Chapter 4

The next steps – problems and possibilities

4.1 The task of establishing a general system of ILAs does involve the search for solutions to a number of formidable obstacles. These do not appear to be insurmountable if there is a will to proceed. The obstacles include:

- machinery will need to be established to handle many millions of accounts over time. Within five years from the start of any scheme, there could be up to 10 million accounts in use; within a decade, nearly 20 million ILAs would exist, although many would be dormant from time to time;
- there will be an increase in transaction costs arising from the use of ILAs;
- investment in preparation and presentation will be essential to ensure a system of ILAs is well understood by users and providers;
- judgements will need to be exercised about the balance to be achieved between the dynamics released by individual use of ILAs and the turbulence which can be tolerated by institutional providers and others.

4.2 The prospects and limitations speak urgently of the need to proceed immediately with legislative enabling steps if progress is to be anticipated by the next century. The technical and preparational steps are formidable. These will include the need to prepare school-leavers and those currently in the later years of schooling with guidance on the use of ILAs. Families will also need time to adjust; employers and trade unions will need to be involved in crafting the system in appropriate ways.

Policy choices

4.3 Policy choices need to be made at a number of points:

- if one can assume that full-time students will pay for their maintenance, decisions
will need to be made about whether they are to pay an element of the tuition fee as well. A system of ILAs is neutral for this choice, but it works well if students are to be granted discretionary control over the fee, whether an element is repaid or not;

- if the payment of an element of the tuition fee is planned for some future date, policy will need to determine how far the distribution of resources is planned to shift towards the fee, and therefore towards the student. The case for an ILA/Learning Bank model is stronger if the shift to fees is greater than at present;
- the exercise of discretionary control by students over an element of sector resources been proposed as a key feature of a system of ILAs, but this departure will need to be negotiated with institutional providers of higher education to insure against unplanned consequences;
- are new fiscal incentives for savings and investment to be promoted? An ILA would be an appropriate container for such incentives;
- what balance is being sought between compulsion and voluntarism, particularly in respect of employer participation? Would a strategy of ‘secondary’ incentives be appropriate - for example, by an incentivisation of the Investors in People programme?
- what balance is to be preferred between public and private sector involvement in the management of arrangements? An ILA model works whatever the balance, but the price attached to the transfer of risk might be substantial if contracts are let to the financial services sector; while a public sector commitment to underwrite defaults would need to be retained.
- critical decisions would need to be taken about the character of the overall authority. A minimalist strategy for the Learning Bank would re-title the SLC; a maximalist strategy would build a programme for the fundamental reform of post-school funding to embrace the role of funding councils, Training & Enterprise Councils and the Student Loans Company.

**Where to start?**

4.4 At some early point, a policy decision will need to be taken about where to break into the cycle of development to ensure optimum conditions of success for a general system of ILAs. The Labour Party has announced that it plans to establish one million ILAs for adult training, involving £150 of public funds per account if this is matched by £25 from private funds. Further work will need to be undertaken to
establish the basis of eligibility for these accounts, whether public funds will be supplied on a continuous basis, how they will be managed and accessed by individuals, and what they can purchase.

4.5 Notwithstanding developments of this nature, it is the view of this assessment that, whatever the utility of a system of ILAs for education and training beyond higher education, and however Government defines its priorities in these matters, the operation of a comprehensive system of ILAs is likely to prosper and command public confidence if ILAs were to become an essential feature of higher education. This is not to assert the primacy of higher education over the interests of other sections of the lifelong learning community, but instead to point up some significant and positive differences between higher education and the training sector:

- **high demand for higher education, and high yield to the individual**: demand for higher education is enormous and sustained; the private rate of return to the individual is high. This means that higher education is a good private investment and can be expected to generate private funds via an ILA to supplement public funds. Despite policy encouragement to the contrary, training does not yet enjoy the same public support as an opportunity for private investment;
- **defining eligibility**: in higher education, there is no problem in defining eligibility since that is determined at the point of entry to the system. Moreover, each year generates a fresh and recurrent cohort of new account holders. From the first year of the scheme, there would be over 1.6 million ILAs from higher education, and the total would increase by approximately 500,000 annually. After a decade, 5-6 million individuals would possess ILAs from this source alone;
- **public funds are available for the ILAs, at no additional cost to the Treasury**: large and meaningful sums of public money, currently distributed via the Funding Bodies, could be redirected to the ILAs for the purchase of higher education. Depending on the necessary policy decisions, each ILA might contain £2,000-£3,000 of public money annually for tuition fee payment, and perhaps an annual loan of £3,000-£4,000 for personal maintenance. Private deposits would be additional to this;
- **no loss of system efficiency with higher education**: eligible individuals will ‘exercise their options’ by using their ILA in higher education for the intended purposes; take-up will be 100 per cent. This may not be the case in the training market where, if a
sizeable minority do not take up the funds in their ILAs, there could be a net reduction in overall training.

- *there is no ‘deadweight’ effect in higher education*: that is to say, public money does not drive out private money (as might be the case with training ILAs); existing public money might indeed lever in significant sums of private money; and the use of public money in the accounts would be 100 per cent efficient;

- *higher education provides better security for the raising of loans*: because the private returns to higher education are so substantial, and the loan recapture machinery is already largely in place, borrowing money to pay for learning is much easier against the security of higher education than it is likely to be for training. The price of the risk to public and private lenders is therefore lower; repayment rates will be higher; and ‘forgiveness’ levels are likely to be lower overall.

**4.6** We would wish to emphasise the point that the assessment above does not make a case for proceeding in higher education rather than in the training market. Government will define its priorities according to its judgement of need. It is quite possible that a comprehensive system of ILAs could develop in different sectors at the same time. However, the point must be made that a comprehensive system of ILAs could develop and command public confidence quite quickly if a start were made in higher education. Because there are no problems of additional Treasury costs, nor of eligibility, a system of lifelong ILAs would achieve high density within the population in a very short time.

**Problems of unintended consequences**

**4.7** The novelty of the proposals assessed in this report means that the policy community has no experience elsewhere to draw upon in determining whether policy objectives will be met in the manner intended. For example, it is not clear how sensitive the proposed arrangements are to changes in Government policy, or to public opinion at a given moment. We have assumed that the proposed model is highly sensitive to changes in Government policy, and that this might be an attraction of it. Furthermore, it is clear to us that the concept of an ILA is currently far ahead of public opinion, and significant steps would need to be taken to prepare the grounds with the general public before a system were fully introduced.
Assessing student response

4.8 Assessing student response to a system of ILAs is difficult. On the one hand, students in higher education have access to better quality information than students in other segments of the learning market. They are capable of mature judgement and responsible behaviour; and they would have an interest in welcoming the control and flexibility promised by a clearly-defined system of ILAs. On the other hand, some fraction of students might reject the concept, or misunderstand/misuse the system. In either context, there is a compelling case for good presentation, clarity and simplicity, and adequate lead-time for the introduction of the system (see below).

4.9 Indeed, if policy is committed to a system of ILAs for higher education, we believe it would be wise to consult closely with interested parties, and obviously the National Union of Students, to prepare the ground for their introduction.

Predicting institutional behaviour

4.10 Predicting institutional behaviour is also a complex matter. Institutional providers are likely to want to ensure that their market position is defensible in any emerging system of ILAs. One unintended consequence could be that the choice and flexibility released by a system of ILAs could encourage some institutions to reduce choice and flexibility as they seek to 'lock in' students in order to stabilise income streams. To this end, some institutions - perhaps those higher in the reputational range - might require students to enter long-term 'contracts' with one supplier as a condition of entry.

4.11 Some balance would need to be achieved between the reasonable expectations of academic continuity - as required by professional bodies, for example - and the reasonable needs of students to vary their preferences and act flexibly in the learning market. This might make a case for ensuring either effective regulation of supply-side behaviour, preventing market capture by providers, or effective demand-side deregulation in order to permit students to act freely in the higher education learning market.

4.12 No doubt there will be a sizeable minority of opinion within higher education
which believes that students should not be granted significant rights of choice and mobility, and certainly not in a form which challenges the decisions of institutional providers over the character and distribution of learning opportunities. Possible arguments might claim that students are insufficiently informed to make complex decisions about programme design; that widespread student choice and mobility might have adverse consequences for quality; that academic freedom would be compromised by student choice; and that institutions would have to absorb significant costs in anticipating and managing for variations in patterns of student behaviour.

4.13 Under these circumstances, policy would need to determine to what extent it is prepared to attach weight to the views and interests of institutional providers in determining the balance to be achieved between student choice and flexibility, on the one hand, and system stability on the other.

Administrative considerations

4.14 During consultations with the commercial banking sector, a number of concerns were expressed over the need to anticipate difficulties in the management of a system of ILAs. In particular, the commercial banks were keen to warn against the problems of fraud: a system of ILAs seemed to provide an opportunity for criminal intervention if its security was not uppermost in the minds of policy-makers. Fraud might not only involve attempts to pass off an individual as an eligible student, but the creation of duplicate ILAs and so forth.

4.15 It should be pointed out that no difficulties emerged as a specific consequences of a system of ILAs. The difficulties which have been described above are features of existing systems for welfare benefit payments and well as for private banking accounts.

Consequences for widening participation in higher education

4.16 There appear to be many advantages for access and wider participation in a comprehensive system of ILAs, and no obvious disadvantages. This assessment is true provided a system of ILAs is supported by an equitable loan scheme - which is the key to a fair funding model.
4.17 To begin with, an ILA offers a facility to manage investment and loan transactions without imposing costs on individuals or families at the point of entry. Individuals and their families may save with a view to repaying debts earlier, but the model does not assume that prospective students will have accumulated funds at entry. Indeed, a system of ILAs effectively decouples student finance from the expectation of a parental contribution and provides instead a new kind of learning investment coalition - the state, individuals and, under specific circumstances, employers.

4.18 Furthermore, policy-makers have the option of using the ILA system in higher education and beyond to expand the number of accounts - and therefore the number of places - the Government is prepared to fund. This can be achieved in various ways, but principally by redirecting the current contribution from public expenditure evenly across a greater number of ILAs. Where a gap may arise between the state’s contribution to the ILA and the cost of a learning programme, this can be met by the loan/overdraft facility of the account.

4.19 Consequently, no prospective student need be impeded from initial entry to higher education by the costs involved; and any costs which may be incurred as a consequence of loans can be met from the higher earnings a student can expect in the labour market. To ensure that students are able to maximise their prospects of advantageous placement in employment, the ILA would provide opportunities for students to negotiate with providers, from a position of relative strength, variations in their initial choice of learning programme, should they wish this.

**The balance of possibilities**

4.20 On balance, the possibilities released by a clear and well-administered system of ILAs appear to outweigh the problems:

- a system would pull together investment, distribution and repayment functions in a clear and transparent manner;
- such a system would stimulate the repositioning of higher education in the context of lifelong learning; it would also lock higher education into a more unified, cohesive, seamless education and training market;
- the system would be affordable to the taxpayer, achieve an appropriate balance
between public and private investment, and would be sensitive to changes in public policy from time to time;

- ILAs create an appropriate stimulus for institutional responsiveness and sharpen the influence individuals can bring to bear upon the products, quality and price of learning opportunities in the wider learning market;
- a system of ILAs has positive consequences for wider participation.