage a new mindset among learners in terms of assessing the value of different courses and programmes (e.g. more stringent loan repayment terms encouraging students to use their up-front funding on less costly provision). Although any potential reduction in university enrolment is not intended to detract from the pivotal role that universities do, and should, play in our education system, the enduring political bias towards universities at the expense of colleges and apprenticeships should not be ignored by government as they construct a new vision for post-18 education.

It is plainly apparent that the government needs to reduce the overall cost of tertiary education. The package of reforms described in this report can help achieve this without unfairly hindering any specific type of institution or group of learners. What's more, even including the generous up-front investment in IEBs each year, the annual cost of operating the IEB model is estimated to be £6 billion per student cohort – a saving of £2.7 billion compared to the current system. This leaves plenty of scope to invest in adult learners in the coming years while also easing the financial pressure on taxpayers.

Every new funding model will inevitably encounter some challenges and obstacles as it is developed and implemented. Nevertheless, the framework described in this report for IEBs shows how a fair, sustainable and effective tertiary education system can be built using nothing more than existing infrastructure, processes and procedures. As a result, it is hoped that this report makes a useful and substantial contribution to the government's post-18 review and the future of our education system.

Appendix

Modelling assumptions used by London Economic to calculate changes in the cost of the HE finance system

The model of the Higher Education funding system estimates the impact of the system on the Exchequer, institutions and graduates for

- the 2017/18 cohort of first-year English-domiciled students (studying anywhere in the UK), and EU-domiciled students studying in England;
- full-time and part-time students;
- and all undergraduate qualifications (including first degrees and other undergraduate qualifications below first degree level)

Note that for changes in the repayment threshold, we have also assumed that the interest rate threshold has shifted accordingly. For instance, under the current £25,000 threshold, no interest is charged below 25,000, while 3% real interest is levied for incomes in excess of £45,000, so alongside the reduction in repayment threshold to 21,000 we assume that interest rate thresholds decline – to £21,000 (0% real interest) and 41,000 (3% real interest).

Student profile

The model considers the total number of full time and part time English domiciled first year students undertaking higher education qualifications at any institution in the UK. In addition, all EU students engaged in undergraduate education studying in English HEIs are also included. We have applied various changes to HE fees and funding arrangements based on the most recent HESA data relating to the 2016 -17 cohort comprising 485,545 students (458,815 English and 26,730 EU domiciled students; 397,265 full-time and 88,280 part-time).

Amongst full-time students, 94% are undertaking first degrees (33% part-time), with 3% engaged in other undergraduate studies (60%), 1% HNCs/HNDs (3%), and 2% Foundation degrees (4%).

Part-time students are estimated to study at 40% FTE.

The annual continuation rate was estimated to be 92.5% for full-time students and 3% for part-time students.

Based on HESA data to determine the size of maintenance loans received, first year students are categorised by location of study and living arrangements whilst in study. We assume that all students take out the maximum available loan to which they are entitled, and we base eligibility for loans using information from SLC Statistical First Releases on the proportion of students that were previously in receipt of full or partial maintenance grants (to determine the distribution of students by household income band). Based on this, the average maintenance loan received by a full-time first degree undergraduate student stands at £6,538 per student per annum overall.

The average gross tuition fee in 2017-18 is £9,250, but as a result of Access agreements and the provision of bursaries and fee waivers by HEIs, the net tuition fee is lower (£9,101). Based on average study intensity, the average part-time net tuition fee was estimated to be £3,607 per annum. We have assumed that fees do not increase over the duration of students' students' courses.

We have modelled loan eligibility – by location of study (i.e. Living at Home (21% (full-time students), Living away from home outside of London (67%), and Living away from home in London (12%)) – using the current income thresholds provided by Student Finance England.

All analyses are undertaken by gender. For those individuals undertaking sub -degree qualifications on a full-time basis, the gender split is 46 /54, with the corresponding estimates for undergraduate degrees standing at 43/57.

The average age of enrolment for full time students undertaking Other HE, HNCs/HNDs, Foundation Degrees and undergraduate was 28, 21, 25 and 20 respectively. The corresponding estimates for part-time students were 36, 27, 30 and 31.

The average duration of qualification attainment for full time students undertaking Other HE, HNCs/HNDs, Foundation Degrees and undergraduate degrees was 1, 2, 2 and 3 years respectively. Based on study intensity, the corresponding estimates for part-time students were 2, 5, 5 and 7 years respectively

Fiscal assumptions

We assume that all income thresholds (for loan interest and loan repayment) increase in line with average nominal earnings growth (with forecasts taken from medium term and long term forecasts by the Office for Budget Responsibility (OBR), published in October and July 2018, respectively).

In relation to the estimation of the RAB charge, we assume a real discount rate of 0.7% as per standard HMT practice with respect to student loans accounting. In relation to all other financial flows (including Exchequer costs and benefits), we assume the standard HMT real discount rate of 3.5%.

All nominal price levels were adjusted to (real) constant 2017/18 prices using OBR medium term and long term forecasts of the Retail Price Index.

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Less than 0.2 (55%).

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