

**Making Lifelong Education Work:
*Skills Accounts for Bite-Size Learning***

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Education
Institute**

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1 HIGHER EDUCATION IN CRISIS?

The value of higher and continued education is not disputed. Those who participate in higher education are most likely to continue with further training and education. Higher learning correlates with higher earnings and higher levels of proficiency in the workplace.¹ In the face of an ongoing technological revolution and a fast-changing global economy the acquisition of skills and the requirement to continuously upskill is greater than ever.

In response to this challenge most developed countries are actively promoting lifelong education policies in the global race to remain economically competitive. In 2023 UNESCO conducted a survey of higher education institutions (HEIs) from 96 countries in all regions of the world. Two thirds reported that their country has national legislation to widen lifelong learning in higher education. A clear majority of HEIs have strategies in place, at an institutional level, to drive these policies.²

Education in the UK is a devolved matter, but all nations have introduced policies and funding frameworks to improve adult participation in higher education. Scotland has introduced a dedicated Lifelong Learning and Skills Directorate, while the Welsh Government has set out its intention to develop a ‘right’ to lifelong learning. In England, the Skills and Post-16 Education Act (2022) introduced measures to provide greater modularisation and flexibility in higher learning so that providers can respond to employer demand for skills, and adults can build up learning, to reskill and upskill over time.

The ‘unbundling’ of higher education has already begun. The proliferation of EdTech and online courses has started to blur the boundaries between formal and informal learning, between virtual and in-person learning, between short and long courses. The Skills Act is designed to accelerate the disaggregation of programme modules, enabling institutions to provide shorter units of learning across a variety of platforms. Meanwhile, the introduction of the Lifelong Learning Entitlement (LLE), which will operate in England from 2027, aims to transform the current student loans system so that adult learners can access a flexible loan for higher-level education and training at university or college, which they can use at any point in their lives.

The LLE has been cautiously welcomed by universities. There are, however, outstanding questions to be addressed and some doubts remain about whether the

¹ <https://www.mckinsey.com/industries/public-sector/our-insights/defining-the-skills-citizens-will-need-in-the-future-world-of-work>

² International trends of lifelong learning in higher education, Research report, Published in 2023 by the UNESCO Institute for Lifelong Learning and Shanghai Open University.

LLE will be functioning by 2027 or whether it will survive a change of Government. But it is likely that the UK's student finance system will need radical reform in order to meet the skill requirements of future generations and sustain the education of an increasingly larger population.

Funding for higher education is falling in real terms, not helped by record levels of inflation. More universities are reporting an operating deficit³ with a recent report estimating that four fifths of all universities in England and Northern Ireland could be in deficit if enrolments by overseas students fall by as much as 20%.⁴ How can the tertiary sector deliver on lifelong learning in the face of an existential funding crisis? The way institutions are funded is an essential part of this conversation, but the debate also needs to address what is on offer, as well as how and when we pay for it. This marks a fundamental challenge to the experience of 'going to university' and the idea of a university as a 'place'. Structural change is required to meet this challenge and realise a new market for lifelong education, in addition to the current offer for 18–21-year-olds, who will commit to a full-time degree.

This paper makes the case for the introduction of an Adult Skills Account – a contribution scheme that can help share the cost of bite-sized training between employee, employer, and state. We argue that such a mechanism can help stimulate participation in education and training among the working population and provide a pathway to higher education, including the take up of loans such as the Lifelong Learning Entitlement.

³ <https://www.timeshighereducation.com/news/open-university-posts-ps25-million-deficit-recruitment-drops>

⁴ UK Higher Education Financial Sustainability Report, PWC, January 2024

2 HOW WE GOT HERE

The sense of existential crisis is arguably a permanent state of being for the higher education sector. In his book, 'A University Education', David Willetts describes how contemporary arguments about universities have been rehearsed through history. These debates are not confined to the UK. A Google search on 'universities facing existential threat' will find countless articles about the risks to higher education from North America to Estonia and beyond. A diverse range of institutions and education systems will tell an almost universal story of ...

"Extreme student loan debt and default ... the declining relevance of traditional higher education ... a growing disconnect between degrees and the needs of business and industry ... the proliferation of alternative options for education and skills training ... the rising threat of AI in education".

2.1 Expansion and liberalisation

The expansion of the higher education sector in the UK began with the Robbins Report (1963), which was underpinned by the principle that 'courses of higher education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so.'⁵

The aspiration for more people to attend university has gradually been realised via a long process of policy reforms, including the Dearing Review (1997) which paved the way for 'top up' tuition fees and culminated in the removal of the cap on student numbers, and the introduction of full student loans – the final step in the financialisation of the English higher education system.

But over sixty years later, we are still struggling to answer some of the problems set out by Robbins, namely, to provide a sustainable system for an ever-larger population wanting higher education, to balance this supply of education with the demands of the economy, and to find a fair and equitable way of paying for it.

While the number of UK students has risen from 118,400 in 1963 to 2,041,170 in 2022⁶ (a seventeen-fold increase) the average costs of educating an undergraduate student per year has remained broadly equivalent, after adjusting for inflation.⁷ The major

⁵ The Robbins Report (1963) Higher Education, Report of the Committee appointed by the Prime Minister under the Chairmanship of Lord Robbins (Paragraph 31).

⁶ Total UK domicile undergraduates including first degree and other undergraduate students [<https://www.hesa.ac.uk/data-and-analysis/students/whos-in-he>]

⁷ Calculations for the average cost of education by Nick Hillman, The Robbins Report at 60: Essential facts for policymakers today (HEPI Policy Note 49).

difference today is that the majority of fees are now repaid through loan repayments, as the average taxpayer contribution to higher education has fallen considerably in real terms over time.

England is still charging the highest fees for any public university system in the world,⁸ while the UK as a whole has the lowest proportion of public expenditure on tertiary education, at 25 per cent, and the highest private expenditure (via loan funding) on tertiary education, at 71 per cent. The remaining 4 per cent comes from international sources. The average public expenditure across the OECD countries is 66 per cent – the highest being in Norway (92 per cent) and Finland (91 per cent), neither of which charges tuition fees.⁹

Dearing's vision that the key beneficiaries of higher education – graduates, employers, industry, and society at large – should share the costs of providing and accessing it has not materialised, and the burden has fallen disproportionately on the individual. One of the unintended consequences of the expansion and liberalisation of higher education has been the steep decline in part-time/adult undergraduates.

2.2 The escalating funding crisis

As a recent IFS report¹⁰ observes, funding for Higher Education is on a downward trajectory, with up-front spending on teaching resources per higher education student continuing to decline steadily. It has fallen by 13% – now back to 2011 levels – and by 49% in real terms to where it was in 1990s.

This is largely a result of the cash freeze in the cap on tuition fees, which will remain frozen at £9,250 until the next academic year (2024–25) at least, 24% lower in real terms than it was in 2012–13. However, unexpected high inflation has seen the real value of the cap on tuition fees fall by £1,370 (13%) between 2021–22 and 2024–25. This is twice as large as what the government might have expected based on forecast inflation when it set the policy.

Higher education is increasingly dependent on international student fees, which are not subject to the same cap and are typically much higher. The number of visas issued

⁸ OECD (2021), "Annual average (or most common) tuition fees charged by tertiary institutions to national and foreign students (2019/20): In equivalent USD converted using PPPs, for full-time students, by type of institutions and level of education", in *Education at a Glance 2021: OECD Indicators*, OECD Publishing, Paris, <https://doi.org/10.1787/73156101-en>.

⁹ OECD (2021), "Relative share of public, private and international expenditure on educational institutions, by final source of funds (2018): After transfers between public and private sectors, by level of education", in *Education at a Glance 2021: OECD Indicators*, OECD Publishing, Paris, <https://doi.org/10.1787/ab0b8f5f-en>.

¹⁰ Annual report on education spending in England, IFS, 2023

to higher education students in 2023 were double those in 2019. In the last financial year, tuition fees from non-UK students accounted for 42% of higher education course fees and 21% of all income for universities in England.

International students now account for 24% of the total student population in the UK, the second most popular global destination for international students after the US, although this market is now under increasing political pressure in attempts to reduce immigration. The most recent UCAS end-of-cycle report shows a 3 per cent fall in the number of international students accepted on to UK courses in 2023.¹¹ This is a key indicator of wider concern about institutional finances, potentially amplifying sector calls for a fresh solution on funding for domestic students.

Financial pressures are starting to bite with both institutions and students. Higher-than-expected inflation has eroded the real value of maintenance loans, while students in 2023–24 will be entitled to borrow 11% less towards their living costs than they were in 2020–21. Additionally, parental earnings thresholds governing maintenance loan eligibility have been frozen since 2008, meaning that support for students from families with middling earnings has been cut even more severely, causing real hardship for some current students, and providing a major disincentive for future cohorts thinking about university. Official forecasts for domestic student numbers have been revised down substantially.

In addition, the cost to government of financing student loans that do get repaid is rising as a result of increases in government borrowing costs over the past two years. According to the IFS, the government can now expect to pay 1.6 percentage points more in interest on its debt than the interest rate it charges on student loans. Higher interest rates mean the government cost of financing the student loan system has increased by more than £10 billion per year.¹²

¹¹ <https://www.ucas.com/data-and-analysis/undergraduate-statistics-and-reports/ucas-undergraduate-end-cycle-data-resources-2022>

¹² Higher long-term interest rates and the cost of student loans, IFS, 2004

3 WHERE NEXT?

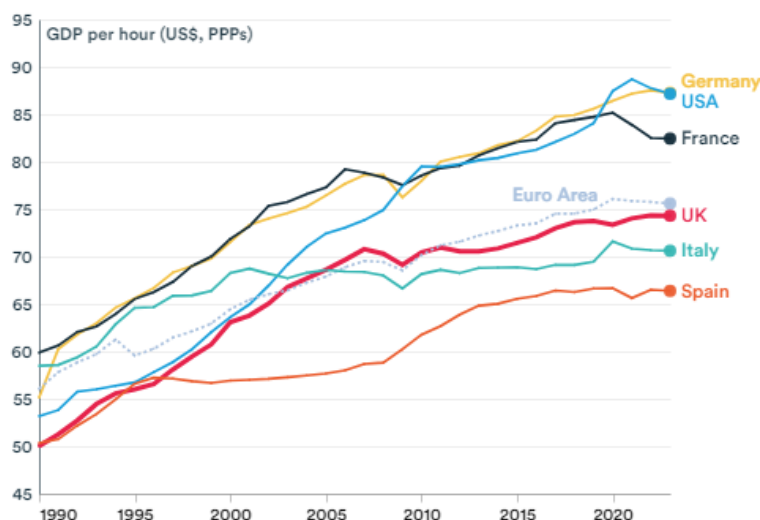
It is clear that the current position is not sustainable – and yet, calls for government to increase funding for higher education are unlikely to succeed given the state of the public finances, and the low levels of growth in the economy.

Part of the solution is for higher education to strengthen its economic role in terms of contributing to productivity growth. This means demonstrating greater links to industrial strategy and labour market requirements at both the local and national level, generating growth by creating good jobs (via research and innovation) and giving people the skills to get those jobs (via continued higher education for the whole working population).

3.1 Skills and productivity

The UK has experienced significantly slower productivity growth than comparable countries since the global financial crisis. It is languishing in the bottom half of the rankings in the OECD, well below France, Germany, and the United States; just below the average for the euro area; and slightly ahead of Italy and Spain. From 2010 to 2022, the annual average growth in UK GDP per hour worked was just 0.5%, with little sign of improvement in recent years. If the current trend in productivity growth continues for the next two decades, it will no longer be possible to maintain current living standards.¹³

Figure 1: GDP per hour (in US\$, PPP converted), 1990-2023



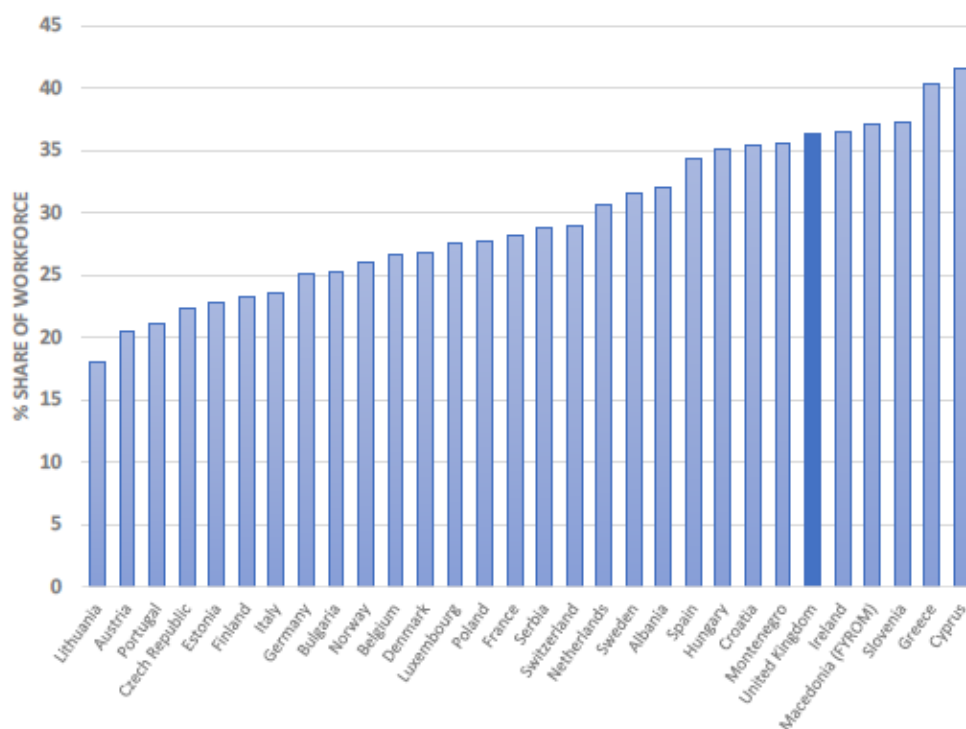
Source: The Conference Board Total Economy Database, April 2023

¹³ The Productivity Agenda, The Productivity Institute, 2023.

Higher skills and human capital are closely correlated with higher productivity although the relationship is complex and non-linear.

The UK has a problem with skill utilisation¹⁴ compared to other European countries – joint 5th among 30 countries – with more than one in three workers (36%) self-reporting as having skills to cope with more demanding duties than those they are currently expected to fulfil. Other countries with comparable levels of GDP per capita have smaller shares of underutilised workforce skills, closer to one in four (Figure 2).

Figure 2: Skill underutilisation, UK compared to European countries



Source: Rafferty (2020), pooled 2010 and 2015 EWCS data¹⁵

This low level of utilisation is explained as an effect of high skill demand lagging behind high skill supply, as the increase in graduates through university expansion in the 1990s and 2000s has effectively been absorbed resulting in a growing disconnect in the last decade. This position has given rise to debates about the problems of credentialism and arguments (Keep 2020) that expanding higher education in England

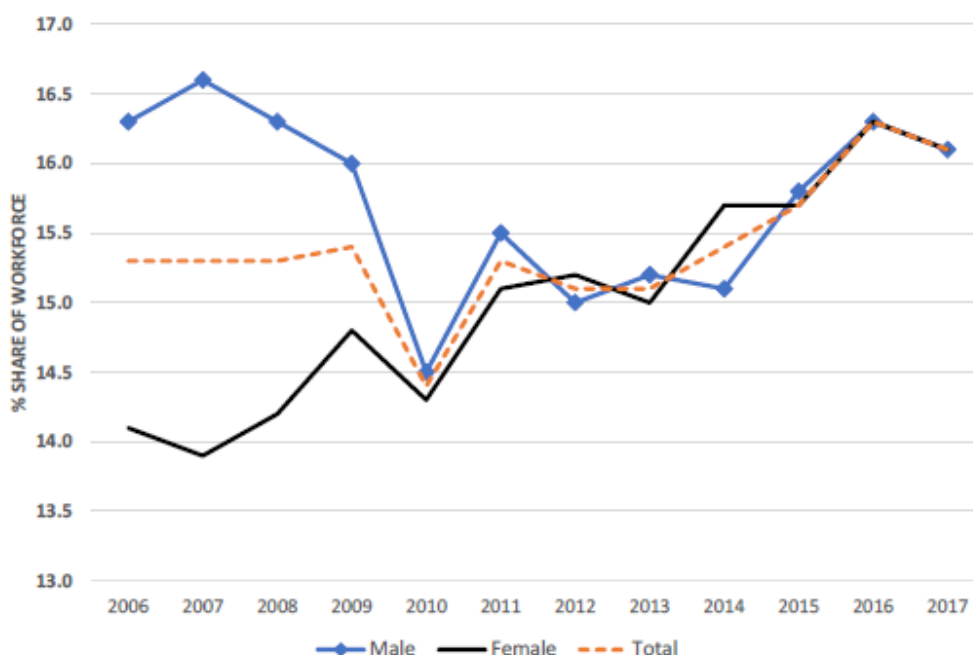
¹⁴ According to one definition used by Scottish Government, skills utilisation is about ensuring the most effective application of skills in the workplace to maximise performance through a number of key agents (e.g. employers, employees, learning providers and the state) and the use of a range of HR, management and working practices. Effective skills utilisation seeks to match the use of skills to business demands/needs.

¹⁵ The Productivity Institute Working Paper No.006, 2021

wrongly became the ‘default policy position’ because of a repeated failure over years to engage employers in training the workforce, and a relative underinvestment in vocational and technical education.

The ONS estimates that almost one in three graduate workers (31%) were overeducated in 2017, while the Skills and Employment Survey (SES) finds no significant change in the share of jobs requiring graduate level qualifications (Henseke et al. 2018).

Figure 3: Trend in the share of UK workers defined as ‘overeducated’, 2006-17



Source: [ONS data](#), April 2019¹⁶

The UK is particularly affected by skills mismatches, which reinforce persistent regional inequalities. Demand for graduates with ‘tech-related’ skills is highly concentrated in some of the most productive regions in the UK, notably the ‘golden triangle’ (London and the Oxford–Cambridge arc). One consequence is the migration of skilled graduates from less to more productive areas, where wages are higher, leaving firms in other regions with skills shortages in some key industries, and an over-skilled graduate workforce in sectors with weak productivity performance.

Policy, specifically the Skills Act (2022) in England, has aimed to address the nation’s ailing productivity problem by seeking to improve the longstanding skills mismatch, between the existing and forecast demand for skills – particularly technology and

¹⁶ The Productivity Institute Working Paper No.006

interpersonal/people skills – and the supply, a problem of both skills shortages and skills surplus. While graduate education still serves as valuable protection against unemployment, the skills mismatch is acting as a drag on economic growth by limiting the employment and earnings opportunities of individuals, and impacting on firm performance and productivity.

The average wage for graduates remains higher than for non-graduates, particularly in strategic sectors.¹⁷ However, the graduate wage premium is falling outside of London and in non-STEM industries as general skills levels and the number of graduates rise. Not all local economies are endowed with a concentration of high-value industries, and most places and industries have more graduates than they need.¹⁸ At the same time, UK firms continue to report that ‘real time’ access to the right skills is critical to their competitiveness. Reskilling the existing workforce – at all levels – with relevant education and training will be the major challenge between now and the end of the decade.¹⁹

The focus on developing local skills through greater levels of devolution and Local Skills Improvement Plans (LSIPs) is part of the Government’s approach to driving economic growth and levelling up regional disparities. However, the pace and scale of devolution in England has created an asymmetric landscape for local skills and industrial strategy. Meanwhile, earlier scepticism about LSIPs has increased with doubts about their effectiveness in making post-16 education more responsive and more closely aligned to local labour market needs. LSIPs simply have too little leverage over skills funding or curriculum design.

This could have consequences for the Government’s intention to increase participation in higher education through the Lifelong Learning Entitlement, and the roll-out of HTQs at levels 4 and 5. It is in this context that the LLE will need to succeed.

3.2 HEIs and local industrial strategy

Universities play a key role in the delivery of industrial strategy, through the production of human capital, research and development, and commercial engagement with industry. However, the distribution of research funding, industry collaboration, and knowledge transfer are spatially unbalanced, with a bias towards

¹⁷ Learning to grow: How to situate a skills strategy in an economic strategy, The Economy 2030 Inquiry, October 2030

¹⁸ Tackling the UK’s regional economic inequality: Binding constraints and avenues for policy intervention | Harvard Kennedy School
<https://www.hks.harvard.edu/centers/mrcbg/publications/awp/awp198>

¹⁹ UK Skills Mismatch in 2030, Industrial Strategy Council, Research Paper, October 2019

London and the South East, determined by the location of priority sectors and regional specialisms among universities.²⁰

Place-based industrial strategy needs to build on the strengths of each region. This has been the focus of UK policy, including the Industrial Strategy (2017) and the Levelling Up White Paper (2022), both of which see an important economic role for universities in contributing to productive growth. The 12 investment zones that the chancellor confirmed in his Autumn Statement are intended to leverage UK research strengths “by being centred on universities in left-behind areas to help build clusters for our new growth industries”.²¹

Of course, not all universities will benefit directly from such an initiative. However, further policy options must enable the mobility of university knowledge to ensure equality of opportunity across the UK’s regions. The regional transfer of knowledge should be encouraged so that exploration and exploitation can be undertaken in different places – from the core to periphery – so that the supply of higher skills can be better aligned with demand across regions.

3.2.1 The role of post-92 universities in economic development

Over three decades after the establishment of the new ‘post-92’ universities commentators, and to a lesser degree policymakers, have started to refer to them as the solution to the UK’s skills problem.²² These institutions have formed a key part of university expansion, but with roots in former industrial towns and cities of the Midlands and the North of England, combined with a legacy of vocational and technical education, they have maintained closer and deeper connections to their localities.

Post-92 universities have been significant drivers of local regeneration as they have grown to accommodate a growing student population, which has also provided a significant income boost for local economies. Their students often come from less advantaged social backgrounds than students at pre-1992 institutions, providing the “heavy lifting” on social mobility. They are also more likely to attract more local, as well as older students.

²⁰ Johnston, A., Wells, P. and Woodhouse, D., 2021. Examining the roles of universities in place-based industrial strategy: which characteristics drive knowledge creation in priority technologies? *Regional Studies* (In Press) <https://doi.org/10.1080/00343404.2021.1956683>

²¹ Chancellor of the Exchequer Jeremy Hunt Autumn Statement - 17 November 2022 [<https://www.gov.uk/government/speeches/the-autumn-statement-2022-speech>]

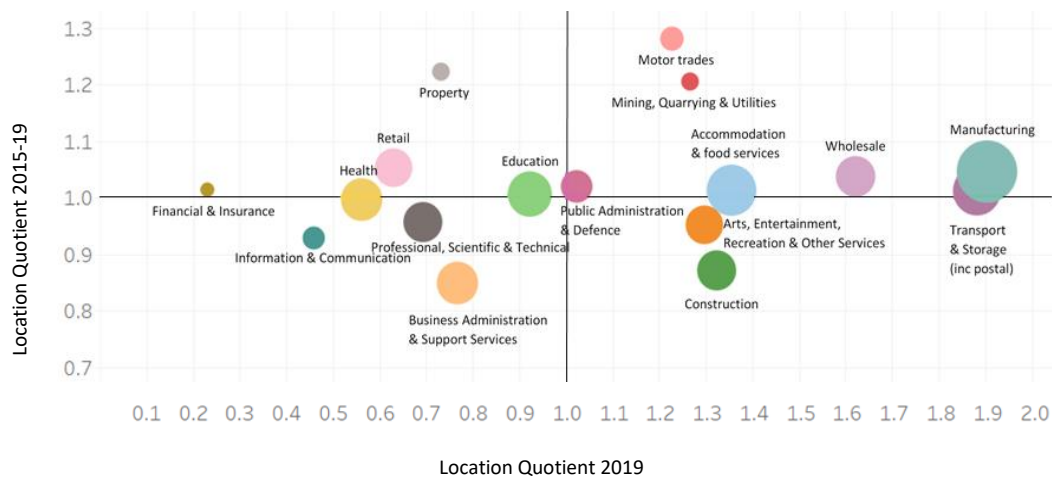
²² <https://www.timeshighereducation.com/depth/are-uks-former-polytechnics-solution-levelling>

One of the ways in which deindustrialised cities and towns, like Stoke, Doncaster, or Bolton, can level up is by upskilling the adult working population, particularly those that that never had the opportunity to go to university. And one of the ways to address the lag in demand for skills is to provide short, flexible courses tailored to new economic needs in local labour markets that are best equipped to drive growth.

3.2.2 The Staffordshire economy

An institution like Staffordshire University, which offers higher technical qualifications and educates about 2,000 apprentices, is closely aligned to local business needs. The economy in Stoke-on-Trent and the wider county differs in terms of its concentration of sectors and specialisms from the UK profile. There are few big private sector firms across the region, with the largest employers being in the public sector, including local government, education, and the NHS. Industries most strongly associated with higher productivity (finance and insurance, professional, scientific and technical, information and communications) are less concentrated in the region compared to the UK as a whole, although these sectors are growing. Prior to the Covid-19 pandemic, sectoral growth had been strongest in ‘professional, scientific, and technical activities’. There are, however, a number of firms operating within the innovation space with significant opportunities for employment growth.

Figure 4: Location quotients for Staffordshire and Stoke-on-Trent²³



Source: Business Register and Employment Survey, ONS (LSOA based)²⁴

²³ Sectors above 1.0 on the vertical axis are proportionally larger than the UK average

²⁴ Rural Economic Strategy Evidence Base, Staffordshire County Council, 2022

Engineering and manufacturing have declined significantly since the predecessor of Staffordshire University – the Central School of Science and Technology – was first established in 1914. However, these sectors are still important to the region (see Figure 4) with specialisms, relative to the UK as a whole, in the manufacturing of non-metallic products (including ceramics and other foundation industries), as well as coke and refined petroleum. Other top sectors, in terms of employment size, include: arts, entertainment, and leisure – specifically gambling and betting activities (the online gambling firm Bet365 is based in Stoke); water collection, treatment, and supply; and warehousing, transport, and logistics. Construction is another strong sector with growth potential in modern methods of construction. These industries, in parallel with the challenge of transitioning to a greener economy, have been identified as priorities in the Local Skills Improvement Plan,²⁵ with employment opportunities and upskilling requirements across a wider range of occupations.

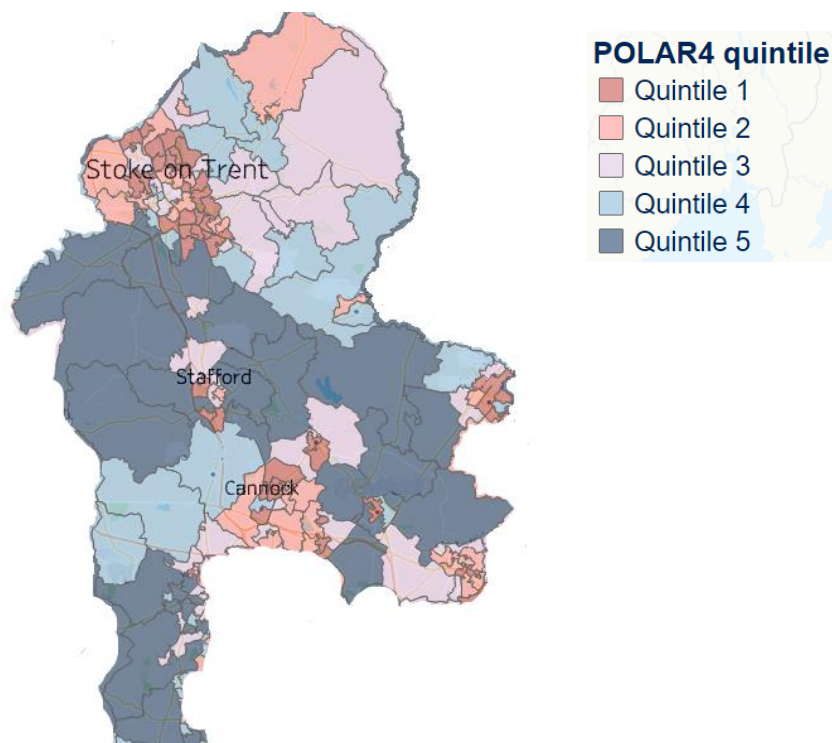
While the region is characterised by lower skilled employment (the top three occupations include skilled trades, mobile machine drivers and operatives, and elementary storage occupations) the hardest-to-fill vacancies due to skill shortages are also among the proportionately largest increases in the number of job postings. These higher skilled vacancies include management roles such as contract and supply chain management, IT services, cyber security and information privacy, management accounting, onboarding, oil and gas engineers, and technicians (Source: Lightcast). But enabling local people to access these jobs by upskilling or reskilling will require a radical transformation in how education and training provision operates in the region.

3.2.3 Participation in higher education in Staffordshire

Staffordshire has historically low levels of participation in higher education, with the lowest rates in the more densely populated areas around Stoke-on-Trent, Stafford, and Cannock.

²⁵ Stoke-on-Trent & Staffordshire Local Skills Improvement Plan, 2023

Figure 5: Higher education cold spots in Staffordshire



Source: POLAR4 data, Office for Students, 2024²⁶

These education ‘cold spots’ correlate with other socio-economic indicators. Stoke-on-Trent has the 12th highest proportion of deprived neighbourhoods out of 317 council districts in England and is ranked 27th for low levels of social mobility. Low skills levels among the working age population have limited wage and productivity growth, which are both below the national average.

There is, however, huge potential to transform participation in higher education – at Staffordshire University and other post-92 institutions. The Lifelong Learning Entitlement, scheduled for introduction in 2027, will allow adult learners to access loan funding for four years of post-18 education, which could be used to study a single module or build up a full qualification, including a degree, over time. This could include microcredentials, short courses, and other flexible units of learning, to enable working adults to train and study part-time in all applied, vocational, and practical subjects from medicine, through engineering, to the creative arts.

²⁶ The participation of local areas (POLAR) is a classification which groups areas across the UK based on the proportion of young people who participate in higher education. Quintile one shows the lowest rate of participation. Quintile five shows the highest rate of participation.

4 WHAT TO DO ABOUT IT

Any future expansion of higher education will require providers to restructure and pivot towards a new market for adult and lifelong education. Dame Alison Wolf, architect of the Lifelong Learning Entitlement, has stated that the key to making it work will be generating demand for courses.²⁷ Part of the solution will be matching provision to the requirements of local industries. Vocational training and technical qualifications that better meet the needs of companies can play a key role in local and regional ecosystems by providing skills that boost productivity and innovation. Another critical factor in the success of the LLE will be making it attractive to potential trainees and students. This means making provision sufficiently manageable for working adults – bite-sized and flexible, but also affordable.

4.1 Evidence of demand

The evaluation findings of the Office for Students (OfS) Short Course trial are not encouraging.²⁸ The main aim of the trial was to “provide further understanding about short course provision and participation, ahead of the LLE.” The plan was for 22 providers to offer a total of 96 new, short courses enrolling over 2,000 students.

In the event, only 17 courses across 10 providers were delivered during 2022–23 with a total of 125 enrolments, of which only 41 applied for and obtained the new bespoke student loan. Over half the courses enrolled five or fewer students. What is more, two institutions waived course fees and at two others all the students were members of staff, so less than a third of the participants actually paid any fees.

The evaluation did highlight some successes. All HE providers managed to develop short courses that they could offer to potential students, although many of these were not launched due to low levels of interest. Employer engagement in course development was also achieved, with most reporting satisfaction with their experience, believing courses would prove valuable in upskilling adults. This bodes well for future expansion. However, the scale of take-up was so small that little evidence of impact could be evaluated.

The pilot threw up a predictable range of problems. Many universities struggled under time pressure to adapt their course approval and admissions processes, designed for three-year degrees, to short programmes. Marketing was also a reported problem.

²⁷ <https://www.timeshighereducation.com/news/wolf-university-supply-key-lifelong-learning-entitlement>

²⁸ Evaluation of the Higher Education Short Course trial: Report for the Office for Students by the Careers Research & Advisory Centre (CRAC), January 2024

The programme was launched too late in the academic year, failing to give institutions enough time to promote the new courses properly or get staffing and other resources in place early enough – difficulties that could be easily remedied.

However, of greater concern is the length and duration of the short courses (30 credits over 13 weeks). This was questioned by employers, who largely wanted shorter, more flexible programmes. In addition, the lack of any national framework for credit transfer and accumulation made it difficult to give prospective students any assurance about the value of the courses they were taking as a building block towards future degree qualifications, although employers were divided between not seeing the value of credit at all, wanting the option of a non-credit-bearing route, and expressing a preference for smaller modules of around 10 credits that would ‘stack’.

The profile of students who did take up the loan facility identifies that 58% were aged over 30 years, indicating that courses should appeal to mature students. However, 69% of all the enrolled students (and 83% of applicants with a known level of prior highest qualification) already had a degree, which is consistent with the evidence for most continued learning but disengaged from the target market of adults who had not previously engaged in HE.

There were too few applicants to assess the extent to which the loan facility was a disincentive, although the evaluation states that almost all employers would expect to pay course fees themselves, and hoped such costs could fall within a scheme like the apprenticeship levy.

In brief, the evaluation findings of the Short Course trial offer no more than is already known from the evaluations of the existing Advanced Learner Loans, which have contributed to falling levels of adult participation in education (between Levels 3 and 5) since they were first introduced in 2013 to replace grant-funded provision.²⁹

4.2 Cost sharing

In the absence of a robust evidence base, common sense might suggest that the cost of courses, and the need for personal loans to pay for them, are unlikely to be the most effective drivers of demand among working adults. With the median wage at approximately £26,000 per annum, how many can afford loans in the current economic climate?

By highlighting the role of employers, the evaluation of the Short Course trial hints at the need for a different funding architecture to share the costs of training, and

²⁹ Evaluating the Extension of Advanced Learner Loans Research report, IFF Research on behalf of DfE, November 2018

transform participation in education. A tripartite arrangement between employers, individuals, and the state would rebalance the current funding arrangements and put the UK more in line with its international competitors. But despite a growing consensus that something must be done, there is little agreement about what that should be or how it can be achieved.

It is recognised that any cost sharing of full degrees must consider alternatives to the current loan system. This could range from modifications to the status quo, including indexing student loans to inflation, revising interest rate payments on loans, and increasing the teaching grant, particularly in high-cost subjects, to help take the strain off the individual student.

More radical solutions might include the idea of a **graduate tax**, or ‘stepped repayment system’, whereby higher-earning graduates pay more.

The scenario modelled by London Economics³⁰ involved the “full replacement of current maintenance loans and fee loans with maintenance grants and fee grants, respectively”, paid for by a graduate tax of 3 per cent on earnings between £12,570 and £50,270, and 5.5 per cent on earnings of £50,271 or more (mirroring the salary at which the higher 40 per cent income tax level comes in), until retirement. That would mean that graduates earning £50,271 a year at the age of 26 would pay more than £110,000 in graduate tax over their working life.

A graduate tax could save the government money, lowering the proportion of loan outlay written off and paid by the government, while removing ‘regressive features’ of the loan repayments. However, some opponents have argued that a graduate tax would be unfair in asking the highest-earning graduates to repay more than the cost of their education, while the uncertainty of a hypothecated income would introduce a level of risk and jeopardy to public funding for higher education.

Employers currently make no direct contribution to the cost of degrees, only indirectly via corporation tax, although they do contribute to degree-apprenticeships via the apprenticeship levy. David Willetts has suggested that degree apprenticeships should be funded out of the standard fees and loans model to release resources from the levy, in order to focus on younger apprentices and courses at Levels 2 and 3.³¹ This is an interesting proposition insofar as it could allow the levy to provide what employers say they need: short, bite-sized provision focused on skill needs that meet the real time demands of industry.

³⁰ A Graduate Tax: Would it work? million+ in association with London Economics, 2022

³¹ How higher education can boost people-powered growth, David Willetts 2023

In the context of reforms to the student finance system, the Lifelong Learning Entitlement represents a bolt-on to an existing problem rather than the solution for lifelong learning. The forthcoming general election, which must be held by January 2025 at the latest, should be the opportunity to develop policy solutions to an escalating crisis.

Both Labour and the Liberal Democrats have revived their thinking about individual learning accounts from their 2019 manifestos. The Liberal Democrats are calling for the introduction of “Skills Wallets for every adult, giving them £10,000 to spend on education and training throughout their lives.”³² In a similar vein, David Blunkett’s Learning and Skills report recommended the development of Individual Learning Accounts, which would incorporate and supersede the Conservative Government’s Lifelong Learning Entitlement.

4.2.1 Adult Skills Account – an education contribution scheme³³

Student loans and the apprenticeship levy, although reformed,³⁴ are likely to remain important funding mechanisms for tertiary education. However, a new funding model is needed for shorter ‘bite-sized’ provision, one that all individuals can draw on for education and re-skilling across a lifetime of work. This will be an important incentive for employees in the large majority of companies that would not pay into or benefit from a reformed apprenticeship levy.³⁵

An education contribution scheme could be financed through a system akin to National Insurance Contributions (NICs) or workplace pensions, enabling everyone who benefits from a better educated population to contribute towards it, that is, individual learners, industry, and government.

This fund could be administrated through an auto-payroll enrolment system, with government, employees, and employers paying into a pot that anyone who needs skills training can draw from. It could be a self-financing system that is ringfenced from the Government’s national accounts, by using a Special Vehicle to collect contributions from employees, employers, and the government.

³² <https://www.libdems.org.uk/plan>

³³ This idea was first discussed in [Skills For Jobs That Don’t Yet Exist: A new system for the fourth industrial revolution](#), ResPublica, 2019.

³⁴ At the 2022 Labour Party Conference, Kier Starmer outlined plans to turn the apprenticeships levy into a ‘Growth and Skills Levy’, enabling firms to spend up to 50% of their levy contributions, including current underspend, on non-apprenticeship training, including modular courses and functional skills courses

³⁵ Currently, only 2% of employers pay the levy, which is set at a rate of 0.5% of their total annual pay bill.

This individual funding pot could then be drawn on by all citizens, similar to a personal pension, but at any point in life, and according to the funds accrued, giving all adults the opportunity to study full or part-time, whenever they need it in their careers. It could be accessed through an online 'Adult Skills Account' which would provide a digital record of the total contributions. It would also provide a statement of learning and accreditation which could be stacked in order to gain full qualifications.

Based on the median salary of £26,000 per annum, an employee would be expected to pay Class 1 National Insurance of approximately £1,343.00 in the tax year 2024/25.³⁶ An education contribution of 1% on the total annual wage would deduct a further £260. If this was matched on a pound for pound basis, by both employer and state, this would equate to £780. This is broadly equivalent to the cost of a 10 credit microcredential – assuming fees for 10 credits are proportionate to a full bachelor's degree, of 360 credits, with tuition fees of £27,750 in England. This would be within the price range of many microcredentials currently on offer, such as via FutureLearn or the Open University.

However, setting the contribution at a fixed percentage of salary, could enable people earning higher salaries to accumulate 'credit' more quickly, which they can then spend on microcredentials or other courses. These income disparities could end up aggravating educational disparities. National Insurance Contributions don't quite work in that way. There is an element of conditionality, but the amounts paid in and taken out of the central pot aren't determined on a 1:1 basis. In this sense pension contributions are a better analogy for a contribution scheme.

A more redistributive method could calibrate the state contribution with a multiplier based on salary levels. For example, +0.1 for every £1,000 below the median salary and -0.1 for every £1,000 above it. (This would mean that above £36,000 p.a. the funding becomes a bipartite employer–employee system).

Individual Learning Accounts tend to deal with small amounts of funding and are unlikely to generate enough funds to pay for a full qualification or degree. However, they would be sufficient to start building and stacking credit over time (e.g. 30-credits) and stimulate take-up of loans for larger units of learning. Such a model could build on the experience and practice in other countries (for example, the SkillsFuture credit scheme in Singapore) where personal learning accounts provide a basic entitlement and allow learners to top-up.

³⁶ [National Insurance Calculator](#)

Case study: Singapore's SkillsFuture Credit

This is a universal benefit that provides every citizen aged 25 years or over, with a financial contribution to lifelong learning. The credits do not expire and can be topped up to pay for work related course fees. They can be used in addition to existing government provided course fee subsidies. Learners are able to invest in modular provision that allows them to continuously build on and develop their skills. As part of a continuing education system Singapore has also developed a workforce skills qualification (WSQ) framework for up to 30 different industries. This is designed specifically for adult learners to support progression from entry level to graduate diploma. The content of the WSQ is shaped by employers, with oversight and quality assurance provided by the Singapore Workforce Development Agency. The Singapore government has invested around S\$10 billion in the scheme since 2015 and has committed an additional S\$10 billion over the next five years (2023 to 2027).

An education contribution scheme need not be a universal entitlement. Government could set limits and quotas according to an agreed framework for microcredentialed units of learning, setting out priority skill requirements, by occupation and sectors that are key to the UK's economic future. Eligible employees and employers could then opt-in to the system. For example, the Economy 2030 Inquiry identified a number of industries where the UK has an international competitive advantage (Financial and business services, Creative and cultural industries, Life sciences, and Technologies – clean technologies and artificial intelligence).³⁷ Ultimately the aspiration might be to transition all workers to a universal entitlement.

4.2.2 A regional approach

An education contribution scheme could operate at the regional level, according to regional priorities and allowing devolved areas to levy adult skills funding into a single regional pot.

In addition to the adult education budget this could include more radical devolution of skills funding such as the Shared Prosperity Fund, Multiply and potentially the apprenticeship levy. The West Midlands Combined Authority has already introduced regional flexibilities with the creation of the Apprenticeship Levy Transfer Fund to enable smaller businesses to access the apprenticeship system.

³⁷ <https://economy2030.resolutionfoundation.org/reports/learning-to-grow/>

By pooling various funding streams, devolved areas could top-up individual learning accounts to address priorities identified by employers through the Local Skills Improvement Plan. This would determine the choice of course eligible for top-ups.

Places that have not agreed a devolution deal, like Staffordshire, might move towards greater collaboration and partnership working.

Case study: Staffordshire University Model

Since 2021 Staffordshire University has developed a suite of microcredentials, masterclasses, and short courses to help meet the skills needed in the local economy.

The framework

Microcredentials are ‘bite-sized’ learning opportunities that can be studied flexibly, on a non-credit bearing basis. Typically, each microcredentials will be equivalent to 5 or 10 notional credits, which can be stacked into larger units or courses.

In order to provide evidence of learning towards a university credit-bearing module, students must undertake microcredentials with a combined notional value of at least 20 credits and complete an appropriate assessment of the learning.

Courses are designed and developed in collaboration with learners, employers, and wider stakeholders in sixth forms and colleges to identify needs and develop skills pathways for careers in local industries.

Impact

Over 2,000 people have taken part in a suite of professional courses in the last three years. The first wave of microcredentials has been very positively received by employers, and the University has now partnered with Stoke-on-Trent City Council to deliver more using an award from the UK Shared Prosperity Fund (UKSPF).

Stoke-on-Trent Higher Skills Accelerator

The Stoke-on-Trent Higher Skills Accelerator will provide work-based learning options to upskill or reskill residents in areas of leadership and management, digital, marketing or Net Zero. This will see 400 participants gaining 40 microcredentials by March 2025. Short courses and masterclasses will be offered at level 4, aligned to the higher skill requirements of the local job market skills and career advancement.

Strategic microcredentials development

Specialist microcredentials will be developed in line with the needs of those employers who work closely with the university e.g. games developers, professional bodies, and the NHS. These will offer cost effective skill development to support career progression.

The Universities FE2HE programme, will support non-traditional learners to access and participate effectively in HE. This will provide a suite of free online microcredentials to students currently in sixth form or FE to develop essential knowledge and skills which can enable them to transition successfully to HE.

Building on Staffordshire University’s model for bite-sized learning and stackable credentials, in collaboration with employers, wider stakeholders, and funders, it is possible to imagine a funding pathway for adult learning that can more effectively meet the ongoing skill needs of individuals and the local economy, while sharing the costs of investment in skills between all those who will benefit from it.

Figure 6: A schema for a Staffordshire Skills Account

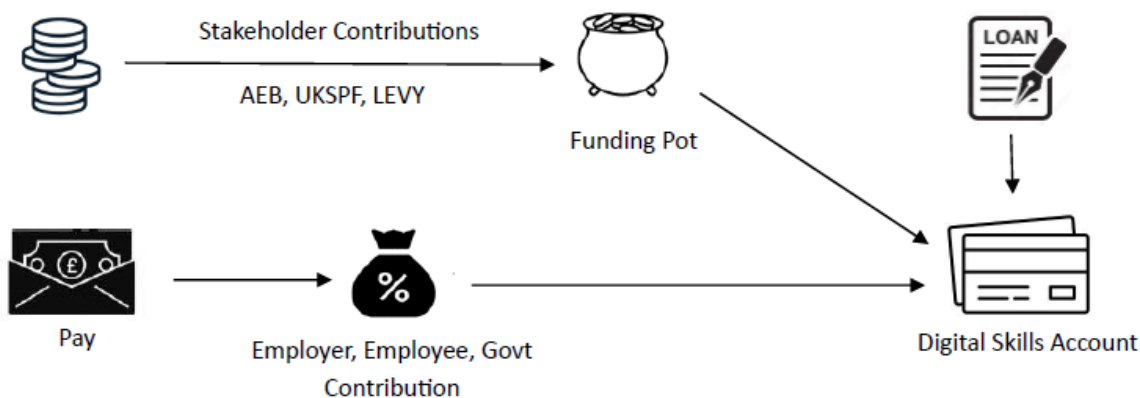


Figure 6, above, outlines a schema for a local or regional Skills Account. This is based on an ‘Education Contribution’ administered through payroll, topped up by pooled funding from public sector bodies (e.g. the UK Shared Prosperity Fund, Adult Education Budget) and an allocation of a reformed apprenticeship levy, to be supplemented by personal loans through the Lifelong Learning Entitlement (or another similar model).

5 CONCLUSION

Lifelong learning has moved from the margins to the mainstream of education policy, from an informal system of self-initiated learning, focused on personal development, to something that is increasingly central to the competitiveness of the national economy.

The UK has a longstanding productivity problem. It also has a problem with skill utilisation, with one in three graduate workers overeducated in relation to the requirements of their job. The mismatch between the supply and demand for skills is acting as a drag on economic growth, and reinforcing persistent regional inequalities, by limiting the employment and earnings opportunities of individuals and impacting on firm performance and productivity.

The lifelong education agenda, with its policy focus on the upskilling and reskilling of the adult working population, promises to address these challenges by more closely aligning skills development with industrial strategy. The vehicle for achieving this in England is the Lifelong Learning Entitlement. However, this is at risk of adding to an escalating funding crisis in higher education, where real-terms funding is on a downward trajectory, not helped by unexpectedly high inflation.

The challenge for higher education in England will be to secure a more sustainable funding settlement for 18–21-year-olds, who will commit to a full-time degree, while expanding into a new adult learning market. This could be particularly opportune for ‘post-92’ universities with roots in former industrial towns and cities, and a legacy of vocational and technical education, that have maintained closer and deeper connections to their localities.

Unfortunately, the evidence emerging from the short course trial suggests that reforms to the current policy are needed to provide the incentives for adult participation in education, at the scale needed to make a significant difference to economic performance. Specifically,

- Shorter, more flexible units of learning (e.g., 10 credit courses) that can build and stack credit towards full qualifications, and
- Alternative funding arrangements to share the costs of adult education, and to incentivise lifelong learning.

This paper advocates for the introduction of an ‘Adult Skills Account’ that could be financed through a system akin to National Insurance Contributions (NICs) or workplace pensions, enabling employees, employers, and government to contribute towards the costs and benefits of skills training.

Employees and employers would need to opt into such a scheme, administered through a payroll enrolment system. An online ‘Adult Skills Account’ would then be

generated, which would provide a digital record of learning and total contributions. This account could then be topped-up with additional funds, including a Lifelong Learning Entitlement, as well as other public funding, bursaries, and grants.

An annual contribution of 1% on the median wage (£26,000), matched pound-for-pound by both employer and state, would fund the cost of a 10 credit microcredential. This relatively small amount of funding could be sufficient to start building and stacking credits over time, while stimulating take-up of loans for larger units of learning.

The post-election climate will not be one where public spending is thriving. But modest investment in small units of learning that meet employer needs could provide substantial returns in productivity growth. The country needs a social, economic, and industrial strategy. Investing in higher and continued education is a strategic imperative. Now is the time to build a consensus around a new settlement in the national interest.

Making Lifelong Education Work: *Skills Accounts for Bite-Size Learning*

Funding for higher education is falling in real terms not helped by the freeze on tuition fees and record levels of inflation. With more universities reporting an operating deficit, how can the sector deliver on lifelong learning in the face of an existential funding crisis? The way institutions are funded is an essential part of this conversation, but the debate also needs to address what is on offer, as well as how and when we pay for it. Structural change is required to meet this challenge and realise a new market for lifelong education, in addition to the current offer for 18–21-year-olds, who will commit to a full-time degree.

This paper makes the case for the introduction of an Adult Skills Account – a contribution scheme that can help share the cost of bite-sized training between employee, employer, and state. We argue that such a mechanism can help stimulate participation in education and training among the working population and provide a pathway to higher education, including the take up of loans such as the Lifelong Learning Entitlement.



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