THE
FURTHER
EDUCATION
FUNDING
COUNCIL

Costs of Franchising and Direct Provision

Executive Summary of the Report by KPMG, Commissioned by the Further Education Funding Council

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KPMG Study of the Costs of Franchised Provision

The KPMG study was in two phases:

- phase 1 compared, for a number of qualifications in a sample of colleges, the cost of providing them directly and by franchising. It concluded that on average franchising costs were lower by around 37%
- phase 2 collected additional franchising cost information. It concluded that costs for each funding unit delivered were around 45% of the convergence ALF for 1998-99 of £16.20. On the basis of phase 1, it was reasonable to assume that mode of delivery was the main reason for lower costs and so the results of phase 2, based on more extensive data, confirmed the cost differential found in phase 1.

The two executive summaries attached relate to the two phases of the study.

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Analysis of the Relative Costs of Direct and Collaborative Provision

CONTEXT

1 Significant problems were experienced in obtaining responses from the sampled colleges. From an original sample of three qualifications from each of 25 colleges, the findings in this report are based upon responses totalling 33 qualifications from 13 colleges. However, our findings support a number of trends which this report highlights and which will need to be considered in the light of the reduced sample size.

2 Discussions with college representatives held as part of the cost collection exercise revealed a number of qualitative issues surrounding the wider issues relating to CP and specific local circumstances which were brought to our attention. We have identified such issues as an integral element of this report as they may have a significant impact upon any conclusions drawn from the data analysis.

3 Our study has identified the following key findings which are detailed in section 3 of the report.

Quantitative Issues

As indicated in figures 1 and 2, the data analysis indicates a consistently lower average cost of delivery by means of collaborative provision (CP) compared to provision delivered directly (DIR) by colleges for all qualifications within the sample and each of the qualification groupings selected. The data analysis indicated that 29 of the 33 qualifications for which data was utilised reflected this trend.

Figure 1. Cost comparison of CP and DIR delivery for all qualifications

Cost per Unit		
All Qualifications		
CP Delivery £	***DIR*** £	***Variance*** %
11.81	18.76	37.05

Figure 2. Cost comparison of CP and DIR delivery by qualification grouping

Cost per Unit											
CLAIT			***Short Courses***			***A Levels***			***Other***		
CP £	*DIR* £	*VAR* %	*CP* £	*DIR* £	*VAR* %	*CP* £	*DIR* £	*VAR* %	*CP* £	*DIR* £	*VAR* %
11	19	42	12	18	32	12	21	43	12	18	33

Note: variance calculated by comparing the difference between the two average unit costs with the average unit cost of direct delivery for each qualification grouping

- there is no apparent correlation between the levels of achievement or retention when considering CP and courses delivered directly by colleges
- there is no significant difference between the average group sizes for the two modes of delivery
- there does not appear to be any correlation between the amounts paid to CP partners and the 1995-96 funding position of the individual colleges compared to their FEFC funding target
- different tuition fee and examination fee policies are in place across institutions. In a number of instances, CP partners collect and retain tuition fee income
- the study considers the costs incurred directly by institutions, including the amount paid to the collaborative partner. It was not possible to identify the extent of expenditure incurred by the collaborative partners themselves in delivering the provision and how this expenditure compared to the amount paid over by the institution.

Qualitative Issues

- the sector places significant emphasis upon CP to meet strategic objectives relating to widening participation and collaborative arrangements, both historic and newly developed, to provide education to students whom they feel would otherwise not receive such education through its normal direct provision
- based upon our discussions with colleges as part of this study and our knowledge of the sector, we are aware that, generally,

the sector has become more commercially aware in relation to CP contracts. There appears to have been a significant shift in relation to CP contracts from the 1995-96 data upon which our study was based

- the findings resulting from the data analysis of individual courses in isolation may be distorted in cases where a portfolio of courses are provided by the same CP partner
- there are significant variations as to the definition of CP. Any changes to the funding mechanism would need to incorporate a tightening of the definition of what constitutes CP, particularly in the context of new modes of delivery and innovative arrangements being developed by colleges to continue with current provision in a different manner and, in doing so, meeting the requirements of the current definition
- limited cost data is maintained within colleges at the detailed level required for the purposes of this study. In the most severe cases, direct staffing costs could not be identified in relation to individual courses.

SETTING THE CONVERGENCE OBJECTIVE LEVEL FOR EXTERNAL INSTITUTIONS

4 The problems experienced in collating data, and, in particular, the lack of robust data, were even more severe for this element of the study. The number of responses which were deemed adequately robust to utilise for data analysis equated to 20 questionnaires received from 8 institutions.

Quantitative Issues

- LEA-maintained external institutions are subject to wide variations and arrangements in terms of the internal recharging mechanisms of indirect costs adopted by local authorities
- our data analysis exercise indicates that the cost of provision at LEA-maintained external institutions is less costly than at other external institutions
- the direct staffing cost per hour is, on average, more than 30% less for other external institutions compared to LEA-maintained external institutions, which, in turn, is a further 14% less than the average for colleges
- there is no consistent fee policy across external institutions
- group sizes for external institutions are not dissimilar to other group sizes although the average group size for other external institutions is lower than that LEA-maintained external institutions
- retention rates at external institutions are not generally dissimilar to comparative qualification groupings delivered directly by colleges although there is a slight variation in relation to achievement rates.

Qualitative Issues

- discussions with external institutions indicated a strong view that they offered provision to students who were not otherwise likely to access further education through more mainstream provision
- the management information was consistently very poor.

Additional Franchising Cost Information

CONTEXT

5 Whilst the exercise has been conducted using a consistent approach to considering the overall costs associated with CP, we would highlight that the following factors should be taken into account when considering the results below.

- data has been collected for the teaching year 1997-98 and has therefore been based upon unaudited forecast outturns for each institution. As a result the outturn results could be different from those used as a basis for costing
- whilst we have attempted to follow up unusual and outlying data to ensure its appropriateness, the exercise we have undertaken has essentially been one of collection and analysis and not validation
- the data has been collected in the first year following the removal of the 'super demand-led element' ('Super DLE') and in a transitional year in respect of the funding tariff for certain types of provision delivered through this route. Further tariff changes are being introduced for 1998-99 in respect of dedicated employer-based provision and short course provision which may impact upon the overall profile and cost of this type of provision in future years. In addition, a number of participants indicated they had or were in the process of 'converting' their CP into direct delivery
- cost information in respect of CP has been compared against the sector's convergence objective (£16.20 per unit) and not against the comparative cost of providing similar programmes through direct delivery methods. This was essentially the subject of the original costing study. As a result, because of the wide scope of provision being delivered through CP, it is not possible to determine in this exercise whether it is the method of delivery (that is, CP) which has resulted in a low cost per unit compared with £16.20 per unit, or whether the tariff for the qualifications in question is too high irrespective of the delivery method used (direct or CP), or a mixture of both. (The apparent cost per unit can be influenced by a number of factors including retention rates, group sizes and achievement rates)

  However, the results of the first comparative cost study indicated that, based upon a sample of 33 qualifications delivered by both CP and direct delivery, CP delivery cost less than direct delivery of the provision by an average of 37%. There was no apparent correlation between the delivery mode and the key cost drivers (group size, achievement rates and retention rates). As a result, it would seem reasonable that the delivery method is the major influencer of the cost of these programmes as opposed to the individual qualifications themselves
- the study considers the costs incurred directly by institutions, including the amount paid to the collaborative partner. It was not possible to identify the extent of expenditure incurred by the collaborative partners themselves in delivering the provision and how this expenditure compared to the amount paid over by the institution
- the study has only considered institutions whose activities include a substantial proportion of collaborative provision although a large number of institutions within the sector undertake a limited amount of provision delivered in this manner. Although no analysis has been undertaken, it is possible that the costs incurred by colleges with smaller levels of CP provision are proportionally higher than those within the sample. (For example, institutions would incur a similar level of certain costs in complying with FEFC Circular 96/06 and Circular 96/32, irrespective of the volume of activity (legal advice and so on) and for other costs such as designing stationery for the collaborative process, marketing and so on)

- the participating colleges highlighted several other issues in respect of CP which the Council may also wish to consider in evaluating any alternative funding level for this type of provision. These are set out in section 3.1 of the main report.

KEY FINDINGS

6 Table 1 highlights the following:

- the basis of averaging the data returned, including or excluding volume (activity) considerations has minimal effect
- the range of data received from institutions generally falls within a £2 per unit range of the average
- in the sample selected, CP activity consistently costs less than the sector convergence target of £16.20 by an average of 43%. (37% average figure for the earlier study based on 1995-96 data).

Table 1. Franchising activity

1997-98	*Global average (accounts for volume of activity)**	*Average across institutions†*	*10th percentile*	*90th percentile*
Number of units (000s)	2,850	140	n/a	n/a
Average payment/unit (£) to collaborative partners	£5.16	£5.38	£3.50	£6.50
Net cost per unit‡£	£8.70	£9.20	£6.97	£12.71
Average level of funding of institutions (£/unit)	£15.60	£15.60	£15.60	£15.60
FEFC convergence target (£/unit)	£16.20	£16.20	£16.20	£16.20
% difference in net cost compared to ALF of participating institutions	44%	41%	55%	19%
% difference in net cost compared to £16.20	46%	43%	57%	22%

Notes:

* *the global figures are calculated by effectively viewing all data as relating to one college and therefore the global average takes account of volume of activity within each participant*

† *the average figures are calculated by considering the results for each institution as a separate return and therefore volume factors are effectively ignored*

‡ *Net cost per unit represents total costs identified by the institutions in providing the provision (including payments to partners) less any other income received by the institution in respect of the provision and is based upon all 21 questionnaire returns*

The ALFs of the institutions have been crosschecked against Council data

7 More generally, the types of cost included within institution returns appears reasonable, given the activities being undertaken. The quantum of each cost type has not been checked or validated within each institution back to source records though an overview of the returns as a whole has been taken. Cost profiles which looked unusual have been followed up through discussion and amended in a number of instances. However, as is the case with the earlier study, institutions did not have costing systems and models in place to readily produce the required information and therefore there has been a degree of apportionment and estimation in completing the returns.

8 In the sample selected there does not appear to be a significant difference in the amounts paid to different providers or for different types of provision though community-based provision payments were generally higher than for employer-based provision.

9 The sample comprises those institutions which have, or did have, significant levels of collaborative provision and therefore their cost structure for delivering this type of activity may benefit to a degree from economies of scale and also from longer standing provider relationships (based on DLE) than for many other institutions involved in these activities within the sector. Therefore, it may be that the cost per unit for other institutions could be higher than those within the sample.

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