

Talking about fees:

Provider policy and practice on course fees

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Research paper linking to Investing in Skills:
Taking forward the Skills Strategy



Learning+Skills Council

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Foreword

The Learning and Skills Council (LSC) welcomes this report into the practices and approaches taken to charging fees in further education. The findings reflect the initial research carried out in this area and these should be helpful during the LSC's consultation on future fee policy. The consultation was launched on 15 July 2004 by the publication of *Investing in Skills: taking forward the Skills Strategy* and responses are sought, with a closing date on 8 October 2004.

The research described here is not exhaustive, but does cover a range of further education institutions that are operating in a variety of settings. It draws on Adrian Perry's own extensive experience in the sector, most recently as principal of Lambeth College.

The report highlights a number of issues that should be considered during the LSC's consultation on fees. The views expressed are essentially personal, reflecting the contributors' and author's views. The report is not LSC or Department for Education and Skills (DfES) policy; it provides an initial picture of current practice and draws some potential lessons from this, which can be discussed and debated during the consultation.

The need for a good practice guide on fees for further education institutions is articulated, and we intend to pursue this if it would be helpful. Any institution wishing to contribute to this work should email feesconsultation@lsc.gov.uk in the first instance.

Key Outcomes

1. Understanding institutional fee behaviour is an important topic. At a time when the Skills Strategy is proposing changes to fee assumptions to support its Level 2 entitlement proposals, LSC statistics indicate that local concessions cost over £100 million. Full fees are paid by less than one learner in four, and providers that raise 10 per cent of their income as fees are exceptional (section 2).
2. The LSC and DfES jointly commissioned a small survey that talked to decision makers in further education (FE) colleges and adult education services in order to understand the drivers behind fee policy and practice. Twenty colleges and three adult education providers, chosen for their contrasting experience and locations, were surveyed in detail alongside discussions with other providers and officers of national agencies (section 3).
3. There is a range of views, often contradictory, about fees in the field. These views tend to be formed by a provider's social setting and policy preferences rather than hard evidence (paragraph 3.2). Fee remission practice varies between a minority offering only LSC national concessions to others offering very widespread free tuition (paragraph 4.8). The reasons providers grant the current level of concessions are twofold – the desire to widen participation among low income groups, and a fear that local rivalry would punish institutions that set fees higher than competitors (paragraphs 4.16-4.19).
4. The survey found a consensus that providers would benefit from raising a higher proportion of their income from customers (paragraph 4.1). However, few institutions made fee policy an important part of their corporate strategy (paragraph 4.2). Debate on the issue is weak (paragraphs 4.5 and 4.6) and policy is rarely revised except in response to national funding structures (paragraph 4.4). The use of benchmarks is under-developed (paragraph 4.26), and there are concerns about the statistical base underlying the debate (paragraphs 2.6 and 6.7).
5. It is difficult to make secure judgements about the relation between fees and enrolments. There were some examples of growth driven by low fees (paragraphs 4.10 and 4.14). However, a number of respondents had raised fees without damage to enrolment numbers (paragraphs 4.12 and 4.13), and those providers that maintained a policy of granting only LSC fee concessions did not seem to lose students as a result (paragraph 4.10). Many colleges have been able to target above average fees for some high demand programmes (paragraphs 4.12, 4.13 and 4.22).
6. Courses for full-time adult students were seen by almost all respondents – even those holding to national concessions only for part-time provision – as a special case. Concessions were widespread in this area and there was some evidence that imposing fees would damage provision and student opportunity (paragraphs 4.14, 5.8 and 6.11).

7. The internal implementation of fee policy varied in effectiveness. Some examples of effective scrutiny and delivery were found alongside weak follow-up and insufficiently controlled delegation (paragraphs 4.7, 4.20 and 4.21). Some respondents suggested areas that will need attention if the Skills Strategy implementation is to avoid further difficulties in assuring good practice (paragraphs 5.5-5.7).
8. The survey found no evidence of successful local collaboration to avoid beggar-my-neighbour fee policy (paragraph 4.19). It was felt to be a delicate area that involved issues of college autonomy and legal challenge (paragraphs 5.1 and 6.4).
9. Colleges varied considerably in the age range of their students and the level of study. This has implications for the implementation of the Skills Strategy (paragraphs 5.2 and 6.2), particularly in the establishment of fair but challenging fee targets.
10. The report sets out (section 6) a range of recommendations that aim to secure greater fee income without damaging student opportunity or institutional financial health. It suggests ways forward on:
 - a national and provider-level earnings target
 - improving information on fees
 - helping providers develop effective fee policy and practice
 - blunting the downward pressure on fee levels caused by local competition
 - working with governors and staff to engender support for good practice in fee generation
 - securing greater coherence in national fee setting
 - safeguards for the adult returner
 - points to bear in mind for future consultation and pilots
 - the vital importance of communications.

Section 1: Context

- 1.1 The Government looks to the post-16 education and training sector to make a major contribution to Britain's future economic prosperity and social cohesion. It looks to an expansion of learner numbers, and a continual increase in quality. Substantial resources are needed to achieve these aims. The taxpayer currently makes the largest contribution to funding our learning and skills programme, but it is reasonable to ask the beneficiaries of that investment to make a contribution. For this reason, it is important to understand the contribution a revised approach to fee income might make to the resources we need to raise quality and skills. The first page of the Secretary of State's 2004-05 grant letter to the LSC puts it bluntly: the LSC will need 'to work with colleges and training providers to maximise fee income'.

The Skills Strategy

- 1.2 Changes in fee policy and practice are linked to the introduction of a new coherent response to skills issues. The Skills Strategy was jointly published by the Department for Education and Skills (DfES), the Department for Trade and Industry, the Treasury and the Department of Work and Pensions in July 2003². It set out a national skills strategy that was submitted for comment and consultation. The strategy addresses the UK's historic weakness in productivity and vocational skills in relation to its industrial competitors. It spoke of the need to create 'a coherent policy framework which supports front-line delivery and develops an education and training system which is focussed on the needs of employers and learners' (paragraph 9, *21st Century Skills, Realising Our Potential*). The approach brings together current activities in a coherent strategy setting out the rights and responsibilities of employers, individuals and providers. The key areas identified for action are:

- placing employer needs centre stage
- helping employers to use skills to achieve greater business success
- motivating more individuals to re-engage in learning
- making the provider infrastructure – colleges, trainers and some adult education services – more responsive to employer and learner needs
- improving the joint working across government and the public services.

Excellent summaries of the Skills Strategy have been published by the Learning and Skills Development Agency (LSDA) and Edexcel, and are available on those organisations' websites.

The Level 2 entitlement, and what it means

- 1.3 A key proposal in the Skills Strategy was to create a fee-free entitlement to study at Level 2 for learners who do not have a qualification at that level. Level 2 is an important intermediate stage on the way to gaining the technician level qualifications at Level 3 and above that contribute to business efficiency, and add to worker incomes. The Skills Strategy proposes that this opening of opportunity is balanced by an increased level of fees to be paid by students who have already attained that level. Substantial work has been done in the LSC and the DfES with stakeholder representatives to develop and inform the implementation of this proposal. A seminar was held in October 2003, for example, involving representatives of LSC, DfES, LSDA and provider organisations.

Moving the policy forward

- 1.4 The next steps are to implement the policy proposals of the Skills Strategy. Trials are taking place in the North East and South East regions during 2004/05. The trials will involve the introduction of the Level 2 entitlement (L2E), Employer Training Pilots (ETP), the roll-out of the Adult Learning Grant (ALG), learner support funds and the introduction of Level 3 as a focus for learning in some sectors, in response to regional skill needs. No major changes in fee policy are planned for 2004/05. Rather, the opportunity will be taken to consult with relevant bodies and to consider the responses to that and lessons learned in the wider pilots. Paragraph 1.1 outlined the need for a rebalancing of contributions to further education: the most likely way of doing this is to increase the current fee assumption of 25 per cent within the LSC's funding formula.

Section 2: Background

- 2.1 Learning and Skills Council-funded provision is resourced by a combination of government subsidy and fee income. The institutions that actually deliver the learning programmes agree with the LSC the future pattern of provision that will be supported: this draws down funding according to the volume and nature of the courses.

The LSC funding system

- 2.2 Many students gain fee-free access to their post 16 programmes. The LSC establishes categories of students – for example, those under 19, students taking basic skills programmes, and those on appropriate income-related benefits – who are entitled to fee-free education. This is a concession that applies to a substantial number of learners. Around one third of LSC-funded learning aims are studied by 16-18 year olds, liable for no fee. Around 1.5 million learning aims for adults attracted LSC fee remission, over 700,000 of which were basic skills courses. But beyond these concessions, the funding methodology assumes that a college charges a learner a fee of 25 per cent of the base rate³: the grant the LSC makes to institutions is reduced in line with an expected fee income reflecting this. In the report that follows, the expression 'full fee' means one set at the 25 per cent LSC level: that is to say, a course cost that is already heavily subsidised.

Discretionary concessions

- 2.3 Colleges and other providers are not compelled to charge this fee. They have the ability to vary the fee regime for their programmes according to local circumstances and preferences. This freedom is widely used. Many choose to charge lower⁴ or no fees, reflecting a wish to remove barriers to study for poorer students, or a desire to compete with rival providers. Students taking 2.5 million learning aims benefited from fee remission under the provider's local policy. LSC statistics suggest the overall cost of these local discretionary concessions is over £100 million. As a result of the combination of local and national fee remission, the majority of students in the learning and skills sector do not pay fees; in fact, in the 2002/03 academic year, fees were paid in full for around a quarter of courses.
- 2.4 This national picture is reflected at institutional level. The majority of colleges raise less than five per cent of their income from fees paid by learners: a widely used benchmark of good practice is 6.7 per cent. Institutions that have high levels of fee collection include some untypical providers, such as some specialist adult education providers⁵. There are also some colleges where the proportion of students eligible to pay fees – either because of age (6th form colleges) or disadvantage – is so small as to make the calculation invalid⁶.

- 2.5 The LSC compensates colleges in respect of learners who meet national categories of fee remission. However, as there is no compensation for in-house concessions, the effect of widespread local fee remission is to lower the unit of resource for providers. This is not a small matter. It amounts to £250,000 or more for the average college; one college in the current survey costed its concessions at £1.4 million. Whether this loss is a real one – that is, that learners would be willing to pay the additional fee if asked to do so – is a matter that will be discussed later. Provider caution on fee matters is, however, understandable. If students are deterred by price, the institution loses the LSC funding they would bring in; until recently, there has been clawback of funds from providers that miss their recruitment target even by small percentages.
- 2.6 The estimates of 'lost' fee income come from the audited Individual Learner Record (ILR) submitted by institutions to the LSC each year. The calculation is possible because the ILR requires providers to 'flag' those students who received local fee remission. A word of caution should, however, be entered about using these figures, which are collected for different purposes. There are a number of reservations:
- There is a difference between the figure for fee income reported via the LSC's ILR returns – which show around £150 million of college earnings related to LSC-funded provision and the amount reported in surveys based on audited college accounts, which comes to £250 million. At least some of this difference derives from income earned from non-LSC activity: commercial customised courses, overseas students, rental of facilities and so on, which has been included in the college accounts, but excluded from the ILR analysis. Even so, the telephone survey undertaken revealed differences between a provider's perceptions of their LSC-related fee income as against the LSC's figures. Additionally, a number of respondents claimed to offer no (or few) local concessions beyond the national guidelines: this suggests it is worth investigating why these colleges have low fee-bearing ratios.
 - On a more minor level, a number of providers report using the Learner Support Fund to pay for in-house fee remission⁷. This will appear in the tables as if fees had been paid by the student – a net contribution to public funds – when it is in fact simply a diversion of funds within existing resources.
 - While most colleges generate less money than expected from LSC courses, a number actually raise more than expected – indicating that college managers often have a realistic assessment of what the market will bear.
- 2.7 A number of studies of fee policy and practice exist. As far back as 1999, the DfES asked York Consulting to undertake a study⁸ with a particular focus on fees for employer based training. They sent out a survey questionnaire that was returned by 117 colleges, and followed up with more detailed case studies of 15. The DfES later commissioned a report in 2003 from Pye Tait Consultants on fee income⁹. This made an in-depth report on the fee-remission practice of a small sample of colleges. The National Institute of Adult and Continuing Education (NIACE) provides an additional source of information in its Annual Fee Survey. This is a useful study and I later recommend that some similar study with more extensive reach is considered. However, currently the NIACE information is of most use in regard to adult education. The survey gets low return rates from FE colleges – just 107 out of over 400, some of those being incomplete. The college response is further weakened by the survey typically being filled out by the head of community education in respect only of identified adult and community learning provision of the college, often excluding vocational education for adults.

2.8 Before moving forward, it is important (particularly when considering the effect on institutions) to consider two different ways in which additional fee income might be raised:

- raising the level of fee – that is, by building a higher percentage into the assumptions of the funding system. The effect of this reduction in the level of public subsidy to providers would be to release additional resource for the LSC to focus on the low skilled. Colleges would need to secure the planned fee income to maintain their unit of resource level.
- getting a wider range of customers to pay the fee – either by reducing discretionary concessions to current clients, or by changing the nature of the client group. This would have the effect of increasing the earnings for a given course portfolio and thus create additional resource for providers.

In other words, there are differing effects from additional money coming from current payers paying more, or from current concessionary students being asked to pay for the first time.

Section 3: Methodology

Who we spoke to

- 3.1 During the course of preparing this report, 24 colleges¹⁰ and three adult education services were approached. One college refused to take part and two more failed to complete the questionnaire or respond to phone calls. The providers were chosen from LSC statistics for their distinctive fee performance – some that earned a substantial percentage of their 'due' income, others that collected very little. No sixth form colleges were approached as the application of fee-free study for 16-18 year olds takes them out of many fee debates. Similarly, I did not approach the large specialist adult education institutions; while their record in fee raising is strong, their experience is not relevant to the normal run of an urban college or adult education service. The selection also tried to secure a balance of social and geographical settings. The contacts consisted of a structured telephone questionnaire (shown in Annex A) with the senior financial officer or, in a number of cases, the principal. Less formal feedback was obtained from senior managers from a number of other institutions. Briefings were received from the major agencies in the field – the Association of Colleges (AoC), LSC, NIACE, the DfES and LSDA. The aim of this study was not to undertake an encyclopaedic survey of fee income in the LSC sector; it is unlikely that better numerical information could be achieved than is represented in the LSC's ILR database. The aim was to get behind the findings already reported to the LSC, and revealed in the Pye-Tait and NIACE reports, understanding the drivers behind provider fee policy and practice and making recommendations that would assist the achievement of the Skills Strategy goals.
- 3.2 The need for a better understanding of institutional behaviour is made more pressing by the range of sector views about fee income. A key issue for providers is the sensitivity of course enrolments to the fee charged – what is technically known to economists as 'price elasticity of demand'. During the current research, different respondents have said that:
- a basic enrolment fee encourages motivation and ownership, or that community learners will not attend if any fee at all is charged
 - that employers do not value courses if they are priced too low, yet they (especially 'employers round here' – a phrase from three different parts of the country) are reluctant to pay economic fees for training
 - that the market for education is very price sensitive, and not price sensitive at all¹¹
 - that after a price rise, enrolments may fall but they will recover; or the deterred students will never come back; or different students will fill the gap.

Some of these views will be self-fulfilling. For example, it is not difficult to see reasons for what one respondent described as 'people's unwillingness to pay fees' if, as a result of this belief, local colleges compete to offer fee-free entry. The aim has been therefore to test propositions as much as canvass views on policy. I was keen to find institutions that have evidence or solid experience of the effects of changes in fee regimes. Although this generally proved difficult because (as we shall see later) providers rarely see fee policy as a key variable in their strategies, the survey did find some colleges with experience of the effects of varying fee levels.

3.3 One line of enquiry was to approach merged colleges. This was hoped to give empirical evidence of the effects of fee change: what happened to enrolments as the price levels of two or more institutions were brought into a single structure? Some interesting findings were discovered, but the line of enquiry was not as fruitful as hoped because:

- Colleges tended to merge with another local institution that had essentially similar fee policies, often dating back to shared local authority and Consortium of Local Education Authorities (CLEA) guidelines. Nevertheless, some colleges were found with dissimilar fee structures from which lessons could be learned.
- A known risk in mergers¹² is losing students while concentrating on merger tasks. One merged college decided to maintain low fees during transition to reduce this risk factor. In another example, part of the rationale for a substantial merger was to address the enduringly low local participation rate (both school leaver and adult). In consequence the merger led to a systemic relaxation of fees to reflect this widening participation objective.
- A driver for merger was often the failure of one institution. In this case, the maintenance of buoyant enrolment numbers after the introduction of wider or higher fees may have been due to more effective marketing and course delivery. However, this argument can go both ways; the very fact that effective marketing and flexible provision can over-ride fee rises is an important message. Similarly, but in the opposite direction, the growth in learner numbers after merger might reflect the effectiveness of focused work on widening participation as much as generous fee concessions.

In passing, the University of Warwick report on mergers in FE (see endnote 12) makes no reference to fee matters – a further reflection on the limited role that this aspect of resource generation has had within the sector's management concerns and strategic thinking.

3.4 The questionnaire asked a number of questions which aimed to see whether there were particular characteristics that influenced provider views and experience on fees – for example, whether a college had a general or specialist portfolio of courses, or whether its work was concentrated at particular academic levels. Some colleges were able to use their specialism to raise fee income in niche areas; there may be promise in linking this with Centre of Vocational Excellence (CoVE) status in the future. Generally, though, it was difficult to disagree with the conclusion of the York Consulting report of five years ago, which said: 'It is virtually impossible to categorise college approaches to their fee policies on the basis of college characteristics. It is more revealing to categorise in terms of the key drivers that influence their approach to fee charging.' (York Consulting report 2000, executive summary, point 32). The Pye Tait consultants came to a similar view, noting that college mission was often a good guide to fee policies; those that gave the college a community approach being less forceful in fee matters than those which orient themselves to the labour market.

Section 4: Findings

Consensus on the issue

- 4.1 There was a widespread consensus – even in colleges based in deprived areas – that raising a larger share of resources from learners was necessary for the future development of the sector. This reflected both a feeling that providers would be stronger if they could generate more of their own resources and a view that learners should be encouraged to regard fee payment as an element of the partnership between state and individual. One respondent said that 'there was no underlying resistance to the case that employed students should generally meet more of the costs of their training'. Respondent colleges, though conscious of their own policies and figures, were often surprised by how widespread remission was, and how much it cost. Some respondents remarked on the curious fact that the amount of fee-free provision had increased (and the academic level of course taken fallen) as prosperity and educational attainment were rising in the wider world. A college principal remarked: 'This is very strange: over a decade the figure of 60:40 (concessions to payers) has juxtaposed itself. Looking back, in previous years the ratio was 40:60'.

Fees and strategy

- 4.2 A major finding of this study is that few colleges see fee policy as an important part of their business strategies. There are, of course, a number of colleges that have taken a clear strategic course about fees – but not many. The finance director of a well-regarded and financially sound college puts it well; fee policy is 'not used to move the business'. As an example, only one college mentioned the need to factor in fee consequences to discussions about the future curriculum portfolio, although two others said that changes in portfolio were taken into account when calculating the fee target – which is not the same thing at all, leaving fee income to be derived as a residual from other college decisions. Respondents were asked about the way that policies were agreed and reviewed. In most cases, fee policies had developed incrementally over time. While colleges are required by their financial regulations to gain governor approval for fee levels, many respondents confirmed that this was often a formalistic nodding through – usually of an inflationary adjustment on previous levels. The author of the NIACE survey feels that the assurances that in adult education 'the majority (of providers) measured impact by analysing enrolment data, many via a management information system (MIS)¹³' might well over-state the case. The low priority given to fee policy is sometimes reflected in its internal presentation. Some respondents said they had a crisp and brief document laying out the college policy; others reported that college policy was not in any single paper, and one respondent spoke of a 17 page document.

4.3 The attention given to fee policy and practice is sometimes worsened by structural divisions. A major college was not alone in having to pull together responses to the questionnaire from different sources because 'the finance director does finance – the vice-principal does funding'. Others diverted questions about increased earnings to a business development manager, as questions about mainstream fee policy drifted into discussion of full-cost commercial income – not the same topic at all. Although 'income generation' is often used as college shorthand for full-cost work, it can be argued that rationalising policy toward LSC fee income has a greater potential to increase college resource. Extra commercial income must cover the costs of the additional activity: increased LSC-related fee income is all surplus¹⁴.

The effects of the fee assumption

4.4 A number of institutions, both adult and FE, did, however, comment that the LSC's announcement of an explicit 25 per cent fee assumption had been the spur to internal rationalisation of fee levels (if not a more wide ranging review of fee policies). One college, however, reported that it may have been unconsciously influenced by the LSC specific 25 per cent fee assumption to limit thinking about fee levels: 'We tend to set a 25 per cent fee and then tweak – rather than thinking of any higher level'. At the other end of the fee spectrum, the LSC queries the eligibility for LSC funding of provision where the fee set is 75 per cent or more of the standard rate. It is felt to be a misuse of public funds for providers to be effectively paid twice for a single piece of work – once by the learner or employer, and again by the taxpayer. Some respondents, while recognising the rationality of this view, still felt it created a disincentive to the broader campaign to raise higher levels of fee income from clients.

Talking about fees

4.5 Matching the low priority given to fee discussion is the weakness of the quality of debate about fee policy. Discretionary fee remission policies are considered on the basis of social objectives, but they are rarely costed. Indeed, a number of the respondents – even some who said governors regularly scrutinise fee policy – used the opportunity of this research to cost out for the first time their loss of income from in-house remission¹⁵. Some colleges struggled to provide even the low level of background statistics the questionnaire asked for; in other cases, finance directors waited for subordinates to revise figures that were plainly flawed. When asked about commercial earnings, one vice principal reported: 'I'm told £634k, but that smells fishy to me'. At the extreme, a few colleges struggled to give a statistical analysis of their course portfolio, broken down by programme area and level (see questionnaire at Annex A). One actually reported that 'we can't give you that breakdown, because we haven't been inspected this year'. Yet this is key information for any analysis of the effects of Skills Strategy proposals.

4.6 Just as the policies often lacked in-depth financial assessment, they also lacked target and focus. It is entirely reasonable to adjust fee levels to allow access to poorer students, and many colleges did so. However, it is unlikely that value-for-money can be best achieved by blanket policies. Where policy aims to widen participation, little sophistication beyond across-the-board remission of fees was found. 'We're a widening participation college', said the finance director of a large college 'charging fees for us is just not going to be a goer'. This broad-brush approach applied to both levels of subsidy and types of provision. There was little evidence outside the national LSC categories of colleges distinguishing between courses appropriate for study as an entry level, and others that could reasonably bear a market price¹⁶. For example, one college from an admittedly disadvantaged area ran fee-free web-page design courses; others reported discovering university graduates on language or horticulture provision. A similar lack of focus is to be found in the widespread habit of giving college staff across-the-board concessionary entry to programmes (a 50 per cent fee reduction was often quoted).

Fee monitoring

4.7 Once fee policy is established, it is important to check the actual fee income received. A minority of respondents made high-profile and regular reports on fee income. While most could truthfully claim to make regular reports, this was generally (in the words of one finance director) 'only in context of management accounts – it's not something we dwell on. As a sector we don't monitor fees as well as we should'. One vice-principal said: 'We don't routinely reconcile the financial and student records' to interrogate fee performance. Similarly, as we have seen, the NIACE survey is felt to over-claim the level of scrutiny in many adult education services. This is a matter of importance. As we shall see later, at least one college has been disturbed when reconciling for the first time the fee income that should be earned by the college portfolio and the actual receipts.

What colleges do

- 4.8 The Pye Tait report found 20 per cent of their survey granted no fee remission at all outside the LSC fee categories; in the current sample, only two such colleges (and one adult education service) were found. Five reported limited internal concessions, and eight substantial internal concessions. Another group of respondents reported substantial levels of delegation on fee matters; it was difficult to categorise this group, but LSC fee data suggest most were high concession colleges. How help was given varied. Some gave partial fee remission to low income students, while a further group granted full remission in all discretionary cases. One respondent from this group said: 'We go for a very simple yes or no – anything else is difficult when talking to potential students'. This all-or-nothing approach may reflect the former Further Education Funding Council's (FEFC) initial requirement that total fee remission should be given to the national categories of disadvantaged groups. Those who used partial fees argued that their policies were not just a more prudent use of funds, but also an effective way to build a culture of partnership in educational investment. None of the respondents reported any individualisation of the entitlement to concessionary study in terms of allowing a given student to receive just one course, or one year, of low-fee study. One college that did try to target fee concessions – by subsidising courses in the poorer part of their borough – discovered migration from the more affluent suburbs. A number of colleges used the Learner Support Fund (LSF) to pay for fees. This might very well become widespread if a more austere approach is introduced nationally, but the danger exists that using more of the LSF for help with fees could reduce resources available for, for example, childcare or travel. LSF was also used to meet the cost of examination fees for some low-income students. Other colleges included examination costs within the nil-fee course concession¹⁷.
- 4.9 Registration fees are often charged at a level of £5 or £10, even for concessionary groups. Some colleges claim this deters flippant enrolment – often of additional courses on top of the one to which students were initially attracted – improving student retention without deterring enrolments. Anecdotal evidence was received of substantial 'voluntary' contributions expected by well-subscribed sixth form colleges (including one account from a principal whose son attended one).

Fees and enrolments

4.10 As we have noted, the relation between fee levels and enrolments is a major concern for institutions. The underlying reason that providers fail to collect the full fee – whether from a desire to widen participation or to safeguard enrolment numbers from competitors – is because they feel students will not come to their institution if asked to pay the full amount. College views on this topic can be divided into three camps:

- Most colleges worry that all fee rises deter students, and claim low-fee regimes widen participation. The vice principal of a major college submitted impressive figures to back the claim that 'adult participation rates have rocketed' since governors adopted a low-fee policy in order to raise skills and qualifications in an area with weak educational attainment.

- A small number of colleges have a robust line that prices do not deter students at all. Colleges that maintained the simple LSC national concessions did not report difficulties in enrolment. One large college does not extend remission beyond the LSC categories¹⁸. Its participation in a sub-regional IT training initiative was imperilled by other colleges' insistence that 'students just won't come' at fee levels that they had, in fact, sustained without difficulty. While this austere line was most common in the more advantaged areas of England, there were examples of managers in tougher environments sustaining the same view. In adult education, however, the line was much more clearly marked. Services based in the Home Counties were fee driven; in more deprived areas, fee-free provision was widespread.
- Another group distinguishes between different programmes and their price sensitivity. One former principal wrote: 'My experiences of fees policy suggest that courses for industry are not very price sensitive. In fact they distrust low prices as they see them associated with low quality. Higher prices, better venues, food, handouts etc. seemed to work best. However for those courses designed for learners paying their own fees I think price is a big issue'. A thoughtful finance director sees it this way:

'So, the prime foci for a college such as us nowadays is:

- **16-19** mainly full time (FT) technical/vocational subjects; not just 6th Form and 'second chance' type provision, but also part time (PT) Work Based Learning for Modern Apprentices (no fees)
- **19+ FT 'retraining and progression'** mainly English for Speakers of Other Languages (ESOL) for Ethnic Minorities and Asylum Seekers and also Access to HE (no fees)
- **Basic Skills** (Literacy, Numeracy and ESOL) with a real push on workforce development in Basic Skills (no fees)
- **19+ PT 'career-focussed' qualifications** (fees due, but not a major issue unless the rate rises significantly)
- **Employer-specific cost-recovery provision** (outside of LSC fee/funding regimes).

If you take away these, all that is left is 'general interest' provision (IT related, modern languages, beauty and holistics, design and textiles), which are already shrinking and other vocational (such as construction trades, vehicle engineering, mechanical and production) which are struggling under LSC funding. Nevertheless, these account for approximately 1,500 students every year. Significant fee rises for these would probably shut much of this provision altogether.'

Between these camps there are various views, much fuzzy thinking and some contradiction – typified by one college describing its language courses as in buoyant demand, yet needing low fees to maintain volumes.

- 4.11 There is an awkward and generally unasked question that lies behind the policy of not charging even the 25 per cent course fee. It is this; is it justifiable to offer a product which consumers do not want, even when offered to them at a quarter of its real cost? The LSDA project, Saving for Learning, has not yet been completed, but work there has suggested that students are unaware of, and sometimes shocked when informed of the real cost of their course. Greater transparency in the treatment of public subsidy may have a part to play in developing more of a fee partnership between learner and institution.

Can case studies tell us anything?

- 4.12 As noted above, the study was keen to learn from providers that had varied price. Two interesting pieces of evidence came forward, though neither dealt with fee changes at the levels proposed by the Skills Strategy¹⁹. One was from a college that had revised fee levels in a number of programme areas as a response to financial difficulties. It reported that, although there was price-sensitivity in most courses ('demand can drop off very quickly at a certain threshold') it was more marked in some areas than others. The college's pre-crisis fees had been set at a modest level and from this low base the first increases did not seem to deter students – two 10 per cent rises on adult community learning (ACL) had not had an observable effect. The college had also used price in programme areas with high demand as a rationing tool – where it did have a direct effect, but still managed to fill the course.
- 4.13 Another college described a similar experiment, driven by the introduction of the 25 per cent LSC fee assumption. A finance manager there reported:

'What we were trying to do in 2002/03 was to bring previous fee policy into line with LSC national policy. We obviously had to have a view about fee sensitivity to ensure that price changes up or down would not have an influence on enrolments, but I am not convinced on the issue of fee sensitivity. My view differs from that of many curriculum managers – I don't feel there would be a problem if we raised our fees.'

What we did was raise fees compared with national base rate. Where they were already in line with the 25 per cent assumption, fees went up 2.5 per cent – where they were 2.5 per cent to 10 per cent below, we raised by up to 10 per cent, and for those even further below we capped annual increases to 10 per cent. Looking at the 10 per cent fee rises, there has not been a decrease in student recruitment. Fees are to an extent irrelevant – demand depends on lots of other issues like reputation and flexibility. Fees are also a signal students can use for quality judgements. There are other areas where fees could be whacked up – the issue in pressure areas is recruiting teaching staff rather than getting students.'

It is notable that this college was in a disadvantaged industrial area and did not begin from an over-low starting point – LSC statistics and a benchmarking survey suggested it was a high fee earner compared with similar colleges. Another college defended its austere fee policy by saying it strengthened its hand in negotiation with employers; the principal claimed: 'If you give it all away to start with, you've nothing left to bargain with'.

Full-time adult students

4.14 There is one area where there is consensus between almost all camps, and some empirical evidence. This is the case of full-time adult students, particularly those on Access courses. Remission seems to be universal for these programmes – sometimes to zero, sometimes to what is felt to be a payable figure (two colleges reported £80, another £100). Even colleges that broadly held a tough fee policy feel that this group would simply disappear if charged full fees. One principal remarked 'if you charge fees they will walk away'. A vice principal in another college said that 'doing otherwise would be financial suicide'. A merged college found that raising fees even to a subsidised level of £100 had cut into the programme – and there was no evidence that this particular group of clients were 'getting used to it'. In the two following years learner recruitment has dropped off year on year. If raising fees cuts into full time 19+ enrolments, there is also evidence of the reverse. A specialist college reported that four years ago full-time 19+ enrolments were very low – in some specialist areas classes were not viable. It said: 'Our waiver of the tuition fee has contributed to lifting recruitment (for training in areas of highlighted skills shortage) by more than 10 per cent a year for the last three years'. Ironically, it is often colleges in not very deprived areas that worry most about the end of fee-free courses for adults. Those in tougher areas have such a large proportion of students receiving remission under LSC national rules²⁰ that continued recruitment to the programme is not threatened.

What are the drivers of remission?

4.15 The survey asked questions about the drivers behind internal remission policy. As noted above, the main concerns were to maximise enrolments. There is a genuine concern to widen participation; the York Consulting report said that 10 per cent of colleges saw this as a driver – but it applied to a larger sample of the colleges spoken to in this survey. Three respondents mentioned the problems of being in a low wage area; individuals on income related benefits can gain fee-free entry under national concessions, but those employed on low incomes cannot.

Competition on fees

4.16 York Consulting noted in 1999 that 'college pricing is strongly influenced by the degree of local competition and the pricing policy of adjacent colleges', stating that this was 'a major force of confusion and acts to destabilise the market'²¹. The current study also found that rivalry and the possibility of poaching is a major policy driver – perhaps more important than widening participation to many respondents. 'We must remain competitive in the local market for part-time courses' said one finance director. This was reflected in a reluctance to be involved in fee-raising pilots. One principal enquired: 'You might share the risk for a year but what happens when our access courses have moved down the road to another college?' The importance of local rivalry would suggest that colleges that are geographically further from rivals would be more assertive in their fee policy. Although this does not appear to be the case from the ILR data, there was a hint of this in my interviews. Colleges that felt they had few local rivals did seem to hold a more austere line on fee payment.

4.17 It was not just rivalries between colleges that exercised downward pressure on price. Two colleges reported competition from a separate LEA adult education service that kept fees artificially low, compelling a similar approach from the college entry programmes. Another instance of unhelpful rivalry that came up with two providers was price competition from the local 'new' university reaching down to expand Level 3 and 4 work, alongside foundation degree developments.

Competition from initiatives and projects

4.18 It was widely recognised that innovative work – such as family literacy, and some of the work described in the report, *Evaluation of Non-schedule 2 Pilots*,²² might well justify the need for a low or nil fee regime. Initiatives outside the LSC mainstream – such as ETP or those attracting support from the European Social Fund (ESF) or Single Regeneration Budget (SRB) – often involve such fee-free entry. However, this does create problems for the institutions that have been catering for this market under core LSC funding. More than one respondent spoke, for example, of the rivalry from community-based learndirect work that effectively made it impossible to maintain a fee-bearing programme for entry level IT. This may account for the curious finding in the Pye Tait report that colleges are most likely to offer full fee remission to IT and taster courses. There is a need for consistency in identifying those innovative outreach programmes (or first time learners) that merited fee-free status, and the rest.

4.19 Those respondents who felt their ability to raise income was constrained by local rivalry were sometimes frustrated by an inability to act in a coordinated manner to secure higher customer income. Some efforts have been made to hold the line against 'beggar-my-neighbour' competition. One local LSC had attempted to insist that its colleges and adult education providers raised a minimum level of fees. Although officers report that 'the system wasn't ready for it', fee discussions are continuing in its Strategic Area Review (StAR) of adult education. Other colleges spoke of discussions between principals within their region to ensure realistic price levels in regard to customised commercial work. It is understood that there have been discussions between land based colleges as to appropriate fee levels, but these do not seem to have resulted in firm agreement.

Course fees and delegated decision making

4.20 Three respondents had a conscious policy of delegating fee policy within their organisation; one set 'contribution targets' for its divisions, another left it to departmental heads to assess the market in their areas of work. In one large college, departments can charge more than the going rate for courses in high market demand, but have to obtain clearance from the vice principal for reducing the price. One adult education service allowed local managers to offer remission above county guidelines 'if they could afford it'. The NIACE survey suggests that about a fifth of Local Education Authorities (LEAs) grant similar autonomy.

The problems of delegation

4.21 Fee receipts are not always a consequence of the implementation of agreed provider policies; what may be called 'principal's discretion' over fees is, in practice, delegated. One issue raised by a number of respondents was the difficulty of a central management team controlling the volume of local remission being granted by departmental staff, particularly in the pressured enrolment period. Enrolment often involves guidance and processing the admission of tens of thousands of students in a week or two. It is not easy to keep firm control on all transactions. Amongst the evidence of this problem was one well organised and financial grade A college which has only recently noticed a conflict between real income and the fees that should be received under its chosen policy; full fee income should be £1.6 million, but is actually about a third of that. Even authorised fee delegation can lead to a form of postcode prescribing, where residents of one locality or students in one programme area are faced with courses much cheaper or more costly than the same people on the same course elsewhere. This is difficult to justify. Added to this, unauthorised local arrangements that give remission at levels above those approved by governors and managers present a challenge to college structures and prosperity²³.

Tuning fee levels

4.22 Even where fees are charged, colleges are not required to set them at 25 per cent of base rates, and there is much variation below and (to a lesser extent) above this. The survey asked respondents about areas of work which could bear a higher than average fee increase. Almost all respondents were aware of areas that could bear increased fees. These included compulsory updating courses in construction skills and health and safety as well as in-demand IT skills (web-design, network engineering). Even those concerned that local employers were reluctant to invest in training found some lucrative programme areas. One respondent from a rural area found the local market was able to bear rises in National Examinations Board for Occupational Safety and Health (NEBOSH) and high level statutory, personnel, and marketing courses. CoVE status sometimes helped; one respondent reported good earnings on regionally significant programmes in printing, another high earnings from Construction Industry Training Board (CITB) courses. A number of respondents mentioned plumbing, where one principal reported that 'they're queuing round the block'. Elsewhere, higher than average fees reflect an understanding of real course costs – such as counselling, where qualification requires costly supervision, photography and ceramics, with costly equipment and materials. Those colleges which included examination costs in the overall course fee to represent the real cost of study to the customer also necessarily went above the 25 per cent ratio.

Fee levels as an indicator of quality

4.23 The argument that certain courses are valued if they charge a higher price was introduced by a number of respondents. Only one was bold enough to argue this across the piece. The case more generally made was that fees for professional or para-professional courses – such as the Certificate in Management Studies (CMS) and supervisory studies, Association of Accounting Technicians (AAT), Institute of Legal Executives (ILEX) – reflect quality in the customer's eye. Even a respondent who recognised that his college charged below average fees agreed that students continued on the programme (and recommended the college to work colleagues) on the basis of quality not price. In adult education, there are plainly successes in raising fees from top-end adult non-vocational education courses – but this is not typical. There may be more colleges than we expect that could raise more money from this source²⁴ but it could be argued that this would involve financially-driven mission-drift. However, one suspects that even in deprived areas there are income-raising possibilities.

Instalment payment

4.24 A number of colleges reduced the pressure of course costs by allowing students to pay fees in instalments – usually when fees were above, say, £100. Some colleges asked for two payments in the first two months of the course, others spread it over three terms. The latter creates a problem in chasing instalments. On top of any administrative difficulty, expelling a student for failure to pay a second instalment will involve the college in a much greater financial loss (from LSC funding) than could be gained from the fee²⁵. Just as colleges differ in the austerity of their policies, they differ in their ability to chase lost fees. A number of respondents spoke of worrying levels of loss – as high as six figures in one case – whereas others felt that they had plugged the gap and got the losses down to trivial amounts. This may be an area where sharing good practice may be advantageous, and where the use of financial intermediaries or savings vehicles might have a part to play.

Potential for fee rises

4.25 Colleges were asked what they would do if they were obliged to raise fees, or widen collection. A number spoke of tightening up, and one admitted it would have to pay more attention to unpaid fees. But there was concern from some that adult education services or colleges in prosperous areas could raise income, but providers in poorer catchment areas could not; or that colleges with the option would switch to lucrative markets at the expense of social need. One respondent put it this way 'funding policy should support our mission rather than vice versa'. While this concern seems exaggerated – there is no proposal to remove existing categories of fee-free status – there needs to be care to compensate for context if future policy will require institutional fee income targets.

Benchmarking fees

4.26 The research showed that most colleges do not have an accurate idea of their position in fee earnings – whether they are more or less austere than comparators. Although providers often survey the fees charged by rivals, they will have more difficulty in assessing the volume of internal remission that may be more important in representing the real cost of study. A number had been involved, though, in comparisons, either by principals or finance directors in regional consortia or via consultants offering benchmarking services. In answer to a specific question, almost all respondents said they would find it useful to know their position. Some information is available (for example, based on college accounts) but respondents did not feel that this information shows genuine comparability. They felt a detailed breakdown or explained model might be of interest if it enabled them to see how they stood in relation to comparable colleges with matched student/portfolios. Colleges would also value an accurate course-costing model for cost recovery work.

Section 5: Implementation Issues

- 5.1 We have noted that current arrangements leave providers considerable freedom in their fee policies. The Pye Tait report noted great resistance from college leaders to removing college discretion. However, this discretion is what lies at the heart of competitive fee pricing. The only prospect of success is actually engaging providers jointly to establish a fee framework that maximised income while respecting local and regional priorities. But if colleges simply got together to fix prices, they would place themselves in jeopardy; remember the 'restraint of trade' issue that haunted the public schools in 2003. It is understood that it would be legally acceptable, though, for a funding body to make clear its fee expectations.
- 5.2 The current view of implementing the Skills Strategy is that such LSC fee expectations would be expressed in the form of a fee target for providers. The current research suggests that care will be needed in calculating this. The context in which an individual institution is operating will need to be taken into account. For example, the fee-free status of 16-18 year olds will leave many tertiary and sixth form colleges more or less unaffected by the change. Depending on the view taken on the price elasticity issue, this could mean (a) that they will carry on unproblematically while general FE colleges suffer or (b) they will miss out on a new stream of income or (c) some point between.
- 5.3 Colleges with few fee-eligible students should have a lower fee target to reflect this. The focus needs to be on collecting more fees from more highly qualified learners, if resources are to be focused on the low skilled. It is therefore crucial to the success of revenue generation to identify how those studying at lower levels who already have higher qualifications are to be identified and charged. Targets also need to reflect the current position of an institution in relation to fee charging, while ensuring equitable treatment that does not penalise good work in the past.

Timing

- 5.4 Some providers expressed concern about the possible adverse consequences of the Skills Strategy's fee proposals. There was a recognition that the thrust of policy was right, but worries about the pace and detailed implementation. Colleges start from different points and there will be a convergence issue. On the one hand, a college manager, worried about a 'crack of doom scenario', asking for phasing over a period of years, not just to accommodate possible financial consequences, but also to represent the new policy in publicity material²⁶, and make the adjustments in curriculum and staff skills that would be required²⁷. On the other hand, one principal interestingly spoke of the need for courage and perseverance in introducing a fee driven strategy: a worry that, in their words, when fee rises are controversial, 'the college blinks first'.

The practicality of fee rises

5.5 A number of colleges are worried about the 'moral hazard' elements of the Level 2 proposals – suspecting that some students might not give honest answers about their possession of a Level 2 qualification if that created liability for payment. A cultural divide between senior managers who would see benefits to their institution from increased fee income, and classroom practitioners with a commitment to fee-free education (and a worry about the employment consequences of falling enrolments in their subject area) can be envisaged. This is a matter to ponder, given the earlier findings about delegated fee decisions.

Administrative problems

5.6 Another worry about asking students about their existing level of qualification was the sheer difficulty of doing it under pressure, and the bureaucracy and delays that it could cause at enrolment.

5.7 An additional group of administrative problems were anticipated in the field of ACL. Many LEAs contract out their provision (or bits of it) to colleges, with a contractual condition about expected fee policy. There is particular sensitivity over fee changes for over 60s, which has sometimes caused political turmoil in the ACL world. On top of that, enrolments for adult education in dispersed settings – community centres, libraries, and primary schools – create their own difficulties with regard to security of cash (and the staff handling it) and connectivity to management information systems (MIS). For these reasons, a number of respondents reported they did not charge fees for outreach education because it was impractical to do so.

Full-time adult students

5.8 The particular position regarding full-time adult students has already been noted in paragraph 4.14. It raises a number of issues.

- The first is the effect any implementation of fee policy that did not allow for the impact the issue would cause. Colleges differ widely in the numbers of full-time adult students. In central London for example, which one might feel was a homogenous study area, the proportion in general FE colleges ranged from 22 per cent to almost zero. Where colleges have several thousand adult full-time students, a collapse of enrolments would have a severe impact on finances and employment.
- Access programmes challenge us to create a coherent fee policy through the post-16 system to higher education (HE). HE fees are now to be deferred until students are earning decent incomes; no such easement is proposed for FE students. It would be ironic to have a 'low-fee, high-fee, low-fee' passage of study. There is a particular issue in respect of fees for access courses that aim at progression to HE in teaching, nursing and para-medical subjects like radiography²⁸, which attract bursary support in universities.
- One major concern from the inner-city is that many post-school students take more than three years to get up to Level 3, either due to unsuccessful study at school or social factors like early pregnancy or family dislocation. These are full-time 19 and 20 year olds who are effectively completing their 'sixth form' studies – learners who might reasonably be considered to come within the envelope of a 16-18 entitlement to study.

Section 6: Recommendations

A national earnings target

- 6.1 An overall national target needs to be set on the sums to be raised by LSC-funded providers from course fees. Like all targets, it must balance realism with challenge. Policy and incentive must be mobilised to achieve this target, for if we fall short, we shall effectively be placing colleges back in a world of cuts. Simple calculations suggest we need to do more – much more – than bring a tail of low earners to a median position, as the median position falls short of the resources needed to realise the Skills Strategy’s ambitions. All post-16 providers, including learndirect and LEAs, and all provision – including that supported by other funding such as SRB, and ESF – should be brought into this debate, with the aim of providing a coherent and internally consistent system of post-16 fees. It would help a great deal if providers could be supported by the LSC and DfES with well-organised marketing and publicity programmes.

Fee targets for providers

- 6.2 Achieving higher fee income will need more than targets set from above; it is those in contact with learners who will be expected to do the real work to achieve this goal. LSC-funded providers already have an implicit fee target, in the 25 per cent deduction in respect of fee expectations. It may be that local LSCs could, as part of their review of development planning and allocations, make this more explicit. We have noted that care will be needed to set fee expectations in a way that would avoid injustice to providers – but a floor should be set. We should also develop and publish benchmarks of success in fee policy that respects the different families of provider in the learning and skills world. Common understandings of appropriate levels for local fee discretion, and the role for partial remission, would help avoid the ‘post-code prescribing’ problem outlined earlier. Effective fee management should be rewarded with positive provider review judgements about employer engagement and perhaps in inspectorial assessments of the quality of college leadership and management. There may be a need to make other aspects of LSC policy – such as capital allocations – consistent with the need to raise income.

Moving forward on fee policy

6.3 The report notes the underdeveloped nature of policy and practice regarding fees in many providers. With this in mind, consideration should be given to a national campaign of discussion and training, at which providers could confront the issues and exchange good practice. Such a campaign should be supported by a good practice guide to fee policy, developed in association with provider bodies such as the AoC, the Association of Learning Providers (ALP) and NIACE. This should aim to integrate rational policies for charging commercial rates, and place the possibilities of market pricing alongside the needs of programmes and learners where local judgements determine that subsidy is appropriate. Good practice points can be developed that will encourage more effective review of fee receipts. The matter of examination and registration fees should be included in such guidance. A simple and agreed course-costing model should be freely available to providers.

Fees and the local provider network

6.4 The report has noted that one major reason for providers' reluctance to charge full fees is local rivalry. Thought will be needed to secure an end to predatory pricing. Local LSCs may have a leading role here; indeed, there is a case for including a fee dimension into the StARS now being undertaken. Success in increasing fee income is likely to come from a combination of 'pull' and 'push' elements – the 'pull' being features within the funding systems that incentivise fee collection, the 'push' embodied in expected fee targets.

Working with governors

6.5 Governing bodies will be important allies in proposals to rationalise fee policies. They provide strategic overview of their institutions, and at a more detailed level, they currently have the responsibility to authorise fee policy and levels. Governors can bring their rich business and community experience to discussions on pricing levels. The survey found examples of colleges that involved governors fully in the choices to be made about fees, and the monitoring of outcomes. However, for others it seems an area where a sharper focus might pay dividends. Fee policy proposals coming before governors should be costed, contrasting the receipts that would follow from full fee earnings against what is actually received, to understand the value of the concessions made. Alternative ways to use this resource to widen opportunity might form part of policy discussion. And governors should be kept aware throughout the year of the match between received and predicted fee income.

Working with staff

6.6 The issue of delegation raised in paragraph 4.20 must be borne in mind in implementing any new fee policy effectively. The problem is an example of the fallacy of composition – what is good for individual parts of the system may not be good for the system as a whole. A college (or a department within a college) can maximise its enrolments by granting low fees – but the system or institution as a whole suffers. Again, a respondent from the field of adult education agreed that, while there is an understanding that the funding comes from three sources – the LSC, the LEA and the learner – this rarely follows through to an idea of lost resources from discretionary fee remission. There is a 'hearts and minds' job to be done if policy shifts. It is suggested that any model fee policy should include examples of effective delegation of fee policy, which at best could show staff who deal with learners at the delivery end the benefits to be gained in increased resources.

Getting the statistics straight

6.7 The report notes the difference between LSC statistics (derived from the ILR) and the college accounts in the size of fee income, deriving from the different information used in each (paragraph 2.6). This was reflected in the telephone interviews, where there was little agreement between what the LSC listed as fee income and the college response. Again, although only three respondents denied any non-LSC remission, a further five claimed to give few concessions, making one wonder why so few colleges have high earnings ratios. There is therefore a case for a brief expert study to look at this area in order to establish the true position of the sector as we start a national drive to raise fee revenues.

Exchanging information

6.8 The NIACE fee survey is an example of the helpful information sharing that could be used to illustrate debates about fee policy. We have noted above that providers would value accurate estimates of their position in the fee league tables, and a fuller understanding of their position in regard to comparable institutions. It is suggested that the AoC and LSC collaborate to secure an annual survey that provides this information. The agreed model of cost accounting for all courses mentioned above would also be helpful – including but not confined to full-cost programmes – and future specifications of MIS software should recognise the need to include this.

Working for coherence

6.9 The report notes the difficulties of establishing rational local fee policy when different levels of subsidy are available from different public bodies and under different initiatives. It is not defensible for the fees required of a given course or learner to vary depending on which government funder or social initiative is behind it. It is suggested that the DfES takes the lead in involving the widest range of providers and government agencies – the European Union (EU), LEAs, Regional Development Agencies (RDAs), Department for Work and Pensions (DWP) and learndirect included – to move towards a joined up policy on post-16 fees.

Price elasticities

6.10 Given the lack of evidence about the sensitiveness of enrolments to fees – and the fact that the level of fee rises proposed by the Skills Strategy is higher than those reported in the research – any consultations on fee methodology should seek to uncover real evidence of price elasticities, rather than collecting unsupported views.

Safeguarding the adult returner

6.11 Paragraph 4.14 referred to the almost universal view that full-time adult students constituted a special case in any fee policy discussion. It was felt that this group was particularly price sensitive – often being comprised of people who were making an already substantial financial sacrifice to reshape their lives. It is suggested that a special study be made to discover who the adult full-timers are, how many of them are within the system, what they study, what they pay at the moment (many will of course remain in national fee-free categories), whether alternative provision²⁹ might meet their needs as well as current programmes, and what would be the cost of any concessions to this particular group.

Designing pilots

6.12 A number of pilots will be used to assess the most effective ways to implement the Skills Strategy proposals. These will be designed to gain information about the effects on both institution and learners. More information on the interplay between fee levels and enrolment should be sought. And, as we have seen earlier, it will be important when considering the effects of policy change to design pilots that distinguish between the effects of current payers being asked to pay more, and current concessionary students being asked to pay for the first time. Pilots should also seek ways to ease administrative issues, such as finding quick ways to identify those eligible and ineligible for the Level 2 entitlement.

Communications

6.13 Care needs to be taken with communications when introducing the fee related elements of the Skills Strategy. The LSC and DfES will need to stress that no challenge is being made to the current fee-free categories. Indeed, the proposals to support new Level 2 learners provide an extension of the fee-free categories currently in place. However, there will be a downside. Providers will face what may be more austere fee targets, and some students will be paying higher fees. The introduction of the new approach therefore needs to take advantage of the wide-ranging consensus in the learning and skills sector, revealed by this research, of the need to raise more money from its clients. It should show how a more realistic approach to fees safeguards the unit of resource, and increases the provider's financial freedom. Effective persuasion should build on the sector's many champions of good practice in fee policy. But not only will providers need to be won over, so will students. There is a great deal of repeat business in FE, with some provision stretching over three or four years; indeed, it may be worth considering the position of students who have started this journey expecting low fees. Above all, there is a need to get clear decisions out early. In order to implement developments in national fees policy in 2005/06, any changes need to be published by January 2005 at the latest to enable providers to prepare their portfolio and marketing plans.

Section 7: Conclusion

Thanks and apologies

7.1 This research report would not have been possible without the unpaid help and time of many very busy people. These include the senior staff in the respondent institutions, which are listed in Annex B, the experts from the national bodies such as LSDA, AoC, and NIACE, and colleagues within the LSC and DfES . My thanks go out to them. Nevertheless, the findings and opinions – and any misunderstandings, errors and omissions – are mine. I hope that participants will recognise that they reflect a balanced summary of often-contradictory views and experiences.

The longest journey starts with a single step

7.2 The report notes a consensus that the learning and skills sector would benefit from raising a higher level of resource from its users. The first step in this policy is contained in the current Skills Strategy debates, but I believe it would be helpful to regard this as the starting point of a longer campaign aiming for providers to increase income from their customer base, and to encourage the idea of partnership in career investment for learners.

Endnotes

¹ Grant Letter 2004-05, 4 December 2003

² *21st Century Skills: Realising Our Potential – Individuals, Employers, Nation*. HMSO Cm 5810 July 2003

³ Note that this is 25 per cent of the base rate. As many courses are weighted to cover the higher costs of equipment or small groups, it is rarely 25 per cent of the total course cost. A minority of providers recognised this in charging fees above the LSC 25 per cent for courses with expensive practical or support costs.

⁴ The national regulations assume the learner will have paid fees in full or not at all: local discretion allows part-remission of fees (for example half-price) as well as complete remission.

⁵ Institutional mission and the typical learners recruited appear to have a marked impact on fee generation.

⁶ For example one inner city college raises 43 per cent of anticipated fee income – but as it works overwhelmingly with disadvantaged students, this comes to just £30,000 out of a £10 million+ budget.

⁷ 2002-3 data (the latest available) indicates that the Learner Support Fund was used to pay £14.9 million of fees.

⁸ *Research into FE Colleges Fee Charging Policy and Practices* by York Consulting for the DfEE Final Report October 2000

⁹ *Fees In Colleges* by Maggie Challis and Keith Pye for the DfES 2003

¹⁰ Two of the finance directors interviewed had recently taken up post – and could therefore give evidence from two colleges.

¹¹ This may not be contradictory. It could be that some elements of the programme – such as professional courses – will withstand higher fees, whereas others – say, recreational – will see fewer enrolments.

¹² See for example *An Evaluation of Mergers in the Further Education Sector: 1996-2000* DfES/LSC report commissioned from University of Warwick ISBN 1 84478 048 1 July 2003

¹³ NIACE fee report, page 11

¹⁴ Hence the interest in 'tariff farming' – that is, adjusting the college portfolio to maximise public funding from a given volume of activity. A number of consultants offer this service, but, whilst attractive to individual providers, it adds nothing to overall sector funds.

¹⁵ The Pye Tait report hints that colleges consciously undertake financial moves – part-time staff, mixed age programming, franchising – in order to pay for their discretionary fee remissions. While organisations are of course obliged to live within their means, this study did not find any evidence of such a considered approach.

- ¹⁶ Apart from a narrow range of 'nice little earners' arising from, for example, new gas or electricity regulations.
- ¹⁷ This may be an area for tidying up. It means that students do not have clear information on course costs – or a financial basis to choose between different providers – when starting a course.
- ¹⁸ apart from adult access courses – see paragraph 4.14
- ¹⁹ Raising fees from 25 per cent to 35 per cent of course costs is a 40 per cent uplift; the examples in the text are of 10 per cent changes.
- ²⁰ or can draw down ESF and SRB money to support subsidised provision. The only college that reported charging full fees for full-time adults had a vast majority of 19+ students who were eligible for fee-free enrolment under national guidelines.
- ²¹ Executive summary paragraphs 27 and 44.
- ²² *Evaluation of Non-schedule 2 pilots* LSDA/NIACE (2000) ISBN 1 85338 6251
- ²³ York Consulting pointed out that 'the phrases 'at the Principal's discretion' and 'particular hardships' ... provide enormous discretion to waive fees for almost any circumstance. This results in a disaggregated approach, with Heads of Department and individual tutors having a strong influence on actions' (executive summary, paragraph 46).
- ²⁴ For example, a number of inner city colleges – currently very focused on a community mission – could cater for their (substantial) local middle class markets.
- ²⁵ This may change with the LSC's introduction of plan-led funding from 2004/05.
- ²⁶ Colleges vary, but a typical pattern in a general FE college would involve a full-time 16-18 prospectus published before Christmas, with an adult version is available in late spring. This implies clear information about fee presumptions for 2005/06 will be needed by January 2005.
- ²⁷ This is an important point. The whole point of the changes is to alter the balance of provision as unskilled learners come forward to take advantage of the Level 2 entitlement, and Level 3 work expands into new priority areas. In other words, to make the sort of changes in provider course portfolios that will require new and different staff skills.
- ²⁸ Perhaps even mathematics following the Smith Report.
- ²⁹ Perhaps modular. One vice principal interestingly responded to the question about effects of fee increases by saying, not that it would deter adult returners, but that it would alter the nature of the provision they took, for example, engaging in more part-time, modular provision.

Annex A: Questionnaire

Section A : College data

1. Name and address of College

College mission statement

2. Respondent and role in organisation, contact details

3. Student data

Full-time students and age breakdown

Part-time students and age breakdown

Short-course students

Does the college have an LEA contract for adult education?

4. Financial facts

LSC Budget 2003/4

Fee income from LSC programmes

Other fee income – size, breakdown by origin

What is the LSC financial rating of the college at most recent review?

5. Course portfolio

Please give details of the percentage of college work: Broken down by programme area

Science and Maths	per cent
Construction	per cent
Eng	per cent
Bus Admin	per cent
ICT	per cent
Retailing	per cent
Hospitality, Sport	per cent
HBT	per cent
Health Social Care	per cent
Visual & Perf Arts	per cent
Humanities	per cent
Eng Lang & Comms	per cent
Foundation	per cent

Broken down by level

Level 1	per cent
Level 2	per cent
Level 3	per cent
Level 4/5	per cent
Other	per cent**

Are you a CoVE, or a member of a CoVE consortium?

Give details

Section B : Fee policy

The questions in this section refer to fees relating to LSC activity, not other income streams (such as overseas students, rent of facilities, commercial full-cost work etc)

6. What proportion of the college population benefits from the obligatory fee-free provisions of the LSC (that is, basic skills, 16 – 18, on relevant income-related benefit)?

7. Do you set an internal fee target as part of your financial planning?

If so, what is it based upon?

8. What is the college policy on fee income? Was it agreed by governors? Senior Management Team?

When was it established?

What proportion of your student intake benefits from a lower fee under the policy of your own college? Do you remit most fees, some fees or few fees? Do you use partial fee remission, or the whole fee?

Does the college allow deferred payment of fees by instalments?

Use of the Learner Support Funds?

Have you made an estimate of the cost of your overall fee policy in lost fees (assuming students who were granted remission instead paid the foregone fee): if so, what is the figure?

Are any reports made to Governors about fee income?

9. Colleges have discretion to charge or not charge fees for students other than the LSC fee-free cohort. What considerations underpin your fee policy for this group?

- Local competition from LSC providers – give details
- Competition from private providers
- Competition from adult education service (is there one?)
- Widening participation
- The need to maximise non-LSC income
- Other (specify)

10. The Skills Strategy proposes to increase the fee assumption for non-priority courses (this is other than full Level 2, basic skills, 16-18 programmes). What, in your view, would be the consequences of increasing student course fees (assuming that other colleges would also raise fees at the same rate)?

- on course enrolments
- on college income

Do you have any evidence to support your views?

- 11. Are there any programmes where you charge a higher amount than the LSC 25 per cent assumed fee? What are they? Why?**

Are there some courses where you suspect the market would bear substantially higher fees?

- 12. Are there any particular programmes where you charge a fee lower than the LSC 25 per cent? Which ones? Why?**

Are there some courses where you suspect that raising fees would result in a substantial decrease in enrolments?

- 13. Have you made any changes to fee levels in recent years? What were the changes and what were the outcomes?**

Section C: Income

- 14. Do you raise income by means other than fees on LSC-funded courses?**

List the income sources and their value

Do they yield a surplus? Is that surplus used for a particular purpose or does it simply go into the income line in the college accounts?

- 15. Colleges often report losing some fee income from bad debts or unpaid instalments. How much do you think you lose from this?**

Section D: Actions

- 16. Do you survey the fee policy of rivals regularly? Private as well as public?**

- 17. How do you think you compare with other comparable colleges in fee income earnings? How do you know?**

Have you undertaken benchmarking of income streams against comparable colleges? What did this reveal?

If you haven't got a clear picture, would it be helpful to know more accurately how your college relates to others in terms of fee income?

- 18. If the financial health of the college depended on raising fee income - how would you do it?**

- 19. The LSC and DfES are keen to ensure that any changes needed for the implementation of the Skills Strategy are not disruptive, and so any policy change may be preceded by a pilot programme. Would you be willing to take part in such a pilot that involved raising course fees for learners outside national priority groups, provided that the LSC maintained your income during the trial period?**

Annex B: Contributors

Thanks for detailed evidence from

Association of Colleges

Barnsley College

Broxtowe College

Buckinghamshire Adult Education

Cambridge Regional College

Capel Manor College

Chichester College of Arts and Technology

City College, Coventry

City of Westminster College

Derby College

Ealing Hammersmith and West London College

East Riding College

Eastleigh College

Huddersfield Technical College

Matthew Boulton College

Merton College

National Institute for Adult and Continuing Education

North Warwickshire and Hinckley College

Rotherham College of Arts and Technology

City of Sunderland College

Surrey Adult Education Service

Thurrock and Basildon College

Totton College

Wakefield LEA Adult Education Service

And informal evidence from other colleagues

I also consulted Trevor Tucknutt and Chris Pocock at the DfES, Geoff Daniels, John Bolt and Pam Vaughan of the LSC, Julian Gravatt of the AOC, Mick Fletcher of LSDA and Annie Merton and Garrick Fincham of NIACE.

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