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Summary

- 1 The government has sought to make reforming adult education and skills policy a key priority. The Department for Education has recently published a White Paper to communicate the government's strategy. This comes on the back of a large drop in the number of adult learners and a 50% fall in spending since 2010.
- 2 One element of this strategy is the National Skills Fund. This seems to equate to a commitment to spend an extra £2.5 billion on adult skills over the parliament, or about £625 million extra per year for four years (although it is difficult to be certain due to a distinct lack of detail). This spending commitment will only reverse about one-third of the cuts to adult education spending over the 2010s.
- 3 As of April 2021, the government has restored the entitlement to free A-level-equivalent or Level 3 courses for adults without qualifications at this level. However, it only applies to courses in 'high priority' areas, which excludes courses in areas such as hospitality, tourism and media.
- 4 The White Paper suggests changing the adult education funding system, but only commits to a consultation. There would certainly be merit in reforming the system though, given its complexity, short-term focus and perverse incentives just to get numbers up.
- 5 A key policy initiative the White Paper introduces is the Lifelong Loan Entitlement, which aims to give everyone access to funding for the equivalent of four years of post-18 education and remove arbitrary distinctions between further education and higher education courses.
- 6 While the policy seems like a sensible proposal, there are a number of important details left to be worked out. Courses classed as 'approved higher technical qualifications' will be eligible for extra funding, but it is not clear how this will be determined and what will happen to other courses. This will have a substantial bearing on the effects and cost.

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- 7 Despite extensive consultation as part of the Augar Review, the government has only committed to consult further on whether to relax equivalent or lower qualification (ELQ) funding rules. Relaxing such rules would enable more adults to retrain at qualification levels they have already attained, but does come with risks.

1. Introduction

The UK is widely recognised to have a significant problem with adult skills. A range of recent government reports and reviews have emphasised the extent of skills shortages, particularly in technical areas, and the lack of responsiveness of the current system to labour market demand. This problem could be exacerbated by any increase in the pace of technological change, such as automation of particular jobs, or negative trade shocks to particular industries. Economic change following on from the pandemic could also lead to a shift in the demand for different types of skills.

Partly motivated by such concerns, the government has repeatedly emphasised a desire to create a post-16 education system in England that provides people with the opportunity to access the training and education they need throughout their life. The Prime Minister has dubbed this the Lifetime Skills Guarantee and announced a £2.5 billion National Skills Fund to deliver this commitment, though, to date, there has been little detail on what either means in practice.

The independent review of post-18 education funding led by Philip Augar, published in 2019, included a series of recommendations on transforming funding for post-18 education and increased funding for adult education in particular (Augar Review, 2019). This included proposals to introduce a lifelong learning loan allowance. This allowance would equalise support for those taking higher and further education courses, and also give learners greater flexibility over their choice of course and institution than the present system allows. The review also proposed restoring public funding for Level 2 (GCSE-equivalent) and Level 3 (A-level equivalent) courses for all adults who do not have qualifications at that level. Along with the introduction of a lifelong learning loan allowance, it also proposed relaxing ‘equivalent and lower qualifications’ (ELQ) rules to allow more people to take further degree- and sub-degree-level courses, even if they have a qualification at the same or a higher level already. There were also a series of recommendations for reforming higher education funding. Nearly two years on from the publication of the review, the government has only published an interim response relating to some

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limited changes to higher education funding, and has yet to respond to most of the review's recommendations.

As a result, the DfE's recent 'Skills for Jobs' White Paper (Department for Education, 2021) has been eagerly anticipated as a means for the government to communicate its plan to transform adult education and skills policy, and as a fuller response to the recommendations in the Augar Review.

In this briefing note, we assess the key policy announcements made in the White Paper around the funding of post-18 education. The White Paper itself is broad in scope and includes discussions of many potential areas of reform.

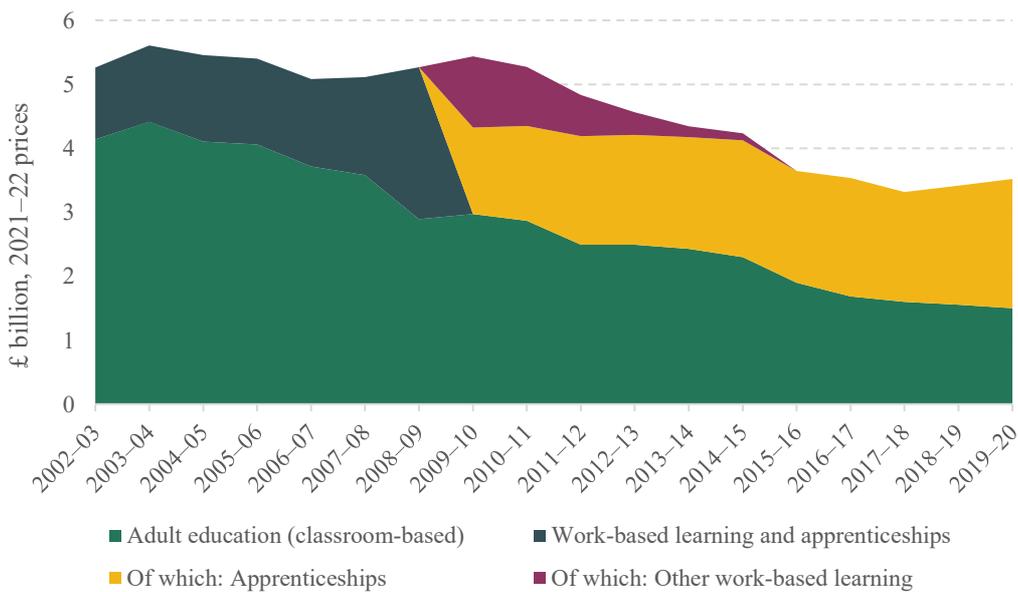
The main policy initiative the White Paper introduces is the Lifelong Loan Entitlement, which (like the lifelong learning loan allowance proposed in the Augar Review) aims to give everyone access to funding for the equivalent of four years of post-18 education. Another significant set of reforms signalled by the White Paper are potential changes to the adult education funding system. However, many key details that would determine the overall effects of these changes are either missing, due to go out for consultation, or put off until 2024.

In the remainder of this note, we begin by providing some background context for these changes by setting out current spending levels on adult education and the numbers of adult learners studying different qualifications. We then analyse the spending commitments outlined in the White Paper, and consider the potential implications of changing the existing adult education funding system. Lastly, we discuss the proposed Lifelong Loan Entitlement.

2. Adult education

While the government has pledged additional funding for adult education (covering all education spending for individuals aged 19 or over outside higher education), this must be viewed in the context of a sustained decline in spending on adult education over the past couple of decades. This is illustrated in Figure 2.1, which shows the total level of day-to-day spending on adult education and apprenticeships between 2002–03 and 2019–20 (the most recent year for which data are available).

Figure 2.1. Total spending on adult education and apprenticeships in England over time, 2021–22 prices



Source: Britton et al., 2020.

Overall spending across adult education, apprenticeships and work-based learning fell by 35% or by £1.9 billion in real terms between 2009–10 and 2019–20. Total spending on classroom-based adult education (i.e. excluding apprenticeships and work-based learning) was at a high point of about £4.4 billion in 2003–04. It then fell by about one-third between 2003–04 and 2009–10 and by a further 50% or £1.5 billion between 2009–10 and 2019–20. Taken together, this represents an

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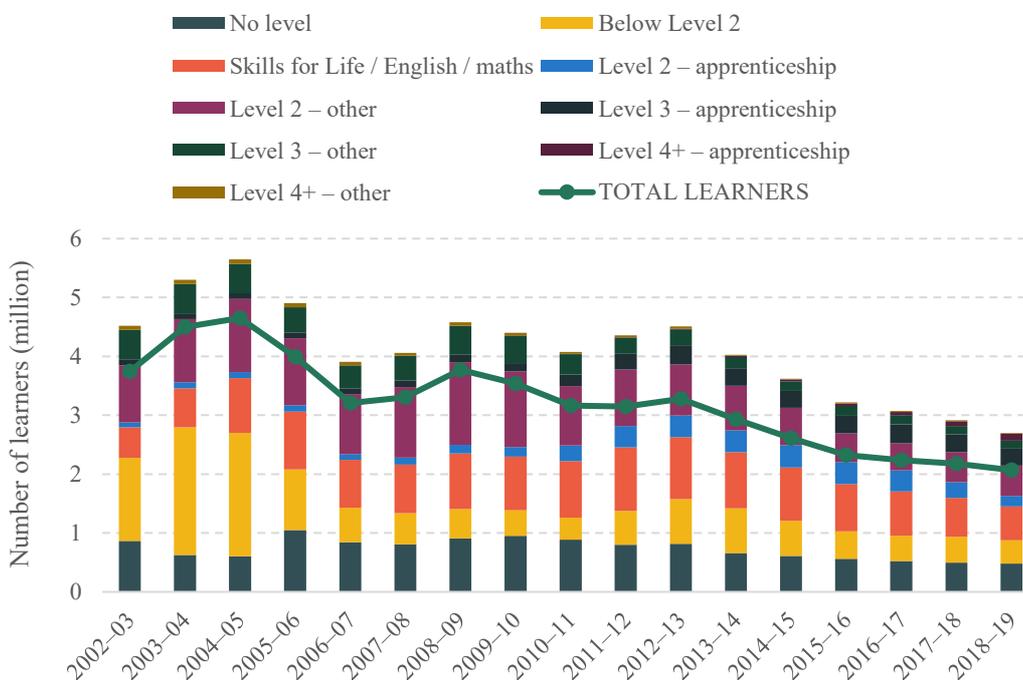
overall fall of two-thirds since 2003–04. This has partly been made up for by a 50% or nearly £700 million increase in spending on apprenticeships since 2009–10 (which here includes young people as well adults).

Therefore, there have been large falls in spending on adult education over time, which remain even after accounting for a shift towards spending on apprenticeships.

Existing student numbers

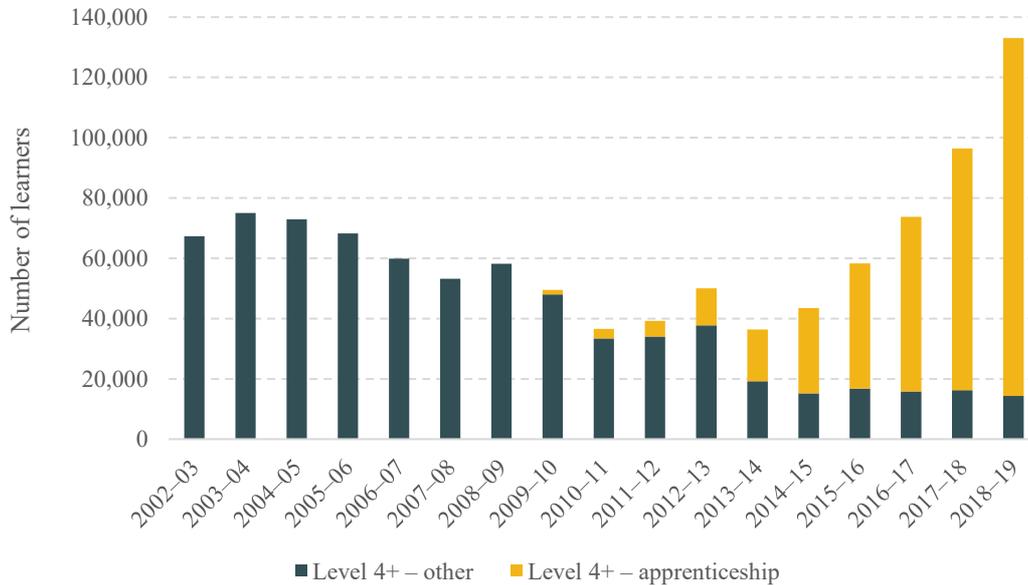
The fall in spending has largely been driven by declining numbers of students in adult education. Figure 2.2 shows the total number of funded learners aged 19 and older over time, as well as the number taking qualifications at different levels (excluding those in higher education). The numbers taking each level are further broken down by whether they were taking an apprenticeship or another route. Learners taking multiple qualifications can be in more than one category, so the total number of learners is less than the sum of the categories.

Figure 2.2. Total adult learners and apprentices over time by level



Note: Individuals can be taking more than one type of qualification and the total number of learners is therefore lower than the sum of the categories.

Source: Authors' calculations using Department for Education (2018).

Figure 2.3. Total adult learners and apprentices over time at Level 4 or above

Source: See Figure 2.2.

The total number of learners has fallen substantially over time, from a high point of 4.7 million in 2004–05 to 3.2 million by 2010–11, and to 2.1 million in 2018–19 at the latest count. The share of learners on apprenticeships has increased to around 30% in 2018–19, from less than 10% before 2010.

A large part of the fall in total learner numbers can be explained by a reduction in the numbers taking low-level qualifications (Skills for Life, English and maths, IT courses, food hygiene and other courses below Level 2), which fell from around 3.6 million in 2004–05 to 2.2 million in 2010–11 and 1.4 million in 2018–19. The number of Level 3 learners has also fallen by about one-third over the past decade, from a high point of 620,000 learners in 2008–09 to about 420,000 in 2018–19.

Figure 2.3 highlights the total number of adults taking funded Level 4 or higher courses in further education each year. These are primarily vocational Level 4 and Level 5 courses between Level 3 (A-level-equivalent) and Level 6 (degree-level) courses, and have come to be referred to as higher technical courses. The number of individuals on these courses is relatively small (about 130,000 in 2018–19 or about 6% of adult education learners), but it has grown from a low of about 40,000 in

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2010–11, mainly driven by a rise in the number of individuals taking higher apprenticeships (Level 4 or above).

Figures 2.2 and 2.3 only count learners funded by the Education and Skills Funding Agency (ESFA). The ESFA manages advanced learner loans (ALLs), which are one source of funding for Level 4 and Level 5 courses, but individuals on some courses may instead access funding through higher education loans or may privately fund their studies. These numbers therefore only show a fraction of the total number of learners.

Unfortunately, it is difficult to get an accurate estimate of the total number of Level 4 or Level 5 learners because individuals can receive funding from different sources and study Level 4 or Level 5 courses at a variety of different types of providers (including further education providers and higher education institutions). Further education providers and higher education institutions report data through entirely separate data-collection systems and no regular effort is made to publish the combined total number of learners, which can result in double-counting for those studying at multiple institutions.

Table 2.1. Number of Level 4 and Level 5 learners in academic year 2015–16 by provider type

Provider type	Total number of learners	Share of total
Further education college	111,640	52%
Higher education institute	69,820	32%
Other	34,710	16%
Total	216,170	100%

Note: 'Other' includes private training providers, local authorities, and other publicly funded providers.

Source: Figure 1 of Boniface, Whalley and Goodwin (2018).

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The most up-to-date complete set of numbers by provider type is for the 2015–16 academic year, which we present in Table 2.1. This shows that the total number was about 216,000 in 2015–16, which is over three times higher than recorded in the data on adult learners funded by ESFA. After accounting for these extra learners, we see that roughly 9% of all sub-degree adult learners were taking Level 4 or Level 5 courses. Approximately half of Level 4 or Level 5 learners study at further education colleges and around a third take their courses at higher education institutions.

Tracking changes over time is difficult due to the complexity of the system, though the Augar Review quotes evidence showing a decline in learners on Level 4/5 sub-degree courses from 510,000 in 2009–10 to about 190,000 by 2016–17. This was partly driven by a decline in the numbers on foundation degrees (both part-time and full-time).

Level 4 and 5 learners therefore make up a small share of the total number of adult learners and numbers were declining up to the mid 2010s. However, as the data reporting system is so complicated, there is considerable uncertainty over the total number of learners.

Summary

There has been a large fall in adult education spending and learner numbers over the past 10–15 years. Spending and numbers on apprenticeships have certainly been rising over time, but these changes do not come close to the overall reductions over time. Numbers on Level 4 and 5 courses are particularly low, though the complexity of the system and data makes it unnecessarily hard to track numbers over time. For an area that is meant to be a major policy concern, it is disappointing that it is not possible to easily track learner numbers over time in a transparent way. Unfortunately, the White Paper does not make any proposals to improve data on learner numbers.

3. Implications for adult education funding

In this section, we present the implications of the White Paper for adult education funding, including both overall funding levels and the nature of the funding system. We first detail the extent of the additional funding commitments, both from the White Paper and from earlier announcements that partly facilitate the changes (such as the 2020 Spending Review). We then examine the proposals for changes to the funding system.

New spending commitments

The White Paper contained a range of future spending commitments, most of which had already been announced at previous Budgets and Spending Reviews. Following on from a commitment in the Conservative manifesto at the 2019 general election, the Chancellor announced a £2.5 billion ‘National Skills Fund’ at the 2020 Budget with the objective of improving adults’ skills education (HM Treasury, 2020a). It is not clear what this fund actually represents in practice. It is not a separate fund with money waiting to be withdrawn, nor is it a commitment to increase spending on skills or adult education by £2.5 billion per year. As far as we can tell, it effectively represents a commitment to cumulatively spend an extra £2.5 billion in cash terms over the course of this parliament (e.g. an additional £625 million per year for four years over and above current spending). Furthermore, precisely which years this covers is not clear. No funding commitments were announced for the 2020–21 financial year and actual spending is likely to have been heavily disrupted by the pandemic.

With about £375 million of additional funding commitments in 2021–22 (see below), we assume that the remaining £2.125 billion in the National Skills Fund is spent equally between 2022–23 and 2024–25. This would enable extra cash-terms spending of about £700 million per year (assuming spending is allocated equally across years). This would reverse just over one-third of the cut to adult education

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spending since 2009–10 and would take total spending on adult education back to around the level it was in 2014–15.

The £375 million commitment for 2021–22 was announced in the 2020 Spending Review (HM Treasury, 2020b). It includes:

- Restoring the entitlement to free A-level-equivalent or Level 3 courses for adults without qualifications at this level (£95 million). This only applies to courses in high-priority areas, which excludes courses in areas such as hospitality, tourism and media (Education and Skills Funding Agency, 2021).
- Expansion of skill boot camps (£43 million).
- Additional funding for traineeships, work placements and the National Careers Service (£127 million).
- Higher technical provision (£110 million, including £50 million of capital spending).

It is not clear how much of the National Skills Fund is taken up by these commitments as it is not clear how much of this spending will be repeated in future years.

If we assume that all of the day-to-day spending is repeated in cash terms, then about £1.3 billion has been used up and just under half the fund remains to be allocated. This is probably an underestimate of the amount used up as the new Level 3 entitlement started in April 2021, but most courses will probably not start until September 2021 and the likely level of spending over a full year will be greater than £95 million. Uncertainty over the level of demand also creates uncertainty about how much spending will be used up. There is also likely to be a good deal of underspending in 2020–21 as a result of repeated lockdowns, economic uncertainty and social distancing.

It would be highly desirable if allocations from the National Skills Fund were more transparent. In particular, the government should set out exactly how many years are covered, whether spending will be repeated in future years (as seems likely for new entitlements), how much of the fund remains to be allocated, and how much relates to day-to-day versus capital spending (at the moment, it seems to loosely cover both types of spending).

Changes to the funding system

The White Paper also proposes a series of changes to the adult education funding system. In order to understand these changes, it is first important to describe how the current system works and its potential shortcomings.

Unfortunately, the current adult education funding system is extremely complicated. Each course has a funding rate based on the expected number of instructional hours, with uplifts for the cost of living in some areas, levels of disadvantage by area and the differential cost of different subject areas. This funding rate has not changed in cash terms since 2013. The extent to which courses are fully funded from the adult education budget (AEB) then largely depends on individuals' age, unemployment status, prior qualifications and level of proposed new qualification. This is summarised in Table 3.1.

Table 3.1. Applicability of adult education funding systems

	First English and maths GCSE	Level 2		Level 3		Level 4–6
		First	Later	First	Later	
19–23	AEB	AEB	AEB (only part-funding if not unemployed)	AEB	ALL	ALL
24+	AEB	AEB (only part-funding if not unemployed)	AEB (only part-funding if not unemployed)	ALL	ALL	ALL

Note: 'AEB' = adult education budget funding formula. 'ALL' = advanced learner loans.

English and maths GCSEs are fully funded from the AEB for those who have not achieved this standard yet. Level 2 or GCSE-equivalent qualifications are also fully funded from the AEB if individuals are unemployed or are aged 19–23 and taking their first full Level 2 qualification. However, the AEB only provides co-funding

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for all other adults taking Level 2 qualifications. This includes adults (who are not unemployed) with existing Level 2 qualifications and adults (who are not unemployed) aged 24 or over taking their first full Level 2 qualification.

Adults aged 19–23 taking their first full Level 3 or A-level-equivalent qualification receive full funding from the AEB. In all other cases, Level 3 courses can only be funded via an advanced learner loan, which has identical repayment terms to higher education loans. This will include adults aged 19–23 who already possess Level 3 qualifications and all adults aged 24 or over. Level 4–6 courses can also only be funded via ALLs, except for certain ‘prescribed’ courses (see next section), which are funded through the higher education funding system.

In contrast, adult education or training in the form of apprenticeships is fully funded from a learner perspective. Firms employing apprentices pay a maximum of about 10% of the off-the-job costs of training for apprentices, with the rest covered by public subsidies or funds in employer apprenticeship levy accounts.¹ It is therefore no surprise that there has been such a shift towards learning in the form of apprenticeships over the past 5–10 years.

As described, the adult education system sounds entirely demand-driven. In practice, for non-devolved allocations, the government applies contract caps on all adult education providers based on the courses they have previously delivered. Providers then earn funding throughout the year based on the numbers of adults on courses and whether they achieve their qualification. In normal years, if providers earn over 97% of their contract cap, they receive the full value. Providers can also earn up to 3% over their contract cap. Any activity over this amount is not funded, however. Therefore, providers have very strong incentives to provide a similar level of activity to that in previous years, but strong incentives not to exceed this by very much either. This could make providers reluctant to make up-front costs to provide new Level 4 or 5 courses given uncertainty in demand and whether they are likely to be fully compensated.

¹ <https://www.apprenticeships.gov.uk/employers/funding-an-apprenticeship-non-levy#>.

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This set of rules has been relaxed slightly during the pandemic given lower levels of activity. Providers need to deliver over 90% of their contract value to avoid losing funding. However, even this may be challenging in many circumstances and for many courses.² The relaxed rule could also generate strong incentives to increase apparent activity without significant additional learning. This shows some of the perverse incentives inherent to the current system.

In addition, adult education funding is now devolved to a number of metropolitan and combined mayoral authorities: Cambridgeshire and Peterborough; Greater Manchester; Greater London; Liverpool City Region; Tees Valley; West of England; West Midlands; North of Tyne; Sheffield City Region (from August 2021); and West Yorkshire (from August 2021). These regions are responsible for allocating the adult education budget within their area. This provides for greater local discretion, but also complicates the system further. In other non-devolved areas, policy and funding remain set at a national level.

In the White Paper, the government proposes to make two main sets of changes to this system. First, it confirmed a previous announcement to restore funding for first full Level 3 courses from April 2021, though only for courses deemed to be in priority areas. This is likely to increase the number of adults taking Level 3 courses and may potentially reverse some of the decline in learners seen since full funding was removed in 2013. The government has not yet announced whether it will implement the recommendation from the Augar Review to also provide full funding from the AEB for first full Level 2 courses. This is currently only available for adults in unemployment or under 24.

Second, the government plans to consult on a simpler, multi-year system of funding. The White Paper acknowledges some of the shortcomings and complexities of the current system. It also states that the government ‘will explore how we could bring in a multi-year funding regime ... subject to the government Spending Review cycle, and how we can best balance predictability of budgets with responsiveness towards changing needs’ and sets out plans for a consultation in Spring 2021.

² <https://www.tes.com/news/why-dfe-funding-clawback-plan-has-left-many-raging>.

It is not yet clear what this means in practice. For instance, it is not clear whether the government is proposing moving to a fully demand-led system or plans to partially relax contract caps. The proposal for a multi-year funding regime will clearly be welcomed by colleges and other providers. However, it is not clear how feasible such a policy will be, especially as the limited number of years covered by government Spending Reviews represents a substantial barrier.

Summary

The government has committed to increase spending on adult education through the ‘National Skills Fund.’ However, this will only reverse about one-third of the cuts to adult education spending over the 2010s. There is also a large amount of uncertainty and a lack of transparency in terms of what the fund is, what it will cover and how much is left of it. In the White Paper, the government proposes simplifying the extremely complicated adult education funding system and moving to a multi-year system but does not include any details of how this will be achieved, only promising to begin a period of consultation in Spring 2021. The government should provide more details about what the National Skills Fund is and set out its proposals for reforms to simplify the system. These should ideally include reducing some of the perverse incentives created by the system of contract caps.

4. Lifelong learning entitlement

The government offers a varied mix of policies under the heading of the ‘Lifetime Skills Guarantee’. One is the restoration of free Level 3 provision (instead of government loans) for some subjects that the government considers national priorities, as discussed in the previous section. For Level 4 to Level 6 provision (both further and higher education), the policy package to ‘achieve’ the Lifetime Skills Guarantee goes under the name of the ‘Lifelong Loan Entitlement’.

Key details of how this will work in practice are again missing from the White Paper or left to further consultation. While it speaks of a new loan entitlement to cover ‘the equivalent of four years of post-18 education’ (p. 5), this in itself amounts to very little, as learners on virtually all routes at Levels 4–6 are already entitled to at least four years’ worth of advanced learner loans or higher education loans to cover their fees. However, the White Paper also discusses three substantive reforms under the heading of the Lifelong Loan Entitlement:

- A reform of the criteria that govern the eligibility of Level 4 and 5 courses for higher education (HE) funding, which is likely to increase the public funding and size of loans available for some Level 4 and 5 courses.
- A commitment to offering higher education loans for separate modules, i.e. for parts of higher education courses.
- A reform of the equivalent or lower qualification (ELQ) rules governing funding eligibility for qualifications for learners who already hold a qualification at the same or a higher level.

As set out in detail below, the government is broadly committed to the first two of these reforms, but has not provided much detail on its plans, making it impossible to gauge the significance of the proposed changes. What is known is that there will be no substantial changes for a while yet: any reforms will only be fully

implemented by 2025, or after the next general election.³ The third potential reform, the relaxation of ELQ rules, would be crucial to enable more public funding for ‘retraining’, but the government has no plans for implementation and only promises to consult on the idea.

Eligibility criteria for HE funding

A downside of the current system of Level 4 and 5 funding is the rather artificial distinction between higher education courses (also called ‘prescribed’ or ‘designated’ courses) and further education courses (also called ‘non-prescribed’ or ‘non-designated’ courses). Higher education (HE) courses are regulated by the Office for Students (OfS), and students have access to higher education loans, which include not only fee loans but also loans to cover maintenance costs. The majority of Level 4 and 5 learners are enrolled on higher education courses. Higher education loans are capped at between £6,000 and £9,250 per year depending on whether an institution has an ‘access and participation plan’ (formerly ‘access agreement’) in place, and whether it has received an award through the government’s Teaching Excellence Framework (TEF).

Further education (FE) courses are regulated by the Office of Qualifications and Examinations Regulation (Ofqual). Students on further education courses (if aged 19 or over) only have access to advanced learner loans. These loans offer identical conditions to higher education loans, but do not include any maintenance support. Instead, maintenance support is provided from a bursary fund on a case-by-case basis, but only to students in need and only for specific costs (books, travel, rent and childcare). Tuition fees are regulated and vary according to the learning hours on a specific course; they are typically between £3,000 and £5,000 per year.

Just as it is surprisingly difficult to say how many students are enrolled on Level 4 and 5 courses in total (see Section 2), it is equally hard to say how many are enrolled on higher education courses and how many on further education courses. However, figures from Zaidi, Beadle and Hannah (2019) suggest that, excluding apprentices, around 70% of Level 4/5 learners were enrolled on higher education courses and around 30% on further education courses in the 2016–17 academic

³ One reason for this delay is likely to be the need to update the Student Loans Company’s complex IT systems to accommodate the changes. However, even given these IT challenges, implementation by 2025 seems like a needlessly unambitious goal.

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year. The share of Level 4/5 students on higher education courses is likely to have risen further since then, as many students who might have taken further education courses at Level 4 or 5 in the past will now be enrolling in higher apprenticeships.

Table 4.1. Comparing HE and FE funding for Level 4/5 courses

	Higher education (eligible for HE loans)	Further education (eligible for ALLs)
Qualifications covered	Foundation degrees Certificates of HE Diplomas of HE Higher National Certificates Higher National Diplomas	All other non-apprenticeship qualifications
Regulator	OfS	Ofqual
Fee loans	Yes	Yes
Maintenance loans	Yes	No
Typical fee level (per year)	£3,000–£6,000 (FE providers) £6,000–£9,250 (HEIs)	£3,000–£5,000
Share of Level 4/5 students (2016–17)	~70%	~30%

Note: Whether a course is categorised as higher education or further education does not depend on the kind of institution where it is taught. Many further education colleges offer higher education courses, and some higher education institutions (HEIs) offer further education courses. As a result, there are learners at further education colleges eligible for higher education loans and learners at higher education institutions claiming advanced learner loans.

Source: Augar Review, 2019; Zaidi, Beadle and Hannah, 2019; authors' calculations.

At present, the distinction between higher education and further education courses is largely formal: a specific set of qualifications are classified as higher education qualifications, and all others fall under further education.⁴ Whether a particular higher education qualification can be awarded does not directly depend on either a course's content or its quality. This creates an arbitrary inequality between relatively well-funded higher education courses and relatively poorly funded further education courses – both from the perspective of students (who get better maintenance support on higher education courses) and from the perspective of institutions (which can collect higher fees from higher education courses).

Sensibly, the government is proposing to change this. Following a recommendation from the Augar Review, it is proposing to make so-called 'approved higher technical qualifications' eligible for higher education funding and thus maintenance loans. These qualifications would be held to employer-led quality standards, with the aim of aligning course provision with economic 'needs'. Providers of approved higher technical qualifications will presumably be able to charge higher education tuition fees, giving providers a strong incentive to offer these qualifications.

Unfortunately, the White Paper offers little detail on how restrictive the new 'employer-led standards' for approved higher technical qualifications will be. The best indication is the announcement that they are to serve as a 'natural progression for the first students completing T levels' (p. 36). As T levels will be available in a broad range of subjects (not all of which could be considered 'technical' in the traditional sense of the word), this suggests that higher technical qualifications will be approved across various sectors – including sectors such as catering and media, which the government does not consider to be priority sectors and therefore has not included in the list of newly grant-eligible Level 3 qualifications (see Section 3). However, T levels are not offered in *all* sectors, so some vocational courses in some sectors may still not be covered.

It is also not entirely clear from the White Paper what will become of Level 4 and 5 provision that is *not* certified as an approved higher technical qualification. The White Paper states that the government will '[look] to reduce funding for non-approved higher technical qualifications from 2023' (p. 42), but it is not clear by

⁴ The qualifications at Levels 4 and 5 that are classified as higher education are foundation degrees, Certificates of Higher Education, Diplomas of Higher Education, Higher National Certificates and Higher National Diplomas.

how much, or whether *academic* Level 4 and 5 qualifications that currently fall within the higher education system (such as a Diploma of Higher Education in English Literature) are meant to be included under ‘higher technical qualifications’ here. If in the medium term the distinction between higher and further education is to be scrapped – as envisioned by the Augar Review – and replaced by the distinction between approved higher technical qualifications and all other qualifications, then these kinds of qualifications would presumably lose access to higher education funding.⁵

A more meaningful distinction between higher education and further education would be welcome, as would be access to the higher education funding system for high-quality vocational qualifications. But much will depend on what kinds of higher technical qualifications will be approved and what will happen to non-approved courses. One danger of an overly restrictive system is that access to some courses at Levels 4 and 5 could be severely curtailed.

HE loans for separate modules

Under the current system in England, it is not possible to take out a higher education loan for a small part or module of a course. Any fraction of a year that a learner is studying full-time counts as a whole year for determining a student’s entitlement (different arrangements apply for part-time study). This means that it is near impossible to take more than one break from study and still be entitled to loans for the full course, as the standard loan entitlement formula is:

$$\textit{Entitlement} = \textit{Current course length} + 1 \textit{ year} - \textit{Any previous years of study}.$$

The government’s commitment to modular provision presumably means that this would change. One way of implementing a modular system would be to count fractions of a year in study time or credit points as corresponding to fractional amounts of the loan entitlement. Alternatively, as proposed by the Augar Review, the cost of each module could be deducted from a total loan entitlement in pounds. This kind of modular funding system should lead to better incentives for

⁵ One way to preserve an ‘academic’ Level 4/5 route would be to encourage the awarding of interim Level 4 and 5 qualifications on full Level 6 degree programmes as recommended by the Augar Review. This would give students the option of gaining a Level 4/5 qualification on any Level 6 course (but the course content would likely be more demanding, as Level 6 courses generally cover more advanced material). If this is what the government intended, it should have made that clear.

universities to provide high-quality teaching, as students would be able to change provider mid course, and shop around for individual modules. It would also make it much easier for people to fit further study around family and work commitments, and allow struggling students to take breaks from study if and when they needed them.

Modular provision might also provide a much-needed boost to the finances of providers that can offer these kinds of courses. On the one hand, these will be universities with a more vocational profile, which will be able to reach a wider range of learners if they can offer flexible modular courses. On the other hand, further education colleges that already offer ‘modular’ short-term programmes outside the higher education funding system will be able to charge higher fees by offering substantively the same courses as modules of a higher education course (or of an approved higher technical qualification) rather than as stand-alone further education courses.

Taking modules of higher education courses will also be more attractive to many learners who would otherwise have taken short-term further education courses alongside their jobs. One important reason is that they will get access to maintenance loans, which for most students are likely to be a very good deal financially.⁶ A shift to modular provision is thus likely to further reduce the share of (non-apprentice) Level 4 and 5 learners outside the higher education funding system.

For all its advantages, there are also downsides to a modular funding system. First, it is very hard to predict how much demand there would be for such modular provision, making it difficult for institutions to manage the transition. Second, as seen in a number of continental European countries, a more flexible system can lead to students taking more time to complete degrees and working in low-wage employment, and thus less time paying taxes and social security contributions. While this may well be optimal from the perspective of individuals, it could be very costly for the public finances. It should also be noted that depending on exactly how

⁶ One indication that these loans are a good deal even for students below Level 6, who typically incur smaller debts, is the very high share of advanced learner loans (in present-value terms) that the government expects not to be repaid (69% for loans issued in 2019–20). However, it should be noted that this type of modelling is subject to a large amount of uncertainty, as it relies on assumptions about earnings growth for decades into the future. See Department for Education (2020).

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the system was implemented, any new rules on modularity could lead to *reductions* in some students' entitlement. For example, previous part-time study that did not lead to a qualification is not counted at all in the loan entitlement under the current system, but might well be counted under a new modular system.

The government should carefully consider the advantages and disadvantages of different types of modular funding systems, along with potential unintended consequences, when making any changes. How radical a change a move towards a modular system will be is hard to predict at this stage; it will depend on whether the government is willing to compel providers to offer modular courses and, if not, how many will sign up voluntarily. A move to modular provision could fundamentally alter the UK higher education landscape: it could lead to much more frequent transfers between institutions and spell the end of the standard three-year degree. However, it is equally possible that modular courses will remain a niche phenomenon, offered by only a handful of universities and further education colleges.

Equivalent or lower qualification (ELQ) rules

A particularly restrictive element of the current higher education funding system in England is the 'equivalent or lower qualification' rules.

Current system

According to the current rules, no government funding is provided for equivalent or lower qualifications after a qualification at a given level has been obtained. This means that while someone who has obtained a Level 5 qualification is entitled to student loans for a Level 6 qualification, the same person would not be eligible for any government loans for a Level 4 qualification or another Level 5 qualification (this applies regardless of whether any government loan was actually *taken up* for previous study).⁷ As noted by the Augar Review, such restrictions are unusual even

⁷ For those who do not obtain a qualification, the funding formula given above applies: *Entitlement = Current course length + 1 year – Any previous years of study.*

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among countries with similar higher education funding systems to England such as Australia, Canada and New Zealand.⁸

There are already some exceptions to these rules within the current system: second higher education qualifications in certain subjects related to medicine and health care, architecture, social work, and teaching are eligible for maintenance support and in some cases also tuition fee loans. Further exemptions apply for part-time students. In addition, ELQ rules currently do not apply for *further education* courses at Level 4 or 5 at all (instead, there is an overall limit of four advanced learner loans, with exceptions for certain courses); conversely, further education qualifications also do not affect higher education loan entitlements.

Relaxing the ELQ rules would be a crucial step towards enabling lifelong learning and retraining, to which the government is ostensibly committed. This point was emphasised in the Augar Review, which recommended scrapping ELQ rules entirely. As things stand, the funding system makes it nearly impossible for people to diverge from the path on which they made their first steps with their Level 3 choices at age 16, when in many cases it might be much better for people to turn around and take a different path that better suited their skills and preferences.⁹

It is difficult to see how the government can convincingly claim to offer a ‘Lifetime Skills Guarantee’ or a ‘Lifelong Loan Entitlement’ if in practice those who have completed any higher education course – some of which may turn out to be of lower value in the labour market¹⁰ – will effectively be barred from taking another higher education qualification at the same or a lower level. This is not only a concern for a small minority: participation rates in higher education have risen substantially in the recent past, and more than 45% of school leavers can now be expected to obtain a higher education qualification. For those who have left school

⁸ In England, substantial public funding for equivalent or lower qualifications was paid in the form of grants to universities up to and including the 2007–08 academic year. The government at the time justified the removal of these grants as a means of concentrating funding on those entering higher education for the first time or progressing to higher qualifications (a justification that the relevant select committee found to be ‘insufficient’). See Innovation, Universities, Science and Skills Committee (2008).

⁹ See, for example, Eckardt (2019) for evidence that the costs arising from ex-post suboptimal training choices can be substantial.

¹⁰ See, for example, Belfield et al. (2018).

during the COVID-19 pandemic, that figure may well be more than half, as record numbers have gone on to university due to better-than-usual grades and a lack of job opportunities.¹¹

ELQ rules are especially restrictive for undergraduates who obtain Level 6 qualifications (the vast majority). As things stand, these students are not eligible for funding for any additional higher education qualifications at Levels 4–6. Importantly, without any changes, they would also be ineligible for all of the government’s new approved higher technical qualifications, as all of these courses are to become part of the higher education funding system. Given that many of these courses will previously have been part of the further education system, this would actually make it *harder* for people to retrain – precisely the opposite of what the Lifetime Skills Guarantee is meant to achieve.

Changing the rules

In this light, it seems only logical that ELQ rules will need to be relaxed – if not entirely scrapped – to achieve the government’s objectives on lifelong learning. Remarkably, the government seems neutral about the issue in the White Paper and promises only to ‘seek views’ on whether ELQ rules should be amended. Given the extensive recent consultation exercise that formed the basis of the Augar Review, the government should have committed to at least some relaxation of the rules. While further ‘seeking of views’ may be warranted before scrapping ELQ rules entirely, the total lack of commitment on the issue is not.

Completely scrapping ELQ rules would not come for free – especially in combination with modular provision – as many more people might decide to get additional higher education. One unintended consequence might be that many graduates would take further degree modules out of interest rather than with any intention to gain skills that would help them in the labour market. This could be expensive for the taxpayer: even if only 10% of those graduating with three-year

¹¹ Relaxing ELQ rules could also help reverse the large decline in the number of part-time undergraduate students since 2008–09, which the government is separately committed to do. The cuts to funding for students taking equivalent or lower qualifications from 2008–09 are widely cited as an important factor behind the decline, so extending support is likely to have the opposite effect. See Hubble and Bolton (2021).

degrees decided to take up an extra funded year of study, the long-run cost to the government would be more than £300 million per cohort.¹²

A separate concern is that relaxing ELQ rules could increase the risk of fraud, especially when combined with the government's shift towards modular provision. A key source of this risk is that a large majority of graduates will never pay back their student loans in full under the current funding system. As a result, taking on extra student debt is costless for most graduates, as it would not affect their student loan repayments. Bogus courses could therefore generate cash income for both 'providers' (in the form of student fees) and 'students' (in the form of maintenance loans), with the taxpayer ultimately on the hook for both.

The ill-fated Individual Learning Accounts scheme introduced by the Labour government offers a cautionary tale of what can happen if government funding for adult education is provided with inadequate controls. The programme, which offered government subsidies for a wide range of adult education courses, was scrapped completely in 2001 after just one year of operation due to widespread fraud.¹³ There is also some evidence that the current student loan system is already susceptible to fraud of this type.¹⁴ Similar problems occurred in Australia when the government tried to introduce loans for vocational courses.¹⁵

These fraud risks could to a large extent be mitigated by strict regulation and oversight, which should in principle be achievable within the current higher education system. Robust accreditation processes for institutions, courses and modules that are eligible for higher education funding will be crucial, as will be frequent and thorough quality assurance checks by the Quality Assurance Agency for Higher Education and continuous monitoring by the Office for Students. In addition, the incentives for fraud would also be reduced by changes to the student loan system that led to more graduates paying off their student loans in full, as were proposed by the Augar Review.

¹² Calculations using the IFS student loan model.

¹³ See, for example, Comptroller and Auditor General (2002).

¹⁴ See, for example, <https://www.bbc.co.uk/news/uk-41966571>.

¹⁵ See, for example, <https://www.smh.com.au/national/hecs-architect-calls-for-loan-scheme-to-cover-vocational-training-20210225-p575sl.html>.

The government should transparently set out how it sees the pros and cons of different ELQ regimes, and then commit to a first step towards less restrictive rules on that basis. Some relaxation of the rules is clearly warranted to avoid making it *harder* for people to retrain as approved higher technical qualifications become eligible for higher education funding. Further relaxation may well be worth the cost if the new system gave everyone the chance to escape from badly paid or unfulfilling work and get the education they needed to flourish.

Summary

The White Paper proposes allowing many Level 4 and 5 courses to be classed as ‘approved higher technical qualifications’ and treated on a similar basis to higher education courses. This is a sensible change, but it is not yet clear how the approval of higher technical qualifications will be determined and what will happen to other forms of Level 4 and 5 provision. The government is also proposing allowing for more flexible and modular funding for higher education courses. This is sensible, but careful consideration is required on implementation to avoid negative consequences, such as reducing entitlements for part-time students or encouraging students to unnecessarily lengthen their period of study. The government has only proposed to consult on the rules around equivalent or lower qualifications, which are key for determining the extent of opportunities for retraining. There are clear trade-offs here between guaranteeing access to education and limiting costs to the taxpayer. The costs of a truly flexible funding system for further and higher education may well be very large. However, so could be the benefits. The government should be setting out a clear stance about how and whether ELQ rules should be changed.

5. Conclusion

The recent White Paper on skills and further education repeats a number of high-profile government commitments to create a £2.5 billion National Skills Fund and a Lifetime Skills Guarantee to enable more individuals to further accumulate skills throughout their working life. Unfortunately, many key details about the operation and details of these government commitments are left unstated or yet to be worked out, which makes it extremely hard to judge their overall significance. Furthermore, the funding commitments on adult education will only reverse about one-third of the spending cuts to adult education over the 2010s.

The White Paper proposes allowing more Level 4 and 5 courses to be classed as ‘approved higher technical qualifications’ and treated on a similar basis to higher education courses. However, the government needs to clearly set out what kinds of higher technical qualifications will be approved and what will happen to other forms of Level 4 and 5 provision. There is a risk that one arbitrary distinction between higher and further education will be replaced by another.

The government is proposing to allow for more flexible and modular funding for higher education courses. This is sensible, but careful consideration is required on implementation to avoid negative consequences. There is also a high level of uncertainty about the demand for this type of modular provision.

The government has only proposed to consult on the rules around equivalent or lower qualifications, despite extensive consultation on this issue as part of the Augar Review. There are clear trade-offs here between guaranteeing access to education and limiting costs to the taxpayer. The government should be setting out a much clearer stance about how and whether ELQ rules should be changed.

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