Title:

Further Education - Level 3+ loans

Lead department or agency:

BIS

Other departments or agencies:

Impact Assessment (IA)

IA No: BIS0282

Date: 26th July 2011

Stage: Consultation

Source of intervention: Domestic

Type of measure: Secondary Legislation

Contact for enquiries:
Andrew King 020 7215 1585
Simon McKee 020 7215 6163

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

With tighter resources as a result of the Spending Review 2010 – the overall Further Education (FE) and Skills budget will be reduced by 25% between 2011/12 and 2014/15 – the challenge is to ensure that the remaining government investment in this area is targeted such that its economic impact is maximised.

Skills make an important contribution to economic growth, both through raising the employment opportunities for individuals and by increasing productivity. However, the UK lags behind other OECD countries in terms of the proportion of individuals holding qualifications at or above level 2. Government intervention in FE and skills is justified by the presence of market failures, including spillovers to other individuals and employers, wider benefits to society as a whole, imperfect information and credit market constraints. Government funding should be targeted where market failures are greatest, and where funding can have the greatest impact.

What are the policy objectives and the intended effects?

In the context of the cuts to public spending in the Spending Review 2010, it is necessary to reassess the balance of who contributes to the costs of further education. To the extent that individuals or their employers benefit (e.g. in the form of higher wages or increased profits), then we should look to reassess the contribution which they make, compared to the level of subsidy. The proposed changes remove grant funding for learners aged 24 and over, at Level 3 and above. Evidence suggests that these qualifications bring significant future benefits to individuals, and therefore they should fund the costs to a greater extent. However, income contingent loans – similar to those in Higher Education – will be made available in order to provide access to the necessary finance to afford contributions upfront.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

Option 1a: Do nothing: Continue grant funding according to the pre-SR baseline. This is not a feasible option in light of the cuts to the FE and Skills budget, and is therefore not considered further. It is used as a theoretical baseline against which to assess the impacts of the alternative options.
Option 1b: Continue grant funding to the same amount we could afford through loans (net of learner repayments).
Option 2: Stop grant funding provision for new learners from the 2013/14 academic year (and do not replace with any system of loans). This has been ruled out because of the large estimated reduction in learner numbers and thus in economic value added.
Option 3: Replace grant funding with income contingent HE-style loans. This option would enable support to be provided to learners at the point of access, thus overcoming problems in accessing finance. Loans would only become payable when the learner had reached the prescribed earnings threshold.
Option 4: Replace grant funding with Professional Career and Development style loans. Loans would be provided by commercial organisations at the market rate. This has been ruled out on the basis that it does not meet policy requirements in terms of providing the necessary access to loans, and has thus not been considered further, nor presented as a summary sheet.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed after the first year of operation.
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

Chief Economist Sign-off For consultation stage Impact Assessments:

The Chief Economist has been consulted on this Impact Assessment. The overall approach to the cost-benefit analysis has been approved, and the Chief Economist advises that, given the available evidence, the Impact Assessment represents a reasonable view of the likely costs, benefits and impacts of the leading options.

Signed by the responsible:

Ken Warwick, BIS Deputy Chief Economist Date: 26th July 2011.

Summary: Analysis and Evidence — Policy Option 1b

Description: Continue grant funding for individuals aged 24+ at Level 3 and above, as under the current system, but at a reduced level. Under this option, the number of learners would be determined by the amount of funding available for loans under the preferred option.

Price Base Year:	*PV Base Year:*	*Time Period Years*	*Net Benefit (Present Value (PV)) (£m)*		
2011	*2013/14*	*46*	*Low:*	*High:*	*Best Estimate: -34,170*

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low				
High				
Best Estimate	N/A		1,720	**39,500**

Description and scale of key monetised costs by 'main affected groups'

The estimates above refer to learners starting their courses over a **ten-year period** – thus implying 10 annual cohorts.

The costs are in terms of **future value added** which is **foregone**, due to the reduction in learner numbers compared to the baseline. Relative to the baseline, there will be around 35,000 fewer learner starts in 2013/14, and 77,000 fewer in each year from 2014/15 onwards. There is strong evidence that learning generates substantial economic benefits (described in the evidence base section), which are realised over the rest of the learner's working life. Under this option, the economic value added, discounted over their lifetime, is around £1.9 billion lower for the cohort of learners starting their courses in 2013/14, and £4.9 billion lower for each cohort from 2014/15 onwards (the costs for subsequent cohorts are further discounted to reflect the later 'starting point'). These benefits would have been realised over the rest of the learners' working lives, amounting to a period of 46 years in total.

See Annex 5: Annual profile of monetised costs and benefits for full derivation of average annual costs.

Other key non-monetised costs by 'main affected groups'

Research suggests that there are wider social benefits associated with adult learning, such as improved confidence, positive impacts on health, and a reduced propensity to commit crime. Such benefits would also be foregone given the lower number of learners compared to the baseline. However, they are more difficult to quantify.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low				
High				
Best Estimate	N/A		137	**5,330**

Description and scale of key monetised benefits by 'main affected groups'

The estimates above refer to learners starting their courses over a **ten-year period** – thus implying 10 annual cohorts. These benefits will all be incurred over the next ten years, but the average annual benefits (in the table above) are calculated over a period of 46 years in order to make them comparable with the benefits under the preferred option (where loans are repaid over a period of up to 30 years) and with the costs presented in relation to this option. The fact that these benefits are realised over a shorter time period than the costs is taken into account when calculating the NPV figures in the table above. See Annex 5: Annual profile of monetised costs and benefits for full derivation of average annual benefits.

The key monetised benefits of the preferred option include the reduction in **government funding costs**, due to the fact that fewer learners are being supported. This reduction in funding amounts to around £64m in 2013/14 and £170m in each year from 2014/15 onwards. There will also be a lower level of **contributions paid by individuals and their employers**, amounting to around £13m less in 2014/15 and £38m less in each year from 2014/15 onwards. This reflects the fact that although more qualifications will be wholly privately-funded (due to the removal of government funding which was previously deadweight), this will be outweighed by the reduction in individual and employer contributions towards co-funded qualifications.

On top of this, the lower level of learning compared to the baseline means that **less output will be foregone** whilst learning takes place. Compared to the baseline, this amounts to around £181m for the 2013/14 cohort, and £461m for each cohort of learners from 2014/15 onwards.

Other key non-monetised benefits by 'main affected groups'

Because more qualifications will be wholly privately-funded, this could provide incentives for learners and their employers to choose courses with greater and more certain economic value, thus enhancing the value of the learning which does take place. However, the evidence presented in the 'evidence base' section suggests that deadweight in publicly-funded provision is relatively low, and therefore this effect is likely to be small. In any case, it is difficult to quantify the impact of this effect on the economic value of courses undertaken.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5, 3

- Based on our assessment of the evidence, we assume deadweight of around 10% across all learning streams. In other words, if government funding was reduced and no other measures (e.g. loans) were put in place, then 10% of learning would still go ahead on a privately-funded basis.
- This policy option would not impose any further statutory obligations or direct costs on businesses. Therefore, this would be out-of-scope for the purposes of OIOO. Although there are indirect costs, resulting from the reduction in skilled labour, such costs are not in scope for OIOO.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as:
Costs:	Benefits:	Net:	No	

Summary: Analysis and Evidence — Policy Option 2

Description: Stop grant funding for learners aged 24+ at Level 3 and above from the start of the 2013/14 academic year (and do not replace with any system of loans).

Price Base Year: 2011	*PV Base Year:* 2013/14	*Time Period Years* 46	*Net Benefit (Present Value (PV)) (£m)*		
			Low:	*High:*	*Best Estimate: -81,623*

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low				
High				
Best Estimate	N/A		4,121	**94,327**

Description and scale of key monetised costs by 'main affected groups'

The estimates above refer to learners starting their courses over a **ten-year period** – thus implying 10 annual cohorts.

The costs are in terms of **future value added** which is **foregone**, due to the reduction in learner numbers compared to the baseline. Relative to the baseline, there will be around 90,000 fewer learner starts in 2013/14, and 185,000 fewer in each year from 2014/15 onwards. There is strong evidence that learning generates substantial economic benefits (described in the evidence base section), which are realised over the rest of the learner's working life. Under this option, the economic value added, discounted over their lifetime, is around £5.8 billion lower for the cohort of learners beginning their course in 2013/14 and £11.4 billion lower for each cohort from 2014/15 onwards (the costs for subsequent cohorts are further discounted to reflect the later 'starting point'). These benefits would have been realised over the rest of the learners' working lives, amounting to a period of 46 years in total.

See Annex 5: Annual profile of monetised costs and benefits for full derivation of average annual costs.

Other key non-monetised costs by 'main affected groups'

Research suggests that there are wider social benefits associated with adult learning, such as improved confidence, positive impacts on health, and a reduced propensity to commit crime. Such benefits would also be foregone given the lower number of learners compared to the baseline. However, they are more difficult to quantify.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low				
High				
Best Estimate	N/A		325	**12,705**

Description and scale of key monetised benefits by 'main affected groups'

The estimates above refer to learners starting their courses over a **ten-year period** – thus implying 10 annual cohorts. These benefits will all be incurred over the next ten years, but the average annual benefits (in the table above) are calculated over a period of 46 years in order to make them comparable with the benefits in the preferred option (where loans are repaid over a period of up to 30 years) and with the costs presented in relation to this option. The fact that these benefits are realised over a shorter time period than the costs is taken into account when calculating the NPV figures in the table above. See Annex 5: Annual profile of monetised costs and benefits for full derivation of average annual benefits.

The key monetised benefits of the preferred option include the reduction in **government funding costs** due to the withdrawal of funding from supporting this group of learners. In 2013/14, the saving in government funding costs amounts to £140m – there is still some funding required to continue to fund learners carrying over from the previous year, as well as those who start their course prior to the start of the academic year in September. From 2014/15 onwards, the reduction in government funding costs compared to the baseline will amount to £410m per year. There will also be a lower level of **contributions paid by individuals and their employers**, amounting to around £68m less in 2013/14, and £80m less in each year thereafter. This reflects the fact that although more qualifications will be wholly privately-funded (due to the removal of government funding which was previously deadweight), this will be outweighed by the reduction in individual and employer contributions towards co-funded qualifications.

On top of this, the lower level of learning compared to the baseline suggests that **less output will be foregone** whilst learning takes place. Relative to the baseline, this amounts to around £0.6 billion for the 2013/14 cohort and then £1.1 billion for each cohort from 2014/15 onwards.

Other key non-monetised benefits by 'main affected groups'

Because more qualifications will be wholly privately-funded, this could provide incentives for learners and their employers to choose courses with greater and more certain economic value, thus enhancing the value of the learning which does take place. However, the evidence presented in the evidence base suggests that deadweight in publicly-funded provision is relatively low, and therefore this effect is likely to be small. In any case, it is difficult to quantify the impact of this effect on the economic value of courses undertaken.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5, 3

- Based on our assessment of the evidence, we assume deadweight of around 10% across all learning streams. In other words, if government funding was reduced and no other measures (e.g. loans) were put in place, then 10% of learning would still go ahead on a privately-funded basis.
- This policy option would not impose any further statutory obligations or direct costs on businesses. Therefore, this would be out-of-scope for the purposes of OIOO. Although there are indirect costs, resulting from the reduction in skilled labour, such costs are not in scope for OIOO.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as:
Costs:	Benefits:	Net:	No	

Summary: Analysis and Evidence — Policy Option 3

Description: Replace grant funding with income contingent HE-style loans for individuals aged 24+ at Level 3 and above. This option would enable support to be provided to learners at the point of access, thus overcoming problems in accessing finance. Loans would only become payable when the learner had reached the prescribed earnings threshold.

Price Base Year:	*PV Base Year:*	*Time Period Years*	*Net Benefit (Present Value (PV)) (£m)*		
			Low: -36,149; *as 41,945 and 5,797 must map*	*High:*	*Best Estimate: -15,174*
2011	*2013/14*	*46*			

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low				
High			1,840	**41,945**
Best Estimate			783	**18,153**

Description and scale of key monetised costs by 'main affected groups'

The estimates above refer to learners starting their courses over a **ten-year period** – thus implying 10 annual cohorts.

The costs are in terms of **future value added** which is **foregone**, due to the reduction in learner numbers compared to the baseline. Relative to the baseline, there will be around 19,000 fewer learner starts in 2013/14, and 34,000 fewer in each year from 2014/15 onwards. There is strong evidence that learning generates substantial economic benefits (described in the evidence base section), which are realised over the rest of the learner's working life. Under this option, the economic value added, discounted over their lifetime, is around £0.9 billion lower for the cohort of learners starting their courses in 2013/14, and £2.1 billion lower for the 2014/15 cohort onwards (the costs for subsequent cohorts are further discounted to reflect the later 'starting point'). These benefits would have been realised over the rest of the learners' working lives, amounting to a period of 46 years in total.

Under this option, learners will also pay **higher contributions**, amounting to around £32m more for the cohort of learners beginning their course in 2013/14, compared to the baseline, and £108m more for each cohort from 2014/15 onwards. These repayments will potentially be made over the rest of the learners' working lives – up until 30 years after their course has ended, when any unpaid loans would be written off.

There are direct costs to businesses under this option, the derivation of which is outlined in more detail in the evidence base section. There would be an initial compliance cost of £1m to collect repayments for loans, which would be incurred in the 2015/16 financial year – in preparation for the first cohort, due to enter repayment in 2016/17. Then, from 2016/17 onwards, there would be an estimated annual cost of £1m per year. This reflects the cost of two obligations for employers – to make the necessary salary deductions each month, and to submit annual returns to HM Revenue and Customs (HMRC) on the repayments deducted by the employer.

The 'high' costs above follow our assessment that a reasonable lower bound would be to assume that take-up of loans is such that 60% of the learners, who would have been supported under the baseline, would still go ahead with learning under this option. Under this assumption, the number of learner starts would be 46,000 lower than the baseline in 2013/14, and 87,000 lower in each year from 2014/15 onwards. This means that the reduction in value added foregone over their lifetime amounts to £2.3bn for the 2013/14 cohort, and £5.1bn for the 2014/15 cohort and each subsequent cohort. Equally, higher contributions paid by individuals would amount to £8m for the 2013/14 cohort, and £36m for the 2014/15 cohort and each cohort thereafter. Cost to businesses, in terms of administering loan repayments, would be the same as under our best estimate.

See Annex 5: Annual profile of monetised costs and benefits for full derivation of average annual costs.

Other key non-monetised costs by 'main affected groups'

Research suggests that there are wider social benefits associated with adult learning, such as improved confidence, positive impacts on health, and a reduced propensity to commit crime. Such benefits would also be foregone given the lower number of learners compared to the baseline. However, they are more difficult to quantify.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High		146	**5,797**
Best Estimate	N/A	84	**2,979**

Description and scale of key monetised benefits by 'main affected groups'

The estimates above refer to learners starting their courses over a **ten-year period** – thus implying 10 annual cohorts.

The key monetised benefits of the preferred option include the reduction in **government funding costs**, due to the fact that more financial responsibility is being placed on learners to fund the costs of their course. In each year from 2014/15 onwards, the initial outlay is only slightly lower than under the baseline (£398m under the preferred option, compared to £410m under the baseline), but given that 40% of this will be repaid under the preferred option, net government funding will be £170m lower than under the baseline. However, this will be repaid over the period after learners have completed their learning, potentially up to 30 years. In 2013/14, £269m is available through grant funding (of which none will be repaid), and £129m through loans (of which 40% will ultimately be repaid). Therefore, total government costs – net of learner repayments – will be £64m lower than under the baseline.

On top of this, the lower level of learning compared to the baseline suggests that **less output will be foregone** whilst learning takes place. Compared to the baseline, this amounts to £201m less for each cohort of learners starting their course from 2014/15 onwards. This benefit will be a short-term one - realised over the period when learning would have taken place. For the 2013/14 cohort, this benefit will amount to £100m.

The 'high' benefits follow our assessment that a reasonable lower bound would be to assume that take-up of loans is such that 60% of the learners, who would have been supported under the baseline, would still go ahead with learning under this option. Under this assumption, government funding costs – net of learner repayments – would be £86m lower relative to the baseline in 2013/14, and £238m lower in each year from 2014/15 onwards. Foregone output would be £248m lower for the 2013/14 cohort of learners, and £484m lower for the 2014/15 cohort, and each cohort thereafter.

See Annex 5: Annual profile of monetised costs and benefits for full derivation of average annual benefits.

Other key non-monetised benefits by 'main affected groups'

The preferred option could also provide incentives for learners to undertake courses with greater and more certain economic value, thus enhancing the value of the learning which does take place. Learners could also place greater focus on quality and the practical relevance of the course undertaken, which could have similarly positive effects. This would mitigate some of the reduction in foregone value added outlined in the 'costs' section above, but the extent of this is difficult to quantify.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5, 3

- For our best estimate, we adopt the position that all of the funding available for loans will be taken up; in other words, demand for loans will match their supply. However, because fewer learners can be supported under the preferred option compared to option 1a, only around 80% of the learners who would have been supported under the baseline would need to take up loans in order for this to be the case. This position is based on our assessment of the evidence, outlined in detail in the evidence base section, combined with the fact that work will be undertaken to increase awareness and knowledge of loans, ensuring that communication messages are framed and targeted effectively. However, there is a risk of lower take-up, which would mean that the loss of learners would be greater than implied by this analysis. For this reason, our lower bound estimate of NPV is based on only 60% of the learners, who would have been supported under the pre-Spending Review baseline, taking up loans. Again, this position is based on our assessment of the evidence, outlined in detail in the evidence base.
- We also adopt the position that 40% of loans will be repaid by learners. This is based on the best available evidence, but there is a degree of uncertainty as this group is different in many respects from HE learners, for whom an income-contingent loan system is already in place. In particular, FE learners have lower incomes on average than HE learners; as a result, the proportion of loans which will be repaid is lower than in Higher Education. BIS are carrying out further research and analysis to improve the accuracy of the simulation model which calculates this Resource Accounting and Budgeting (RAB) charge in relation to FE loans.
- Based on our assessment of the evidence, we assume deadweight of around 10% across all learning streams. In other words, if government funding was reduced and no other measures (e.g. loans) were put in place, then 10% of learning would still go ahead on a privately-funded basis.
- This option is within scope for OIOO because of the direct costs to businesses outlined in the costs section above. There will also be indirect costs to businesses in terms of the negative impact on productivity stemming from the reduction in the amount of skilled labour. However, the latter represents an indirect cost to businesses, and is therefore not in scope for OIOO.

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as:
Costs: £1.0	Benefits: 0	Net: £-1.0	Yes	In

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England		
From what date will the policy be implemented?					
Which organisation(s) will enforce the policy?			N/A		
What is the annual change in enforcement cost (£m)?			N/A		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:**	**Benefits:**	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	N/A	N/A	N/A	N/A	N/A

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

[1] Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	BMG Research (2008), 'Continuing Vocational Training Survey 2005 (CVTS3)', DIUS Research Report 08-17.
2	Cambridge Econometrics (2011), 'Measuring the Economic Impact of Further Education', BIS Research Paper 38.
3	Dearden, L, Reed, H, & Van Reenen, J (2005), 'Estimated Effect of Training on Earnings and Productivity, 1983-99.' CEP Discussion Papers dp0674, Centre for Economic Performance, LSE.
4	Dearden, L., Fitzsimmons, E., & Wyness, G., (2010), 'The Impact of Higher Education Finance on University Participation in the UK'. BIS Research Paper Number 11.
5	Feinstein, L. (2002) *Quantitative Estimates of the social benefits of learning, 2: health (depression and obesity)*, Centre for Research on the Wider Benefits of Learning, Research Report 6.
6	Feinstein, L. and C. Hammond (2004), 'The contribution of adult learning to health and social capital', Centre for Research on the Wider Benefits of Learning, Research Report No. 8.
7	Fletcher, M., (2002), 'Loans for Lifelong Learning' Learning and Skills Development Agency. Great Britain.
8	Foskett, Roberts and Maringe (2006), 'Changing Fee Regimes and their Impact on Student Attitudes to HE' Higher Education Academy
9	Impact Assessment: 'Higher Education: Students at the Heart of the System' http://c561635.r35.cf2.rackcdn.com/11-1050-students-at-heart-of-system-impact-assessment.pdf
10	Ipsos MORI (2010), 'Evaluation of Level 3 – Final Report', Report prepared for Learning and Skills Council.
11	Ivins & Callender (2006), 'Paying for Learning. Learners, Tuition Fees and the New Skills Strategy' Report Prepared for Learning and Skills Development Agency.
12	Learning and Skills Council (2010), 'Train to Gain Employer Evaluation: Sweep 5 Research Report', Evaluation conducted by IFF Research Limited and the Institute for Employment Research.
13	London Economics ' Estimating the Effect of Raising Private Contributions to Further Education Fees on Participation and Funding' BIS 2009, Research Paper No 1.
14	Machin, S., Marie, O. and Vujic, S. (2010), 'The Crime Effect of Reducing Education', IZA DP No. 5000, Institute for the Study of Labour.
15	McIntosh, S. (2010). 'The Value of Skills: An evidence review', UK Commission for Employment and Skills, available at http://www.ukces.org.uk/tags/report/the-economic-value-of-intermediate-vocational-education-and-qualifications
16	National Centre for Social Research (2005), 'National Adult Learning Survey (NALS) 2005' available at: http://www.education.gov.uk/research/data/uploadfiles/RR815.pdf.
17	National Employer Skills Survey (2009) https://ness.ukces.org.uk/NESS09/default.aspx
18	OECD (2010), 'Education at a Glance 2010: OECD Indicators' OECD.
19	Ofsted (2009) 'Family Learning: An Evaluation of Family Learning for Participants, their Families and the Wider Community', Ofsted. HM Treasury (2003), 'The Green Book: Appraisal and Evaluation in Central Government', available at: http://www.hmtreasury.gov.uk/d/green_book_complete.pdf
20	Sabates, R. and L. Feinstein (2004), 'Education, Training and the take-up of preventative health care', Centre for Research on the Wider Benefits of Learning, Research Report No. 12.
21	Tett, L and K. Maclachlan (2007), 'Adult Literacy and Numeracy, Social Capital, Learner Identities and Self Confidence', Studies in the Education of Adults, 39, 2 pp150-167.

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices (see Annex 5: Annual profile of monetised costs and benefits)

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

For non-monetised benefits please see summary pages and main evidence base section

Please see attached spreadsheet for an illustration of how the benefits and costs are distributed over the time period. When considering the costs of the foregone value added over individuals' working lifetimes, this is a simplified illustration. This does not take into account the fact that individuals undertaking different courses are of different ages, and thus remain in the workforce for different lengths of time. We have not allowed for this level of sophistication in this breakdown, but it is accounted for in the derivation of the total estimates in the preceding summary pages.

Evidence Base (for summary sheets)

Issue under consideration

Skills make an important contribution to economic growth, both through raising the employment opportunities for individuals and by increasing productivity. International evidence suggests that the UK is behind the world leaders in terms of the proportion of the working age population with higher-level qualifications (Level 4+), and well down the ranking in the proportion holding intermediate qualifications (Level 2/3 or above)[2].

However, economic theory suggests that the costs of learning should be incurred by those who reap the benefits:

- To the extent that **individuals** benefit e.g. in terms of higher wages and better employment prospects, then they should fund their learning
- To the extent that their **employers** benefit e.g. in terms of increased profits or competitiveness, then they should fund their workers' learning
- To the extent that there are **spillover** effects i.e. benefits which accrue to those beyond the individual undertaking the learning and their employer, then this provides a rationale for government funding.

These spillovers mean that in the absence of government funding, there would be underinvestment in skills from an economic perspective. Such spillovers could occur through the direct transfer of knowledge from one individual to another, or indirectly through Research and Development and the adoption of new technologies. There may also be wider benefits to society as a whole, including reduced crime[3] and increased social cohesion.[4]

Even aside from these 'spillovers' and externalities, there are further market failures which may lead to underinvestment in skills. These are:

- **Information failures**: Individuals are unaware of the benefits of learning, or of the different options available to them
- **Risk aversion**: The future benefits of learning for individuals and their employers are variable and uncertain, and they are unable to insure against the risk of no or low returns
- **Credit market constraints**: Individuals may not have access to the necessary finance to fund their learning, and they are unable to use future human capital as collateral in order to secure a loan.

With tighter resources as a result of the Spending Review 2010 - the overall FE and skills resource budget will be reduced by 25% between 2011/12 and 2014/15 - government investment should be targeted at learning where its impact is maximised i.e. towards individuals who would not otherwise have undertaken learning and where the market failures are strongest. A key element of this is considering the age groups and qualification levels which should be targeted through government investment, and which of these groups should fund their own learning.

The evidence suggests that market failures are more acute for **lower skilled** individuals:

i. The **barriers to learning** are greater at lower qualification levels, for example 33% of those with no qualifications have no interest in learning, compared to 10% of those who have reached L2 and 5% of those who have reached higher education[5].

[2] OECD (2010), 'Education at a Glance 2010: OECD Indicators', OECD.
[3] Machin, S., Marie, O. and Vujic, S. (2010), 'The Crime Effect of Reducing Education', IZA DP No. 5000, Institute for the Study of Labor.
[4] Feinstein, L. and C. Hammond (2004), 'The contribution of adult learning to health and social capital', Centre for Research on the Wider Benefits of Learning, Research Report No. 8.
[5] National Centre for Social Research (2005), 'National Adult Learning Survey (NALS) 2005' available at: http://www.education.gov.uk/research/data/uploadfiles/RR815.pdf

ii. **Financial constraints**: the financial barriers faced by learners, which result from the inability to borrow against future increased productivity, are more difficult for the low skilled who are typically poorer and have less flexibility in financing.

iii. **Information**: information barriers affect the low skilled more, because they have less ability to access information sources, and their personal networks are likely to be similarly affected.

There is also a stronger need to invest in learning for **younger** adults. International evidence shows that the 19-25 age group is a critical period where the UK has traditionally fallen behind other developed countries. The evidence suggests that for levels 2 and 3 respectively, the UK falls behind Germany and to some extent behind the US and France. The main reason is the greater take up of vocational qualifications in Germany and France. This suggests that a particular market failure is affecting this age group in the UK, or alternatively it could reflect broader issues around failure at school, a lack of motivation to carry on studying at the same level, and other cultural or social barriers. To demonstrate this, according to Steedman *et al* (2004):

- In the UK, 48% of individuals have reached L3 by the 19 year age group, compared with 47% in Germany. But by age 25 the proportions are 54% in the UK and 74% in Germany.
- In the UK, 72% of individuals have reached L2 by the 19 year age group, compared with 68% in Germany. But by age 25, the proportions are 73% in the UK and 85% in Germany.

Furthermore, the barriers to learning for individuals who have not achieved by 19 are greater than for those who have been successful through to age 18 and are entering Higher Education. People who have not managed to reach L3, or in some cases even L2, by age 19, face increased disincentives to learning, and require greater incentives to persist in learning and to achieve the level they can.

As suggested previously, to the extent that individuals benefit from learning, then they should fund its costs. The evidence, summarised in table 1, suggests that L3 qualifications bring significant wage benefits to individuals. So, for example, an individual with an advanced apprenticeship will earn 18% more than a similar individual whose highest qualification is at L2. The equivalent figure for an intermediate apprenticeship is 16% compared to similar individuals whose highest qualification is at L1 or L2. Therefore, the returns are slightly higher in *percentage* terms at L3, but even higher in *monetary* terms because the wages of the comparison group will be higher.

Table 1: Percentage wage gain associated with each qualification type as highest qualification[6]

Level	Qualification Type	Wage Return
L3	Advanced Apprenticeship	18%
	BTEC	17%
	City and Guilds	17%
	ONC or OND	25%
	RSA	16%
	NVQ3	11%
L2	Intermediate Apprenticeship	16%
	BTEC	13%
	City and Guilds	7%
	RSA	16%
	NVQ2 through workplace	10%
	NVQ2	2%

[6] Jenkins (2007) and McIntosh (2010)

The preferred option therefore readdresses the balance in terms of who pays for further education. Individuals at L3 and above experience significant future wage benefits, and should therefore be expected to contribute towards the costs of their learning to a greater extent. However, the provision of income-contingent loans will help them to access the funds they need to afford upfront contributions and ultimately gain intermediate and higher-level skills. It therefore overcomes credit market constraints and people's inability to borrow against future human capital. Furthermore, because repayment will be dependent on borrowers earning above a certain threshold (unlike a standard commercial bank loan), this essentially insures against the risk of low or no returns, thus also helping to overcome the market failure relating to risk aversion.

Summary

Market failures – which would lead to underinvestment in adult learning – are most pronounced for younger and less educated individuals. As discussed previously, the evidence suggests that lower-qualified individuals face greater barriers to learning, including information barriers and financial constraints. International evidence also suggests that the 19-25 age range is where the UK falls behind its competitors, thus suggesting that a particular market or cultural failure is affecting this age group in the UK. For these reasons, Government has decided to target support at these groups.

The introduction of FE loans for learners aged 24+ and at L3 and above strikes an appropriate balance between achieving an appropriate reduction in government spending while supporting as many learners as possible. The evidence suggests that individuals realise significant wage benefits from L3 qualifications, and economic theory would therefore suggest that the costs they incur should reflect this.

Policy objective

In the context of the cuts to public spending in the Spending Review 2010, and the high wage returns at Level 3 and above, the preferred option reassesses the contribution which learners make towards the cost of their learning, compared to the level of subsidy. The proposed changes therefore remove grant funding for learners aged 24 and over, at Level 3 and above, whilst supporting these learners to finance qualifications through an easy-to-access, low-burden income contingent loan system, providing borrowing on commercially competitive terms. This is in line with the Coalition's principles of fairness and shared responsibility. It is only fair for those who benefit the most from training to make a greater contribution to the cost of their courses and also only fair for them to make this contribution when they are realising those benefits.

One in One Out

The preferred proposal in this impact assessment is in scope for one in, one out rules, because it imposes direct costs on businesses. The scope of these costs is discussed in more detail later on.

Options

The following options have been considered for learners aged 24 and over, undertaking courses at level 3 and above, to address the issue of reduced funding following the Spending Review 2010.

Option 1: Do Nothing

Continue grant funding provision according to the baseline prior to the Spending Review 2010. In light of the resulting cuts to public spending, this is not a feasible option and is therefore not considered further. It is used as a theoretical baseline against which to assess the impacts of the alternative options.

Option 1b: Same System But With Reduced Funding

Continue grant funding to the same amount we could afford through loans (under option 3). In other words, the amount which is spent on loans under the preferred option – net of learners' repayments – is spent on grant-funding instead.

Option 2: No Grant Funding or Loans

Stop grant funding provision for new learners from the 2013/14 academic year. This option has been discounted on the basis that it would lead to a considerable reduction in learner numbers and a corresponding loss of economic value.

Option 3: Income Contingent HE-Style Loans

Replace grant funding with income contingent HE-style loans. This option would enable support to be provided to learners at the point of access. Loans would only become payable when the learner had reached the prescribed earnings threshold.

FE loans will be made available for new learners from the 2013/14 academic year, with the first full year expected to be the 2014/15 academic year. The Government has made £129m available for FE loans in 2013/14 and £398m in 2014/15.

FE loans will operate according to the following principles:

- Loans will be available for learners aged 24 and over, studying at Level 3 and above. This will include those in receipt of active benefits (Job Seekers' Allowance and Employment & Support Allowance (Work-Related Activity Group)).
- Loans will be available to meet the upfront fee costs of training and will only be repaid once the learner has completed their course and is earning above the prescribed earnings threshold.
- FE loans will operate on the same basis as HE student loans, with repayments on an income contingent basis and any outstanding loan amount written off after 30 years.
- Loans will be available for learners on Apprenticeships and other work-based training as well as college-based training.
- The amount of loan available will be up to the equivalent of the fully funded rate for that qualification set by the Skills Funding Agency, where the learner is expected to meet of the cost of the course. Where the learner and employer are expected to jointly meet the costs; the loan available will be up to half of the fully funded rate.

The features of this loan system are summarised in table 2:

Table 2: Summary of FE Loans System

Category	Policy
Loan amounts	Amount of loan will reflect funding rate for course
	Maximum amount of loan will be equal to the fully funded funding rate for a Level 3 or Level 4 course
	A minimum amount of loans will be determined based on the fixed administration costs associated with the FE loans system (£200-500)
Learner eligibility	Learner contributions will not be regulated, but college/training provider charging policy will be reviewed after 1 year of operation
	Loans available to those aged 24 and over at beginning of course
	Prisoners in custody will be eligible for loans (provided they meet other eligibility criteria)
Course eligibility	Eligibility will be restricted based on previous access to loans rather than

Category	Policy
	previous educational attainment
	Loans available for Level 3 courses and above, including college based, work based and Apprenticeships – this will include programmes of A-Levels and other academic qualifications eligible for public funding (provided they are funded at least to the level of a QCF Certificate)
	Loans will be the available on the same basis for full or part-time courses but spread over the number of months the training takes place
	Loans will be available at 100% of the fully funded rate payable by the Skills Funding Agency for Level 3 and above qualifications at Certificate and Diploma level (as well as academic qualifications funded at or above the level of a Certificate)
	Loans for work based learning and Apprenticeships will be 50% of the fully funded rate
	Loans for individual based learning will not be available for a different qualification at the same level; these will need to be self-funded
Period of study	Loans can fund a package of Qualifications and Credit Framework units that combine to give a full Level 3/4 Certificate or Diploma
	The maximum period allowable for loan support will be 2 years for a Level 3/4 Certificate, 3 years for a Level 3/4 Diploma, 2 years for an Advanced (Level 3) Apprenticeship framework
	The approaches to Higher (Level 4) Apprenticeships are still being developed and could involve a number of different models. We will therefore set a maximum period once further work has been carried out in this area.
	Learners who have gained a Certificate funded by a loan can progress to a Diploma in 1 year or 2 years depending on the time in which the Certificate was completed, assuming that the progression is possible e.g. in a similar subject area
Repeat study	Any learning falling outside the maximum period will be self-funded
	Learners who have used a loan to fund study at Level 3 can take out a further loan to study at Level 4
	Learners can access loans for a period of repeat study provided the study aim was unchanged and the repeat study period can be completed within the maximum loan period
Completing study	Learners on an Apprenticeship framework at Level 3 or 4 can receive a loan for more than one Certificate or Diploma at the same level (studied either sequentially or concurrently depending on the framework)
Terms of loan	FE Level 3/4 loans will be repaid on the same basis as HE loans
	£21,000 repayment threshold
	Threshold growth yearly with earnings
	Threshold applies from 2016/17
	Repayment rate at 9% of earnings above threshold

Option 4: PCDL-style loans

Replace grant funding with Professional Career and Development style loans (PCDL). Loans would be provided by commercial organisations at the market rate. This has option been ruled out on the basis of the likely low levels of take-up and a reluctance of banks to lend to this group, thus leading to higher default charges.

Compared to the existing PCDL system, there would need to be a rapid expansion of more than ten-fold, to support the number of learners that can be supported through some of the other options. This would not be feasible for learners at lower levels, as these loans have primarily been used for post-graduate learners, and both the banks and the learners themselves have been reluctant to take them out for lower level provision.

In addition to the reluctance of both banks and learners to expand this loan product, there would also be the issue of access, as eligibility for the loans would be determined by the individual banks rather than according to the national eligibility criteria. This could mean that even if a learner was willing to agree to the terms of this loan, they may not be eligible if they do not meet the bank's criteria.

Evidence Underpinning Costs and Benefits

The costs and benefits associated with adult learning can be summarised as follows:

Table 3: Costs and Benefits of Adult Learning

Costs	Benefits
Government funding costs	Increased wages and improved employment prospects for learners
Contributions paid by individuals and their employers	Increased profits and competitiveness for their employers
Output foregone whilst learning takes place	'Spillover' benefits

These are all assessed and monetised in our analysis of the different options, and are considered in turn below:

Costs

Government Funding Costs / Contributions Paid by Individuals and their Employers

The options considered assess different balances between the extent to which course fees are funded by the government and privately i.e. by individuals and their employers, as well as the extent to which the government should provide loans to support individuals in covering up-front contributions. The total course costs – which will be funded either publicly or privately – can be summarised as follows. In-year course costs reflect the costs per learner per year, but many courses either last more than one year or straddle two financial years, and therefore the second column converts to a total course cost, based on analysis of average course lengths.

Table 4: In-year and Total Course Costs

	In-Year Costs (£)	Total Course Cost (£)
Level 3		
Provider-based NVQ	3,200	4,020
Work-based NVQ	1,300	2,060
Apprenticeship	3,000	5,840
Level 4		
Provider-based NVQ	900	1,130
Work-based NVQ	900	1,525

Foregone Output

Whilst learning is taking place, there is a potential loss of output i.e. because individuals are not working in productive employment. Two assumptions are made in order to calculate this:

- In the absence of learning, individuals would have earned the wage associated with their previous highest qualification. So if, for example, an individual is undertaking a L3 qualification, we assume they would have earned the average wage of individuals whose highest qualification is at L2. This information is derived from the Labour Force Survey, and we use it as a proxy for productivity;

- Output would only have been foregone during Guided Learning Hours. Based on analysis of the Individualised Learner Record, we assume that, on average, guided learning hours amount to 31% of an FTE for L3. For simplicity, we assume that this is invariant across different learning streams, and that individuals produce nothing during their guided learning hours.

  This implies that the average foregone output is around £7,000 per qualification at L3. This is potentially an overestimate of economic output foregone for two reasons:

  - Some learners might undertake learning during their leisure time, which means that no productive output is sacrificed whilst learning takes place;
  - It is possible that some output would be produced during guided learning hours in the case of work-based learning, when some learning is done on-the-job.

  On the other hand, wages may underestimate foregone output to the extent that some of the value of an individual's output is captured by their employer e.g. in terms of higher profits. Therefore, on balance, we believe that the proxy outlined above is the most sensible measure of foregone output to adopt for the purpose of this analysis.

Benefits

As previously outlined, there are a number of benefits of learning which need to be considered in this assessment. These are all captured in a report commissioned by BIS to measure the economic impact of further education[7]:

i. **Wage returns**: The benefits to individuals in terms of increased wages over the course of their working lives. In his assessment of existing evidence, McIntosh (2010)[8] reports substantial positive wage returns associated with the successful completion of different vocational qualifications – showing that individuals with a particular qualification earn x% more than similar individuals at the qualification level below (see table 1).

ii. **Employment returns**: Not only could qualifications increase the wages which individuals earn in employment, but they could also increase the probability of being in employment over the course of their lifetime. This literature is less well-developed compared to that on wage returns, but McIntosh (2010) suggests substantial employment-enhancing effects of vocational qualifications.

iii. **Benefits for Employers and 'Spillovers'**: At present, there is less evidence on these benefits, but Dearden, Reed and Van Reenen (2005)[9] suggest that the increase in productivity from training is double the increase in wages. Dearden *et al* (2005) consider only productivity spillovers at an industry level, but it is the only source that has attempted to quantify benefits to employers and spillovers in this way.

[7] Cambridge Econometrics (2011), 'Measuring the Economic Impact of Further Education', BIS Research Paper 38.
[8] McIntosh, S. (2010), 'The Value of Skills: An evidence review submitted to the UK Commission for Employment and Skills', available at:
http://www.ukces.org.uk/tags/report/the-economic-value-of-intermediate-vocational-education-and-qualifications
[9] Dearden, L, Reed, H, & Van Reenen, J (2005), 'Estimated Effect of Training on Earnings and Productivity, 1983-99.' CEP Discussion Papers dp0674, Centre for Economic Performance, LSE.

There is also evidence of a number of 'wider' social benefits to adult learning, but it is more difficult to assign monetary values to them. Evidence of these benefits is provided below, but we do not attempt to monetise them for the purposes of this assessment. Instead, the model simply assumes that the increase in total productivity is double the increase in wages, in line with Dearden *et al* (2005).

- **Cancer Prevention**: Sabates and Feinstein (2004)[10] find that for every 100,000 women enrolled in adult learning, an estimated 116–134 cancers could be prevented due to increased take-up of cervical smear tests.
- **Depression**: For women, moving from no qualifications to an academic Level 1 was found to reduce the probability of being depressed by between 6 and 10 percentage points. A smaller benefit was found amongst younger men (Feinstein, 2002)[11].
- **Reduced Crime**: Although not specific to adult learning, Machin, Marie and Vujic (2010)[12] estimate that a 1% reduction in the population with no qualifications would reduce property crime committed by 16-64 year-olds by at least 1.1%.
- **Social and Civic Engagement**: A survey of over 600 learners in Scotland over time showed behavioural changes such as increases in the proportion going out regularly, and the proportion who could identify someone they could turn to for help (Tett and Maclachan, 2007).[13]
- **Improved Parenting Skills**: A survey undertaken by Ofsted suggested that adults engaging in family learning became more involved in school life, benefited from an increased social network and improved their parenting skills, in terms of communicating with their children and managing their behaviour.[14] This is backed up by information from NALS (2005), suggesting that learning adults are more likely to engage with their children, leading to improved life chances.

The total benefits **per start** for an apprenticeship, provider- and work-based NVQ at L3 are summarised in table 5, both in current prices and discounted over the course of the learner's lifetime. It should be noted that these differ from the headline findings in the report, in the sense that those provided in the report are net of the costs (i.e. of government funding, individual / employer contributions and foregone output). The figures in table 5 purely consider the benefits of different learning streams.

It is important to stress that these benefits will accrue over the rest of the learner's working life, and have therefore been **discounted** (in the third column) to account for the fact that benefits realised in the future are less valuable than those realised now. In line with Green Book methodology[15], a discount rate of 3.5% for the first thirty years is adopted, and 3% thereafter. Also, the average age of individuals undertaking these qualifications is taken into account, and thus their average time left in the workforce, based on a retirement age of 60 for women and 65 for men.

Table 5: Lifetime benefits of FE programmes at L3

	Lifetime Benefit per Qualification Started		Average years left in workforce
	Current Prices	Discounted	
Apprenticeship L3	£184,000	£95,000	36
Work-Based NVQ L3	£91,000	£61,000	21
Provider-Based NVQ L3	£132,000	£73,000	32

[10] Sabates, R. and L. Feinstein (2004), 'Education, Training and the take-up of preventative health care', Centre for Research on the Wider Benefits of Learning, Research Report No. 12.
[11] Feinstein, L. (2002) *Quantitative Estimates of the social benefits of learning, 2: health (depression and obesity)*, Centre for Research on the Wider Benefits of Learning, Research Report 6.
[12] Machin, S., Marie, O. and Vujic, S. (2010), 'The Crime Effect of Reducing Education', IZA DP No. 5000, Institute for the Study of Labour.
[13] Tett, L and K. Maclachlan (2007), 'Adult Literacy and Numeracy, Social Capital, Learner Identities and Self Confidence', Studies in the Education of Adults, 39, 2 pp150-167.
[14] Ofsted (2009) 'Family Learning: An Evaluation of Family Learning for Participants, their Families and the Wider Community', Ofsted.
[15] HM Treasury (2003), 'The Green Book: Appraisal and Evaluation in Central Government', available at: http://www.hm-treasury.gov.uk/d/green_book_complete.pdf

Options Considered

For each option considered, we look at the learner numbers that can be supported through government funding, which is highest under the pre-SR baseline (option 1a). All other options entail a reduction in publicly-funded learners, but this will be offset to some extent by an increase in (wholly) privately-funded learners. This is therefore also considered.

We then calculate the costs and benefits, as discussed above, for each option. The costs and benefits refer to the cohort of learners beginning their courses in a particular year, but will be realised over the rest of their working life.

Our analysis initially focuses on 2014/15 – by this stage, we will have reached a 'steady state' where all learners, in the specified age group and at the particular levels, will be supported through loans under the preferred option. 2013/14 will be a transitional year in the sense that learners beginning their courses prior to the start of the academic year would still be eligible for grant funding. We therefore consider 2013/14 later on in this assessment.

Costs and Benefits in 2014/15

It should be noted that for ease of presentation, we use 2014/15 as the base year for any NPV calculations in this analysis e.g. when considering the benefits of learning in terms of value added over the rest of the learner's working life. However, in tables 37-40, this is converted to a base year of 2013/14 for the purposes of inclusion in the summary sheets at the front of this Impact Assessment.

Option 1a: Continue Grant Funding at Pre-SR Baseline

This option continues to provide grant funding in line with the baseline assumed prior to the previous Spending Review. Internal BIS modelling suggests that from 2014/15 onwards, around 324,000 learners would be funded in each year, with government investment totalling around £410m. A further breakdown is provided in table 6.

The costs and benefits resulting from this option will form the baseline against which other proposals will be assessed. Given the spending cuts required as a result of the Spending Review, this option is not feasible. Furthermore, it does not meet the Coalition's objectives of shared responsibility and freedom.

Costs

i. Funding Costs

Table 6 summarises the costs to the government under this option:

Table 6: Levels of government funding in 2014/15 – Option 1a

		Learners	Government Funding Costs (£m)
Level 3			
Provider-based	Co-funded	35,000	54
	Fully-funded	33,000	106
Work-based	Co-funded	102,000	78
	Fully-funded	2,000	3
Apprenticeships*	Co-funded	91,000	138
Total at L3		263,000	379
Level 4			
Provider-based	Co-funded	32,000	15
	Fully-funded	5,000	4
Work-based	Co-funded	23,000	11
	Fully-funded	1,000	1
Total at L4		61,000	31
Total at L3 and L4		**324,000**	**410**

* It should be noted that for the purposes of this analysis, all apprenticeships are assumed to be at L3, as the precise breakdown between L3 and L4 apprenticeships going forward is unknown. Furthermore, there is a lack of evidence on the benefits of L4 apprenticeships given their relative infancy, so in the analysis to follow, we assume the same benefits apply to these qualifications.

ii. Contributions paid by individuals and their employers

Table 6 demonstrates that some courses are fully funded by the government and some are co-funded. In other words, the government funds half of the course fees, with an expectation that the individual or their employer will fund the remainder. Therefore, for co-funded courses, we would expect the total private contribution to be approximately equal to the public contribution. Using the figures in Table 6, we estimate the total private costs – in terms of contributions to be paid by learners and employers – to be around £296 million per year.

However, analysis presented in the 'Independent Review of Fees and Co-Funding in Further Education in England'[16] suggests that colleges do not always collect the expected contribution for co-funded qualifications – they absorb the additional costs rather than passing them on to learners and employers. Fee collection is estimated to be around half of the expected contribution for provision funded through the previous Adult Learner Responsive (now provider-based learning) budget. There is no evidence for employer-based courses, although it is believed that it may be significantly less than 50%. However, in the absence of quantitative evidence, we assume that half of the expected contributions are collected here as well. Therefore overall, we would expect total contributions collected to be around £148m per year.

[16] Independent Review of Fees and Co-Funding in Further Education in England. Co-investment in the skills of the future. http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/i/10-1025-independent-review-fees-co-funding-fe-england.pdf

iii. Foregone Output

As discussed previously, there will be economic output foregone while learning takes place, estimated to be around £7,000 per course at L3. However, the figures in the table above refer to learner numbers and not to starts. Converting to starts – described in more detail in the next section – implies a total of 162,000 starts at L3, and therefore total foregone output of around £1.13bn.

The course costs shown in table 4 are lower at L4 compared to L3. This implies that the courses are shorter – likely to be *modules*, rather than full qualifications – and therefore foregone output is likely to be lower. For provider-based NVQs, costs are lower by a factor of around four; we therefore reduce output foregone by a factor of four for both provider- and work-based routes (in line with the assumptions made in relation to the benefits – see next section). This implies foregone output of £1,750 per start and £75m per year overall.

Total Costs

The total costs in each year from 2014/15 onwards can be summarised as follows:

Table 7: Total costs in 2014/15 – Option 1a

	Cost per year from 2014/15 (£m)		
	Level 3	**Level 4**	**Total**
Government funding costs	379	31	410
Contributions paid by individuals / employers	135	13	148
Foregone output	1,134	75	1,209
Total	**1,648**	**120**	**1,768**

Benefits

Table 6 shows the total number of learners per year from 2014/15 onwards. However, the estimates of economic benefits in table 5 are for each qualification **started**. We therefore need to convert learner numbers to starts before multiplying by the estimates in table 5.

We do not have comparable estimates of the benefits resulting from L4 qualifications. For provider-based NVQs, costs are lower by a factor of around four. Therefore, in the interests of being conservative, we scale down the benefits by a factor of four for *both* provider- *and* work-based routes. This is somewhat *ad hoc*, but is necessary (and indeed conservative) given the lack of evidence. Due to the relatively low number of individuals taking such qualifications to-date, and therefore the small samples of such learners within the existing data sources used to measure the impact of qualifications, it would not be cost-effective to undertake detailed analysis of returns at the current time.

Furthermore, given that over 80% of the learners under consideration here are at L3, and thus account for the majority of the economic value generated by each cohort, our results are not particularly sensitive to the assumptions made about the returns to L4 qualifications. For example, even in the extreme case where L4 qualifications generate no economic benefits, this would reduce the total in table 8 by £746m, a reduction of only 5%.

Table 8: Total benefits for 2014/15 cohort – Option 1a

	Learner Numbers	Starts	Discounted Lifetime Benefits per Start (£)	Total Discounted Lifetime Benefits per Cohort (£m)
Level 3				
Provider-Based	68,000	61,000	73,000	4,453
Work-based	104,000	62,000	61,000	3,782
Apprenticeships	91,000	39,000	95,000	3,705
Total at L3	263,000	162,000		11,940
Level 4				
Provider-based	37,500	30,000	18,000	548
Work-based	23,500	13,000	15,000	198
Total at L4	61,000	43,000		746
Total at L3 and L4	**324,000**	**205,000**		**12,686**

Each cohort of learners from 2014/15 would therefore generate total (discounted) economic benefits of around £12.7bn over the rest of the learners' time in the workforce. The average time left in the workforce varies between different learning streams, but this value added would be realised in a period of around 36 years.

Net Benefits

To summarise, this option leads to:

- Total economic costs of £1.77 billion per year;
- Total economic benefits of £12.69 billion over the rest of their working life (and therefore discounted), for the cohort of learners beginning their course in 2014/15;
- Net economic benefits of £10.92 billion over the rest of the learners' working lives (discounted to a base year of 2014/15).

Option 1b: Maintain current system but with a reduced level of funding

The cost/benefit analysis under this option follows the same methodology described in Option 1a, but the following considerations have been made:

i. **Lower amount of grant funding**: This option considers the number of learners whom could be supported through grant funding, with approximately the same amount of funding required as through the income contingent loan system, net of individuals' repayments (see Option 3 for more detail). This is a simplified, illustrative example with the purpose of demonstrating the order of magnitude of the figures involved.

   Under Option 3 there would be an initial investment of £398 million in 2014/15 and BIS internal analysis suggests around 40% of that will be repaid (allowing for both discounting and interest). Option 1b is therefore based on providing grant funding equivalent to 60% of the initial

investment in option 3 – around £240 million. Assuming this grant funding would be distributed across learning streams (including co-funded and fully-funded aims) in the same way as in option 1a, there will be around 181,000 publicly funded learners. This implies a significantly lower number of learners receiving public funding compared to option 1a. The table below summarises the availability of government funding and learner numbers across all learning streams:

Table 9: Levels of government funding in 2014/15 – Option 1b

		Learners	Government Funding Costs (£m)
Level 3			
Provider-based	Co-funded	24,000	38
	Fully-funded	23,000	73
Work-based	Co-funded	51,000	39
	Fully-funded	1,000	1
Apprenticeships	Co-funded	45,000	69
Total at L3		144,000	220
Level 4			
Provider-based	Co-funded	22,500	10
	Fully-funded	3,500	3
Work-based	Co-funded	11,500	6
	Fully-funded	500	0.3
Total at L4		37,000	19
Total at L3 and L4		**181,000**	**240**

ii. Increased level of privately-funded qualifications

The reduction in publicly-funded qualifications undertaken, compared to option 1a, will be partly offset by more learning being funded entirely by individuals and employers. In other words, we need to ask to what extent was grant funding 'deadweight', and upon its removal, learning will still go ahead, wholly funded by either individuals or employers?

There is limited evidence in this area, but the evaluation of the previous Train-to-Gain programme[17] found that deadweight was of the order of 10% on average. In other words, 10% of the qualifications supported through the programme would still have been achieved in the absence of government funding.

This finding of relatively low levels of deadweight is backed up by current evidence from the National Employer Skills Survey. Although NESS (2009)[18] suggests employer investment in on- and off-the-job training was around £39.2bn in the 12 months prior to the survey, the majority of this was accounted for by labour costs. Only around £3bn was spent on fees, with around one quarter of expenditure estimated to be on qualification-bearing learning. This suggests a relatively low level of employer investment in skills, and evidence from the rest of the EU suggests that the UK ranks well below average in terms of expenditure as a proportion of labour costs.[19]

[17] Learning and Skills Council (2010), 'Train to Gain Employer Evaluation: Sweep 5 Research Report', Evaluation conducted by IFF Research Limited and the Institute for Employment Research.
[18] National Employer Skills Survey (2009) https://ness.ukces.org.uk/NESS09/default.aspx
[19] BMG Research (2008), 'Continuing Vocational Training Survey 2005 (CVTS3)', DIUS Research Report 08-17.

There is less evidence on deadweight for non work-based learning, but the National Adult Learning Survey[20] (NALS, 2005) suggests that around 23% of learners with L2 qualifications found that cost was an obstacle to undertaking learning under the current system, with 88% of these saying that payment of tuition fees in full would be very likely or fairly likely to encourage them to do some learning. Although the evidence presented later in this paper suggests a willingness amongst learners to pay higher fees for their courses, there is clearly a considerable difference between increasing fees, and removing government support altogether. For this reason, we expect deadweight to be of a similar order of magnitude amongst learning funded by individuals (as by employers).

Therefore, on balance, we believe that the **10% estimate of deadweight** is the best indication of the likely increase in privately-funded qualifications as a result of reducing grant funding, and this applies to learning funded by both employers and individuals. However, Skills for Sustainable Growth – published in November 2010 – outlines a number of other measures to lever in private investment in learning. These measures are not within the scope of this Impact Assessment, but imply that even in the absence of loans, there may be a larger number of wholly privately-funded qualifications than this analysis assumes.

Costs

Table 10 summarises the costs of this proposal, in terms of government funding costs, contributions paid by individuals and their employers (both for co-funded and wholly privately-funded aims), and foregone output. The methodology for estimating the latter is the same as in Option 1a, with the section above describing the new considerations accounted for in estimating government funding costs and the level of contributions paid by individuals/employers.

Table 10: Total costs in 2014/15 – Option 1b

	Costs per year from 2014/15 (£m)		
	Level 3	**Level 4**	**Total**
Government funding costs	220	19	**240**
Contributions paid by individuals / employers	100	10	**110**
Foregone output	698	50	**748**
Total	**1,018**	**79**	**1,097**

Benefits

The same methodology as in option 1a has been used to estimate total benefits under this proposal, which are summarised in table 11:

[20] National Adult Learning Survey (2005) https://www.education.gov.uk/publications/eOrderingDownload/RR815.pdf

Table 11: Total benefits for the 2014/15 cohort - Option 1b

	Learner Numbers	Starts	Discounted Lifetime Benefits per Start (£)	Total Discounted Lifetime Benefits per Cohort (£ million)
Level 3				
Provider-Based	49,000	44,000	73,000	3,224
Work-based	57,000	34,000	61,000	2,084
Apprenticeships	50,000	21,000	95,000	2,027
Total at L3	156,000	100,000		7,335
Level 4				
Provider-based	27,000	22,000	18,000	393
Work-based	13,000	7,000	15,000	108
Total at L4	40,000	29,000		501
Total at L3 and L4	**196,000**	**128,000**		**7,836**

The total economic value generated under this proposal is around £7.8 billion over the lifetime of the cohort of learners beginning their courses in each year from 2014/15 onwards. This is significantly lower than under option 1a, which is explained by the lower number of learner starts.

Net Benefits

The net benefits of this option are summarised in table 12, also showing how they compare with our baseline in option 1a. This suggests that although costs are around £0.67bn lower than under option 1a, the benefits are substantially lower too. This implies that the net (lifetime) benefit is around £4.18bn lower than the baseline.

Table 12: Costs and benefits of option 1b for 2014/15 cohort, relative to option 1a (£bn)

	Option 1b	Relative to option 1a
Total Costs	£1.10	- £0.67
Total Benefits	£7.84	- £4.85
Net Benefits	£6.74	- £4.18

Option 2: Stop grant funding

Under this option there will be no public investment in Level 3 and higher learning for those aged 24 and over, and there will be no government-supported loans to provide access to finance – to help learners to afford upfront contributions. This option will result in an even greater reduction in learner numbers than option 1b, thus generating substantially lower future economic value added. There will be no co-funded learning undertaken and any learning that does take place amongst this cohort will be wholly privately funded. The same methodology has been employed as in the previous option to estimate both the costs and benefits.

Costs

Table 13 below summarises the costs under this proposal:

Table 13: Total costs in 2014/15 – Option 2

	Costs per year from 2014/15 (£m)		
	Level 3	**Level 4**	**Total**
Government funding costs	0	0	0
Contributions paid by individuals / employers	63	5	68
Foregone output	113	8	121
Total	**176**	**13**	**189**

Therefore, under this option there will be no government funding costs, and there will thus be no individual or employer contributions towards co-funded aims. There will however be some aims which are wholly privately-funded, but the relatively low levels of learning mean that individual / employer contributions and foregone output are both lower than for option 1a.

Benefits

In the absence of government funding, there will thus still be some privately funded-learning. As discussed in relation to option 1b, we continue to adopt a position where 10% of the learning which would have gone ahead under option 1a still goes ahead, but on a wholly privately-funded basis – either by individuals or their employers. This implies that there will be a 90% reduction in learner numbers relative to our baseline of option 1a. The table below summarises the total benefits under this option:

Table 14: Total benefits for 2014/15 cohort – Option 2

	Learner Numbers	**Starts**	**Discounted Lifetime Benefits per Start (£)**	**Discounted Total Lifetime Benefits per Cohort (£m)**
Level 3				
Provider-Based	6,800	6,100	73,000	445
Work-based	10,400	6,200	61,000	378
Apprenticeships	9,100	3,900	95,000	371
Total at L3	26,300	16,200		1,194
Level 4				
Provider-based	3,700	3,000	18,000	55
Work-based	2,300	1,300	15,000	20
Total at L4	6,100	4,300		75
Total at L3 and L4	**32,400**	**20,500**		**1,269**

This implies that the total benefits generated by the 2014/15 cohort over the rest of their working lives amount to around £1.3bn.

Net Benefits

The net benefits of this option are summarised in table 15, also showing how they compare with our baseline in option 1a. This suggests that although costs are around £1.58bn lower than under option 1a, the benefits are substantially lower too. This implies that the net (lifetime) benefit is almost £10bn lower than under the baseline.

Table 15: Costs and benefits of option 2 for 2014/15 cohort, relative to option 1a (£bn)

	Option 2	Relative to option 1a
Total Costs	£0.19	- £1.58
Total Benefits	£1.27	- £11.42
Net Benefits	£1.08	- £9.84

Option 3: Provide income contingent loans

This option would provide loans to individuals, which would cover the learner contribution – amounting to the unit cost of the course in the case of college-based learning, and *half* of the unit cost in the case of work-based learning, including apprenticeships. The proposed system is summarised in more detail in table 2. This proposal strikes a balance between reducing the level of public expenditure in line with the Spending Review 2010, whilst providing individuals with the necessary access to finance in order to afford contributions upfront, thus overcoming the credit market constraints described previously. Individuals would have to earn at least £21,000 before they start repaying their loans. To some extent this insures against the risk of no or low returns, thus helping to overcome the risk aversion issue.

The main features of the loan system relevant to this modelling are summarised in the table below:

Table 16: Key elements of loan proposal which are relevant to this modelling

Repayment Threshold	£21,000
Threshold Growth	Yearly with earnings
Year when threshold applies	2016/17
Repayment period:	30 years
Repayment Rate:	9% of earnings >threshold
Cost of loan to government:	RPI + 2.2%*
Interest rate for below threshold	RPI
Interest rate for threshold to £41k	Between RPI & RPI +3%
Interest rate for £41k+	RPI + 3%
RAB charge	60%

* This represents the Government's long-term cost of borrowing (as directed by HM Treasury).

Take-Up

There are essentially two elements here, which we consider in turn:

i. The extent to which individuals are prepared to make higher contributions towards the cost of their learning;
ii. The extent to which individuals are prepared to take out loans to fund their learning.

i. Willingness to make higher contributions

A study undertaken by London Economics[21] estimated the **price elasticity of demand** for Further Education by individuals. This study used the Individualised Learner Record (ILR) and found that the average elasticity of demand was between -0.1 and -0.2 i.e. a 10% increase in fees would reduce enrolment by between 1% and 2%. This suggests that the demand is relatively **inelastic** and points towards a willingness amongst learners to pay higher contributions. It thus implies that the reduction in learners may be relatively small if they were asked to make higher contributions.

However, this study may understate the elasticity of demand in this context for a number of reasons, and the findings should be considered in this light:

- The estimates were derived from data over which there was relatively small variation in fees. The reduction in enrolment following a non-marginal increase could be a lot greater than implied by the elasticity estimates above;

- The data used does not include learners who are currently in receipt of full fee remission. We would expect these learners to be more sensitive to price;

- Fees (the measure of price used) only constitute a proportion of even the direct costs of studying, which also include books, travel, childcare etc.

Other evidence on learners' willingness to pay can be gleaned from the longitudinal evaluation of Level 3 FE learning, commissioned by the former Learning and Skills Council (LSC)[22]. This asked **whether learners would have gone ahead with their course if they had to pay (more) fees.** About 50% of the respondents indicated they would have been prepared to pay (more), with a further 10-20% saying it would depend upon how much more. The findings are summarised in table 17:

Table 17: Whether learners would have gone ahead with their course if they had to pay (more) fees

	Already pay some/all fees	Do not already pay fees
Yes	53%	55%
No	27%	34%
Depends how much	18%	9%
Don't know / No answer	2%	2%

Although a substantial proportion of the respondents said they would have paid more, it is important to note that the survey was conducted *after* learning had been undertaken. This could have influenced their responses, as learners would have been more aware of the benefits to them, in terms of knowledge gained and potentially positive employment outcomes.

[21] London Economics ' Estimating the Effect of Raising Private Contributions to Further Education Fees on Participation and Funding' BIS 2009, Research Paper No 1.
[22] Ipsos MORI (2010), 'Evaluation of Level 3 – Final Report', Report prepared for Learning and Skills Council.

Therefore, although the econometric and survey evidence should be treated with caution, it does suggest a certain willingness of learners to make higher contributions. Furthermore, evidence from the National Adult Learning Survey (2011, forthcoming) suggests that cost is not seen as the most important factor in the decision to undertake learning. Discrete choice analysis, used to simulate real decision-making, found that the benefits of learning were the main factor in choosing whether to learn, followed by the time commitment. The cost of learning held less weight.

ii. Willingness to take out loans

A report commissioned by the Learning and Skills Research Centre (2006)[23] suggested a reluctance amongst FE learners to take out loans for the purposes of learning:

- Two-thirds of FE learners would not consider taking out a loan to fund their learning under any circumstances;
- 13% said they would consider it if they could delay repayment until their income reached a certain level;
- 6% said they would do so if they could wait until they had completed their training;
- Only 7% would consider taking out a commercial loan for this purpose;
- The reluctance to take out loans was slightly higher at Level 2 and below.

This evidence suggests a reluctance to take out loans for the purposes of learning, although it does indicate that income contingent loans appear to be the most viable option. Effectively, the income contingent nature insures individuals against the risk of no or low returns, which we would expect to reduce uncertainty and encourage take-up. It should also be borne in mind that this evidence was collected five years ago – attitudes towards loans could conceivably have changed since then.

Furthermore, evidence suggests that people are more accepting of loans when they are given the context, in terms of reasons and benefits. Focus groups[24] with adults found that people had a poor understanding of how learning was funded. While there was a preference for grants and free tuition, they were aware that funds were scarce and felt that funding should focus on the low-skilled. There was a strong view that adults should contribute to learning and given the context, loans were preferable to nothing. As suggested above, their preference was for an income contingent loan – particularly for those who are debt averse.

Much of this evidence is 'hypothetical' i.e. asking individuals what they *would* do *in the event that* loans *were* introduced. There is a lack of evidence to demonstrate how learners – especially the particular group under consideration here – actually behave when faced with loans. We therefore draw on the limited evidence from the UK, and the slightly broader international evidence base, which suggests a willingness to take out loans when faced with increases in the financial contributions which they are expected to make.
A small-scale trial by Kent TEC in 1999[25] found that loans for FE increased the quantity of learning and quality of outcomes for those motivated to learn, but without the finance to pay for a course. Learners using this loan system had not considered other forms of finance such as commercial loans or Career Development Loans due to fear of rejection. The evaluation found that all starters completed their courses and felt their learning had achieved the predicted benefits, possibly suggesting loan users had enhanced motivation and understanding of the benefits. However, this effect is difficult to quantify, and has therefore only been included as a non-monetised benefit for the purposes of this Impact Assessment.

Although one must be cautious when interpreting evidence relating to Higher Education (HE) – because of the differences in the characteristics of the learning population – the UK's experience of HE fees and loans shows that loans help to mitigate the impact of rising fees and are as effective as grants.

[23] Ivins & Callender (2006), 'Paying for Learning. Learners, Tuition Fees and the New Skills Strategy' Report Prepared for Learning and Skills Development Agency.
[24] MC Consulting (1999), Quoted in "Loans for Lifelong Learning", Mick Fletcher (editor), LSDA 2002
[25] Fletcher (2002), 'Loans for Lifelong Learning' Learning and Skills Development Agency.

Econometric modelling undertaken by IFS[26] on the impact of grants, fees and loans, 1992-2007, shows that:

- A £1,000 increase in fees leads to a 4.4% drop in participation;
- A £1,000 increase in loans leads to a 3.2% rise in participation;
- A £1,000 increase in grants leads to a 2.1% rise in participation.

This implies that loans will not cover the full impact of rising fees, particularly as there will not be 100% take-up, but it does suggest that individuals are willing to take up loans for the purposes of learning.

International evidence also suggests that participation rates have not fallen substantially following increases in fees combined with the introduction of loans[27]:

- New Zealand's post-secondary loans (available to HE and FE) were introduced to address commercial market failures to lend, thereby helping to encourage participation. Participation rates and rates of return have risen in line with trends, and minority group participation rates have also risen.
- Analysis of Canada's experience of rising fees and loans found that while the elasticity increased initially, it fell back to pre-fee rise levels, as loans increased to compensate for fee rises.
- Other countries, such as Russia and China, have not seen participation rates decline with fees or loans.

Summary on expected take-up of loans

In summary, this evidence suggests that only around **one third** of Level 3 learners said they would definitely not have gone ahead with their course if they had had to pay (more) fees. However, other evidence suggests that **two thirds** of FE learners would not take out a loan to fund their learning under any circumstances. Whilst directly related to FE (even if not necessarily to the precise learner group under consideration here), this evidence is 'hypothetical' in that it asks people what they *would* do *in the event that* loans *were* introduced. The evidence where loans have been introduced, outlined above, suggests that increases in the contributions which individuals are required to make, combined with loans, may have relatively small negative impacts on participation.

Furthermore, under this option, there will also be considerable efforts made to maximise individuals' awareness of loans, in terms of providing people with the information they need to make informed decisions, ensuring that communications messages are framed and targeted effectively. We would expect this to further increase learners' willingness to take out loans to fund their learning.

Based on the available evidence, our best estimate therefore adopts the position that **all of the funding available for loans will be taken up**, and we have based learner numbers on this assumption. Because we can afford to support a smaller number of learners under this option compared to the baseline (option 1a) – around 171,000 compared to 205,000 starts per year from 2014/15 onwards – it implies that only around 80% of the theoretical learners who would have been supported through grant funding according to the pre-Spending Review baseline, would now need to be prepared to take out a loan in order for demand to match supply. It could also be the case that, following the removal of grant funding, individuals or their employers opt to fund the learning themselves – i.e. without taking a loan – particularly if grant funding was previously 'deadweight'. If this was the case, then this would alter the distribution of the economic costs (i.e. more of the fees would be privately funded, implying a lower level of government funding), but the learning would still go ahead, and thus the total costs and benefits would remain the same.

It nonetheless remains a **risk that take-up of learning will not match the number of loans available**, meaning a lower number of learners than the following analysis implies, and thus a greater reduction in economic value compared to the baseline. For this reason, we will undertake some sensitivity analysis

[26] Dearden, Fitzsimmons and Wyness (2010), 'The Impact of Higher Education Finance on University Participation in the UK' BIS Research Paper Number 11.
[27] Foskett, Roberts and Maringe (2006), 'Changing Fee Regimes and their Impact on Student Attitudes to HE' Higher Education Academy

based on different take-up rates, in order to demonstrate how sensitive our results are to this assumption. Based on the evidence above, we believe a realistic lower bound estimate should be based on learner numbers falling by 40% (therefore total learner numbers equate to around 60% of those under the baseline). This is consistent with the number of people who say they would not have gone ahead with their course if they had to pay more fees (rounded up to the nearest 10%, in the interests of being conservative).

It is also possible that there could be a shift in participation away from poorer or more disadvantaged people, as these will potentially be the most reluctant individuals to take up loans, thus leading to a change in the demographic and socioeconomic characteristics of the learner population. This potential effect will be considered in greater detail in the accompanying Equalities Impact Assessment.

We also plan to undertake further research in the department, in order to better understand individuals' likely reactions to the increases in contributions and their willingness to take up loans. Not only will this allow us to potentially refine the assumptions in this analysis, but it will also allow the department to frame communications messages around loans more effectively.

Loan Repayment

As explained previously, individuals will pay back their loan as and when their annual earnings exceed £21,000, when they will pay back at a rate equal to 9% of their earnings above this threshold. Any loans not paid back within 30 years will be written off.

In considering the extent to and the speed at which loans would be repaid, we need to consider the earnings of the population. Figures 1 and 2 show average annual earnings for males and females respectively - aged 24+, in full-time employment and with L3 qualifications:

Figure 1: Full-time incomes of men aged 24+ with L3 qualifications, Labour Force Survey - Q3 2010

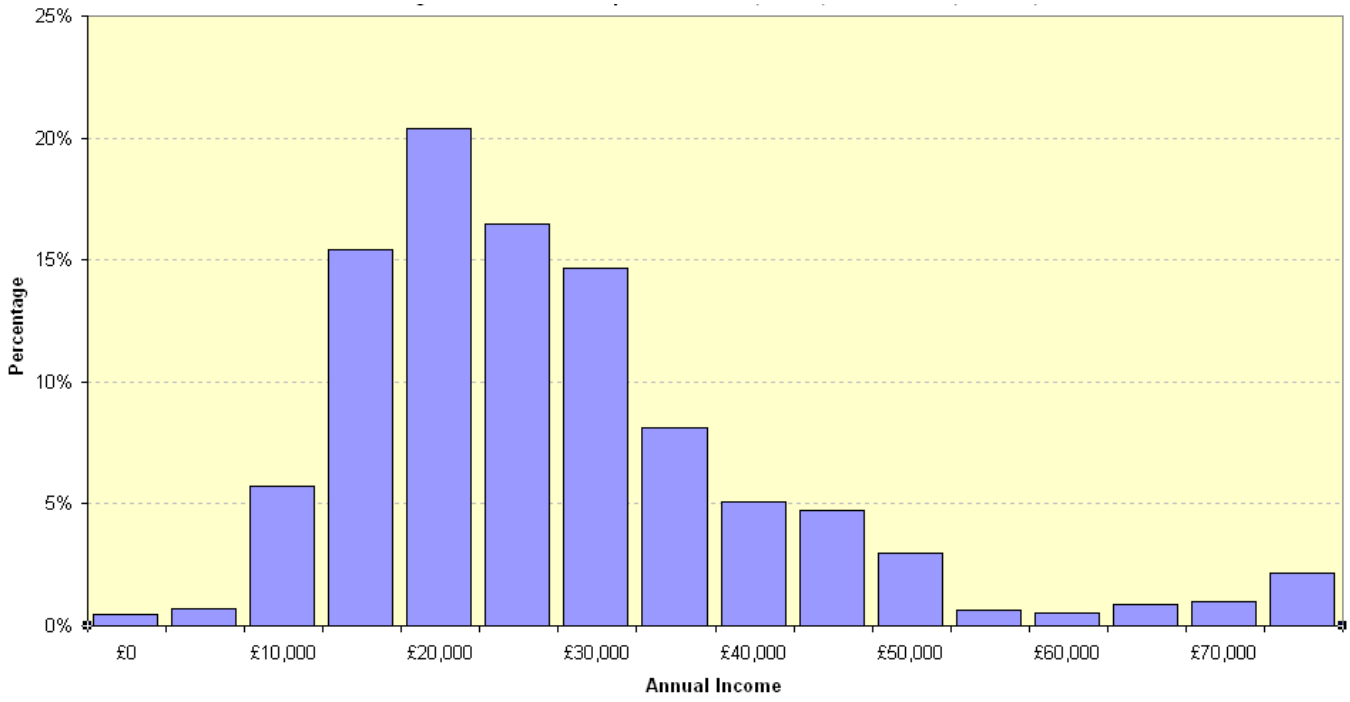
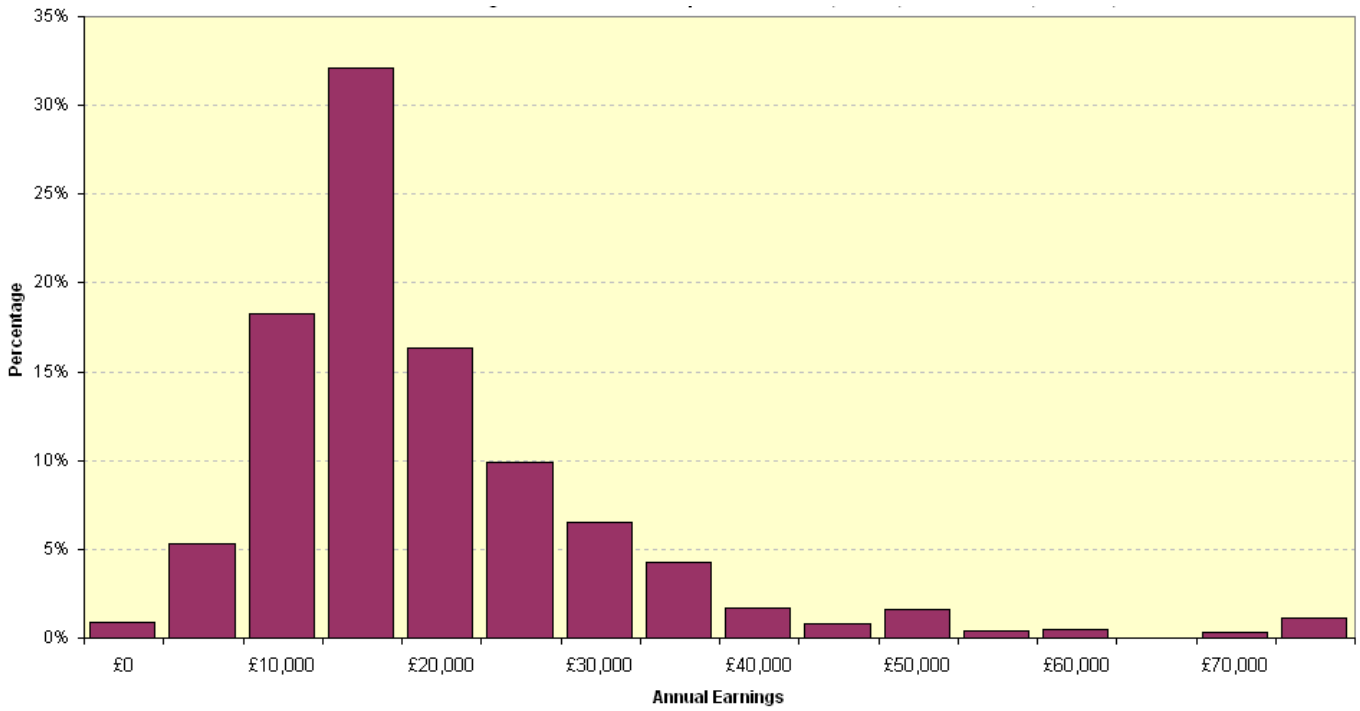


Figure 2: Full-time incomes of women aged 24+ with L3 qualifications, Labour Force Survey - Q3 2010



These graphs suggest that, even amongst those working full-time, around 20% of males earn less than £20,000, with the corresponding figure for females being around 55%. Therefore, looking at people of different ages at a single point in time, a significant proportion are below the £21,000 threshold.

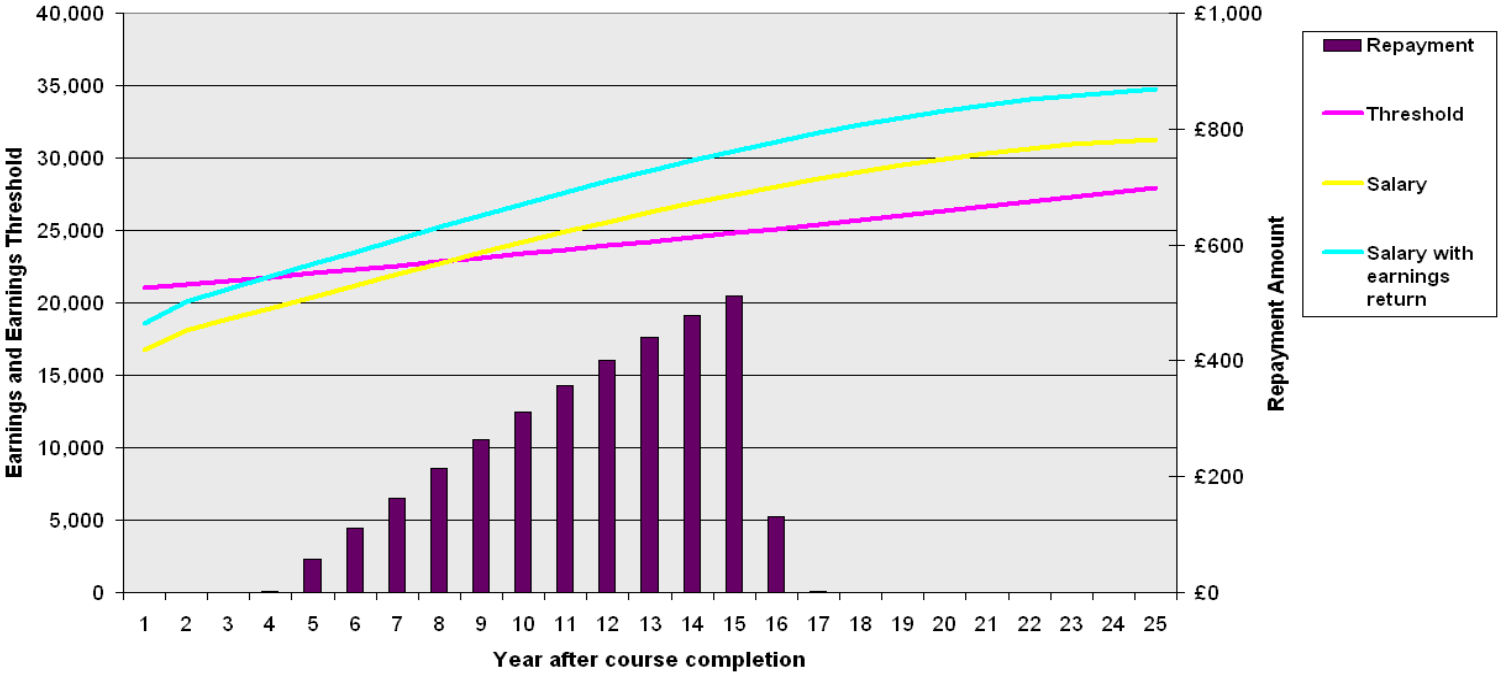
However, these findings are not broken down by age, and the change in an individual's earnings over the years following the completion of their qualification, and over the rest of their working life, will determine the extent to which they repay the loan and the period over which they do so. We therefore provide an illustrative example, based on econometric analysis of the Labour Force Survey, to demonstrate the repayment profile for a 'typical' individual working full-time who completes an NVQ L3 qualification at the age of 25:

- Analysis suggests that the average earnings of individuals aged 25 with a Level 2 qualification are around £16,700. Even in the absence of further qualification-bearing learning, this would increase in real terms, as the individual becomes older and increases their stock of human capital (e.g. through experience and knowledge acquired).
- Individuals with NVQs at L3 earn, on average, 11% more than similar individuals with L2 qualifications (see table 1).

Figure 3 therefore shows how this typical individual's income may grow overtime, and how they repay the loan accordingly:

- This individual reaches the income threshold in the fifth year after they complete their qualification;
- It will then take a further eleven years in order to pay off the loan;
- Without the earnings return on the qualification, they would not have reached the threshold until four years later.

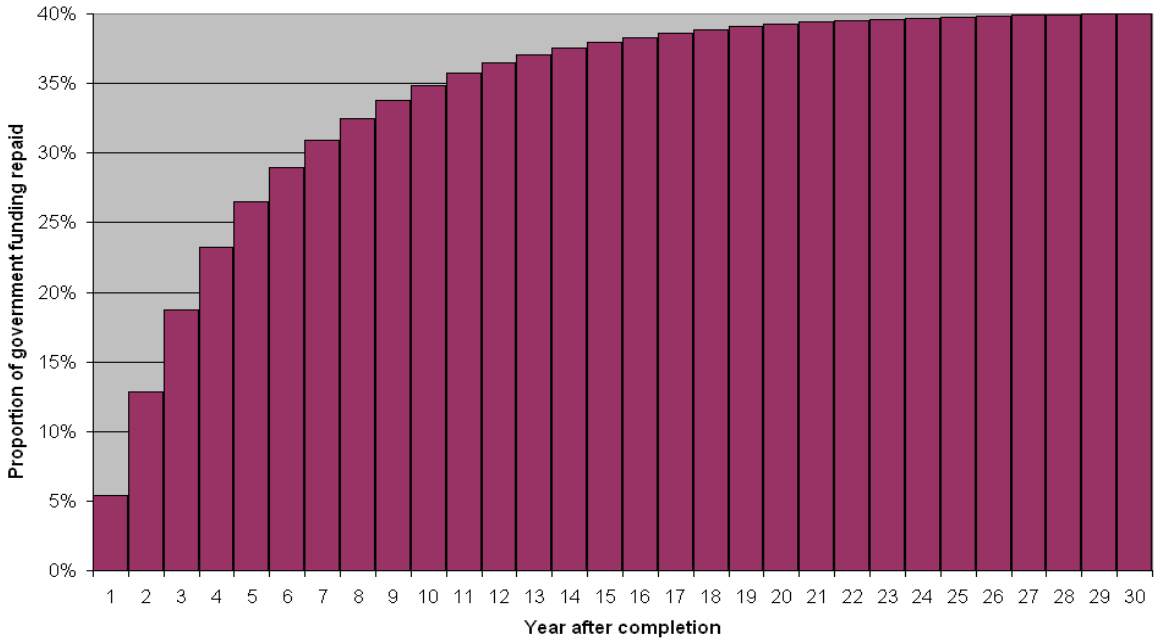
Figure 3: Repayment profile of a typical Individual, who ends their course on a salary of £16,700



This is an example to demonstrate the principle of repayment. In reality, individuals who take out loans will face a range of different circumstances, some will never reach the income threshold, others will reach it more quickly and pay off the loan sooner.

Internal BIS modelling has therefore been undertaken to calculate the extent to which individuals will repay their loans. This is referred to as the Resource Accounting and Budgeting (RAB) charge, and it depends on the number of learners who are unable to repay their loan in full, multiplied by the amount left unpaid, and also on the interest charges for periods when people are not paying the full interest rate. To calculate the RAB charge, BIS have built a simulation model which generates the employment activities and earnings of 20,000 simulated learners over the next 30 years. These are based on historical distributions derived from Labour Force Survey data. The current estimate of the RAB charge from the model is 60%, implying that only 40% is repaid. The RAB charge is therefore higher than for Higher Education loans because of the lower average income of FE learners. The following graph – based on the simulation – provides an illustration of how the loan is repaid over the 30 period. This demonstrates that around 35% of the original government outlay (the vast majority of the total repayments) is made within ten years of the cohort completing their qualification.

Figure 4: Aggregate repayment of loans for a cohort of learners after course completion



BIS are carrying out further research and analysis to improve the accuracy of the employment activity and earnings distributions which are fed into the simulation model. It should also be noted that because they are ultimately funding more of the costs themselves under this option, learners may be more likely to choose courses with higher and more certain economic value, thus reducing the RAB charge.

Table 18 shows the various costs incurred under this option, based on a RAB charge of 60%:

Table 18: Total costs in 2014/15 – Option 3

	Discounted Costs per year from 2014/15 (£ million)*		
	Level 3	**Level 4**	**Total**
Loan repayments (private)**	144	15	159
Net government funding**	216	23	240
Other contributions paid by employers***	91	5	96
Foregone output	945	63	1,008
Total	**1,397**	**106**	**1,503**

* Note that these are discounted, as loans are paid back over the years following completion of the course.
** Therefore, the government provides £360m at L3, and £38m at L4, and thus a total of £398m in loans, of which 40% will ultimately be repaid.
*** These represent employers' contributions to apprenticeships and other work-based learning.

Initial funding provided by the government in the form of loans will be £398m in 2014/15 – almost the same as that provided in grant funding under Option 1a. However, 40% of that will be repaid by individuals over the next thirty years, thus the net government contribution would be much lower. Although the initial amount available would be very similar, there will be a reduction in the number of learners. This is due to loans covering the unit cost of the course in the case of provider-based learning, albeit only half of the unit cost for apprenticeships and other work-based learning.

We estimate total discounted lifetime benefits to be around £10.6 billion for the cohort of learners starting their course in 2014/15, as shown below:

Table 19: Total benefits for 2014/15 cohort – Option 3

	Learner Numbers	Starts	Discounted Lifetime Benefits per Start (£)	Total Discounted Lifetime Benefits per Cohort (£m)
Level 3				
Provider-Based	57,000	52,000	73,000	3,796
Work-based	87,000	51,000	61,000	3,111
Apprenticeships	75,000	32,000	95,000	3,040
Total at L3	219,000	135,000		9,947
Level 4				
Provider-based	31,000	25,000	18,000	456
Work-based	19,000	11,000	15,000	168
Total at L4	50,000	36,000		624
Total at L3 and L4	**269,000**	**171,000**		**10,571**

Costs to business

For businesses, the systems that will be required to collect the loans for Further Education will be exactly the same as those used for the repayment of Higher Education student loans. Unlike HE, there will only be a single threshold of £21,000 that will apply to FE loans.

In line with the explanation set out in the HE impact assessment – 'Higher Education: Students at the Heart of the System' – compliance costs to collect repayment for loans would be incurred in the 2015/16 financial year in preparation for the first cohort under the proposed reforms, due to enter repayment in 2016/17. It is assumed that all companies use commercial software packages and any necessary updates to that software would be possible through inclusion in regular software updates, thereby presenting no additional cost to employers. The compliance cost therefore falls on payroll administrators in terms of familiarisation with the changes, and for those firms who insource their Pay As You Earn (PAYE) systems, some time from IT technicians to ensure software implementation. For those companies that employ both graduates and those accessing FE loans, we would expect minimal additional costs, as the processes involved will be the same. However, it is possible that some employers who do not employ graduates will employ individuals who have accessed loans for FE and therefore will collect repayments for the first time.

In order to assess these **compliance costs** for FE loans, we have adopted the same methodology as in the impact assessment relating to the HE reforms – which uses information on the number of enterprises employing graduates, in order to calculate the total costs to businesses. However, there is no such evidence on the number of enterprises employing the learners specifically affected by the subject of this Impact Assessment. In light of this, we believe it is prudent to adopt a conservative approach – starting from an extreme upper bound estimate, and refining this accordingly.

According to Business Population statistics published by BIS, the distribution of UK employment across different enterprise sizes is shown in table 20:

Table 20: Number of Enterprises and Employment, by Enterprise Size[28]

	Enterprises	Employment (thousands)	Employment (%)
Micro: 1 – 9 employees	989,845	3,717	20
Small: 10 – 49 employees	170,410	3,363	18
Medium: 50 – 249 employees	27,770	2,703	14
Large: 250+ employees	5,940	9,198	48

Table 21 below assumes that the 171,000 starts in the 2014/15 cohort all move into employment, and are distributed across enterprises in the same way as shown in column 4 above. It also shows the maximum number of enterprises which could employ these learners, after completion of their qualification, by assuming that:

- All micro / small / medium-sized enterprises only employ one of these learners i.e. no two learners are employed by the same enterprise;
- Every large enterprise employs at least one of these learners, so all large enterprises are affected by the proposal.

Table 21: Distribution of learners, by establishment size, and maximum number of enterprises affected

	Learners	Maximum Number of Enterprises
Micro: 1 – 9 employees	34,200	34,200
Small: 10 – 49 employees	30,780	30,780
Medium: 50 – 249 employees	23,940	23,940
Large: 250+ employees	82,080	5,940
Total	**171,000**	**94,860**

It therefore implies a maximum of 95,000 enterprises employing the learners in any given cohort. Table 22 shows the total costs – calculated on the same basis as in the HE impact assessment. It also assumes the same distribution of enterprises who have insourced and outsourced payroll functions.

Table 22: Total costs to businesses of option 3 – 'Extreme' upper bound estimate for further refinement

Firm type	Number of enterprises	Mean hourly cost of personnel officer in 2015*	Familiarisation time (hours)	Mean hourly cost of IT technician in 2015*	Average time (hours)	Total Cost
Micro: Insourced	15,852	15.8	1	19.0	1	£551,650
Micro: Outsourced	17,635	15.8	0.5	19.0	0	£139,317
Small: Insourced	19,903	15.8	2	19.0	2	£1,385,249
Small: Outsourced	10,395	15.8	1	19.0	0	£164,241
Medium: Insourced	18,837	15.8	3	19.0	3	£1,966,583
Medium:Outsourced	5,514	15.8	2	19.0	0	£174,242
Large: Insourced	4,659	15.8	4	19.0	4	£648,533

[28] 'UK Business Population Estimates for the UK and Regions' http://stats.bis.gov.uk/ed/bpe/BPE_2010_-_Statistical_Release.pdf

Firm type	Number of enterprises	Mean hourly cost of personnel officer in 2015*	Familiarisation time (hours)	Mean hourly cost of IT technician in 2015*	Average time (hours)	Total Cost
Large: Outsourced	1,281	15.8	2	19.0	0	£40,480
Total	94,075					£5,070,294

* Uprated from figures used in HE Interim Impact Assessment – by Office of Budgetary Responsibility's RPI forecast for 2014 (Budget 2010)

This therefore suggests that the compliance costs will be around **£5m** – based on the number of learners starting the affected courses in 2014/15. However, this makes a number of extreme assumptions and therefore acts as a starting point for further refinement below:

i) It assumes that all learners working in micro / small / medium-sized enterprises will be employed by a different employer, and that all large enterprises employ at least one of these individuals

This is clearly an extreme assumption, but we lack information on the extent to which these learners will be distributed across enterprises. We therefore use evidence from the National Employer Skills Survey (2009) showing the average number of apprentices employed by *establishments* of different sizes. This is used as an *indication* of the extent to which these individuals may be distributed across different enterprises when they have completed their learning. This reduces the number of enterprises affected from 94,000 to around 70,000, and the compliance costs to businesses to just over **£3m**.

ii) It assumes that all of the learners will be in employment and will pay back their loan

It is clear that not all learners will move into employment, and of those who do, many will not reach the required income threshold of £21,000 for repayments. This is reflected in the RAB charge of 60%.

Therefore, if, for example, only between one-half and two-thirds (e.g. 58%) of learners pay back *some money* at *some stage*, this will reduce the total compliance cost to businesses to around **£1.5m**, when scored in 2009 prices for OIOO purposes (deflated from 2015 figures).

iii) It assumes that none of these enterprises also employ graduates

If, for example, as few as one third also employed graduates, then this would reduce the costs to only **£1m**.

We therefore believe that a more realistic estimate of the compliance costs is **up to £1m** for 2015/16 (in the relevant price base year).

Ongoing costs would commence from 2016/17, the first year in which those who have accessed loans for FE would enter repayment (the same year as the first HE cohort that will have access to the new student support arrangements from 2012/13). There are two obligations for employers in the current student loan repayment system, which will apply equally to loans for FE:

- To make the necessary salary deductions each month;
- To submit returns to HMRC annually, on the repayments deducted by the employer.

The potential additional costs relating to the additional threshold and risk of increased errors, relevant to HE, will not apply to FE loans, as there will only be a single threshold.

The introduction of FE loans would increase the number of learners repaying, which could increase the amount of resource required in payroll administration, although the number of additional learners will be relatively small. Any impacts would disproportionately affect small businesses, who are less likely to benefit from economies of scale. The extent of these additional costs is unclear because businesses do already have systems in place and an understanding of the regulations for HE, which are broadly unchanged and will be the same for FE loans. Therefore, it may be possible to build upon existing structures, reducing the potential for new administrative costs.

The HE interim impact assessment, referred to in the later IA – 'Putting Students as the Heart of Higher Education' – suggests ongoing costs of £2-£4m for the 165,000 estimated enterprises affected. Therefore, for the 70,000 enterprises referred to in point i) above, the appropriate range might be £0.8-£1.7m. Given the points made in ii) and iii) i.e. that not all individuals will move into employment and reach the earnings threshold, and some enterprises will already employ graduates, thus incurring minimal additional costs, our best estimate of ongoing costs is **£1m** per year.

Net Benefits

The net benefits of this option are summarised in table 23, also showing how they compare with our baseline in option 1a. This suggests that costs – in terms of government funding, individual / employer contributions and output foregone – are around £0.27bn lower than under option 1a, whilst the (lifetime) benefits are around £2.11bn lower, thus implying net benefits are lower by around £1.85bn compared to the baseline. From 2015/16 onwards, there will also be an additional cost of £1m per year to businesses – in terms of administering loan repayments. However, it was believed that this option provided the most appropriate balance between readdressing the balance of who pays for learning – particularly in light of the cuts to spending announced at the Spending Review 2010 – and minimising the loss of economic value.

Table 23: Costs and benefits of option 3 for the 2014/15 cohort, relative to option 1a (£bn)

	Option 3	Relative to option 1a
Total Costs	£1.50	- £0.27
Total Benefits	£10.57	- £2.11
Net Benefits	£9.07	- £1.85

Sensitivity Analysis on Loans Take-up

As discussed earlier in this section, the figures in the cost-benefit analysis above are based on the assumption that all of the funding available for FE loans will be taken up. This implies that learner numbers would be around 80% of those supported under option 1a. Table 24 demonstrates the costs and benefits of the preferred option if a lower number of learners take up loans, compared to those supported under the baseline.

Table 24: Cost and benefits of option 3 for 2014/15 cohort, adopting different assumptions about take-up

Take up %	Total Learners	Learner Starts	Total Costs (£m)	Total Benefits (£m)	Net Benefit (£m)	Net Benefits relative to option 1a	Net Benefits relative to option 1b
70%	226,800	143,500	£1,269	£8,871	£7,602	- £3,316	+£863
60%	194,400	123,000	£1,088	£7,604	£6,516	- £4,402	-£223
50%	162,000	102,500	£906	£6,336	£5,430	- £5,488	-£1,309

The analysis suggests that even if only just over 60% of the learners, who would have undertaken learning under the baseline, go ahead with learning under this proposal, the net benefit will be of a similar magnitude to that under option 1b i.e. which maintains the current system but with a reduced level of grant funding. Given the evidence outlined previously, we believe that 60% is a realistic lower bound estimate of the proportion of learners who will still participate in learning under the new system. We have therefore worked up this scenario in more detail i.e. including the 2013/14 cohort, and cohorts subsequent to 2014/15, for inclusion in the 'evidence base' section. This full analysis is presented in table 40.

Non-Monetised Benefits

There could be a range of other benefits from placing more financial responsibility on individual learners, which have not been monetised for the purposes of this assessment. The introduction of loan provision could result in behavioural change, which could have significant effects on the outcomes of learning, such as:

- Learners may be more likely to undertake courses with greater and more certain economic value – in other words, learning which generates higher and more certain wage and employment returns;
- Learners may place greater focus on quality and the practical relevance of the course undertaken, which could improve the overall quality of courses, and thus the associated economic returns.

In general, greater involvement of learners with the FE system could improve the economic outcomes of FE courses, as suggested by the aforementioned pilot undertaken at Kent TEC (see p30). This could potentially increase the level of loan repayment and increase private investment in learning. However, it is not possible to quantify these effects given the existing evidence base, so we do not attempt to monetise them for the purposes of this Impact Assessment.

Option 4: Professional Career Development (PCDL) Loans

The features of the current PCDL scheme are outlined below:

- The interest rate is typically 9.9%
- The average loan is just over £7,000
- The banks charge government for interest costs (fairly small) and for defaults (currently £15m per year).
- There is an administration charge of £50 – mainly for low value loans of less than £500, which are expensive to administer compared with higher value loans.
- Repayment is due within a month of course completion. This can be deferred by up to 18 months, but only in exceptional circumstances, with the bank's agreement, and over three stages i.e. six-monthly periods.
- The default rate is currently 13% and has been agreed with banks at 15%.
- Banks select who is eligible for loans.

This is not an option which has been modelled in detail; it was ruled out for a number of reasons outlined below:

i. If the new client group applied for loans on the PCDL method, then the default charge is likely to be higher. Historically, when we have tried to extend the PCDL to lower levels of learning, the banks have resisted, as they consider the learners to be too high a risk.

ii. The evidence presented in relation to option 3 suggests that such loans – which are not income contingent – are likely to be less attractive to learners. For example, the aforementioned report commissioned by the Learning and Skills Research Centre (2006)[29] found that FE learners are only half as likely to take out a commercial loan to pay for their courses, compared to an income contingent loan. The evidence from focus groups[30] with adults also indicated a preference for income contingent loans. Income contingent loans essentially insure learners against the risk of no or low returns from qualifications in a way that PCDL-style loans do not. Therefore, this option

[29] Ivins & Callender (2006), 'Paying for Learning. Learners, Tuition Fees and the New Skills Strategy' Report Prepared for Learning and Skills Development Agency.
[30] MC Consulting (1999), Quoted in "Loans for Lifelong Learning", Mick Fletcher (editor), LSDA 2002

is likely to lead to a much lower number of learners compared to option 3, and therefore does not meet policy objectives in terms of access.

Therefore, this is not a realistic option and is not considered further. For this reason, and bearing in mind proportionality, we have not worked up the costs and benefits of this option in detail.

Summary

The key findings of our analysis are summarised in table 25 below.

Table 25: Total costs and benefits of each option for the 2014/15 cohort

Policy Option	Number of learners (starts)	Costs (£m) – Discounted where they are realised over more than one year				Discounted Lifetime Benefits (£m)	Discounted Net Lifetime Benefits (£m)
		Public Funding	Private contributions	Foregone output	Total		
Option 1a: Continue grant funding at pre-SR level	205,000	410	148	1,209	1,768	12,686	10,918
Option 1b: Continue grant funding equivalent to amount available under option 3	128,000	240	110	748	1,097	7,836	6,739
Option 2: Stop grant funding	20,500	0	68	121	189	1,269	1,080
Option 3: Income contingent loans	171,000	240*	256**	1,008	1,503***	10,571	9,068

* Represents public funding, net of loan repayments.
** Includes loan repayments and employer contributions towards work-based learning, including apprenticeships.
*** From 2015/16 onwards, there will be an additional £1m cost to businesses in terms of administering loan repayments..

As previously discussed, option 1a is not feasible given the funding cuts announced in the Spending Review 2010. The table above shows that options 1b and 3 would result in the same level of government expenditure (net of learner repayments in the case of option 3). However, under option 3, there will be a greater number of learners because of the greater financial responsibility being placed on learners themselves, rather than the government. Our analysis demonstrates that from all **available** options under consideration, the introduction of income contingent loans will not only result in a better balance between public and private funding, but will also yield the greatest economic benefit.

The table below summarises the marginal costs and benefits from all proposals in relation to our baseline option:

Table 26: Costs and benefits of each option, relative to Option 1a, for the 2014/15 cohort

Policy Option	Number of learners (starts)	Costs (£m) – Discounted where they are realised over more than one year				Discounted Lifetime Benefits (£m)	Discounted Net Lifetime Benefits (£m)
		Public Funding	Private contributions	Foregone output	Total		
Option 1a: Continue grant funding at pre-SR level	0	0	0	0	0	0	0
Option 1b: Continue grant funding equivalent to amount available under option 3	-77,000	-170	-38	-461	-671	-4,850	-4,179
Option 2: Stop grant funding	-184,500	-410	-80	-1,088	-1,579	-11,417	-9,838
Option 3: Income contingent loans	-34,000	-170	108	-201	-265*	-2,115	-1,850

* From 2015/16 onwards, there will be an additional £1m cost to businesses in terms of administering loan repayments (described in detail previously).

Therefore, considering the **preferred option** relative to the **baseline**:

- Total public funding costs, net of individuals' repayment of loans, are £170 million lower in each year from 2014/15 onwards – thus representing a net economic **benefit** of the proposal.
- Contributions paid by individuals and employers are £108m higher for each cohort of learners from 2014/15 onwards – thus representing a net economic **cost** of the proposal.
- Output foregone whilst learning takes place is £201m lower for each cohort of learners from 2014/15 onwards – thus representing a net economic **benefit**.
- Economic value added over the course of the learners' lifetimes is £2.11 billion lower for each annual cohort of learners from 2014/15 onwards – thus representing a net economic **cost**.

Costs and Benefits in 2013/14

As previously discussed, our analysis so far has focussed on 2014/15 onwards, since the preferred option will be fully operational by then. In this sense, 2013/14 will be a transition year, and we now turn to analyse the impact of the different options on learner numbers, and the costs and benefits in this year. We begin with the analysis for the preferred option, before turning to the alternatives for completeness. The baseline – in terms of the number of learners who can be supported and the associated amount of government funding – is the same for 2013/14 as it was for 2014/15. We therefore do not repeat the analysis outlined on pp20-23.

Option 3: Income-Contingent loans

As discussed above, 2013/14 will be a transitional year, as loan provision will not commence until the start of the academic year – September 2013 – which is midway through the financial year. Before that, grant funding will still be a feature for this group. In 2013/14, there will be £129m available for loans and £269m for grant funding – both to fund learners continuing from 2012/13, and to fund any starts prior to the start of the academic year in 2013/14. We have therefore calculated the number of learners who could be supported through grant funding and loans, and subsequently derived the costs and benefits on this basis.

The table below summarises the total costs for 2013/14 under this proposal. Total costs will be £1.64bn, which is about £133m lower than under the baseline, and £133m higher than the annual costs of this option from 2014/15 onwards.

Table 27: Total costs for 2013/14 cohort – Option 3

	Costs for 2013/14 cohort (£m)		
	Level 3	**Level 4**	**Total**
Loan repayments (private)	47	5	**52**
Net government funding	319	28	**346**
Other contributions paid by employers	118	10	**128**
Foregone output	1,044	65	**1,109**
Total	1,528	108	**1,635**

Table 28 calculates the total benefits for the 2013/14 cohort of learners over the rest of their working lives. Given the available funding, there will be around 186,000 learner starts, which would generate economic benefits of £11.8bn over their lifetime.

Table 28: Total benefits for 2013/14 cohort: Option 3

	Learner Numbers	**Starts**	**Discounted Lifetime Benefits per Start (£)**	**Total Discounted Lifetime Benefits per Cohort (£m)**
Level 3				
Provider-Based	55,000	48,000	73,000	3,498
Work-based	100,000	58,000	61,000	3,546
Apprenticeships	95,000	43,000	95,000	4,098
Total at L3	250,000	149,000		11,142
Level 4				
Provider-based	32,000	25,000	18,250	448
Work-based	22,000	12,000	15,250	190
Total at L4	54,000	37,000		637
Total at L3 and L4	**304,000**	**186,000**		**11,779**

Net economic benefits for the 2013/14 cohort would therefore amount to around £10.1bn, which is £774m lower than our baseline, and around £1.08bn greater than the net benefit of this option from 2014/15 onwards.

Table 29: Net benefits of option 3, relative to option 1a, for 2013/14 cohort

	Option 3	**Relative to option 1a**
Total Costs	£1.64	-£0.13
Total Benefits	£11.78	-£0.91
Net Benefits	£10.14	-£0.77

As discussed in relation to 2014/15, we have also undertaken some sensitivity analysis – in order to demonstrate how the findings above would change if take-up of loans was such that only 60% of the learners, supported under the pre-Spending Review baseline, undertook learning under this proposal. In the interests of brevity, this analysis is not reported in full here, but is summarised at the end of this section in table 40.

Option 1b: Maintain current system but with a reduced level of funding

Government funding costs, net of individuals' loan repayments, for the preferred option amount to around £346m in 2013/14. We therefore consider the respective costs and benefits if this was all spent on grant funding, assuming that it was distributed across learning streams, and fully- and co-funded provision, in the same way as under the baseline.

Table 30 summarises the total costs for 2013/14 under this proposal. It suggests that on top of the £346m of government funding, contributions paid by individuals / employers and foregone output would amount to £136m and £1.03bn respectively. This means that costs total £1.51bn.

Table 30: Total costs in 2013/14 – Option 1b

	Costs for 2013/14 (£m)		
	Level 3	**Level 4**	**Total**
Government Funding Costs	320	26	**346**
Contributions paid by individuals/employers	124	12	**136**
Foregone output	975	53	**1,028**
Total	1,419	91	**1,510**

Table 31 summarises the total benefits for the 2013/14 cohort of learners over their lifetime. Given the available funding, there will be around 170,000 learner starts (around 16,000 fewer than under the preferred option), which would generate lifetime benefits of £10.8bn.

Table 31: Total benefits for 2013/14 cohort – Option 1b

	Learner Numbers	**Starts**	**Discounted Lifetime Benefits per Start (£)**	**Total Discounted Lifetime Benefits per Cohort (£m)**
Level 3				
Provider-Based	59,000	53,000	73,000	3,835
Work-based	90,000	53,000	61,000	3,260
Apprenticeships	78,000	33,000	95,000	3,170
Total at L3	226,000	139,000		10,265
Level 4				
Provider-based	32,000	19,000	18,250	348
Work-based	20,000	11,000	15,250	170
Total at L4	52,000	30,000		518
Total at L3 and L4	**278,000**	**170,000**		**10,783**

Net economic benefits for the 2013/14 cohort would therefore amount to around £9.27bn, which is £1.65bn lower than our baseline:

Table 32: Net benefits of option 1b, relative to the baseline, for 2013/14 cohort

	Option 1b	Relative to option 1a
Total Costs	£1.51	-£0.26
Total Benefits	£10.78	-£1.90
Net Benefits	£9.27	-£1.65

Option 2: Stop grant funding

This option entails the complete removal of grant funding from the start of the 2013/14 academic year onwards. However, in line with the preferred option, we assume that there would still be grant funding for starts in the first half of the financial year i.e. prior to September, as well as for qualifications continuing from the previous year. This means that some public funding would still be required for this group of learners during 2013/14. Table 33 implies that total funding costs amount to around £270m, and total costs, including contributions paid by individuals and their employers, as well as output foregone while learning takes place, amount to around £1.0bn.

Table 33: Total Costs in 2013/14 - Option 2

	Costs for 2013/14 (£m)		
	Level 3	**Level 4**	**Total**
Government Funding Costs	250	21	**270**
Contributions paid by individuals/employers	78	3	**81**
Foregone output	606	49	**655**
Total	934	72	**1,006**

Table 34 summarises the total benefits for the 2013/14 cohort of learners over their lifetime. Given the available funding, there will be around 115,000 learner starts (around 71,000 fewer than under the preferred option), which would generate lifetime benefits of £6.9bn.

Table 34: Total benefits for 2013/14 cohort – Option 2

	Learner Numbers	Starts	Discounted Lifetime Benefits per Start (£)	Total Discounted Lifetime Benefits per Cohort (£m)
Level 3				
Provider-Based	36,000	33,000	73,000	2,381
Work-based	56,000	33,000	61,000	2,022
Apprenticeships	49,000	21,000	95,000	1,978
Total at L3	141,000	87,000		6,381
Level 4				
Provider-based	20,000	21,000	18,250	383

	Learner Numbers	Starts	Discounted Lifetime Benefits per Start (£)	Total Discounted Lifetime Benefits per Cohort (£m)
Work-based	13,000	7,000	15,250	106
Total at L4	33,000	28,000		489
Total at L3 and L4	**173,000**	**115,000**		**6,870**

Net economic benefits for the 2013/14 cohort would therefore amount to around £5.86bn, which is £5.05bn lower than our baseline:

Table 35: Net benefits of option 2, relative to the baseline, for 2013/14 cohort

	Option 2	Relative to option 1a
Total Costs	£1.01	-£0.76
Total Benefits	£6.87	-£5.82
Net Benefits	£5.86	-£5.05

To summarise the findings of this section, the costs and benefits under each option, compared to the baseline, for both the 2013/14 and 2014/15 cohorts of learners, are summarised in table 36.

Table 36: Costs and benefits of each option relative to option 1a – 2013/14 and 2014/15 cohorts

Option and Cohort	Number of learners (starts)	Costs (£ million) – Discounted where they are realised over more than one year				Discounted Lifetime Benefits (£m)	Discounted Net Lifetime Benefits (£m)
		Public Funding	Individuals	Foregone output	Total		
Option 1: 2013/14	0	0	0	0	0	0	0
Option 1: 2014/15	0	0	0	0	0	0	0
Option 1b: 2013/14	-35,000	-64	-13	-181	-257	-1,903	-1,646
Option 1b: 2014/15	-77,000	-170	-38	-461	-671	-4,850	-4,179
Option 2: 2013/14	-90,000	-140	-68	-554	-762	-5,815	-5,053
Option 2: 2014/15	-184,500	-410	-80	-1,088	-1,579	-11,417	-9,838
Option 3: 2013/14	-19,000	-64	32	-100	-133	-906	-774
Option 3: 2014/15*	-34,000	-170	108	-201	-265*	-2,115	-1,850
Option 3: 2013/14 – Lower take-up	-46,000	-86	8	-248	-324	-2,320	-1,995
Option 3: 2014/15 – Lower take-up*	-87,000	-238	36	-484	-686*	-5,074	-4,388

* There will be an additional £1m cost to businesses – in terms of administering loan repayments – for these options in 2015/16, and each year thereafter.

Therefore, considering the best estimate of the impact of the **preferred option**, relative to the **baseline**, for both 2013/14 and 2014/15:

- Total public funding costs, net of individuals' repayment of loans, are £64m lower in 2013/14, and £170m lower in each year from 2014/15 onwards – thus representing a net economic **benefit** of the proposal.
- Contributions paid by individuals and employers are £32m higher for the 2013/14 cohort, and £108m higher for each cohort from 2014/15 onwards – thus representing a net economic **cost** of the proposal.

- Output foregone whilst learning takes place is £100m lower for the 2013/14 cohort, and £201m lower for each cohort from 2014/15 onwards – thus representing a net economic **benefit**.
- Economic value added over the course of the learners' lifetimes is £0.91 billion lower for the 2013/14 cohort, and £2.11 billion lower for each annual cohort from 2014/15 onwards – thus representing a net economic **cost**.

The summary sheets of this Impact Assessment consider the impact of the different options on **ten annual cohorts** of learners relative to the baseline; in other words, the 2013/14 cohort, the 2014/15 cohort and eight cohorts thereafter – with the same learner numbers, costs and benefits as for the 2014/15 cohort:

- For the purposes of calculating the **Net Present Value** for all ten cohorts, the costs and benefits for the 2014/15 cohort and subsequent cohorts, have been further discounted to reflect the fact that they 'start' from a later point than the base year i.e. 2013/14.
- For the purposes of calculating the **average annual** costs and benefits, constant price figures have been used. This includes using the figures showing the *non-discounted* lifetime benefits of qualifications in table 5. In order to avoid confusion, and because they are less meaningful, these figures have not been presented in the preceding detailed analysis.

The following tables summarise the marginal benefits and costs of each option, relative to the baseline, for the ten cohorts of learners beginning their courses in each year from 2013/14 onwards. They demonstrate how the NPV figures in the summary sheets at the front of this Impact Assessment are derived. The tables are as follows:

- Table 37: Option 1b
- Table 38: Option 2
- Table 39: Option 3
- Table 40: Option 3, but assuming that take-up is such that only 60% of the learners, who would have been supported under the baseline option, undertake learning (as opposed to 80% under the best estimate).

Table 37: Marginal costs and benefits of option 1b: 2013/14 – 2023/24 cohorts

Marginal quantified benefits and costs from Option 1b relative to the baseline (£m)											
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2021/22**	**2022/23**	**2023/24**	**Total**
Benefits											
Reduced Government funding	64	165	159	154	148	143	138	133	129	124	**1,356**
Reduced output foregone while learning	181	445	430	415	400	386	373	360	347	335	**3,671**
Reduced contributions by individuals / employers	13	37	36	34	33	32	31	30	29	28	**302**
Total Benefits	**257**	**647**	**625**	**603**	**582**	**561**	**542**	**523**	**504**	**487**	**5,330**
Costs											
Future foregone value added	1,903	4,704	4,563	4,426	4,293	4,165	4,040	3,918	3,801	3,687	**39,500**
Total Costs	**1,903**	**4,704**	**4,563**	**4,426**	**4,293**	**4,165**	**4,040**	**3,918**	**3,801**	**3,687**	**39,500**
Net Benefit	**-1,646**	**-4,057**	**-3,938**	**-3,823**	**-3,712**	**-3,603**	**-3,498**	**-3,396**	**-3,297**	**-3,200**	**-34,170**

Table 38: Marginal costs and benefits of option 2: 2013/14 – 2023/24 cohorts

Marginal quantified benefits and costs from Option 2 relative to the baseline (£m)											
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2021/22**	**2022/23**	**2023/24**	**Total**
Benefits											
Reduced Government funding	140	396	382	369	356	343	331	320	309	298	**3,245**
Reduced output foregone while learning	554	1,050	1,013	978	944	911	879	848	818	790	**8,786**
Reduced contributions by individuals / employers	68	77	75	72	70	67	65	63	60	58	**675**
Total Benefits	**762**	**1,524**	**1,470**	**1,419**	**1,369**	**1,321**	**1,275**	**1,230**	**1,187**	**1,146**	**12,705**
Costs											
Future foregone value added	5,815	11,075	10,742	10,420	10,108	9,804	9,510	9,225	8,948	8,680	**94,327**
Total Costs	**5,815**	**11,075**	**10,742**	**10,420**	**10,108**	**9,804**	**9,510**	**9,225**	**8,948**	**8,680**	**94,327**
Net Benefit	**-5,053**	**-9,551**	**-9,272**	**-9,001**	**-8,738**	**-8,483**	**-8,235**	**-7,994**	**-7,761**	**-7,534**	**-81,623**

Table 39: Marginal costs and benefits of option 3: 2013/14 – 2023/24 cohorts

Marginal quantified benefits and costs from Option 3 relative to the baseline (£m)											
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2021/22**	**2022/23**	**2023/24**	**Total**
Benefits											
Reduced Government funding	64	165	159	154	148	143	138	133	129	124	**1,356**
Reduced output foregone while learning	100	194	187	181	175	168	163	157	151	146	**1,622**
Total Benefits	**164**	**359**	**347**	**334**	**323**	**311**	**301**	**290**	**280**	**270**	**2,979**
Costs											
Future foregone value added	906	2,051	1,990	1,930	1,872	1,816	1,762	1,709	1,657	1,608	**17,301**
Increased contributions by individuals / employers	32	104	100	97	93	90	87	84	81	78	**846**
Direct costs to Businesses	0	0	1	1	1	1	1	1	1	1	**7**
Total Costs	**938**	**2,155**	**2,091**	**2,028**	**1,966**	**1,907**	**1,849**	**1,793**	**1,739**	**1,687**	**18,153**
Net Benefit	**-774**	**-1,796**	**-1,744**	**-1,693**	**-1,644**	**-1,595**	**-1,549**	**-1,503**	**-1,459**	**-1,416**	**-15,174**

Table 40: Marginal costs and benefits of option 3 - 2013/14 – 2023/24 cohorts – but take-up of loans is such that learner numbers only amount to 60% of those supported under option 1a.

Marginal quantified benefits and costs from Option 3 relative to the baseline (£m) - with a take-up rate of only 60%											
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2021/22**	**2022/23**	**2023/24**	**Total**
Benefits											
Reduced Government funding	86	230	222	214	207	199	192	186	179	173	**1,887**
Reduced output foregone while learning	248	467	451	435	420	405	391	377	364	351	**3,910**
Total Benefits	**333**	**697**	**673**	**649**	**626**	**604**	**583**	**563**	**543**	**524**	**5,797**
Costs											
Future foregone value added	2,320	4,922	4,774	4,631	4,492	4,357	4,227	4,100	3,977	3,858	**41,659**
Increased contributions by individuals / employers	8	35	33	32	31	30	29	28	27	26	**279**
Direct costs to businesses	0	0	1	1	1	1	1	1	1	1	**7**
Total Costs	**2,329**	**4,957**	**4,809**	**4,664**	**4,524**	**4,388**	**4,256**	**4,129**	**4,005**	**3,884**	**41,945**
Net Benefit	**-1,995**	**-4,260**	**-4,136**	**-4,015**	**-3,898**	**-3,784**	**-3,673**	**-3,566**	**-3,461**	**-3,360**	**-36,149**

Notes to tables 37-40

1. The costs in terms of 'future foregone value added' refer to the value added foregone over their lifetime, for the reduced number of learners in the cohort beginning their courses within that year. These costs will therefore be realised over a period of 36 years for each cohort (and therefore 46 years for all cohorts), and not all in the year to which they are assigned in the tables above (refer to the spreadsheet embedded on p12 for an illustrative breakdown of how the costs are realised across years).

2. The figures for 2014/15 differ from those in the preceding 'evidence base' section. (As explained previously,) for simplicity, that analysis uses 2014/15 as the base year, as it is easier to demonstrate how the relevant figures have been derived. The above tables discount the costs and benefits by a further year so that they are consistent with the 2013/14 base year, which is used in the summary sheets. The various costs and benefits are discounted by a further 3.5%, with the exception of future foregone value added, which is discounted by a further 3%. This reflects the fact that future foregone value added is evenly distributed across years for a particular cohort, and they already extend beyond the thirty year period after which the 3% discount rate is applied.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];

An evaluation strategy is being developed to assess the introduction of FE fee loans. We expect this to cover the first year of operation and include a review by the Major Projects Authority that will assess impact and whether policy objectives have been achieved and benefits realised.

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

Through continual monitoring of learner participation statistics, Government will assess the impact of the introduction of FE loans.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

The loan application process will provide the systematic collection of information which will allow for future policy review.

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]

Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]

Add annexes here.

Annex 2: Specific impact tests

Equalities Impacts

There is a separate Equalities Impact Assessment being published alongside this document.

Other Impact tests:

We have considered each of the following in line with Government guidance, and considered there to be no significant impacts as a result of the proposed policy:

Competition

Small Firms

Greenhouse Gas Assessment

Wider Environmental Issues

Health and Well being

Human Rights

Justice System

Rural Proofing

Sustainable Development

Annex 3

What are Level 3 and above qualifications?

Vocational qualifications are available at a number of different levels. The academic equivalent of these is shown below:

Table A3-1: Comparison of vocational and academic qualifications

	Academic Equivalent
Level 1 (L1)	GCSE D-G
Level 2 (L2)	GCSE A*-C
Level 3 (L3)	A- levels
Level 4 (L4)	NVQs Certificates of higher education
Level 5 (L5)	Higher National Diplomas
Level 6 (L6)	Bachelor degrees, graduate certificates and diplomas
Level 7 (L7)	Masters degrees and postgraduate certificates and diplomas
Level 8 (L6)	Doctorates

Annex 4

Learner population

The total number of learners undertaking courses leading to qualifications at level 3 or above in the Further Education system in 2009/2010 was 1,161,600. Of these, 447,400 learners were aged 24 or above.

Table A 4-1: Level 3+ learner participation by age, 2009/10.

Under 24	714,100
24-29	109,500
30-39	136,300
40-49	128,100
50-59	54,700
60+	17,900
Unknown	900
Total	**1,161,600**
24+ Total	**447,400**

Source: Labour Force Survey

This population base can be segmented further to identify learners aged 24 and over undertaking apprenticeships.

Table A 4-2: Level 3+ Apprenticeship participation by age, 2009/10.

Under 24	135,000
24-29	23,400
30-39	14,100
40-49	10,900
50-59	3,600
60+	300
Total	**187,300**
24+ Total	**52,400**

Source: Labour Force Survey

The impact on specific groups is considered in more detail within the accompanying Equalities Impact Assessment.

Annex 5: Annual profile of monetised costs and benefits

This is available at: http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/F/11-1218a-further-education-loans-impact-assessment-annex-5

This publication is also available on our website at www.bis.gov.uk
Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street,
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.
URN 11/1218