

Inquiry into the Future for Lifelong Learning

Funding Lifelong Learning: a working paper

By Stephen McNair

Introduction

The Commission has been developing proposals for a more effective “system” of lifelong learning, in which one key element must be mechanisms for funding.

This working paper is designed to stimulate discussion and to help the Inquiry to clarify the policy options on this. It has been produced following an expert seminar and discussion with key informants. However, it represents only the views of its author, and the Commissioners have yet to discuss these issues.

The paper is primarily concerned with the use of public money, although one key purpose of public investment in lifelong learning is to secure the maximum investment from other sources (individual, employer, third sector and charitable sources).

I make no assumptions about the total sum available for public investment in lifelong learning. This will change over time, sometimes in unpredictable ways, and one of the aims of any public funding model should be to maximise private investment. However, I am concerned with the balance between investment for different purposes, and especially between learning to develop human, social and identity capital.

Summary

Current funding approaches do not produce optimal returns for public investment. They:

- do not support to some important lifelong learning needs;
- are unbalanced – across the lifecourse, between different kinds and purposes of learning, and been different interested parties;
- are difficult to understand for all partners - inadequate information about what is available, on what terms and with what outcomes, discourages people from participating.
- are inefficient.- by not maximising private investment, by using inappropriate measures of performance, and operating a dysfunctional “pseudo-market”;
- lead to underinvestment by individuals and employers;
- concentrate too much resource and risk on decisions made in late adolescence.

The degree of control which Central Government exercises in the system drives out other potential private investors, and results in the neglect of some important priorities.

A new model should seek to rebalance the distribution of funding in four ways:

- Diversify stakeholder influence;
- Distribute resources more equitably across the life phases;
- Distribute resources more evenly between the three broad purposes of learning: individual autonomy and resilience; economic productivity; and social cohesion;
- Support a broad and flexible curricular range.

The underlying principles of a reformed system would be:

- Trust – trusting individuals and employers to make informed decisions about learning
- Subsidiarity – devolving funding decisions to the most local level possible
- Recurrence – providing opportunities to return and compensate for earlier mistakes
- Diversity - allowing a range of voices to make decisions on priorities
- Sustainability – providing a reasonable guarantee of continuity of learning and provision
- Simplicity – maximising clarity and intelligibility

A new model would be based on a clearer and more rational combination of demand and supply led funding mechanisms:

- Supply led funding to guarantee a threshold level of achievement, initial vocational education and learning for life crises;
- Demand led (“voucher”, loan or “learning account”) funding for learning as a human right; continuing vocational learning; and learning for life phases.

The role of the partners should be more clearly defined:

- Government should be responsible for underlying infrastructure, distribution of funding to partners, and securing equity
- Local Government should control a significant proportion of funding to meet learning needs related to local strategic priorities;
- FE Colleges, as the major core providers in any area, should control significant funds to meet locally determined needs, in partnership with employers and Local Authorities
- Individuals should have direct access to resource to meet general learning needs, including a “right to learn entitlement”, a “ten year” entitlement, and a “welcome entitlement”.

What is lifelong learning for?

Lifelong learning serves three interlocking purposes

Investment decisions in lifelong learning are complex, because the purposes of lifelong learning are themselves complex and unpredictable, and reflect a range of interests. Most decisions to take part in learning involve risk and uncertainty, and the uncertainty of outcome makes all parties - individuals, employers and the state - reluctant to invest to the optimum level. A funding model needs to be sensitive both to the diversity of purposes and the unpredictability of outcomes.

For the individual, most learning involves elements of learning for three broad, and overlapping, purposes:

- **Learning to make a contribution/vocational learning** – acquiring the skills, knowledge and understanding needed for paid and unpaid work. This sort of learning is currently the main focus of Government investment and is traditionally described in terms of developing human capital. Human capital theory normally links this to paid employment, although in a world where retirement is extending, and unemployment rising (and the boundaries between the paid and unpaid work shift over time and between cultures¹), it may be more appropriate to think of it in terms of paid and unpaid contribution.
- **Learning to be part of a community/social learning** – learning the skills and understanding to be a constructive member of a community, be it family, neighbourhood, profession or trade, or nation. It helps build “social capital”, the complex range of networks and relationships which bind communities together, and enable them to work effectively to achieve common purposes. Community cohesion depends on the strength of social capital, but increasing geographical mobility, and growing diversity makes it more difficult to build and maintain cohesion. Lifelong learning can provide opportunities for people to build trust and relationships by learning alongside people from different backgrounds.
- **Learning for personal autonomy/personal learning** – learning to develop one’s identity, and take control over one’s life. This is something which can be developed through many kinds of learning, and often through the way in which a subject is taught, rather than the subject itself.

These purposes are distinct, but they interlock and support each other – a productive and creative economy and society depend on everyone having a confident sense of their own identity, as well as good skills and knowledge, and the ability to work together (in paid and unpaid activity). If policy focuses too heavily on one of the dimensions, it may fail to keep them in balance, and result in less effective learning even in the fields it is focusing on.

The link between outcome and overt purpose is not simple

Furthermore, outcomes are only partly predictable, and purpose and outcome are not necessarily linked in a simple way. Although it is customary to describe lifelong learning in terms of “subjects” and course titles, the reality is always more complex. Apart, perhaps, from the most formally structured vocational training, course titles rarely provide a precise description of the aspirations of all the individual learners, the outcomes which they achieve and the purposes of the funder. It is important to understand this diversity in order to ensure that the “system” responds to the real needs of individuals, employers and the wider community.

- Course titles do not necessarily match motives. Some people enrol on vocational programmes out of interest in the subject and with no intention of taking up the related occupation. Others join courses planned to be “non-vocational” for very vocational

¹ For example, caring roles which are carried out in some cultures and countries by family members on an unpaid basis, are carried out by paid employees in others.

reasons. Many people join classes in order to make friends and find people with shared interests. For some programmes there is a very close relationship between the stated purpose and the outcome for most (but rarely all), learners. For other programmes the linkage can be very loose.

- People may be reluctant to admit (or even be unaware of) their own motivation. Some will have been “sent on a course” by their employer against their will. Others enrol because they are lonely or depressed, or because of an aspiration which they are unwilling to admit even to themselves, for fear of seeming to overreach or risk public failure.
- The starting point does not necessarily predict the destination. Taking part in any kind of learning increases the chances of going on to learn more, so if we wish to maximise learning, it is worth investing in first steps, whatever the subject (given some threshold quality criteria). People learn to read in ICT courses, and learn English in dressmaking courses. Similarly, in the course of learning, some individuals discover new abilities, enthusiasms and motivation, and study in one field becomes a springboard into something different.
- Funders have collective objectives as well as individual ones. Public health benefits, and the resulting reduction in health expenditure, are not usually mentioned in publicity for physical exercise courses. Government may support programmes in citizenship to wean young people away from terrorism, but they will not be advertised as such. Providing accessible places where a lot of people can come together in shared activity helps build social capital, but the individuals would not describe their purposes as improving “social cohesion” (and might feel patronised by the suggestion).
- Long and short term outcomes of learning may be quite different. The correlation between the age of leaving initial education and life expectancy (after controlling for factors like social class) suggests that initial education has some very long term benefits which have never been adequately described, but these are rarely cited as a justification for investment. For most graduates, participation in higher education produces a significant economic return over a working life, but those who graduate during a recession may see little gain for years. People who learn how to learn in one subject area may (especially if supported) transfer those skills to another field altogether years later.

Why redistribute learning across the lifecourse?

Commissioners have discussed the idea of reshaping our understanding of “lifelong” in terms of four phases, each presenting a distinct set of challenges and opportunities, and each with implications for learning. The four phases are²:

- Childhood to adulthood (broadly up to 25), a period which takes people from total dependence to an established adult identity.;
- Mid life (broadly 25-50), a period when life for most people is focused around earning, building careers and raising children;
- Third age (broadly 50-75+) – the transition out of paid employment into active retirement.
- Fourth age (from some point after 75) - a phase of increasing dependency, when life choices become more constrained,

At present the large bulk of public funding is spent on the first of these phases, and almost nothing on the last two. This may seem rational: many of the social and economic problems which society faces have their roots in childhood, and in an ideal world, more, and more efficient, investment in early years education would reduce many kinds of social and educational disadvantages. However, a policy

² The distinctive features of four phases are described in more detail in the Annex to this paper. The age limits are indicative, we recognise that particular individuals make the transitions at a wide range of ages.

which concentrated all resources on the early years, or the first phase, would fail in three important ways:

- it would be inequitable, since it would systematically disadvantage those who have already left the initial education system, and did not have the chance to benefit from recent improvements;
- it would not enable all citizens to acquire the basic capabilities of active citizenship, since some young people are “failed” by the initial education system, and they would have no means to remedy this. For this reason Government prioritises “remedial” learning with the entitlement to free tuition for basic skills and a first full qualification;
- it would fail to recognise technological, social and economic change, which makes skills and knowledge obsolete, and require new learning for new needs. Current policy largely leaves this to individuals and employers.

A substantial investment is therefore needed in learning across the lifecourse, and the management of funding for the last three phases is the primary concern of this paper.

What is wrong with current approaches to funding?

It is both impossible and undesirable to attempt to tidy all lifelong learning into a single coherent managed structure. However, a better understanding of current approaches, and agreement on underlying principles, could lead to a “system” which is more effective and efficient.

Current patterns of public investment in lifelong learning have complex historical roots. They reflect changing policy priorities and initiatives (of Government and others) over time, and do not form a coherent “system”. There are a series of identifiable weaknesses in current arrangements, which a new model should seek to address:

The system is unbalanced

It is insensitive to many real needs

No education system can meet precisely what is needed by every participant. However, some important needs go unmet, while current provision sometimes does not meet a real need at all, or meets it in the wrong way, time or place. Above all, it often fails to deliver what individuals or employers think they want or need, in appropriate forms, times and locations.

Many learning needs – of individuals, the labour market, and society – identified through social and economic research and national policy debate do not manifest themselves as “demand” for learning. In order to ensure that such needs are met, Government creates incentives for providers or learners. If such incentives are given too much weight, they reduce local initiative, and detach provider performance from real need. Persistent “underinvestment” by individuals and employers reflects a continuing sense that what is on offer is a response to a Government priority, rather than the needs of learners, firms and communities.

Since much decision making about priorities takes place a long way from the learner or the employer, signals about what is required are subject to a process of “chinese whispers”: by the time providers are told what is required, time has passed, the message has become distorted, and sometimes the need has changed.

Resource allocation is unbalanced

The allocation of resources for lifelong learning reflects a long series of historical processes, rather than a coherent overall strategy. There are a series of dimensions worth reviewing:

Imbalance across the lifecourse. The large majority of public funding is spent on young people under 25, and almost no resource is spent on the needs of people in the last half of their adult lives (from 50 onwards) , within or outside the labour market. Although, for decades, Government policy papers have argued for greater investment in post-initial education and training, recent policy has increased concentration of resources in the initial phase of life. In practice, most adults’ “entitlement” to publicly funded lifelong learning is based on a remedial model – guaranteeing all adults learning to the level of a 16 year old school leaver, not to meet the new needs which emerge (predictably and unpredictably) across the lifecourse..

Imbalance between kinds of education and training. There is major imbalance between contemporaries: young people who choose to go straight from school to full time HE receive much greater public support than their contemporaries on vocational tracks, or those in prison (where the social returns to learning can be high).

Imbalance between purposes. The rationale for public investment of education funds, clearly stated in Education and Skills White Papers and elsewhere, rests on a view of the public interest based exclusively on human capital development, and the

linked assumption that social inclusion is best achieved through employment³. It does not sufficiently recognise social capital (which is seen as the responsibility of other Government Departments) or personal development, which underpins human and social capital, but which has been increasingly downgraded in recent years).

Imbalance between subjects. Much more is spent on some subjects than others, and this is sometimes seen as inequitable. However, it remains true, for example, that training doctors will always be more expensive than training bricklayers. Courses requiring expensive workshops, laboratories, equipment or field work will necessarily be more expensive to provide than those which require only basic classrooms. Provided that there are no artificial barriers to access to education or careers in high cost fields, such real differences are not an issue of equity.

Imbalance between interested parties. Public funding dominates formal lifelong learning, in both learner volume and expenditure. Apart from the training of public sector employees, it is almost all channelled through two, centralised national agencies⁴. Although they seek to lever private funding, in practice they exercise monopoly power over the system. An FE College which ignores local employer needs, or individual demand, will not fail, provided it recruits individuals to courses prioritised by the LSC (whether or not those students then find jobs which use their new skills). By contrast, if it fails in the latter, it will fail absolutely, however much local employers value its work.

The concentration of funding limits the ability of Governing bodies to articulate and steer responses to local/regional/national or stakeholder needs. There are unresolved tensions between the various roles of a Governing body – to protect the interests and survival of the institution, or of the learners or other “customers” like employers, or of the local community, or to represent local or national demand for learning.

A further problem of an over centralised system arises when key parties – individuals, employers and providers – do not understand, or accept, the policy priorities which they feel have been imposed on them, or when they believe that they are unachievable. This creates a powerful incentive to subvert the objectives, and distort the measures. Since the scale and complexity of the system means that the centre can never know accurately what is actually being delivered, this can lead to a tacit collusion, where the interests of teachers, institutions and those managing the system at the centre all share an interest in proving “success”, regardless of the reality.

It is difficult to understand

Information is inadequate

Any market requires good information, without which consumers will make suboptimal decisions (or no decisions at all). However, lifelong learning is extremely complicated. Information about what is available, and on what terms, is inadequate and difficult to access, especially for those least familiar with the world of education and training.

Any reformed system needs much better information for learners, funders and policymakers, and advice and guidance for learners and employers.

It is too complicated

Funding systems and funding flows are so complex that few, if any, people have a clear grasp of the whole. This makes coherent policymaking difficult; makes it difficult for learners and

³ This argument had considerable force for people of “working age” in a context of full employment. It does not address the issue of learning for people in retirement for as much as a third of their adult lives, nor to the growing numbers of unemployed people.

⁴ In England the LSC and HEFCE, and their equivalents in the other countries.

their advisers to make efficient use of the resources available; and sometimes leads unintended inequities. Complexities include:

- The ways in which public investment is channelled, with direct funding to support both demand and supply for different purposes (and sometimes for the same ones). Funding also flows indirectly through channels like corporation tax relief.
- Government also subsidises the living costs of learners to encourage participation for some kinds of learner, and some kinds of learning (e.g. Educational Maintenance Allowances).
- Some payments are direct grants to individuals, some “free” enrolments, and some loans (with varying degrees of subsidy)

This makes it difficult to produce a coherent map of expenditure, or to establish how equitably resources are being deployed.

It is inefficient

It does not maximise private investment

Generating investment in lifelong learning is difficult because most of the returns are long term and uncertain, the costs are relatively high, in time, effort and personal commitment, and all parties tend to undervalue collective social benefits..

Individuals are most likely to invest in learning where the benefits are very clear (like kinds of vocational training where qualifications are required, or the return in income, status or interest are evident), or in learning with the most immediate benefits (enjoyable activities). Individuals tend to heavily discount long term and uncertain returns, and those with the lowest levels of education and training have the least resource to invest. The problem is greatly exacerbated by a lack of reliable information on opportunities, risks and rewards.

Employers in general will only choose to invest in employee learning when the return is greater than a similar investment in capital equipment or process redesign etc. , and when the returns are within the time frame of business planning, which can be decades, but are often only a few months. They may also be forced to invest by regulation, (for example, the recent regulation of qualifications in the Care sector has generated a very substantial growth in training and qualification). The largest employer investment is perhaps where learning is a matter of life and death (as with the massive investment in learning by the Armed Forces and the NHS).

The state has the longest time horizons, and should, therefore, be most committed to long term needs. However, its investment is constrained by its desire to stimulate private contribution, to reduce public expenditure, and by the uncertainties of returns. It is also constrained by the short term priorities of the political process – Governments which neglect the pressure from the electorate (or the media as their proxy) for quick solutions do not last long. As a result it is always subject to pressure to find simple, and short term, solutions to complex long term problems.

It uses inappropriate measures

The use of proxy measures, limited indicators of complex outcomes, and nationally prescribed targets can lead to distortion of provision and of the evidence on which policy decisions are based. The most obvious (though not the only) example is the use of formal qualifications as a proxy for the capabilities required for particular work. There are several weaknesses in this approach:

- **Employers and Government disagree about the value of qualifications.** Employers generally value qualifications only as an entry selection tool, and see little value in encouraging existing workers to acquire further qualifications. Where they are exhorted to

support qualification bearing courses they tend to expect incentives from the state, to deliver what they see as the state's priorities;

- **Individuals do not understand the value of qualifications.** Individuals see qualifications as valuable for career progression, although many have little demonstrable economic return;
- **Skills and knowledge decay.** Qualifications only demonstrate capability at the time of qualifying. They provide a threshold, a starting point for ongoing workplace learning. However, if unused, skills and knowledge decay over time, and the qualification does not provide good evidence to inform policy about the capabilities of the population or workforce at any given point.
- **Qualifications are used for conflicting purposes.** Government seeks to use qualifications for several distinct, and sometimes conflicting, purposes: evidence of competence at the point of qualification; a tool to compare individuals with each other; a tool for the allocation of funding; a measure of institutional performance; and a measure of the human capital in the economy. The interaction of these very different objectives creates risks to quality and relevance (misrepresentation and potential fraud,) which can only be mitigated by audit and quality assurance systems which are expensive, both in direct costs and in working time forgone.

The “market” is not real

Governments have sought, over at least two decades, to create some form of market in adult learning, aiming to stimulate increased investment by employers and individuals, with a key, but limited, funding role for the state itself. However, the pressure to meet specific national objectives, and the dominance of state funding in the budgets of most public providers, means that there is limited incentive for providers to develop a more responsive approach⁵. From the perspective of Government, both employers and individuals underinvest, and this is generally attributed to a failure of responsiveness by providers.

Employers have persistently underinvested, and Government has repeatedly felt obliged to step in to make up the shortfall. By the time it does intervene its response is not always perceived to address the real needs, and is often too late to be effective. What employers learn from this is that long term strategic needs will, in the end, be met by the state, and they regularly “call the Government’s bluff”.

Individuals in general underinvest in education and training, partly because of perception of the relevance of what is on offer, and partly of confusing signals about costs and benefits. Publicly funded provision has traditionally been very heavily subsidised, so those individuals who have taken part have an unrealistic perception of true costs, while those who have not participated do not see evidence of a return to justify the effort and cost.

The current system also seeks to promote a competitive market between providers, but in reality the public sector institutions play, and are always likely to play, a dominant role. The Commission’s study of private training providers demonstrates clearly that almost no private provider is as large as a medium sized FE College, and almost all operate in very specific niche markets⁶, whether it be for employer funded IT training or courses in Pilates⁷. Any model therefore needs to recognise a core role for FE Colleges, with appropriate regulation to prevent single institutions driving out innovation or competition.

The market is further confused by the plethora of voices expressing views on what should be provided, how, where and why. Some of these are real stakeholders, in the sense that they are

⁵ Although some current policy shifts, including the replacement of the LSC with the new Funding Agency, and the flexing of Train to Gain, may address some of these issues.

⁶ See the Inquiry paper on Private Sector Providers for more detail.

⁷ The principal exception is Government funded provision for unemployed people, where there is a group of large private sector firms competing for Government contracts.

putting their own money into the system, or directly making use of the skills and knowledge acquired. Others, however, have no direct intention of contributing or benefiting, but nevertheless exert significant influence on the public debate.

A reformed model – three key changes

Balance the needs of the three interest groups

Learning needs are not the same as demands. There are broadly three kinds of “need” which should be met in some form, and to some degree:

- **Individual need** – what individuals need to build their identity, human and social capital. This includes the things which individuals “demand” unprompted; those which they may be persuaded would be valuable (by employers, the state or others); and those underlying needs which they may not be fully aware of (like social engagement or health education) which may be learned in the course of studying many “subjects”..
- **Employer need** – what firms need to be productive and profitable, including what employers perceive unprompted, and what they are persuaded to take up by Government, sector bodies, brokers and advisers who may take a longer term view of labour supply and demand.
- **Community need** – what the wider community needs to be cohesive and stable, to be a rewarding place for its citizens, and to promote their wellbeing. This includes providing for learning needs which individuals themselves may not perceive, or may be unwilling to pay for. It is important that learning for social cohesion is seen as a strategic role for local government, not just as “crisis” interventions, in response to fears of social disorder or terrorism.

Some of these needs are best met through discrete educational programmes, which may be delivered in a variety of ways. Others are best met through “embedded” provision, where learning happens in the course of everyday work or life, and where it is best facilitated by the creation of appropriate environments, support structures, and relationships between the individual and experienced colleagues.

Rebalance priorities

The Commission’s discussions have suggested that there is a need for a degree of “rebalancing” of priorities within the system. The word “rebalancing” has been chosen deliberately: I am not proposing a sudden transformation of the system. Rather, I propose a number of changes, to be achieved over a period. Our proposals are about the direction of change: the speed and distance of movement is a matter for debate. One key issue is how such debate should be conducted, and how much power the various voices should have.

There are five critical kinds of rebalancing:

- **Interest groups:** Rebalancing power between the various interested parties would create a more responsive system by reducing the monopoly power of national Government and strengthening the voices of local communities, individuals and employers. This implies a change in the role of Governance at local/institutional level.
- **Lifecourse.** Rebalancing policy attention, and resources, across the lifecourse, with a greater proportion of expenditure (public or private) being committed to people over 25⁸ would reflect the need to compensate for gaps in earlier learning, and for the increasing pace of technological and social change, extending working lives and lengthening lifespan
- **Purposes of learning.** Rebalancing policy attention between the various purposes of learning, proposes strengthening investment in forms of learning which build social and personal capital, relative to learning for human capital development (which has been an

⁸ At present the overwhelming majority of public funding is devoted to this phase. A large part of what is usually counted as “adult learning” is in fact spent on people in their early 20s. [check numbers]

increasingly exclusive focus of public investment in the last decade). This would contribute to broader social objectives of individual empowerment and social cohesion.

- **Curriculum.** Rebalancing “curriculum”, would ensure that a range of learning opportunities is available in all areas to address the core capabilities of adult life: employability, finance, health and citizenship, a set of overarching qualities which support personal resilience, and learning to develop interests and enthusiasms;.
- **Priority needs.** Rebalancing priorities would aim to ensure that the needs of priority groups are addressed, but without displacing a broad offer of opportunities to learn for all adults of all ages.

Fund supply and demand

Public funding can be channelled in one of two ways: by funding supply of opportunities, in the expectation that demand will then materialise; or by funding demand for learning, in the expectation that supply will respond.

- **Funding supply.** In a supply led model, institutions receive money to provide and promote programmes, with some degree of central direction and monitoring. This model is familiar, makes management of funding simpler, and gives providers institutional stability, which allows long term planning. It is probably better at providing for disadvantaged groups, and in fields where demand is inarticulate. It is simpler and cheaper to administer, and less vulnerable to fraud. Private funding can be levered in this model by charging a subsidised fee to learners or their employers. However, where funding is controlled by a single body, institutions can become unresponsive to local need, which discourages private investment, and does not incentivise innovation.
- **Funding demand.** A demand led model gives money to individuals or employees to enable them to purchase learning, with varying degrees of incentive. In this case individuals or employers are given real or virtual “vouchers” representing hypothecated funds to enable them to purchase education or training, by outright grant, loan or some form of matched investment. It can also include indirect incentives like tax relief⁹. The use of a match funding element might increase individual and employer investment. The demand model empowers individuals and probably makes provision more responsive to demand. It is likely to increase motivation and achievement, since the learner feels s/he has chosen the course, and can see its relevance. However, it makes the system much less stable, if individuals do not use their vouchers, and auditing requirements may be more expensive

In view of the clear strengths and weaknesses of the two models any reformed system will need to incorporate elements of both. A way of achieving this is proposed below.

Moving to a new funding model

Although lifelong learning can be described as a “system”, it is better understood as an ecological one, in which all parts influence each other; than a machine, where a central driving force produces predictable change throughout. In reality, what is provided, to whom and on what terms depends on the decisions of many players: each deciding independently on what to offer, what to pay for, and what to take part in, and on what terms.

However, the initiative to change the whole system can only come from national level, and the following section therefore focuses on what Government might do to ensure that the system as a whole better meets the needs outlined earlier in the paper.

⁹ Currently available, with relatively little policing, for large employers through Corporation Tax, but not for small firms or for individuals.

Government does not have the power to control or dictate what happens throughout the system. Rather, its task should be to create the circumstances in which the whole can be as productive as possible, responding to many different and sometimes conflicting perceptions and priorities. The principles and priorities proposed in this paper aim to provide a basis for this. A model should recognise that there are some things which only Government can do, and that there are some priorities (like setting minimum entitlements) which need to be pursued on a national basis, but that many things are better decided at local or regional level.

The model proposed here is therefore based on the principles of subsidiarity and plurality and on leadership rather than direction. Government should make sure that all interested parties are aware of issues, trends, needs and good practice, but decisions on what to provide, how, when and where should be made as near as possible to those most directly affected, and the decision should allow a range of voices to influence policy and practice. This approach would encourage the development of strategic responses to both local and national needs, and promote collaboration between a more evenly balanced set of potential funders for any given initiative. Individuals and employers would be able to contribute in partnership with providers to supplement their allocation of public money.

Describing an ideal system of this kind is intended to stimulate a debate, and start development in a particular direction. Inevitably change takes time and negotiation, and it is not proposed that we could move suddenly from the current model, with all its strengths and weaknesses, to something entirely new. Even if the direction were to be agreed, change would take years. Nevertheless, the goal of a system which uses resources more effectively to meet the learning needs of all people at all ages is one worth pursuing.

A new funding model

Principles for a funding model

I propose that the central principles for a reformed funding system should be:

Trust. A system should trust individuals and employers to understand their own learning needs, and make wise choices.

- The case for this is that a well informed individual (or employer) is best placed to understand his or her real needs, and that individuals who feel in control of their own learning are much more likely to succeed at that learning. Conversely, individuals who do not see the purpose of the learning offered are unlikely to be motivated, and hence unlikely to be successful.
- This implies that policy should allow considerable scope for individuals to choose what they learn, even when this does not accord with the perceptions of Government, their employers or other interest groups. Such an approach is only feasible if individuals and employers have access to reliable, impartial, advice and guidance, to find out what is available, to assess its relevance and likely returns. It does not imply that the state does not continue to seek to influence demand, and to pay for those kinds of learning which are deemed to be in the public interest. This principle is best supported by a demand led funding model.

Subsidiarity. Planning decisions on what is offered, and on what terms, should be made as close to the individual learner or employer as possible.

- The closer decision making is to the learner, the more likely it is to be relevant, and to motivate, particularly if the learner and funder are both well informed about opportunities and likely outcomes.
- This implies a greater degree of discretion for learning providers and local government to make decisions at local level, and a degree of delegation of budgets (and discretion over their use) to those levels. This is likely to call for a strengthening of the skills and

knowledge of the staff of those organisations. It also implies a clearer role for institutional Governing bodies and Local Authorities, in setting priorities at local level.

Recurrence: A system should allow people to make mistakes and try again.

- The outcomes of particular learning programmes and career choices are always uncertain and involve an element of risk. People change their minds, and their plans and circumstances change. Despite high motivation, some fail to achieve the desired outcomes. The element of risk deters individuals, employers and the state from investing time and money in learning unless the outcomes are fairly certain. In a funding system which concentrates all the investment in a single attempt, usually in adolescence, the risk of wrong choices is extremely high, and the “wastage” in the system is costly.
- A truly lifelong system should ensure that investment is spread more evenly across the lifecourse, making the risk of a single wrong decision less damaging for all concerned. This argues strongly for a rebalancing of resourcing across the lifecourse, and for measures which maximise the total volume of investment in later life.

Diversity. No single party should have a dominant voice over what is provided, how, when and for whom.

- The concentration of funding in the hands of a single agency reduces responsiveness and diversity. Public funding should be divided to reflect the variety of national and local interests and needs, so that providers are encouraged to promote diversity and innovation. This will continue to include a major element to meet national priorities, or which require long term planning, which will not emerge as direct demand from learners or employers. These include long term skills needs (beyond the planning timescales of individual employers), and needs like supporting social cohesion. However, there should be a limit on the proportion of funding for provision which is under the direct, or indirect, control of central Government. This implies that a substantial proportion of the public funding devoted to general and vocational education (as distinct from the training of public sector employees), should be channelled either through local, rather than national, routes, or through demand.

Sustainability. It should not be possible for the range and nature of what is on offer in any locality to be destabilised at short notice.

- In the past there have been occasions when areas of provision have been closed, or particular kinds of learner excluded, as an unintended consequence of policy initiatives in other fields (for example, the concentration of resources on vocational programmes led to the unintended closure of provision for older people);
- A more collaborative and devolved model of funding should be able to anticipate and avoid such effects.

Simplicity. The overall system should be as simple as possible.

- Simplicity makes it easy for individuals, and employers to understand the opportunities available, and assess costs and benefits. It also enables managers and policymakers to evaluate performance and understand and anticipate the impact of changes. Linked to this is administrative simplicity, to minimise transaction costs, which contribute nothing to the overall efficiency of the system.

These principles are, of course, rightly in tension with each other. We therefore need a plural model of funding, with different funds available to meet different needs, and funded through different channels. These need to be balanced in such a way that providers are not incentivised to respond to only to one voice.

Policy objectives

The principles proposed above underpin any reformed structure. In the light of these, a funding model needs to achieve the following objectives:

:

Guarantee curriculum range	The range of provision which ought to be available in a given area needs to be determined by a combination of national, local, employer, and individual priorities. Whatever mechanism is in place, it must allow for needs which are not yet articulated locally.
Secure equity	In order to address social inclusion concerns and to ensure that benefits are distributed equitably it may be necessary to weight funding for particular groups, communities or individuals. This could be achieved through weighting in either supply or demand models. A variety of stakeholders might wish to contribute funds to support particular client groups. A second dimension of equity is securing the minimum educational entitlement for all. Everyone must be guaranteed access to whatever level of educational achievement is regarded as the norm for those leaving the initial compulsory education system.
Encourage diversity and innovation	The supply model encourages innovation in areas where demand is not vocal, as long as providers have incentives to experiment. The demand model encourages innovation where individuals have a strong sense of their learning needs, and feel that their needs might be met (which requires some change in public attitudes).
Secure stability	If a funding model destabilises the major providing institutions, all suffer. A core of institutional funding is therefore important, and some degree of continuity over time is required. This implies a significant proportion of core institutional funding.
Support quality	Funding systems must not undermine quality, but notions of what constitutes appropriate quality will vary between stakeholders. The demand model needs to ensure that vouchers can only be redeemed by suppliers who participate in an appropriate quality assurance system.
Monitor and evaluate system performance in a balanced way	Different stakeholders will have different ideas about purposes and achievements. Some outcomes are valuable despite never having been specified in advance. Measures of the performance of the system should be able to recognise this, through monitoring in three complementary ways: through “hard” measurement (qualifications, participation rates), “soft” measures (sample surveys of satisfaction and achievement are perceived by learners on completion); and indirect measures (of outcomes like wellbeing, to which learning can be a contributor)
Maximise private investment	The stronger the central direction, the less likely it is that individuals and employers will be inclined to invest. A strong element of demand funding, with limited constraints, is most likely to have this effect.
Control public expenditure	The management of the system must ensure that public money is being spent efficiently on legitimate activity.
Prevent fraud	It is easier to avoid financial irregularity in the supply model, where the sums are large and the activities readily traceable. However, it is possible to avoid this with appropriate controls on how vouchers can be spent (only with accredited suppliers who agree to participate in a regulated system of data collection).
Support a flexible	A key issue is what funding pays for: the “currency” of a funding system.

credit system The traditional model of payment for whole courses is relatively inflexible, and a credit based system would allow for greater responsiveness and flexibility.. The national systems for credit are converging, and could, in time, form a base for this. However, linking the award of credit to funding creates a conflict of interests which would need careful management.

Devolving funding

The table below is an attempt to translate the principles and objectives into a more coherent funding model. It proposes that some kinds of learning should be funded through demand and some through supply. It also proposes a clearer role for the state, in a system where the state is a major, but not the only, player, and where many other interested parties will have views and leverage over what is provided and how.

Type of learning	Objective	Current arrangement	Rationale
Funding through supply (providers)			
Basic entitlement	Ensuring that everyone has the chance to achieve the basic level of education, expected of the initial education system , and to be employable.	Current Government “entitlement” provides this, on the basis of normal school leaving achievement at 16 (5 GCSEs / Level 2), However Government is in the process of raising this threshold by raising the effective leaving age for all to 18, and expects half of all young people to progress to level 4.	Entitlement is universal and not open to market influence
Initial professional/vocational education.	Ensuring an adequate supply and maintenance of particular skills.	The objective of much higher education and of Train to Gain. This represents the largest proportion of current public funding.	Needs can be nationally/ regionally determined, and need to be planned for
Crisis needs	Ensuring opportunities for people to learn to deal with major life events/life crises – relationship breakdown, redundancy/unemployment,	Currently left to the market, except in relation to unemployment.	Provision needs to be there regardless of short term market demand.
Fund through demand (individual vouchers, accounts, loans, etc.)			
Human right to learn – weighted for disadvantaged groups	Ensuring that everyone has access to, and encouragement to take up, some level of ongoing learning throughout life. Keeping people learning maintains their ability to learn and to see themselves	Currently left to the market. Much informal and non-formal learning takes place, but a third of all adults report no learning of any kind since leaving	Motivating individuals, strengthening “ownership” of learning and maximising

	as effective learners, and contributes to a range of other public policy objectives.	school, and only 40% have done so in the last three years ¹⁰ .	participation.
Continuing professional/vocational learning	Ensuring an adequate supply and maintenance of particular skills.	Employers appear to persistently under invest.	To secure responsiveness to real need.
Life phases - associated with the phase changes (25, 50, 75), or the “big 0”, or “tenth birthday” entitlement,	Ensuring opportunities for people to learn to meet the major events of the various phases of the lifecourse – labour market entry, maintaining relationships, child rearing, moving home, retirement, bereavement and dependency.	Labour market entry is relatively well funded. Other phases much less so, with much planning and delivery in the hands of other Government Departments.	To associate learning with celebration of change.
A “welcome entitlement” for people moving home (including internal and external migrants)	To make learning a core part of a new identity for people arriving in a new home/location.	None – new proposal	To motivate people to integrate in new community and to see learning as part of their new identity.

¹⁰ NIACE Adult Learning Survey 2008, uses a very broad definition of “learning”.

The role of Government

In a model based on subsidiarity decisions should be devolved to the lowest possible level. In three cases, the lowest possible level has to be national:

- Some things can only be done by Government, because they require a national democratic mandate, or they involve the coordination of a nationally consistent service. For example, only Government can establish a credit framework to allow individuals to have skills and capabilities recognised anywhere in the country;
- Some things need to be done to reflect national needs which may not be delivered by local demand. For example, the nation requires a supply of doctors, whose training is too expensive and long term to be dependent on local initiative;
- Some things are required on grounds of equity. For example, no Government will allow local initiative to result in people being treated differently on grounds of sex or age.

Decisions on how to distribute national public funding can only be made by national Government. However, this can include the decision to transfer funds to other agents to carry out broad purposes with limited central control.

This gives Government three key, but distinct, roles

1. Underpinning framework

Only Government can secure the underpinning framework for lifelong learning, since no other agency has the democratic authority to do this, nor the overarching view. This should be seen as quite distinct from funding particular kinds of learning.

Elements of the national framework should include (there may be others):

- an agreed **national “curriculum model”** to define the minimum range of learning opportunity which should be available in every area, against which adequacy can be measured. This should set minimum range, and should be developed through a wide consultative process to secure ownership at all levels;
- a single coherent **credit framework**, in which all qualifications can be located, to provide a comprehensible and flexible range of options for learners and funders;
- a system to recognise and **accredit providers** to be eligible for public funding
- an accessible and high quality **advice and guidance** service providing lifelong support to individual to plan and manage their careers;
- **a stable set of major institutions** of lifelong learning covering the whole country. These will require core funding to secure their long term stability (which should allow for the addition of new providers and the failure of existing ones). The fixed costs of running such institutions should be seen as separate from the variable costs of running particular programmes.

2. Distribute funding for learning

Government should put in place a model which invests public funding in such a way as to maximise total learning, and lever maximum private investment. Funds for learning should be channelled in such a way that all the major interest groups have a substantial resource, removing the monopoly power currently exerted by the national funding agencies. This means that a substantial proportion of the funds currently managed by the LSC should be channelled through Local Authorities and FE Colleges with only limited central control.

This should include:

Funding supply - to meet national priorities, which include

- the basic entitlement (equivalent to what is expected as the school leaving level of education);

- national economic priorities;
- “life crisis” provision.

This funding will not be equally distributed between individuals, since some national needs are more expensive than others;

Funding demand – to support individually managed learning:

- guarantee learning as a human right
- meet the needs of the life phases,
- provide the “welcome entitlement”.
- Unlike the supply led funding, demand led funds should be equally divided across all groups and individuals across the lifecourse. Funding mechanisms should be designed to encourage people to use their entitlement across the lifecourse, perhaps by the “big 0” voucher, or by tying vouchers to the four life phases

3. Securing equity

Thirdly, Government needs to create mechanisms to ensure that individuals who would not otherwise be able to do so, can take part (through grants, loans, vouchers, tax relief, etc). that individuals are treated equitably, and that there are mechanisms for remedying disadvantage. This is a primary role for the state, although the mechanics of regulation and administration may be devolved to other agencies (like the Student Loans Company)

The role of Local Authorities

A significant proportion of the national budget for lifelong learning should be in the hands of Local Authorities, with a remit to use it to secure an adequate and appropriate range and quality of provision within their area, in line with the strategic priorities of that area.

The role of Further Education Colleges

A significant proportion of the national budget for lifelong learning should be in the hands of the Governing Bodies of the major FE Colleges¹¹.

The role of Employers

Employers would be supported with public money for learning which meets national or local objectives through the funds allocated to Local Authorities, FE Colleges or HE institutions.

The role of Individuals

Individuals would have access to free education to the level of the basic school leaving equivalent entitlement. They would also receive funding through some form of learning account, earmarked for learning through accredited providers. This would include:

- a lifetime fund to support a minimum amount of continuing education, vocational and general across the lifecourse, over which they would have complete discretion over subject, mode of study etc.
- A regular supplement to this entitlement either every ten years or at the three phase points – 25, 50 and 75. This would serve as a reminder of the need and opportunity to continue learning.

¹¹ In most of the country this is relatively simple, since there is only one major FE institution. In areas where there are several, funding would need to be organised in a way which encouraged collaboration.

- A welcome entitlement, paid whenever they move to a new area, to make learning a part of their new identity in a new area, and help them to make initial contacts in a new community.

Annex - Lifelong Loans and Lifelong Learning Accounts

A key issue is how to encourage individuals to invest in their own learning, especially when costs are high and returns are delivered over the long term. In higher education this issue is now addressed through the Loan Scheme. This operates as an income contingent loan. An individual's repayment is set at a fixed proportion of earnings, and repayment is only made when income reaches a threshold level (which protects those who gain no financial benefit from their degree). The current scheme has a zero rate of interest, and there is a cut off date after which the loan is cancelled, 25 years after graduation. The net return to the taxpayer is about 50%.

Extending this scheme to all learners would represent a very large cost to the taxpayer. However, such a scheme could be introduced if there was a real rate of interest. A possible model could be based on the following principles:

- A loan to cover tuition and living costs - subject to a maximum loan related to the nature of the programme – to avoid unrealistically large loans
- Interest charged from the time of issue at a low, but real rate
- Repayment based on a maximum proportion of earnings
- A cut off date after which the loan is cancelled
- Repayment holiday (with interest frozen), for those who are unemployed or taking on caring roles

A loan scheme could operate as part of a lifelong learning account, in which people could accumulate funds from state, employer, personal money and loans. This would be very different from the current Government scheme of “Skills Accounts” which are essentially a formal record of entitlements which already exist (Level 2/3 qualifications, Skills for life etc).

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Annex: The Four Phase Model

Commissioners have discussed the idea of reshaping our understanding of “lifelong” in terms of four phases, each presenting a distinct set of challenges and opportunities, and each with implications for learning. The four phases are¹²:

- Childhood to adulthood (broadly up to 25), a period which takes people from total dependence to total independence. During the stage from 16-25 most young people experience considerable turbulence, while they develop a relatively stable adult identity in a rapidly changing and uncertain world. This instability now affects most young people, whatever their social and educational background, and the effects will be strengthened by recession;
- Mid life (broadly 25-50), a period when life for most people is focused around earning, building careers and raising children;
- Third age (broadly 50-75+) – the transition out of employment into retirement. A phase when many people have more choice over the use of their time, and face decisions on when to retire, and how to use the expanding years of “retirement”¹³;
- Fourth age (from some point after 75) - a phase of increasing dependency, when life choices become more limited, mainly as a result of growing disability, although most people in this phase continue to live independently, fewer than one in ten ever go into residential care, and some remain economically active into their 90s).

¹² The age limits are indicative, we recognise that particular individuals make the transitions at a wide range of ages.

¹³ On current projections, this phase of life will grow soon to form a third of most peoples’ adult lives.