Chapter 1

Introduction

1.1 A system of Individual Learning Accounts (ILAs), organised within the context of a 'Learning Bank', has attracted widespread interest as a plausible means of achieving a number of policy objectives in the funding of learning opportunities. Notes on the literature to date are provided as an end note to this report.

1.2 One salient objective of current policy is to stimulate well-informed behaviour amongst individuals and employers so that both parties are more inclined to augment public expenditure by investment in lifelong learning. In addition to the advantages that an increase in learning achievement can be expected to provide for the individual and collective good, the total revenue generated from an investment partnership of this nature should be capable of sustaining an expanded and effective system of post-compulsory education and training. Within this overall context, the adequate funding of students and provision in higher education constitutes one pressing problem.

1.3 A system of ILAs appears to be timely and appropriate when considered against the background of ongoing changes in post-school education. In particular, the recent expansion of higher education and the emphasis now given to the role it needs to play in a system of lifelong learning have created conditions in which it is no longer adequate to conceive of university education simply as the last stage in a period of schooling. Changing factors include:

- the demographics of participation – involving a broader social mix of students than hitherto;
- the emergence of mass higher education and widespread diversity – a broader range of courses and credentials, an extensive reputational range of providers, different modes and styles of learning;
- prospects for a redistribution of the existing quantum of public expenditure, leading to the supply of more places in higher education and lifelong learning but with an

attenuated period of attendance paid for wholly from the public purse;

- the development of higher education as part of a lifelong learning framework involving a recognition of the importance of continuous individual commitment to lifelong learning and skill renewal – emphasising the need, amongst individuals and their employers, for entry and re-entry to learning opportunities beyond initial education and training;
- prospects of greater competition for premium labour market placement – requiring students to become more sensitive to signals from the labour market in their choice of learning programme;
- the targeting of public subsidies to achieve policy objectives beyond initial higher education, with consequences for individual contributions – leading to an emphasis on personal financial investment and the possibility that learning careers will take on a more interrupted or fragmented pattern as students oscillate between learning and earning over a lifetime.

1.4 Furthermore, the present system of funding students and provision was designed to meet the needs of a smaller and more selective higher education sector in which full-time residential education for young people was regarded as the norm. As the sector has expanded, questions have begun to arise about the affordability of higher education to the public purse and, more searchingly, to what purpose is public expenditure being committed. For these reasons and others, there is a strong case to be made for considering some fresh and bold alternatives to existing arrangements.

1.5 Currently, no one is satisfied with the present system. Specifically, institutional providers are unable to secure sufficient resources from public expenditure alone. Individual students are increasingly expected to meet the costs of their maintenance via a loan, while part-time students must meet some of the costs of their tuition also. Many employers are reluctant to invest in employee education and training for fear that the investment will be exploited by 'free-riding' competitors. And the state does not deploy public subsidies as efficiently as it might to ensure that individuals are able to participate according to their needs in the emerging learning market.

1.6 Public policy does need to be clarified with respect to the relationship to be sought between public and private responsibilities. A new relationship would ideally connect individual investment, public expenditure priorities, the requirements of providers and the rights of learners to access learning opportunities according to their needs from time to time. These needs would reflect learners' informed preferences for high quality learning achievement and future labour market success over a lifetime.

1.7 In an effort to address the immediate problems of higher education funding in the context of longer-term strategies for lifelong learning, this assessment explores how a system of individual learning accounts within a Learning Bank might contribute to a solution. It has been informed by extensive consultations with individuals and other interested parties, including representatives of the financial services sector and relevant public authorities. A list of informants is provided in Appendix A.

1.8 At the core of the model, emergent throughout the consultations, lies the assumption that an individual commitment to invest in lifelong learning, where individuals have the means, and a need to meet the repayment obligations incurred by loans can best be discharged if investment and repayment responsibilities are matched by a recognition that individuals may benefit from greater discretion over the deployment of public and private financial resources in line with their informed choices. To that end, a system of ILAs could constitute one significant solution.

The model

1.9 In order to provide a conceptual starting point for the consultations which inform it, this assessment has been based on certain assumptions and desiderata. The key elements of the organising framework are described below.

1.10 A system of ILAs in a Learning Bank might operate in the following manner. An individual, in person or through a parent, could open an ILA at any time before the age of 18. The ILA would be used at this stage principally to attract investments against prospects of future expenditure on education and training. Since the investments would involve private funds, it would be a matter for policy whether such investments were fiscally incentivised. Whatever arrangements obtain at this stage, private funds could not be ring-fenced for specific expenditure unless they were tied to formal incentive schemes.

1.11 At the age of 18, every individual would have an ILA, whether or not they have opened an account on an earlier occasion. The ILA would be available to individuals for the immediate or future purchase of education and training, which would include higher education. For those individuals not seeking to enter higher education, the ILA would exist to attract personal and employer investments, and any public investments that may from time to time apply.

1.12 For individuals accepted for entry to higher education, the ILAs would act as the means by which public funds for maintenance and tuition were deposited within the accounts to be used, in the first instance, by students purchasing higher education within the rules of the account. Deposits would include such grant and loan facilities as might be available; and those elements of tuition fees and other recurrent expenditure which policy indicated should flow through the ILA.

1.13 In addition, the ILA would contain such private investments, from families, individuals and employers, as may from time to time be deposited within the account. Such deposits might be attracted from a mix of sources: family bequests, wage contributions from part-time work, employer contributions for appropriate training, or contributions as a consequence of wage-bargaining outcomes.

1.14 During the lifetime of the ILA, an individual could incur an overdraft against the account within the rules determined for the ILA. Repayment of the overdraft would be arranged under rules agreed for the equitable repayment of loans and other debts, such rules to encourage earlier and regular repayment where this is possible and consistent with fairness. For higher education students, this model would be consistent with the operation of an income contingent loan scheme such as the Higher Education Contribution Scheme (HECS) developed in Australia.

1.15 The ILA would remain open during the lifetime of the individual, and beyond initial higher education where this applies, to be used in the purchase of future learning needs including subsequent higher education, for those who deferred entry for whatever reason, or who wish to return at a different level. The funds within the ILA during this period would be made up of a mix of public and private resources on a case-by-case basis, but governed by the rules applying to the ILA.

1.16 ILAs would be managed within the context of a 'Learning Bank', but the transactions arising from such accounts might be arranged through the commercial banking sector. Moreover, the financial services industry could contract to supply services to individual account holders and, following fiscal policies which might be developed, could offer tax-efficient schemes for savings and investment linked to higher education and lifelong learning.