

Fees and Commercial Income – Good Practice and Other Key issues

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Leading learning and skills

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1. Introduction

This report is based on a series of interviews carried out with further education colleges in November and December 2007. The purpose of the research was to provide LSC with practical examples of how colleges are responding to the requirement to collect an increasing proportion of their income from course fees.

2. A total of 24 colleges were interviewed, covering all LSC regions in England. The selected colleges either had an above average track record of collecting fee income or had a substantial full cost operation. Some of the institutions had also significantly improved their fee performance in the past few years. The colleges were a mixed sample of institutions in terms of deprivation profile of learners, geographical location, urban/rural communities served and institution type. Approximately half of the colleges had participated in a related research project carried out in 2006 (*The Impact of Fees Policies on Recruitment to LSC Funded Provision*) and this gave the research team the opportunity to discuss progress since this date.
3. In most cases the interviewers spoke with a Principal, Vice Principal or Finance Director. While they were usually able to describe fee policy and its impact in general terms they often did not have detailed figures to hand and more detailed information sometimes had to be emailed at a later date.
4. The interviews coincided with the publication of *Better Skills, Better Jobs, Better Lives*, the LSCs Annual Statement of Priorities for 2008/09. This document sets out the LSCs expectations for income generation and fee collection in the years ahead. The publication recognised that the FE system had responded positively to the LSCs fees policy and has made progress towards implementing new fee structures. However, it urged the sector to redouble its efforts to increase privately funded learning and pointed out that more income from fees and full cost activity was essential if colleges were to maintain and expand their capacity to deliver a comprehensive range of adult learning opportunities in every locality. In particular the document encouraged providers to be bold in setting fee levels and asked them to take a longer term view of learner responses, rather than making judgements that lead to course closures on the basis of a short term drop in numbers.
5. The issues discussed in the interviews included the college's response to the Annual Statement of Priorities, details of how college adult provision had changed in recent years, details on local fee policy and practice, approaches taken to developing full cost work and evidence related to price elasticity. The research team were particularly keen to uncover good practice and to understand how the best performing colleges had responded to the Government's fee agenda.
6. Following the interviews the experiences of five colleges were written up as detailed case studies. Further discussions took place with these institutions in January 2008 and the text for the case studies was agreed and finalised in February 2008. The case studies give details on how particular providers have responded to the fees



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agenda and illustrate some of the good practice currently taking place in the sector. The institutions involved were City College Coventry, MANCAT, Great Yarmouth College, South Devon College and Wakefield College.

7. The findings outlined in this report highlight the perceptions of a small sample of institutions and are not intended to be representative of the sector. The findings not only illustrate good practice but also document some of the issues of concern for these institutions as they attempt to implement the challenges outlined in the Annual Statement of Priorities.

8. Findings

The majority of colleges that we spoke to were generally supportive of the Government's policy agenda described in *Better Skills, Better Jobs, Better Lives*. A typical view was that there were few surprises in the document and that it represented a continuation of a policy direction first outlined in the Skills Strategy in 2003.

9. The new demand-led funding methodology, to be introduced in September 2008, identifies two different funding models for adult provision based on whether individuals or employers were the key customer; the *employer responsive funding model* and the *adult responsive funding model*. The employer responsive model includes Train to Gain, adult apprenticeships and NVQs delivered in the workplace, with sector skills councils playing a key role in articulating employer skills needs. The potential for developing fee/full cost income and the processes for collecting this income tends to be different for the two target markets of employer responsive provision and adult responsive provision.

10. Adult Responsive Provision

The Annual Statement of Priorities restated the policy goal of moving towards a 50% fee contribution for co-funded learners by 2010/11. The fee assumption (the percentage of national base rate that the LSC assumes will be collected in fees) has already increased from 25% in 2004/05 to 37.5% in 2007/08, equivalent to a rise in course fees over the period of more than 60%. However, analysis of national data has shown that many colleges across the country are collecting substantially less in course fees than the fee assumption suggests.



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11. One college that we spoke to introduced a 50% fee contribution in 2006/07 (several years ahead of the Government's schedule) and found that this had had minimal impact on recruitment and that total fee income had increased. The college believed that its reputation for high quality meant that learners were willing to pay the increased fee because of the perceived benefits of studying at their institution compared to studying at other institutions. The college increased the size of its learner support fund in order to help learners on low income who might struggle to pay the additional course fee. However, in practice very few learners applied for this support.
12. Previous research identified a range of factors that affect whether learners are likely to be sensitive to fee increases on particular courses. Courses that are essential for career progression or for getting a job, for example, tend to be less price sensitive than leisure courses. In addition courses that serve a specialist or niche market, are likely to withstand price increases better than general adult provision, particularly where there is significant local competition. However, the results from the current study suggest that price sensitivity can be heavily influenced by the action of providers themselves. The best performing providers attempt to understand what potential learners value and are looking at ways of communicating the benefits of learning or adding value to existing products. This is frequently done at departmental level but is often not implemented systematically across the institution.
13. Moving courses from LSC funded directly to full cost often involved a very large fee increase (more than 200% in one instance) and in many cases recruitment fell sharply (very short courses frequently came into this category). This is perhaps unsurprising (particular if there had been no change in the product) as people felt aggrieved at the scale of the increase. In many cases these courses failed to recruit and the provision was cancelled. In some instances we were told that private providers were now delivering these courses (e.g. health and safety, first aid) because they had lower unit costs.
14. One college that we spoke to, however, had successfully moved adult leisure type courses from LSC funded to full cost. This was achieved by rebranding the service that they offered, targeting a different market. The adult courses were deliberately marketed at a younger and more affluent audience and the lifestyle benefits of the programme were promoted via employers and health, leisure and retail centres. Despite an initial drop in numbers the courses are now thriving and new subject areas are being introduced.
15. Another college had radically changed its organisational structure and business strategy in order to meet the needs of different adult markets. The planning process for this change started with an in-depth brainstorming session for the senior management team, facilitated by businesses guru's from the commercial sector. The Principal was keen to explore new ways of doing things and bringing in help from outside of the sector was seen as essential. The college decided to focus on three different adult market segments – employed adults, community development and general adult courses. The third segment was deliberately targeted at the affluent



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middle classes (using detailed postcode analysis) and premium prices were charged for courses. The fee income from this provision was then used to invest in and subsidise community courses in the more deprived areas of the town.

16. In some colleges marketing departments provide curriculum teams with information on the fees charged by local competitors. This process can be particularly useful if it encourages teams to examine their unique selling points and to think of ways in which they can increase the benefits of their own products compared to their competitors - allowing colleges to charge a high fee whilst maintaining recruitment levels.
17. Many colleges that we spoke to felt that individuals and employers are not fully aware of the true costs of adult learning. At one college, for example, numbers on a dental nursing course had fallen following recent fee increases and the low numbers meant that the course was no longer viable. However, when the employer discovered that the course was about to be cancelled they contacted the college and asked for an urgent meeting with senior managers. At the meeting the college explained what the provision actually costs to deliver and as a result the employer was more than happy to pay a higher fee in order to secure the future of the provision. The employer explained that individuals normally paid their own fee and that this was later reimbursed by the employer, up to a fixed limit, so they were not always aware of the impact of fee increases on learners. The employer welcomed the closer dialogue with the college and looked forward to working closely with the college in the future.
18. Another college plans to publish the full unsubsidised cost of courses in the prospectus. The college believes that it is important to publish the full cost of courses (even though the majority of learners receive a Government subsidy) because individuals often make a sub-conscious link between price and value. In particular the public tend to associate low cost products with poor quality.
19. A number of colleges had taken specific actions to improve the perceived value and hence the fee income potential of their programmes. One college for example thought that extended and flexible delivery hours were important in order to meet the needs of its customers. Another college had changed the delivery pattern of its Construction courses from year-long courses to 10 week blocks charged at £300 a time. Yet another college was developing a virtual learning environment that, they felt, could add significant value to existing courses.
20. Many colleges believed that flexible payment methods were important in attracting students (provided that tuition fees exceeded a certain level, such as £100), as the initial upfront fee was normally more crucial for enrolment decisions than the overall cost. One college felt that in some subject areas there were specific 'price points' that were psychologically important and if fees breached these levels recruitment might fall substantially. Adopting different payment methods was a good way, they felt, of increasing fee income whilst avoiding these 'price points'.



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21. As previously mentioned subject specialisms and niche markets offer good opportunities for premium pricing. Land based colleges have considerable experience, for example, of offering specialist courses such as chainsaw operation at a high fee. The Principal of a land based college said that, in her opinion, colleges should look carefully at their current curriculum offer and decide what they could do to better exploit existing expertise, before starting to develop new areas that might require considerable investment.
- 22. Changes in Adult Provision**
- The colleges that we spoke to had all seen large falls in LSC funded adult learners in recent years. Whilst the largest falls had been on short courses there had still been significant declines in total learning volume, with an average decline in full time equivalent numbers of almost 20% over the last three years. There was considerable variation, however, across the sample with one college seeing a decline of 42% in full time equivalent numbers, whilst another saw a decline of only 5%.
23. The colleges felt that the main reason for the decline in adult learner numbers was the changing Government funding priorities for adult learning. This view is consistent with previous research findings. Colleges told us that their provision had shifted in focus towards the Government priorities of Skills for Life and Full Level 2 and within a limited adult budget this meant that other types of courses had to be cut.
24. The types of LSC funded adult courses that had seen the largest falls in recruitment or had disappeared included;
- short courses (health and safety, first aid etc.)
 - franchising & partnership work
 - 'other' provision
 - adult LDD work
 - IT courses in the community
 - Level 4 professional courses
 - general adult leisure type qualifications
 - distance learning programmes
 - programmes delivered at community learning venues
25. Some areas of adult work have been expanding (such as Foundation Degrees, Apprenticeships, Train to Gain and full cost work) and some colleges felt that the current adult provision was much more coherent and vocationally focused than in the past. One college believed that the average age of learners had fallen and some others were concerned that individuals on low income might find it difficult to access learning.
26. Colleges were unclear about how adult learner numbers might change in the future and felt that this was largely dependent on LSC funding allocations. However, many colleges believed that the dramatic falls in recent years would not be repeated and that numbers had now largely 'bottomed-out'. In some colleges LSC funded adult



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provision was now primarily focused around Government priority areas plus Level 1 provision that was felt to be important for progression to Level 2.

27. Developing full cost provision is starting to become a more important focus for colleges than collecting fees from LSC funded courses. This is partly because of the decline in the number of LSC funded learners who are eligible to pay fees and also because of the move towards a 50% fee assumption (the potential loss in LSC income of moving to full cost is much less significant than in the past).

28. A small number of colleges felt that LSC funding rules penalised colleges who had a good record of collecting fees. Until recently, for example, one college had charged young adults on a full Level 3 programme almost £900 a year. The introduction of the level 3 entitlement meant that these learners were now eligible for free tuition. However, fixed LSC budgets meant that the college was not reimbursed for this lost income and as a result the college suffered a financial penalty of around £90,000. Other colleges reported lost income on first Full Level 2 courses, even though employers were willing to pay a fee.

29. Employer Responsive Provision

Many of the providers that we spoke to saw the expansion of Train to Gain as an enormous opportunity. Although free full Level 2 and Skills for Life courses provided only a small margin, the potential spin-off benefits in terms of employer engagement and full cost activity meant that rapid growth in Train to Gain activity was a major strategic priority.

30. One college, for example, had developed a successful Train to Gain operation with a local employer, a world leader in the logistics industry. This had led to premium fee and full cost courses in management, leadership and health and safety with the same company and an expansion of their training operation into other logistics companies.



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31. A number of colleges were expanding their employer engagement operations in order to respond effectively to the opportunities of Train to Gain, demand-led funding and commercial income generation. This development was often built on existing links with employers and areas of particular specialism (including CoVEs). A couple of colleges were part of the Action for Business College network and saw this initiative as a good foundation for future development. A couple of colleges had recently gained accreditation under the New Standard and most of the others were looking to achieve this in the near future.
32. Many colleges were actively recruiting sales staff with commercial experience outside of the learning and skills sector. These colleges recognised that setting up and managing contracts with employers required specific skills sets that were not available within academic staff teams. In particular properly trained sales staff were better able, they believed, to articulate the business benefits of training to employers and to agree fees and charges related to these business benefits.
33. Most colleges that we spoke to tended to see employer engagement and increasing commercial income as a central and integrated part of the college's organisation structure and did not confine employer engagement to a separate business development unit. One college for example explained how a team of sales staff from a central unit worked closely with commercial development staff from curriculum units. The combination of commercial experience and detailed sector knowledge was seen by the college as an essential feature of their business strategy.
34. A couple of colleges felt that a successful employer engagement strategy required both a bottom-up and a top-down approach within the organisation. Properly trained sales and curriculum staff were required in order to respond rapidly to employer needs and to design and deliver appropriate training programmes. Hands-on senior management involvement however was seen as vital - both in terms of driving forward employer engagement within the organisation and for high level networking and partnership building with external bodies. One college, for example, explained how partnership working had led to a significant growth in business from the local airport. Another college Principal had a deliberate strategy of engaging with larger companies at board level, with a view to developing long term relationships.
35. One college Principal told us that it was important to have the courage to innovate and take risks. This was much easier, she said, for an established and successful Principal than for one new in post. This college had recently developed a new mission which was about 'reach' rather than 'delivery' and had actively sought partnerships with a number of private training providers in order to deliver a massive expansion in Train to Gain and other commercial activity. A key risk for the college was that it might be hard to control the quality of its partners and its strong reputation, developed over many years, might be damaged. However, the Principal explained that doing nothing was not an option and that once risks were identified actions could be put in place to address them. Whilst in her mind the potential benefits of delivering the



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strategy far outweighed the potential risks, she felt that a new Principal may have taken a more cautious approach.

36. Another college gave examples of how the Principal had encouraged innovation and risk taking in the organisation by supporting the enthusiasm of curriculum staff in developing a number of niche market specialisms. A thriving motor vehicle department, for example, had recently expanded into aeronautical engineering and had recruited specialist staff in this area. The culture had developed partly as a result of a long standing experience of delivering full cost work for the offshore industry. Previous success with employer engagement and the delivery of full cost work had had a very positive impact in raising the self confidence of the organisation and in encouraging future innovation.
37. A large college that we spoke to had recently made significant investment in front-end and back-end services and thought that this was an essential part of their employer engagement strategy. This investment included a call centre to handle and route enquiries and a sophisticated customer relationship management database to log and monitor client contact. The college felt that effective employer engagement required changes in approach across the whole institution (including business support staff) and not just with delivery and sales staff.
38. The interviews with colleges uncovered a great deal of good practice with respect to employer engagement. In addition many colleges that we spoke to were implementing organisational structures and processes that they hoped would lead to improved employer engagement in the future. However, this focus on employer engagement did not necessarily lead to significant increases in commercial income. This disparity was summed up by one college who said that the task was enormously difficult and would take time to realise.
39. Previous research studies found that many colleges believed that LSC policies, and Train to Gain in particular, sent confusing messages to employers and undercut their attempts to sell a higher fees policy. This was also strongly felt by some colleges interviewed in the latest study. In a couple of colleges this problem was partly overcome by quoting a single fixed price for a package of training, which in practice included a mix of free, LSC subsidised and full cost provision.
40. A number of colleges said that there was a long standing expectation amongst their local employers that training would be free or subsidised and some felt that schemes such as Train to Gain reinforced this impression. Other colleges, however, said that the level of course fees was not a significant issue for employers provided that quality was high and that the employer understood the business benefits of training.
41. In practice employer attitudes to fees seems to vary significantly within a single locality, depending on the sector, size of company and the business performance of the organisation. Most colleges took into account some of these complexities, although there was little evidence of detailed and systematic market based pricing



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even for full cost work. One college had received a lot of very useful local market intelligence as a result of partnership working and this information had enabled them to act more effectively when developing business opportunities.

42. There were mixed views on the relationship between size of company and their attitudes to fees. One college reported that large companies were less likely to pay higher fees because they were often very aware of previous prices and had the capacity to switch to alternative providers. Other colleges felt that their local community was dominated by small and medium sized enterprises who were reluctant to pay higher fees. In practice, other factors appear to be more important than company size.
43. Some of the colleges we spoke to served deprived communities where there appeared to be few opportunities to generate commercial income from employer fees. However, one of these college had taken a proactive stance in supporting new start up companies, by establishing a business incubator unit in partnership with the local council. The Principal felt that there would be substantial long term benefits from this initiative for the college, as well as significant benefits for the companies concerned and the local community.

44. Conclusions

The findings from the survey give a useful overview of the challenges facing providers and some of the approaches that they have taken in order to increase fee income. Within the sample there were a wide range of views and attitudes and many colleges felt that the task was complex and that it would be difficult to make significant improvements in a short period of time. However, there appears to be a number of key features that mark out the best performing colleges.

45. Senior managers at the best performing institutions seemed to understand how the learning and skills sector was changing, were positive about these changes and were proactively trying to seize the opportunities that these changes brought. The potential (and often unquantifiable) risks that may lay ahead were not a reason for inaction. Very often the best institutions had a clear vision on where they were going, which made implementing change easier and more effective.
46. Encouraging innovation and an entrepreneurial attitude at departmental level also appeared to be important. If fee levels are imposed centrally at the national fee assumption, specific exceptions (such as Access courses for example) will mean that total fees collected across the institution will probably be considerably less than the theoretical amount expected. However, if fees are agreed with curriculum managers on a course by course basis then opportunities for premium pricing, branding etc, start to emerge and fee policy can be more closely integrated with a curriculum and financial strategy. With this approach many courses fees will be above the level suggested by the national fee assumption, but local judgements will take into account the possible impact on recruitment and overall income. In many colleges these types of discussions are already taking place but tend to rely on local experience. Sector-



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wide support for implementing effective pricing strategies would be beneficial. This analysis needs to be linked to the setting of effective fee income targets and the development of actions plans in order to achieve these targets.

47. Most colleges in the sector do not currently feel that fee policies are a central and important part of their overall organisational strategy largely because fee income is a small fraction of their total income. However, there are signs that this is starting to change. The introduction of demand led funding means that Government funds are less secure and additional commercial income can provide an important degree of stability for an institution. Also the rise in the fee assumption to 50% means that colleges now stand to gain more financially from fee increases and have a greater incentive to move provision to *full cost* (we feel that the term *full cost* would be better replaced, in fact, by the term *commercial pricing* as this emphasises the true market value of the product rather than the cost to the supplier). The Principal of one of the colleges that we spoke to said that there was no contradiction between being commercial and being inclusive – in fact the two were part of the same picture. Increasing fee income clearly indicates that individuals and employers place a high value on the courses that are offered and also provides additional resources to invest in wider community engagement.



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