RESEARCH

Snapshot Survey of College Fee Changes and Impact for 2006/07

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RCU Market Research

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CONTENTS

1. Introduction

This report is based on a short survey of further education colleges carried out by RCU in August 2006. The purpose was to provide DfES with an early indication of the nature, scale and range of changes being introduced in fee policy by FE colleges in 2006/07. The development of full cost provision was of particular interest.

2. An introductory letter and survey form was posted to an agreed sample of 54 colleges on 4th August. The colleges were then contacted by telephone to agree a time when a researcher might speak to a senior member of staff. Following the telephone interviews a copy of the completed form was sent to the College for checking and verification.

3. The report is based on an analysis of the 32 returns from colleges received by Thursday 24th August. The returns are not all complete as respondents were not always able to answer all questions over the phone, and in some cases did not provide full details when followed up. The percentages quoted in the report therefore relate to the numbers answering the specific question rather than the whole sample; so if 17 out of the 24 respondents answering a question said X it is shown as 17/24.

4. The gaps in the data can reasonably be attributed to the short notice and staff absence at this time of year. The researchers encountered no resistance to providing the evidence but considerable difficulty in reaching the right people. It is also the case that some questions asked for ratios that were not normally used by college staff.

5. The colleges in this sample are not skewed towards any part of the country though there are none from the south west. They represent a range of sizes and locations, and there appears to be no link between college type or location and their responses. For example, while some colleges raised concerns about the social impact of changes they were not confined to stereotypically poor areas.

6. 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 frequently did not have detailed figures to hand and the survey forms had to be emailed to colleges for completion. The difficulty experienced by many senior staff in, for example, identifying their fee income target for the current year, suggests that fee policy is still not a major pre-occupation of college managers. Some said as much; colleges with a high proportion of 16-19 year olds particularly highlighted the small proportion of income derived from adult fees.

7. Findings

Few colleges reported changes in their fees policy or practice for 2006/07, other than in the rates and concessions applied (see below). Of those that did, one reported a centralisation of decision-making concerning hardship cases, while another reported a radical devolution of decision-making but linked to tough departmental targets. A third, where decision making was already devolved, had introduced a target for Heads of Department to reduce their concessions by 20%.

8. Three colleges (9%) reported changed policy on payment by instalments. One had stopped the arrangement because of increasing numbers of defaulters, while another had decided not to accept credit cards but allow debit cards for the same reason. The third was introducing direct debits as a response to increased demand for phased payment and had got its governors to agree that defaulters should be pursued through the courts. Several colleges referred to the difficulty of enforcing payment if a student defaulted, one asking rhetorically whether DfES really wanted large numbers of students to be pursued through the County Courts

9. One college had asked departments to limit the number of enrolments on each course by students eligible for LSC fee remission. The thinking appeared to be that if total LSC funding is capped then more provision can be supported where a substantial number of learners pay fees.

10. In terms of fee increases the most frequent response (26/31or 83%) was that the college based its fees on the LSC fee assumption; well over half of this group said it had been their practice since before 05/06, and almost all the others said they had adopted the 27.5% assumption in that year. One college stated that it had only fully adopted LSC implied rates from 06/07.

11. College adoption of LSC rates was however often qualified in that colleges usually quote fees in bands (eg 21-40 hours - £90) to simplify arrangements. Some said that their fees rates *on average* reflected the LSC fee assumption allowing some response to market forces, or for fees to be differentiated between departments. The care sector was said to be reluctant to accept the LSC implied rates whereas the business and finance sector could often be charged more.

12. Most colleges (17/25) explained their changes in terms of the need to respond to LSC policy. A slightly smaller number (14) referred to the need to generate income, with seven mentioning both. It seemed clear to the researchers that the fee policies of DfES and LSC are well understood by colleges, and most are moving actively to implement them.

13. The most frequent reasons given for continuing departure from the implied rates concerned the need to move cautiously particularly when starting from a low fee base. Almost all of those charging less than the LSC assumption described themselves as

moving more slowly towards the LSC targets rather than describing a different destination. One college however described itself as having moved away from thinking in terms of percentages, working instead in terms of cash targets.

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14. In general the fee increases in 06/07 were higher than in 05/06 with a mode of 18%: the probable unweighted mean figure seemed to be around 15%, well above the rate of inflation, but less than the combined effect of the increase in base rates and the increased fee assumption. Colleges were generally optimistic that the fee rates they had set were unlikely to cause a significant fall off in demand; some had evidence from early enrolments that confirmed their views.

15. In five cases colleges explicitly stated that they diverged from the LSC fee assumption, in each case charging less though not substantially. In three of the cases they reported experience of resistance to increased fees in 05/06 and had decided to proceed more cautiously towards the LSC target figure. This is around 10% of the sample: if 10% of the sector is experiencing resistance to the fee increases expected by DfES it may sound a note of caution.

16. Most colleges (19/24) were planning to receive increased fee income from LSC courses in 2006/07 though in most cases it was less than the percentage increase in rates. This was attributed in almost all cases to lower numbers of adult learners reflecting a fall in LSC allocations not price elasticity. Two colleges were forecasting a drop in income though two colleges also volunteered that the increase quoted in their plans was unrealistic and reflected LSC pressure. Three were forecasting the same level of fee income.

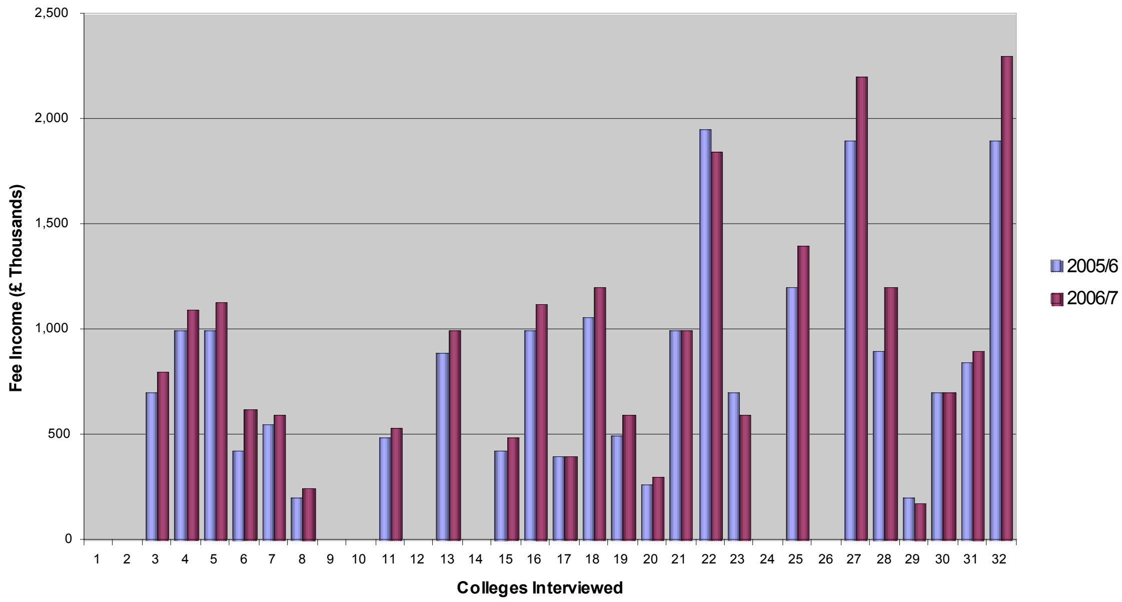
17. It is very difficult to extrapolate from a small sample such as this and any conclusions would have no statistical validity. However to put the changes in context, the arithmetic mean of the fee income targets reported by colleges increased from £842,000 in 05/06 to £936,000 in 06/07. If these 24 colleges are representative of the sector it would imply increased fee income from LSC funded courses of roughly £33 million across the sector. Figure 1 shows the changes in bar chart form.

18. Comparison with administrative data suggests that the college figures should be treated with caution. Many are very rounded and in a couple of cases staff spoke of them as aspirational. In 2004/05 the total fee income collected by the sector was in the region of £156 million or £445,000 per college. Increased rates in 2005/06 would have brought this to no more than £500,000 per college. If rates increase by an average of 15% but total fee income increases by a lesser amount because of reductions in numbers a 10% average increase seems more credible. An average increase of £50,000 per college would result in an increase of £17.5 million for the sector.

19. It should be emphasised that the different levels of income achieved by colleges in the sample are probably attributable more to their relative size and student mix than their assiduity in fee collection or their rates. Colleges explained their targets in these terms and while researchers were not in a position to carry out precise checks it seems true, for

example, that larger colleges have higher targets. There is no simple link between charging high fees to full time students (the main area of divergence) and high fee income targets, if only because full time adult students are often a very small proportion of enrolments.

Figure 1: LSC Fee Income



20. An increase in fee income did not always mean that colleges expected that fees would be an increased proportion of the budget. The sample was broadly split between those anticipating fees would be an increased percentage (10), those that expected a fall (8) and those planning on it staying the same (9). Many colleges highlighted that the fee percentage was a relatively trivial amount of the total budget, particularly where they had high and increasing 16-19 numbers.

21. Four factors are at work here:
    - fees are increasing for those who pay them; we estimate that the average increase is in the region of 15%;
    - some who had locally determined fee concessions will lose them; the major reductions in concessions seem to have been made in 2005/06 however and it is not expected that there will be further significant gains on this account;
    - the number of adult learners is falling as a result of reduced LSC allocations; and also the replacement of very short enrolments by longer courses. This will offset the gain from increased fee rates; and
    - re-prioritisation means that more adult learners fall in LSC fee remission categories. A higher proportion of students will be on Skills for Life or full Level 2 programmes and pay no fees.

22. In some cases colleges said they expected the fee percentage to fall when it appeared to the researchers that their fee income target and total LSC allocation implied it would rise. It may be, as indicated above, that some colleges have quoted a fee income target that satisfies LSC expectations, but is in practice unrealistic. It also seems however that the percentage of income derived from fees is not a statistic which college staff generally use in managing an institution, though one did refer to a commercial benchmarking survey it had commissioned which addressed this specific ratio.

23. In most cases colleges reported that their policy on fee concessions for part time learners did not extend beyond LSC categories (66% or 19 cases) In half of these cases (10) they report that this was the case last year, with nine reporting removing remaining local concessions in 2006/07. Only four colleges reported explicitly that they added to LSC remission categories. Further questioning however often elicited that some exceptions to the general rule remained though these were difficult to categorise or quantify. In two cases for example the over 65s received extra concessions though it was claimed that this did not amount to many individuals.

24. On the other hand most (18) colleges report significant changes in their practice with respect to charging fees to full time students. In 2005/06 three quarters of those reporting (18/24) charged no fee while most others charged token amounts. In 2006/07 only six report that they plan to charge no fees to this group. The overall average increase in 06/07 for the six already charging fees in 05/06 is over 40%. The fees introduced for the first time in 06/07 range from a token £50 to £800 with an unweighted average of £283. Registration and exam fees were often said to be additional to these figures and sums of around £100 were quoted.

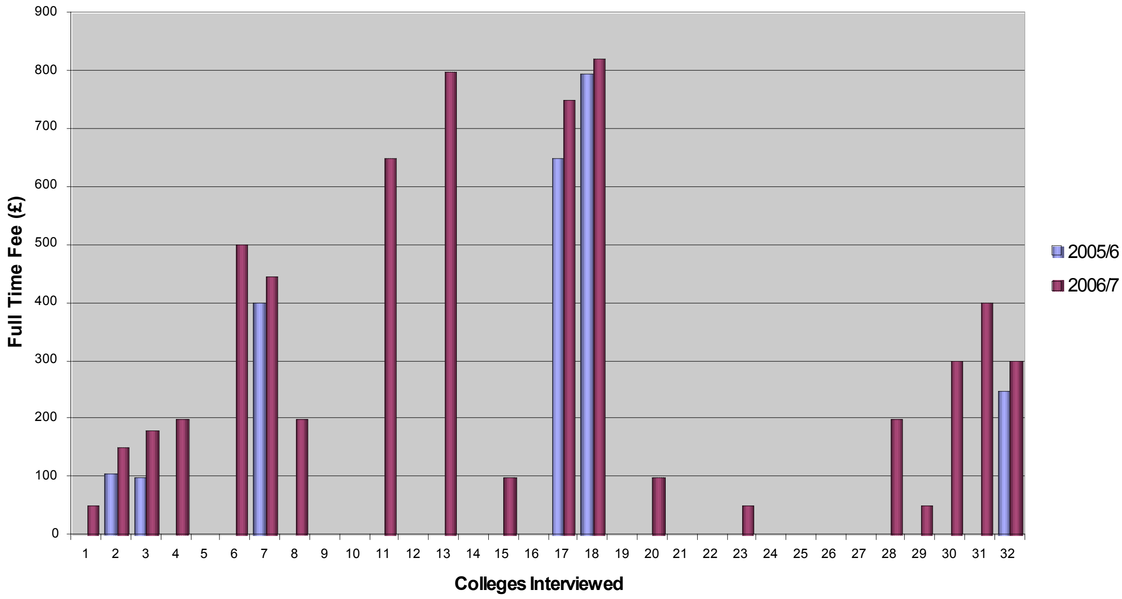
25. One college stated that there had been little reaction to the introduction of a fee of £650 for previously free provision: another justified a similar increase by having identified that over 90% of the students concerned would attract LSC fee remission. Several colleges made the point that the number of adult full timers was very small but equally two London colleges identified their provision as being large, mainly ESOL, and almost all remitted under LSC categories.

26. Charging fees to full time students is the area where colleges most frequently express concern about the impact of government fee policy. Several pointed out that for 19 year olds it would be anomalous to charge fees in 2006/07 when DfES had announced concessions for young adults to be introduced from 2007/08.

27. Figure 2 summarises the pattern of fees charged to full time adult students. The arithmetic mean (including free provision) increases from £92 in 2005/06 to £250 in 2006/07 but the chart gives a better indication of the spread. Increased income from this source is included under LSC fee income. Because of the relatively small number of adults who are full time learners, and the high proportion that are reported to fall in LSC fee remission categories, it is not expected that any substantial increase in sector income will result from some substantial changes in rates.

28. Some highly speculative calculations illustrate the possible impact of the changes. There were, in 2004/05, around 400,000 full time adult learners. If free provision reduces from 75% of colleges to 25% then potentially 300,000 will fall within a fee regime. It is probable that 90% will fall into LSC fee remission categories meaning that 30,000 will be charged an average of £250 bringing in a total of £7.5 million. This figure should have been included by colleges in their fee income forecasts.

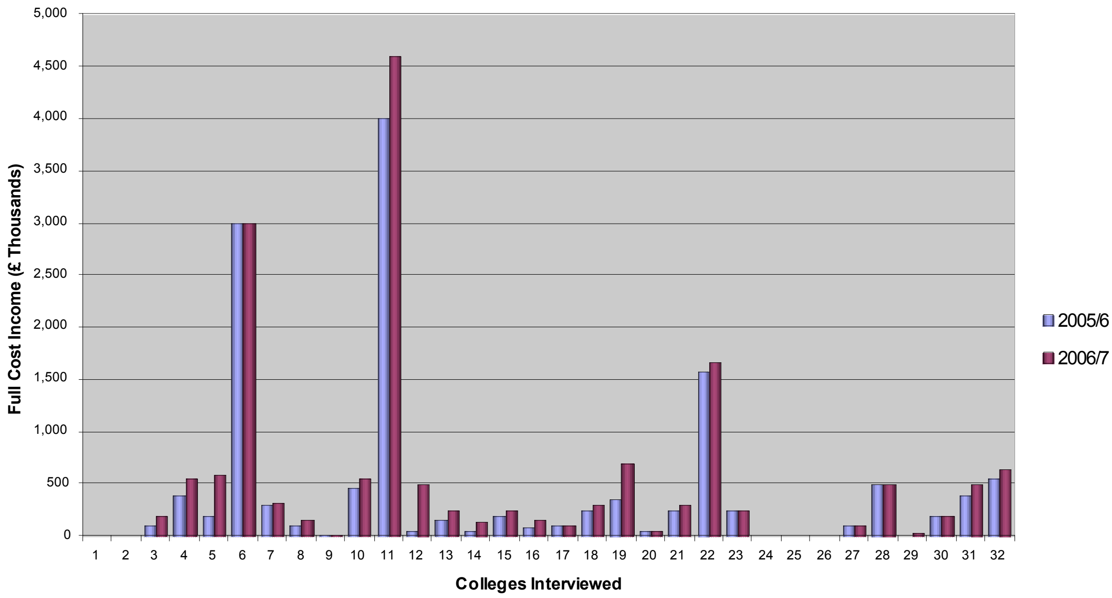
Figure 2: Full Time Student Fees



29. In most cases (24/27) colleges reported that they anticipated growth in full cost income; with two exceptions (where special reasons were quoted) this followed growth in 05/06 as well. The sums involved were relatively small however. Apart from one college which anticipated an increase from £4 million to £4.6 million, and another reporting £3 million the totals quoted were low with a median value of £250,000 and the median increase expected was £50,000. As with LSC fee income figures quoted were often suspiciously rounded and seemed aspirational.

30. Figure 3 shows the levels of income in respect of full cost provision planned for 2005/06 and 2006/07. It is even more difficult to project what these changes might mean at a sector level than for LSC income since the variation between colleges is so substantial. To reduce the two outliers to a level more representative of the others for example would halve the average income. Nevertheless, to indicate the scale, if the 27 colleges here are an exact reflection of the sector the mean income would increase from £508,000 to £617,000 and the income in the sector as a whole might increase by around £38 million. If the median value were taken however the sector increase would be £17.5 million.

Figure 3: Full Cost Income



31. Learner numbers showed a similar pattern of growth though several colleges explained that their figures included consultancy and other forms of support so learner numbers were an imprecise measure. In many cases colleges could not quote a figure for learner numbers as it was not a statistic they used.

32. Some full cost work, and increases in full cost work represented a conversion of activity that was formerly LSC funded. The other major component represented the development of bespoke provision for employers. Where colleges were able to say what was the dominant pattern roughly equal numbers highlighted conversion and the skills agenda, with several mentioning both.

33. Some colleges reported success with converting professional courses such as CIPD and CIMA to a full cost basis. Fees for such programmes were said to be already high. There was less evidence of success in transferring short courses such as Health & Safety from LSC funding and one high earning college reported a setback when a major client withdrew all its staff once full cost fees became payable. There was little evidence of success in transferring IT or Modern Foreign Languages to a full cost regime.

34. It needs to be underlined that the two colleges reporting substantial full cost income were not receiving most of this income for activity that other colleges provided for free. In both cases they had highly specific relationships with an industrial sector that involved the delivery of a range of activities over and above typical FE provision. While no doubt other colleges could, with time, develop similar arrangements, it would almost certainly involve additional ongoing expenditure

35. The LSC grant letter identified that the number of LSC funded adult learners would fall by around 6% or 230,000 in 2006/07 but suggested that this might be offset by an increase in fully funded work. Twelve colleges returned sufficient data to enable a very rough

assessment of how far full cost programmes might contribute to learner numbers though, as several colleges reported, there is no clear link between full cost income and student numbers.

36. The average income per full cost learner in the twelve colleges ranged from £100 per learner (2 cases) to £500 per learner (3 cases) with a weighted average of £186. In the unlikely event that this figure also represents the sector average then an increase in income of £27 million (half way between the projections based on the median and the mean) would represent 145,000 learners or almost two thirds of the shortfall. If the average were £100 then numbers would exceed the anticipated shortfall by some 17%; if it were £500 then full cost work could only contribute 23% of the total. Without more data it is not possible to be more precise.

37. Most colleges (26/31 or 81%%) reported LSC funded adult enrolments as falling in 2006/07, typically by between 10% and 15%. Four reported that the numbers would remain the same and one, in somewhat unusual circumstances, expected growth. This is a much higher percentage reduction than the 6% assumed in the grant letter; if it is representative of the sector it points to a reduction of the order of half a million learners. When asked for reasons almost all referred to reduced allocations rather than price elasticity though in answer to other questions it was clear that in at least three cases colleges had removed substantial subsidy for provision for IT users and seen demand collapse.

38. In all, a quarter of colleges in the sample referred to substantial falls in IT enrolments. Where colleges described specific actions one referred to removing IT out-centres, another to withdrawing a substantial IT franchise and a third to having abandoned adult IT altogether. Colleges reported these changes in a relatively neutral fashion, seeing them as part of a strategic shift towards government priorities and away from a widening participation agenda.

39. There were few examples of specific marketing activity designed to support the new fee agenda. The actions of most colleges might be described as ‘playing a straight bat’ with a couple specifically saying that they had deliberately avoided seeking to pass on blame to DfES. In a couple of other cases however it was clear that colleges did precisely that. Of the three cases where colleges had taken specific actions one had stressed that most provision was still free, while another had, for the first time, printed the full cost of the course in its prospectus along with the fee.

40. One college had introduced a new approach to marketing its work with employers. Rather than quoting the costs of different elements of a programme for their employees, some of which might be free (e.g. full level 2) and others not, the college quoted a single inclusive price. This was felt to be acceptable to the employer but prevented them from cherry picking the free elements.

41. When asked for additional comments the most frequent (12 colleges) was that DfES initiatives such as the level 2 entitlement and Train to Gain gave confused signals to employers, and was difficult to communicate. Four took the opportunity to make further negative comments about Train to Gain. Several of them pointed to what they saw as an anomaly whereby basic skills provision was free and so was Level 2 but Level one courses that might be needed to progress from one to the other were not.

42. Three colleges complained that the DfES had not given a clear lead in explaining to the public why fees were increasing. A couple raised the administrative costs of administering a high fee regime, particularly when it only applied to limited numbers.

43. Several colleges raised the social consequences of a high fee regime, some expressing concern that those on low incomes were in danger of being excluded; others that the increases, taken together with reduced allocations, removed opportunities for which there was still demand. Three colleges voiced more general concerns about the stability of the sector, each highlighting the fact that the ability to repay the costs of much needed capital investment had been predicated on a growth in adult enrolments and LSC funding that would not now materialise.

44. Conclusions

On the basis of this evidence the researchers conclude that colleges are moving steadily to adopt the fee assumptions and fee remission practices assumed by LSC. A minority of colleges have not yet adopted the full rate increases but they all explain this as a matter of timing rather than challenging the destination.

45. The area generating most disquiet in colleges concerns the charging of fees to full time students. Nevertheless practice seems to be changing rapidly from a position in 2005/06 where 75% charged no fees to one where 75% do charge, albeit often at rates below the assumed 32.5%.

46. Fee rates will increase on average by around 15%-18% in 2006/07, a little less than LSC planning assumptions. This will however not produce a commensurate increase in income since it will be partially offset by reduced numbers of adult learners and a changing learner profile.

47. Colleges say that there has as yet been little evidence of price elasticity in adult FE, though where courses have been taken from free to full cost (or even the full subsidised rate) there have been some examples of serious reductions in numbers. IT courses are the clearest example, with four colleges reporting reductions of over 1,000 or 2,000 learners, though short courses, Modern Foreign Languages and courses for the elderly were also quoted.

48. There were reports from a small number of colleges of resistance to the fee increases introduced in 2005/06, and although this is at odds with the findings from earlier research

(Fletcher & Perry 2006) it may indicate the beginning of a trend. Several colleges expressed doubts that fees could be raised beyond 32.5% without significantly impacting on demand and the effects of the 2006/07 increases should be carefully monitored.

49. Almost all colleges see the development of full cost work as a strategic priority (the exceptions being those primarily concerned with 16-19 provision.) Income from this source is projected to increase relatively rapidly, perhaps by 10% in 2006/07, though from a low base. A large part of the increase will come from converting advanced professional courses to full cost and will not easily be repeated. It is unlikely that colleges will be able fully to replace LSC funded very short courses with equivalent volumes of full cost work.

50. Projecting either the increase in income from fees in 2006/07, or trends in learner numbers is very difficult on the basis of such a small sample. If however these colleges are considered to be representative of the sector, and their forecasts are true, there could be an extra £17 million income generated from LSC funded provision and an extra £27 million from full cost work in 2006/07. The full cost work would generate an extra 145,000 learners which would offset around 30% of an anticipated drop of half a million LSC funded enrolments.

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