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EdEGG:

The Education, Enterprise and Giving-back Grant – a nest egg of opportunity for all

EdEGG

The **Ed**ucation, **E**nterprise and **G**iving-back **G**rant

a nest egg of opportunity for all

Summary

EdEGG is a progressive free-market policy that will answer the plea of the forgotten people; levelling up across Britain, closing the opportunity gap and delivering higher productivity.

Without costing the government a penny in additional expenditure, EdEGG provides a nest egg of £20,000 for each 18-year old. Students and Universities gain from a liberalised risk-sharing pricing system that makes them partners - working together to improve graduates' career prospects. This frees up the £10.6 billion that government loses on student loans and the £2.7 billion collected by the Apprenticeship Levy to be shared more equitably.

Access to this sum of money, at age 18, will transform lives; dramatically shifting attitudes and aspirations for all: from the more privileged who gain a greater sense of independence and agency, to the most disadvantaged who get a stake in society and the resources necessary to grasp opportunities.

Recognising that success means different things to different people, and to ensure that the EdEGG fund is used to create life-enhancing opportunities for the individual that will lead to greater contributions to wider society, the money will only be released for certain defined purposes: (i) further education or training, (ii) the launch of a new commercial enterprise or (iii) to support and encourage voluntary activity that has a wider benefit to the local community.

EdEGG should win support across the political spectrum. It is a happy marriage of the previous Labour Government's egalitarian Child Trust Fund (CTF) with free-market mechanisms supporting freedom, diversity, competition and efficiency.

Money matters

Financial rationalisation

Underpinning EdEGG is a financial innovation. By re-engineering the flows of funds between Students, Universities and the Government, EdEGG addresses inequality and inefficiency while reducing government borrowing.

Figures 1 and 2 below illustrate the current flow of funds and how they are re-arranged under EdEGG.

Figure 1 : Present system: No connection between Student and University

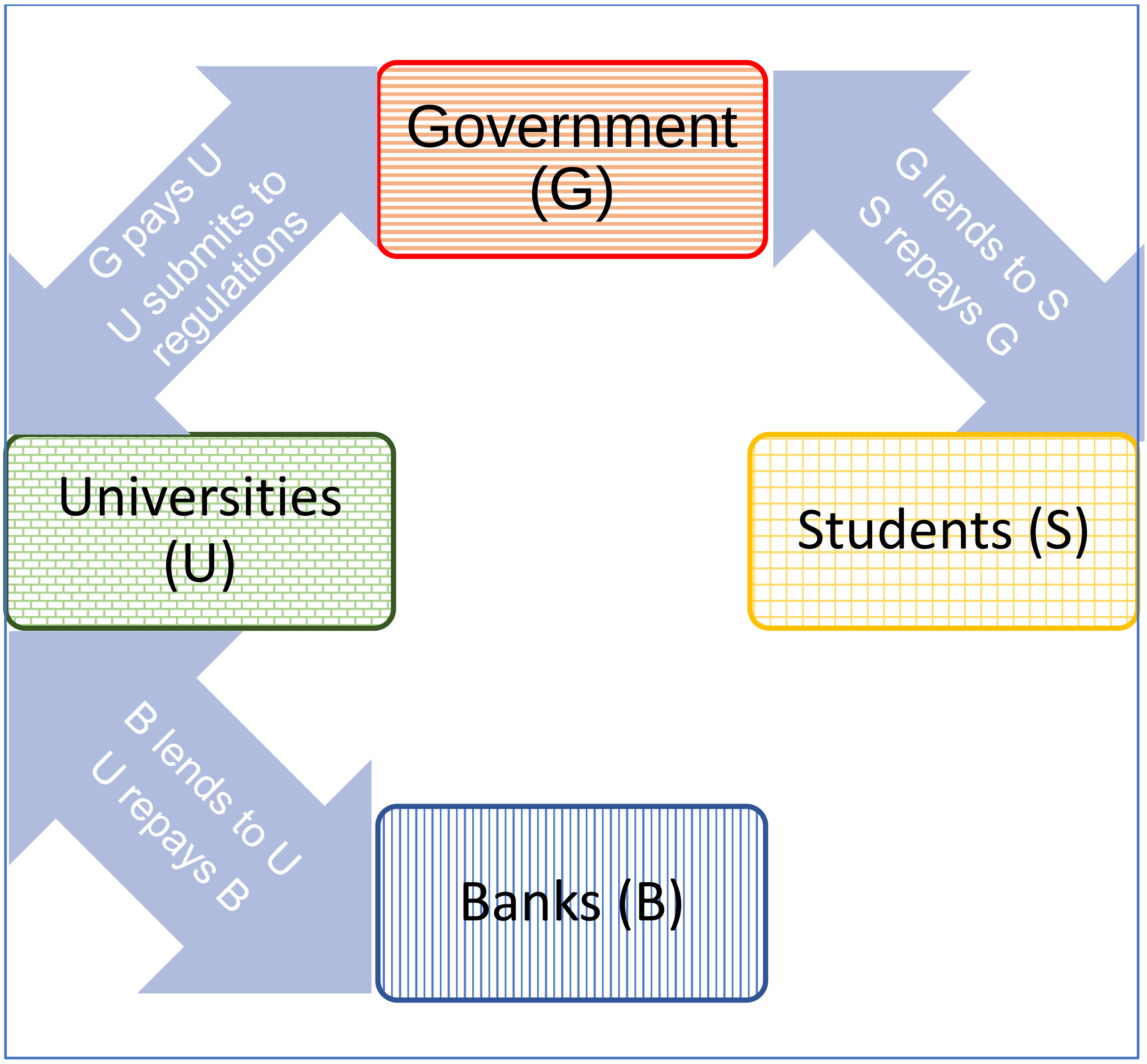
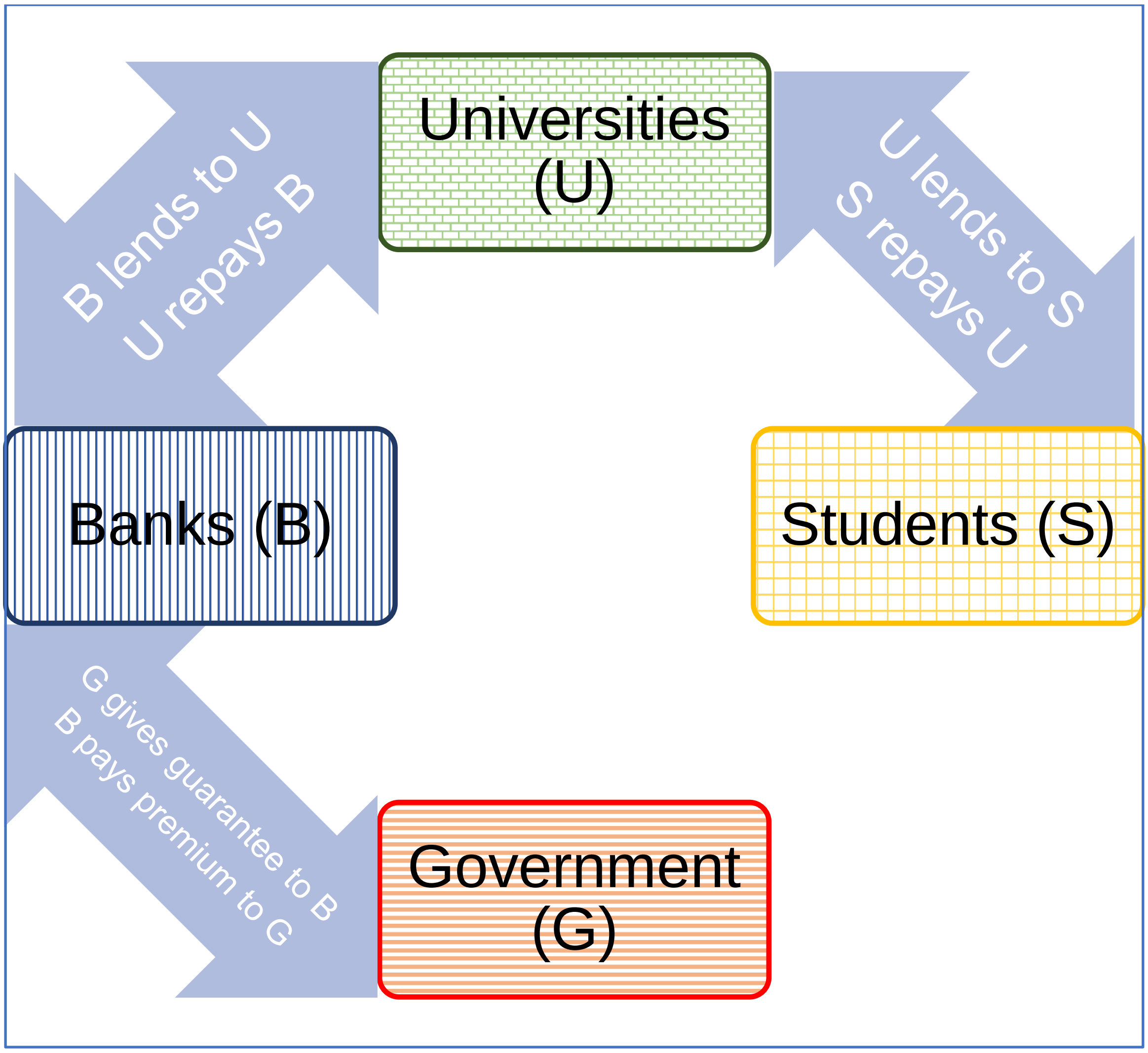


Figure 2 : EdEGG flow of funds: Interests of University and Student aligned



As the income of the university will in future depend on the level of the income-related payments it receives from its graduates it will have a vital interest in raising its productivity and making sure that its courses add employment value, and in helping any graduate who is un- or under-employed.

As the Government no longer pays out any money, just issuing loan guarantees under the “Education Finance Guarantee” scheme,[1] a new scheme along the lines of the existing Enterprise Finance Guarantee, its borrowing is reduced.[2]

A grant at 18 to transform lives

Asset-based welfare

EdEGG borrows the progressive principle of asset-based welfare from the CTF,[3] while improving its implementation.

Rob Owen OBE, Chief Executive of the St Giles Trust, which helps people facing severe disadvantage to find jobs and become positive contributors to wider society, says:

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[1] This is a new scheme similar to the existing Enterprise Finance Guarantee Scheme where, in exchange for a small premium, (e.g. 2% of the loan value) the Government guarantees 75% of the money lent by a bank to a small business. Lending by the banks to Universities and other post-18 educational institutions will not be as risky as small company loans. The Educational Institutions are large, and their borrowing will be backed by them having a share in the post-graduation earnings of their students. The Institutions benefit from portfolio effects – while any one graduate may be unfortunate, across many graduates of one institution the variation in the total return will be much less. In addition, the institution can affect the value of the shares it has in its graduates’ earnings by providing better courses and post-graduation support. Guarantees of this sort may come up against EU state aid rules. However, EU law may no longer be relevant and as higher education is a domestic industry the rules should not apply in any case. State aid is defined as: “any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union (EU).” See https://www.gov.uk/guidance/state-aid (accessed 13 August 2019).

[2] The Office for National Statistics (ONS) does not treat the issue of loan guarantees under the Enterprise Finance Guarantee Scheme as borrowing, only recognising losses if and when they occur. As the Government is not paying any money out either to students or Universities, its need to issue gilts is reduced. This takes pressure off the gilt market at a time when funds may be needed for other priorities. The total amount of money paid out under EDegg is only equal to the Government’s expenditure cost for the student-loan scheme, the Government currently also has to fund the lending element of the scheme.

[3] The CTF was launched in 2005 and credited each child, at birth, with the sum of £250. The money could be used for any purpose when the child reached age 18. The CTF was rooted in the notion of “asset-based welfare” as developed in the US by Michael Sherraden who argued that owning an asset led to a change in how people think, making them more likely to plan and invest in their future. However, the CTF was expensive as it represented a new form of spending, its value was too low to have much effect, and the freedom to use the money in any way risked the funds being used in a non-productive fashion. The CTF was abolished by George Osborne in 2010. EDegg corrects the flaws in the CTF by making a substantial provision for each child while restricting the use of the funds to ensure the money is applied to create an individual or community-wide productivity gain.

> "Many of our clients feel they have no stake in society. They don't have a bank of Mum and Dad and have no access to even small pots of money to pay for training courses - especially pragmatic skills."

Ironically, while St Giles' clients have such little support, those children who attend University, coming predominantly from wealthier backgrounds,[4] do benefit from significant state aid in the form of the subsidisation of their student loan.

The change in financial flows frees up this subsidy so that it can be redistributed evenly between all 18-year-olds, thus addressing a root cause of inequality and providing the same level of help for all, regardless of region or social background.

Freedom, Diversity & Efficiency

EdEGG also promotes freedom, diversity and efficiency. It does not assume that all are suited to university or to being entrepreneurs. It seeks to support and encourage people and institutions to experiment and take their own path; so long as the intention is good, EdEGG is designed to help. The process to access the EdEGG funds is focused on risk-sharing and aligning incentives rather than on applying bureaucratic rules.

[4] Source: Fernando Galindo-Rueda, Oscar Marcenaro-Gutierrez and Anna Vignoles (2004) The Widening Socio-Economic Gap in UK Higher Education, *National Institute Economic Review 190*, 75-88, Table 1. The data is old but has the advantage of using easily understood categories and is consistent with present data. For example, the Office for Students reports from the 2018 "cycle" that: ".. the participation gaps in higher education remain large with those from the most advantaged backgrounds (POLAR4 quintile 5) still 2.4 times more likely to enter higher education than their most disadvantaged peers (POLAR4 quintile 1). They are 5.7 times more likely to enter a higher tariff institution." See https://www.officeforstudents.org.uk/advice-and-guidance/promoting-equal-opportunities/evaluation-and-effective-practice/low-higher-education-participation-household-income-and-socio-economic-status/ (accessed 12 August 2019).

How big is the EdEGG?

Recognising student loan losses

From September 2019 the ONS[5] will change the accounting treatment of the expected loss on student loans and add it to government expenditure.[6] This will put £10.6 bn on the deficit[7] in the year ending March 2019; and increase the historic and future deficit.[8]

As student loan issuance is expected to grow at c. 4.5% p.a. the deficit impact should also grow at around this rate.[9]

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[5] The Office for National Statistics. It determines, inter alia, how government spending and revenue are accounted for, in line with internationally agreed standards.
[6] The loans granted to University students to pay for tuition and maintenance are "income contingent". This means that the obligation to pay is a function of the graduate's income, rather than of the value of the loan. Further, there is no obligation to pay anything after the passage of 30 years post-graduation, even if little or nothing at all has been repaid at that point. When first introduced in 1998, student loans were treated as conventional loans when accounting for the level of the deficit. This meant that even as the level of loans issued rose steeply year after year the deficit – a key target of government policy – was unaffected. Following pressure from, inter alia, the Treasury Select Committee and the House of Lords Economic Affairs Committee, the ONS decided in December 2018 that the special characteristics of student loans meant that they could no longer be treated as conventional loans and that provision should be made for the expected loss on the loan at the point that it is made. Specifically, such loans should be recorded as part loan and part current government expenditure. See www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/newtreatmentofstudentloansinthepublicsectorfinancesandnationalaccounts/2018-12-17 (accessed 6 August 2019). The ONS estimates that of every £1 advanced as a student loan, approximately 50p will never be repaid and should be classed as expenditure. This revised accounting will be applied from September 2019 and will lead to an increase in the public sector deficit for each year since loans were first introduced in 1998.
[7] The deficit is the measure of public-sector net borrowing, the government's excess of its spending over its revenue.
[8] See ONS (2019) *Student loans in the public sector finances: a methodological guide*, Office for National Statistics, available at www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/methodologies/studentloansinthepublicsectorfinancesamethodologicalguide (accessed 8 August 2019).
[9] See DfE (2019) *Student loan forecasts, England: 2018 to 2019*, Department for Education, Table 1, available at http://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811987/Student_loan_forecasts_2018-19_-_tables.xlsx (accessed 9 August 2019). There is uncertainty about the exact relationship between loans issued and government expenditure cost as the ONS continuously reviews its forecasts of the anticipated losses. Government policy, market variables and repayment experience can all change the estimates in either direction.

Apprenticeship Levy

The Apprenticeship Levy[10] is widely considered a failure[11] as spending on training has fallen well below the amount raised due to the red tape associated with gaining approval for a training scheme.

As EdEGG will provide funds for employment-related training with minimal bureaucracy, focused on meeting the real needs of business, it is proposed that the money raised by the Levy should be applied to support the level of the EdEGG credit. Employers who currently pay the Levy will find willing partners in Institutions[12] now incentivised to deliver courses that meet their specific needs.[13]

Calculated value

The EdEGG value can be calculated by adding the loss on student loans to the Apprenticeship Levy and dividing by the number of 18-year olds[14] as shown[15] in table 1 below:

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[10] The Apprenticeship Levy was launched in 2017 not as a revenue-generating tax but with the intent that it would increase spending on apprenticeships, with the state adding 10% to the amount set aside for training.

[11] Tom Richmond (2018) *The great training robbery: Assessing the first year of the apprenticeship levy*, April 2018, available at http://core.ac.uk/download/pdf/157854424.pdf (accessed 8 August 2019).

[12] Universities and other providers of higher and further education and vocational training as explained in more detail under Education.

[13] Under EDegg Institutions will receive more income if their graduates find high-paying employment, thus they will have a direct interest in helping to fill skills gaps.

[14] The current ONS estimate for the expenditure cost of student loans in the fiscal year ending March 2019 of £10.6 bn is a figure for England alone, as Higher Education is a devolved competency. As the other parts of the UK do not ask for as large a financial contribution from graduates it is likely that their expenditure cost is at least as great as for England. It is hoped that they would seek to be part of EDegg. Nevertheless, the expenditure cost is currently only available for England, so the calculation is done on this basis. HMRC data indicates that for the same fiscal year £2.7 bn was collected by the Apprenticeship Levy. To estimate the value that the EDegg would have had at the end of fiscal (March) 2019 we must adjust the Apprenticeship Levy by the proportion that English 18-year olds make up of 18-year olds nationally, and then divide the sum of that amount and the £10.6 bn Student Loan Expenditure figure by the number of English 18-year olds.

[15] 2018 and 2019 counts for 18-year olds are applied. Population data counts people who are resident for at least 12 months. Hence the count ignores short term migrants (e.g. tourists) but includes nationals of other countries who are in the UK longer term.

Table 1 : Estimated value of EdEGG in 2019

Calculation of estimated EdEGG	2018	2019
18-year olds in England	626,970	614,078
18-year olds in United Kingdom	743,194	727,434
England as % of UK	84.36%	84.42%
Apprenticeship Levy	£2,700,000,000	£2,700,000,000
Apprenticeship Levy for England	£2,280,000,000	£2,280,000,000
Student Loan Expenditure	£10,600,000,000	£10,600,000,000
Available for EdEGG	£12,880,000,000	£12,880,000,000
EdEGG per England 18-year old	**£20,540**	**£20,973**

The calculations show that EdEGG could have had a value of over £20,000[16] had the policy been in place in March 2019.

This amount is in excess of the financial savings of over 80% of the working age population.[17]

The EdEGG value for each successive cohort of 18-year-olds should increase in accordance with the Consumer Price Index.[18] This will protect it from inflation, while being progressively less expensive for the government by comparison with the existing scheme.[19]

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[16] There is a case for setting the grant a little below its calculated fair value, to create a reserve for those older than 18 at the time the EDegg grant is first made, who may in due course wish to take up the opportunity to attend University under the pre-existing loan scheme.

[17] Excludes pensions, individuals aged 16 to 54, see ONS (2018) "Adults with formal savings, by age and economic activity status", *Wealth and Assets Survey 2012-2016*, Office for National Statistics, November 2018, reference 009315, available at http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/adhocs/009315adultswithformalsavingsbyageandeconomicactivitystatus (accessed 28 August 2019).

[18] The CPI. Setting the EDegg credit a little below what would consume all the funds available and only growing it at CPI, below the rate of GDP growth, should leave sufficient reserve to cover all those who wish to take out student loans and who are older than 18 at the time EDegg is first distributed. This is an unavoidable but one-off transition cost.

[19] The level of loans issued is expected by the Department of Education to grow at over 4.5% per annum, above the Bank of England's targeted 2% rate of inflation.

EdEGG Agency

A government agency – the “EdEGG Agency” – will, each year, allocate the EdEGG funds to all 18-year-olds who qualify[20] and will be responsible for releasing money to be used for the defined purposes.[21]

The EdEGG Agency will offer a mobile phone application[22] (App) which would show the value of the grant made to the individual. By default, the money will be invested in a National Savings and Investment instant access account.[23] Monies in the EdEGG account would accumulate and be utilised tax-free.

The App will explain how the money in the account could be used and would take the user through the process to use the money in each of the specified ways.

The Education Option

EdEGG approved Institutions

The EdEGG funds can be used at any time in life to help pay for the cost of education or training at an EdEGG approved institution.

Such “Institutions” include any University or other post-18 training or education provider, subject to their satisfying four tests:

1. For any course they must offer a “package price” that includes both tuition and essential maintenance.[24]
2. Any applicant must have the option to “pay” the full package price without making any upfront out-of-pocket payment, instead either releasing part or all of their EdEGG fund to the Institution or entering into an Income Share Agreement[25] (ISA) with the Institution, or a combination of both.

[20] Whether this is English 18-year-olds only or all UK citizens will depend on whether the devolved governments work with Westminster to make this a national policy. How to deal with 18-year olds of other nationalities resident in the UK on their 18th birthday is beyond the scope of this paper. The distribution would occur simultaneously on April 5th to all who have or will become 18 during the school year, so that all who wish to apply to university have the grant in hand in time.
[21] This entity could be a re-purposed Student Loans Company or a new entity.
[22] An EDegg web site would run parallel to the App for further online access.
[23] If the holder did not intend to use the money for some time, they could move it to a 1- or 3-year Growth Bond to benefit from a higher rate of interest with no risk to capital.
[24] Where applicable.
[25] Explained below.

3. The EdEGG funds sought must not exceed the variable costs[26] to the Institution of providing that course.[27]
4. It must be large enough to have its annual accounts formally audited, to ensure that it complies with (3) above.[28]

Income Share Agreements

ISAs[29] are like income-contingent loans, except that no rate of interest is charged, and the maximum payable is a fixed multiple of the initial sum.[30]

The text[31] of an EdEGG ISA contract will be written by Government to ensure that the broad contractual terms are fair and identical for all Institutions.

Each Institution would, however, be free to determine the actual cost parameters for their courses. A suggested menu of the parameters is set out in table 2:

[26] This would be all variable costs related to tuition, not maintenance. For, example, teaching staff, pastoral staff, careers advice, some facilities, associated consumables but excluding overheads such as administration and management and fixed assets such as buildings and all costs that relate to providing students with maintenance (mainly food and accommodation). The per-student charge would be calculated as the total variable cost divided by the expected number of students. Where an Institution offers many different courses the measure could be applied across these courses rather than at the individual course level.

[27] This ensures that Institutions cannot make a profit from the receipt of EDegg funds and must rely on their courses being successful in delivering higher earnings for their graduates.

[28] This ensures that Institutions have the resources needed to survive and provide valuable training; with the Auditor confirming that they have not overcharged. The accounting and auditor community, through the Financial Reporting Council, has experience of developing accounting standards to meet complicated objectives. The audit requirement means all EDegg approved Institutions must be of a size that requires audit. Thus they must have any of: (i) an annual turnover of more than £10.2 million, or (ii) assets worth more than £5.1 million, or (iii) 50 or more employees. While some companies currently engaged in higher or further education may be smaller than this, they are free to merge with other firms to achieve sufficient size.

[29] It is somewhat unfortunate that the acronym also refers to the Individual Savings Account. ISA is the acronym used in the USA and the full name is an accurate description of the arrangement; whereas "loan" would not be. However, the name and acronym are not requirements of the scheme.

[30] ISAs are growing in popularity in the United States and are offered by, for example Purdue University (see https://purdue.edu/backaboiler/, accessed 29 August 2019) and Lambda School (a new entity that provides highly skilled employment-oriented courses where the student has the option to pay upfront or only in arrears by means of an ISA). Lambda will also, where appropriate, assist students with some maintenance and ancillary costs and has UK-based students. See https://lambdaschool.com/ (accessed 12 August 2019).

[31] The wording but not the numerical values of the terms.

Table 2 : Example cost parameters for course

Item	Explanation	Example Value
Institution	Institution name	University of City
Course	Title of course	History
Degree type[32]	BA, MA, BTEC, HNC, HND etc	BA
Type of course	Part-time or full-time	Full-time
Length	Years, weeks, hours	3 years
On campus	Years in residence	2 years
You can pay for your course in one of two ways, at your discretion. Either you can pay "upfront" where you pay with your own funds at the beginning of each term, OR you can pay nothing for the duration of your course but instead share a portion of your income with the Institution upon graduation. The costs for the two options are set out below:		
Upfront Option		
Tuition - EdEGG	The deduction from your EdEGG to cover part of your tuition fees	£18,000
Tuition – non-EdEGG	Any additional cash cost	£15,000
Maintenance	Description of services – accommodation, food, ancillaries.	£14,000
Income Share Agreement Option		
Tuition - EdEGG	The deduction from your EdEGG to cover your tuition fees[33]	£18,000

[32] There is a case for naming any higher education (post age 18) qualification a "Degree" with the number of hours' study required specified separately. This would put vocational qualifications on the same social-status footing as an academic qualification. Some vocational qualifications, such as medicine, involve many more hours' study than do most academic subjects.
[33] The Institution's Auditor will confirm in the Annual Report that this amount did not exceed the variable costs of providing the tuition over the applicable number of years. If the Auditor cannot confirm that then a refund must be made. On the other hand, the variable cost of tuition may exceed the EDegg credit charged; the Institution must then seek to recover those additional costs plus any maintenance costs plus its profit/surplus through the ISA.

Duration[34]	Number of years that income must be shared with the Institution	10 years
Barrier[35]	Level of income that must be reached before there is any obligation to pay anything	£30,000
Hurdle	Level of income above which the rate applies	£20,000
Rate	Percentage over the hurdle rate to be paid	5%
Cap	Maximum to be paid as a proportion of the non-EdEGG tuition and maintenance that otherwise would have been paid.[36]	2.5x

The standard template makes across-the-board comparisons easy.[37] The Institution that expects better outcomes will be the one that sets less demanding ISA terms.[38] Institutions gain autonomy and the ability to differentiate themselves,[39] while students gain a true measure of the value of the course on offer.

High-cost Institutions will be able to charge higher fees,[40] lower-cost institutions will be able to attract more price-sensitive students.[41]

Alignment of interests

As EdEGG funds only cover variable costs, an Institution cannot survive and prosper unless it delivers an education that has value in the workplace such that the ISA

[34] This will be the number of years that income exceeds the Barrier.
[35] The Barrier determines *whether or not* any payment is due; the Hurdle is part of the calculation as to *how much* is due.
[36] Hence the number of years would be reduced if this maximum is reached before that point.
[37] The App would include an option to enter sample incomes and see how much is paid and earned.
[38] For example, if the Institution seeks to recover £10,000 it need charge 10% for 4 years if expected salary is £25,000 but only 5% for 4 years if expected salary is £50,000. Hence ISA terms – the "cost" of the course - will be lower where outcomes are better, so making courses that have better outcomes more attractive to disadvantaged applicants.
[39] This was a request of the Russell Group of Universities in their submission to the Browne Review, see Russell Group (2010) *Submission to the Review of Higher Education Funding and Student Support*, January 2010, The Russell Group of Universities, available at http://russellgroup.ac.uk/media/5073/8russell-group-submission-to-review-of-he-funding-jan-2010.pdf (accessed 9 August 2019).
[40] So long as the high fees can be justified in terms of their graduates' future earnings.
[41] The EDegg credit of £20,000 exceeds the cost of tuition under Browne's original proposal of £6,000 p.a. and is not much less than Augar's proposed £7,500 p.a., so lower cost community-based Institutions where many students live at home should find most of their costs covered by the EDegg support. The higher cost residential Institutions will have to bear a much greater risk from having to take responsibility for maintenance but, as the generally more prestigious Institutions, these should be well placed to recover the higher costs through earnings-linked ISAs.

generates a return. An education is no guarantee of success; this alignment of interests means the Institution shares in the risk that the student faces, and in their future income, and now has an incentive to: (i) liaise with business to ensure that what is being taught is useful, (ii) only take on students that are suited to a given course (iii) re-design courses to make the most effective use of time on campus (as the Institution must cover maintenance costs[42]) and (iv) provide "after-sales-support" to un- or under-employed graduates.

Risk-sharing will sweep away the abuses of the present system. The explosion in the number of unconditional offers[43] – an inevitable consequence of the way the money flows, but one that discredits the sector – will reverse. Universities no longer gain from "bums-on-seats" alone[44] and will only seek applicants who are qualified for their courses.

The great waste of the ever-growing proportion - over 37% in 2017 - of graduates in jobs that do not utilise their education[45] (Figure 3), leaving them with a millstone of debt around their necks for 30 years, will end, as Universities will not make a surplus[46] if their graduates do not get good jobs.

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[42] This has other efficiencies as the Institution will be better placed to negotiate favourable rental terms with landlords.

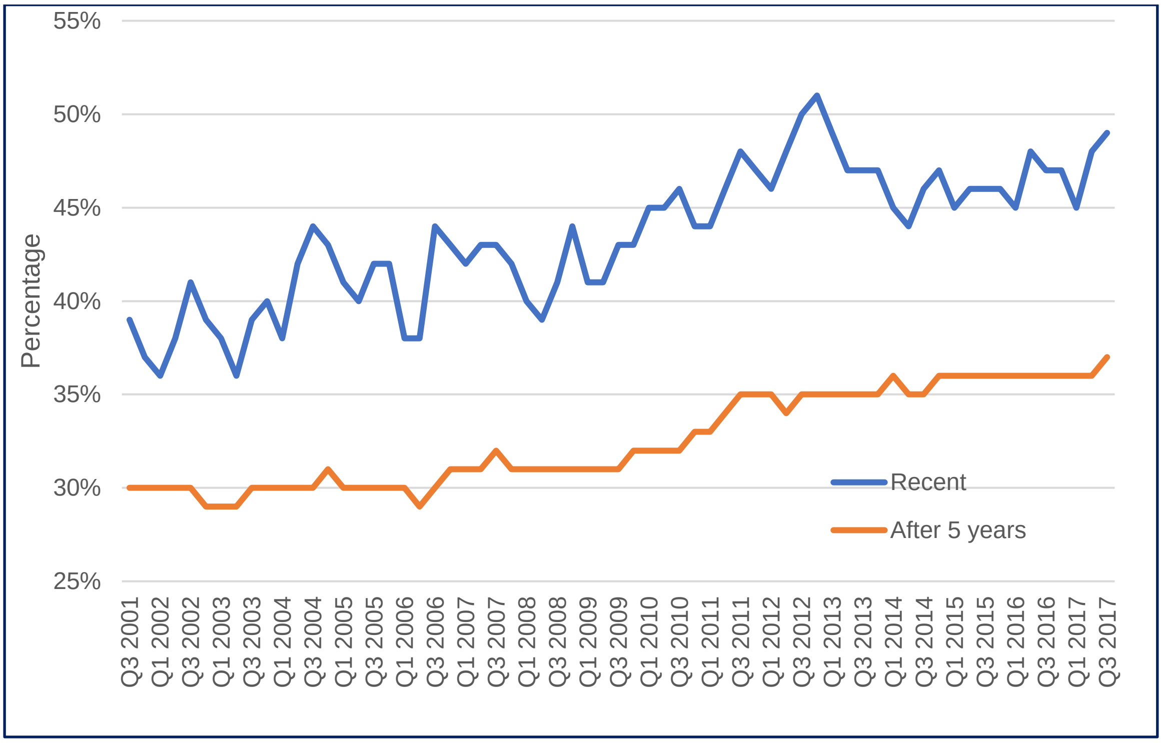
[43] From little more than 1% of applicants receiving at least one offer with an unconditional component in 2013, this figure has grown to nearly 40% in 2019. See UCAS (2019) *Unconditional Offers – An Update for 2019*, Universities and Colleges Admissions Service, available at https://www.ucas.com/file/250931/download?token=R8Nn7uoI (accessed 18 August 2019).

[44] It is established that unconditional offers lead to lower A-Level scores which reduces employability. Such offers are rational when the Institution is paid for attendance alone but irrational when the Institution is paid based on career and income outcomes.

[45] See https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/graduatesintheuklabourmarket/2017#graduates-and-non-graduates-in-work (accessed 14 August 2019).

[46] This is equivalent to a profit, i.e. the excess over costs that enables future investment. The EDegg charge only covers variable costs, so the Institution will rely on its share in the income of its graduates to cover fixed costs (including maintenance) and beyond that to make a profit/surplus.

Figure 3 : Ever more graduates in non-graduate jobs



There is no threat to less obviously vocational subjects such as the Humanities.[47] In the Artificial Intelligence age the need for communication skills and the abstract and creative thinking that can be developed when studying such subjects will remain strong and employers confirm that in general attitudes and aptitudes are more important than subject studied.[48]

Regulatory reduction

With alignment of incentives driving desired outcomes, many regulations such as the "Teaching Excellence and Student Outcomes Framework",[49] and the burden of much

[47] For example, Google, full of STEM graduates, discovered it was these softer skills that drove success and so increased its hiring of those with a humanities degree who had developed them. See https://www.washingtonpost.com/news/answer-sheet/wp/2017/12/20/the-surprising-thing-google-learned-about-its-employees-and-what-it-means-for-todays-students/ (accessed 18 August 2019). Purdue University in Indiana offers ISAs in payment for tuition fees across the board and has students studying over 120 different majors in the scheme, see https://purdue.edu/backaboiler/index.php (accessed 14 August 2019)

[48] See CBI (2015) *Inspiring Growth: CBI/Pearson education and skills survey 2015*, Confederation of British Industry / Pearson, available at https://www.pearson.com/content/dam/corporate/global/pearson-dot-com/files/press-releases/2015/CBI-Pearson-Skills-survey-FINAL.pdf (accessed 18 August 2019).

[49] The "TEF".

“quality assurance” can be dispensed with, redirecting teaching time to productive effect. The cap on the number of medical students can be lifted now that Government does not face the cost, bringing a much-needed increase in their supply.

Application and acceptance

On receiving a student’s applications,[50] the Universities and Colleges Admissions Service (UCAS) will liaise with the EdEGG Agency to reserve the highest EdEGG cost of the courses on that student’s list. UCAS would also confirm that the student had entered into the standard ISA terms,[51] with the final parameters to be appended based on the Institution to be attended.

When a place is offered and accepted, the student’s EdEGG App would show a withdrawal of the amount to be paid to the Institution,[52] and the Institution will receive those funds.

Improved access

Now that all 18-year olds have equal access to a sum of money that can be used to help them get ahead through higher education,[53] fairness is ensured and there will be the potential for a great expansion in provision to meet all differing needs.

> Foxes Academy in Minehead shows what can be done for even the most disadvantaged. It offers a 38-week course for 16 to 25-year olds with learning disabilities designed to earn them sustainable employment in the hospitality sector.

[50] Students are free to apply at any age, before or after receiving their A-level results or years later. UCAS could take on responsibility for applications to other post-18 education and training providers.
[51] Those who are not yet 18 at the time of applying would need to confirm agreement having reached legal maturity prior to starting their course. To discourage brain-drain and a waste of EDegg funds, a provision could be made that at the point of use of the EDegg funds for education the money released should be treated as an interest-free loan with no capital repayment requirement unless the individual emigrates, at which point it converts to a conventional loan.
[52] The student would also be sent a copy of the final terms of the ISA into which they had entered.
[53] Any post-age 18 education or training.

Access to EdEGG funding will open such opportunities[54] and more to those for whom higher education or vocational training would otherwise be but a dream, creating new possibilities for educational and training firms.

Post-graduation repayment

The EdEGG Agency will maintain a database[55] which would be available to employers' accounting systems so they can correctly calculate the amount to be deducted each month. On receipt of the funds HMRC will access the database to identify the Institution to which any collected funds should be sent.[56]

The Enterprise Option

A proportion of 18-year olds will not want to attend University or College at age 18 and will weigh their options. Many will make no immediate decision. Some, at age 18 or, more likely, much later in life, may decide that they would like to create a new commercial enterprise, either on their own or with some partners.

EdEGG will make this a real possibility for many for whom it would otherwise be impossible. It provides a significant sum of capital, to buy or rent various products or services before the first sales revenue will be generated, without which no new venture can get off the ground.

Recognising that it is inevitable that some new businesses fail, EdEGG nevertheless seeks to give every start-up the best chance of success.

This is provided for by requiring that, before the EdEGG funds are released to the nascent company, it must persuade a bank or other financial firm engaged in lending to small companies ("Bank") to lend it at least an equal amount.[57]

[54] See https://foxesacademy.ac.uk/ (accessed 12 August 2019).
[55] The database would relate each student, identified by, for example, their National Insurance Number, to the Institution that should receive repayments and the specific parameters of the repayment charge.
[56] Alternatively, an Institution could contract with a private company, such as EdAid, a UK based Fintech, which has developed systems for collecting ISA payments and which has been employed by US-based Lambda School to manage their collections.
[57] For example, if £30,000 is required to fund the business, this would require a £15,000 loan to match £15,000 in EDegg funds.

As the Bank will be at risk to the same level as the value of the EdEGG funds advanced, it will have a powerful incentive only to approve start-ups where the idea has merit and the team is adequately prepared.

To encourage lending to EdEGG-funded companies,[58] the policy has three key elements:

1. Any losses come out of the EdEGG funds first. This means that the EdEGG funds act like equity in the company – the absence of which is the main obstacle to small company lending.
2. Participation by the Banks in EdEGG-associated lending will be restricted to a short list of 10 Banks which have competed for approval.[59]
3. Bureaucracy is kept to a minimum. Any lending enquiry will come to a Bank pre-approved by the EdEGG Agency. It can then make a normal commercial decision whether or not to lend, knowing that the EdEGG funds exist and are available, subject only to the Bank's decision.

It is not practical for the EdEGG funds to be true equity[60] so they would be released in the form of a loan. However, no interest will be payable and the capital sum would be deemed to be repaid on payment of corporation tax.[61] The outstanding value of the loan becomes repayable only on liquidation, when it ranks junior to any obligation to a Bank. This gives the Bank the required comfort that the company has an equity-like buffer.

To minimise red-tape, once someone has decided they would like to use part, or all of, their EdEGG funds to help start a business and, if applicable, have got their team together, the App will guide them through the process.

[58] Historically, lending to small start-up businesses has not been attractive to the banks due to the high costs of due diligence, the high risks of capital loss and the small potential returns from the interest-rate premium that can be charged. EDegg seeks to make the proposition of small business start-up lending worthwhile for the banks by reducing bureaucracy and the risk of loss. The more enthusiastic the banks are, the more individuals will get the opportunity to set up on their own.
[59] This is sufficient to ensure competition, but by making it likely that all approved banks will see worthwhile levels of business it enables them to make the necessary technology and personnel training investments to maximise the potential of the scheme.
[60] I.e. a shareholding as it would be complicated for the EDegg Agency to be a shareholder. Also, paying the money out as equity (non-repayable) capital without further stipulation would risk the monies being withdrawn and spent elsewhere.
[61] For example, if £15,000 of EDegg funds are supplied, and the company pays £2,000 in Corporation Tax, the outstanding value of the "loan" would be £13,000.

It will help them create a business plan which will enable the Banks to automatically credit-score the proposal. It will link to the Companies House website to set up a Limited company.[62] All EdEGG participants must be Directors and the shareholders that are contributing EdEGG funds must own[63] at least 51% of the shares with the division between them in proportion to the EdEGG funds they contribute.[64]

The simplified process plus the EdEGG equity-like buffer will make EdEGG start-ups a worthwhile proposition for the Banks, leading to competition between them to encourage entrepreneurial expansion.

Education plus enterprise

Some people will be attracted to the idea of setting up their own business but would need training and guidance to feel comfortable pursuing that opportunity.

Here there will be a significant new role for Institutions to provide lower-cost vocational training as a packaged service that includes the required knowledge to start out in a trade or business plus help with obtaining a loan.[65]

The Giving back Option

There will be many who, at age 18 and for many years thereafter, will not want to enter formal education or training nor to set up a profit-making business. Some of them may prefer to be involved in unpaid work to help their local community but feel restricted by a lack of funding for expenses.

To provide such opportunities, valuable to the community without being commercial, the EdEGG fund will support the creation of a Community Interest Company (CIC). A

[62] This costs just £12.
[63] Legal and beneficial ownership.
[64] This is to protect the interests of EDegg holders. It ensures that if they make a capital contribution then they should have control of, or an appropriate share of, the venture.
[65] For example, a plumbing course might cost around £5,000, while the cost of acquiring a van, the tools of the trade and initial marketing might cost a further £20,000. An Institution could offer a programme to train as a plumber and learn the ins and outs of setting up as an independent firm and also assist with securing a £10,000 bank loan (matched by £10,000 of EDegg funds). This would take the individual from untrained to ready-to-operate as an independent tradesman without exhausting the whole of their EDegg credit.

CIC is a much simpler corporate structure than a charity and faces fewer rules about how it operates.

Its objectives must be to benefit the community, and these, and its adherence to them, are subject to oversight by a regulator.[66]

A CIC incorporates an "asset lock" which requires that its assets only be used for the benefit of the community. It is proposed that an EdEGG-financed CIC would also borrow one feature from Charity Law, so that assets cannot be used to pay salaries to the Directors or staff. In the first instance all activities should be provided voluntarily, with funds used for expenses only.[67]

The regulator charged with approving CICs has a much broader remit than the Charity Commission. As examples of the use of CICs, those launched recently aim to help local youth and the elderly, and include musical, dance and theatrical groups and others that aim to assist in various ways with healthy living.[68] As EdEGG is focused on opportunity for all, EdEGG-financed CICs should be restricted to those that will specifically benefit the local community and lead to happier, more fulfilled lives.[69]

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[66] The Office of the Regulator of Community Interest Companies. See https://www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies (accessed 18 August 2019).

[67] Without this, EDegg funds could be used simply to pay salaries and would be quickly exhausted. However, after 5 years the CIC may apply to the regulator for release from the salary lock. If the regulator is satisfied that the CIC is adding value to the local community and there would be advantage to the community were it to be able to pay some of its staff so that they could spend more time on the CIC's activities, then the regulator may decide to waive the salary lock. For example, if a CIC was set up to visit the elderly, spending its funds on travel expenses and ancillaries, in due course it may benefit from bequests and possibly local-authority funding and the organisers might be best able to expand provision of the service by becoming full-time employees of the CIC, at which point they would need to be paid. A musical group might use its EDegg funding to buy instruments and to rent storage and practice facilities. Subsequently it may command a fee for its performances and to engage more people and put on more performances it would help if some of the team became paid employees.

[68] See https://www.gov.uk/government/statistics/community-interest-companies-new-cics-registered-in-october-2013 (accessed 18 August 2019).

[69] The CIC regulator would consider this both at launch and periodically, as it does for other CICs. See https://www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies (accessed 12 August 2019): "The Office of the Regulator of Community Interest Companies decides whether an organisation is eligible to become, or continue to be, a community interest company (CIC). It is responsible for investigating complaints - taking action if necessary - and it provides guidance and assistance to help people set up CICs."

In order to unlock EdEGG funds any individual or group of people wishing to make use of their accounts must become Directors.[70] Since CICs are not necessarily designed to be profitable, many will be unable to seek loans, and so Banks cannot readily play a role in vetting their viability. It is proposed that, to confirm that a CIC has local community support, and that the community is willing to share in the risk of the venture, it must raise at least £10 from each of a minimum of 100 local people.[71] There are online systems that facilitate such fund-raising.[72]

Once the CIC has been approved by the regulator and evidence of the fundraising has been submitted to the EdEGG Agency, the Agency will release the requested funds to the CIC.

Opportunity for all

As a final fallback, for those who still have all, or a portion of, their EdEGG credit[73] remaining at the time when they reach the age at which people are first able to draw their pension,[74] EdEGG provides a more general opportunity.

Subject only to the EdEGG holder's submission of a statement confirming that they have carried out voluntary work that benefited others,[75] equal in hours to the value of the EdEGG credit divided by the minimum wage,[76] the EdEGG Agency will pay the remaining funds into a pension plan in their name.

While it would be impossible for the EdEGG Agency to verify all such claims, having to make the declaration should have a positive nudge effect, encouraging people to carry out more voluntary work that helps others, while maintaining the principle that an EdEGG is owned by the individual upon reaching age 18.

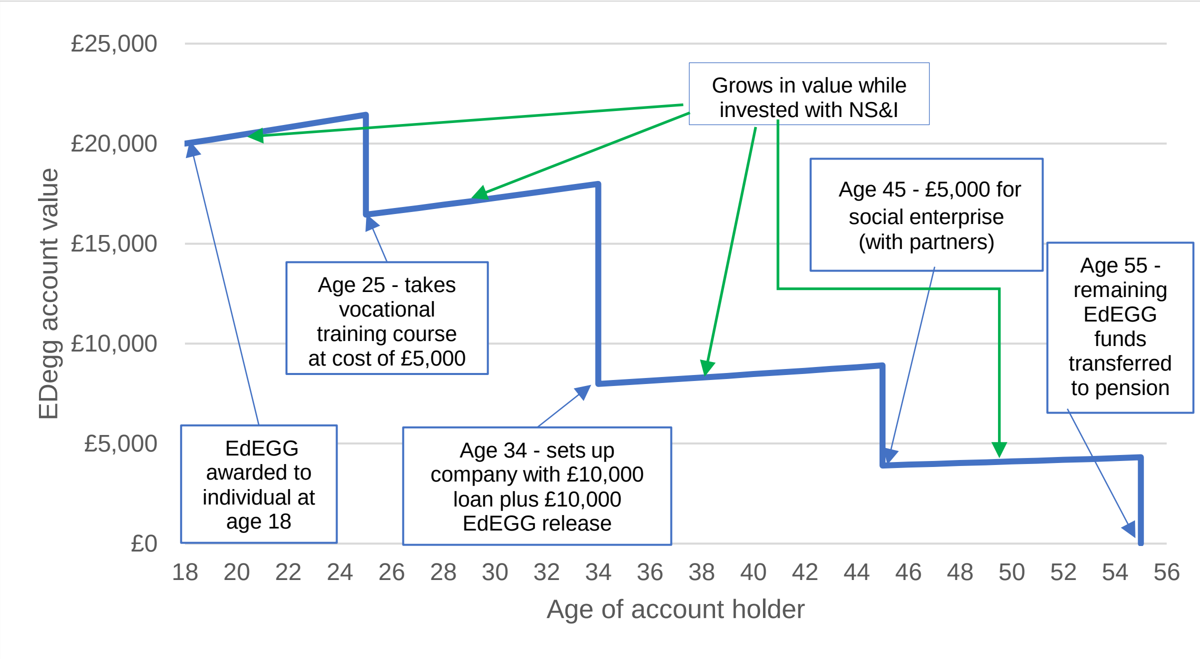
[70] To protect EDegg holders from being sought as donors without the benefit of active involvement.
[71] Alternatively, where applicable, the EDegg funds could be released on the same basis as for a private enterprise - £1 for £1 (up to the EDegg account limit) for monies raised from third parties, e.g. philanthropists, or a bank loan.
[72] See, e.g. https://www.gofundme.com/ or https://www.justgiving.com/ (accessed 20 August 2019).
[73] The EDegg credit will have grown with interest over time.
[74] This is currently set at age 55. Alternatively, the age could be the state pension age.
[75] This could include caring for a family member. It could include or exclude childcare.
[76] For example, if they had £10,000 remaining in their account and the minimum wage was £10 they would need to write an account of how they had carried out 1,000 hours of voluntary activity that benefited others.

It would be unfair to prevent people from having access to, and the benefit from, any unused EdEGG funds where they have made a contribution to society and it is psychologically valuable to solidify the sense of ownership of the £20,000 credit.

Conclusion

By re-arranging the flows of money into Higher Education, EdEGG frees up £10.6 billion that can be used to give all citizens a stake in society and opportunities to advance.[77] It is a Lifetime Opportunity Credit, offering support at many different stages of life as illustrated by example in figure 4.

Figure 4 : EdEGG account value as drawn down over working life



When launched, EdEGG will create a wave of optimism and excitement among the first cohort of 18-year olds who receive a £20,000 credit in their name. Whereas currently the only certain way to benefit from the government's largesse towards Higher Education is to study one of the courses that have no employment value, with

[77] For example, Michael Sherraden, one of the leading proponents of asset transfers, in Sherraden (2002) 'Assets and the social investment state', In Paxton W. (ed) *Equal Shares? Building a progressive and coherent asset-based welfare policy*. London: IPPR, pp.28-41, wrote: "For the vast majority of households, the pathway out of poverty is not through income and consumption but through .. investing in education [and] enterprise.. asset accumulation enables the next generation to begin their lives with resources and therefore opportunities. …. The labour market of the information age requires that people have resources to invest in themselves throughout their lifetimes."

EdEGG citizens have control over the money and can themselves make choices about its best use.

Over the medium term it will make a University education always worthwhile – if it does not produce good results quickly the Institution will be in touch, keen to help.

Many more will be able to take up other forms of vocational training; there will be a jump in new business start-ups and a leap in the formation of community-enhancing projects.

In the long term the mojo of the country will be transformed as year after year a new generation has opportunities opened to them.

The UK University sector will be stronger and better financed than ever, its improved value proposition helping it build on its global No 2 position to become an even more significant export industry.

The UK will have possibly the liveliest start-up scene anywhere, with some of the first EdEGG-financed start-ups becoming giant enterprises.

The UK's banks will be thriving despite the low to negative interest rate environment as they extend more lending to start-ups and Educational Institutions and take that expertise around the world.

UK society will also be more content than for a long time as thousands use their EdEGG funding to help others.

Using free-market principles to achieve a progressive end at nil cost to the Exchequer, EdEGG is not merely feasible, it is politically compelling. EdEGG is the breakthrough policy providing the opportunities hoped for by so many.

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