Department for Education

Modelling the costs and benefits of the Lifelong Learning Entitlement (LLE)

Information request

September 2023

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Introduction

In March 2023, the Department for Education published an updated impact assessment on the Lifelong Learning Entitlement (LLE). This impact assessment, which can be found on GOV.UK, set out the methodological approach and analytical framework we have been using to analyse and estimate the expected costs and benefits of LLE.

Since the impact assessment was published, work has been ongoing to further improve and refine our modelling assumptions of LLE, given the uncertainty around the likely behavioural response of learners, providers and employers.

In this technical document, we set out at a high level the latest behavioural and impact assumptions we are using in our modelling of LLE. We do not present any estimates at this time as they are still being finalised. A fuller cost-benefit analysis will be published in due course.

We would welcome views and feedback from HE and FE providers, as well as employers about the reasonableness and appropriateness of these assumptions as well as information on new research, evidence, or sector intelligence that we can use to improve and refine our modelling and analysis.

Specific questions we would welcome response on are:

1. How are providers planning for the introduction of the LLE, particularly the changes in student loan eligibility for modular and level 4 and 5 courses?
2. What are providers' expected benefits, costs, or challenges from the changes brought by the LLE?
3. In particular for the changed related to flexible and modular provision, what are providers' expected benefits, costs or challenges?
4. What is the appetite for modular and flexible study from providers?
5. Has there been any collaborations, or plans to work together, between employers and providers in developing modular courses to address skills needs?
6. What level of awareness do employers have of LLE reforms and their likely impact on the labour market? Are employers making any plans to prepare for these reforms?
7. What are employers' views on the value of modular study and qualifications in comparison to existing study or full qualifications? Do employers think modular courses will have value and help them fill skill gaps?
8. Will the LLE reduce employers' plans and funding for employee learning & development?
9. What could be the impact of the user-friendly personal account on enrolment and course choices?

More generally, we would also welcome the sector's thoughts and feedback on the assumptions detailed in this note.

This technical information request will run for 5 weeks, until the 22nd of October 2023. During this period, we will engage with higher education providers and others in the sector. **Please submit you responses by completing our online feedback form.**

Methodological approach

We have followed a Green Book[1] approach to appraising the costs and benefits of LLE, modelling the package of LLE measures set out in the government's consultation response published in March 2023 which can be found on GOV.UK.

The overall costs and benefits of the LLE will depend significantly on the behavioural response of learners, providers, and employers to all the different elements of LLE and the impact on provision, choice and take-up.

The assumptions and modelling described below are still being developed and refined. They represent our best judgment at this time and will be kept under review as the evidence base becomes available. A full cost-benefit analysis will be published in due course.

Given the uncertainty, we have considered the potential impacts under different scenarios, distinguished by assumptions around the likely scale of behavioural changes, particularly with regards learner demand and take-up of short courses and modular funding.

Take-up modelling assumptions

By reducing the financial and non-financial barriers to adult learning, the LLE is expected to encourage greater take-up of more flexible study, including modular study. Owing to the unprecedented nature of LLE, we cannot easily predict the behavioural response of learners and providers and accordingly the scale of additional take-up of higher learning courses and modules and available funding.

Despite this challenge, we have made some indicative assumptions about the possible scale and trajectory of take-up over the first ten years. These assumptions are our best judgment at this time and we will continue to review and update them in the run-up to the introduction, and following launch of LLE in 2025.

Overall, we currently expect the removal of Equivalent or Lower Qualification (ELQ) restrictions, allowing access to a residual entitlement, to have the largest influence on learner enrolments. Other measures, such as the introduction of a personal account,

[1] The Green Book (2022) - GOV.UK (www.gov.uk)

advice and guidance, and the increased availability of maintenance loans and grants to have a comparatively more moderate influence on enrolments.

We expect there to be some displacement as a result of LLE with some learners shifting away from full-time degrees into more flexible study, including modular study, and that this displacement effect will gradually increase in size over time. We assume that the introduction of a 60+ age cap for tuition fee loans will have a small negative impact on learner enrolment numbers.

Below, we set out in more detail some of the specific modelling assumptions we are using and the rationale behind them.

Relaxation of ELQ restrictions

Under LLE, current restrictions on fee and maintenance loan entitlement to those studying an ELQ are removed, allowing previous higher-level learners to return to study at all higher levels, though a restriction exists relating to the amount of residual entitlement available to fund this study.

Our current modelling assumption is that the removal of these restrictions will result in a gradually increasing rate of take-up starting from zero additional growth in AY2025/26 to a low percentage point uplift in total higher-level learner enrolments (Level 4-6 full and part-time) by AY2035/36.

We assume that interest will grow over time with increased knowledge of the policy and culture shift. Though the modelled change is proportionately small, the aggregate effect in terms of increased enrolment numbers is comparatively sizeable, given these policies affect a large proportion of the population.

Of the returning learner population, we estimate that a large majority have taken out fewer than four years' worth of loans and therefore have remaining residual entitlement, based on SLC data. The returning learner population are also assumed to have a higher marginal Resource Accounting and Budgeting (RAB) charge. This is based on student finance modelling assumptions, using existing returning learners to calculate a marginal RAB.

In the current system, there is a moderate proportion of those making repayments that have taken out less than four years' worth of loans. We assume that the LLE will create some increased incentives to return to top-up eligible Level 4 and 5 qualifications to a full Level 6, although initially we do not expect to see a very significant increase.

Maintenance

Maintenance loans will be made available to all campus-based Level 4-6 students. Of the newly eligible Level 4, Level 5 and modular learners, we currently estimate a moderate to significant proportion – equivalent to corresponding Level 6 group – will take up maintenance loans in AY2025/26 and stay broadly stable until AY2035/36. We assume that many of the learners accessing these maintenance loans would not be new learners as they would likely have still pursued higher-level learning opportunities in the absence of this funding.

Advanced Learner Loans (ALL) funded qualifications that can evidence student enrolments, and demonstrate employer demand or learner progression into training or higher education, will be funded through the LLE. Where Awarding Organisations (AOs) of current ALLs funded qualifications cannot provide sufficient evidence, students on those qualifications will not be eligible for LLE funding. We assume the large majority of learners will displace to other courses. We assume that nearly all of these students take up maintenance loans. Those remaining learners from defunded courses, who do not displace, are modelled to finance their study by other means, or not take up study.

In addition to the above “static” changes, we estimate a moderate increase in new enrolments, due to behavioural change, for study types where new maintenance offer is in place (Level 4 part-time, Level 5 part time and modular study), per academic year for the initial 5 years. This is guided by a 2010 BIS paper[2] on the impact of Higher Education finance on university participation.

Maintenance Grants

The cost of expanding grant funding under LLE has been estimated similarly to Student Finance costs. The grants considered are the Child Care Grant (CCG), Parental Living Allowance (PLA), Adult Dependant Grant (ADG), Travel Grant (TG), and Disabled Students’ Allowance (DSA).

In the current system, grant support is available to, predominantly, full-time learners (though DSA is also available to part-time learners). There are two steps in estimating the costs of the maintenance grant expansion to all courses under LLE. The first is to expand grant awards to all courses under the current system to all part-time and current ALL courses. The second is applying the expansion to the modelled behavioural changes in LLE enrolments.

Where grants are extended to part-time and ALL learners in the current system, it is assumed that take-up of grants will be higher than for current full-time grants. In absence of evidence of potential take-up rates, this approach assumes that learners studying part-time and ALL courses are more likely to have needs qualifying for grants, compared to the average for all full-time learners.

LLE Personal Account and communications campaign impact

We expect that improved awareness of LLE and access to high quality information, advice and guidance through a single unified careers website and user-friendly personal

[2] Student finance: the impact on university participation - GOV.UK (www.gov.uk)

account will help to support a positive impact on take-up. Along with the removal of ELQ restrictions, we assume that the personal account and communications strategy have a comparatively greater influence on learner numbers than some other LLE measures.

Our current modelling assumptions is that these particular LLE measures will likely help over time to support a gradual increase in student numbers as engagement with the portal improves and its scope expands.

Movement of learners from Level 6 full-time

The LLE is modelled to assume a behavioural shift in some learners away from Level 6 courses onto other course types (namely, Level 4, Level 5, HTQ, and modular learning). The proportion of students that decide to change from a full-time degree is uncertain, as is when this culture shift may occur. We therefore assume a small displacement effect, particularly in the first few years following LLE launch. We initially assume no shift in Level 6 study in AY2025/26 but expect this to grow to a small proportion of entrants in AY2035/36 moving to HTQs, Level 4/5 full-time, and modular study, though we don’t model any shifts to apprenticeships.

The modelled effect is similar to that of removing ELQ restrictions: though the percentage change modelled is small, the aggregate impact, in terms number of people is large, on account of the size of the Level 6 population.

Age Restriction

The LLE includes an age restriction on learners accessing tuition fee loans set at 60 years. In order to estimate the potential impact of the restriction on enrolments and costs, we use a forecast of the current system to predict the number of higher-lever learners taking out student finance, by age. We estimate this restriction will prevent significantly high enrolments in AY2025/26, remaining stable until AY2035/36.

Modular Provision

The majority of the assumptions described above directly contribute and overlap with our assumptions for modular provision. We describe these relationships, as well as our general modular take-up assumptions here. It should be noted that evidence for modular take-up is limited, and the best evidence will be from management information and evaluation post-LLE launch.

For launch, our starting assumption is that the number of modular learners taking up fee loans will initially be low. This estimate constitutes:

- Selecting a proportion of technical Level 4 and 5 courses currently available;
- Learners who will displace from defunded Level 4 and 5 ALL courses;
- Additional enrolments as an impact of the LLE portal and the comms campaign;
- Behavioural increase as an impact of introducing maintenance loans.

After ten years, we model the number of enrolments to grow more significantly. This estimate constitutes:

- An increased baseline figure, as providers are expected to develop and deliver more modular courses after LLE launch.
- Additional learners following the expansion of modular funding from AY2027/28 to broader level 4, 5 and 6 provision where we can be confident of positive student outcomes.
- The removal of equivalent or lower qualification (ELQ) funding eligibility rules, and learners' knowledge of and ability to access their residual entitlement.
- Additional learners attracted to modular learning by the LLE user portal.
- Additional learners who previously would have enrolled onto ALLs funded qualifications.
- Learners displaced from Level 6 full time study.

Costs of LLE

We consider three broad categories of costs in our modelling and analysis:

1. Student finance costs
2. Delivery costs
3. Costs to business

Student finance costs

Student finance costs account for the majority of the total costs associated with LLE. The additional costs to the Exchequer are modelled as total outlay less repayments as a result of the expansion in student support due to LLE. Additional costs will largely be driven by RAB charge costs (i.e. the additional quantum of student support written off rather than loan outlay) and targeted maintenance grant support.

The costs to the Exchequer are calculated using the student finance loan, outlay and repayment models developed by the Department for Education. A technical description of these models and their underpinning assumptions can be found at: [Student loan forecasts for England, Methodology – Explore education statistics – GOV.UK (explore-education-statistics.service.gov.uk)]

A list of the technical assumptions we are currently using in our model can be found in Table 1 in the above link. These are best judgment at this time based on the available data and evidence about the choices and behaviour of current borrowers in the student finance system.

Delivery costs

These include:

1. Costs to the delivery bodies (including OfS and SLC)
2. Communications costs (including communications campaign)
3. Evaluation costs

The costs to the delivery bodies represent the costs which organisations will incur in order to implement, administer and regulate the different aspects of LLE. All of these costs are considered additional since they would not be incurred in the absence of LLE. Some – like any new IT infrastructure – may require additional public funding from the Exchequer.

The DfE is working with sector bodies (the Office for Students and the Student Loans Company) to understand the expected one-off and ongoing costs of implementing LLE and estimate what these are likely to be. These costs will include the operational costs associated with the day to day running of LLE, as well as capital investment to ensure the necessary processes and infrastructure are in place for the effective management and functioning of the LLE system.

Costs to business

The updated impact assessment on LLE published in March 2023 presented first estimates of the direct costs to business, distinguishing between familiarisation and implementation costs. The estimates, based on very early analysis, were illustrative at that point as we had not yet had evidence from the sector and other stakeholders about the type and expected size of costs that providers and employers to inform our modelling assumptions.

We would welcome views about the costs providers and employers expect to incur as a direct result of LLE, as well as feedback on our current modelling assumptions (see below). New information we receive from this call for information will enable us to improve and refine our analysis and estimate more fully and robustly the expected costs to providers and employers.

We are particularly interested in gaining a better understanding of the likely costs which providers will need to incur to accommodate the increase in learners which we expect to occur due to LLE. This includes information about the additional resources particularly in terms of staff time and numbers which providers will require to expand flexible learning provision and provide appropriate support services for new learners.

Below, we set out in more detail the specific cost modelling assumptions we are currently using and the rationale behind them.

General Costs – Providers

We currently assume that all providers within the scope of LLE will require one manager, director, or senior-level employee to undertake general familiarisation of the overarching principles and objectives of the LLE. We assume that they will spend a total 30 minutes familiarising themselves with the high-level detail of LLE.

We have also assumed that it will cost on average around £100,000 for providers to change their IT system so that it is fit for purpose to provide modular transcripts and/or provide various bodies (SLC and OfS) with the requisite data. This is an estimate based on the assumption that the cost to modernise a legacy system is between $30,000 - 70,000 for a small application and medium to large sized applications may require up to $150,000[3]. We are assuming that around 50% of providers will require this.

General Costs – Business

1. *General familiarisation*

We currently assume that 5 minutes of general familiarisation will be required by all businesses operating a PAYE loans system, undertaken by a manager, director or senior official.

2. *Cost for a wage clerk to perform a number of tasks related to new employees required to make repayments per year*

It is assumed that employers will be required to undertake six ongoing tasks per new employee making loan repayments as a result of this policy. These tasks are assumed to be the same as those required for the current student finance system and include: determining whether a new employee needs to repay a loan; recording details in payroll software; deducting payments from salary; reporting deductions to HMRC; acting on a stop notice; and end of year requirements including reporting payments on P60 and making final adjustments on Final Payment Submissions (FPS). These tasks would add up to between 20 and 30 minutes per year and per new employee.

Modules & Course Designation

3. *More administrative staff to assess the greater number of applications due to learners studying concurrently across multiple points of the year.*

We have assumed that it will require one professional academic staff and one administrative staff, spending 60 minutes each to screen, review, decide, and check decisions about each application to a modular course. We assumed it would take the same staff 30 minutes to do the same tasks for the additional applications to non-modular courses. The total cost will therefore be dependent on the number of additional applications.

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[3] How Much Does It Cost To Modernize Legacy Software - XB Software

4. *Greater number of faculty staff/ staffing hours needed to redesign courses.*

We have assumed that it will require 1 professional academic staff with extensive knowledge of the course spending 180 minutes to assess their courses for suitability to become a stand-alone module and then to redesign the course. It will require 1 clerical staff the same amount of time, to assist in considering scheduling & timetabling, and to then populate this information through the SLC. The cost will therefore be dependent on the number of courses that would be eligible to be made into modules, and the number of modules within them.

5. *Costs to market/remarket courses and modules through different channels to a different cohort.*

We have assumed that providers will attribute a proportion of their fee income towards the advertising of the course. For instance, advertising on search engines, on social media, and in print. This would be dependent on the additional number of modular enrolments as it is assumed providers will not have to readvertise all courses. It is however expected that marketing costs will be relatively important.

Fee limits

6. *Cost to providers to change how they collect and record data to correctly calculate fee limits.*

We have assumed that it will require one clerical staff spending 60 minutes to change how they collect and record the data from departments needed to calculate the fee limits for courses. We assume it will also take one manager, director & senior official staff within providers spending 10 minutes to oversee this task. We are assuming that around 50% of providers would face this cost because some providers will already have the necessary systems in place.

Modular transcripts

7. *Costs associated with modular transcripts*

We have assumed that the costs associated with providing transcripts for modules will be captured by providers replacing their current IT system with one that is fit for purpose (see above).

Regulatory Approach

8. ***Fees associated with OfS registration.***

All providers wanting to deliver Level 4-6 ALL courses in scope of transfer will need to register with the OfS for 2025, either in the existing categories or under any third category. Registration and subscription costs associated with OfS registration will typically include: OfS registration fees, OIAHE[4] subscription, HESA fee, as well as any other applicable fees in 2025.

Benefits of LLE

Recent empirical studies shows that people with higher level qualifications receive comparatively higher levels of remuneration than someone with lower-level qualifications[5]. Based on the available evidence, we expect learners taking up post-18 education opportunities due to LLE are likely to benefit, on average, from improved earnings and employment outcomes and prospects.

The additional financial benefit of LLE to the individual are difficult to estimate with any certainty or precision since it will depend significantly on the type and amount of study pursued through the LLE as well as learners' counterfactual labour market outcomes (i.e. what would have occurred without additional learning).

While there is a strong evidence base on the returns from full-time higher education, the empirical literature on the returns to Level 4/5 study, modular study and part-time study is not as well developed. We can assume that the returns of part-time qualifications is similar to the returns of the corresponding full-time qualifications, but the evidence base on the returns of modular study remains limited. We have a good proxy for Level 4/5 returns, but not direct estimates.

The OECD published a report in March 2023[6] summarising evidence from academic research and international examples on the impact of "micro-credentials" on labour market outcomes. Their reports concludes that, although the evidence is limited, short-term credentials can have a positive impact on one's employability. The evidence suggests that only some targeted short-term credentials may result in a significant increase in employment and wages, and the impact depends on course features and learners' characteristics.

According to international examples, modular study has the greatest impact on labour market outcomes with:

- Employer engagement,
- Accessible information on labour market outcomes,
- Tailored design and,
- Social and financial support

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[4] Office of the Independent Adjudicator for Higher Education

[5] Skills and UK productivity - GOV.UK (www.gov.uk)

[6] Micro-credentials for lifelong learning and employability : Uses and possibilities | OECD Education Policy Perspectives | OECD iLibrary (oecd-ilibrary.org)

The private and wider benefits, in aggregate, of the LLE will be mainly based on the take-up estimates, coupled with the economic returns to Further and Higher Education. As such, they will be based on the department's own Net Present Value per student estimates.

Net Present Value (NPV) estimates included here represent all the monetisable costs and benefits (public and private) of education and represent the overall lifetime return to education. They are the best quantified estimations available currently. The costs include elements such as course cost (to the student and to government), or the foregone income whilst studying. The benefits include wage and employment outcomes, but also increased taxes for the Exchequer and productivity spillovers.

Table 1 - Net Present Values of Further and Higher Education.

Type of provision		Government spend per learner	Average NPV per learner
Further Education (2018/19)	Full Level 3	£2,660	£82,000
	Level 4/5[7]	£3,260	£73,000
Higher Education (2017/18)	Level 6 full-time first undergraduate Degree[8]	£29,000	£270,000

These figures may be based on slightly different RAB assumptions since the RAB estimates are regularly updated. We have however assumed that the NPVs stayed constant since they were estimated in 2018/19 and 2017/18. We will be seeking to update these in due course.

The figures translate as follows: one additional Level 6 full-time undergraduate learner creates a return of £270,000 to the economy, for a government spend of around £29,000. This represents the lifetime return per learner[9].

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[7] The figures listed in the table use estimates for L4/5 apprenticeship frameworks as a proxy for classroom L4/5 benefits – taken from this publication: Measuring the net present value of further education in England 2018 to 2019 - GOV.UK (www.gov.uk)

[8] Government spend has been calculated using IFS estimates from this paper here: The impact of undergraduate degrees on lifetime earnings | Institute for Fiscal Studies (ifs.org.uk). It is a sum of the sum of the costs from student loan subsidies, SPG and foregone tax due to the student being in higher education. The student loan subsidy is derived from the mean for maintenance loans and tuition fee loans and RAB charges. The SPG is the mean teaching grant while foregone tax is derived from median pre-tax earnings. With the exception of the IFS RAB charge, all estimates have been uplifted to 2022 prices using the CPIH index: CPIH INDEX 00: ALL ITEMS 2015=100 - Office for National Statistics (ons.gov.uk).

[9] Figures have been rounded to the nearest thousand.

The NPV per learner is calculated as societal benefits minus societal costs. Societal benefits are the sum of lifetime earnings premium, lifetime tax premium and wider societal benefits. The lifetime earnings premium represents discounted student loan repayments, the lifetime tax premium represents discounted employer national insurance contributions, both of which are IFS estimates. Wider societal benefits account for productivity spillovers assumed at 35% based on the midpoint of multiple references/research papers of an estimate around 20% to 50% of the private benefits of degrees. These papers[10] estimate the additional productivity to employers and to wider society (i.e. both micro and macro) of an additional graduate in the workforce. Societal costs are the sum of foregone earnings, the tuition fee loan outlay and the Strategic Priorities Grant (SPG). Foregone earnings relate to median HE and non-HE pre-tax earnings, the tuition fee loan outlay is the mean tuition fee, and as mentioned previously, the SPG is the mean strategic priority grant. These are all IFS estimates and have been uplifted into 2022 prices.

[10] See: House of Commons, Business, Innovation and Skills and Education Committees (2015-16) Report; NIESR (2013); Haskel & Galindo-Reuda (2005); Vignoles & Galindo-Reuda (2003); London Economics (2011); and Dearden et al (2005).

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