Personal Learning Accounts

Building on lessons learnt

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Executive summary

Personal Learning Accounts (PLA) are seen as an important tool to support efforts by government to increase the skill levels of the UK population by providing financial incentives for individuals and employers to invest in learning. This paper sets out some proposals for the practical implementation of a workable PLA initiative, building on lessons from the Individual Learning Account (ILA) in the UK, similar programmes in other countries and analogous schemes in other policy areas.

The evidence suggests that PLA-type schemes can be successful in encouraging individuals to take up learning opportunities that they might not otherwise have done, through providing a direct financial incentive for the individual and also a wider 'mobilising effect' on the population. There is some evidence, however, that universal subsidies tend to favour those who have relatively high skills already and conversely do not provide sufficient incentive for low-skilled, low-income individuals to participate. On the other hand, targeted programmes bring with them the dangers of complexity and excessive bureaucracy that can be counter-productive.

A further conundrum associated with PLA-type programme is the need to ensure that subsidised learning is of acceptable quality and/or is relevant to labour market needs, while maximising the benefits of individual choice and avoiding the need for onerous quality assurance or inspection systems.

Finally, the PLA-type schemes we reviewed – and evidence from other policy areas – points to the problems associated with using fiscal incentives to encourage individuals and employers to contribute to learning funds, in particular the long period of time over which some programmes are likely to affect incentives and their differential impact on people in different social, skill and income groups.

In the light of our review, our suggested model for the practical implementation of Personal Learning Accounts has the following broad features:

- Universal entitlement at varying levels according to personal circumstances, skill type and level and other relevant factors.
- A mixture of grants and loans, with a ceiling on the aggregate value of state subsidy.
- Targeting to ensure participation of socio-economic groups that have a low propensity to take up learning.
- Signposting to high-quality information, advice and guidance, tailored to the individual and linked to the proposed Skills Accounts.

- Modest state contributions initially, along the lines of the Scottish £200/£500 model, with a built-in option to incorporate a broader range of state funding for learning, including apprenticeships, and potentially funding for Higher Education.
- Initially managed under the Adult Advancement and Careers Service (AACS) framework (or equivalent institutions across the UK) with scope to create a 'single learner bank', if deemed appropriate, in time.
- … working within existing systems for assuring the quality of learning delivery and deterring the fraudulent use of funds.

1. Personal Learning Accounts: the proposal

In 'Towards Ambition 2020', the UK Commission for Employment and Skills (UKCES) set out in very broad terms its concept of a new 'Personal Learning Account' (PLA) that is intended to encourage individuals to invest in their own learning, while providing a mechanism to enable Government and employers to contribute towards skills development where necessary and appropriate. Few details are available regarding the specific form that the proposed PLA might take, although it is clear that it could have some similarities with Individual Learning Account (ILA) initiatives that have operated in different parts of the UK since 2000[1] Key differences might include greater scope for individual and employer contributions and a closer link with careers information, advice and guidance.

Towards Ambition 2020 is a wide-ranging document that sets out the advice of the UK Commission for Employment and Skills (UKCES) to Government regarding the requirement for effective policies to achieve the ambitions set out in the *Ambition 2020* report. *Towards Ambition 2020* focuses on a number of key aspects of the UK's employment and skills system, including the need for employers to invest more in raising the skill levels of the workforce, a simplified system of employment and skills support, more responsive provision and greater investment by individuals in their own skills development.

The Personal Learning Accounts (PLA) proposal is concerned primarily with the last issue, although there are strong links with employer demand for skills and the structures and funding of learning providers.

In brief, the PLA proposal is as follows:

- A mechanism to enable account holders to access careers information, advice and guidance.
- A 'credit' statement setting out the account holder's entitlement to full cost or partly subsidised learning.
- The opportunity to 'save to learn', with tax incentives, with the potential for contributions from employers and others.
- The opportunity to 'borrow to learn' in a similar manner to that offered by student loans or career development loans.
- The ability to redeem PLA credits with appropriate, accredited providers.
- The scope to extend the initiative to incorporate higher education provision.

[1] In England, an ILA programme operated from June 2000 until October 2001, when it was suspended. Different versions of the ILA scheme have run in Scotland and Wales since 2004.

This paper considers how the outline proposals set out above might operate in practice, drawing on lessons from evaluations of the UK ILA initiatives and similar programmes that have been implemented in other countries. We also consider how the PLA might learn lessons from similar initiatives implemented in relation to other policy areas such as health and pensions.

Key questions to be addressed in developing a workable PLA model include:

- How to ensure that PLA account holders – including those with limited internet access and/or ICT skills – have access to appropriate, accurate and useful information advice and guidance about the learning activities that would be beneficial for them.
- How to use the PLA system to effectively and appropriately engage people with limited experience of learning and who typically express limited aspiration to engage in learning or acquire qualifications.
- How to ensure that the state is able to identify and fund appropriately learning for which there is a ‘market failure’ in terms of skills deficiencies, social inclusion issues, local labour market factors or other barrier to efficient resource allocation.
- How to provide an incentive for employers to contribute to PLAs held by their employees.
- How to minimise deadweight and maximise additionality by providing incentives for individuals who have the motivation and the wherewithal to invest in their own skills, while providing support for those people who need it.
- How to minimise bureaucracy, monitoring and inspection while avoiding previously-experienced problems of fraud or inappropriate use of such accounts.
- Practical issues of how to operate the accounts, ensure that individuals are aware of their entitlements and how to contribute, obtain tax relief as appropriate, enable employers and others to contribute and use their credits as and when required.

We believe that it will be possible to address all of the above questions, as long as there is a full understanding of the lessons learnt from similar experiments in the UK and elsewhere, together with a degree of creative thinking and a commitment to minimising bureaucracy and providing appropriate incentives for individuals to invest in learning that will benefit them and the wider economy.

2. Individual Learning Accounts in the UK: key lessons

Individual Learning Accounts (ILA) operated in different parts of the UK since 2000. Slightly different models were adopted in different countries and there were some changes over time. The ILA programme in England was suspended in 2001 following a number of problems related to disputed claims by some learning providers. Despite these problems, the evaluation evidence highlights a number of successes and sets out some lessons learnt that should inform the development of the new PLA.

The idea of personal learning accounts to incentivise individuals to participate in skills development is not a new one. From 2000 to 2001, a range of different programmes under the umbrella of 'Individual Learning Accounts' (ILA) operated in different parts of the UK. 'ILA Scotland' is still in operation after having been revised and re-launched in 2004[2] and an ILA programme currently operates in Wales[3]. The precise details of these initiatives and the findings from evaluation studies that assessed their impact have been summarised elsewhere[4]. A number of parliamentary investigations, research reports, a National Audit Office study and media reports also looked at the operation and impact of the ILA programmes[5]. In this section, we summarise the key lessons from the operation of the UK ILA programmes that need to be taken into account in developing the new PLA model.

Despite the problems encountered by the ILA scheme in England in particular, associated with the alleged fraudulent use of the ILA incentive by some providers, there is considerable evidence to suggest that an appropriately-configured ILA type scheme would act as an incentive to increased learning for target groups.

A key objective of the ILA scheme was to ensure the provision of quality and recognised skills and qualifications for those most in need. However concerns were expressed that some of the learning provision funded through the scheme was poor in quality. A report by the Parliamentary Ombudsman found that the validation process for training providers was not sufficiently stringent as there were: '*concerns that it might discourage new learning providers from entering the marketplace*.'[6]

2 See for example: *Scottish Executive (2008) Scottish Statutory Instruments 2008 No. 1 – Education – The Individual Learning Accounts (Scotland) amendment regulations, 2008*; ILA Scotland (2010) ILA Scotland – *It pays to learn* accessed 15 March 2010 http://www.ilascotland.org.uk/ILA+Homepage.htm

3 Welsh Assembly Government (2010) *Individual Learning Accounts Wales* (ILA) accessed 12 February 2010 http://wales.gov.uk/topics/educationandskills/learners/16plusineducation/fe/ila/?skip=1&lang=en; Wiseman J & Harrington J (BMG Research) (2007) *ILA Wales fourth main evaluation report* Report prepared for Department for Children, Education, Lifelong Learning and Skills, Research Document No: 013/2007, December 2007.

4 See for example: Johnston S *et al* (WM Enterprise & Employment Research Institute) (2009) *Employee demand for skills: A review of evidence and policy* UKCES evidence report 3 June 2009, pp59-60.

5 See for example: National Audit Office (2003) *Department for Education and Skills resource account* Report by the Comptroller and Auditor General, January 2003; SQW for DfES (2002) *Individual Learning Accounts: A consultation exercise on the new ILA schemes*; York Consulting (2002) *Evaluation of Individual Learning Accounts – follow-up survey: Scotland* Final Report to Scottish Executive 2002; BBC News – Education (14 Dec 2001) *Legal fight over learning accounts* accessed 28 March 2010 http://news.bbc.co.uk/1/hi/education/1711666.stm; BBC News (8 Jan 2004) *Learning scheme 'was flawed'* accessed 28 March 2010 http://news.bbc.co.uk/1/hi/scotland/3378723.stm

6 The Parliamentary Ombudsman (2003) *Individual Learning Accounts* Report ordered by the House of Commons, April 2003.

Consequently, as suggested by a consultation exercise undertaken in 2002, the focus and priority of any new ILA-type schemes should be on learner empowerment; the views and needs of institutions on the supply side of the learning market should not be a prime concern.[7] Having said this, the original ILA scheme became over-subscribed very quickly, suggesting the need for mechanisms to ensure that supply is available to meet the expected demand. Local piloting would help to assess the viability of such an initiative, for example by identifying learner requirements that appear not to be met by existing local provision.

The original scheme permitted self-certification of completion of programmes, one of the main factors leading to allegations of fraud or at least misuse of funds. This risk would be reduced if remuneration for training funded through PLAs were to be paid at least partly on completion and verification of qualifications.

ICT systems used to register both providers and beneficiaries need to be sufficiently rigorous to minimise abuse or fraud, particularly in terms of accreditation and quality vetting of providers. Remuneration for credits should where possible be paid on a defrayed basis, or at least with robust evidence that the funded course or activity is legitimate and has actually been undertaken.

Evaluation evidence from revised Scottish ILA scheme suggests they have learnt lessons, in particular through more stringent vetting of providers and quality assurance of eligible courses.[8] There is also a more structured and flexible system based on likely need and demand, particularly through extending the type of provision that learners can take up to cover some higher education and professional qualifications. The Wales ILA scheme is targeted at people who are at a disadvantage in the labour market and only supports learning up to NVQ level 3[9].

Evaluation of ILA Scotland stated that for most ILA beneficiaries interviewed, majority of courses would lead to a qualification and that was considered important to the learner.[10]

Some applicants did not take up provision as the course they wanted to do was ineligible or there were no places. This suggests that the ability to offer a broad range of provision was a determining factor in attracting participants; although learning from the original ILA scheme highlighted the need for there to be some control on the type of training that was considered eligible.

7 SQW Consulting Ltd and NOP World (2002) *Individual Learning Accounts: A consultation exercise on a new ILA style scheme* Final Report to the Department for Education and Skills April 2002.
8 Gallacher J *et al* (Glasgow Caledonian University) (2007) *Evaluation of Individual Learning Accounts Scotland* (ILA Scotland) – Learning providers and intermediary agencies studies.
9 Welsh Assembly Government (2010) *Individual Learning Accounts Wales (ILA)* accessed 12 February 2010 http://wales.gov.uk/topics/educationandskills/learners/16plusineducation/fe/ila/?skip=1&lang=en; Wiseman J & Harrington J (BMG Research) (2007) *ILA Wales fourth main evaluation report* Report prepared for Department for Children, Education, Lifelong Learning and Skills, Research Document No: 013/2007, December 2007.
10 Fearn A & Coleman N (BMRB Social Research Ltd) (2008) *Individual Learning Accounts Scotland (ILA Scotland) – Learners study* Research Findings No.5/2008: Social Research Education and Training.

Analysis of data on the characteristics of survey participants shows evidence of under-representation of ILA take-up among target groups of participants with low skills, as take-up of ILA200 (aimed at those on lower incomes and with low skills) was broadly representative of the population as a whole. However, changes in eligibility criteria in Wales had contributed to increased take-up by unemployed groups.[11]

According to the longitudinal evaluation, the revised scheme for Wales (launched July 2003) had a much 'tighter focus on disadvantaged groups in order to increase the 'additionality' of funding'.[12] Although the revised Scottish ILA scheme had the ILA200 component which was aimed at those on lower incomes ('£15,000 or less' revised to '£18,000 or less' later on), the ILA100 scheme in Scotland was not income restricted and was extended in 2006 to offer a much wider range of courses than its original ICT focus.

Although there were robust controls in place, evaluation studies show that these were not so stringent or bureaucratic that made the scheme unnecessarily burdensome for users and 'unconverted enquirers'.

The personal funding contribution (20 per cent) for those on lower income bands was considered about right, although there was evidence that it might discourage some participants, by making them 'think twice about applying for a course'.

The outcomes achieved by participants in terms of skills, qualifications and softer skills (confidence, work-readiness) generally matched their original priorities influencing the take-up of courses.

There was some evidence of deadweight (27 per cent ILA100; 16 per cent ILA200) i.e. participants that would have done the course in the absence of the ILA subsidy; but these figures are reasonable overall, when compared to similar types of intervention.[13]

As a result of ILA there was evidence of 'upward mobility' up the occupational scale particularly for those in relatively lower occupational ratings, such as elementary and sales and customer service occupations. Involvement in the ILA had significantly increased likelihood and compulsion to undertake further training and qualifications.

[11] Wiseman J & Harrington J (BMG Research) (2007) *ILA Wales fourth main evaluation report* Report prepared for Department for Children, Education, Lifelong Learning and Skills, Research Document No: 013/2007, December 2007.
[12] Welsh Assembly Government (2006) *Individual Learning Accounts Wales – Third main evaluation report* August 2006, p10.
[13] Fearn A & Coleman N (BMRB Social Research Ltd) (2008) *Individual Learning Accounts Scotland (ILA Scotland) – Learners study* Research Findings No.5/2008: Social Research Education and Training.

In summary, reviews and evaluations of the Individual Learning Account experiment in England between 2000 and 2001, and subsequent adaptation of ILA-type models in Scotland and Wales suggest a number of valuable lessons that need to be borne in mind in developing the proposed new PLA model:

- Any new scheme needs to bear in mind the need to minimise the possibility of fraudulent use by unscrupulous suppliers. The Scottish and Welsh experiences appear to suggest that this is perfectly possible without the need to impose overly bureaucratic monitoring arrangements.

- Learners and their needs – rather than those of the providers – must be at the centre of any new programme. The provision of appropriate information advice and guidance will be central to this. Having said this, sufficient incentives will be required for providers to meet the needs of account-holders; local piloting should help to address this.

- ILA schemes have made various attempts to ensure that support is targeted at people who need the most assistance to encourage them to participate in learning, most especially workless people and those living in deprived areas. The Scottish two-tier system and the Welsh model targeted solely on priority groups both provide valuable lessons which should be incorporated in the new PLA model.

- Previous evaluations suggest that learners have a greater incentive to complete their studies successfully if they have made a financial contribution, however modest, to their costs.

- Appropriately straightforward and clear eligibility criteria, with monitoring systems that are fit-for-purpose using up-to-date ICT systems, are important components of a system that will ensure targeted provision of quality learning opportunities with the minimum achievable deadweight and low probability of fraud.

3. Lessons from overseas

Initiatives similar to the proposed PLA have been implemented in a number of countries including Sweden, the Netherlands, Ireland, Austria, Canada and the United States. This section summarises the main lessons that have been learnt from these countries and how these might inform the development of the PLA.

A key point emerging from reviews of ILA-type schemes in the UK and overseas is that policy makers need to get the balance right with regards to the bureaucracy of schemes, in particular to avoid making administrative requirements so onerous that they act as a disincentive for learners and/or providers. Having said this, the evidence suggests that courses funded through ILA-type schemes must be accredited and provided by certified practitioners. Ongoing evaluation and monitoring is another factor supporting the smooth running and ongoing improvement of schemes.

While there some commonality in the design and objectives of ILA schemes, their distinctions enable some comparison and consideration of the relative merits of a broad range of ILA models from a number of countries. For example, a consistent finding is the relatively high rates of satisfaction expressed by learners taking up such schemes.

Cedefop undertook a comprehensive international review of ILA-type programmes, published in 2009. A key conclusion from this review was that participation by certain under-represented groups such as those on low incomes, the low skilled or people working for SMEs, is disproportionately low, unless schemes are specifically targeted towards such groups, as is the case in Wales or Northern Ireland. Despite the difficulties of ensuring participation by under-represented groups, ILA-type schemes were said to have had a ‘mobilising’ effect on some groups of learners.[14]

Conversely, universal schemes tend to have a generally positive effect on take-up across the target population as a whole. However, among certain groups (such as women) take-up tends to be higher while for others (older workers) take-up is generally lower. Another benefit of universal schemes in policy terms was that they are felt to be more likely to contribute to a culture of lifelong learning and mobility across a range of groups.[15]

[14] Cedefop (2009) *Individual Learning Accounts* Cedefop Panorama series No. 163, Office for Official Publications of the European Communities.

[15] US Office of Personnel Management – Training and Development Policy (no date) *Individual Learning Account pilot initiative – A learning tool for the 21st century* accessed 24 February 2010 http://www.opm.gov/hrd/lead/ila/ilarpt-1.asp#Intro

The Cedefop review considers voucher or account-type schemes to be more feasible than savings or fiscal-based accounts (such as individual saving with government contributions or via tax efficiency savings), as the latter are thought to be a major barrier to participation among less well off groups within the population. In addition, the effects and impact of such models take a long time to filter through and it would be therefore difficult to measure in public policy terms within a practical timeframe.[16]

Some lessons from specific countries are as follows:

Ireland

Both ILA and voucher schemes have been operated in Ireland and both of these have been on a small scale, pilot basis. A paper summarising the findings of research conducted by FÁS/Forfás in spring 2007 recommended that FÁS (the national training and employment authority) develop a voucher-type scheme that would be known as individual learning options.[17]

According to this paper, take-up by low income and low skilled groups in Ireland was high, with two thirds stating that they would not have been able to undertake their training or education without the voucher support. A voucher programme operated in Ireland in preference to an account scheme, as the savings account was considered to have too high a propensity towards deadweight – according to comparisons made of several European schemes – and those on low incomes with low skills or education is a policy priority in Ireland.

Sweden

A model was proposed based on the build up of savings funded through the taxation system, with both employees and employers benefiting from tax efficiency savings through contributing to the account. Payments into the account by individual beneficiaries would then be tax deductible up to an amount equivalent to EUR 4100. Employers would have been incentivised through tax deductions and 10 per cent reductions in the income tax normally payable.[18]

[16] Schuetze HG (2009) ILAs in Canada: research and demonstration in Cedefop (2009) *Individual Learning Accounts* Cedefop Panorama series No. 163, Office for Official Publications of the European Communities.
[17] Fox R (2009) Individual learning accounts: A FÁS perspective (Ireland) in Cedefop (2009) *Individual Learning Accounts* Cedefop Panorama series No. 163, Office for Official Publications of the European Communities.
[18] Dohmen D (2009) Review of individual learning accounts in Europe in Cedefop (2009) *Individual Learning Accounts* Cedefop Panorama series No. 163, Office for Official Publications of the European Communities.

Although Sweden and the UK were the first two European countries to develop the concept of ILAs, Sweden chose not to proceed with its scheme for a number of reasons. These included it being fiercely criticised, particularly by unions and trade associations, as it was seen to be favouring the already well educated and more affluent members of the population; Swedish ILAs were seen by certain ministers as another tax subsidy scheme similar to existing pension accounts, and did not align or fit with a recent significant overhaul of student support that had been undertaken; the Ministry of Industry and Commerce, the original champions of the scheme, wavered in their support when a new minister came into office.[19]

Austria

The initial pilot Austrian model was based on the accrual of savings through a savings account into which the government contributes, permitting the build up of capital up to a maximum of EUR 1000 over a six year period, which can then be used for education or training only.

Evidence from recent studies (Tölle, 2008 in Cedefop Panorama series; 163) shows take-up has been limited to approximately 1000 participants, caused mainly by its long term nature. In addition, although the incentive is considered an important option for certain groups in financing expensive training or education, take-up is considered to be low as those on lower incomes are not in a position to save over such a long term period when their need for training or education is more immediate.

Subsequently a training voucher scheme was used, although the type of voucher (and government contribution) differed according to region within Austria. Although there was evidence of deadweight for those that used the scheme as a 'windfall bonus' (between 33–50 per cent), a not insignificant proportion of those on low incomes or had not participated in training previously took the voucher scheme up. The Cedefop report suggests that this is evidence of the 'mobilising effects' of such schemes. However, low-skilled employed staff and older employees were under-represented among scheme participants, suggesting that the schemes needed to be adapted in order to sufficiently engage and encourage these groups.[20]

[19] Scheutze HG (2005) *Financing lifelong learning: Potential of and problems with Individual Learning Accounts in three countries* National Center for the Study of Privatization in Education research paper OP107 November 2005. See also Ljunggren-Lönnberg (2000) *Individual Learning Accounts, IKS – A stimulus for lifelong learning starting in 2002* accessed 15 March 2010 http://www.oecd.org/dataoecd/1/37/1917446.pdf

[20] Bauer F (2009) Individual learner accounts in Upper Austria in Cedefop (2009) *Individual Learning Accounts Cedefop Panorama series No. 163, Office for Official Publications of the European Communities.*

The Netherlands

In the Netherlands two pilots were carried out during 2001-03, with about 3000 employees and 100 companies participating. Individual participants received a grant of EUR 450 from the government and additional contributions could be made by the participating individuals or companies. The grant had to be used within a period of 18 months.[21] During the evaluation period a control group was set up and results showed that there was a somewhat higher propensity for employees who had received ILAs to take up courses, compared to the control group. Interestingly, the opposite was true for employers with fewer ILA participants taking up a course than those not taking part in ILA.[22]

In the Dutch pilot the take-up of the scheme by highly qualified participants was 'disproportionately high', due to its universal nature. The Dutch had tested both ILA (savings-based) and ILB (credit or voucher) schemes and had found that ILB was more effective in getting those with low skills or qualifications to participate in training as a result.[23]

Other countries

Canada piloted the learn$ave scheme, which is a saving credit scheme based on an older US model (called individual development accounts). These differ from the European schemes in so far as they are subsidised, savings account-based but may be used for a range of factors that alleviate poverty, not just training. Although no evaluations have been undertaken to date, it is questionable whether they will have a significant impact on the take-up of training, due to the potential for them to be used for a range of options.[24]

Since 2001 Lifelong Learning Accounts (LiLAs) have been piloted across several US states. These are specifically for the purposes of funding training and education. LiLAs work on the basis of a joint investment model funded by both employees and employers, subsidised by the US Government. Evaluations suggest that impact has been significant and felt by both employees and employers. The main lessons are that this co-investment model acts as a combined incentive to encourage both greater take-up of and investment in training, but it also contributes to better matching employee skill development with individual business needs.

[21] Doets C (2009) Individual learner accounts: Dutch experiences in Cedefop (2009) *Individual Learning Accounts* Cedefop Panorama series No. 163, Office for Official Publications of the European Communities.
[22] In both cases, employer and employee, this highlights the potential problems with relying on control groups to assess the counter factual.
[23] Jassen T (2009) Is the individual learning account suitable for the lower educated? in Cedefop (2009) *Individual Learning Accounts* Cedefop Panorama series No. 163, Office for Official Publications of the European.
[24] Sherman A (2009) US lifelong learning accounts as partnership in learning in Cedefop (2009) *Individual Learning Accounts* Cedefop Panorama series No. 163, Office for Official Publications of the European Communities.

Lessons from overseas: overview

A number of countries have either piloted or operated schemes that are similar in nature to the proposed PLA. To a large extent the findings of evaluations and studies of such initiatives serve to reinforce the lessons from the UK experience of ILAs, although other countries appear to have avoided significant problems of fraudulent use.

The evidence suggests strongly is that universal schemes (i.e. with no restrictions regarding eligibility) and/or initiatives based on fiscal incentives to encourage individuals to save or borrow in order to invest in learning, are likely to be uneven in their impact. In particular they tend to provide 'windfall' funding to people who are likely to have invested in learning in any case. On the other hand they do not provide sufficient incentive for people with low or no qualifications to become learners, due primarily to limited funds and short time horizons.

On the other hand there is adequate evidence that properly-constituted voucher-type schemes can have some effect in encouraging non-learners and disadvantaged groups to get involved in learning. The Austrian model in particular shows some evidence of a 'mobilisation effect', raising the aspirations of non-learners as a result of the availability of modest, targeted financial incentives.

4. Lessons from other policy areas

The provision of publicly-funded credits, in some cases allied to the provision of information or advice, has been a feature of public policy in a number of policy fields, notably health and child care. In addition the administration of savings schemes and personal pension plans, incorporating employer contributions and often quite complicated tax issues, provides further lessons as to how a PLA scheme might operate in practice.

As noted above, at the core of the PLA proposal is that participants will have their own account, with facilities for saving and borrowing, and for paying for subsidised learning on specified courses with accredited providers. It is therefore neither a universal nor a means tested benefit in the conventional sense, and in that sense it is perhaps more analogous to a bank account or an Individual Saving Account (ISA).

That is particularly so since the idea is that employers and others will be able to contribute into PLAs, and the intention is that there will be tax incentives to make such contributions. There is also some analogy with the notion of a Stakeholder Pension, although the latter is more like a universal scheme, in that it is a default obligation on employers who do not already offer a pension scheme, rather than something they can elect to participate in.

In addition, the PLA borrowing arrangements have been presented as being analogous to those for student loans, implying that the repayment period of any loan element of the PLA will not begin until after the course has been completed, and the interest rate may be lower than on a conventional bank loan. Also partly analogous are professional and career development loans. These are provided with little restriction over course content, but it is easy to envisage that a long term possible outcome might be that PLAs, student loans and professional and career development loans converge into a single family of products, especially since there is a possibility that PLAs will in time be allowed to cover graduate level study, from which they will initially be excluded.

If the fundamental purpose of PLAs is to increase overall participation in learning, then it is not clear that the analogy with ISAs is particularly encouraging. It seems unlikely that the latter (via their favourable tax treatment) have had a substantial impact on raising the saving rate in the UK, rather than merely redirecting some of the flow of savings. Indeed the UK saving rate has been on a declining trend since the early 1990s, though it may have started to climb again since the onset of the global credit crunch.[25]

There is of course a possibility that the saving rate would have declined faster in the absence of ISAs, but it remains the case that very substantial marketing of these products and fairly generous tax treatment were not enough to produce the revolution in saving behaviour that their advocates originally predicted. In evaluation terms, therefore, there seems to have been a heavy deadweight effect.

[25] Berry S, Williams R & Waldron M ‘Household Saving’ *Bank of England Quarterly Bulletin* 2009 Q3 pp191-201.

Student loans clearly involve a different argument: because they replaced grants, rather than replacing an absence of support, the concern at the time of their introduction was that they would either reduce learning participation, or skew it towards those from better-off homes, or both. There is no evidence that the first of these has occurred, and little evidence of the second – indeed the gap between the participation rates of those from less advantaged and more advantaged groups has been narrowing over time.[26] There may also have been a tendency for student loans to influence the choice of courses, by encouraging potential students to study subjects offering higher predicted future financial returns. Again, however, the evidence does not seem to strongly bear that out.

Professional and career development loans have been a relatively small scale endeavour and their impact on overall learning participation has therefore been modest. Take-up has been skewed towards young adults who already have higher than average qualifications – the loans have not therefore widened participation in learning to any significant extent.[27]

Another analogy is with Child Trust Funds[28]. These are made available shortly after the birth of a child, with the government contributing £250 or £500 depending on parental income. At age seven, every child's fund receives a state top-up, and in every year parents, friends and family can make tax-free contributions up to a specified amount. When the child reaches 18 they gain access to the funds, which they can use as they choose, including rolling them over into a savings account (or indeed into Personal Learning Accounts).

The initial provision of the Child Trust Fund is made via a voucher which the parents can use to set up the fund with an approved provider. If they have not done this within 12 months, the government automatically opens an account for the child with a provider chosen at random from an approved list. Participation is therefore universal, but whether or not to choose a provider is voluntary, as is the making of additional contributions.

The evidence is that three quarters of parents do make a positive decision as to which provider to use, and that a substantial minority of them (or their friends or relatives) make contributions, so that the value of contributions is equal to approximately half the value of government funds provided.[29] However, those on low incomes are less likely either to make contributions or to make a positive choice of provider. The latter element implies that lower engagement from people on lower incomes cannot be entirely attributed to financial constraints.

[26] HEFCE (2010) *Trends in young participation in higher education: Core results for England* HEFCE Issues Paper, January 2010.
[27] LSC (2008) *Evaluation of the Career Development Loans Scheme* January 2008.
[28] Note that the Coalition Government announced in May 2010 that Child Trust Funds are to be abolished. The lessons learnt from its operation are nonetheless still valid.
[29] J *et al* (IPPR) (2008) *The UK Child Trust Fund: A successful launch* June 2008.

It is not entirely clear what the reasons for this are, although there is some qualitative evidence that parents who do not actively engage are ones who are overwhelmed by the information they receive from a large multitude of competing providers (over 100 companies), especially since it comes at a time when their lives are already very hectic – precisely because of the birth of the baby.[30] It is possible that the relevant distinction is between those who are already engaging in active management of their saving, wealth and tax situations, and those who do not already have such behaviour in place, and who are unlikely to adopt such a way of thinking when they know that in time the decision will be made for them anyway.

The PLAs can also been seen as part of a much broader shift towards customer-driven service provision. This is for example apparent in the health sector through the growing emphasis on patient choice, and also in the social care sector through the *Putting People First* initiative, which aims at 'personalising' adult social care services. Local authorities are being asked to roll out systems of personal budgets for users of adult social care, with a long term goal that all clients should have a personal budget from which to pay for the majority of their social care services (such as personal care, assistance with domestic chores, social leisure and educational activities). This follows a pilot programme, conducted over two years (2006 and 2007) and involving 13 local authorities. The independent evaluation of the pilots concluded that while clients were on average more likely to feel in control of their daily lives than under traditional arrangements, the impact on clients' psychological well-being varied widely.[31] In particular, older people reported lower psychological well-being than under traditional arrangements. With some evidence that this was because the processes of planning and managing their own support were too burdensome for them. Staff also often found the transition challenging, and many expressed concerns over whether vulnerable adults were being sufficiently safeguarded.

A recurring issue in several if not all of these examples is that the overall level of success, and even more so patterns of success between different social groups, is likely to depend on the extent to which the individuals concerned have the information, skills and personal attributes to make the decisions that they are being presented with.

This particularly draws attention to the need to find satisfactory answers to two of the key issues that we raised at the beginning of this paper: first, how to ensure that PLA account holders have access to appropriate, accurate and useful information, advice and guidance; and second how to use the PLA system to engage with people who have limited experience of learning and who typically express limited aspirations to engage in learning or acquire qualifications.

[30] Prabhakar R (2009) *The Child Trust Fund in the UK: Policy challenges and potential responses* Centre for Social Development, Washington University in St Louis Working Paper 09-56, 2009
[31] Glendinning C *et al* (2008) *The national evaluation of the Individual Budgets pilot programme* Social Policy Research Unit, University of York October 2008

A third linked issue is how to minimise deadweight and maximise additionality, by providing incentives for individuals who have the motivation and the wherewithal to invest in their own skills, while at the same time providing support for those people who need it.

Evidence from other fields suggests that these three challenges, though surely not insoluble, can be substantial.

5. Key issues and lessons learnt: overview

This chapter brings together the key lessons learnt from the operation of ILA programmes in the UK and other countries and from other policy initiatives that have incorporated an element of state-funded credit and/or information, advice and guidance. It addresses the key questions outlined in section 1.

It is clear from the evidence reviewed in this brief paper that the concept of the Personal Learning Account can and should play an important role in supporting the overall policy objective of significantly increasing participation in learning among the UK population, resulting in higher qualification and skill levels and ultimately a more productive, competitive economy.

It is also clear from UK and international experience of learning account programmes, and lessons from analogous initiatives in related policy areas, that a number of key issues need to be addressed in order to ensure that the PLA scheme in practice has maximum impact on those groups at whom it is targeted and avoids potential problems with excessive deadweight funding and/or fraudulent or inappropriate use.

In summary, the evidence points to the need to address the following issues:

Linking credits with independent information, advice and guidance

None of the initiatives we reviewed seem to have fully addressed the need for informed choice on the part of learning account holders. In the UK and overseas models we looked at, the implication seems to be that account holders know where they want to invest their funds/credits and/or they know where to go to for advice. Research into individuals' learning decisions suggests that neither assumption holds true, particularly in the case of non-learners and low-qualified people.

The example of the Child Trust Fund illustrates both the need to ensure that recipients of funding have access to appropriate information advice and guidance, and also to avoid an excess of information that may be counter-productive through creating confusion rather than useable information. The development of the adult advice and guidance service in England provides a perfect opportunity to improve the link between funding and information, advice and guidance.

Research also suggests that providers themselves are often a major source of information used by potential learners. While it is important to ensure that a variety of information sources are available to learners, it is also crucial that these sources are as independent as possible and are based on verifiable evidence. For example, potential learners who are thinking of investing their own funds (perhaps with government and/or employer input) may be interested to find out what return they are likely to achieve – in terms of increased income or employment opportunities – as a result of their studies. Independent information on returns to learning would be essential in order to help such people make informed decisions.

Targeting people with limited learning experience or aspiration

All of the ILA-type initiatives reviewed for this paper have struggled with the issue of targeting support on those individuals who are deemed to be in most need of support, for a combination of economic efficiency and social equity reasons. The evidence suggests that there is no perfect solution to the conundrum that targeting of support almost inevitably means more complicated eligibility checking processes that may put off many of the very people who are being targeted. Having said this, there is ample evidence from the Scottish and Welsh programmes that it is possible to run schemes that avoid excessive bureaucracy and still reach large number of people in the target groups.

Overseas evidence, and evaluations of programmes such as Career Development Loans, suggests very strongly that voucher-type schemes (perhaps with a small contribution required from individuals) are the best way to achieve maximum participation of and impact on people with limited learning experience or opportunity.

Addressing ‘market failure’

The PLA is seen partly as a mechanism to encourage individual and employer investment in skills by bringing together all of the relevant information, reminding participants of their entitlements and in time facilitating tax relief, co-funding or other mechanisms. To the extent that this entails the use of public resources (through tax relief or direct funding) it will be important to ensure that this is used as far as possible to encourage investment in skills that is additional to that which individuals would have undertaken in any case (‘deadweight’). It will also be important to ensure that public funding is directed towards skill areas that will benefit the economy and society as a whole, for example skills in short supply.

Again the evidence does not point to a single clear way of minimising deadweight or maximising additionality. Moreover, this issue once again emphasises the potential conflict between the need to ‘keep things simple’ and the desirability of targeting public funding. In the current financial climate, it seems clear that the latter consideration should dominate, and that the PLA model should build in the possibility of restricting funding to skill areas of identified need, to particular skill levels and/or specific sectors or types of employer (e.g. SMEs). Finally, requiring matching contributions – where appropriate – from individuals and/or employers would help to ensure that funds are directed towards addressing ‘market failure’, while still enabling support to be provided for those who need it.

Incentivising employers to contribute

None of the ILA schemes that we reviewed contained a significant element of employer contribution, so we have little evidence on which to base any recommendations. The example of the Stakeholder Pension in the UK is instructive, although this entails a requirement in law for employers to contribute. It is clear that such a requirement would not be appropriate in the case of skills and learning, and that encouragement to contribute to PLAs should take place through a combination of tax incentives and the ongoing effort to convince employers of the value of investing in skills.

Minimising bureaucracy while maintaining quality control

This is a common issue across all of the ILA and related programmes that we have examined. Quality control and assurance is essential in order to ensure that individuals', employers' and the state's resources are invested in learning opportunities that are of the highest quality and – where appropriate – lead to properly validated qualifications that are valuable in the labour market. Having said this, it should not be the responsibility of those operating the PLA scheme to assure the quality of all learning funded through the scheme. Firstly, there needs to be some element of individual responsibility, where the individual and/or employer are investing their own resources. Secondly, a raft of inspection, validation and quality systems are already in operation in the lifelong learning sector, much more so than in 2000-2001 when problems were encountered with ILAs in England.

We therefore suggest that a combination of reliance on individual judgement and – particularly where significant public funds are involved – specification of the type of courses or qualifications that can be supported, will be adequate and will avoid the programme becoming tied up in excessive bureaucracy. Random checks, perhaps linked to existing inspection processes, should be adequate to detect any fraud or misuse that might occur.

Making it work in practice

We are clear that the concept of the PLA is a desirable one that will, if operated effectively, help increase the volume of investment in skills in the UK and to steer this investment in desirable economic and social directions. A key issue to consider is how the PLA system might work in practice. This is the subject of the next and final chapter.

6. How PLA might work in practice

This chapter sets out our proposition for a workable, sustainable PLA initiative that takes into account the lessons discussed in this paper.

The adult advancement and careers service becomes operational and skills accounts will be rolled out across England, in August 2010.[32] In *Fuelling Potential* the government outlines a number of core principles that will underpin this operation:

- The adult advancement and careers service and skills accounts will be brought together under **one service and one brand**, with a single customer relationship management system.
- This will be a **universal and inclusive** service for all adults, meeting the needs of those with higher as well as low skills.
- The new service will **customer centred**, diagnosing individual need, ensuring access to appropriate services and providing continuity and support for any transition between services in the case of referral.
- The new service will promote **aspiration**, by seeking to empower people to open skills accounts as an important tool in helping them take control of their journey towards better skills.
- It will deliver **expert and impartial** labour market information, essential for helping customers to make the best career choices.
- This will be an **evolving** process after the core service becomes operational.
- Delivery of information and advice will use **new technology and skills accounts** and will be an online service.
- The service will work in close **partnership** with Jobcentre Plus, to support customers seeking sustainable employment.

A new system for Personal Learning Accounts would need to nest within this developing framework, although they would differ from the current thinking in one critical respect. Skills Accounts as they are currently conceived do not redirect funding to the individual, or provide new funding. Rather they are a mechanism or 'virtual voucher' that provides information about the funding available to the learner based on their circumstances, eligibility and individual choice.

[32] Skills are a devolved matter and Scotland, Wales and Northern Ireland have their own skills systems. This is an important consideration in creating a new system of full 'Personal Learning Accounts' which can, in time, offer the same entitlement to all UK adults.

'Skills accounts will enable adults to take control of their skills and career development by providing a personalised online record of their qualifications, personal information on public funding entitlements for skills and a record of the funding the Government has invested in their training. They will be part of a single online channel with the tools we are developing for the adult advancement and careers service.'[33]

If the notion of a Personalised Learner Account (to "*put effective purchasing power in the hands of customer*" as Leitch had originally suggested[34]) is to be realised then the **model must be based on the concept of a real account, with real money, where individuals can 'save and borrow' together with employer and government contributions**.

This implies that a PLA will need to lever a specified amount of government funding for the learner to spend. This would be in line with the practices of the early ILA200 and the models in Scotland and Wales, where Learning Accounts have continued to operate, avoiding the problems of fraud, through a system of registered providers and minimum quality standards.

The Government will continue to pilot, through the trials of skills accounts, a £500 entitlement for carers and those on working tax credit as announced in the New Opportunities White Paper (January 2009).[35] However, the universal entitlements of the skills account will need to be thought through further with regard to those are not in receipt of welfare or in-work benefits. The Panel on Fair Access to the Professions recommends that the Government should reconfigure the existing Skills Accounts to establish a truly demand-driven system of Lifelong Skill Accounts comprising a voucher up to the value of £5,000 that could be topped up through contributions from individuals and employers.[36]

Clearly this level of investment would not be sustainable on a universal basis, although there are a number of options in limiting expenditure and/or controlling the costs of PLAs. These include:

- Setting limits on the value of accounts (providing a range for types of provision e.g. access to and continued professional development via Further and/or Higher Education).

- Limiting the scope of PLAs either by eligibility (e.g. based on income) or by capping the number of PLAs available per year.

[33] Department for Business Innovation and Skills (2010) *Fuelling potential – A blueprint for skills accounts and the adult advancement and careers service* March 2010, p2.
[34] HM Treasury (2006) *Leitch review of skills: Prosperity for all in the global economy – world class skills* December 2006, p17.
[35] Department for Business Innovation and Skills (2009) *Skills Investment Strategy* 2010-11 November 2009.
[36] Cabinet Office (2009) *Unleashing aspiration: The final report of the Panel on Fair Access to the Professions* July 2009, p49.

- Making contributions from Government proportionate to employer and individual contributions.
- Providing different levels of funding according to eligibility (e.g. higher proportions of funding according to income or levels of disadvantage).[37]

City and Guilds have advocated a mechanism through which real money can be transferred – Skills Account Plus – a model also proposed by the CfBT education trust and based on the system of personal pension accounts, using national insurance contributions to build funds.[38] This radical new system of personal skills accounts proposes 'compulsory' contributions, with employees national insurance contributions increasing by 1 percentage point, employers increasing by 0.75 percentage point on all earnings, and the state contribution increasing by an equivalent of 0.25 percentage point. It is argued that this approach would give all employees access to an individual fund for their own upskilling or re-skilling needs, with any unused funds going into personal pensions on retirement.

City and Guilds have also suggested that this concept of Skills Account Plus could be pump-primed using the money that is currently used for Child Trust Funds. The monies released to young people when they reach their 18th birthdays would be earmarked for personal development and learning. Individuals could also be incentivised by allowing tax free interest on their skills accounts with similar incentives for employers by enabling credits to be claimed against Corporation Tax for all money that was used to match individuals' contributions to their learner accounts.[39]

Another model has been put forward by Alison Wolf in her paper on the FE system in England. Wolf uses the example of the Charities Aid Foundation to create a similar institution in charge of distributing personal entitlements and career development loans to learners. This report recommends changes to the funding system, which would make affordable credit directly available to the individual according to their ability to pay, and which can be implemented to respond better to demand in the short term.[40]

'*Governments can and should... [ensure]…that credit is available, to individuals, at low long-term interest rates on an income-contingent basis*'[41]

[37] These type of controls have been suggested in a Conservative Party consultation document: Willetts D, Hayes J & Evennett D (2009) *The FEFC funding model and skills accounts: A Conservative Party consultation document* November 2009.
[38] Corney M (CfTB *Education Trust) (2009) Funding upskilling and reskilling in the 21st Century: From personal pension accounts to personal skill accounts.*
[39] Sich A (11 Nov 2009) *Learner accounts are back in favour accessed* 24 Feb 2010 http://www.fenews.co.uk/featured-article/learner-accounts-are-back-in-favour.
[40] Wolf A (2009) *An adult approach to Further Education Institute of Economic Affairs 2009*, p158.
[41] Wolf A (2009) *An adult approach to Further Education Institute of Economic Affairs 2009*, p17.

It is likely that different approaches will be required in moving towards a universal Personal Learning Account system. In England this would need to build on and work with the developing framework for the new adult advancement and careers service and skills account concept.

In the light of the evidence reviewed in this report, and the proposals set out by a range of interested bodies, summarised above, we conclude that the new PLA model should incorporate the following features, in order to maximise its chance of achieving success in significantly increasing the proportion of individuals engaged in learning:

Entitlement

The concept of a skills account, as described in the government's skills strategy, is a universal entitlement. This principle should extend to PLAs, whereby all adults of working age would be eligible for a learning account. However, the nature of this entitlement will vary according to individual needs and ability to pay. A PLA should:

- Allow for different levels and duration of skills training, including high and low level skills, accredited and non-accredited, graduate/professional and non-graduate/professional, short term/small scale and long term training.
- Relate to a lifetime of learning, rather than individual courses or qualifications available at any given period.
- Change according to the employment status, income and personal circumstances of the individual.
- Comprise a mix of loan and grant funds, although it may be necessary to fix the total number of fully subsidised accounts and/or the amounts of funding available through this aspect of the system on an annual (first come first served) basis.

Targeting and segmentation

The PLA should be a universal entitlement. However, there is a need to encourage participation by those who would be least likely to take up skills training. There is evidence from the administration of the ILA in Scotland and Wales that targeting the most under-represented (lowest skills and incomes) increases take-up by unemployed groups and reduces the deadweight loss. Involvement in the ILA has also significantly increased the likelihood of participation in further training by those in lower ranked occupations improving mobility.

The evidence from overseas is consistent with the UK. It suggests that take-up of learning accounts is disproportionately low amongst under represented groups unless specific targeting and appropriate financial incentives are applied. The experience in the Netherlands found that credit or voucher based schemes where more effective in targeting the low skilled than savings based accounts.

There is an argument for segmenting the amount of funding available through a PLA according to the demand for skills within a given geographical labour market, industrial sector or occupation.

Signposting to IAG support

The PLA should be linked to an on-line skills account (providing a history of learning) and to a single careers service which can provide informed advice and help signpost learners to appropriate provision. This implies a fully integrated adult advancement careers service that can process and impart labour market intelligence about the demand for employment and skills to inform customer choice about available provision.

Value of contributions to PLAs

It is difficult to assess the absolute or relative value of the PLA. This to a large extent will be driven by the type and scale of the operation. If the ambition is to re-introduce an ILA type model then we can envisage fairly modest amounts for largely short term training. This would operate alongside existing mainstream provision (apprenticeships, Train to Gain etc.) with cash limits and a cap on the extent of matching, with upper and lower limits. The amounts contributed by government could range between the £200 and £500 accounts offered in Scotland.

However, there is an emerging discourse, and more radical propositions, about changing the way in which government invests in skills training through learning accounts. This would involve the merging and disbursement of larger funds currently administrated through the Skills Funding Agency, Sector Skills Councils, Regional Development Agencies and Higher Education. This would allow for larger and longer term investment in vocational and professional training. The anticipated value of individual and employee contributions should also be determined by the size and type of scheme. There is some evidence that a voucher system (along the lines of the child voucher scheme) or credit/loan scheme (with repayments contingent on income) will prove more effective in attracting under-represented groups.

A universal and compulsory scheme, as proposed by the CfBT Education Trust, and based on the model of personal pensions would see a 50:50 match funding system, with every pound invested by employees attracting 75p from employers and 25p from Government. A reversal of these proportions in favour of the learner would see personal learner contributions of about 12.5 per cent towards the cost of training.

Organisational responsibility for operation of PLA

The development of the PLA would be an evolving process. Assuming that the PLA will emerge as a product that can put relatively modest amounts of money directly into the hands of the learner then we would envisage this operating alongside the existing on-line skills account and within the advisory framework of the adult advancement and careers service.

Transactions would, however, need to be managed and operated by a single government-guaranteed organisation. This could fall under the institutional management of the AACS but would involve changes to the present Skills Accounts Project and Operational Structure. Options moving forward could include the development of a single learner bank – along the lines of the Charities Aid Foundation recommended by Alison Wolf – and regulated by government through BIS. This structure would provide the financial processes for payments into accounts by government, employers and learners; and, the transfer of resources to providers and or individuals.

Quality assurance in relation to provision

The lessons of the ILA in England are clear. PLA entitlements should only be enabled through accredited providers and the process for ensuring the quality of courses and verifying outcomes will need to be stringent. However, it should not be the responsibility of those operating the PLA system to assure the quality of all provision available through the scheme.

The Skills Funding Agency is responsible for improving quality in the adult skills system to ensure that people with skills accounts can train at the best institutions. While the Learning and Skills Improvement Service will become a sector owned body, incorporating the range of quality development functions. Government has committed to triple the number of places where skills accounts can be used. The introduction of a “food labelling style” system about every college and every course will be transparent to the adult advancement careers service and the learner, helping to inform customer choice.

The introduction of these new proposals, together with the range of existing quality systems, will be sufficient to drive improvements in quality and avoid the failings of previous experience.

Anticipated/desirable outcome and impacts

It is anticipated that PLA will help to address market failure by:

- Making the skills system more demand led and responsive to customer needs.
- Maximising the substantial investment in training by employers and government and addressing any investment gaps within and between sectors.
- Increasing the awareness and perceived value of lifelong learning by employers and employees.
- Improving access and participation – particularly amongst those under-represented in learning, thus minimising deadweight.
- Stimulating greater social mobility – enabling movement from unemployment to employment and from lower to higher skilled work within all occupations and sectors.
- Raising attainment in qualifications that are valued by employers and help address skills gaps and shortages to improve productivity.

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UKCES
3 Callflex Business Park
Golden Smithies Lane
Wath-upon-Dearne
South Yorkshire
S63 7ER

T +44 (0)1709 774 800
F +44 (0)1709 774 801

UKCES
28–30 Grosvenor Gardens
London
SW1W 0TT

T +44 (0)20 7881 8900
F +44 (0)20 7881 8999

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