PERSPECTIVE

Funding upskilling and reskilling in the 21st century

From Personal Pension Accounts to Personal Skill Accounts

Mark Corney

CfBT Education Trust

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About the Author

Mark Corney is director of MC Consultancy, specialising in post-11 education and skills policy. He has a BSc in Economics and an M.Phil in Politics and Economics, both from the University of London.

Mark is co-author with Patrick Ainley of *Training for the Future – The Rise and Fall of the Manpower Services Commission* (1990) and is co-contributor to *Breaking out of the Silos – 14–30 Education and Skills Policy* (2004) published by Nigel Brown Associates.

In the area of 14–19 policy, Mark co-authored with Mick Fletcher and Geoff Stanton *Raising the leaving age to 18: Symbol or Substance?* (2007) published by CfBT. He also co-authored with Mick Fletcher *New Localism and 14–19 Funding* (2008) published by the Campaign for Learning. More recently, Mark prepared *Raising the participation age – Keeping it on track* (2009) published by CfBT.

In the area of adult skills, higher education and welfare to work, Mark authored *Still waiting for 'big ideas' on adult skills* (2007) published by CfBT, and co-authored with Mick Fletcher the CfBT pamphlet *Adult skills and higher education: separation or union?* (2007). More recently, Mark co-authored with Nigel Brown and Mick Fletcher *Higher Education and the Cuckoo in the Nest – Getting beyond the fixation with full-time study by young people* (2008) published by the Campaign for Learning. In addition, this team prepared *Public Investment in Adult Learning Part 1* (January 2009) and *Public Investment in Adult Learning Part 2* (April 2009) for the Inquiry into the Future for Lifelong Learning.

On the specific issue of individual learning accounts, Mark co-authored with Peter Robinson *Called to Account: are compulsory individual learning accounts a wheeze or a nightmare?* published by the Unemployment Unit (January 1996), and prepared *Individual Learning Accounts for All – The Single Currency of Lifelong Learning* published by FEdS/MC Consultancy (April 2000).

Mark writes regularly for *Education Guardian* and *FE Focus*, and chairs and organises conferences and policy seminars.

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Executive Summary

"The first new reality is the return of mass unemployment..."

"The second new reality is the fiscal crisis."

"And the third new reality is longer working lives."

The case for Personal Skill Accounts

Assumptions

1 This pamphlet accepts the premise that skills are important to economic performance and social justice. It also accepts that qualifications are not the same as skills. And it accepts that assigning levels and volumes of learning so as to form 'full' Level 2, 'full' Level 3 and 'full' Level 4 raises legitimate concerns about equivalences, for example at Level 2 between 5 GCSEs A*-C and an NVQ Level 2.

Definitions

2 **Upskilling** can be defined as helping people get a qualification at a higher level than the one they hold. Current policy defines upskilling as the achievement of a first 'full' Level 2, a first 'full' Level 3 and a first 'full' Level 4 through taking whole qualifications or accumulating units of qualifications. **Reskilling** can be defined as helping people get another qualification at the same or lower level than the highest one they hold. Reskilling can be achieved through taking whole qualifications or accumulating units of qualifications which add up to a second 'full' Level 2, a second 'full' Level 3 and a second 'full' Level 4. Nonetheless, defining upskilling and reskilling in this way does not always capture the upskilling and reskilling needs of individuals. For instance, an older worker might need to combine a unit at Level 3 with a unit at Level 2 to meet their skill needs.

The 2020 ambitions

3 The refreshed 2020 ambitions include the 80% employment ambition, two basic skill ambitions and four ambitions linked to qualification levels. However, the latter are framed in terms of 'first' full Level 2, 'first' full Level 3 and first 'full' Level 4+. **The 2020 skill ambitions are upskilling ambitions.** No reskilling ambitions have been defined or set. Certainly, the setting of ambitions and targets can result in perverse outcomes. The 2020 skill ambitions have resulted in a skills debate exclusively associated with upskiling rather than reskilling.

Upskilling and reskilling in the 21st century

4 Despite these considerable limitations, however, the concepts of upskilling and reskilling linked to qualification levels concentrate the mind of policy-makers. Firstly, they bring into question the extent to which the 2020 skill ambitions are fit for purpose in the 21st century. And secondly, they bring into question the extent to which the **taxpayer** can fund upskilling and reskilling.

Three new realities

5 In the second decade of the 21st century three new realities will simultaneously shape the **public funding** of upskilling and reskilling. The first new reality is the return of mass unemployment and higher levels of economic inactivity even though many who are inactive still want a job. In a recession, public funding must meet the upskilling and reskilling needs of the unemployed and the economically inactive relative to the employed workforce. The second new reality is the fiscal crisis. At least £32bn must be saved from public spending by government departments between 2011/12 and 2013/14 just when demand for taxpayer-funded upskilling and reskilling is increasing. And the third new reality is longer working lives. As the state pension age is equalised to 65 by 2020 and then raised to 68 by 2044, upskilling and reskilling will be critical to sustain employability.

Education and skills are not immune from the fiscal crisis

6 The general consensus is that Britain is heading for two decades of fiscal pain. No aspect of public services will be immune from efficiency savings – making public money work harder as it is known – or cuts in public spending. **Education and skills are not immune from the fiscal crisis.**

Protecting education

7 There is a clear divide between Labour and the Conservatives in their approaches to reducing the fiscal deficit and reducing public spending. Labour is focusing on key public policy areas such as tackling climate change, investing in the infrastructure of the nation, defence, reducing child poverty and investing in education. The critical question for Labour is whether 'education' refers to 3–19 education and skills or adult skills and higher education as well. Meanwhile, the Conservatives are focusing on protecting spending by specific government departments such as health, international development and defence. Sometimes the Conservatives have mentioned protecting schools funding (which presumably includes school sixth forms). If this is the case, it seems 16–19 FE and 16–19 apprenticeships, adult FE and adult apprenticeships, and universities could be left out in the cold.

Young people before adult skills and higher education

8 The reality is that political sentiment always favours young people up to 19 relative to adults. The formation of the Department for Children, Schools and Families, and the Department for Business Innovation and Skills suggests that sentiment is more towards 3–19 year olds than adult skills and higher education. Moreover, the return of mass unemployment means the battleground over public spending on adult human capital lies between unemployed adults on the one hand, and adult skills and higher education on the other.

Reform of Child Benefit and Child Tax Credit can protect 3–19 education

9 Education policy cannot be divorced from the child poverty agenda. **Spending on measures to relieve child poverty and 3–19 education and skills must be considered in the round**. Spending on 3–19 education and skills can be protected and progress to halving child poverty can be made if the next Government is prepared to radically reform Child Benefit and Child Tax Credit. **Means-testing universal Child Benefit (£11.8bn per year) and having a common threshold with means-tested Child Tax Credit (£17.7bn per year) is the best way forward**. Setting the income threshold at £25,000 would save at least £7.8bn (see Table I). Child poverty campaigners argue that it will cost £4.1bn to halve child poverty in the UK by 2010. In addition, around £1bn per year is required to protect spending on 3–19 education and skills in real terms in England. This leaves £2.7bn for other priorities. For instance, each of the main political parties support expanding participation by 16 and 17 year olds irrespective of their positions on raising the participation age. The current Labour Government is interested in developing a single 'national' 14–19 funding system covering 14–15 funding and 16–19 funding which could incur significant additional resources. Meanwhile, the Conservatives and the Liberal Democrats support a pupil or student premium targeted on low-attaining children from poorer backgrounds, with Conservatives limiting the premium to school pupils whereas the Liberal Democrats would extend support to 16–19 FE college students.

Eyeing up higher education and adult skills

10 To reiterate, given the return of mass unemployment the battleground for public

Table I: Means-testing Child Benefit and Child Tax Credit

Means Test	Saving on Child Benefit Cost – £11.8bn	Saving on Child Tax Credit Cost – £17.7bn	Savings Estimate
£58,000	£1.40bn	Zero	£1.4bn
£50,000	£1.89bn at least	Unknown	£1.89bn at least
£40,000	£4.01bn	Unknown	£4.01bn at least
£27,500	£4.01bn at least	£1.35bn	£5.36bn at least
£25,000	£6.49bn	£1.35bn at least	£7.84bn at least

"Making public funding work harder for adult skills and higher education could be used to cut the fiscal deficit rather than expand front-line services."

spending is between unemployment programmes on the one hand, and adult skills and higher education on the other. But the political context is even sharper. **Making public funding work harder for adult skills and higher education could be used to cut the fiscal deficit rather than expand front-line services**.

11 The reality, however, is that the **big ticket items** are to be found in HE rather than adults skills. This is because public spending in cash terms in England on higher education will be around £12.3bn in 2010/11 compared to £3.6bn for adult skills. The big ticket items in higher education are fee/maintenance loans (£5.3bn in cash terms) and HEFCE funding of teaching and learning (£5.3bn). Relatively speaking, Train to Gain (£0.9bn) is a smaller ticket item, representing around a quarter of total adult skills spending.

Making HE funding work harder

12 One option would be to place a commercial rate of interest on student loans which could save £1.2bn (see Table II). An alternative option would be to transform HEFCE funding for teaching and learning into income-contingent HE fee loans which would save between £1.3bn and £1.6bn. Given that over three-quarters of HE tuition and financial support is for 17–20 year olds starting undergraduate degrees, it will be this age group and their parents that will bear the brunt of either reforms.

Redeploy or scrap Train to Gain?

13 A fourth Labour Government would undoubtedly retain Train to Gain. In contrast, both opposition parties wish to scrap Train to Gain but redeploy the funding. The Conservatives have stated that they would redeploy three quarters of the £1bn Train to Gain budget in 2010/11 to expand adult apprenticeships although this still leaves a possible £250m to cut the deficit. Meanwhile, the Liberal Democrats have stated that the entire £1bn Train to Gain budget in 2010/11 should be used to expand adult FE as well as adult apprenticeships.

Missing the 2020 upskilling ambitions

14 The UK Commission for Employment and Skills has concluded that on present trends using 2007 as a baseline, England is on course to **miss** most of the 2020 upskilling ambitions (see Table III). Indeed, in relation to the qualification level ambitions, England is only on course to meet the Level 4+ ambition. Since it is the State which is the main purchaser of qualifications relative to employers and individuals, there should be no surprise that England is on course to meet the Level 4+ ambition but not the adult Level 2 and adult Level 3 ambitions. The reason is that the taxpayer invests £12.3bn in higher education but only £3.6bn in adult skills. Yet, the more strategic point to make is that most of the 2020 upskilling ambitions could be missed on the back of a decade of economic stability (2000/2010) and the assumption of a future decade of economic stability (2010/2020). **But the 2020 upskilling ambitions, including the Level 4+ ambition are more at risk given the economic and fiscal outlook for the second decade of the 21st century.**

Table II: Increasing funding from existing HE spending

Option	Saving
Option 1: Add a commercial rate of interest on HE loans with repayment at 9% on earnings above £15,000	£1.2bn
Option 2: Transform HEFCE funding into fee loans at a zero rate of real interest whilst maintaining repayment at 9% on earnings above £15,000	£1.3bn to £1.6bn

Table III: The 2020 upskilling ambitions					
	2007 %	2020 Ambition %	Projected Attainment %	Hit or Miss? %	Attainment Gap Number
UK					
Level 4+	31	40	41	Hit +1	204,000 Above Ambition
Level 3	20	28	17	Miss –11	3,502,000 Below Ambition
Level 2	20	22	19	Miss –3	1,097,000 Below Ambition
Below Level 2	17	6	16	Miss +10	3,385,000 Below Ambition
No Qualifications	12	4	7	Miss +3	1,008,000 Below Ambition
England					**Attainment Gap Number**
Level 4+	31	40	40	Hit	The same
Level 3	20	28	17	Miss –11	2,942,000 More
Level 2	20	22	19	Miss –3	921,000 More
Below Level 2	18	6	17	Miss +11	2,843,000 More
No Qualifications	11	4	6	Miss +2	846,000 More
UK					
Numeracy (2005)	79%	95%		Miss	
Literacy (2005)	85%	95%		Hit	
UK					
Employment	73.6% (2009)	80% (2015)		Miss	

“…the fiscal crisis places a massive question-mark over taxpayer support for upskilling.”

Funding reskilling – the forgotten agenda

15 Policy-makers are more or less in the dark about future reskilling needs. Reskilling is important for the employed workforce, the unemployed and for employability in the context of longer working lives. **Yet, funding of reskilling is the forgotten part of the skills agenda.**

The taxpayer can barely support upskilling

16 Allocating resources to upskilling is the way in which the Treasury rations public spending for adult skills and higher education. Even in the context of a prolonged period of economic growth, competing claims for public spending limit resources for upskilling. In addition, the fiscal crisis places a massive question-mark over taxpayer support for upskilling. As a result, the 2020 upskilling ambitions are further at risk.

Making public money work harder for upskilling

17 The vast bulk of public spending on higher education is targeted on upskilling and the achievement of first Level 4 qualifications, thus supporting the 2020 ambitions. Placing a commercial rate of interest on HE loans would save £1.2bn and turning HEFCE grant funding for teaching and learning into Income Contingent Loans could save over £1.3bn.

18 Eagle eyes at the Treasury will be aware that about £0.7bn of the £3.6bn adult skills budget is available for reskilling and the achievement of second Level 2 and second Level 3 qualifications. This funding does not support the 2020 ambitions. It could be withdrawn or targeted on upskilling at Level 2 and Level 3. In addition, all adult first Level 3 funding from adult LSC/Skills Funding Agency budgets could be transformed from grant support to loan support.

19 Across higher education and adult skills spending in England around £2.2bn could be available to protect spending in real terms, support upskilling rather than reskilling and rebalance funding of upskilling between full-time HE on the one hand, and adult FE, adult apprenticeships and part-time HE on the other hand. Equally, £0.9bn could be used to protect spending in real terms and the remainder used to cut the fiscal deficit. And there is also the nightmare scenario of using the £2.2bn to cut the fiscal deficit.

The taxpayer cannot afford to pay for reskilling

20 Reskilling is important during a prolonged period of economic growth as well as during a recession. Yet, the fiscal crisis means that public funding to meet the reskilling needs of the unemployed is not guaranteed let alone public funding to meet the reskilling needs of the entire working age population.

Greater private funding of upskilling and reskilling

21 The answer to both the short-term constraints of the fiscal crisis, economic recession and mass unemployment, and long-term demand for skills because of longer working lives is **greater private funding**. Greater private funding is required to complement existing public funding of upskilling but also to bear, more or less, the full cost of reskilling.

Defending the indefensible

22 The standard response by Westminster and Whitehall to the funding of upskilling and reskilling – unlike health, pensions and social care – is to strengthen voluntarism to encourage greater private contributions. A range of options are often canvassed to **strengthen voluntarism** (see Box I) – including

BOX I: Voluntary options to increase funding for upskilling and reskilling

A new funding settlement

- Tripartite responsibilities for funding upskilling and reskilling between the State, employers and adults

Financial incentives for employers

- Co-funding of funding council provision
- Small firms training loans
- 100% capital allowances to private employers investing in training facilities

Financial incentives for adults

- A mass system of income-contingent loans for upskilling
- A mass system of career development loans for upskilling and reskilling
- Child Trust Funds encouraged to be used to fund upskilling and reskilling
- Access to a proportion of personal pensions to fund upskilling and reskilling
- A learning tax allowance linked to PAYE

unit-based qualifications system

useful ideas such as expanding income-contingent loans for upskilling and career development loans for reskilling – underpinned by a unit-based qualification system.

23 The holy grail for the education and skills community is a **voluntary system of tripartite funding** – between adults, employers and the taxpayer – based on Individual Learning Accounts (see Box II). Fiscal incentives would be available to encourage personal saving (through tax relief) and subsidised borrowing (such as ICLs and CDLs) whilst state entitlements and employer contributions would also be routed through ILAs.

Empowerment versus greater private funding

24 Support for Individual Learning Accounts has recently been given a boost by both the *Panel on Fair Access* (July 2009) and the *Inquiry into the Future for Lifelong Learning* (September 2009). Yet, it is critical to differentiate routing public entitlements to learning through Individual Learning Accounts from generating greater private contributions. The objective of the former is increase empowerment by giving adults control over existing public funding. The objective of the latter is to increase total investment in adult skills, higher education and lifelong learning.

The myth of costless entitlements

25 Furthermore, there is a world of difference between routing existing levels of public funding for adult skills and higher education through an ILA and extending the entitlement of everyone over the age of 18 to public funding up to £5,000. The former will cost the Treasury very little except in administration costs. The latter could break the bank. Furthermore, linking Child Trust Funds (£500m per annum) and Career Development Loans (£25m per annum) to Individual Learning Accounts is nowhere near sufficient to meet the funding of upskilling and reskilling in the 21st century. **What is needed is an accounts system which can guarantee extra private funding towards adult skills and higher education, as well as empowerment in relation to publicly funded provision.**

Beyond old forms of compulsion

26 Greater private funding of upskilling and reskilling on a voluntary basis is dependent upon a much stronger set of fiscal incentives (see Box I above). But even if a more extensive array of fiscal incentives were deployed, there is no guarantee they would generate the scale of private funding required. The logical conclusion is compulsory funding of upskilling and reskilling. Traditional options such as compulsory employer training levies, and compulsory employer and employee funded ILAs fall foul of the charge that they are **taxes on business** and t**axes on the low paid**. Policy-makers in the education and skills community have been unable to think out of the box in terms of compulsory funding systems. **Progress on funding upskilling and reskilling depends upon learning lessons from different areas of public policy**.

27 By contrast, in terms of time, lessons from other areas of public policy have shaped skills policy. As a response to the demand for greater work-life balance, the second Labour Government introduced a new statutory right to request flexible working based on a right to request by the employee and a

BOX II: Voluntary funded Individual Learning Accounts

ILA = S + B + V

where: S is saving

B is borrowing

V is virtual funding, released at the point of purchase, managing state funding entitlements and/or employer contributions

> *"The challenge is to devise a statutory funding system for upskilling and reskilling to complement the statutory right to request time off for upskilling and reskilling."*

duty to consider on the part of the employer. The third Labour Government is seeking to introduce a statutory right to request time off for adult training. Interestingly, however, the proposed statutory right to request time off for adult training does not differentiate between upskilling and reskilling. **The challenge is to devise a statutory funding system for upskilling and reskilling to complement the statutory right to request time off for upskilling and reskilling.**

Lessons from pension policy

28 Between 2012/13 and 2016/17, a new system of pension funding will be implemented. Adult employees from age 22 will be auto-enrolled into a **Personal Skill Account**. Employees without a second pension will be required to contribute 4%, their employer 3% and the taxpayer 1% on earnings between the lower and upper national insurance limits. However, adult employees have a right to opt out if they cannot afford to make their contribution and in turn employers also will not need to make a contribution. **This is the principle of soft compulsion.**

Lessons from social care policy

29 Reforming social care is considered as unfinished business since the welfare state was established after the Second World War. The present Labour Government has ruled out tax-funded social care – i.e. an increase in national insurance contributions – because it would place a heavy burden on people of working age. Instead, the Labour Government has proposed three options for funding social care (see Box III) paid by people of retirement age, including **compulsory insurance**.

Implementing Personal Skill Accounts from 2015

A national system of Personal Skill Accounts

30 Pension policy rather than social care policy should inform upskilling and reskilling policy. Pension policy relates to people of working age and the principle of soft compulsion mitigates the charge that increases in national insurances would

BOX III: Funding options for social care

***Option 1*: Partnership**

In this system, everyone who qualified for care and support from the state would be entitled to have a set proportion – for example, a quarter or a third – of their basic care and support costs paid for by the state. People who were less well off would have more care and support paid for – for example two thirds – while the least well off people would continue to get all their care and support for free.

***Option 2*: Insurance**

In this system, everyone would be entitled to have a share of their care and support costs met, just as in the Partnership model. **But this system would go further to help people cover the additional costs of their care and support through insurance.**

***Option 3*: Comprehensive**

In this system, **everyone over retirement age who had the resources to do so would be required to pay into a state insurance scheme**. Everyone who was able to pay would pay their contribution, and then everyone whose needs meant that they qualified for care and support from the state would get all of their basic care and support for free when they needed it.

Shaping the Future of Care Together, Building Britain's Future,
HM Government, July 2009

represent a tax on low-paid workers. The next Government should consider developing a system of Personal Skill Accounts (see Box IV). A carbon copy, however, will not work for skills, and important policy and design issues need to be worked through. Even so, personal skill accounts based on the principle of soft compulsion provide a potential road map to developing compulsory funding of upskilling and reskilling linked to a statutory right to request time off for upskilling and reskilling.

31 Personal pension accounts have been designed on the basis of a 4:3:1 ratio in terms of employees, employers and the taxpayer respectively. The same ratio could apply to tripartite contributions to personal skill accounts. However, the critical policy design question is the percentage point increase noting that both employee and employer contributions will be on all earnings above the lower earnings limit.

BOX IV: Key Principles of Personal Skill Accounts

1 **All adults would have a personal skill account**

All adults from age 18 to state retirement age would have a personal skill account.

2 **Tripartite payments**

Funding would be based on contributions from employers, adult employees and the taxpayer.

3 **All employers would be covered**

Funding would be based on contributions from employers, adult employees and the taxpayer.

4 **Auto-enrolment of adult employees**

All adult employees would be automatically enrolled into making contributions into their personal skill account.

5 **Right of opt-out by adult employees**

Employees would be able to opt out, in which case the employer would not contribute. This would also assist employed graduates repaying HE loans.

6 **Tripartite payments from age 22**

All employees from age 22 would be automatically enrolled into making contributions into their personal skill account.

7 **Under-22 year old workers could opt into tripartite payments**

Young workers under 22 would be able to opt into tripartite payments into personal skill accounts on a voluntary basis.

8 **18th birthday the earliest date for opting into tripartite payments**

The 18th birthday would be the earliest date that a personal skill account could be opened and the earliest date young workers could opt into voluntary tripartite contributions. 16 and 17 year olds would not be able to make voluntary contributions into personal skill accounts.

9 **Non-employees could make payments into personal skill accounts**

Non-employees, including the self-employed and non-workers, would be able to opt into making payments to personal skill accounts. All adults would be able to do this although the earliest date that payments could be made would be the 18th birthday. In these circumstances, the state would offer tax relief on individual contributions.

Continued… **BOX IV: Key Principles of Personal Skill Accounts**

10 Child Trust Funds could be paid into personal skill accounts

On maturity at the 18th birthday, Child Trust Funds could be transferred into personal skill accounts.

11 Unused savings transferred into pensions at state retirement age

Unused savings in personal skill accounts would be transferred into occupational pensions or personal pension accounts at state retirement age.

12 Personal skill accounts would be managed by a UK-wide agency

Personal skill accounts would be managed centrally by a UK-wide agency – possibly known as a national learning bank – to facilitate transferability across employers and throughout life on a UK-wide basis.

13 Savings used to purchase education and training only

Personal skill accounts could only be used to purchase education and training, and from recognised providers.

14 Savings used to purchase recognised units or whole qualifications

Personal skill accounts could only be used to purchase recognised units or whole qualifications from recognised providers.

15 Access after a minimum savings period

Account holders would have access to funds in personal skill accounts to purchase recognised education and training after a minimum period which would vary according to the age of each adult.

16 Tripartite funding made on earnings above the lower NI threshold

Funding on a tripartite basis would be made on earnings above the lower national insurance threshold (which is £5,720 in 2009/10).

17 Tripartite funding on 'all' earnings above the lower NI threshold

Funding on a tripartite basis would be on all earnings above the lower national threshold including above the upper earnings limit (which is £43,888 in 2009/10).

18 Ratio of tripartite funding set at 4:3:1

Funding into personal skill accounts should be set at a ratio of 4 from employees, 3 from employers and 1 from the taxpayer.

19 Increases in NI contributions limited to 1ppt, 0.75ppts and 0.25ppts

Funding into personal skill accounts should be based on an increase in employees' national insurance of 1 percentage point and employers' national insurance of 0.75 percentage points, with a state contribution equivalent to a 0.25 percentage point increase.

20 Implemented after personal pension accounts

Personal skill accounts should be implemented from 2015 after personal pension accounts have been fully implemented, with a view to starting from April 2017.

32 Three factors should be taken into account when deciding upon the increase in national insurance contributions. Firstly, the increase will be in addition to the increase to fund personal pension accounts. Secondly, the increase must be at a rate sufficient to generate a reasonable pot of savings for upskilling and reskilling. And thirdly, the increase must reflect when adults have their first skill attack typically in their thirties and forties after ten years or so in work.

33 As a starting point for debate this pamphlet suggests increasing employee contributions of 1 percentage point and employer contributions of 0.75 percentage points, with the taxpayer making equivalent tax relief contributions of 0.25 percentage points. Based on Treasury yields for national insurance in 2011/12, these increases would raise £10.8bn per year into personal skill accounts for upskilling and reskilling (see Table IV). This would represent about two thirds of total public investment in adult skills and higher education by the Department for Business Innovation and Skills.

34 Assuming ten years of working life on gross earnings of £10,000 per year, adults would have £2,000 in their personal skill account. This would represent a major source of private funding for upskilling – supplementing public funding where possible – and a major source of private funding for reskilling – once again supplementing public funding where possible but also covering the full cost of provision where necessary. Of course, the cost to the taxpayer would not be free. A rule of thumb estimate is £1.3bn. This is equivalent to savings generated from adding a commercial rate of interest into HE loans.

A national debate on the funding of upskilling and reskilling

35 A national debate on the funding of upskilling and reskilling is urgently needed to make this area of public policy a political priority. Such a debate must include the review of tuition fees in higher education, public funding of adult skills and increasing private savings for upskilling and reskilling.

A window of opportunity for Personal Skill Accounts

36 April 2017 is the earliest when another compulsory funded system could be introduced. This is the year when employers and employees could be paying maximum contributions to personal pension accounts. Yet, the choice is not between compulsory funding of social care and compulsory funding of upskilling and reskilling. By framing the options for social care in terms of voluntary and compulsory funding by people of retirement age, there is a window of opportunity to introduce a compulsory funding system of upskilling and reskilling by adults of working age.

Personal Skill Accounts as a feature of Individual Learning Accounts

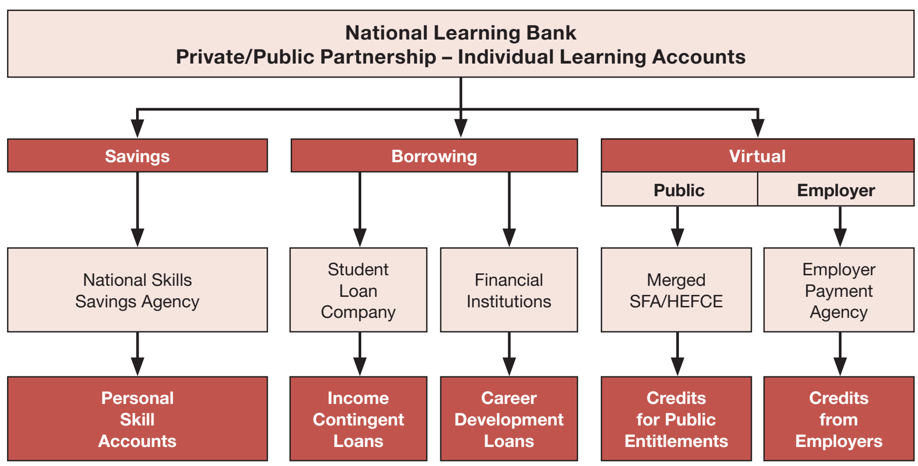
37 Personal skill accounts could form part of a wider version of Individual Learning Accounts (see Diagram I). A private/public partnership

Table IV: Contributions to Personal Skill Accounts

Stakeholder	Percentage point increase on all earnings above Lower Earnings Threshold (£5,720 in 2009/10)	Gross yield (2011/12)	Contributions per year on £10,000 earnings	Contributions after ten years on £10,000 earnings
Employee	1.0 ppts	£5.4bn		
Employer	0.75 ppts	£4.1bn		
Taxpayer	0.25 ppts	£1.3bn		
TOTAL		**£10.8bn**	**£200**	**£2,000**

possibly called a National Learning Bank could manage a UK-wide system of ILAs. But Westminster and Whitehall should not conclude that a system of voluntary funded ILAs is a substitute for compulsory funded personal skill accounts or that the introduction of personal skill accounts should await the architecture of a full blown ILA system. **The funding crisis in upskilling and reskilling dictates that personal skill accounts come before, not after, Individual Learning Accounts.**

Diagram I: Personal Skill Accounts as part of Individual Learning Accounts



1 Upskilling and reskilling

"Upskilling can be defined as helping people get a qualification at a higher level than the one they hold."

"Reskilling can be defined as the achievement of a 'second' or subsequent 'full' Level 1, 'full' Level 2, and 'full' Level 3 and so on."

Definitions and concepts

Qualifications, levels and fullness

1.1 Qualifications act as proxies for skills. Current government policy assigns qualifications to levels known as Level 2, Level 3, and Level 4 and so on (see Table 1). Level 4 is equivalent to sub-degrees and undergraduate degrees. Higher level degrees are also assigned levels from 5 to 8. In skills policy, reference is often made to Level 4+ which includes sub-degrees, undergraduate degrees and higher degrees.

1.2 Qualifications at each level can be whole qualifications or broken down into units or credits. In turn, whole qualifications and units/credits of qualifications form full qualification levels. For instance, a full Level 2 qualification is equivalent to five whole GCSEs at A*-C, NVQ2 and an Apprenticeship. Meanwhile, a full Level 3 qualification is equivalent to two A Levels A-E, NVQ3 and an Advanced Apprenticeship.

Defining upskilling

1.3 Upskilling can be defined as helping people get a qualification at a higher level than the one they hold. Current government policy defines upskilling as the achievement of first 'full' Level 2 qualifications, first 'full' Level 3 qualifications and first 'full' Level 4 qualifications, and so on (see left-hand side of Diagram 1). This is the so-called firstness principle.

1.4 In upskilling, **progression is always upward**. Importantly, achievement of first level qualifications can take the form of an academic or a vocational qualification, and as whole qualifications or units of qualifications.

Defining reskilling

1.5 **Reskilling** can be defined as the achievement of a 'second' or subsequent 'full' Level 1, 'full' Level 2, and 'full' Level 3 and so on. Achievement of, for example, a second Level 3 can take the form of whole qualifications or units of qualifications, and in the form of academic or vocational qualifications.

1.6 In reskilling, progression can be lateral or downward but never upward (see right-hand side of Diagram 1). In other words, someone with a Level 3 can take a second Level 1 (a lower level qualification) or, say, a second Level 3 (an equivalent qualification level) but never a higher level qualification.

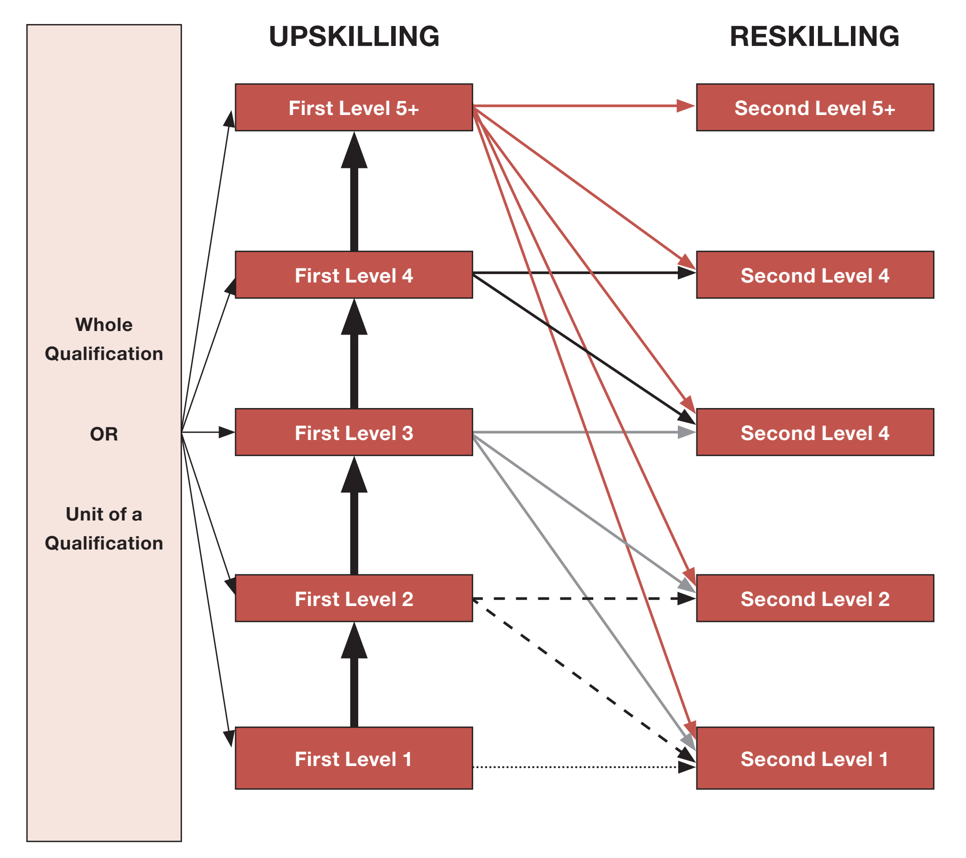
Second chance learning, upskilling and reskilling

1.7 Calls are often heard for second chance learning with adults needing a second chance to achieve qualifications. Yet, achievement of qualifications can cover instances where

Table 1: Qualification levels

Qualification	Level	Part of Qualification Level	Full Qualification Level
GCSE NVQ 2 Apprenticeship	2	1 GCSE Unit	5 GCSEs A*-C NVQ 2 Apprenticeship
A Level NVQ 3 Advanced Apprenticeship	3	1 A Level Unit	2 A Levels A-E NVQ 3 Advanced Apprenticeship
Sub-degree Undergraduate Degree	4	Unit or Credit Unit or Credit	Sub-degree Undergraduate Degree

Diagram 1: Upskilling and reskilling



adults are looking to upskill and instances where they are looking to reskill. Viewing second chance learning as both an upskilling and a reskilling agenda also re-defines lifelong learning in the 21st century (see Diagram 2).

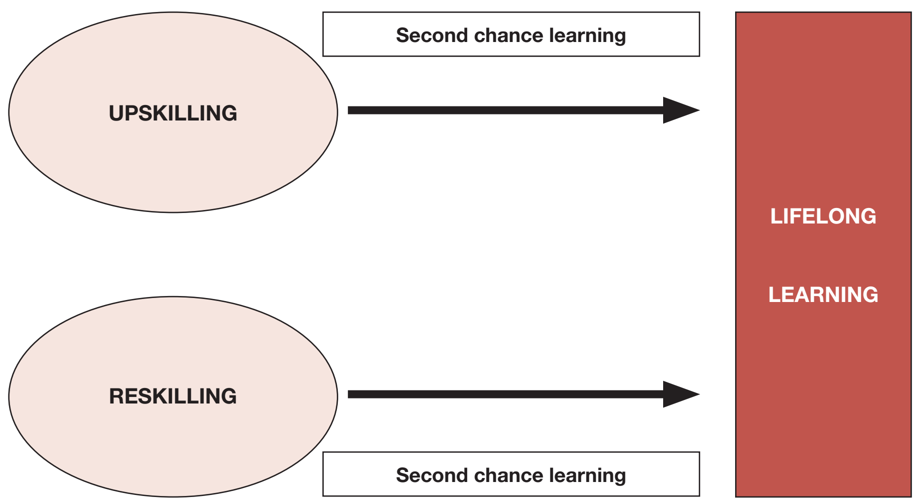
Imperfect concepts, imperfect policies

Widening participation and social justice

1.8 The concepts of upskilling and reskilling provide valuable insights into policy objectives such as widening participation and social justice, especially in relation to higher education and achievement of Level 4 qualifications. Widening participation in the context of Level 4 refers to encouraging young people and adults from wider socio-economic groups to achieve a first Level 4 rather than a second Level 4. **To this extent, widening participation in higher education is an upskilling objective.** Similarly, the debate on social justice and access to higher education is an upskilling debate. Social justice is best served by enabling young people and adults without a Level 4 to achieve a first Level 4.

1.9 And yet, the logic of upskilling and reskilling, and widening participation and social justice is less compelling in relation to qualification levels below Level 4. For instance, upskilling might be inappropriate for older adults achieving a first Level 2 on leaving further education and training by age 19 or even 24. They might need a second Level 2 rather than a first Level 3, or reskilling rather than upskilling. **Over the life cycle, therefore, social justice and widening participation means reskilling as well as upskilling.**

Diagram 2: Re-defining lifelong learning in the 21st century



Units at different qualification levels

1.10 It is a mistake, however, to presume that upskilling and reskilling must be achieved through whole qualifications. On the contrary, young people and adults can achieve, for example, a first Level 2, first Level 3 and first Level 4, and second Level 2, second Level 3 and second Level 4 through units of qualifications. Nevertheless, defining upskilling and reskilling in relation to units leading to a qualification at the same level does not always capture the upskilling and reskilling needs of individuals. **For instance, an older worker might need to combine a unit at Level 3 with a unit at Level 2 to meet their skill requirements.**

In praise of the upskilling and reskilling concepts

1.11 Despite these limitations, the concepts of upskilling and reskilling focus the minds of policy-makers in two important respects. The first concerns the 2020 skill ambitions (see Table 2) – which are upskilling ambitions – and whether they are fit for purpose in not capturing reskilling. And the second concerns the extent to which the taxpayer can pay for reskilling as well as upskilling.

Table 2: The 2020 Upskilling Ambitions: Percentage of Working Age Population

Level 4+	40
Level 3	28
Level 2	22
Below Level 2	6
No Qualifications	4

Source: Ambition 2020: World Class Skills and Jobs for the UK, The 2009 Report, UKCES, April 2009.

2 New realities for a new decade

"If the biggest financial crisis since the 1930s has torn up the macro-economic rule book, it has torn up the education and skills rule book as well."

A new economic reality

The return of recession

2.1 For over 10 years, decision-makers have framed education and skills policy in an environment of economic growth and economic stability. As the transition from the first to the second decade of the 21st century takes place, the economic environment has completely changed. Recession has returned with a vengeance. If the biggest financial crisis since the 1930s has torn up the macro-economic rule book, it has torn up the education and skills rule book as well.

2.2 The recession, defined as two consecutive quarters of negative growth, started in Britain from July 2008. How deep it will be and how long will it last are questions on everyone's lips. Unsure of the answers, economists have assigned letters (see Box 1) to describe recessions. The economic stimulus package announced in autumn 2008, strengthened in spring 2009, seems to have avoided a catastrophic L-shaped recession but has not delivered the preferable V-shaped recession. Britain could still suffer a W-shaped recession even if a U-shaped one has been averted.

2.3 Recessions, of course, do not last forever. And yet, the duration of a W-shaped recession is as important as its depth. Common sense says a W-shaped recession over a four-year period will be more painful than over a two-year period. **But long or short, the recession will shape the new decade from 2010 to 2020 and beyond.**

The return of mass unemployment

2.4 With recession comes unemployment. With deep recession comes mass unemployment. Unemployment is on the march.

2.5 There are two measures of unemployment. The first is the number claiming benefits, the so-called claimant count. The second is those who have looked for work in the past four weeks and are ready to start work in the next two (which is the agreed definition according to the International Labour Organisation) and known as ILO unemployment. For both claimant unemployment and ILO unemployment, levels are calculated in relation to those aged 16 and over, and rates are calculated in terms of those aged 16–59 for women and 16–64 for men (coinciding with the state pension age). Finally, unemployment rates are defined as a proportion of the economically active which in turn is defined as the employed plus the unemployed.

2.6 In June 2009, claimant unemployment had risen to 1.56m (4.8%). By comparison, between March and May 2009 ILO unemployment had risen to 2.38m (7.6%). An ILO unemployment rate of 10% is predicted by March 2010. **Education and skills policy must adapt to the return of mass unemployment.**

BOX 1:	**Shapes of recession**
L-shaped:	This is where economic activity falls off a cliff, reaches the bottom and stays there for a long time.
V-shaped:	This characterises a deep but short recession with economic activity bouncing back typically after an economic stimulus.
W-shaped:	This is the famous double-dipped recession, where economic activity falls sharply, picks up in response to an economic stimulus but falls as the stimulus wears off, and then picks up again after another stimulus.
U-shaped:	This is where economic activity falls very sharply, the economy stays at the bottom for some time before it picks up sharply, usually on the back of an economic stimulus.

2.7 Unemployment is calculated as a proportion of those who are economically active. Another way of looking at ILO unemployment is as a share of the entire working age population including those who are economically inactive. Between March and May 2009, ILO unemployment was 2.35m – equivalent to 6.2% of the working age population (see Table 3). By March 2009, ILO unemployment could be close to 3m. This would be equivalent to 7.9% of the total working age population. Since unemployment is a lagging indicator, around 7% to 8% of the working age population could be out of work well into the new decade.

Changing composition of the workforce

2.8 The rise in unemployment is only one change in the composition of the working age population between 2010 and 2015. Another change is the rise in economic inactivity brought about by the recession.

2.9 The rise in ILO unemployment reflects not only the fall of those in employment but an increase in those who are economically inactive. The recession has caused the number of those in employment to fall, although the number of those in self-employment has risen slightly, thereby offsetting the decline in the number of employees. Simultaneously, the recession has caused the number of those who are economically inactive to rise as people retreat from the labour market altogether. **Education and skills policy needs to reflect the trend towards a greater proportion of the working age population who will be unemployed or economically inactive between 2010 and 2015.**

2.10 Discussion of the rise in the unemployed and the economic inactive as a share of the working-age population must also differentiate between those on welfare and those not on welfare. Welfare-to-work policy is concerned about reducing the number of unemployed claiming Jobseeker's Allowance (1.5m) and the number who are economically inactive claiming income support and incapacity benefits (3.33m) rather than the unemployed who are not eligible for Jobseeker's Allowance (0.8m) and the economically inactive not eligible for welfare (see Table 4).

2.11 ILO unemployment could become a greater share of the working age population if welfare to work policies shift an increasing proportion of people on incapacity benefits/new employment allowance onto JSA. However, the edge can be taken off mass unemployment by expanding Government training and employment programmes targeted at those on JSA. Another strategy is to expand full-time adult further education and full-time higher education targeted on those who might be eligible for JSA.

2.12 ILO unemployment will be lessened if workers losing their jobs not eligible for JSA and the non-claimant unemployed decide to retreat into economic inactivity. Around 26% of economically inactive people want a job (2.11m). **Education and skills policy needs to adapt to an environment where a greater proportion of the economically inactive still want a job.**

2.13 Yet, education and skills policy cannot be devised solely with the formal labour market in mind. Consideration must given to those who are economically inactive, not on welfare and do not want a job. A large proportion of economically inactive people aged 16–59/64 looking after their family or home (2.2m) and retired (0.6m) will not be claiming incapacity benefit/new employment allowance but have lifelong learning needs.

Table 3: Composition of Working Age Population – 16/59–64 (UK) March/May 2009

Employees	Self Employed	Government Training and Employment Programmes	Unpaid Workers	ILO Unemployed	Economically Inactive	Total
23.76m 62.7%	3.65m 9.7%	0.1m 0.3%	0.1m 0.3%	2.35m 6.2%	7.92m 20.9%	37.90m 100.0%

Source: Labour Market Statistics, Office of National Statistics, 15 July 2009

Table 4: Composition of Working Age Population – 16/59–64 (UK) 2009

Employees	**Self Employed**	**Government Training Employment Programmes**	**Unpaid Workers**	**ILO Unemployed**		**Economically Inactive**	
23.76m **(1)** 62.7%	3.65m **(1)** 9.7%	0.1m 0.3%	0.1m 0.3%	2.35m 6.2%		7.92m 20.7%	
				Claimant Count **(2)**	Non Claimant Count	On Welfare Not on JSA **(3)**	Not on Welfare
				1.55m 4.8%	0.8m 1.4%	3.33m 8.7%	4.59m 12.0%
						Incapacity Benefit/ Employment Allowance 2.60m	Students 2.11m
						Lone Parents 0.73m	Other 2.39m

Source: Labour Market Statistics, Office of National Statistics, 15 July 2009. Note (1) Calculation by author. Note (2) Claimant Count refers to April 2009. Note (3) Welfare estimates as at November 2008, and defined as GB and abroad. See Table 25, *Ibid*

Upskilling and reskilling in a recession

2.14 Overall, upskilling and reskilling remain a priority for government policy irrespective of whether the economy is experiencing growth or recession. What changes – from growth to recession – is the priority groups for State intervention. In times of economic growth, when the proportion who are unemployed and on benefits is low, policy-makers focus on the upskilling and reskilling needs of employees and the economic inactive (see Diagram 3). In times of economic recession, policy-makers focus on the upskilling and reskilling needs of the unemployed on benefit, the economically inactive on benefit and sometimes the self-employed, since self-employment becomes a route out of unemployment.

A new fiscal reality

The fiscal crisis

2.15 Alongside a new economic reality is a new fiscal reality. Budget 2009 assumed a 'V' shaped recession. Even with a 'V' shaped recession the Labour Government predicted net borrowing of £175bn in 2009/10 and £173bn in 2010/11 (see Table 5), equivalent to 12.4% and 11.0% of GDP respectively. By 2010/11, public debt was predicted to be a trillion pounds – £1,000bn – equivalent to 65% of GDP. Furthermore, the projections assumed an extra £5bn of efficiency savings in addition to £30bn already pencilled in between 2008/09 to 2010/11. Budget 2009 projected that over the period of the next spending review, 2011/12 to 213/14, borrowing will fall. But it will still be nearly £100bn by 2013/14 or 5.5% of GDP, with national debt of £1,370bn, some 76.2% of GDP.

Borrowing to fund education

2.16 The precarious nature of the public finances can be illustrated by comparisons with education spending. Borrowing in 2013/14 (£97bn) will not be that much greater than the UK education budget (£88bn in 2009/10). **In effect, the Government will be borrowing to fund education spending.**

A decade of fiscal austerity

2.17 Over the summer of 2009, the tone for the debate on the fiscal crisis was set by the analysis of Budget 2009 by the Institute for Fiscal Studies. Using the Government's own figures contained in Budget 2009, the IFS projected that by 2017/18, public debt as a share of GDP would remain at 80%.

Diagram 3: Priority groups for upskilling and reskilling

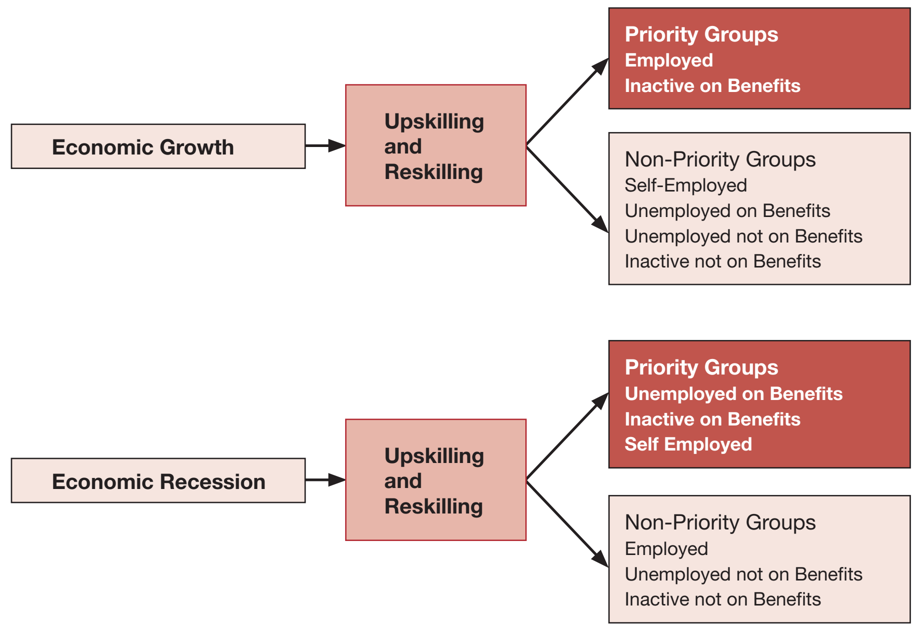


Table 5: Fiscal Projections 2009/10 to 2013/14

	Projections				
	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Net Borrowing	£175bn	£173bn	£140bn	£118bn	£97bn
Public Sector Net Debt	£792bn	£977bn	£1,130bn	£1,262bn	£1,370bn
Public Sector Net Debt/GDP	55.4%	65.0%	70.9%	74.5%	76.2%

Source: Tables C4 and C5, Building Britain's Future, Budget 2009, April 2009

And yet, even debt of 80% of GDP implied two Parliaments of fiscal pain *(see Chart 1, Institute for Fiscal Studies, April 2009*) with greater pain between 2014/15 to 2017/18 than 2010/11 to 2013/14. Part of the fiscal tightening would take the form of higher taxes but public spending would also need to be reined in.

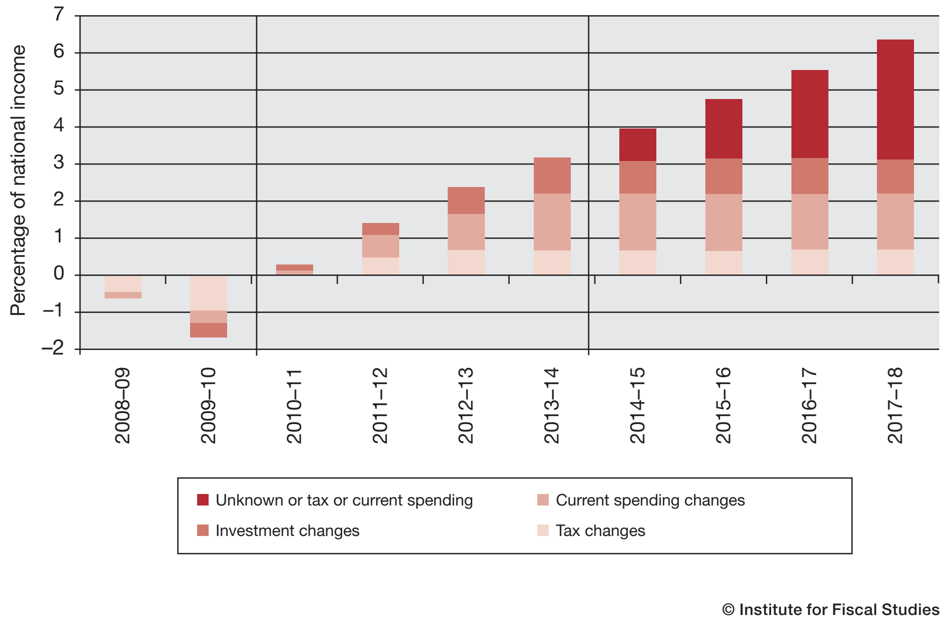
Making public money work harder

2.18 Efficiency savings of £35bn between 2008/09 and 2010/11 have been factored into the net borrowing estimates. Beyond 2011/12, pressure for further efficiency savings – or **making public money work harder** as it is now known – will mount despite question marks over the volume of such savings. Education and skills will not be immune from the pressure for further efficiency savings. Yet the critical issues are whether they will be significant in the future and, if so, whether they will be used to cut the fiscal deficit or expand front-line services.

Unemployment programmes come first

2.19 The fiscal deficit is the difference between revenue and spending. Despite falling revenues, Budget 2009 increased overall public spending in 2009/10 and 2010/11.

Chart 1: Fiscal tightening, by type of measure



Source: HM Treasury; IPS calculations

Employment policy was the clear winner in terms of **extra** public spending from the Treasury. An extra £1.7bn was allocated to the Department for Work and Pensions and Jobcentre Plus between 2009/10 and 2010/11, and an extra £1.2bn over the same period to deliver an employment, training and work placement guarantee for 18–24 year olds who are out of work for 12 months.

2.20 Public spending on job search and employment programmes is rising to prevent mass unemployment. This is likely to continue, given increasing political concern over 16–24 year olds not in education, employment and training. However, only a small proportion of the extra £1.2bn for adult employment programmes has been allocated to adult skills (£122m). Furthermore, the Treasury has not provided any new funding to meet the rise in demand for places in full-time education and unwaged work-based learning by 16 and 17 year olds in the face of the recession. DCSF found the extra £251m in 2009/10 and £404m in 2010/11 from existing spending totals and efficiency savings. This additional funding will support an extra 72,000 places for 16 and 17 year olds in full-time education, work-based learning and apprenticeships. As such, participation might rise to 90%, leaving 10% – or some 130,000 16 and 17 year olds – not in recognised education and training, with a growing number who are unemployed.

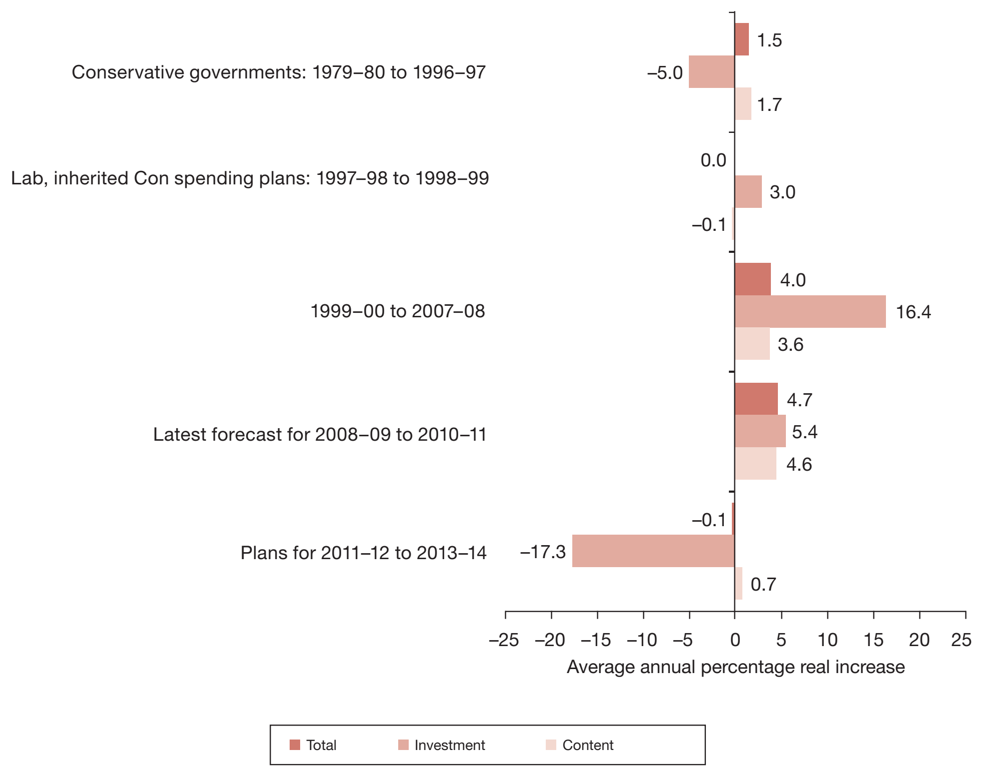
Tightest spending round for a decade

2.21 Even using the estimates contained in Budget 2009, the Institute for Fiscal Studies expected the tightest spending plans for a decade. Although higher taxes would take about a fifth of the strain in cutting the fiscal deficit, public spending cuts would have to make up the rest. In terms of Labour's spending plans the IFS calculated that a real-terms increase in public spending of 3% in 2010/11 would be followed by a real-terms decrease of 0.1% between 2011/12 and 2013/14 (see Chart 2).

Categories of public spending

2.22 In addition to debt interest, there are two key categories of public spending. The first is departmental spending, known as Departmental Expenditure Limits (DEL), which

Chart 2: How tight are these spending plans?



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departments can plan and deploy. The second is Annually Managed Expenditure (AME) which cannot be planned over a three-year period and often changes with the economic cycle. Both DEL and AME can be split between revenue and capital spending. AME can also be split between spending on social security and tax credits, and other AME spending (see Chart 3).

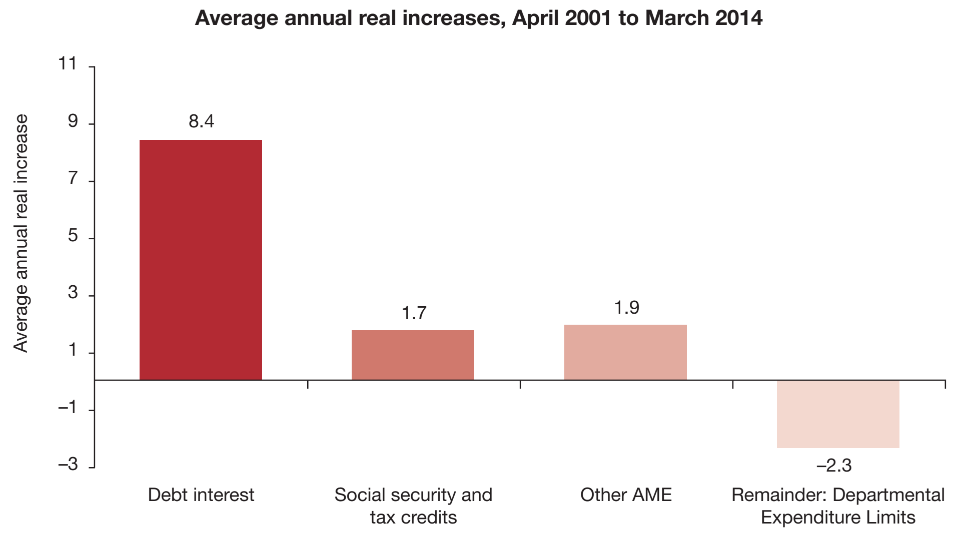
Higher debt interest, higher AME and lower DEL

2.23 What makes the next spending round so tight is not just that overall spending in real terms between 2011/12 and 2013/14 will be close to zero but that the overall total masks large real-terms increases in debt interest, social security and tax credit, and other AME on the one hand, and a cut in departmental on the other. At the time of Budget 2009, the IFS predicted that DEL spending (see Chart 3) would fall in real terms by an average of –2.3% per year. Although DEL spending would rise in cash terms, in real terms DEL spending would be cut by nearly £30bn between 2011/12 and 2013/14. Yet such cuts would still imply borrowing of £97bn in 2013/14.

A worsening fiscal crisis

2.24 Since the publication of Budget 2009, the fiscal crisis has worsened. Revenues are down and public spending is up because of higher departmental spending to sustain the recovery and benefits paid to the increasing numbers of unemployed people. By the early autumn of 2009, the Institute of Fiscal Studies calculated that departmental spending would have to fall by –2.9% in real terms (*Institute for Fiscal Studies, Britain's Fiscal Squeeze: The Choices Ahead*, September 2009). This is equivalent to cuts in departmental public spending of £33bn in real terms over three years between 2011/12 and 2013/14.

Chart 3: A possible Spending Review 2010 allocation



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Will education be a spending priority?

2.25 What will and will not be a spending priority has changed by the month. Labour, however, has emphasised protecting public spending according to policy themes rather than specific government departments. Early on in the summer, Alistair Darling indicated that Labour's spending priorities to be announced in Pre-Budget Report 2009 would be health, housing, transport and **education** (*'Darling admits difficult choices lie ahead', The Guardian,* 9 June 2009). Shortly afterwards, Lord Mandelson added defence to the list (*'Mandelson sets up guard round defence budget', Financial Times,* 20 July 2009). As the autumn approached, the Chancellor indicated that **education and child poverty** would be protected (*'Chancellor points way to cuts in spending', The Times,* 5 September 2009*)*. A few days later, the *Financial Times* reported that **education and skills** would be protected as well as key infrastructure projects and spending to tackle climate change and long-term care (*'Labour prepares for era of "hard choices"',* 8 September 2009). Later in September 2009, as the projections for the fiscal deficit worsened to £200bn, Ed Balls, the Secretary of State for Children, Schools and Families stunned the education world by suggesting £2bn cuts in the school budgets (*The Sunday Times*, 20 September, 2009). But at the Labour Party conference, Gordon Brown, the Prime Minister stated that '*in the next five years we cannot and will not cut support to our schools. We will not invest less, but more*' (*Guardian.co.uk.* 29 September 2009). For Labour, however, the critical question is whether **education** is defined as 3–19 (outside of HE) alongside children's services and child poverty or whether adult skills and higher education are included as well. Interestingly, DCSF spending will rise by 2.3% in cash terms in 2010/11 whilst DIUS spending – now part of the Department for Business Innovation and Skills – will fall by 0.1% in cash terms (*see Table 1.13, Public Expenditure: Statistical Analyses, HM Treasury 2009*).

2.26 Meanwhile, the Conservatives have made clear that spending on health and international development will be protected. Defence could be added to the list. Education is missing. On balance, however, the Conservatives might seek to protect the narrower priority of **schools funding**, leaving 16–19 FE and 16–19 apprenticeships, adult FE and adult apprenticeships, and higher education out in the cold. Irrespective of who wins the next general election, education and training will not be immune from the pressure to cut public spending to reduce the fiscal deficit between 2010 and 2020.

A new working reality

Living longer, working longer

2.27 The new decade will be characterised by more than a new economic reality and a return to mass unemployment, and a new fiscal reality and the pain of fiscal austerity. Between 2010 and 2020 a new working reality will dawn. **People are living longer and so they will have to work longer.**

2.28 The most striking change to take place between 2010 and 2020 is the incremental equalisation of the State Pension age between men and women up to 65 by 2020. Increasing numbers of women will have to work beyond 60 to become entitled to the Basic State Pension by 2020. However, it is changes to the State Pension Age beyond 65 which will have extremely profound implications for people of working age between now and 2020.

2.29 The State Pension Age will increase from 65 to 66 between 2024 and 2026, from 66 to 67 between 2034 and 2036, and from 67 to 68 between 2044 and 2046 (see Box 2 and *Security in retirement: towards a new pensions system*, DWP, May 2006). This means everyone aged 34 to 51 today will have to work to age 66 to become entitled to the State Basic Pension. Similarly, everyone aged 16 to 33 will have to work to 68 to become eligible to the State Basic Pension from 2044. Yet this generation are starting the early part of their working lives with the prospect of lasting recession and mass unemployment.

2.30 The increase in the State Pension Age has been needed to fund the increase in the Basic State Pension. At the time of the national debate on pensions in the middle of the first decade of the 21st century, Lord Adair Turner, chair of the Pensions Commission which informed government pension policy, had suggested that the State Pension Age should be increased to 70 but this was not included in the final recommendations. **In light of the recent fiscal crisis, however, Lord Turner has argued that the State Pension Age should be increased much more quickly and to age 70** (*'We should work till we're 70, says City watchdog', Daily Mail,* 3 July 2009).

Raising the participation age, raising the State Pension age

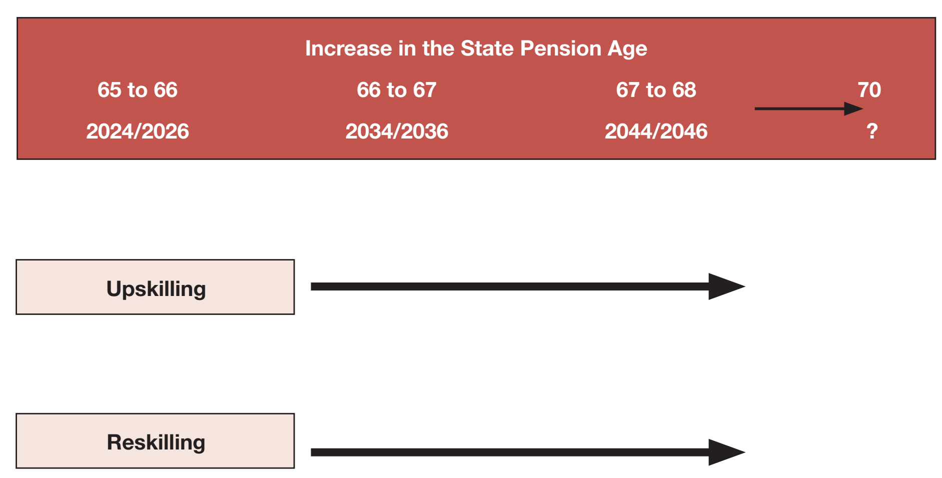
2.31 Interesting comparisons can be drawn by comparing the policy of Raising the Participation Age (RPA) and Raising the State Pension Age (SPA). It is today's 11 and 12 year olds who must stay on in education or training until their 18th birthday in 2015. Today's 11 and 12 year olds will only be 46 or 47 in 2044. The minimum age they will need to be to receive their basic state pension is 68. Increasing the RPA to the 18th birthday in 2015 and increasing the SPA to 68 in 2044 means increasing compulsory education and training by two years and increasing working lives by three years. **There are plenty of years for 18 year olds in 2015 to go to work!**

Skills for longer working lives

2.32 The RPA can be seen as a way of increasing upskilling during the early part of the life cycle. By comparison, increasing the State Pension Age implies the need for upskilling and reskilling in later life to remain employable (see Diagram 4).

BOX 2:	Working longer to receive the basic state pension
	State Pension Age increased from 65 to 66 between 2024 and 2026
	State Pension Age increased from 66 to 67 between 2034 and 2036
	State Pension Age increased from 67 to 68 between 2044 and 2046

Diagram 4: Upskilling, reskilling and the State Pension Age



3 Public funding of education and training: where will the axe fall?

"The split between DEL – revenue and capital – and AME – revenue and capital – is critical to an analysis of where the axe might fall in relation to publicly funded education and training."

Public funding

Key categories

3.1 The split between DEL – revenue and capital – and AME – revenue and capital – is critical to an analysis of where the axe might fall in relation to publicly funded education and training. At the same time, two additional conceptual points need to be made about public funding. On the one hand, revenue funding must be split between tuition costs and financial support costs. On the other hand, there is a need to distinguish between public spending on training for public sector employees, and public spending on education and training to meet the needs of individuals and employers in general. The focus, however, is on the latter rather than the former.

The devolution settlement

3.2 Education and training policy is part of the devolution settlement. Active labour market policy is not a devolved issue. Employment programmes operate GB-wide (as Northern Ireland has different arrangements) and benefits and tax credits operate UK-wide. Employment legislation operates UK-wide and so too does workplace training legislation. In relation to public funding, however, the focus is on England.

DCSF and DBIS

3.3 Two government departments are responsible for public spending on education and training for individuals and employers in general, namely DCSF (Department for Children, Schools and Families) and the new Department for Business Innovation and Skills (DBIS). DBIS has been formed out of the merger between the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DIUS), announced as part of the changes to the machinery of government in June 2009.

3.4 At least three other departments have a role to play in publicly funded education and training (excluding the training of public sector employees). The first is the Department for Work and Pensions. As well as specific skills funding for unemployed people allocated to DBIS, skills training features in DWP employment programmes. It is difficult, however, to ascertain the precise amount spent on training within these programmes. Equally, it is difficult to calculate levels of public spending on benefits for adults who attend training courses as a condition of receiving welfare, as well as adults on welfare who participate in adult FE but are not compelled do so as a condition of receiving welfare. The second department is the Department for Communities and Local Government (DCLG). It is responsible for the Working Neighbourhood Fund and a proportion of the funding is used to support training. Once again, however, the level of funding specifically spent on training is difficult to assess. The third department is the Department of Health including the National Health Service. The NHS funds the training of nurses and midwives, with funding in excess of £5bn per year.

Education and skills spending in England

3.5 Table 6 sets out total funding on education and skills by DCSF and DBIS in 2010/11. The total for DBIS represents DIUS spending on education and skills. It excludes £250m of potential spending on skills available between 2009/10 and 2010/11 as part of the £750m Strategic Investment Fund allocated to BERR but now the responsibility of DBIS.

3.6 The overall totals for DCSF and DIUS as a share of DBIS include administrative costs of each department and also those of organisations managing education and training. These range from funding councils to providers. In addition, the totals for resource expenditure include the cost of provision as well as the cost of financial support.

3.7 Non-repayable grants for provision score as resource expenditure in the departmental expenditure limits of DCSF and DIUS. Fee loans feature as resource expenditure under the DEL of DIUS. It represents the interest

Table 6: DCSF, DBIS and other expenditure linked to education and skills (2010/11 unless otherwise stated)

DCSF (1)	DEL Resource	£51.8bn	of which: £31.9bn schools £3.3bn children/families £1.2bn area based grants £0.5bn 16–19 EMAs £2.1bn sixth forms **(3)** £3.5bn 16–19 FE £0.7bn 16–18 Apprenticeships £0.2bn E2E £0.2bn learning difficulties £0.1bn 16–19 learner support
	DEL Capital	£7.6bn	
	AME Resource	£12.3bn	of which: £12.3bn teachers' pension scheme
	AME Capital	£0.0bn	
	TOTAL	**£71.7bn**	
DIUS funding of DBIS (2)	DEL Resource	£18.2bn	of which: £1.5bn Resource cost of HE fee/maintenance loans £5.3bn HEFCE teaching **(4)** £33m HE fee grants £1.1bn HE maintenance grants £3.5bn adult LSC participation funding **(5)** £0.1bn adult financial support
	DEL Capital	£2.6bn	
	AME Resource	£0.0bn	
	AME Capital	£5.8bn	of which: £5.8bn is HE student loans **(6)** £2.6bn fee loans £3.2bn maintenance loans
	TOTAL	**£26.6bn**	
UK Child Benefit, Child Tax Credit and Child Trust Fund Expenditure	AME Resource	£30.0bn	of which: £11.8bn Child Benefit **(7)** with £0.9bn for 16–19 year olds **(8)** £17.7bn Child Tax Credits in 2008 **(9)** with £1.8bn for 16–19 year olds **(10)** £0.5bn Child Trust Funds **(11)**
	TOTAL	**£30.0bn**	

Notes:
(1) Annex A, DCSF Annual Report 2008, May 2008.
(2) Table 1, DIUS Annual Report 2008, May 2008.
(3) Figures for 2009/10 contained in LSC Grant Letter, November 2008.
(4) Written Answers, House of Commons, 18/2/2008 and 5/6/2008.
(5) Figures for 2009/10 contained in LSC Grant Letter, November 2008.
(6) Written Answers, House of Commons, 18/2/2008 and 5/6/2008.
(7) Written Answers, House of Commons, 19/5/2009.
(8) Figure for 16–19 Child Benefit is for 2004/05, Written Answer, House of Commons, 19/4/2007.
(9) Net Payments in 2008, Table T1.3b, Monthly and quarterly Child and Working Tax Credits and Child Benefit net payments, HMRC, May 2009.
(10) Figure for 16–19 year olds is for 2004/05, Written Answer, House of Commons 21/7/2007.
(11) Estimate is for 2011/12, Written Answer, House of Commons, 18/4/2006.

subsidy of fee loans. The cash cost of loans features as capital under AME of DIUS.

3.8 Financial support in the form of grants for HE students and adult FE students scores as resource expenditure as part of the departmental expenditure limit under DIUS. By contrast, maintenance loans for HE students form part of capital AME under DIUS.

3.9 Financial support for young people is a more complicated matter. Means-tested Education Maintenance Allowances (EMAs) are paid to 16–19 year olds in full-time education and unwaged training. They score as resource DEL under DCSF. Parents of 16–19 year olds in full-time education and unwaged training outside of HE are eligible for universal Child Benefit (CB) and means-tested Child Tax Credit (CTC). **Since eligibility for CB and CTC is restricted to participation in full-time education and unwaged training, it is legitimate to classify 16–19 Child Benefit and 16–19 Child Tax Credit payments as financial support for learners.** However, universal CB and means-tested CTC form part of resource Annually Managed Expenditure rather than DCSF spending. In fact, Table 5 includes the full cost of universal Child Benefit and means-tested Child Tax Credit (in excess of £29.5bn). The reason is that public-spending decisions on 0–19 child poverty are intimately linked to decisions on 3–19 education and training.

3.10 Child Trust Funds were introduced in 2005. They are a long-term investment savings plan for children. The taxpayer provides £250 for children at birth and at age seven. Relatives can save up to £1,200 per year. Control of the account passes to young people at age 18. Young people will be able to use the funds in the account for any good or service including the tuition and financial support costs of higher education and adult further education.

Political priorities, difficult choices

No sacred cows in education and training

3.11 The fiscal position is so desperate that both the centre-left and centre-right are concluding that there can be no sacred cows in education and training spending. The catchphrase of the centre-left is progressive austerity. The upper and middle classes must bear the brunt of recession and middle-class welfare must end. DEMOS has argued for the abolition of Child Benefit, and real rates of interest on fee and maintenance HE loans (see Box 3).

3.12 Similarly, the centre-right think-tank Reform has argued that *'universal child benefit is one of the last vestiges of a previous age'* and *'a positive step to balance the budget and pave the way for fee and admissions reform would be to offer student loans at market interest rates'.* Meanwhile, the Adam Smith Institute has said child benefit is pin-money for a third of parents whilst the Institute of Directors and Taxpayers' Alliance believes that paying Child Benefit to millionaires is a luxury Britain cannot afford.

No sacred cows in halving child poverty

3.13 The Joseph Rowntree Foundation estimates that an extra £4.2bn per year will be required to halve child poverty by 2010 (*Ending child poverty in a changing economy,* February 2009). Although from Labour's perspective, halving child poverty is a sacred cow, access to universal Child Benefit and means-tested Child Tax Credit on household income of £58,000 should not be. **Given the fiscal deficit and the link between education and child poverty, funding of 3–19 education and 0–19 child support should be considered in the round.**

Means-testing Child Benefit and Child Tax Credit

3.14 Table 7 shows that if Child Benefit was means-tested to household income of £58,000 (the maximum income threshold for receipt of Child Tax Credit) the total saving on CB/CTC would be £1.4bn. At £50,000, the threshold where 85% of families receive CTC, the combined saving would be at least £1.89bn. As part of its work on modelling ways in which child poverty could be halved by 2010, the Institute for Fiscal Studies calculates that reducing payment of CTC to £27,500 would save £1.35bn (Options for Tax Credit Reform, July 2008) other things being equal. A specific estimate of savings flowing from restricting

BOX 3: The end of sacred cows

'Middle-class welfare should end. Child benefit should be abolished. Subsidised higher education ought to be targeted at low-income students.'

Richard Reeves, DEMOS, *Progressive austerity: an agenda to protect the poor, Financial Times*, 21 May 2009

'The Chancellor should announce a five year recovery plan that reforms and reduces the "big spenders" of government – health, defence, benefits, education and communities… The main proposals [in this paper] *to reduce spending in 2010/11 are: Abolish universal Child Benefit. Instead Child Benefit should be targeted on families on low incomes… Introduce market rates for interest on student loans.'*

Back to black, Budget 2009 paper, Reform, April 2009

'About a third of Child Benefit is little more than pin-money for the middle classes.'

Dr Eamonn Butler, Adam Smith Institute, *That'll be £2.2 trillion please, The Daily Telegraph*, 25 June 2009

'Both Child Benefit and Child Trust Funds are available to all households with children, no matter how well off. While the administration of Child Benefit is simple and inexpensive, as there is no means-test, paying benefits to millionaires, or even to households with income of £50,000 a year, is a luxury we cannot afford. Both should be abolished.'

How to save £50 billion, IoD/TPA, September 2009

Table 7: Means-testing Child Benefit and Child Tax Credit on 2009/10 data

Means Test (1)	Saving on Child Benefit Cost – £11.8bn (2)	Saving on Child Tax Credit Cost – £17.7bn (3)	Savings Estimate
£58,000	£1.40bn**(4)**	Zero	£1.4bn
£50,000	£1.89bn**(4)** at least	Unknown	£1.89bn at least
£40,000	£4.01bn**(5)**	Unknown	£4.01bn at least
£27,500	£4.01bn at least	£1.35bn**(6)**	£5.36bn at least
£25,000	£6.49bn**(7)**	£1.35bn at least	£7.84bn at least

Notes:
(1) At present, Child Benefit is non-means tested and CTC is paid on household income of around £58,000.
(2) The table assumes that Child Benefit expenditure was £11.8bn in 2009/10 (Written answer, House of Commons, 19 May 2009).
(3) The table assumes that Child Tax Credit Expenditure was £17.7bn in 2009/10.
(4) Restricting Child Benefit to household income of £58,000 and £50,000 would cost £10.4bn and £9.91bn respectively, thereby saving £1.4bn or £1.89bn respectively (Written answer, House of Commons, 22 June 2009).
(5) 34% of expenditure on Child Benefit in 2008/09 was paid to families with income over £40,000 (Written answer, House of Commons, 24 June 2009). Applying this percentage to the 2009/10 estimate for Child Benefit of £11.8bn gives a saving of £4.01bn.
(6) Options for Child Tax Credit Reform, Institute for Fiscal Studies, July 2008.
(7) 55% of expenditure on Child Benefit in 2008/09 was paid to families with income over £25,000 (Written answer, House of Commons, 24 June 2009). Applying this percentage to the 2009/10 estimate for Child Benefit of £11.8bn gives a saving of £6.49bn.

Child Benefit to £27,500 is not available. A combined means-test of £27,500 for CB and CTC would create a saving of at least £5.4bn rising to at least £7.8bn at £25,000.

Reducing the deficit, expanding front-line services

3.15 Across Whitehall, there is a choice between cuts to reduce the deficit or making public money work harder to expand front-line services. This calculation applies to Whitehall departments in the field of human capital policy as well public expenditure supporting participation in education and training.

3.16 An equally important calculation to be made is whether the fiscal deficit can be reduced by further efficiency savings or radical reform on **big ticket** items of public expenditure. The former is part of the strategy to control the public finances but there is no escaping the latter.

Young people before adult skills and higher education

3.17 Historically, political sentiment tends towards young people relative to adult skills and higher education. The present Labour Government is following this sentiment. In terms of department expenditure limits (resource and capital), the Labour Government is planning to increase DCSF spending by 0.8% in real terms in 2010/11 compared to a real-terms cut in spending formerly by DIUS of 2.4% (see *Table 1.13, Public Expenditure: Statistical Analyses,* HM Treasury 2009). Furthermore, the judgement that under Labour the priority for public spending will be 3–19 year olds rather than adult skills and higher education is strengthened on two counts. Firstly, funding for teaching by universities has always been viewed as sacrosanct, especially with so many 17–20 year olds in full-time higher education, but Labour has announced a cut of £65m in 2010/11 (see *University teaching cut by £65m*, BBC news, 24 July 2009). Secondly, the links between child poverty and educational achievement force policy-makers to consider 3–19 education spending and 0–19 child support in the round.

Reforming ‘big ticket’ items for front-line services for young people

3.18 The political instinct of putting young people before adult skills and higher education leads to two possibilities. On the one hand, extra public spending could be found to expand front-line education and skills for 3–19 year olds. On the other hand, ‘big ticket’ items linked to supporting participation in education and skills could be reformed to increase front-line services for education and skills for 3–19 year olds.

Reforming ‘big ticket items’ on adult skills and HE to cut the deficit

3.19 The judgement in relation to young people, however, significantly shapes the debate for adult skills and higher education. At best, reform of ‘big ticket’ items in adult skills and higher education could be used to expand participation. At worst, such reforms will be used to reduce the fiscal deficit.

Options for education spending on young people

Spending priorities for young people

3.20 The cost of protecting schools’ funding (excluding school sixth forms) from a 2.9% real-terms cut would be around £0.9bn (see Table 8). The cost of protecting revenue funding for participation in education and training for 3–19 year olds would be around £1.1bn (see Table 8). Spending outside of employment, health, transport and housing will have to share the cuts to protect spending on the education of young people. And yet, the debate on the funding of education and training of young people is more than about protecting spending.

3.21 Each of the main political parties supports expanding participation in education and training for 16 and 17 year olds (see Table 8) irrespective of their positions on the RPA (see Mark Corney, *Raising the participation age – Keeping it on track*, CfBT, April 2009). Labour are conducting a review of 16–18 financial support, including the role of 16–19 Child Benefit, 16–19 Child Tax Credit and 16–19 EMAs, in the context of the RPA. Both

Table 8: Young people – funding priorities, funding options (2011/12 unless stated)	
Priorities in England	
Protect funding on schools in England excluding sixth forms from 2.9% real-terms cut per year	0.9bn
Protect funding on schools and 16–19 provision in England from 2.9% real-terms cut per year	£1.1bn
Expand 16–17 participation in education and training above additional £404m in 2010/11	Not known
Single 'National' 14–19 funding system	Not known
Halve child poverty by 2010 (UK)	£4.1bn
Pupil Premium to 16/Student Premium to 19	£2.5bn
Supporting 16–19 participation through 16–19 financial support above 16–19 Child Benefit (£0.9bn in 04/05); 16–19 Child Tax Credit (£1.8bn in 04/5) and EMAs (£0.5bn in 2010/11)	Not known
Sources of Funding	
Other Whitehall departments to protect 3–19 provision	£0.9bn
EMAs (England)	£0.5bn
Child Trust Funds (UK)	£0.5bn
Child Tax Credits (UK, 2008)	£17.7bn
Child Benefit (UK)	£11.8bn
Savings	
Restrict eligibility to CTC to £27,500 per year	£1.35bn (2010/11)
Abolish Child Benefit	£11.8bn
Means-Test CB and CTC at £25,000/£27,500	£6.5bn (estimate)
Abolish EMAs	£0.5bn
Abolish Child Trust Funds	£0.5bn
Cost of Options	
Option 1: Halve child poverty by 2010 by increasing levels of CTC	£4.1bn extra spending
Option 2: Halve child poverty by 2010 by increasing CTC amounts but restricting to £27,500 per year	£2.7bn extra spending
Option 3: Halve child poverty by 2010 by increasing CTC amounts, restricting to £27,500 per year but abolish Child Benefit	£9.1bn of savings
Option 4: Halve child poverty by 2010 by increasing CTC amounts, restrict eligibility to CTC to £25,000 per year and means-test Child Benefit to £25,000 per year	£3.8bn of savings

the Conservatives and the Liberal Democrats are critically assessing the role of EMAs even though the former is lukewarm towards the RPA and the latter is opposed.

3.22 The current Labour Government is interested in developing a single 'national' 14–19 funding system covering 14–15 secondary school funding and 16–19 school sixth form and 16–19 college funding (see Paragraph 5.10, *Your child, your schools, our future: building a 21st century schools system*, DCSF, June 2009). However, the levelling up of funding between local authorities could have important spending implications (see Mark Corney and Mick Fletcher, *New Localism and 14–19 Funding*, Campaign for Learning, February 2008).

3.23 Meanwhile, the Conservatives and the Liberal Democrats support a premium targeted on children from poorer backgrounds. The Conservative would limit the premium to school pupils (see *Raising the bar, closing the gap: An action plan for schools*, November 2007) whereas the Liberal Democrats would extend it to college students (see *Equity and Excellence: Policies for 5–19 education in England's schools and colleges*, February 2009). A pupil premium up to 19 could cost around £2.5bn when fully operational.

3.24 Labour is also committed to halving child poverty by 2010/11. Independent commentators calculate that meeting this ambition will require an extra £4.1bn worth of benefits targeted on poor families (see Table 8).

CTC and CB spending shaping options for education spending

3.25 Until the present recession Child Benefit has been a sacred cow. This is why the child poverty debate has focused on extending and re-targeting CTC to reduce child poverty rather than means-tested Child Benefit and rolling it up within CTC. Universal child benefit does not reduce child poverty in high- and middle-income families because they are not in child poverty. However, spending on CTC and Child Benefit is shaping the options for education spending on young people facing the Labour Government and the main opposition parties. **Tough decisions on the targeting of benefits to reduce child poverty can release funds for education spending.**

3.26 Halving child poverty by increasing spending on means-tested Child Tax Credit paid on household income of up to £58,000 per year would cost £4.1bn (Option 1: Table 8). Seeking to achieve the same objective by paying higher rates of Child Tax Credit but restricting payment to household income of up to £27,500 per year would cost £2.7bn (Option 2: Table 8). Reforming CTC in this way but abolishing Child Benefit would result in net savings of £9.1bn per year (Option 3: Table 8). The problem with this approach is that families on income of less than £27,500 per year are entitled to Child Benefit in addition to Child Tax Credit. The answer is to means-test Child Benefit and Child Tax Credit at a common level of income. Restricting the payment of Child Benefit to household income of £25,000 would save around £6.5bn. Allocating an extra £2.7bn to halve child poverty by increasing rates of Child Tax Credit would result in net savings of £3.8bn (Option 4: Table 8).

Allocating the savings to 3–19 education

3.27 Savings of around £4bn from the re-engineering of Child Benefit and Child Tax Credit would provide both government and opposition with opportunities to meet their educational priorities. **Shifting spending at this level from child support – AME – to provision – DEL – would more than cover funding to protect spending on 3–19 education without harming other Whitehall departments** (although the estimates for CB and CTC relate to the UK). Funding would also be available to contribute towards the cost of expanding participation by 16 and 17 year olds, introducing a Pupil Premium or implementing a single 'national' 14–19 funding system.

3.28 The critical policy judgement, however, is the threshold at which a common means-tested Child Benefit and Child Tax Credit applies. A threshold of £27,500 would impact upon a large number of middle-income households. **An alternative would be to restrict CB and CTC to household income of £50,000, although the savings available for investment in education would be much lower.** Nonetheless, reform of Child Benefit and Child Tax Credit puts into perspective suggestions of abolishing Education Maintenance Allowances. The difference is between an elephant and a mouse.

3.29 A reformed system of means-tested Child Benefit and Child Tax Credit at £27,500 or £50,000 would have a consequential impact of CB and CTC paid to parents with 16–19 year olds in full-time education or unwaged training. Yet, universal Child Benefit does nothing to increase participation in 16–19 further education and training. 16–19 year olds from high income families tend to stay on in education and training whether they have achieved a Level 2 qualification at 16 or not.

3.30 Calls for the abolition of means-tested EMAs, which are paid to students rather than parents/guardians from families up to £30,000, are premature. Rather than abolition, the household income threshold should be reduced to, say, £27,500, and payments at 17 should be higher than at 16 to stem the drop-out in further education at 17 despite the recession (see *Raising the participation age – Keeping it on track,* CfBT, April 2009).

Options for savings from adult skills and HE spending

Protecting publicly funded adult skills and higher education

3.31 Under spending plans by the present Labour administration, the new DBIS (which combines DIUS and BERR) will face a real terms cut in spending during 2010/11. The DIUS share of spending by DBIS will face a cut of 2.4% in real terms in 2010/11 whilst the BERR share of spending by DBIS will face a real-terms cut of 24% (see Table 1.13, *Public Expenditure: Statistical Analysis,* HM Treasury 2009).

Table 9: DIUS on adult skills (2009/10) and higher education (2010/11)

DIUS funding of DBIS (1)	DEL Resource	£18.2bn	of which:	
				Higher Education
			£5.3bn	HEFCE teaching **(2)**
			£33m	HE fee grants
			£1.1bn	HE maintenance grants
				LSC (2009/10)
			£1.8bn	adult responsive LSC **(3)**
			£1.4bn	employer responsive LSC Train to Gain £0.92bn Adult Apprenticeships £0.4bn
			£0.2bn	Safeguarded Learning
			£0.1bn	Offender Learning and Skills
			£0.1bn	Adult financial support
	DEL Capital	£2.6bn		
	AME Resource	£0.0bn		
	AME Capital	£5.8bn	of which:	
			£2.6bn	cash cost of HE fee loans **(4)**
			£3.2bn	cash cost of HE maintenance loans
			£40m	Career Development Loans
	TOTAL	**£26.6bn**		

Notes:
(1) Table 1, DIUS Annual Report 2008, May 2008.
(2) Written Answers, House of Commons, 18/2/2008 and 5/6/2008.
(3) Figures for 2009/10 contained in LSC Grant Letter, November 2008. The estimate excludes the £65m cut in HEFCE funding of teaching in 2010/11 announced in July 2009.
(4) Written Answers, House of Commons, 18/2/2008 and 5/62008.

3.32 The focus of this analysis is on the DIUS share of DBIS spending and specific spending on higher education and adult skills. Public funding of undergraduate higher education in England will be at least £12.3bn in cash terms in 2010/11 (see Table 9). Total spending might increase because extra funding for financial support will outweigh the squeeze of HEFCE funding of teaching and learning. Spending on financial support could rise for two reasons. Firstly, more full-time HE students will be taking out fee loans rather than their parents paying fees upfront. And secondly, as parental income falls, full-time HE students will be eligible for a greater share of maintenance support through grants rather than loans. Meanwhile, the squeeze of HEFCE funding is on. In 2010/11, HEFCE funding for teaching will be cut by £65m (out of a total grant of £5.3bn). Furthermore, the 10,000 places in higher education in science, technology, engineering and mathematics subjects available from September 2009 will be funded through reducing the repayment holiday of full-time HE student loans from five years to two years, and other savings within DBIS budgets (*10,000 extra higher education places to help more students go to university this year*, Press Release, DBIS, 20 July 2009).

3.33 Public funding by DBIS on adult skills based on DIUS funding in 2009/10 will be at least £3.5bn. Funding will increase further in 2009/10 as new resources are released for: (i) skills training for adults out of work for six months; (ii) skills training for unemployed 18–24 year olds out of work for 12 months; (iii) additional adult apprenticeships, and (iv) skills training from the Strategic Investment Fund. Resources in 2010/11 for adult skills could receive a further boost if the Labour Government keeps to the commitment of increasing spending on Train to Gain to £1.023bn (as previously planned) assuming no cuts elsewhere in the adult budget.

3.34 On published estimates, public funding of HE is three and a half times greater than adult skills. Increases in HE and adult skills spending in the pipeline will do nothing to close this gap. The critical issue under Labour's plans is whether the commitment to protect education extends to adult skills and higher education. **A rough estimate is that at least £0.8bn additional funding for adult skills and higher education provision and financial support will be required in 2011/12 to avoid a real-terms cut of 2.9%.**

Big ticket items are HE items

3.35 Across adult skills and higher education, the big ticket items are in HE, especially fees/maintenance loans (£5.8bn in cash terms) and HEFCE funding for teaching (£5.3bn). Adult skills funding (£3.6bn) is less than both of these items.

3.36 Relatively speaking, Train to Gain (£0.9bn) is a smaller ticket item. Some have called for the programme to be abolished because it duplicates training that employers would do anyway (see *The Mobile Economy*, Reform, 2008), with the savings used to cut the fiscal deficit (see *Back to black, Budget 2009 paper*, Reform, April 2008). Recently, the National Audit Office concluded that *'the programme has not provided good value for money'* (*Train to Gain: Developing the skills of the workforce*, NAO, July 2009). **Interestingly, both the Conservatives and the Liberal Democrats wish to scrap Train to Gain**, with the former using the money to expand adult apprenticeships (see *Building Skills, Transforming Lives*, Conservative Party, July 2008) and the latter expanding adult FE and adult apprenticeships (see *Investing in Talent, Building the Economy: Policies for Adult Further and Higher Education*, Liberal Democrats, February 2009).

Options for increasing funding from existing HE spending

3.37 HE loans are based on a zero rate of real interest so that the interest rate is equal to inflation. Repayments are made at 9% on earnings above £15,000. The resource cost reflects the cost to the Treasury of the interest subsidy net of repayments. Since HE loans are a big ticket item in cash terms, one option would be to add a commercial rate of interest on HE loans (see Table 10) which Nicholas Barr has estimated would save £1.2bn (*'Top earners gain from student loan "subsidy" as low-paid struggle', Times Higher Education*, 27 March 2008). A second option would be to transform existing HEFCE funding into HE loans as presently operated. Assuming a resource cost of between 25 to 30%, the saving would be between £1.3bn and £1.6bn.

Full-time 17–20 year old HE students the primary source of the savings

3.38 The first point to make in relation to the options in Table 10 is that students will be the primary source of Treasury savings. Under Option 1, it is full-time HE students who will contribute more to the Treasury since HE loans are restricted to full-time students (see Table 11). In fact, under Option 1 it is full-time students starting higher education between 17 and 20 who will contribute more because they outnumber the 21–60 full-time initial HE entrants by six to one. Diagram 5 distributes HE spending in Table 11 by initial entrants according to age and mode, and shows that 76% of all HE spending is on 17–20 full-time HE. Option 2, by contrast, would include savings for the Treasury from part-time students as £0.9bn of HEFCE funding would become fee loans. However, there would remain a gross inequality between full-time and part-time HE students since the entire cost of the regulated fee would be in the form of loans whereas part-time students would receive a loan for the HEFCE part of the fee but pay upfront for the remaining part. Nonetheless, full-time HE students and especially 17–20 full-time HE students would still be the primary source of savings for the Treasury.

Savings to protect spending, rebalance spending or cut the deficit?

3.39 Adding a commercial rate of interest on full-time HE fee and maintenance loans could save £1.2bn. The critical decision is whether savings from increased contributions from full-time HE students should be used to protect spending on adult FE/adult skills and HE. Option 1 would be to protect spending on adult FE/adult skills and HE at a cost of £0.9bn and use the remaining £0.3bn to cut the deficit (see Table 12). **Option 2 would be to use £0.9bn to protect spending in this area but use the remaining £0.3bn to expand and reform adult FE/adult skills and part-time HE.** Option 3 would be to protect spending in this area, expand and reform adult FE/adult skills and part-time HE relative to full-time HE within this budget and use the remaining £0.3bn to cut the deficit.

Abolishing and merging funding councils

3.40 Efficiency savings of £35bn are already included in the fiscal projections contained in Budget 2009 between 2008/09 and 2010/11. The combined savings of DCSF, DIUS and BERR (before the formation of DBIS) is

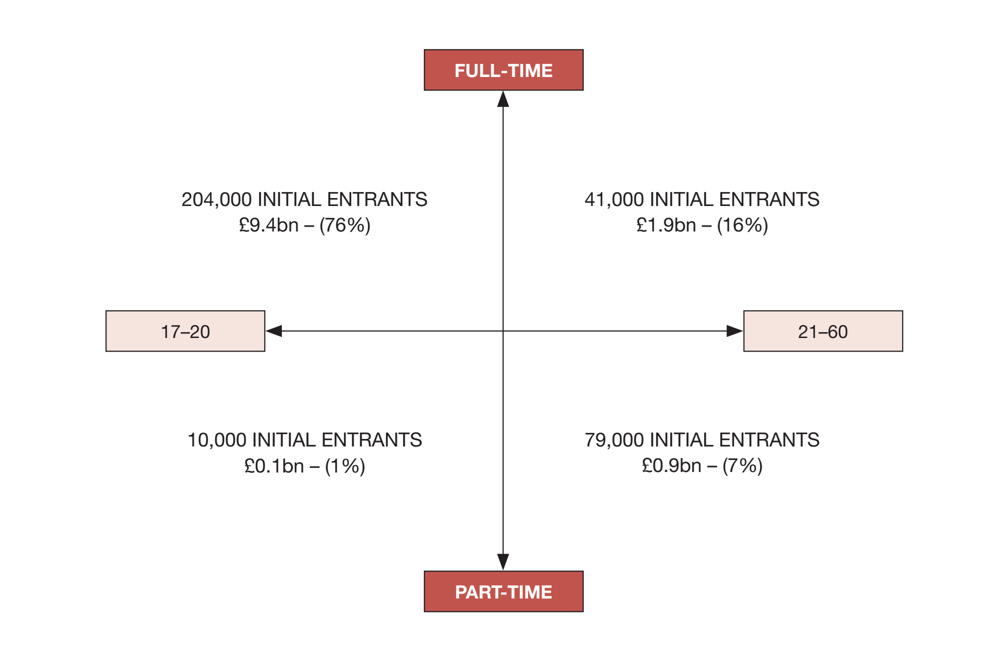
Table 10: Increasing funding from existing HE spending

Option	Saving
Option 1: Add a commercial rate of interest on HE loans with repayment at 9% on earnings above £15,000	£1.2bn
Option 2: Transform HEFCE funding into fee loans at a zero rate of real interest whilst maintaining repayment at 9% on earnings above £15,000	£1.3bn to £1.6bn

Table 11: Estimated Expenditure on Higher Education in England in Cash Terms (2010/11)

	Full-time	Part-time
HEFCE	£4,402m	£905m
Fee Loans	£2,605m	
Fee Grants		£33m
Maintenance Loans	£3,184m	
Maintenance Grants	£1,110m	£15m
TOTAL	**£11,319**	**£953m**

Diagram 5: Estimated HE Funding (2010/11) by Initial Entrants (2006/07) in England



Source: See Mark Corney, Nigel Brown, Mick Fletcher, *Higher Education and the Cuckoo in the Nest – Getting beyond the fixation with full-time study by young people*, Campaign for Learning, December 2008

Table 12: HE and Adult Skills: funding priorities, funding options (2011/12)

Source of savings	
Commercial rate of interest on HE fee/maintenance loans	£1.2bn savings
Cost of Options	
Option 1: Protect spending on existing provision and financial support for adult FE/adult skills and higher education	Cost £0.9bn with £0.3bn savings to cut deficit
Option 2: Protect spending on existing provision and financial support plus expand adult FE/adult skills and part-time HE relative to full-time HE	Cost £1.2bn with no savings to cut deficit
Option 3: Protect spending on existing provision, reform adult skills/adult FE and part-time HE within these budgets and use savings to cut the deficit	Cost £0.9bn with £0.3bn savings to cut the deficit

£7.23bn. Included with these efficiency savings are administrative efficiencies. Some of these administrative efficiencies are based on the abolition of the Learning and Skills Council, and the formation of the Young People's Learning Agency and the Skills Funding Agency. The administrative budget of the LSC in 2009/10 is £210m, funded entirely by DIUS. Information is not available to date over the administrative costs of the YPLA and SFA. The YPLA is expected to be a light-touch funding and planning body. The SFA too was expected to be a funding agency rather than a 'funding and planning' agency but this might change given emphasis of DBIS on skills activism and the re-emergence of Regional Development Agencies in adult skills policy.

3.41 Interestingly, the Treasury has called for a crackdown on quangos, pressing Whitehall departments to assess whether bodies can be abolished, merged or taken back into the civil service. A number of quangos appear to have overlapping remits, including skills. One of the first to come under scrutiny is HEFCE (*'Treasury seeks to light "bonfire of the quangos" to save the taxpayer billions', The Times,* 4 July 2009).

3.42 The Liberal Democrats have proposed the merger of the SFA with HEFCE to form the CASHE (*Investing in Talent, Building the Economy: Policies for Adult Further and Higher Education,* February 2009). Savings in administrative costs might be made from pooling the relevant share of LSC administrative costs of the SFA (part of £210m) and HEFCE administrative costs (£18m), although since the costs of HEFCE are small, overall efficiency gains might be small. More significantly, the creation of CASHE would provide an opportunity to develop a level playing field between the funding of adult FE and higher education (see Mark Corney and Mick Fletcher, *Adult skills and higher education: separation or union?*, CfBT, November 2007), and to join up innovation funding across FE colleges and universities. At £13.3bn (see Table 13) CASHE would be large – comparable to the LSC – but not too large.

3.43 By contrast, the Conservatives have proposed that sixth-form school funding (£2.1bn) should be transferred to local authorities and presumably merged with the Dedicated Schools Grant (£32bn). The remainder of 16–19 LSC funding and adult LSC/SFA funding would form a Further Education Funding Council England (see *Building Skills, Transforming Lives*, Green Paper No.7, July 2008) with resources of around £12.3bn.

3.44 A more radical option would be to merge the FEFCE with HEFCE. **Although this would create a single FE/HE funding council, it would be the mother of all funding councils, with a budget in excess of £19bn.** Even if research and science funding is removed to form a UK-wide research and science funding system, a single FE/HE funding body in England would be managing resources of £17.6bn.

Table 13: Merging funding councils		
Option 1 **Merger of Adult LSC (SFA) Funding with HEFCE**	**Adult LSC (SFA) (2009/10)**	
	Participation Non-participation Capital Administration Sub-total	£4,018m **(1)** £378m £910m **(2)** £210m **(3)** £5,516m
	HEFCE (2009/10)	
	Teaching Research Science and Research Net Capital Administration Sub-total	£5,076m £1,509m £315m £909m £18m £7,827m
	TOTAL	**£13,343m**
Option 2 **Merger of FEFCE with HEFCE**	**16–19 LSC (2009/10)**	
	16–19 FE 16–18 Apprenticeships Entry to Employment Specialist Provision for Learners With Learning Difficulties Extra 16–18 Apprenticeships Budget 2009 Announcement Non-Participation including EMA 14–19 Capital Sub-total	£3,519m £675m £181m £221m £84m **(4)** £251m **(5)** £730m £210m £5,871m
	Adult LSC (SFA) (2009/10)	
	Participation Non-Participation Capital Administration Sub-total	4,018m **(1)** £378m £910m **(2)** £210m **(3)** £5,516m
	HEFCE (2009/10)	
	Teaching Research Science and Research Net Capital Administration Sub-total	£5,076m £1,509m £315m £909m £18m £7,827m
	TOTAL	**£19,214m**

Notes:
(1) Participation total includes extra allocations for skills training for the 6 month unemployed; 18–24 year olds who are unemployed at 12 months; adult apprenticeships; adult safeguarded learning; offender learning, and an estimate of skills funding within the Strategic Investment Fund.
(2) Estimate is for 19+ capital grants and includes extra £300m allocated in Budget 2009.
(3) Estimate is total LSC administration costs and not split between DCSF and DBIS.
(4) Allocation of 16–18 apprenticeships as part of £140m package for an extra 35,000 apprentices.
(5) This figure rises to £404m in 2010/11.

4 2020 Upskilling ambitions: more misses than hits

"According to UKCES, in terms of qualification attainments, England will miss all but the Level 4+ ambition in 2020."

Refreshed ambitions, refreshed upskilling ambitions

Leitch and UKCES ambitions compared

4.1 The UK Commission for Employment and Skills has refreshed the 2020 ambitions initially proposed by the Leitch Review (December 2006). The ambitions have been refreshed in three main ways. Firstly, a five-fold structure for qualification levels has been adopted, namely the proportion of men aged 19–64 and women aged 19–59 with: (i) no qualifications; (ii) qualifications at below Level 2; (iii) Level 2; (iv) Level 3; and (v) Level 4+. Secondly, the ambitions for the UK are differentiated between the four nations but with the ambitions for England corresponding exactly to the UK ambitions (see Table 14). And thirdly, the employment ambition of 80% has been incorporated but the date has been put back to 2020 rather than 2015.

4.2 Yet, the refreshed ambitions remain the same in two critical respects. Firstly, the refreshed ambitions refrain from using the ambitions which Leitch considered would make the UK world class. At Level 2 Leitch suggested an ambition of 95% rather than 90%, and suggested 45% at Level 4+ instead of 40%. Secondly, the refreshed ambitions remain **upskilling ambitions**. They refer to the achievement of a first 'full' Level 2, a first 'full' Level 3 and a first 'full' Level 4+.

Hits and misses by 2020

4.3 Table 14 reproduces the refreshed 2020 ambitions for the UK and for England where appropriate. **According to UKCES, in terms of qualification attainments, England will miss all but the Level 4+ ambition by 2020 and miss the Level 3 and below Level 2 ambitions by a wide margin indeed.** UKCES also projects that the UK will hit the literacy ambition but miss the numeracy ambition. Finally, UKCES projects that the employment rate – defined as employment as a proportion of the economically active – will be missed because the working population will grow faster than employment.

4.4 Importantly, UKCES has calculated the additional number of attainments required to meet the qualification ambitions by 2020 for the UK. Given that 84% of the working age population is in England, Table 14 shows the need for 0.9m more attainments at first Level 2 and 2.9m more attainments at first Level 3 between 2008 and 2020, equivalent to an increase of 69,000 per year and 223,000 per year respectively.

Public spending and the 2020 upskilling ambitions

A faster rate of progress between 2008/09 and 2010/11

4.5 A key criticism levelled at the trajectories prepared by UKCES is that the baseline data is 2007. DIUS responded to the 2009 UKCES report by stating that significant reforms to boost attainment by young people and adults have been implemented since 2007, which increased attainment in 2008/09 (the start of the present spending review period) and will go on increasing attainment to 2010/11 (the end of the present spending review period). Furthermore, specific decisions taken since the start of 2009 will add to such progress, namely: (i) expansion of places for 16–17 year olds in full-time education, E2E and apprenticeships; (ii) expanding Career Development Loans as part of the agenda to increase social mobility (see *New Opportunities – Fair Chances for the Future, Cabinet Office,* January 2009); (iii) expanding adult apprenticeships and offering training subsidies to the six-month unemployed; (iv) offering skills training to 18–24 year olds unemployed for 12 months; (v) skills training funded from the Strategic Investment Fund, and (vi) the fact that spending on Train to Gain is planned to reach over £1bn in 2010/11. It could also be added that public spending on adult skills and HE in cash terms by 2010/11 will exceed £16.3bn (see Table 15).

Funding reforms will not necessarily support upskilling

4.6 Yet, the funding reforms taken before and after January 2009 will not necessarily support

Table 14: The 2020 upskilling ambitions					
	2007 **(1)** **%**	**2020 Ambition** **(1)** **%**	**Projected Attainment** **(1)** **%**	**Hit or Miss?** **(1)** **%**	**Attainment Gap** **(1)** **Number**
UK					
Level 4+	31	40	41	Hit +1	204,000 Above Ambition
Level 3	20	28	17	Miss –11	3,502,000 Below Ambition
Level 2	20	22	19	Miss –3	1,097,000 Below Ambition
Below Level 2	17	6	16	Miss +10	3,385,000 Below Ambition
No Qualifications	12	4	7	Miss +3	1,008,000 Below Ambition
England					**Attainment Gap** **(2)** **Number**
Level 4+	31	40	40	Hit	The same
Level 3	20	28	17	Miss –11	2,942,000 more
Level 2	20	22	19	Miss –3	921,000 more
Below Level 2	18	6	17	Miss +11	2,843,000 more
No Qualifications	11	4	6	Miss +2	846,000 more
UK					
Numeracy (2005)	79%	95%		Miss	
Literacy (2005)	85%	95%		Hit	
UK					
Employment	73.6% (2009)	80% (2015)		Miss	

Sources: Note 1: *Ambition 2020: World Class Skills and Jobs for the UK, The 2009 Report*, UKCES, April 2009.
Note 2: Calculation by author assuming 84% of population of working age in England.

upskilling. Public spending only supports upskilling where it is targeted on the attainment of first Level 2, first Level 3 and first Level 4+ (Level 4 and Level 5+) qualifications. **Indeed, government policy towards firstness is decidedly mixed with no clear rationale.**

4.7 One of the ironies of Labour policy towards firstness is that the principle started life in adult skills funding with a blind eye turned to higher education, and yet today higher education is driven by firstness and flexibility is the name of the game for adult skills. The decision by DIUS to withdraw funding (with some exceptions) by HEFCE from second Level 4 qualifications has re-engineered £50m for full-time degrees and £95m for part-time degrees towards first Level 4 qualifications (see *Modelling of ELQ Changes: Withdrawal of Funding for Equivalent or Lower Qualifications,*

Table 15: Estimate of cash cost of adult skills (2009/10) and HE (2010/11) funding		
Adult LSC Funding		
Adult Responsive		**£1,831m**
Original Allocation	£1,699m	
6-month Unemployed	£83m	
18–24 12-month Unemployed	£49m	
Employer Responsive		**£1,349m**
Original Train to Gain Allocation	£926m	
Original Adult Apprenticeship Allocation	£367m	
Extra Adult Apprenticeship Funding	£56m	
Strategic Investment Fund [Estimate 10/11]		**£125m**
Adult Safeguarded Learning		**£210m**
Offender Learning and Skills Service		**£125m**
Non-Participation		**£378m**
Higher Education		
HEFCE		**£5.307m**
Fee Loans		**£2,605m**
Fee Grants		**£33m**
Maintenance Grants		**£1,110m**
Maintenance Loans		**£3,184m**
Other		
Career Development Loans		**£40m**
TOTAL		**£16,297m**

HEFCE, 11 December 2007). By contrast, the position for adult skills is incredibly confusing. The response to underspends in Train to Gain during 2008/09 has been to relax the firstness principle in 2009/10. Similarly, the firstness principle has not been not rigorously applied to full Level 2 and full Level 3 qualifications delivered in adult FE (£637m in 2009/10) or adult apprenticeship funding (£366m in 2009/10). In addition, the allocations to the adult LSC funding of skills training for unemployed people (£132m in 2009/10) will not be determined by firstness, rightly so as some unemployed people need reskilling rather than upskilling opportunities. **A broad-brush estimate is that £0.7bn of adult funding might be supporting second Level 2 and second Level 3 qualifications excluding funding for adult basic skills.**

Government gets what it pays for

4.8 A casual glance at Table 14 and Table 15 together is illuminating. The only 'qualification level' ambition that UKCES predicts will be hit in England is Level 4+. But the Government will invest £12.3bn to do so and the decision to link public spending on HE to first Level 4 adds to the case that the Level 4+ ambition of 40% could be hit. By comparison, the ambition which UKCES predicts will be missed by miles is the adult Level 3 target. Yet, public spending on adult Level 3 across adult FE, Train to Gain and adult apprenticeships is no more than £0.7bn – and not all of the funding is on first adult Level 3.

Public spending, recession and the 2020 upskilling ambitions

4.9 Recession is shifting the allocation of public funding from the employed workforce – employers and individuals – to the unemployed especially on welfare. If, however, the recession is deeper than expected, economic inactivity as well as unemployment more broadly will increase. As a consequence, employer-based skills strategies will be working with a smaller group of employees to meet the 2020 upskilling ambitions, particularly adult first Level 2 and first Level 3.

Recession, fees, financial support and the 2020 upskilling ambitions

4.10 Public spending on adult skills and HE can be split between tuition and financial support. In terms of adult first Level 2, provision is free but publicly funded financial support is limited and financial support is largely a matter for employers paying wages and individuals using their own income. In terms of 19–24 first Level 3, provision is free but publicly funded financial support is limited. In terms of 25+ Level 3, employers and individuals are expected to contribute to fees of up to 50% on an upfront basis with publicly funded financial support limited. For full-time first Level 4, students contribute to a regulated fee of up to £3,250 per year on a deferred basis via an income-contingent loan, and maintenance support takes the form of a mix of grants and income-contingent loans. For part-time first Level 4, students must pay upfront fees and publicly funded financial support is limited. Fee policy is evolving and will evolve again in the context of the HE tuition review. **Nonetheless, the recession brings into question the extent to which employers and individuals can contribute towards fees and financial support.**

Public spending options and the 2020 upskilling ambitions

Funding the attainment gap

4.11 Unsurprisingly, UKCES refrained from estimating the cost of the upskilling attainment gap in the UK or England. **This is a 'must do' for the 2010 Report.** That said, it would be incorrect to suggest that the entire cost can be borne by the state. Public funding could not bear the brunt of the upskilling attainment gap in a decade of economic calm and so it certainly cannot do so with the prospect of two Parliaments of pain.

Cuts versus re-engineering adult skills and HE spending

4.12 The Labour Government faces tougher choices over publicly funded adult skills and higher education than 0–19 year olds. From the perspective of the 2020 ambitions, policy-makers must look at Level 2, Level 3 and Level 4 in the round. Ministers and officials at the new Department for Business Innovation and Skills will appreciate that the challenge is more than slapping a real rate of interest on full-time HE Loans. **Making adult skills funding work harder is just as important as making HE funding work harder.** And yet, there is a danger that the savings from making adult skills and HE funding working harder will be swallowed up in reducing the fiscal deficit than contributing to the 2020 ambitions.

4.13 By definition, the greater the proportion of public funding for adult skills and higher education is targeted on upskilling, the greater the contribution of public funding towards the 2020 ambitions. Eagle eyes at the Treasury will not miss the fact that around £0.7bn of adult skills funding is available for second Level 2 and second Level 3 qualifications (Option 1 – Table 16). Furthermore, the fiscal deficit implies the taxpayer cannot afford to fund reskilling – other than for the unemployed – despite long-term economic benefits. As a consequence, the Treasury might force the Skills Funding Agency to re-engineer all adults skills funding towards upskilling in the same way as HEFCE has been asked to do so (subject to certain exceptions). Such a policy could be used to prevent a real-terms cut in adult skills and HE funding or to cut the deficit.

4.14 Building on the re-engineering of adult skills funding towards firstness, all adult skills funding at Level 3 would be used to achieve adult first Level 3 qualifications. In addition, public support could take the form of loans, preferably income-contingent loans at a zero rate of real interest. An estimated £340m is spent on adult Level 3 via Train to Gain and Adult Apprenticeships. This would be re-engineered towards adult first Level 3. The state would contribute 50% in the form of ICLs and employers would be expected to pay the remaining 50% upfront. Assuming a resource cost of 50% higher than HE loans because of the lower financial rate of return than first Level 4 qualifications, policy-makers could expand adult first Level 3 provision using the existing £340m because grant funding would become loans funding or fund the same number of adults, making a saving of £170m (Option 2 – Table 16). Slightly more is available for Level 3 in adult FE (£380m) and so with adults paying

Table 16: Public spending options for adult skills and HE to make progress towards the 2020 upskilling ambitions		
Option	**Re-engineer and/or Protect Existing Public Spending**	**Cut Public Spending**
Option 1: Re-engineer adult skills funding on Level 2 and Level 3 to first Level 2 and first Level 3	+£0.7bn	–£0.70bn
Option 2: Re-engineer £340m Adult Advanced Apprenticeship/Train to Gain Level 3 funding towards first adult Level 3 transforming public funding of 50% of the cost into an income-contingent loan based on a zero rate of real interest and the remaining 50% paid upfront by employers	+£0.17bn new provision	–£0.17bn
Option 3: Re-engineer £380m Adult Advanced Apprenticeship/Train to Gain Level 3 funding towards first adult Level 3 transforming public funding of 50% of the cost into an income-contingent loan based on a zero rate of real interest and the remaining 50% paid upfront by adults	+£0.19bn new provision	–£0.19bn
Option 4: Commercial rate of interest on HE fee/maintenance loans	+£1.20bn new provision	–£1.20bn
Gross resources for upskilling or cuts	+£2.26bn	–£2.26bn
Option 5: Protect spending on existing provision and financial support for adult skills and higher education	–£0.8bn	+£0.8bn
Net Resources for upskilling for adult Level 2, adult Level 3 and part-time Level 4 or spending cuts	+£1.46bn	–£1.46bn

50% of fees upfront the move from grants to loans would free up an extra £190m or enable policy-makers to cut spending by a similar amount (Option 3 – Table 16).

4.15 Larger savings, however, could be made in relation to higher education. Applying a commercial rate of interest on HE loans could save £1.2bn per year (Option 4 – Table 16).

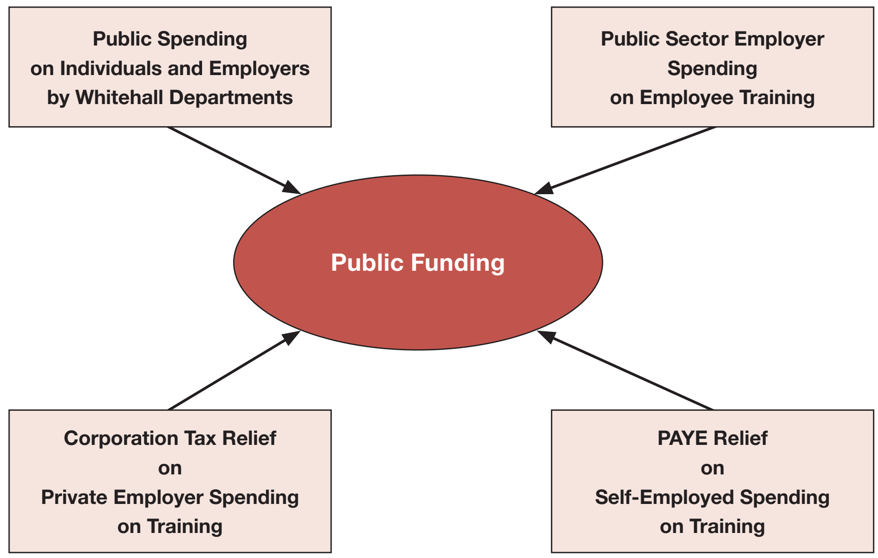
4.16 If policy-makers implemented Options 1–4, around £2.3bn would be available to re-invest in adult skills and HE. Even allowing for extra funding to maintain spending on adult skills and HE in real terms (Option 5 – Table 16), nearly £1.5bn per year would be available to support first adult Level 2, first adult Level 3 and part-time first Level 4 attainments. But if savings are needed to cut the fiscal deficit, **re-engineering existing funding to firstness (£0.7bn) could at least prevent real-terms cuts in adult skills and higher education (£0.8bn) supporting upskilling**.

Different source of public funding

4.17 Public spending on adult skills and higher education to meet the needs of employers and individuals is not restricted to DBIS. Other departments include the Department for Work and Pensions, and the Department for Communities and Local Government. Just as important, however, is the fact that public funding extends beyond public spending on employers and individuals in general (see Diagram 5).

4.18 Another source of public spending is expenditure of public sector employers on the

Diagram 5: Types of public funding



training of their employees. According to the 2007 National Employer Skills Survey, employer funding of training in England (covering provision and wages) was £38.6bn. Over £3.4bn was by central and local government – and £4.4bn was for the charitable/voluntary sector – although spending by central and local government could be much higher. **The critical point to note, however, is that spending by private employers is not £38.6bn but £30.6bn.**

4.19 Public funding extends beyond Whitehall departments and public sector employer spending. Tax incentives also operate. Private sector employers falling within the **corporation tax system** can set off spending on provision and wages for training against its tax liabilities. NESS, however, excludes companies with no employees and sole proprietors. Those businesses which are incorporated could be liable for corporation tax and so training expenditure to meet their business needs can be set against their corporation tax liabilities. Unincorporated businesses operated by self-employed people fall under the **PAYE system** and can set aside the cost of training provision – but not wages – against their PAYE liability.

Beyond public funding to meet the 2020 upskilling ambitions

Private business funding, private individual funding

4.20 Private funding by employers must distinguish between spending by the self-employed and spending by all other employers. In public debate, there is a common misconception that the entire £38.6bn spent by employers on training is by private organisations. This is clearly not the case. Nonetheless, private business funding will be greater than the £30.6bn which excludes public and voluntary employer spending in the sense that spending by the self-employed must be included.

4.21 In addition, there is **individual investment** in adult skills/learning and higher education including spending by self-employed people as individuals rather than businesses. Unfortunately, there is no dedicated official estimate of adult investment in adult skills and higher education, including financial support as well as provision. Estimates from the Expenditure and Food Survey (EFS) are not sufficiently robust to provide a reliable estimate of adult spending on adult skills and higher education, and although estimates can be made using data from the National Adult Learning surveys this is less than satisfactory. **A bespoke survey on individual spending to complement the bespoke survey on employer spending is a critical next step.** In turn, this would begin to fill in the knowledge required to understand total funding of adult skills and higher education (see Diagram 6).

Employer and individual funding does not support the 2020 upskilling ambitions

4.22 Generally speaking, the State funds qualifications – as a whole or in units which are assigned levels – namely Level 1, Level 2, Level 3 and Level 4+. Re-engineering public spending on adult skills and higher education to first Level 2, first Level 3 and first Level 4 will assist progress towards the 2020 upskilling ambitions. **By contrast, employers – private, public and voluntary – do not tend to fund qualifications as a rule, let alone specifically fund first Level 2, first Level 3 and first Level 4 qualifications.**

4.23 For instance, in 2000 41% of employers provided off-the-job training but only 46% of them *'offered some off-the-job training leading to formal qualifications'* (see Table 18, and 39, *Learning and Training at Work*, DfEE/IFF, April 2001). In other words, only 16% of employers provide 'some' off-the-job training linked to qualifications. The Labour Force Survey also reports that less than 7% of employees receive off-the-job training in the last four weeks (see Table 17). **Similarly, individuals do not appear to fund qualifications outside publicly funded provision.** In 2005, only 15% of adults not in continuous full-time 16–69 education were participating in taught learning (which is the only proxy available in the National Adult Learning Survey) (DfEE, 2006).

Survey changes to inform progress to 2020 skill ambitions

4.24 Unfortunately, NESS does not assist in the analysis of employer funding of upskilling and reskilling. To be useful in this respect requires a breakdown of employees by highest qualification level held and the level of employer-supported training, noting the fact that reskilling can occur when an employee has a Level 3, for instance, and seeks a second Level 2 as a learning episode, a

Diagram 6: Total funding on adult skills and higher education

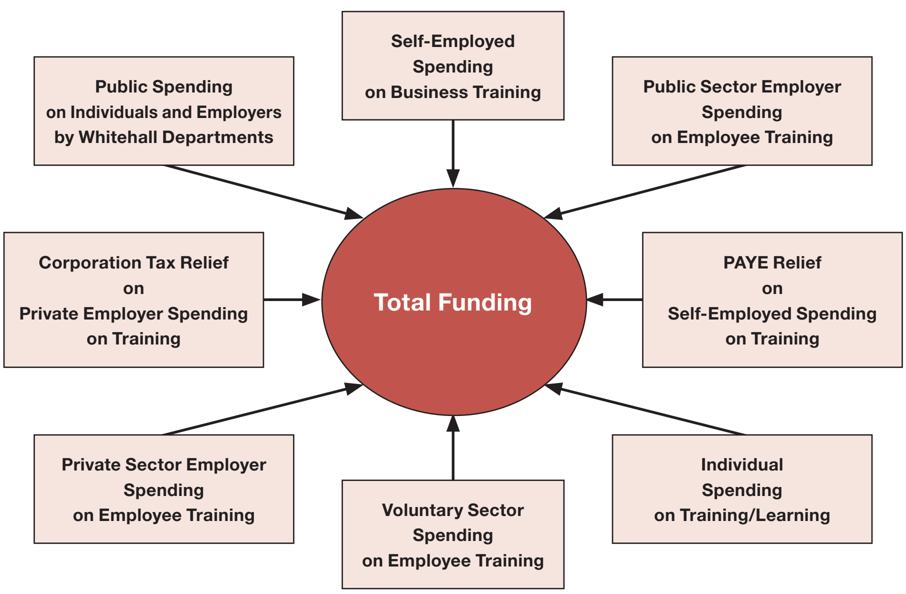


Table 17: Training received by employees in the UK (2007)				
	Proportion offered training by current employer	Proportion receiving off-the-job training in the last four weeks	Proportion receiving job-related training in last four weeks of 1–<6 months' duration	Proportion receiving job-related training in last four weeks of 1–<2 years' duration
Total	70.0	6.4	5.6	8.1
Degree	81.5	9.5	4.1	5.7
Higher Education below degree level	80.9	9.6	4.7	5.5
GCSE/A Level or equivalent	70.0	6.7	4.1	6.6
GCSEs A*–C or equivalent	68.3	5.1	6.4	7.8
Other qualifications	61.6	3.9	6.7	6.7
No qualifications	43.5	1.0	5.0	7.5

Source: Labour Force Survey, Quarter 2, 2007

unit or whole qualification. LFS data on job related training (see Table 17) also does not help with analysis of upskilling and reskilling. Meanwhile, the National Adult Learning survey of individuals needs to differentiate taught learning in a similar fashion.

Co-funding, qualifications reform and the 2020 upskilling ambitions

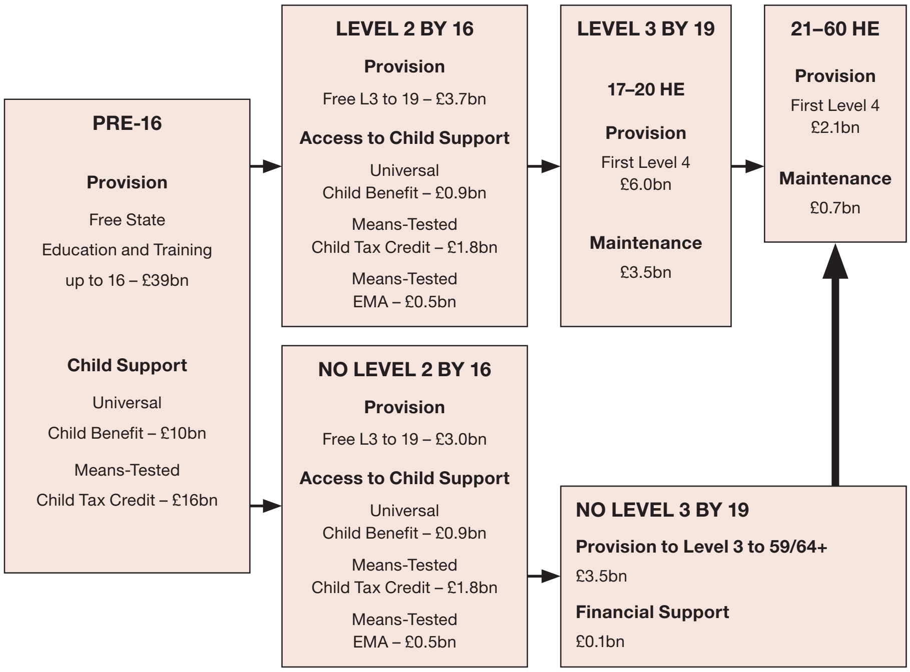
4.25 Co-funding is a key feature of the publicly funded adult skills and HE system. It is central to the cost of provision to first Level 3 for post-25 year olds and first Level 4 – full-time and part-time from any age. In fact, when financial support is included, such as living costs, cost of books, travel and equipment paid by employers or adults this means publicly funded learning is always and everywhere a co-funded proposition. It is hoped, of course, that by giving employers a greater say in the design of qualifications, and transforming publicly support qualifications into unit-based credit frameworks both employers and adults will become involved in co-funding. **Sharing the cost of qualifications is certainly part of the way to create a better qualified workforce. But this is a one-trick pony: securing extra funding other than from the public purse is required.**

Unequal access to skills and the 2020 skill ambitions

4.26 As well as increasing productivity and employment, UKCES argues that achieving qualifications helps to reduce social inequalities. It is well known that access to employer-supported training is positively correlated to the level of qualification held by employees. Although LFS data can say little about whether job-related training supports upskilling or reskilling, it shows that employees with HE/Level 4+ qualifications are more likely to receive job-related training from their current employer and importantly off-the-job training – than employees with below HE qualifications – yet where low qualified employees do receive training it is of longer duration.

4.27 A less well known inequality is access to public funding. Public funding flows on the basis of upskilling, especially **early upskilling by age 20** (see Diagram 7). As a consequence, the allocation of public funding towards upskilling by age 20 is reinforced by employees with Level 4 qualifications receiving employer funded training. **There is double inequality in the access to education and training from 18.**

Diagram 7: Unequal access to public funding



Second chance learning, upskilling and lifelong learning

4.28 The Labour Government has recognised the inequality in public funding between young people entering university and young people entering work at the same age (see Box 4). But there is a difference between second chance learning for upskilling to promote lifelong learning and second chance learning in the form of reskilling to promote lifelong learning.

The current funding settlement for upskilling

Public funding plus voluntarism

4.29 The funding settlement for upskilling is a mix of public funding and voluntarism. The vast proportion of public funding excluding public employer investment is geared towards upskilling. In turn, the public funding of upskilling operates in the context of an essentially voluntary system of employer and

BOX 4: Second chance learning, upskilling and lifelong learning

'Lifelong learning should be supported by fair chances, fair funding and fair rules. A young person who goes to university soon after leaving school will typically have significantly more spent on their lifetime learning than one who goes from school to work.'

'As well as increasing incomes, raising the skills of adults can improve the aspirations and achievements of their children… That's why the Government is committed to offering second, third and fourth chances…'

New Opportunities – Fair Chances For the Future, Cabinet Office, January 2009 adult funding of skills. There is no compulsory system of employer funding of training outside three sectors. And there is no compulsory system of adult funding of skills, unlike other areas of public policy such as pensions.

Voluntarism might not be enough

4.30 The 'public' element of the existing funding settlement for upskilling is under the microscope. Making public spending work harder in the area of adult skills and higher education provides policy-makers with a choice between contributing towards reducing the deficit or re-investing towards the 2020 upskilling ambitions. But even if reform of public funding for adult skills and higher education is used to protect overall skills investment by the taxpayer, **employers and adults will have to do more to meet the 2020 upskilling ambitions**. Voluntarism might not be enough.

5 Funding reskilling: the forgotten agenda

"The 2020 ambitions have been refreshed to include an ambition for employment rates as well as revised skill ambitions."

In the dark

Poor information

5.1 Policy-makers do not know who pays for reskilling and how much is spent on it. Public funding, especially public funding of adult skills, is not differentiated between upskilling and reskilling. Data on employer and individual funding similarly fails to distinguish between upskilling and reskilling. **Across the board information on the funding of upskilling and reskilling needs to be made clear.** The grant letters to HEFCE and the Skills Funding Agency should differentiate between the funding of upskilling and reskilling, and so should data collected from NESS, NALs and the LFS.

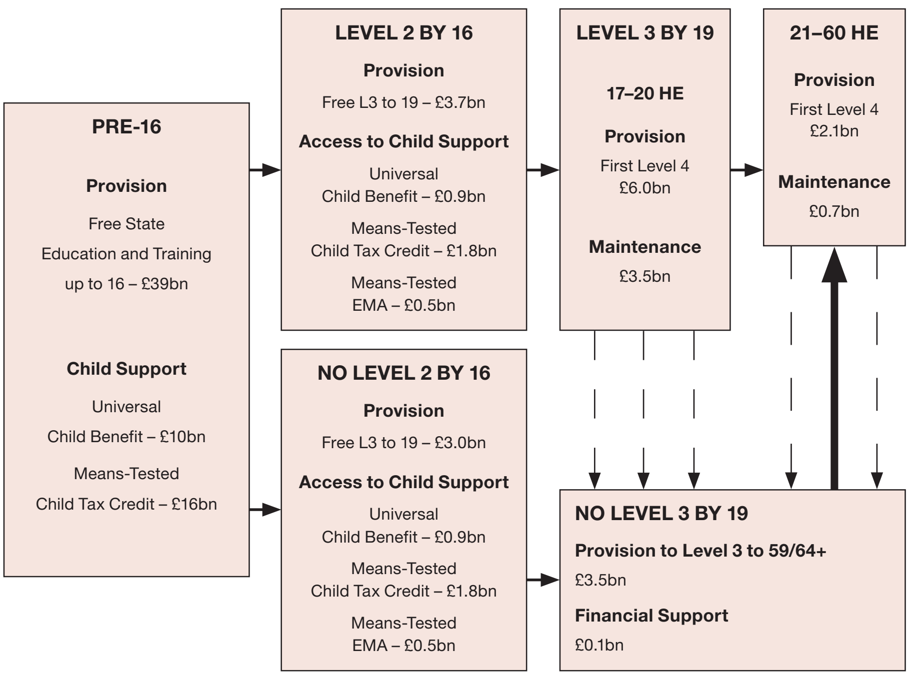
A third contributor to unequal access

5.2 Differentiating public funding of adult skills and higher education between upskilling and reskilling would **quantify** a third contributor to the unequal access to training. Graduates are not barred from accessing publicly funded adult skills (see Diagram 8). Whilst graduates will not in general receive tuition and financial support to achieve a second Level 4, they can receive tuition support to achieve a second Level 2 and a second Level 3 qualification albeit contributing up to 50% of fees.

Reskilling ambitions

5.3 The 2020 ambitions have been refreshed to include an ambition for employment rates as well as revised skill ambitions. Nonetheless, the skill ambitions are upskilling ambitions. No reskilling ambitions have been set. Ambitions, or more precisely targets, can result in refocusing public funding. **To be fit for purpose, the 2020 ambitions must have a set of reskilling ambitions alongside upskilling ambitions.** Refreshing the skill

Diagram 8: Reskilling adds to unequal access to public funding



"...the taxpayer cannot carry the cost of reskilling for all groups in society."

ambitions to include reskilling as well as upskilling ambitions would also encourage policy-makers to reshape surveys to collect and publish data in an appropriate way.

No funding settlement for reskilling

Second chance learning, reskilling and lifelong learning

5.4 The notion of second chance learning is not confined to upskilling. Second chance learning applies to reskilling in addition to upskilling (see Diagram 2 above). But the debate on reskilling seems to be confined to the unemployed as recessionary times return. In fact, reskilling will be required whether adults are in work or out of work, and particularly as the working lives of adults grow longer. Gaining new qualifications – or units of qualifications – to **reskill** will be critical for employability between 2010 and 2020 and beyond. However, the reskilling needs of older workers might require combining a unit at one level – say Level 3 – with a unit at a lower level – say Level 2 (see Diagram 1 above).

Too much for the taxpayer

5.5 Even before the onset of recession and the fiscal crisis, commentators pointed out that the exchequer could not bear the full cost of foundation learning for young people and a lifelong learning system (see Box 5). The distinction between upskilling and reskilling adds to this view. The return of mass unemployment increases the need for reskilling and the State rightly funds the reskilling needs of the unemployed. **Yet, the taxpayer cannot carry the cost of reskilling for all groups in society.**

Too much for voluntarism

5.6 Qualification reform is a necessary but insufficient condition to make reskilling a reality. Greater private funding of reskilling between 2010 and 2020 is inescapable. Voluntarism might not be enough to meet the 2020 upskilling ambitions. Add reskilling into the mix and voluntarism will certainly not be enough. **An explicit funding settlement for reskilling is required.**

BOX 5:	Young before adults and higher education
	'The underlying funding of the system needs to recognise that no national exchequer can afford to bear the full costs of both a foundation learning system for young people and a lifelong learning system serving adults.' *Skills in a Global Economy*, City & Guilds, May 2008

6 Funding upskilling and reskilling: beyond voluntarism

"… the standard response by politicians and mandarins with respect to the funding of adult skills and higher education is to strengthen voluntarism."

Resistance to compulsion

Strengthening voluntarism

6.1 There is a historic resistance to compulsory funding of skills in general and adult skills and higher education in particular. Whereas long-term funding crises and structural change in other areas of public policy such as pensions and social care have resulted in a move from voluntarism to compulsion, the standard response by politicians and mandarins with respect to the funding of adult skills and higher education is to **strengthen voluntarism**. Box 6 sets out a series of options to increase funding for upskilling and reskilling by employers and adults within a voluntary framework.

Tripartite responsibility

6.2 A key step in strengthening voluntarism is the development of a set of **tripartite principles** for the funding of upskilling and reskilling in the second decade of the 21st century (see Box 7). Such a system must build on state entitlements for free first Level 2 from 19 to retirement, free first Level 3 from age 19 to 25 and adult and employer contributions towards the cost of first Level 3 from age 25 and first Level 4. **Even so, tripartite principles will need to extend to reskilling as well as upskilling.**

Financial incentives for employers

6.3 The principal way in which the present Labour Government has attempted to increase employer investment in upskilling linked to qualifications has been through co-funding of adult apprenticeships, NVQs (through Train to Gain) and higher education (through co-funding of HEFCE funding). Another option is training loans for employers, targeted on small firms, to reduce deadweight. Although programmes of this type have existed in the past, the scale has been small.

6.4 However, policy-makers have struggled to devise financial incentives to encourage employers to invest more resources in training in general and more resources leading to

BOX 6:	Voluntary options to increase funding for upskilling and reskilling

A new funding settlement

- Tripartite responsibilities for funding upskilling and reskilling between the State, employers and adults

Financial incentives for employers

- Co-funding of funding council provision
- Small firms training loans
- 100% capital allowances to private employers investing in training facilities

Financial incentives for adults

- A mass system of income-contingent loans for upskilling
- A mass system of career development loans for upskilling and reskilling
- Child Trust Funds encouraged to be used to fund upskilling and reskilling
- Access to a proportion of personal pensions to fund upskilling and reskilling
- A learning tax allowance linked to PAYE

unit-based qualifications system

BOX 7:	Tripartite responsibility for voluntary funding of lifelong learning
	The state, employers and individuals should contribute to the costs of lifelong learning in proportions commensurate with the benefits gained – what is required now is the formal development of those principles into a formal policy, agreed with employers and unions, which sets out who should bear what share of costs for learning at different levels and stages of working life. The time is right for the government to initiate a public debate on these issues, leading to the establishment of a formal protocol of tripartite responsibility for skills and lifelong learning. *Skills in a Global Economy*, City & Guilds, May 2008

qualifications, in particular outside of co-funded adult LSC, and HEFCE-funded provision. Private employers can already set aside the cost of training – provision and wages – against their corporation tax liability. Little more, therefore, can be done on the revenue side for private employers.

6.5 On the capital side, investment in training facilities is eligible for tax relief, in the same way as way as investment in physical capital is treated. To boost physical capital investment sometimes 100% allowances apply. **Allowances of 100% could be extended to training facilities if the distinction between training and non-training capital investment was possible in practice.** For public and voluntary sector employers tax incentives are not an option. Financial incentives would need to take the form of grants which in turn would increase public expenditure.

Financial incentives for adults

6.6 By comparison, there is no shortage of ideas for financial incentives to encourage adults to invest in skills and lifelong learning. They can be grouped into three types, namely those which encourage borrowing for learning, those which encourage the purchase of learning and those which use savings for learning.

6.7 With respect to borrowing, options include **creating a mass system of income-contingent loans for upskilling** – where part-time HE students and adults in full-time and part-time FE seeking to achieve a first Level 3 receive support for fees and living costs. This could be augmented by **creating a mass system of subsidised but mortgage-style Career Development Loans for upskilling and reskilling** – including first Level 5 qualifications and second Level 3 and second Level 4 qualifications (either in the form of whole qualifications or units at Level 3 and Level 4). Both ICLs and CDLs could be used to co-fund adult LSC and HEFCE funded provision or pay for full-cost provision where no funding council subsidies apply.

6.8 In terms of purchasing learning, the Treasury could consider a **learning allowance** linked to PAYE up to a certain amount per year. Once again, income from individuals could be used to co-fund adult LSC and HEFCE provision or unsubsidised full-cost provision. On the savings side, adults could be encouraged to use their **Child Trust Fund to fund adult skills or higher education**. Adults could also be allowed to withdraw a **proportion of any occupational pension for upskilling and reskilling** (above the state pension and pension funding in personal accounts). In both cases, these savings could be used to co-fund adult LSC and HEFCE provision or unsubsidised full-cost provision.

Unit-based qualifications

6.9 Supporters of strengthening voluntarism add to their argument that extra financial incentives should be viewed in the context of the move towards a unit-based qualifications system. Together, they will produce the upskilling and the reskilling revolution the nation needs.

Minimising public expenditure

6.10 From the perspective of adults, co-funding can be a deal between the State and personal funding or a deal between adults and their employer. The ultimate policy objective is to lever in the maximum amount of private funding with the smallest amount of public funding or no public funding whatsoever. In this category is dipping into **pensions to fund upskilling and reskilling** although this would have negative consequences for pension policy.

Individual Learning Accounts

6.11 The practical embodiment of co-funding and tripartite funding is Individual Learning Accounts (see Box 8). ILAs bring together saving for learning (S), borrowing for learning (B), and publicly funded and employer funded entitlements for learning (V) (see: Mark Corney, *Lessons from ILAs.* Institute of Public Policy Research, April 2002).

6.12 In July 2009 support for Individual Learning Accounts was given a shot in the arm by the influential Panel on Fair Access to the Professions (*Unleashing Aspiration: The Final Report*, July 2009). Its main recommendations for **Lifelong Skill Development Accounts** are set out in Box 9. Interestingly, they would become available to all everyone from age 18, with individuals carrying accounts throughout life and include public funding of adult skills – presumably employer-responsive funding (adult apprenticeships and Train to Gain) and adult-responsive funding (adult FE) – and part-time higher education. **For some reason, the Panel on Fair Access to the Professions believed personal empowerment and vouchers are**

BOX 8: Voluntary funded Individual Learning Accounts

ILA = S + B + V

where: S is saving

B is borrowing

V is virtual funding, released at the point of purchase, managing state funding entitlements and/or employer contributions

BOX 9: Lifelong Skill Development Accounts

Principles

Accounts would be available from the age of 18.

Individuals would carry accounts throughout life.

Clear individual entitlement, with accounts worth up to £5,000 for all post-compulsory education and training (post-18).

Co-funding, with individuals and employers able to co-fund training packages.

Personal empowerment, with the accounts maximising individual power and control in choosing appropriate training.

Moving towards a more demand-driven model of training which could:

- give learners an individual budget, which they could redeem for different courses and different providers, and combine more flexibly with their own or their employer's contribution
- provide a flexible entitlement, for example including apprenticeships, professional qualifications, and use of units of higher education part time
- be tied to the individual learner number, so that a person could carry the learning entitlement throughout life.

Flexible professions: new opportunities for career progression, Unleashing Aspiration, Final Report of the Panel on Fair Access to the Professions, July 2009, Chapter 9

needed everywhere except for full-time higher education funded by HEFCE. Three months later, in September 2009, the *Inquiry into the Funding for Lifelong Learning* also called for a national system of voluntary funded Individual Learning Accounts available from age 25 (*Learning Through Life*, NIACE). Although HEFCE funding of full-time 25+ HE students would be part of the ILA system alongside part-time 25 HE students, full-time 17–24 year olds funded by HEFCE – and especially full-time 17–20 year olds which are the largest group of initial entrants into higher education – would conveniently fall outside this approach.

The myth of costless entitlements

6.13 Worryingly, the Panel on Fair Access continues to promote the myth of costless publicly funded entitlements. Routing publicly funded adult skills and HE through an account mechanism – or more precisely V of ILAs – can increase personal empowerment. **However, no additional private funding is necessarily levered in.** Furthermore, there is a world of difference between routing existing levels of public funding for adult skills and higher education through V of an ILA and giving everyone over the age of 18 an entitlement to public funding up to £5,000. The potential cost to the Treasury would be enormous if adults decided to exercise their entitlement. **It appears that the Panel of Fair Access has forgotten that the public purse is empty. What is needed is an accounts system which can guarantee extra private funding towards adult skills and higher education.**

Co-funding and tripartite funding

6.14 ILAs which solely manage publicly funded entitlements via V are in effect an empowerment mechanism over publicly funded adult skills and higher education. Only if S and B come into play are private contributions levered in from adults, and only if employers release funds at the point of purchase – also via V – are employer resources levered in.

6.15 ILAs can be a mechanism to facilitate co-funding between individuals (S and B) and the State (V). They can facilitate co-funding between the State (V) and employers (V) although adults would ultimately decide on the training to be undertaken. And they can facilitate co-funding between adults (S and B) and employers (V), as well as tripartite funding between the State (V), individuals (S and B) and employers (V).

6.16 In short, Individual Learning Accounts represent the holy grail of tripartite funding for skills between the state, individuals and employers. Moreover, it is the combination of additional fiscal incentives, a unit based qualifications system and a universal system of Individual Learning Accounts which supporters of strengthening voluntarism believe will deliver the upskilling and reskilling revolution.

Increasing Private Funding

6.17 To its credit, the Inquiry into the Future for Lifelong Learning recognised the need to increase private funding of adult education and skills to co-fund state entitlements – where fees and financial support are not fully subsidised – or fund learning where no public subsidies exist. The Inquiry recommended that Child Trust Funds and Career Development Loans should be linked to ILAs. The former is a match-savings vehicle between State and parents. The latter is a subsidised borrowing vehicle for adult learners. Yet, the combined total of Treasury funding for CTCs (£500m) and CDLs (£25m) is nowhere near sufficient to lever in the millions of pounds from adults to funding upskilling and reskilling in the 21st century.

A National Learning Bank

6.18 The management of voluntary funded **adult** Individual Learning Accounts would be down to a National Learning Bank (see Box 10). It would be formed out the merger of the SFA and HEFCE, include the Student Loans Company, and financial institutions managing Career Development Loans, and would offer saving for learning products.

The cost of voluntarism

Additional public spending

6.19 The pursuit of a strengthened system of voluntarism based on extra fiscal incentives for individuals and employers will not be costless to the taxpayer. Loans for lifelong learning will incur additional public spending, and tax breaks to encourage saving for learning or

BOX 10:	A National Learning Bank
	A public authority, known as the National Learning Bank, should be set up to manage the learning accounts that will be created, with retail banks and other financial institutions being invited to handle transactions and supplying services to account holders. By age 18, every individual would have an account within the National Learning Bank which would be available to individuals for the immediate or future purchase of education and training, whether in higher or further education. The National Learning Bank could provide a powerful stepping stone both to more equitable funding between further and higher education and between those who have been to university and those who have not. Proposal 2: *The National Learning Bank. A Manifesto for Skills: five policy ideas,* City & Guilds, May 2008

purchasing learning will cost the taxpayer lost revenue and show up as a higher fiscal deficit.

No guarantee of private funding on the scale required

6.20 It would be churlish not to concede that the combination of additional financial incentives, especially a mass system of income-contingent and career development loans, a unit-based qualifications system and a universal system of voluntary funded Individual Learning Accounts will not make some progress towards upskilling and reskilling Britain. But with public spending for upskilling under threat, public funding for reskilling limited, and incentives for saving and borrowing for learning likely to miss low-paid workers, fiscal incentives will not guarantee the level of private funding on the scale required. **Compulsory funding is the only answer.**

7 Funding upskilling and reskilling: beyond old forms of compulsion

"Thinking about compulsory funding of adult skills and higher education is stuck in a debate over compulsory funding by employers."

Old thinking, old models

Compulsory employer funding

7.1 Thinking about compulsory funding of adult skills and higher education is stuck in a debate over compulsory funding by employers. This is because policy-makers have, by and large, framed the problem of funding skills in terms of employers only and especially private employers (see Box 11). One type is **spatial levies**, which can be administered nationally or regionally, with employer funding collected into a central fund and allocated by an appropriate agency. A second type is **sector levies** which usually take the form of levy-grant systems – where a sector body collects levies from all employers and distributes the funds back to some but not all employers in the form of grants, and levy-grant-exemption systems – where employers are exempt from a levy if they can demonstrate they are investing the same proportion of the levy in training. At present, three sectors operate levies, two of which are levy-grant systems.

7.2 Historically, compulsory employer training levies were aimed at increasing employer funding of young apprenticeships. Over time, they were extended to cover adult and young employees. The shift to a publicly funded system of 16–18 apprenticeships, the rise of adults skills as a discrete policy issue and limits on public funding of adult apprenticeships prior to the present recession have meant the debate on compulsory employer training levies has been located in the adult skills sector. Even so, the massive expansion of higher education and the perceived benefits of higher education have also resulted in occasional interest amongst HE policy-makers in a compulsory employer higher education levy.

7.3 In the second decade of the 21st century an appropriately framed compulsory employer levy debate would consider adult skills and higher education in the round, designed to support upskilling and reskilling. Politically, however, the problem with compulsory employer training levies is that they are perceived as **taxes on business**. They focus on the contribution of one stakeholder in the funding of training. And since employers or employer bodies control the distribution of funding, levies could reinforce the divide in upskilling and reskilling between high-qualified and low-qualified employees.

Compulsory employer and individual funding models

7.4 Achieving a fairer distribution of employer training between high-qualified and low-qualified employees has been a key rationale for compulsory funding of ILAs (see Box 12).

BOX 11:	Compulsory employer funding options	
	Type 1: Spatial levies:	National Employer Levies Regional Employer Levies
	Type 2: Sector levies:	Sector Levy-Grant Systems Sector Levy-Grant-Exemption Systems

BOX 12:	Compulsory funding of Individual Learning Accounts
	Type 1: Compulsory employer funding of ILAs
	Type 2: Compulsory joint employer/employee funding of ILAs

Once again, there are two types. Type 1 is based on compulsory employer funding of ILAs where all employees have an amount to spend on training, usually related to business needs and delivered by recognised providers. Type 2 is compulsory joint funding of ILAs by employers and employees. **In addition to being perceived as a tax on business, compulsory joint funded ILAs were viewed as a tax on low-paid employees** (see Mark Corney and Peter Robinson*, Called to Account: are compulsory Individual Learning Accounts a wheeze or a nightmare?* Unemployment Unit, January 2006). By definition, flat-rate amounts or percentages of wages or national insurance contributions would affect low-paid employees more than highly-paid employees.

Moves towards compulsion

A tax on business, a tax on the low paid

7.5 Development of a national system of **voluntary** funded Individual Learning Accounts emerged as a politically viable option during the last decade of the 20th century and the first decade of the 21st century, given the charges against compulsory employer training levies and compulsory funded ILAs (see Mark Corney, *Individual Learning Accounts for All, FEdS/* MC Consultancy, April 2000). And yet, in the build-up to the publication of the final report of the Leitch Review (December 2006) speculation over compulsion was rife.

Compulsion before and after Leitch

7.6 Contrary to informed opinion, the Leitch Review **did** propose compulsion in the education and skills system as part of the recommendations to increase upskilling. But compulsion was proposed in the area of young people – in the form of raising the participation age in England – rather than in the area of adult skills and higher education. As ever, the needs of young people trumped the needs of adults. Whilst the Leitch Review promised legislation to support the RPA – which found its way into the 2008 Education and Skills Act – it only promised a review in 2010 of whether statutory intervention would be needed to increase achievement by adults of adult basic skills and first Level 2 qualifications.

Lessons from employee rights

7.7 In fact, statutory intervention in adult skills and higher education came much sooner than imagined. Gordon Brown became Prime Minister on 27 June 2007. Within a year, his premiership needed a revamp. In May 2008, statutory intervention in adult skills and higher education was announced as part of the draft legislative programme (which has become the forerunner to the Queen's Speech). **But the Labour Government looked for inspiration to employee rights rather than skills policy.**

7.8 In response to work-life balance, Labour introduced a new statutory right for employees to request flexible working combined with a statutory duty on employers to consider requests for flexible working as part of the 2006 Employment Act. Crucially, employers almost have an opt-out because they can refuse to offer flexible working if, after going through a statutory process, employers state that time away from the workplace will harm the business.

7.9 As part of the draft legislative programme, in May 2008 the first and only Secretary of State of DIUS, John Denham, announced a new **statutory right for adults to request time off for training** based on the 'right to request and duty to consider' principle (see *Legislative programme promises a better trained workforce, greater opportunity for young people and adults*, DIUS Press Release, 14 May 2008). The new right is set out in Clause 39 of the 2009 Apprenticeship, Skills, Children and Learning Bill.

7.10 Before the latest machinery of government changes, BERR was responsible for employment law and DIUS was responsible for adult skills and HE. The formation of the new Department for Business Innovation and Skills has been explained, in *New Jobs, New Industry* published in April 2009, as the institutionalisation of the joint working between BERR and DIUS. In fact, joint working between BERR and DIUS can be traced back to Clause 39 of the 2009 Apprenticeships, Skills, Children and Learning Bill.

An adult employee upskilling and reskilling measure

7.11 Originally, the idea of a statutory right to request time off for adult training came from the

"The statutory right to request time off for training is an adult upskilling and reskilling measure."

adult skills stable or more specifically the adult first Level 2 stable. However, the statutory right to request time off for adult training is not limited to adult basic skills or adult first Level 2 qualifications. It extends to adults seeking Level 3 and Level 4 qualifications, and it extends to adults seeking second Level 2, second Level 3 and second Level 4 qualifications. **In short, the statutory right to request time off for training is an adult upskilling and reskilling measure.**

A political consensus on time

7.12 Two further points must be made about the statutory right to request time off for training. Firstly, it is UK-wide rather than England-wide (although in England alone it will cover 22m employees). And secondly, Labour, the Conservatives and the Liberal Democrats supported the statutory right to request time off for adult training during the second reading and committee stage of the Apprenticeships, Skills, Children and Learning Bill in the House of Commons. **Hence, there is a UK-wide consensus over the statutory right to request time off for adult upskilling and reskilling.**

7.13 And yet, it has not gone unnoticed by members of the education and skills community that there is an asymmetry between time and funding. The right to request time off for adult training supports upskilling and reskilling but the current funding system does not (see Box 13). **The challenge is to devise a funding system for upskilling and reskilling alongside the statutory right to request time off for upskilling and reskilling** (see Table 18). Again, policy-makers need to look elsewhere than skills policy.

BOX 13: Funding and the right to request time off for training

AoC strongly supports the Government's proposal in Clause 39 to allow staff to ask for time off to study or train. Subsection (3) of new Section 63E of the Employment Rights Act 1996, which this Clause amends, says that it is not essential that the training lead to the award of a qualification of any sort. We welcome this and note the different approach taken to funding for post-19 learning which is primarily restricted to level 2 and 3 qualifications and those of a higher level than already achieved.

Paragraph 28, Association of Colleges, Memorandum to the House of Commons' Apprenticeships, Skills, Children and Learning Bill Committee, March 2009

Table 18: Statutory proposals for time and funding

	Proposal	Upskilling	Reskilling
Time	A statutory right to request adult training	Yes	Yes
Funding	?	?	?

8 Lessons from pension policy, lessons from social care policy

"Labour has constructed a new settlement for the funding of pensions based on compulsion."

Compulsory funding of pensions

Compulsory funding under Labour

8.1 In their first term (1997–2001), Labour's principal reform was the introduction of the National Minimum Wage. In their second term (2001–2005), Labour increased employer and employee National Insurance contributions by one percentage point on all earnings to fund the National Health Service (raising £8.3bn per year from 2005/06). And in their third term (2005–2010), Labour passed legislation to increase compulsory funding of pensions by employers and adult employees from 2012.

A new balance between the State, employers and individuals

8.2 Labour has constructed a new settlement for the funding of pensions based on compulsion. The basis of the new settlement was the ideas proposed by the independent **Pensions Commission** in 2005 (see *A New Pension Settlement for the Twenty-First Century*). The independent commission made recommendations for equalising the state pension age, reform of the state pension and most importantly for increasing private saving for retirement amongst those on low and moderate incomes. Crucially, the Pensions Commission concluded that a voluntary framework for increasing private savings for retirement by those on low to moderate incomes would be insufficient to meet the challenge. **Compulsion would be required, albeit based on a set of new principles.**

Soft compulsion

8.3 The Government and the main opposition parties accepted the proposals of the independent Pensions Commission. John Hutton, Secretary of State for Work and Pensions, announced that *'A new balance must be struck between State, employers and individuals to share the responsibility to save and provide for the future'* (*Security in Retirement: towards a new pensions system*, DWP, May 2006).

8.4 Employers must open and contribute to an occupational pension scheme or contribute to **personal pension accounts**. Central to personal pension accounts is the principle of tripartite funding between employers, individuals and the State, with employers contributing 3%, employees contributing 4% and the State contributing 1% in the form of tax relief on employee contributions (see Box 14 and Box 15).

8.5 Employers will be obliged to contribute to personal pension accounts where adult employees decide to contribute. This is the so-called national minimum employer contribution. The Government stated that *'This is not a decision that has been taken lightly but we have been convinced that an employer contribution has two main advantages: it increases participation rates – driving down costs and helping more individuals to build up savings, and it makes saving more attractive – increasing the incentives to save and making savings decisions more straightforward* (page 69, *Security in Retirement; towards a new pension system,* DWP, May 2006).

8.6 Every adult employee will be auto-enrolled into either an occupational pension or a personal pension account. In terms of personal pension accounts, however, employees will have the right to opt out from contributing to them. **This is the principle of soft compulsion.**

A National Delivery Authority

8.7 Personal accounts will be overseen by the **Personal Accounts Delivery Authority** established in the 2007 Pensions Act. Subsequently, the 2008 Pensions Act broadened the remit of the PADA to enable it to establish the infrastructure for the personal account scheme. In January 2009, PADA issued a procurement prospectus for administration of personal accounts.

BOX 14:	Increasing greater private saving for pensions from April 2012

Personal 'Pension' Accounts

A new scheme of personal accounts will provide a straightforward opportunity to contribute to high quality, low-cost savings vehicle for those without an occupational or private pension.

Auto-enrolment

All employees will be automatically enrolled into the new personal account or their employer's occupational pension.

Tripartite funding

Funding will be based on the primary national insurance thresholds (which were £5,435 and £36,000 in 2008/09).

Employees will contribute 4 per cent of this band of earnings.

Employers will make minimum matching contributions of 3 per cent of the same band of earnings.

A further 1 per cent will be contributed in the form of normal tax relief (although the 1 per cent figure represents basic rate tax relief and some individuals might be entitlement to higher rate tax relief).

Soft compulsion

Employees will be able to opt out of this provision, in which case the employer would not contribute.

Non-employees

Non-employees, including the self-employed and non-workers will be able to opt into the scheme.

Support for employers

There will be support for all employers during the introduction of compulsory employer contributions:

- the contribution rate will be set out in primary legislation to create stability;
- their contributions will be phased in over a three-year period at a rate of 1 per cent per year.

Security in Retirement: towards a new pensions system (DWP, May 2006), and *Personal accounts, a new way to save* (DWP, December 2006)

Design, costs and impact

8.8 Policy-makers have gone out of their way to make the minimum employer contribution and soft compulsion work. Employers have a choice between auto-enrolment in occupational schemes and personal pension accounts. Although every employer – irrespective of size and sector – not offering an occupational scheme would fall within personal pension accounts, the minimum employer contribution would be phased in at 1% in 2012 rising to 3% in 2014.

8.9 The Government estimated that the cost to employers would be £2.6bn in 2004/05 prices depending upon employee opt-out rates and earnings levels. More specifically, the cost would be £300m for employers with 1–4 employees; £900m for those with 5–49 employees; £400m for those with 50–249 employees and £1,000m for 250+ employees. Employers would be expected to set up 6.7m personal pension accounts in the steady state.

BOX 15:	Specific features of personal pensions accounts

Employers

All employers irrespective of size of organisation fall within the scope of the scheme.

Employer contributions will be phased in with employer and employee contributions of 1% from 2012; employer and employee contributions of 2% and 3% from 2013, and employer and employee contributions of 3% and 5% from 2014 (with the employee contribution including basic rate tax relief).

Employees

Employees from age 22 will be auto-enrolled into the scheme. 16–21 year olds will be able to opt into the scheme on a voluntary basis.

Self-employed

Self-employed can voluntarily open a personal pension account.

Economically inactive of working age

The economically inactive can voluntarily open an account.

Maturity at 75

The personal pension account must mature by the 75th birthday in line with other defined pension schemes.

Transferability

The personal pension account remains with a central administrator as people move from job to job, and in and out of the labour market during their working lives and beyond until their 75th birthday.

Accessing personal savings

Pension income cannot be accessed before the age of 55.

Up to 25 per cent of the fund can be taken as a tax-free lump sum.

If an individual dies before reaching age 75 without accessing their savings, a further pension or lump sum will be payable to their dependants.

Maximum contribution

The maximum total contribution is £3,600 per year which will be reviewed in 2017.

Security in Retirement: towards a new pensions system (DWP, May 2006), and *Personal accounts, a new way to save* (DWP, December 2006)

8.10 In addition, the Government has attempted to minimise administrative burdens on employers. For instance, auto-enrolment starts at age 22. The argument to start at age 22 has very little to do with the fact that the main activity of a large proportion of 18–21 year olds is full-time education. Part of the reason is that job turnover is significant. Although the personal pension account is transferable between employers, high levels of job turnover would mean employers collectively would be starting and ending contributions a large number of times.

8.11 Economic theory suggests that the main mechanism through which employers will pay for the additional pension contributions is lower wage increases. Other options include absorbing the cost through higher prices or lower profits. During the debate on the principle of personal accounts, which took place in a mindset of economic stability, the Government accepted that employers would use a mix of such strategies.

8.12 Of course, employers would be unable to lower wages in response to the minimum employer contribution for employees on or near the National Minimum Wage (NMW). So that the NMW did not cause youth unemployment, a lower youth rate applies to 18–21 year olds. Another reason that the starting age is 22 and not 18 or for that matter 21 is partly because of administrative simplicity – the adult rate of the NMW begins at 22 – and because extra employer contributions should not adversely affect 18–21 employment rates. However, the Government has asked the Low Pay Commission to take into account increases in the adult NMW on employer contributions to personal pension accounts relative to cutting labour costs.

8.13 All of these measures have been taken in an attempt to avoid the minimum employer contribution being perceived as a tax on business. At the same time, the opt-out available to employees will, at the margin, reduce the impact on businesses, since employees worried about their jobs because of the extra cost from the minimum employer contribution can decide not to participate in pension accounts.

8.14 In 2006, the Government estimated that 10.8m would be eligible for enrolment in personal pension accounts. Depending upon expansion of employer pensions, use by the self-employed, those aged 16–21 on a voluntary basis and opt-out rates, around 7m personal accounts might be opened.

8.15 Employees would contribute around £2.6bn in matched contributions to employer payments depending upon earnings levels and opt-out rates. However, the Government has gone out of its way to make the costs manageable. Tax relief is available at the standard rate and the higher rate depending upon any changes more generally to higher rate tax relief on pension contributions. A starting age of 22 should protect jobs from the minimum employer contribution as will the opt-out for adult employees. **Fundamentally, the right of employees to opt out avoids the charge that the matched employee contribution is a tax on the low paid.** In addition, the use of the lower limit for national insurance contributions also protects the very low paid, although they and the economically inactive can still contribute to personal pensions accounts and receive tax relief.

In time for the recovery

8.16 Personal pension accounts were designed during a period of economic stability and under an assumption that they would be rolled out at a time of future economic stability. Even in the context of future economic stability, the Labour Government judged that employer contributions needed to be phased in between 2012 and 2014 rather than introduced at 3% from 2012. Recently, the decision has been taken to phase in contributions to personal pension accounts between 2020 and October 2016 (*'Flagship pension scheme delayed', Financial Times*, 25 September 2009). Part of the reason is the operational risks associated with managing such a large number of accounts. Equally, a longer phasing-in period reflects the need to give employers and adults the opportunity to make contributions as the economy hopefully moves into a period of increasing economic growth. On the other hand, the Conservatives have said they intend to conduct a 'fast and dirty' review of personal pension accounts – not to start from scratch but to tweak the architecture of the proposed system (*'Tories propose fast review of new pensions', Financial Times*, 28 September 2009).

Compulsory funding of social care

Unfinished business

8.17 Reforming social care is considered to be unfinished business since the Welfare State was established under Labour after the Second World War. In July 2009, the Labour Government published a Green Paper, *Shaping the Future of Care Together,* to start a national debate on social care.

Options ruled out

8.18 In the current system of social care, people with the highest needs and the lowest means get some help through the social care system. Some people are also eligible for help through disability benefits. The cost of the former is around £14.7bn and the cost of the latter around £6.1bn. Attendance Allowance is the main disability allowance for those aged over 65. It is not paid to replace lost income but to contribute to the extra costs of living independently. But Attendance Allowance is not means-tested and is paid regardless of how well off older people are. **The Green Paper rules out the current funding system because there is insufficient taxpayer funding to meet current and future needs.** Demand for social care is growing and pressure on the non-means-tested Attendance Allowance is mounting.

8.19 As well as ruling out the status quo, the social care Green Paper rules out two further options (see Box 16). The first option ruled out is **pay for yourself**. The Labour Government has ruled this out because it would *'leave many people without the care and support they need, and is fundamentally unfair because people cannot predict what care and support they will need'* (see *Executive Summary, Shaping the Future of Care Together,* July 2009). The second option to be ruled out is **tax-funded** typically based on an increase in national insurance contributions paid by employees. Intriguingly, the Green Paper rules this option out not because it would represent a tax on low-paid employees but because it would *'place a heavy burden on people of working age'* (see *Executive Summary, Shaping the Future of Care Together,* July 2009).

Options for consultation

8.20 Each of the options for consultation is predicated on giving a share of the existing Attendance Allowance budget to everyone (see Box 17). Option 1, the partnership model, leaves individuals to make provision to fund their basic care and support costs above their share of Attendance Allowance funding. Option 2, the insurance model, builds on Option 1 by encouraging individuals to cover their basic care and support costs above their share of attendance allowance funding through **voluntary insurance**. Option 3, the comprehensive model, would require everyone over retirement age to pay into a **compulsory state insurance scheme**.

Lessons and opportunities

Pensions, not social care, should be the inspiration for skills

8.21 In the world of Labour, compulsory tax-funding has been ruled in for pension policy but ruled out for social care policy. The rationale is

BOX 16:	Funding options for social care ruled out
	Pay for Yourself: In this system, everybody would be responsible for paying for their own basic care and support, when they needed it. They could take out insurance to cover some of these costs, or use their income and savings. **Tax-funded:** In this system, people would pay tax throughout their lives, which would be used to pay for all the people who currently need care. When, in turn, people needed care themselves, they would get all their basic care free. This system would work for people of all ages. *Shaping the Future of Care Together, Building Britain's Future,* HM Government, July 2009

BOX 17:	Funding options for social care

***Option 1*: Partnership**

In this system, everyone who qualified for care and support from the state would be entitled to have a set proportion – for example, a quarter or a third – of their basic care and support costs paid for by the state. People who were less well-off would have more care and support paid for – for example two thirds – while the least well-off people would continue to get all their care and support for free.

***Option 2*: Insurance**

In this system, everyone would be entitled to have a share of their care and support costs met, just as in the Partnership model. **But this system would go further to help people cover the additional costs of their care and support through insurance.**

***Option 3*: Comprehensive**

In this system, **everyone over retirement age who had the resources to do so would be required to pay into a state insurance scheme**. Everyone who was able to pay would pay their contribution, and then everyone whose needs meant that they qualified for care and support from the state would get all of their basic care and support for free when they needed it.

Shaping the Future of Care Together, Building Britain's Future,
HM Government, July 2009

two-fold. Everyone can expect that they will reach retirement age and so the burden of saving must take place during working age. By contrast, not everyone can expect to have basic care and support needs for a sustained period after retirement and so the burden of making provision should fall after retirement.

8.22 Lying behind the decision to rule out **tax-funded** social care were certainly concerns that a compulsory hike in employee national insurance contributions would represent another **tax on low-paid workers**. Yet, the principle of soft compulsion developed in pensions policy can mitigate this problem to a certain extent.

9 From personal pension accounts to personal skill accounts

"Unlike personal pension accounts, all adults should have a personal skill account."

More than a carbon copy

Key principles for personal skill accounts

9.1 The design and operation of personal pension accounts can offer Westminster and Whitehall a way forward for increasing private savings for upskilling and reskilling. Nonetheless, a carbon copy will not work for personal skill accounts. Box 18 sets out some key principles for the policy design and operation of personal skill accounts.

Accounts for all

9.2 Unlike personal pension accounts, all adults should have a **personal skill account**. In the world of pensions, the existence of occupational and private pensions mean employers can choose between continuing with these schemes or using personal pension accounts. In the world of skills, the number of individual skill accounts is tiny and choice between different forms of personal skill accounts is not an issue.

Soft compulsion

9.3 Funding into personal skill accounts would be made on a tripartite basis, with contributions from employers, adult employees and the taxpayer. All adult employers would fall within the scope of making contributions to personal skill accounts. All adult employees would be automatically enrolled by their employer into making contributions to personal skill accounts (PSAs). However, adult employees would be able to opt out of making contributions to PSAs, in which case the employer would also not contribute. **This is the so-called soft compulsion principle applied to skills policy and would help employed graduates already repaying HE loans.**

Compulsory contributions from 22

9.4 A critical issue is the age at which compulsory tripartite payments should be made into PSAs compared with PPAs. Given that the analysis over the interaction between the national minimum wage and employer payments into PPAs resulted in a starting age of 22, the same should apply to PSAs. Arguments bolstering this judgement include the fact that a large proportion of 16–21 year olds are full-time students, some of whom have part-time jobs and could be earning above the lower NI threshold, and the fact that pension contributions by employers could cut across employer funding of 16–21 apprenticeships.

Voluntary contributions until 22

9.5 Although policy-makers in the world of pensions have been worried about applying the principle of soft compulsion for pensions to under-22 year olds, they have wanted to encourage 16–21 year olds in work to save for retirement. As a consequence, 16–21 year olds can opt into tripartite contributions into PPAs on a voluntary basis. The same principle should apply to personal skill accounts.

Accounts from the 18th birthday

9.6 Yet, this still leaves the question over the lower age limit at which tripartite funding of personal skill accounts on a voluntary basis should take place. This pamphlet argues that in general the 18th birthday rather the 16th birthday is preferable. Two reasons support this judgement. Firstly, it would coincide with the raising of the participation age. Secondly, 16 and 17 year olds in jobs without training should be thinking about accessing skills for the present rather than saving for skills for the future.

9.7 Non-employees, including the self-employed and non-workers, would be able to opt into making payments to personal skill accounts in the same way as personal pension accounts. All existing adults would be able to do this although the earliest that payments could be made would be from the 18th birthday. In these circumstances, the state would offer tax relief on individual contributions. Excluding 16 and 17 year olds in full-time education and unwaged training from personal pension accounts is also a common

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BOX 18:	Key Principles of Personal Skill Accounts
	1 All adults would have a personal skill account All adults from age 18 to state retirement age would have a personal skill account.
	2 Tripartite payments Funding would be based on contributions from employers, adult employees and the taxpayer.
	3 All employers would be covered Funding would be based on contributions from employers, adult employees and the taxpayer.
	4 Auto-enrolment of adult employees All adult employees would be automatically enrolled into making contributions into their personal skill account.
	5 Right of opt-out by adult employees Employees would be able to opt out, in which case the employer would not contribute. This would also assist employed graduates repaying HE loans.
	6 Tripartite payments from age 22 All employees from age 22 would be automatically enrolled into making contributions into their personal skill account.
	7 Under-22 year old workers could opt into tripartite payments Young workers under 22 would be able to opt into tripartite payments into personal skill accounts on a voluntary basis.
	8 18th birthday the earliest date for opting into tripartite payments The 18th birthday would be the earliest date that a personal skill account could be opened and the earliest date young workers could opt into voluntary tripartite contributions. 16 and 17 year olds would not be able to make voluntary contributions into personal skill accounts.
	9 Non-employees could make payments into personal skill accounts Non-employees, including the self-employed and non-workers, would be able to opt into making payments to personal skill accounts. All adults would be able to do this although the earliest date that payments could be made would be the 18th birthday. In these circumstances, the state would offer tax relief on individual contributions.
	10 Child Trust Funds could be paid into personal skill accounts On maturity at the 18th birthday, Child Trust Funds could be transferred into personal skill accounts.
	11 Unused savings transferred into pensions at state retirement age Unused savings in personal skill accounts would be transferred into occupational pensions or personal pension accounts at state retirement age.
	12 Personal skill accounts would be managed by a UK-wide agency Personal skill accounts would be managed centrally by a UK-wide agency – possibly known as a national learning bank – to facilitate transferability across employers and throughout life on a UK-wide basis.

Continued… **BOX 18: Key Principles of Personal Skill Accounts**	
13	**Savings used to purchase education and training only** Personal skill accounts could only be used to purchase education and training, and from recognised providers.
14	**Savings used to purchase recognised units or whole qualifications** Personal skill accounts could only be used to purchase recognised units or whole qualifications from recognised providers.
15	**Access after a minimum savings period** Account holders would have access to funds in personal skill accounts to purchase recognised education and training after a minimum period which would vary according to the age of each adult.
16	**Tripartite funding made on earnings above the lower NI threshold** Funding on a tripartite basis would be made on earnings above the lower national insurance threshold (which is £5,720 in 2009/10).
17	**Tripartite funding on 'all' earnings above the lower NI threshold** Funding on a tripartite basis would be on all earnings above the lower national threshold including above the upper earnings limit (which is £43,888 in 2009/10).
18	**Ratio of tripartite funding set at 4:3:1** Funding into personal skill accounts should be set at a ratio of 4 from employees, 3 from employers and 1 from the taxpayer.
19	**Increases in NI contributions limited to 1ppt, 0.75ppts and 0.25ppts** Funding into personal skill accounts should be based on an increase in employees' national insurance of 1 percentage point and employers' national insurance of 0.75 percentage points, with a state contribution equivalent to a 0.25 percentage point increase.
20	**Implemented after personal pension accounts** Personal skill accounts should be implemented after personal pension accounts have been fully implemented, with a view to starting from April 2017.

sense judgement, since disposable income by young people and their parents will be required to support participation rather than skill needs of the future. In any event, parents and young people can save on a voluntary basis up until the 18th birthday through Child Trust Funds. Indeed, there should be no reason why funds from CTFs cannot be transferred into personal skill accounts if they have not been used for other purposes including funding 18+ full-time and part-time higher education.

9.8 The above analysis also suggests that personal skill accounts should be activated at the 18th birthday. Between 18 and 21, young people in work can opt into voluntary tripartite funding whilst non-employees can make contributions from their own income with appropriate tax relief. Contributions, voluntary or compulsory, into personal skill accounts would cease at state retirement age (65 in 2020).

Unused balances paid into pension accounts

9.9 A critical issue is what would happen to unused balances. Under personal pension accounts, a tax-free lump sum is payable and the remainder is used to buy an annuity which delivers an income until death. Unused savings in PSAs would be transferred into occupational pensions or personal pension accounts at state retirement age, thereby adding to the pension pot at the point of purchase of an annuity.

Managed by a UK-wide agency

9.10 To facilitate transferability across employers and throughout life, personal skill accounts would be managed by a UK-wide agency. This could be known as a National Learning Bank.

Instant access after a minimum period

9.11 Yet, there is a fundamental difference between personal pension accounts and personal skill accounts. Under PPAs, the objective is to save until retirement, accessibility is denied until retirement and the income – tax-free lump sums and pension annuities – can be spent on any good or service. Under PSAs, the objective is to save to encourage the funding of skills during working life, accessibility is essential after a minimum period and funds in the account can only be spent on education and training. This minimum period would need to vary for someone close to retirement age – for example those in their early sixties seeking to retire at 65 – and 18 year olds, who must have 50 years of working life ahead of them.

Funds used to finance education and training only

9.12 Personal skill accounts could only be used to purchase education and training from recognised providers. Funds from accounts would be used to cover tuition costs. Funds for maintenance costs would be conditional on payment of tuition costs.

9.13 Qualifications are seen as valuable to individuals in the labour market and provide the best measurement currently available for upskilling and reskilling. Personal skill accounts might need to be restricted to purchasing recognised qualifications from recognised providers, either in the form of whole qualifications or units of qualifications. In turn, use of funds from personal skill accounts for maintenance and associated costs such as books, equipment and travel would be conditional on funding tuition linked to achieving qualifications.

Significant administrative challenges

9.14 It should be noted, of course, that the combination of instant access after a minimum period and limiting the use of personal skill accounts to education and training will pose significant administrative challenges to the National Learning Bank managing personal skill accounts. The challenges could be far greater than those for the Personal Accounts Delivery Authority managing personal pension accounts.

Contribution levels

9.15 In line with personal pension accounts, tripartite funding into personal skill accounts should be based on earnings above the lower threshold for national insurance contributions. As with personal accounts, employees below £5,720 per year would miss out on employer contributions but could still contribute on a co-funding basis with the state since any personal contributions would attract tax relief.

9.16 Nonetheless, the critical policy design question is whether contributions from employers and employees should be beyond the upper earnings threshold for national insurance. The answer must be dictated by the objective of the policy. The objective of personal pension accounts is to encourage greater private savings for retirement from adults on low to moderate income, since adults on higher incomes tend to have pension arrangements already in place. By contrast, adults on high, moderate or low incomes very rarely have arrangements in place to fund upskilling and reskilling. Hence, the conclusion is that national insurance contributions should be increased by employers and employees on earnings above the upper earnings limit (£43,888 per year in 2009/10).

9.17 Personal pension accounts have been designed on the basis of a 4:3:1 ratio in terms of employees, employers and the taxpayer respectively. The same ratio could apply to tripartite contributions to personal skill accounts. However, the critical policy design question is the percentage point increase noting that both employer and employee contributions will be on 'all' earnings above the lower earnings limit.

9.18 Three factors should be taken into account when deciding upon the increase in national insurance contributions. Firstly, the increase will be in addition to the increase to fund personal pension accounts. Secondly, the increase must be at a rate sufficient to generate a reasonable pot of savings for upskilling and reskilling. And thirdly, the increase must reflect when adults have their first skill attack – typically in their thirties and forties after ten years or so in work.

9.19 As a starting point for debate this pamphlet suggests increasing employee contributions of 1 percentage point and employer contributions of 0.75 percentage points, with the taxpayer making equivalent tax relief contributions of 0.25 percentage points. Based on Treasury yields for national insurance in 2011/12, these increases would raise £10.8bn per year into personal skill accounts for upskilling and reskilling (see Table 19). This would be only slightly less than total public investment in adult skills and higher education (see Table 13 above).

9.20 Assuming ten years of working life on gross earnings of £10,000 per year, adults would have £2,000 in their personal skill account. This would represent a major source of private funding for upskilling – supplementing public funding where possible – and a major source of private funding for reskilling – once again supplementing public funding where possible but also covering the full cost of provision where necessary. Generally speaking, savings at these levels would make a major contribution to upskilling and reskilling where adults studied on a part-time rather than a full-time basis. They would certainly assist adults studying part-time to contribute towards fees of 50% for first Level 3 qualifications and fees for part-time HE students on first Level 4 programmes. £2,000 is also a significant amount of funding if upskilling is achieved through the accumulation of units or credits. Certainly, savings of £2,000 could be used to complement public funding of reskilling. More importantly, however, savings at these levels would create a new privately funded reskilling market since public funding of reskilling is so limited. Add in once again the fact that reskilling can take the form of units and credits rather than whole qualifications, and savings of £2,000 would be significant for thousands of adults.

9.21 Of course, the cost to the taxpayer would not be free. A rule of thumb estimate is £1.3bn (see Table 19). This is equivalent to savings generated from adding a commercial rate of interest into HE loans (see Table 12 above).

Table 19: Contributions to Personal Skill Accounts

Stakeholder	Percentage point increase on all earnings above Lower Earnings Threshold (£5,720 in 2009/10)	Gross Yield (2011/12)	Contributions per year on £10,000 earnings	Contributions after ten years on £10,000 earnings
Employee **(1)**	1.0 ppts	£5.4bn **(4)**		
Employer **(2)**	0.75 ppts	£4.1bn **(5)**		
Taxpayer **(3)**	0.25 ppts	£1.3bn		
TOTAL		**£10.8bn**	**£200**	**£2,000**

Notes:
(1) (Employee contributions are 11% between the lower and upper earnings limit, and 1% above the upper earnings limit.
(2) Employer contributions are 11% on all earnings.
(3) The taxpayer contribution would take the form of tax relief as is the case of personal pension accounts although it is shown in the form of national insurance contributions.
(4) Increasing employee contributions by 1 percentage point on all earnings above the lower earnings threshold would raise £5.4bn in 2011/12 (see Table 5, Tax Ready Reckoner and Tax Reliefs, HM Treasury, November 2008).
(5) Increasing employer contributions by 1 percentage point on all earnings above the lower earnings threshold would raise £5.5bn in 2011/12 (see Table 5, Tax Ready Reckoner and Tax Reliefs, HM Treasury, November 2008).

Implemented from 2015

9.22 Contributions to personal pension accounts are to be phased in from April 2012 to October 2016. Contributions to Personal Skill Accounts can only be phased in after contributions from employers and adults to personal pension accounts have reached their steady state from October 2016. Hence, contributions to Personal Skill Accounts should start from April 2017 on the basis of a 1ppt increase in national insurance contributions from adult employees, 0.75ppts from employers and the equivalent of 0.25ppts from the taxpayer.

A national funding debate

The time has come

9.23 A national debate on the funding of upskilling and reskilling is urgently needed to make this area of public policy a political priority. Such a debate must include the review of tuition fees in higher education, public funding of adult skills and increasing private savings for upskilling and reskilling through a system of personal skill accounts.

A window of opportunity for Personal Skill Accounts

9.24 April 2017 is the earliest when another compulsory funded system could be introduced. This is the year when employers and employees could be paying maximum contributions to personal pension accounts. Yet, the choice is not between compulsory funding of social care and compulsory funding of upskilling and reskilling. By framing the options for social care in terms of voluntary and compulsory funding by people of retirement age, there is a window of opportunity to introduce a compulsory funding system of upskilling and reskilling by adults of working age.

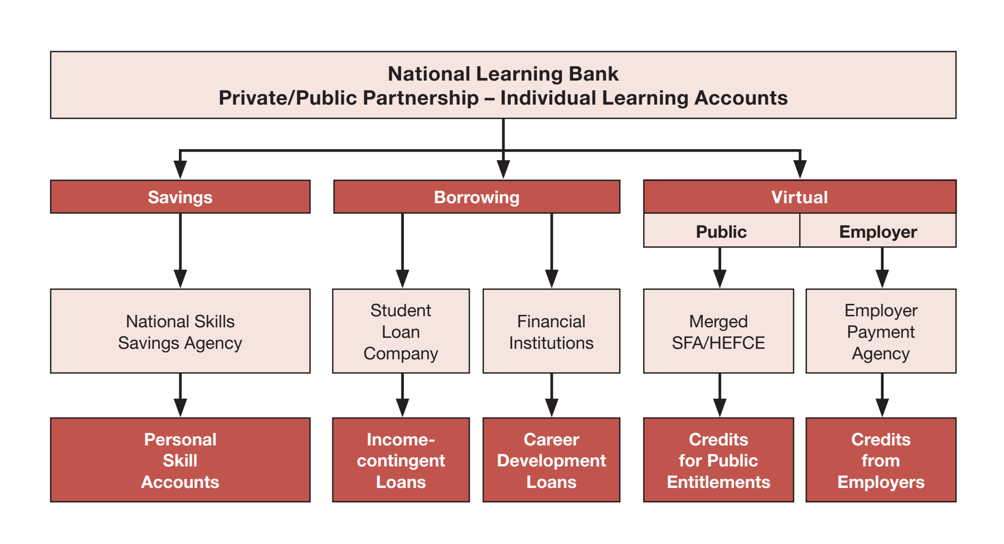
Expanding borrowing for upskilling and reskilling

9.25 In addition to the implementation of compulsory funding of personal skill accounts, policy-makers should consider expanding borrowing for upskilling and reskilling. On the one hand, existing adult Level 3 funding by the Skills Funding Agency and existing Level 4 funding by HEFCE should be turned into income-contingent loans. Savings could be used to expand income-contingent loans for upskilling. On the other hand, mortgage-style Career Development Loans should be available to fund reskilling.

Personal skill accounts as a feature of Individual Learning Accounts

9.26 Of course, personal skill accounts could form part of a wider version of Individual

Diagram 10: Personal Skill Accounts as part of Individual Learning Accounts



Learning Accounts (see Diagram 10). A private/public partnership, possibly called a National Learning Bank, could manage a UK-wide system of ILAs. On the savings side, a National Skills Savings Agency would manage personal skill accounts. This would be equivalent to the savings element of ILAs. On the borrowing side, the National Learning Bank would take over the Student Loans Company, managing ICLs directly and working with private financial institutions offering Career Development Loans. This would represent the borrowing element of ILAs. On the virtual side, the National Learning Bank would oversee a merged Skills Funding Agency and Higher Education Funding Agency which would fund publicly funded entitlements to upskilling and reskilling. It would also oversee an Employer Payment Agency for additional voluntary credits. Together, they would represent the virtual element of ILAs.

9.27 But Westminster and Whitehall should not conclude that a system of voluntary funded ILAs is a substitute for compulsory funded personal skill accounts or that the introduction of personal skill accounts should await the architecture of a full-blown ILA system. The funding crisis in upskilling and reskilling dictates that personal skill accounts come before, not after, Individual Learning Accounts.

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