

# Further Education Loans – issues for students, apprentices, Colleges and Government

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## AoC Research Paper 1/2012

### Summary

The Further Education Loans policy is a major innovation in education which takes effect in 2013.

The policy is significant because it affects courses currently taken by more than 300,000 people over the age of 24 but also because it introduces a new way to fund further education.

Between 2013 and 2015, the Department of Business Innovation and Skills will shift £400 million currently spent on grants to Colleges and training providers across to the Student Loans Company so that they can offer income-contingent loans to students and apprentices who are over 24.

This reform is fraught with risks because it involves substantial increases in published fees, explanation of income-contingent loans to large numbers of people, design of systems to handle applications and implementation of new relationships and controls involving several national agencies, the 350 Colleges and more than a thousand training providers and employers.

Making a success of this policy involves major challenges at a time when there are already several other reforms in train. It will be possible to build the FE Loans scheme on the back of the Higher education loan system but only if all involved take great care and attention.

This paper is intended to help make the FE Loans scheme work because it is better to have loans to support courses than nothing at all. The paper sets out the challenges involved but also makes a series of suggestions about how to improve the loans policy and programme. The paper concludes with ten suggestions for action in the following areas:

- A review of whether apprenticeship loans should go to employers not people
- A budget transfer between higher and further education to smooth implementation
- A quick review of loan eligibility to ensure loans are used properly
- Cross-party and Treasury assurances about the future of this scheme
- Modelling of the loan quotas in terms of impact on students, subjects and Colleges
- A cross-agency review of the impact on Level 3 provision for all age groups
- Organisational rules and penalties to prevent abuse of the scheme
- Government-supported communications to explain FE Loans
- Research on implementation to inform future policy making

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**The Key Facts: FE Loans terms and conditions**

- Available to those aged 24 and over
- Loan intended to cover 100% of course costs between minimum and maximum levels
- Available for Level 3 (e.g. A-level, Access course, Apprenticeship) or Level 4 courses (i.e. professional courses but not HNDs or HNCs)
- Repayment starts once course has been completed and only if income is above £21,000
- Loans are repaid at a rate of 9% of income above the £21,000 threshold
- The amount to be repaid will include interest charged at a rate linked to retail prices
- Loans will be written off after 30 years or on death but not on bankruptcy
- Government covers costs of interest subsidy, delayed repayment and write-offs

If you have any queries about this paper, please contact Julian Gravatt, Assistant Chief Executive

## Introduction

1. From 1 August 2013, anyone aged 24 and over who starts a level 3 or 4 course in England will be responsible for the full cost of the study but most will have access to a loan.
2. People have always paid fees for further education courses<sup>1</sup> although those in receipt of benefit have not had to pay. Some people have taken out loans to pay these fees. From 2013, loans will be available for a particular group of College courses and apprenticeships on the same terms as the new higher education loans.
3. At the same time, the Government will remove teaching grants for these courses and route the money via the new loan scheme. This means that the published fees will rise but, as in higher education, many people will not need to pay anything up-front but will make repayments after they finish.
4. For many years, AoC has argued for the extension of income-contingent loans to further education in order to help those who were required to pay upfront fees. We think there are long-term benefits from a more coherent approach to funding between higher and further education. However, we have serious concerns about this reform because of the speed of the move to full-cost loans, the impact of the recession on take-up and the administrative challenges.
5. This briefing explains the issues surrounding the introduction of FE Loans, the implications for Colleges and their students and what could be done to improve the policy and its implementation.

## The FE Loans Policy

6. The Government announced the decision to introduce FE Loans in the Spending Review on 20 October 2010. The Department for Business Innovation and Skills (BIS) provided further information a few weeks later in the “Skills for Sustainable Growth” White Paper and issued a more detailed paper in August 2011 as part of the “New Challenges, New Chances” consultation.
7. There has been talk about making loans available to further education students for many years, but there was relatively little advance notice of the current FE Loans Policy.
8. Loans for education have been an important part of policy since the late 1980s when the then Conservative Government introduced student maintenance loans for higher education. At the same time, it introduced a Career Development Loan (CDL) scheme in partnership with several banks. These have operated for several decades and were re-launched as Professional and Career Development Loans (PCDL) in the

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<sup>1</sup> Current fee subsidies from the Skills Funding Agency assume that standard fees are 50% of the unweighted cost of courses. 100% subsidies also ensure that people on means-tested benefits pay nothing. The balance between the actual fee charged for Level 3 courses and the government subsidy is often less than 50/50 because government pays more for high cost courses (e.g. in construction or engineering), because government pays more in high cost areas to keep fees level across England, because government pays a premium for those living in disadvantaged areas and, finally, because Colleges sometimes charge less than the assumed fee to keep courses affordable. All of this means that most published course costs will rise by substantially more than 100% when all these subsidies are removed and the money routed via loans

mid 2000s. These loans are issued by high street banks (Barclays, the Co-operative Bank) on commercial terms once students finish their course. The Government subsidises the interest costs during study and provides some insurance in case of default.<sup>2</sup> There are no arrangements to ensure universal access – if one of the three banks does not want to make a loan, individuals cannot get access to a PCDL.

### The Key Facts: Professional and Career Development Loans

- Loan minimum c£300, Loan maximum c£10,000
- Loan can cover up to 80% of course fees (up to 100% for unemployed applicants)
- Available for any career-related course including Postgraduate study
- Repayment starts once course has been completed
- Interest rate currently 9.9%
- Loan is ordinary commercial loan paid by one of three high street banks
- Government covers cost of interest subsidy during course and costs of defaults
- Annual cost to Skills Funding Agency (2010/11) £10million plus contingent liability for default

9. Further education loans were not on the agenda when the Labour Government was in power and were not mentioned in any of the reports commissioned on further education<sup>3</sup>. Instead political attention was focused either on loans for higher education or on reforming further education funding to make it more ‘responsive’ to employer needs (for example the Train to Gain programme). Experiments in routing further education funding via individuals effectively stopped for a decade when the Individual Learning Account scheme was closed in 2001 as a result of overspending and fraud<sup>4</sup>. Neither the Conservative<sup>5</sup> or Liberal Democrat<sup>6</sup> policy papers on further and higher education published in the 18 months before the 2010 General Election proposed the introduction of FE loans nor did the Coalition Government’s skills strategy consultation paper of July 2010<sup>7</sup>. The Independent Review of Fees and Co-Funding chaired by Chris Banks published at the same time gave some consideration to loans as a source of finance but recommended that BIS re-launch the PCDL programme rather than extend the HE loans to FE-level courses<sup>8</sup>
10. None of this means that further education loans are a new idea. The Department for Education and Employment’s National Skills Task Force recommended in 2000 that a “system of income-contingent loans” be introduced for adult learners<sup>9</sup> while the Learning and Skills Development Agency (LSDA) published several papers in the

<sup>2</sup> The SFA explains the nature of its PCDL guarantee in its annual report and accounts

<sup>3</sup> For example the Foster report “Realising the Potential” November 2005, Leitch Report “Prosperity for all in the Global Economy”, December 2006

<sup>4</sup> National Audit Office report “Individual Learning Accounts” (October 2002) [www.nao.gov.uk](http://www.nao.gov.uk)

<sup>5</sup> Conservative Green Paper on Skills “Building Skills, Transforming Lives”, July 2008, [www.conservatives.com](http://www.conservatives.com)

<sup>6</sup> Liberal Democrat Policy Paper 90 “Investing in Talent, Building the Economy”, March 2009 [www.libdems.org.uk](http://www.libdems.org.uk)

<sup>7</sup> Skills for Sustainable Growth consultation, available <http://discuss.bis.gov.uk/skills>

<sup>8</sup> <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/i/10-1025-independent-review-fees-co-funding-fe-england.pdf>

<sup>9</sup> National Skills Task Force 3<sup>rd</sup> report, 2000 quoted in Mick Fletcher’s February 2011 paper for the Institute of Education ([http://www.ioe.ac.uk/Study\\_Departments/Post14\\_TheRoleOfLoans.pdf](http://www.ioe.ac.uk/Study_Departments/Post14_TheRoleOfLoans.pdf))

early 2000s<sup>10</sup> exploring the issue. The Institute of Public Policy Research made a specific recommendation in 2007 that income contingent loans should be made available to level 3 students on the same terms as university students<sup>11</sup>. AoC has made the argument that further and higher education support should be harmonised several times, most recently in the AoC manifesto for the 2010 General Election<sup>12</sup>.

11. Although the idea of FE loans has been proposed by various organisations over the years the current Government proposal is the first of its kind. Such ideas need to be socialised, policies need to be discussed with those who make them work and implications need to be thought through. In this case, the FE loans policy appeared in autumn 2010 at a time of considerable change in the education system and also when there are severe reductions in consultancy and communications budgets as well as in overall Government funding. The government's consultation on FE Loans published in August 2011<sup>13</sup> generated more than 100 responses and has increased the interest and discussion about the policy and its practicalities but the timetable means that BIS needs to forge ahead with implementation in order to meet its 2013 deadlines<sup>14</sup>. This means that some of the assumptions behind the policy and the practicalities of implementation are not being fully discussed. AoC is keen to open up the discussion about FE Loans which is why we are publishing this paper. We would welcome comments.

### **Budget and Finance issues**

12. The decision to introduce FE Loans was made as part of the Government's 2010 Spending Review. Financial issues play an important part in shaping the policy. In the run-up to the 2010 Spending Review, HM Treasury required all Government Departments to propose plans for cash savings of 25% and 40% as part of the Coalition Government's strategy to reduce the deficit primarily by cutting public spending. Treasury and BIS Ministers and Officials considered various options before finalising plans to introduce loans for over 24 year olds taking level 3 or 4 courses.
13. The final settlement involved a 25% cash saving (around £1 billion) in the Further Education and Skills budget, with available funds prioritised on 'younger learners and those with lower skills.'<sup>15</sup> The attraction of FE Loans is that they could be bolted onto the existing HE Loans scheme managed by the Student Loans Company and HM Revenue and Customs in a way that offers good terms to students in terms of repayment. Offering loans and removing the need for up-front payment of fees helps compensate for the loss of grant funding.
14. The public spending consequences of this decision are still a little unclear. The ending of teaching grants for level 3 and 4 courses taken by this age group creates a revenue saving of £300+ million but this will be offset by a charge for the costs of

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<sup>10</sup>LSDA "Loans for further education" ( [http://dera.ioe.ac.uk/10152/1/Loans\\_for\\_lifelong\\_learning.pdf](http://dera.ioe.ac.uk/10152/1/Loans_for_lifelong_learning.pdf))

<sup>11</sup> Institute of Public Policy Research "Learning for Life, 2007" available from [www.ippr.org.uk](http://www.ippr.org.uk)

<sup>12</sup> AoC 2009 manifesto, available from [www.aoc.co.uk](http://www.aoc.co.uk)

<sup>13</sup> BIS consultation on FE Loans, August 2011, <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/N/11-1219-new-challenges-further-education-loans>

<sup>14</sup> BIS current plans are outlined in "An introduction to FE Loans for Colleges and Training Providers" [http://readingroom.lsc.gov.uk/SFA/An\\_Introduction\\_to\\_FE\\_Loans\\_for\\_Colleges\\_and\\_Train\\_-\\_13Dec2011\\_-\\_V1.pdf](http://readingroom.lsc.gov.uk/SFA/An_Introduction_to_FE_Loans_for_Colleges_and_Train_-_13Dec2011_-_V1.pdf)

<sup>15</sup> Executive Summary, New Challenges, New Chances – Further Education Loans, August 2011

interest and repayment. Income contingent loans are capitalised in the Government accounts but the costs of subsidising interest and foregoing repayment are charged to the income and expenditure account when the loan is made. This requires BIS and the Treasury to estimate the likely costs and repayments which it does using historic data. BIS estimates that the upfront charge for higher education loans from 2012 will be about 30% to cover interest and repayment costs<sup>16</sup>. This means that each £1 lent can provide revenue for education and training organisations while only adding 30 pence to the deficit. The level of this charge in higher education has been a matter of some debate – the Higher Education Policy Institute suggests it should be 47%<sup>17</sup>. Introducing FE loans is a way of maintaining levels of learning and apprenticeships while reducing the revenue costs to Government, though the saving could prove to be relatively modest – the draft impact assessment suggests that the revenue charge on FE Loans could be as high as 60%.<sup>18</sup>

15. The extent and cost of FE Loans will not be known until the scheme starts because we do not yet know:
- The numbers of students and apprentices.
  - The fees that will be charged by Colleges and training organisations.
  - The take-up of loans.

16. BIS has set some outline budgets for the first 18 months:

<b>£ million</b>	<b>2013/14 Financial Year</b>	<b>2014/15 Financial Year</b>
Students aged 24 or over on level 3,4 courses	87	Not yet analysed
Apprentices 24 or over	42	
Total	129	398

17. The decision to set and publish a budget for FE Loans provides an interesting contrast with the higher education loan system which operates more flexibly. Despite twenty years of experience with HE loans, take-up is hard to predict. BIS does not publish a budget for the different elements of higher education student loans (fees, maintenance etc) and provides very little information on how it manages loan expenditure. Only since 2008 has BIS delegated the loan budget downwards to institutions via controls on full-time student numbers. These controls were introduced in response to concerns that HE loan and grant expenditure had increased beyond estimates<sup>19</sup>. Before then, BIS had relied upon HEFCE’s funding system to control student numbers. The current student number control system is operated by the Higher Education Funding Council for England (HEFCE) which uses fines to punish over-recruitment. For the time being, these controls only apply to

<sup>16</sup> Figure is quoted and discussed in HE White Paper, Students at the Heart of the System, June 2011

<sup>17</sup> HEPI commentary on HE reforms, November 2011

<sup>18</sup> BIS, Draft FE Impact Assessment, page 24, <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/f/11-1218-further-education-loans-impact-assessment>

<sup>19</sup> Secretary of State John Denham’s letter to HEFCE in October 2008 talked about “managing expenditure on student support in a sustainable way” and ensuring this was “not jeopardised by unplanned growth in student numbers”

publicly-funded Universities and Colleges and do not apply to private Universities or some Colleges whose students can access loans “off-quota”<sup>20</sup>. BIS and HEFCE both promise to address this issue via the forthcoming Higher Education Bill and new funding consultation.<sup>21</sup>

18. The fact that the FE Loans scheme is new and is being introduced at a time of very tight controls on public spending will shape the way the scheme works. The financial context will result in a more constrained approach than the one that operates in higher education. Budget stringency is necessary to deal with uncertainty. No-one knows how many people will apply for loans. No-one can predict how long their courses will be or how large a loan they will want. No-one can predict how the changes to funding will shift behaviour.
19. The solution adopted by BIS involves an overall budget and individual loan allocations. These will be different from the higher education student number controls which set a limit on the number of new full-time entrants that a University or College can admit. The loan allocations will be cash quotas: “you can allow students to apply for a total sum of loans up to a maximum set in this quota”. SFA will calculate and allocate these quotas based on existing patterns of enrolment for level 3 and 4 courses. A contingency will be held back and there are plans to move quotas between institutions to meet demand. Officials have developed this approach in consultation with AoC and others but there are consequences that need to be considered:
  - With demand from students and employers being so unpredictable, it is likely that some Colleges and training providers will find themselves with un-used quotas, particularly in the first year (2013-14). The experience of HE loan has been that enrolment invariably falls in the first year.
  - In the first year of operation, there will effectively be a seven month budget because the first loan will be payable from 1 August 2013 and the budget runs to 31 March 2014. It is not clear whether any under or overspend can be carried forward, particularly now that the Treasury has a new tight system for dealing with carry-forwards (called Budget Exchange).
  - There is no information yet on the loan budget after 31 March 2015 which comes part-way through the second academic year (2014/15). The next General Election is scheduled for May 2015 so there is an obvious political risk that the programme could be cancelled. In recent years, several education programmes have been started and have then stopped a couple of years later. Colleges and employers will need confidence that the FE Loans scheme is here to stay, otherwise they may be reluctant to make their own commitments to Level 3 and 4 courses and might direct their efforts elsewhere.
20. There are some complicated issues. The FE Loans scheme will attract political support if it succeeds but it will only succeed if there is confidence that it will continue. The need for tight budgetary control and the unpredictability of demand

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<sup>21</sup> See HEFCE circulars 26/2011 and 30/2011 on Student Number Controls

leads us inevitably to individual cash-limited allocations for Colleges and providers but there is a risk that this will make the FE Loan scheme seem inflexible and harder to operate. Some Colleges and employers may need to ration access to loans; others may face SFA pressure to accept a lower quota before they have had time to explain and use the scheme to students.

### **Student numbers and loan take-up**

21. The extension of income-contingent loans to level 3 and 4 courses opens out access to a much larger number of people, particular as loans can be offered for courses in any Skills Funding Agency-funded provider (i.e. 350 Colleges and more than 1,000 training providers).
22. According to the draft Impact Assessment accompanying the FE Loan consultation<sup>22</sup>, 324,000 people aged over 25 currently take level 3 and 4 courses, in the following three groups:
  - 41,000 people taking College and provider courses that pay no fees at all because they receive means-tested benefits or qualified for the level 3 entitlement.
  - 192,000 people taking College and provider courses that pay subsidised fees.
  - 91,000 people taking Apprenticeships.
23. BIS officials expect lower numbers of people to actually take out FE Loans and are working on the assumption that there will be 80,000 applicants in 2013/14 and 170,000 in 2014/15. This is lower than the number currently taking funded level 3 and 4 courses for several reasons:
  - Loans will be needed in 2013 by new starters. Courses started before 2013 will still be funded until students complete a Level 3 or 4 courses.
  - The introduction of loans, withdrawal of Government funding and increase in fees will probably dissuade some people from starting courses. There was a dip in higher education enrolments in both 1998 and 2006.
  - Loan take-up will be less than 100% because some people who take courses may decide to pay fees themselves or may have fees covered by others. Even after twenty years, higher education loan take-up among enrolled and eligible students is 86%.<sup>23</sup>
24. An important point is that the FE loans scheme provides assistance for a group of people who might otherwise have no Government funding at all. The impact

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<sup>22</sup> BIS FE Loans draft Impact Assessment, <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/f/11-1218-further-education-loans-impact-assessment> August 2011, page 22

<sup>23</sup> House of Commons Library briefing paper on Student loans <http://www.parliament.uk/briefing-papers/SN01079>

assessment<sup>24</sup> estimates that there would be a massive (90%) cut in numbers taking level 3 courses or apprenticeships if there was no funding or loans at all, ie a drop from 324,000 to 30,000. The Impact Assessment forecasts a 20% reduction only with the provision of loans, taking numbers down from 324,000 to 260,000. In other words, BIS estimate that the FE Loans scheme will ensure 200,000 participate who would not do so if it did not exist. These estimates are speculative and need to be treated with great caution but the challenge for anyone concerned about the FE loans scheme is to work out what the alternative is.

25. At this point, it is worth setting out in full the reasons to be concerned about the impact on demand from those who currently take level 3 and 4 courses:
  - The shift from current fee levels (or no fees for those who are unemployed) to full-cost fees covered by loans is happening quickly.
  - Students will see fees increasing by a factor of two or even three (i.e. doubling or trebling) because the current funding system assumes that fees cover 50% of the basic cost of a Level 3 or 4 course with the Government covering additional costs relating to high cost programmes or high cost areas.
  - This reform is taking place at a time when unemployment is high and when the financial returns from any courses are uncertain. It is worth noting that many Level 3 and 4 courses prepare people for public service jobs where returns are particularly uncertain.
  - The Government's self-imposed freeze on marketing expenditure could make it more difficult to raise public awareness of the new FE loans scheme – though it is possible that BIS will be allowed to run a campaign.
  - There are particular problems with extending loans to apprentices (because of the employer relationship and their political importance) and access students (because of the size of the final bill they will face). This could add to reluctance to start a course and take-out a loan.
  - The concurrent cuts in other Government funding make the environment very uncertain for Colleges and could make it more difficult for them to take risks.
  - There are massive administrative challenges in making this reform work.
26. However it is also possible that FE Loans will be taken up by a new and different cohort of students. The fact that there are more than 1,000 SFA-funded organisations and the ease with which a Level 3 qualification can be designed and accredited means that there may be innovative approaches to offering courses backed by loans. The key will be to find people willing to take them up.
27. When it comes to demand, many Colleges leaders express concern that the idea of higher fees and loans to pay them will put off many of their existing students even though fees are not paid up-front and the terms of the loans are beneficial. It will be

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<sup>24</sup> BIS, Draft FE Loan impact assessment

necessary for Colleges and others to find people willing to take up loans and there are risks that this could result in a focus on people less worried about financial issues. The following overlapping groups of people may be less debt-averse:

- People who are over or near retirement age who may calculate that their income will never exceed the repayment threshold.<sup>25</sup>
  - People on higher incomes, for example those paying higher rates of tax.<sup>26</sup>
  - People who already have higher education qualifications. The FE loans will be written to prevent people taking several FE Loans but there will be no restriction on someone who has an HE loan also taking out an FE Loan.
28. Anyone who takes out an English student loan and who moves outside the UK after they complete their course has to pay SLC directly rather than via the tax system. The treatment of UK nationals and nationals of other European Union countries is the same in this respect but it is more likely that other EU nationals will move away from the UK and there must be a risk that some will see a UK student loan debt as something they can avoid.<sup>27</sup>
29. These groups of people can all access the current higher education loan system apart from those who already have higher education qualifications (as a result of the Equivalent or Lower Qualification policy). The more flexible nature of further education means that better-qualified people may be interested in relevant courses and be prepared to take on the debt, particularly given the terms. There are already precedents for better-qualified people taking on loans for study<sup>28</sup> and, anyway, people do not always follow the linear study routes described in policy documents and prospectuses. Just because policy-makers, awarding organisations and teachers categorise qualifications in ladders and frameworks does not mean that individuals always progress upwards in terms of these levels. Education credentials are not automatically transferrable and someone wishing to change career or learn a new skills will take a qualification at the level which is appropriate. People with degree-level qualifications have always enrolled on further education courses and may continue to do so, even if the only support available comes in the form of loans.

## Implementation

30. The FE Loans scheme will be administered by a partnership of government agencies:

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<sup>25</sup> HE maintenance loans are limited to those aged 60 or under but HE tuition fee loans are available to people of any age. Rules for FE loans will be written during 2012 and all the signs are that there will be no upper age limit

<sup>26</sup> There is means-testing for HE maintenance loans because people whose families earn less than £50,000 qualify for maintenance grants and a smaller maintenance loan. HE tuition fee loans were means-tested between 1998 and 2006 but are now available regardless of personal or family income.

<sup>27</sup> As a result of European Union treaties, HE tuition fee loans (but not HE maintenance loans) are available on an equal basis to anyone with three year's ordinary residence in the UK or European Union. The Student Loans Company has arrangements to collect loan repayments from people who are not resident in the UK after graduation

<sup>28</sup> According DFES Research Brief 261 quoted in Fletcher's Loans note [http://www.ioe.ac.uk/Study\\_Departments/Post14\\_TheRoleOfLoans.pdf](http://www.ioe.ac.uk/Study_Departments/Post14_TheRoleOfLoans.pdf) , graduates account for 40% of Professional and Career Development Loan applicants

- the Student Loans Company (SLC) which has administered higher education loans for twenty years and which will handle applications and payments.
  - The Skills Funding Agency (SFA) which will check providers and manage loan quotas.
  - HM Revenue and Customs for repayment and debt collection.
31. The decision to commission SLC to administer the FE Loans scheme is an obvious one to take because of its existing systems, for example its links to HMRC and to the Home Office for ID verification. The involvement of SLC will help with any future longer-term integration of FE and HE Loans. However, there will be challenges associated with the use of the SLC as the main delivery vehicle. Confidence in the Student Loans Company (SLC) was hit by administrative problems in autumn 2009 which prompted several management changes and an external enquiry.<sup>29</sup> The SLC has redeemed itself in 2010 and 2011 but faces a difficult couple of years. We believe that the SLC can face up to this challenge but will need to invest considerable effort to prepare its staff and develop its systems for differences in further education. A full list of the differences and challenges between the FE and HE loans scheme includes the following:
- The major change programme to prepare itself to administer the new HE loans from summer 2012, including a new system of part-time HE students.
  - The need to form a new relationship with the Skills Funding Agency which has the role of approving providers and qualifications and of setting maximum loan rates.
  - The need to develop a paper-based system to administer FE Loans in 2013/14 and then to move this across to an on-line system in the following years.
  - The fact that there is no national applications system for further education, unlike in higher education where UCAS operates. Each provider of further education runs their own application process enrolling students right up until the start of the academic year and then during the year.
  - The need to engage with many more institutions to engage with. Along with the 350 Colleges, there are more than 1,000 Government-funded training providers and employers of apprenticeships.
  - The fact that the majority of eligible students will be part-time students.
  - The fact that Level 3 and 4 qualifications are in a constant state of flux caused by changes in Government policy, the sector's responsiveness to student demand and employment trends. In recent years, qualifications have continued to change up until July before a new term starting in September. Unlike in higher education, there is no 'degree wrapper' to simplify the situation.

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<sup>29</sup> Review of Delivery of Financial Support to Students in England by Student Loan Company by Dein Hopkin <http://www.bis.gov.uk/assets/biscore/corporate/docs/d/09-1580-delivery-of-financial-support-to-students>

- The fact that loans will be introduced in a system where there is no fee regulation. As with the current privately-provided higher education, loans will be paid up a maximum sum. These maximum rates will be set by SFA via its funding formula which is changing for 2013. BIS, SFA and SLC will need to manage these reforms together, to ensure that timetables are aligned and to ensure that rule changes are coherent.
32. The implementation of FE Loans requires close working between officials in BIS, SFA and SLC in managing a programme which will be delivered with the help of staff in Colleges, employers and training providers. This is a massive reform programme which starts with communications.

### **Communications**

33. The introduction of income-contingent loans for level 3 courses taken by people aged 24 and over is a major reform and will require a significant investment of time and effort in ensuring effective communications. From 2013, more than 300,000 people who had formerly received free courses, subsidised courses or apprenticeships will now be required to pay a fee and will have access to a loan. The FE loans programme will need to ensure that several key messages are heard and understood:
- Level 3 and 4 courses will be funded solely by fees.
  - As in higher education, income-contingent loans will be available which mean that individuals can study now and pay later – via a payroll deduction or tax return.
  - People should take advice on the course on their loans but need to make an application to qualify.
  - People whose courses costs less than the minimum loan or who do not want to take out a loan can still enrol but will need to pay in full.
34. BIS officials has commissioned market research to understand student attitudes better but we consider that one first step in communicating messages effectively will be clear and firm decisions on the FE loan scheme rules, on the process by which individuals apply for loans, on the administrative requirements placed on Colleges and providers and on the different arrangements for apprenticeships. It will also be necessary to segment audiences, for example:
- The group of people who currently qualify for free tuition because they are on income-related benefits will need persuading that a loan and their chosen course is worth the risk.
  - Apprentices will have a different set of concerns related to their employment relationship and the extent to which their apprenticeship meets their personal needs as well as their employer's.
35. The consultation paper on FE Loans quoted research on the attitude of current students towards fee increases which suggested that changes in FE fees would make relatively little difference to demand. This may be true for small increases in fees (e.g.

10%) but is unlikely to hold true for the large increases being contemplated here. Furthermore, the research results are unlikely to apply for those who currently pay no fees at all (either because they are on income-based benefits or because they are apprentices).

36. BIS will sensibly learn lessons from the introduction of other student finance reforms in recent years and it will also be important to take this reform seriously. Although the sums of money are relatively small, the shift from low fees to full-cost fees is happening within two years (between 2010 and 2013). By contrast the introduction of full cost fees and income contingent loans in higher education has happened over approximately 15 years (between 1997 and 2012). The Cabinet Office has given approval to BIS for a marketing campaign to support the higher education reforms but it is not yet clear whether a campaign will be carried out for FE Loans.

## Advice

37. The arrangements for providing advice in further education are in some turmoil because of budget cuts in the Connexions Service, the transfer of responsibility from local authorities to schools and the long process to establish the National Careers Service. The National Careers Service will have an important role in signposting the FE Loan scheme but Colleges, employers and providers will also need to ensure their staff and systems are up to scratch. It will be particularly important that staff properly explain the terms and conditions of the FE Loan scheme and of the courses that people are signing up to. Failure to do this will lay the institution open to charges of mis-selling. At a time when BIS has a plan to reduce bureaucracy for Colleges and other funded organisations<sup>30</sup>, the introduction of loans will be a significant new area of administration. As with other aspects of the FE Loan scheme, there are lessons from, and contrasts with, the HE Loan scheme:

- Although the HE Loan budget is much larger than the FE Loan budget, this is partly because the average loan is much larger. The number of new HE loan applicants each year is currently around 300,000 – compared to 150,000 forecast for the FE Loan system by 2014. There will be substantial numbers of FE students needing advice.
- There are some specific issues with the provision of financial advice, particularly when a student is signing up a loan which has to be repaid. Although the Consumer Credit Act does not apply to student loans because of the low interest rate,<sup>31</sup> it is sensible to act as if it does. It is also likely that employers will be wary of giving financial advice to their staff.
- The higher education system has a relatively long lead-time for admissions organised via the UCAS system. One benefit of a slow process is that this gives time for students to make their minds up and to commit to a particular course of action. Colleges and training providers enrol some Level 3 and 4 students relatively quickly and may need to consider offering “cooling-off” periods to allow people in these circumstances to make decisions.

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<sup>30</sup> See National Audit Office (NAO) report “Reducing bureaucracy in further education” November 2011

<sup>31</sup> OFT guidance says that the consumer credit act does not apply to low cost loans  
[http://www.of.gov.uk/shared\\_of/business\\_leaflets/consumer\\_credit/oft140.pdf](http://www.of.gov.uk/shared_of/business_leaflets/consumer_credit/oft140.pdf)

- The fact that more than an estimated 90% of higher education entrants come directly from School or College means that they benefit from free advice from teachers and others concerned to help them progress.
38. BIS will need to ensure that there is information, advice and guidance for adults and that, where an institution does not have advisors working under an appropriate standard, there are arrangements for providing suitable access to alternative advice.
  39. The removal of Government grants for Level 3 courses taken by those over the age of 25 create a new obstacle to progression. Individuals will be required to pay fees for an extra year and will have a larger debt on completion of their higher education course. This will matter a lot to some students, many of whom:

### Access students

40. There are some ways in which the FE loans scheme could be tailored to meet the needs of Access students. The communication campaign needs to stress that the cost of the higher education course will be only one part of the total cost (loss of earnings and living costs being other obvious costs). This means that students can be directed to flexible, shorter or part-time higher education courses – but only if Government higher education policies protect these as valid alternatives.
41. The Higher Education White Paper notes that the number of students progressing to higher education from Access courses compares well to traditional level 3 courses as does their achievement once in higher education<sup>32</sup>. The report by Simon Hughes MP on access to higher education identified the withdrawal of teaching funding for access students as a particular problem and recommends that the Government re-consider this step<sup>33</sup>. We support this proposal but recognise that the additional cost could be at least £50 million a year. This would add to pressure on the Further Education budget unless other funding sources are found.

#### The Key Facts: Access courses

35,000 students, of whom an estimated 15,000 progress to higher education  
 37% live in areas classified as disadvantaged  
 7% minority ethnic groups  
 10% disability / learning difficulty  
 70% women

42. To date, the discussion about this assumes that any money should come from the FE budget, but we believe that it would make sense for BIS to re-consider the boundaries between different budgets and review whether to switch expenditure between grants and loans.
43. BIS does not report their exact expenditure on HE Maintenance Grants in their 2010/11 accounts (which run to 300 pages) but the 2010/11 budget included in their 2009 Departmental Report, says they planned to spend £1,309 million on student

<sup>32</sup> Paragraphs 5.31-5.33, Students at the Heart of the System, BIS, Cm 8122

<sup>33</sup> Hughes report <http://www.cabinetoffice.gov.uk/sites/default/files/resources/education-advocate-report.pdf>

grants. Spending on HE maintenance grants has doubled in the last six years as result of improvements to the system introduced by successive Ministers in 2004 and 2007. The 2012 reforms maintain spending on HE grants and allow students to claim them on family incomes of up to £50,000.

44. By contrast, there will be just £176 million in financial support available for further education students in 2013/14, a budget that is stretched to cover childcare, fees for residential students and the needs of 2.8 million students<sup>34</sup>. BIS has increased this budget in recent years but it will be insufficient to meet student need. A more logical approach for 2013/14 might involve the following changes:
- Reduction in income thresholds for higher education maintenance grants with compensation via an increase in maintenance loans. Students would have access to the same money but would be liable to repay more of it once their income exceeds the £21,000 threshold.
  - Re-direct the money saved to provide teaching grants for access courses, perhaps on a means-tested basis.

#### **Apprentices over the age of 24**

45. Apprenticeships have only been available to those over the age of 24 since 2004 but there are now 91,000 in this age group affected by loans. The apprenticeship system in England has recently been reformed and has a new statutory basis, a common national standard (SASE) and a national organisation responsible for promoting and managing the programme (the National Apprenticeship Service). The introduction of FE Loans for apprentices comes after several years of reform and will be challenging for several reasons:
- The rapid growth in adult apprenticeships for over 25 year olds has created some concern about the way in which some employers are using the programme and about whether standards are being correctly applied. This is more an issue with Level 2 apprentices than with Level 3 ones but it is important to understand that the policy to introduce FE Loans and withdraw grants will address these concerns by reducing demand. What is odd is that the plan cuts funding for Advanced Apprenticeships (at Level 3) while leaving Intermediate Apprenticeships (at Level 2). This does not seem to sit well with Government intentions.
  - Many over 25 year old apprentices are in minimum wage or low wage jobs (for example in care or retail) and will be reluctant to take on a loan, even one backed by the Government, particularly as it will be for a training programme to meet the needs of their current employer.
  - Taking out one FE loan will disqualify someone from taking out a loan at the same level for a course done for a different reason. This is not an immediate issue for 2013 but could become one.

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<sup>34</sup> BIS Skills Investment Statement, December 2011 <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/s/11-1374-skills-investment-statement-2011-2014>

- The loan will be calculated on the basis that the employer pays 50% of the training cost while the apprentice pays the other 50%. Most employers do not pay a cash contribution but count their own supervision, training and assessment costs as their 50% contribution. In these circumstances, it is unclear who the apprentice's 50% loan payment should be paid to.
  - In cases where employers organise off-the-job training for their apprentices, the deal with the College or training provider is likely to involve a single contract and payment not an arrangement where each apprentice makes their own payment.
  - The Student Loan Company has twenty year's experience in dealing with Universities and education institutions but no experience in dealing with employers.
46. In our view, there are serious and structural problems with the plan to introduce FE Loans for apprenticeships which threaten to distract attention from the challenges involved in the rest of the programme and which could make employers reluctant to engage with other parts of the education and training system.
47. We believe it is better to meet these concerns head-on and for BIS and the National Apprenticeship Service to work quickly on an alternative plan for 2013/14 which involves using the money earmarked for apprenticeship loans (£42 million in the first year) for a training loan scheme to employers. This would need to be designed in a way that did not contravene European Union state aid rules but could be focused on Small and Medium sized Enterprises (SMEs) or on larger employers who have a clear role in training their sub-contractors or supply-chain and can show that they over-train apprentices.

### **What AoC and Colleges should do**

48. In an ideal world, we would like all students wishing to improve their skills and qualifications to have their education and training fully funded by the Government. However, as the Government has taken the decision to withdraw funding for further education students aged over 24, we think a loans system is preferable to no Government support at all.
49. We should not underestimate the scale of the change for Colleges. More than 300,000 people who currently pay a subsidised fee or no fee, will need to adapt to a situation in which they will be fully responsible for the course cost through a loan repaid on an income-contingent basis.
50. Our advice to Colleges at this stage is:
- Consider appointing a senior member of staff to lead implementation
  - Model the impact on their existing courses and students by analysing current (i.e. 2011/12) data.

- Communicate directly with existing students and employers of apprentices, to research their views
  - Evaluate the opportunities created by the programme and consider whether they should re-direct available Government support to new groups of students or apprentices and new types of courses. This will need a careful plan about what to do with their existing work.
  - Design their own communications in time for the “FE Loan campaign” in autumn 2012 to supplement official communications.
  - Ensure that their staff understand the terms, conditions and implications of the new fee and loans policy
51. AoC and Colleges need to work together to inform local and national stakeholders, for example, Councils, employer organisations, MPs, local and national media. For many Colleges, FE Loans will be a big challenge because of the impact of higher fees on their students and employers.

### **Improvements to the policy and implementation**

52. Anyone who has explored the issue of FE Loans realises quickly that it will be very complicated but also that there are few obvious alternatives given the public spending situation. The obvious Plan B is not to introduce loans at all but this means turning down a new source of government funding and facing the need to spread the Adult Skills Budget over a wider number of people from 2013.
53. This does not mean that the timing of the new scheme should not be reviewed. If there are significant problems with administrative issues, then it may be better to delay than to introduce the scheme badly.
54. We do have a few, specific suggestions:
- BIS and the National Apprenticeship Service to work quickly on an alternative plan for 2013/14 which involves using the money earmarked for apprenticeship loans (£42 million in the first year) for a State-Aid compliant loan scheme for employers.
  - BIS should review the allocation of its maintenance grant and fee loan budgets between higher and further education and switch funds between the two sectors. This would mean less grant expenditure on higher education students from middle-income families (e.g. in the £30,000 to £50,000 range) but higher maintenance loans to compensate. The money saved could be used to exempt particular categories of students from the need to take FE Loans, for example those taking Access courses in particular areas or those on income-related benefits.
  - BIS should review the flexibilities in the current rules to ensure that FE Loans are used where they will be most effective. We believe that BIS and SLC should set up arrangements to monitor the use of FE Loans by non-UK EU citizens, by older students and by those with higher education qualifications.

The risk is that available loan funds will be used in ways that do not fit with priorities. For this reason, we think it is sensible to consider whether access to FE Loans should be restricted for higher rate taxpayers.

- BIS should make arrangements with the Treasury for a longer-term budget and for a different approach to annual budgetary control. There does not seem to be a good case in principle for managing £3 billion HE loans expenditure with a relatively light touch while nailing down the £300 million FE loan budget with annual budgets. It also seems odd to introduce a major new programme with a budget lasting just 18 months (i.e. until March 2015). The Treasury provides indicative budgets for other areas of capital expenditure so could do so here.
- BIS and SFA should model the allocations of loan quotas to institutions and consider whether it is sensible to allocate quotas to large numbers of institutions – potentially 1,000. Given the challenges of the programme, there may be a case for a minimum quota (for example 50+ places) with exemptions for certain organisations (e.g. those with an HE loan quota).
- SFA and EFA should carry out a quick review with Colleges and providers of the Level 3 course data to assess whether the withdrawal of teaching grants to certain institutions or courses creates a risk that important provision might be lost.
- BIS should also consider what conditions might be helpful to ensure that organisations holding FE Loan quotas can be highly trusted, as a defence against mis-use of the scheme and mis-selling. The HE reforms will introduce six tests on organisations accessing the HE loans system including tests of quality, financial sustainability, fair access and handling of complaints. We do not think that the FE Loans tests should be the same but we do think the issue needs to be addressed to protect public funds and to ensure the reputation of a new programme.
- BIS and SLC should consider ways in which penalties can be levied on both organisations and named individuals found to be in breach of scheme rules or a specifically written code of conduct. Although FE Loans are not covered by Consumer Credit legislation, it would be worth acting as if they are. Work in this area may be transferrable to the HE Loans scheme which will also become more risky as loans increase in size, are extended to part-time students and become more important to institutions.
- The Cabinet Office should give authority for a communication campaign with a sufficient budget to make a difference.
- BIS should commission an evaluation of the impact of FE Loans to recognise the fact that this is a major policy innovation and has various consequences for the organisation of education and skills in England.

