

Value of Learning in the Adult Market

July 2008

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Value of Learning in the Adult Market



Leading learning and skills

Research Report

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August 2007



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07.108 Final





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Value of Learning in the Adult Market

RCU ref. 07.108

Final



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Contents

Executive Summary

Introduction	1
Policy Context	5
The Research Evidence	14
Elasticity of Demand	18
Provider Perspective on Elasticity of Demand	27
Consumer Views on Fee Paying	33
The Economic Returns for Learning	43
The Value of Adult Learning and Gender	53
The Value of Adult Learning and Age	56
Variations by Geographical Region	60
Issues related to Rural Isolation	62
Additional Provider Perceptions of the Value of Adult Learning	70
Conclusions	77
Recommendation	93
Action Plan	94

Appendix 1 – Selected Bibliography

Appendix 2 – Statistical Analysis of Ipsos-MORI Consumer Survey 2007

Appendix 3 – List of Providers who were interviewed for this Research Study



Executive Summary

Overview

This document reports the findings, conclusions and recommendations of a short project undertaken by RCU for LSC between June and August 2007. The aim was to help LSC understand the actual and potential impact of fee changes in the FE system in the context of the Skills Strategy policy to increase fees for some learners and the Big Skills Campaign.

The study was based on a rapid review of existing literature; on interviews with a sample of 15 FE colleges; on conversations with other stakeholders; on analysis of the ILR and further secondary analysis of survey data plus some statistical modelling.

The literature was drawn from the websites of national agencies and research organisations, from conversations with stakeholders and by following up references in other studies. A total of 17 studies which were viewed as relevant to the topic and of acceptable quality were reviewed. They were all descriptive studies and consisted either of surveys of providers, surveys of the public or analysis of secondary data.

The nature of the samples and the consistency of findings suggest that the studies have a high degree of reliability i.e. another similar study would find much the same things. There are some doubts about their validity in respect of individuals' attitudes i.e. it is not always clear that what people say they would do is based on an understanding of the facts.

The findings from interviews undertaken as part of the study were consistent with what is reported in the literature and with each other. While not a statistically representative sample they were drawn from different regions and social contexts to help minimise bias.

The ILR analysis is based on a substantial dataset and helps interpret some of the data. The modelling exercise was undertaken on the basis of plausible evidence extrapolated from interview data; it could usefully be repeated if firmer evidence eg on elasticity becomes available.

An initial paper setting out findings and interim conclusions was discussed with LSC and DIUS staff at a meeting in July 2007. The paper was subsequently extended in the light of feedback at that meeting and this summary paper prepared for discussion with sector representatives.

Findings

Studies of providers' views and practices focussed in the main on FE colleges with a little about ACL and WBL. They show consistently that colleges are seeking to implement the fees strategy; there is little evidence of hostility to the policy though some colleges are more cautious than others. In the main colleges are implementing the policy because it is LSC policy, not because they believe passionately in it; nor because they have a financial incentive to do so.

Few colleges report a general effect of fee increases on recruitment though for most any effect may be masked by reductions in allocations. Most colleges report some impact on some courses and in some contexts. IT user courses have been sensitive to fees almost everywhere; and leisure courses have been affected more than vocational courses. Several colleges report an initial impact on recruitment with numbers subsequently recovering.

There is considerable variation in the fees charged for a range of common courses; and colleges often feel constrained in setting fees by concerns about what other providers may be charging. Some colleges have managed to maintain recruitment where others have not through a thorough redesign of their offer or presenting fees in different ways.

Most colleges say that other LSC policies, and Train to Gain in particular, send confusing messages to employers and undercut their attempts to sell a higher fees policy. They also consider it important to retain local discretion on fee levels, fee remission and the use of learner support funds, especially in respect of full time learners.

Factors that seem to be associated with increased fee elasticity include leisure courses as opposed to vocational; repeating learners; the existence of competition and the income level of learners. Conversely courses that show least elasticity tend to be at a higher level; those associated with employment or the prospect of self employment, and particularly those that offer a 'licence to practice'.

Most people when asked say that individuals should pay for learning and most indicate that they would be prepared to pay themselves. This finding needs to be qualified however in that most learners do not seem to understand either the fees currently charged or the full cost of provision. Men report themselves willing to pay higher fees than women; young people higher than older people; and all seem prepared to pay more for higher level courses.

The cost of learning includes indirect costs such as travel as well as the direct cost of fees. This may be particularly marked in rural areas. Individuals are not well informed on such costs, few make provision through saving and there is no system of soft loans as in HE. Some colleges have set aside a proportion of their increased fee income to boost learner support funds for this reason though unlike HE this is not a requirement on them.

The evidence on financial returns suggests that the effect on earnings of lower level vocational qualifications is slight and that NVQs in particular are not associated with increased income at Levels 1 or 2. Even at Level 3 half of NVQs have a nil or negligible effect on earnings and all have less impact than academic qualifications. Traditional vocational qualifications achieve better returns though still less than academic ones.

The evidence suggests that attitudes and practice in London is significantly different to elsewhere. Londoners are more likely to report willingness to pay fees and in practice pay more than in other parts. There are several reasons for this that could be usefully explored.

Modelling suggests that for many colleges there is no financial incentive to increase fees. While colleges will gain from the increased fees paid by those who stay, they lose proportionately more LSC funding in respect of each one who leaves. Often it is only necessary for two or three learners to leave a class to make the whole class unviable.

The example below illustrates how elasticity and fee percentages interact to affect college income. In this example a college will lose money when fees are increased by 20% if fees are 25% of total income and elasticity is 0.3 (i.e. for every 10% increase in fees we lose 3% of enrolments). Colleges only stand to gain from a fee increase if elasticity is low and the fee assumption is high (e.g. 50% or more).

Fee Increase 20%; Fee Assumption 25% NBR

Assume a class with 17 learners each paying £25 fee and LSC paying £75

Total income is $(17 \times £25) + (17 \times £75) = £1700$

Assume elasticity is 0.3 i.e. for every 10% increase in fees we lose 3% of enrolments

Fees are increased by 20% i.e. from £25 to £30 and we lose 6% of learners and 1 learner drops out.

Total income is now $(16 \times 30) + (16 \times 75) = £1680$

Loss in Income = £20

Conclusions and Implications

Taken as a whole the evidence suggests that providers and the general public are not hostile to the general thrust of fee policy. There is no need to sell the general idea that adults should contribute to the cost of their learning; nor that contributions should be greater for leisure programmes than others.

On the other hand it is clear that many individuals are not aware of the full cost of learning, or the level of fees that they might be called upon to pay. This is likely to affect their willingness to pay in practice; and to take action such as saving to help meet the costs. The sector needs to find ways of making both the level of fees and the extent of public subsidy more widely understood.

Policy on learner support does not appear to have evolved to take account of the changing fee context. Unlike the HE sector there is no requirement to develop bursary schemes to help poorer students; nor is there access to loans on preferential terms.

A number of stakeholders pointed out that the Skills Strategy focuses on upskilling, rather than on re-skilling the workforce. In the context of rapid changes in the occupational structure, and the need for individuals to retrain several times through their working lives, this seems a serious omission. Furthermore one cannot expect employers to pick up the cost of helping their employees move to alternative occupations however much the economy needs such mobility. A useful next step in the development of skills policy would be to address this need.

To a large extent the behaviour of individuals can be seen as a rational response to their context. For example the reluctance to pay significant sums for lower level vocational programmes is an accurate reflection of their labour market value. It makes more sense for younger people to invest in learning because they have a greater time to reap the benefits; and the greater willingness of men to invest than women reflects both their greater earnings and in many cases the greater returns to men. These realities should be reflected in promotional activity.

In the same way the cautious response of many colleges to raising fees is a logical response to their context. If by raising fees the college risks losing more income than it gains the incentive to proceed is limited. If moreover the loss of a few learners jeopardises the viability of whole classes the college is right to be cautious. The modelling shows that although there is unlikely to be a short term gain in fee income the incentive for colleges to raise fees increases as the fee percentage grows.

Value of Learning in the Adult Market

RCU ref. 07.108

Final



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It is possible that a more rapid move to a 50% fee assumption, accompanied by an appropriate extension of learner support would have several advantages. It could raise public understanding of the level of fees and the costs of learning; it could stimulate fresh thinking about forms of support, and it would provide a bigger financial incentive for colleges to charge fees. However, there is a risk that learner numbers will fall significantly in the short term, although the numbers may recover in subsequent years.



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1. Introduction

This study presents key findings from recent research into adult learning and fee paying. The study pools existing findings on perceptions of paying fees and the economic return from learning, and highlights where gaps in knowledge and understanding exist. Additional analysis, utilising data collected from recent research projects, has been carried out in order to clarify and better understand the fee paying market.

2. The research activity included telephone interviews with 11 providers. These interviews allowed the research team to test out findings, illuminate specific issues, explore good practice and identify additional support that providers might require. Stakeholders represented at the Steering Group included NIACE, AoC, QIA and the 157 Group of Colleges.

3. The study will lead to an action plan that will inform the design and modification of a focused value of learning marketing strategy. The research fits within objective 2 of the following actions on fees and should help to address all three phases:

- **Increase learner awareness** of the government subsidy and the worth of individual fee contribution as an investment, through the Value of Learning campaign
- **Study the fee paying and full cost markets** through a focused survey which forms a full picture of existing research findings from a number of different sources, to determine how much individuals and businesses are willing to pay for learning
- **Support providers** to both implement the new fee policies and systems and promote the benefit of these strategies to learners and employees from 2009

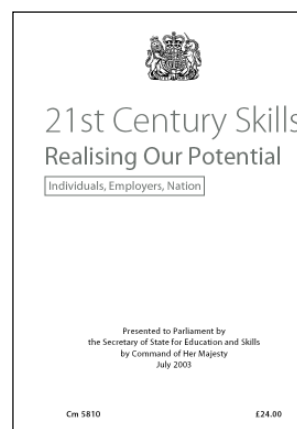
4. Recent studies looking at the value of adult learning and course fees have generated a considerable quantity of complex data. Given the short timescale allocated to the *meta-analysis* (the key phase research took place over a three week period) it was necessary to be selective and focus on a few key issues. In particular, this study looks at evidence related to elasticity of demand and the impact of income levels, region, age, gender and rurality on fee paying. The study also looks at the link between consumer perceptions of fee paying, the economic return on learning and fee policies implemented by providers. The report concludes with key findings and specific recommendations for the LSC.

5. Policy Context

LSC funded provision is resourced by a combination of government subsidy and fee income. The fee assumption announced annually by the LSC defines the proportion, on average, that a provider should collect in fee income, based on a percentage of the national base rate (NBR). Providers, however, have the freedom to set fees on a course by course basis, according to market conditions and the cost of provision. Certain categories of learners are eligible for free tuition and the LSC reimburses colleges for the equivalent fee income. Learners falling within these national fee remission categories in 2006/07 included 16-18 year olds, learners studying for a basic skills qualification or a first full Level 2 and learners in receipt of means tested benefits. In addition to these national categories some colleges provide local fee concessions for specific learners or courses.

6. The *Skills Strategy* White Paper published in July 2003 committed the LSC to developing a new national framework for the setting of fees in further education. This involved an aggregate income target for each college. (21st Century Skills: Realising Our Potential).

7. The LSC Consultation Document *Investing in Skills: Taking Forward the Skills Strategy* (2004) proposed that public investment should be directed towards areas where it has the greatest benefit and helps deliver the priorities outlined in the Skills Strategy (targeting 16-18 year olds, basic skills, areas of market failure and adults who do not have a full Level 2 qualification). Outside of these priority areas, the document proposes that individuals and employers should contribute more towards the cost of their own learning.



8. In 2005/06 the fee assumption increased from the 25% of national base rate to 27.5% and increased to 32.5% in 2006/07. It will rise again to 37.5% for 2007/08, with a clear intention that it should be around 50% by the end of the decade. The FE funding allocations for 2005/06, outlined in a letter from David Russell (LSC Director of Resources) to College Principals in June 2005, announced an overall reduction of 3% for 19+ learners (£55 million) and an increase of 10.3% for 16-18 year olds.

9. The 2006/07 Grant Letter (October 2005) outlined further changes in the pattern of funding for adult provision. This included an increase in full Level 2 places and a reduction in publicly funded places on short courses not leading to a qualification. Whilst the overall volume of adult training was planned to be maintained, there would be a net reduction of about 230,000 places (about 6%) by 2007/08.

Value of Learning in the Adult Market

RCU ref. 07.108

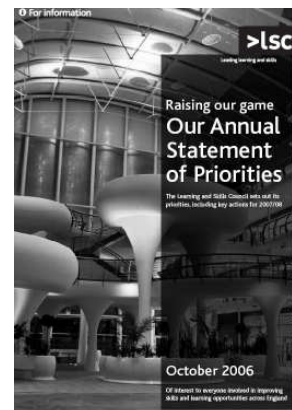
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10. *Priorities for Success* (2005) established the principle that employers should bear the full cost of specific stand-alone training for staff to meet their statutory responsibilities. From 2006/07 funding for certain first aid at work, health and safety and food safety courses would be withdrawn.

11. The *LSC Annual Statement of Priorities* (October 2006) stated that college fee income targets will continue to be a key element of the planning framework for 2007/08 and will be extended to include full cost provision. This is intended to enable colleges and providers to show more clearly the wider contribution they are making to adult learning beyond provision funded by the LSC. The *Annual Statement of Priorities* confirmed that steps taken in 2006/07 to redirect adult funding towards government priorities will continue in 2007/08. The total adult budget will increase in 2007/08 by 7%, with a 62% increase in funding for Train to Gain, a 7% increase in funding for 19+ Work-based Learning, but a 1% fall in funding for 19+ FE learners (following a 5% fall in 2006/07).



12. The *Leitch Review of Skills Prosperity for All in the Global Economy – World Class Skills* (2006) proposed that all adult funding should, as far as possible, be routed through mechanisms which put effective purchasing power in the hands of customers. It reinforced the view that, outside of priority areas, employers and individuals should make a significant contribution to the cost of their learning.

13. Over recent months, the LSC, working on behalf of DfES¹ and skills partners has led a strategic review of its marketing and communications (including Level 2), in order to create a new platform for communicating and transforming the way people think, feel and act about learning and skills so that over time, the demand for it, and investment in it (both in terms of time and money) from basic, to Levels 2, 3, 4 and beyond is improved – this has been titled *the Skills Campaign*. As part of developing the Skills Campaign, the LSC has focused on creating a marketing and communications strategy among employers and individuals which aims to inspire confidence in people/employers that they have the ability to do it.

14. The Research Evidence

Literature has been sought by searching the websites of LSC, DIUS, NIACE and LSN; by making enquiries of contacts in those organisations and beyond, and by looking at the references cited in the material obtained. It is not a systematic review in the sense used by the EPPI² Centre but it is probable that it covers almost all relevant recently published material. Confidence in its findings is enhanced by the congruence of both its findings, and its description of the sources of evidence, with those of a systematic review conducted for EPPI in 2004.

¹ Now the Department for Innovation, Universities and Skills (DIUS)

² For details of the EPPI approach to reviews please see <http://eppi.ioe.ac.uk/cms/>



15. The focus of the study is the FE system, rather than just FE colleges, though most of the literature relates to FE and what is now called Personal and Community Development Learning (PCDL). There is hardly a mention of Work-based Learning (WBL) in published material despite the fact that negligible progress seems to have been made in securing financial contributions from employers in that sector. There is substantial literature on Higher Education which is only mentioned here where it is felt there could be a direct read across to FE.

16. Most of the evidence comes from descriptive studies, some based on large and representative samples of either providers or individuals; others more small scale and selective. There are no trials; there is some reference to experience in other countries. There is consistency both between the findings of the different studies and over time. Three broad types of study can be identified (see References in Appendix 1):

- i. Surveys of a sample of providers seeking information on their practices and their perceptions (York Consulting, 2000 (5); Pye Tait, 2003 (6); Perry, 2005 (7); Fletcher & Perry 2006 (8), Boniface et al 2006 (9); Boniface et al 2007 (10)). These surveys sometimes included analysis of LSC FE Individualised Learner Records (ILR);
- ii. Surveys of Learners or the wider public seeking their views on adult learning and paying for learning (Callender 2005 (2); NIACE 2006(3); MORI 2005(4);
- iii. Analyses of national datasets (including the Labour Force Survey and British Household Panel Survey) looking at earnings and economic returns from learning (Dearden 2002 & 2004 (11 & 12); McIntosh 2002 & 2004 (13 & 14); Frontier Economics 2006 (15); Vignoles / Skills for Business 2007 (16) or Savings and Expenditure Charles River Associates 2004 (17).

17. In most of the cases quoted above the sample sizes and the nature of the sample are such that we can be reasonably confident that the views of those sampled represent those of the population from which the sample was drawn ie the findings have a high degree of reliability. We can be less certain of the validity of many of the findings i.e. that the answers given to questions mean what we think they mean. To give an example of the difficulty in interpreting responses, researchers on the NIACE survey found that respondents views on how much individuals should pay were significantly affected by whether the alternative source of funding was described as the 'taxpayer' or the 'government'.

18. Elasticity of Demand

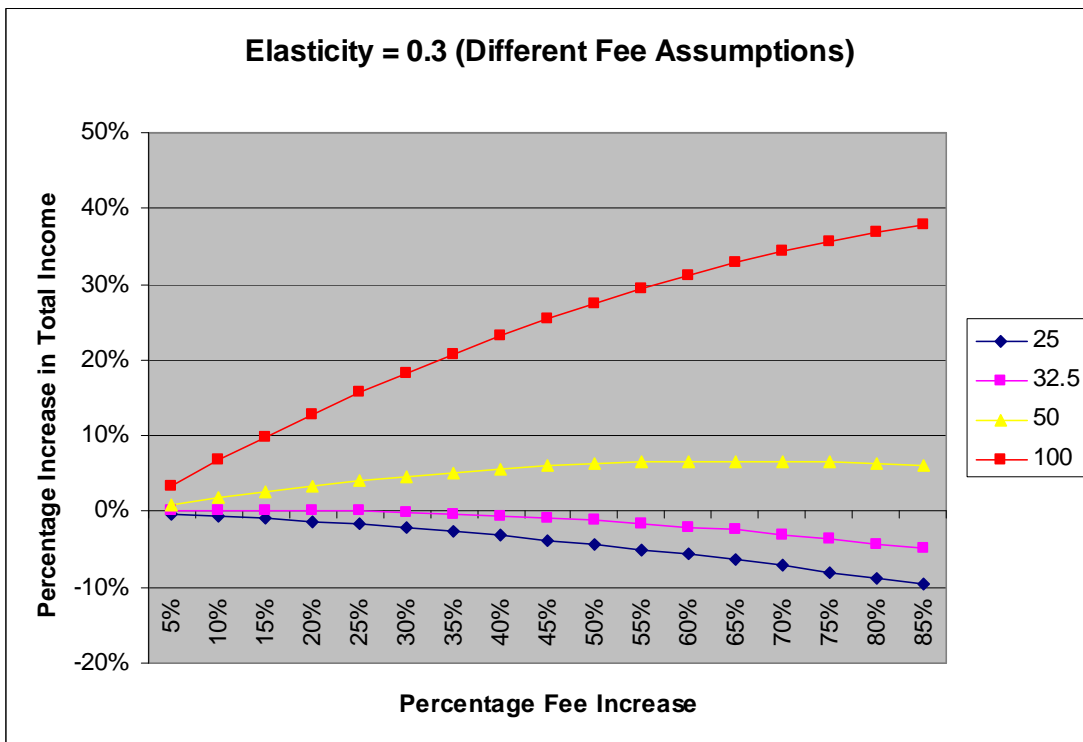
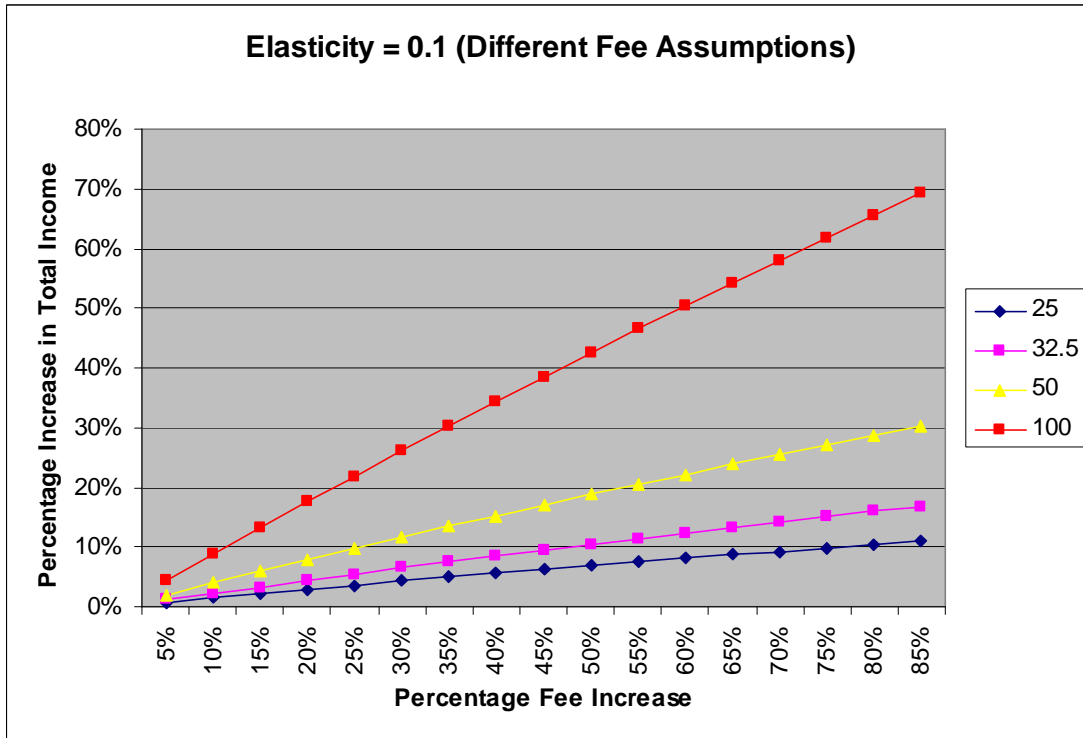
Elasticity of demand measures the extent to which learner recruitment is affected by changes in course fee and understanding the level of elasticity within the FE market is crucial for the success of the Government's fee agenda. The DfES recently commissioned a project to estimate the elasticity of demand in FE and to assess how this might vary between different groups. Data for this project will be collected directly from a sample of FE colleges, focusing on a specific range of courses. The research specification recognises that collecting appropriate data may be the most challenging aspect of the research. The project is due to report in October 2007 and it is anticipated that the research will take account of the issues discussed in this report.

19. Specific relationships exist in conventional markets between elasticity of demand and revenue. If demand is *inelastic*, for example, revenue will increase when the price goes up, because the proportionate fall in the number of buyers is less than the proportionate increase in price. In these circumstances it is worthwhile for sellers to increase their prices because they will get a direct financial return. However this assumption is not necessarily true in the FE learning and skills market, due to the effect of LSC subsidies.

20. College revenue from LSC funded courses is a combination of direct fee income and LSC subsidy. In 2006/07 the majority of the income from enrolling an individual learner came directly from the LSC (67.5% National Base Rate, assuming there were no additional weighting factors) whereas only 32.5% came from course fees. The potential risk of losing the LSC subsidy changes the dynamics of the market place and the relationship between buyer and seller.

21. The theoretical relationship between the percentage increase in fees and the percentage change in *total* course income is shown in Figure 1 (assumes no additional weighting factors on LSC income). The top chart shows an elasticity of demand of 0.1 (i.e. an increase of fees of 10% leads to a fall in recruitment of 1%) and the lower chart an elasticity of demand of 0.3 (i.e. an increase in fees of 10% leads to a fall in recruitment of 3%) – in both cases we are looking at highly inelastic demand patterns. Four different LSC fee assumptions are modelled, based on different percentages of the national base rate – 25% (the fee assumption in 2004/05), 32.5% (the fee assumption in 2006/07), 50% NBR (the likely fee assumption in 2010) and 100% (full cost provision).

Figure 1 Relationship between Fee Increase and Change in Total Income



22. The charts suggest that colleges will only benefit financially from raising fees if the following two conditions are met:

- Demand is highly inelastic (0.3 or less), and
- The fee assumption is relatively high (e.g. 50% or more). Where the fee assumption is significantly less than 50% any small drop in demand due to fee increases puts at risk both fee income and a large amount of potential LSC income. It is interesting to note that even with an elasticity of 0.3 and a fee assumption of 50%, income remains fairly static, when fees increase substantially.

23. The following worked numeric examples illustrate how elasticity and fee assumption percentages interact to affect college income. The examples assume an elasticity of demand of 0.3 and look at the impact on total income of increasing fees by 20% in 2004/05 (fee assumption of 25%), increasing fees by 20% in 2010 (fee assumption of 50%) and increasing fees by 20% for full cost work.

EXAMPLE 1: Fee Increase 20%; Fee Assumption 25% NBR

Assume a class with 17 learners each paying £25 fee and LSC paying £75

Total income is $(17 \times £25) + (17 \times £75) = £1700$

Assume elasticity is 0.3 i.e. for every 10% increase in fees we lose 3% of enrolments

Fees are increased by 20% i.e. from £25 to £30 and we lose 6% of learners and 1 learner drops out.

Total income is now $(16 \times 30) + (16 \times 75) = £1680$

Loss in Income = £20

EXAMPLE 2: Fee Increase 20%; Fee Assumption 50% NBR

Assume a class with 17 learners each paying £50 fee and LSC paying £50

Total income is $(17 \times £50) + (17 \times £50) = £1700$

Assume elasticity is 0.3 i.e. for every 10% increase in fees we lose 3% of enrolments

Fees are increased by 20% i.e. from £50 to £60 and we lose 6% of learners and 1 learner drops out.

Total income is now $(16 \times 60) + (16 \times 50) = £1760$

Gain in Income = £60

EXAMPLE 3: Fee Increase 20%; Fee Assumption 100% NBR (i.e. Full Cost)

Assume a class with 17 learners each paying £100 fee

Total income is $(17 \times £100) = £1700$

Assume elasticity is 0.3 i.e. for every 10% increase in fees we lose 3% of enrolments

Fees are increased by 20% i.e. from £100 to £120 and we lose 6% of learners and 1 learner drops out.

Total income is now $16 \times 120 = £1920$

Gain in Income = £220

24. The modelling above has several implications. One is that it is unrealistic to expect that increases in fee rates will automatically translate into increases in overall income, particularly in the early years of the policy. In fact colleges which have historically set fees well below the fee assumption could lose even more income than Example 1 suggests. This situation may also be exacerbated in some colleges by the closure of classes where group size is no longer economic. This means that some colleges which are doing the right things by securing higher contributions from those who pay fees may be disadvantaged if the LSC focuses too much on the income target.

25. A second implication of the modelling is that as the percentage fee assumption rises the financial incentive to colleges to raise fees will become stronger. This depends on rates of elasticity remaining much the same as at present. Over time, colleges will also shift more provision to full cost, which provides the biggest potential payback.

26. The initial aim of the LSC should be to move colleges towards a position of market responsiveness (moving from the blue to the red curve in Figure 1). During this time structural changes within colleges (e.g. introduction of the New Standard and the Framework for Excellence) and a national marketing campaign, should increase the consumer's perceived value of skills and increase further the fee paying opportunities. Within this context we suggest that the key LSC target should initially be *fee level* rather than *fee income* – the latter will follow in due course, but may suffer a hit in the early stages. Over a period of time this emphasis should be changed and fee income should become the primary target.

27. Provider Perspective on Elasticity of Demand

The Impact of Fee Policies on Recruitment to LSC Provision (LSC 2007), suggests that recent falls in learner numbers have largely been driven by supply side factors other than increases in course fees. In particular colleges appear to have focused their adult provision on Government priority areas (concentrating on for example free provision such as 16-18 year olds, full Level 2, Skills for Life, Train to Gain) and the volume of activities outside of these priority areas has fallen. Within this context, the report suggests, it is difficult to measure elasticity of demand.

28. More than half the surveyed colleges in this research study felt that increases in course fees had had some impact on recruitment. In depth interviews with colleges, however, revealed that many managers were unsure about the impact of increases in course fees and very few examples were given of complaints from learners. Some managers were surprised by the limited impact of fee increases. This suggests that elasticity of demand was probably quite low at this fee level. Discussion with a couple of colleges for this latest review suggest a 1% drop in enrolments had resulted from a 4% increase in fees i.e. an elasticity of demand of around 0.25. It would be worthwhile carrying out further research with providers to identify whether this initial estimate is valid.

29. However, *The Impact of Fee Policies on Recruitment to LSC Provision* points out that higher course fees have been used to ration demand in some colleges. Recruitment targets have been reduced in response to cut backs in adult funding and whilst these targets have been met, it may be that a number of potential learners have been deterred by the higher fees. If this is the case elasticity of demand may be rather higher than initial findings suggest.

30. In-depth interviews with college staff and ILR analysis carried out in this research study suggest that the most important factors affecting price sensitivity are:

- The type of provision – vocational or leisure (most price sensitive). In a broader sense the amount of added value that the provision brings and whether this has direct economic benefits for the learner;
- Whether the consumer was a repeat learner;
- The level of local competition. Competition may come from the public sector, private sector or may be another form of activity (e.g. gym membership);
- Income level and ability to pay.

Since recruitment levels had fallen most dramatically in the more affluent areas of the country ability to pay was probably not the key determinant of price sensitivity.

Case Study – Successfully Increasing Fees

Over the past four years a medium sized Further Education college has successfully re-targeted its provision, responding to changes in LSC funding. A key example is the Futures Programme – a group of 10 week courses for 2 hours a week. Four years ago these programmes carried a fee of £7 and there were approximately 3000 learners. This year the fee is £80 and recruitment is around 2000. Initially there was a large reduction in the number of enrolments, and the college thought that the courses may have to close. However, the numbers have recovered. The programmes are effectively offered at full cost and the Government subsidy has been removed (in the past they received LSC funding under the banner of other provision).

Case Study – Moving To a 50% Fee Assumption

A college in the North of England has taken a pro-active stance in relation to fees. In 05/06, on hearing that the LSC target was to reach a fee assumption of 37.5% of base rate, the college decided to move to that position immediately rather than in stages. Similarly in 06/07 the college moved to charge 50%. In both cases therefore students were faced with fee increases of 40% in one year.

With very few exceptions this did not have an adverse effect on college enrolments. Overall, however, the fee increases occurred at the same time as college provision was rebalanced, in line with LSC priorities with more work, for example leading to full level 2 qualifications which were free. The college serves a diverse community including some very deprived wards (most individuals from these areas receive free tuition) and some very successful businesses (who are prepared to pay a premium for high quality training).

31. The report found that colleges had responded positively to the Government's fee agenda and had increased fees substantially over the past couple of years. However, increasing the amount of *fee income* from LSC funded courses was not seen as a strategic priority by most colleges and fee income had actually remained fairly static or fallen. This, the report suggests, was probably because tuition fee income is often a small percentage of total income (see paragraphs 22 – 26). In practice moving towards a situation where colleges are generating substantial income from employers and individuals is likely to take time and the LSC should ensure that progress along this route is supported and monitored rather than expecting quick results.

32. *The Impact of Fee Policies on Recruitment to LSC Provision* reported that many colleges were concerned about the possible impact of an increase in the fee assumption to 50%. However, one college serving a deprived area had increased fees to this level already and had noticed very little adverse effect. One work based learning manager said that if businesses were not prepared to pay at least half the economic value of the course then they had to question whether the service was actually worthwhile.

33. Consumer Views on Fee Paying

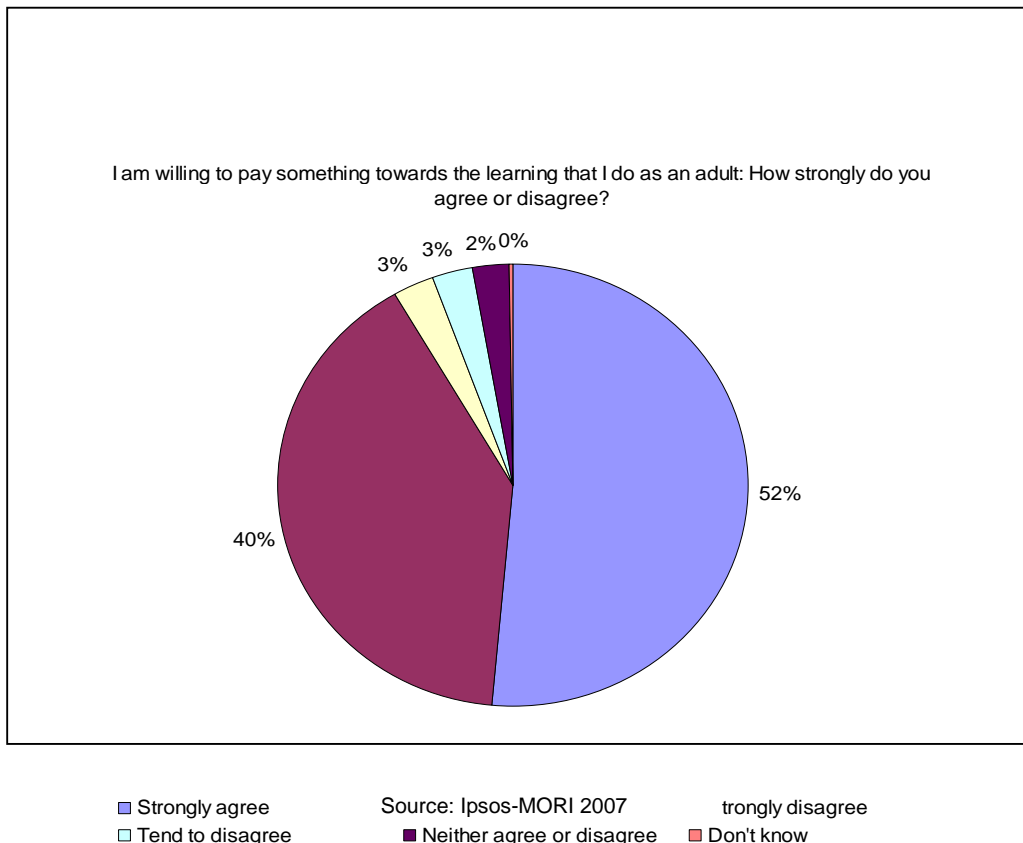
A number of research studies have been conducted looking at consumer opinions of paying for adult learning (see paragraph 17). The Ipsos-MORI surveys, conducted in 2005 and 2007, are a very useful source of evidence, providing detailed feedback on attitudes to fees from over 2000 consumers. The results from these surveys are broadly consistent with conclusions from the provider research.

34. Three major surveys (MORI, NIACE and Callender) all show that a majority of people agree that individuals should contribute to the cost of learning. The Ipsos-MORI 2007 survey, for example, reported that 92% of individuals were willing to contribute (Figure 2).

35. However, there appeared to be little understanding of the costs of learning, nor the extent of public subsidy. The stated willingness of people to pay needs to be interpreted in the context of strong evidence that they do not understand, and frequently underestimate, the costs involved. People are generally unaware of the real costs and therefore the extent of public subsidy. The Ipsos-MORI survey, for example, found that 58% of individuals were unaware that any public subsidy existed at all.

36. The Ipsos-MORI survey asked respondents how much they would be prepared to pay for a course at a Further Education college or an adult education centre. Answers ranged from less than £100 to over £500 (Figure 3). Not unexpectedly, consumers appear willing to pay more for a vocational course than a leisure related course, consistent with the findings from the provider research in paragraph 27. However the answer to this question may be influenced by the fact that most leisure courses are of shorter duration than vocational courses.

Figure 2: Consumer Views on Willingness to Contribute to the Cost of a Course

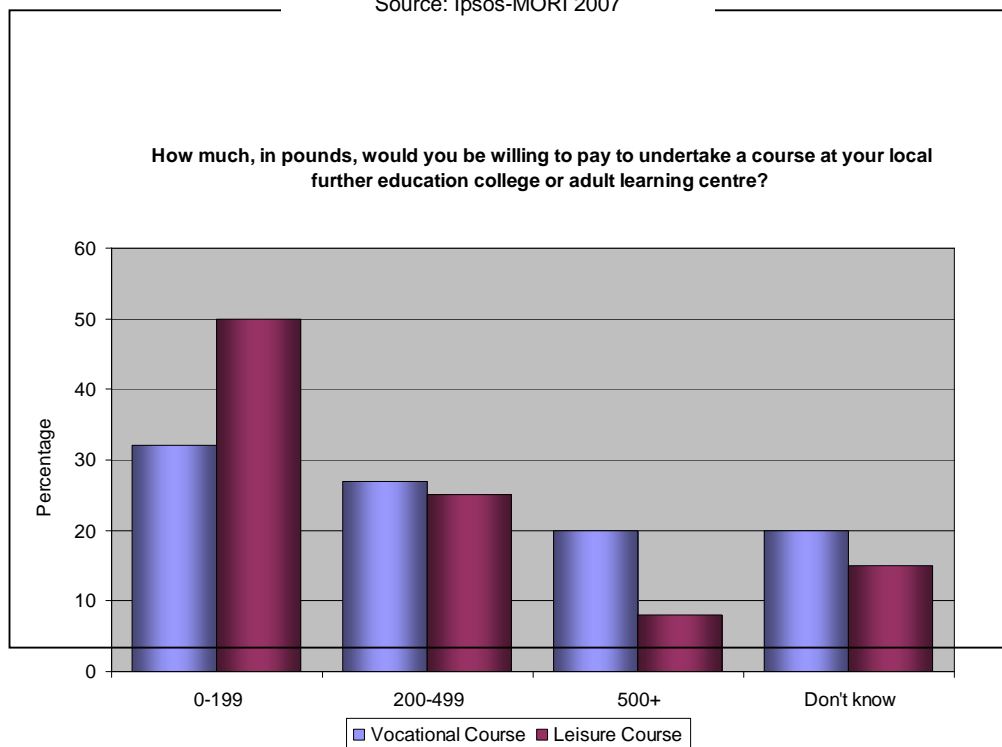


37. **RCU** used statistical analysis (CHAID³) to determine which factors were most strongly correlated with the amount people were willing to pay for a course (factors tested included gender, ethnicity, household income, educational background as well as responses to other survey questions). **RCU** also linked survey postcode data to external data sets to test the strength of the relationship between the amount people were willing to pay for course and population density and provider fee levels. The overall results of the CHAID analysis are summarised in Appendix 1 (separate tests were carried out for vocational courses and leisure courses).

³ Chi-squared automatic interaction detection

Figure 3: Consumer Views - Amount Willing to Pay for a Course

Source: Ipsos-MORI 2007



38. The most important factors affecting willingness to pay for a vocational course, according to the statistical analysis of the survey were:

- Whether an individual had been an FE student in the past (Figure 4). In general, previous students were less willing to pay than people who had never used the sector;
- The level of household income (Figure 5).

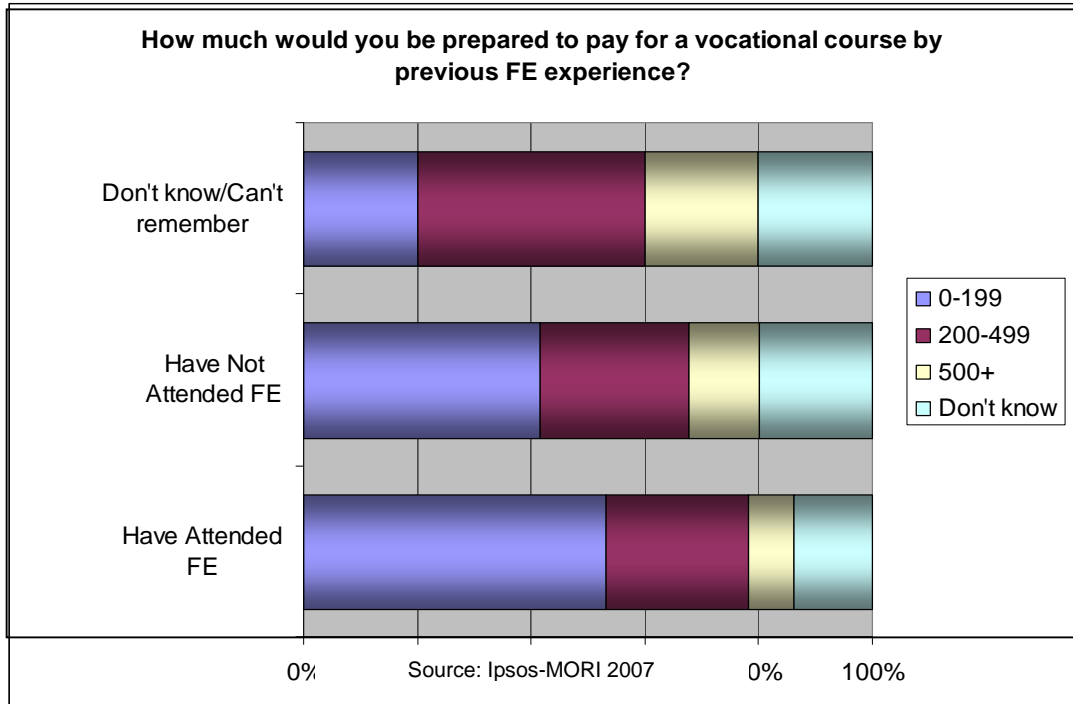
39. These findings are consistent with the initial conclusions from provider research. The fact the new FE learners have a higher willingness to pay suggests that there is scope for further fee increases in the future. It also suggests that individuals are more sensitive to fee changes than absolute fee levels.

Figure 4: Consumer Views – Amount Willing to Pay for a Vocational Course and

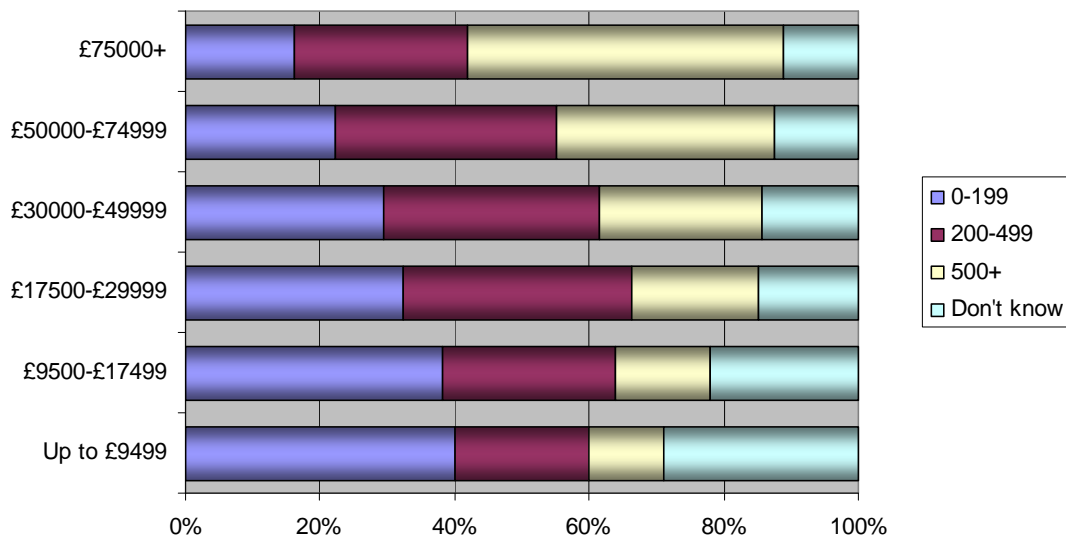
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Source: Ipsos-MORI 2007

Figure 5: Consumer Views – Amount Willing to Pay for a Vocational Course and Household Income



How much would you pay for a Vocational Course by Household Income



Value of Learning in the Adult Market

RCU ref. 07.108

Final

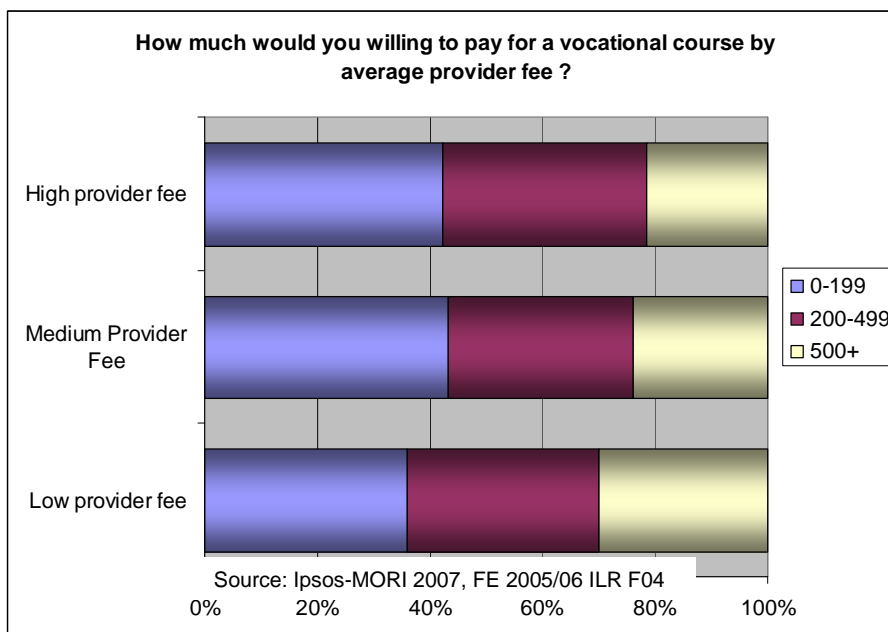


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40. It is interesting to note that a high percentage of individuals with low household incomes *didn't know* how much they would be willing to pay for a course. This suggests that price-awareness is less well developed in deprived areas and any marketing campaign promoting the concept of the value of adult learning may need to specifically target these individuals.

41. There did not appear to be a strong correlation between the fee a consumer was willing to pay for a vocational course and the average fee level set by local FE colleges (Figure 6). This suggests that there is considerable scope for colleges to use market research to help them set reasonable fee levels within their area.

Figure 5: Relationship between Consumer views on Fees and Provider Average Fee per Guided Learning Hour Band (Low, Medium and High)



42.

RCU also examined the relationship between amount consumers are willing to pay for a course and gender, age, geographical region, and population density (see paragraphs 52 – 65). However, it is possible that any apparent relationships may be indirect rather than direct (e.g. whilst there may appear to be a relationship say between geographical region and willingness to pay, the actual relationship may be *caused* by variations in household income)



43. The Economic Returns for Learning

A number of studies have been carried out that look at the *wage premiums* or economic returns for different types of qualifications (see paragraph 17). The most recent study, *The Distribution and Returns to Qualifications in the Sector Skills Councils* (Vignoles, Skills for Business 2007) utilises data drawn from the Labour Force Survey (LFS) for 2000 to 2004 and presents estimates of the variation in the distribution of and returns to qualifications using sectors defined by the recently established network of 25 Sector Skills Councils (SSCs). The research is intended to contribute to the skills needs assessments undertaken by each SSC.

44. Returns to vocational qualifications at Level 2 and below appear to be weak or non-existent. Studies over several years at the Centre for the Economics of Education show a broadly consistent pattern of negligible returns to vocational qualifications at Level 2. There is some evidence that employer funded provision produces better returns, probably because employers back winners. Frontier Economics found a 4% return to Level 2 compared with no qualifications.

45. Returns to qualifications at Level 3 are variable and in around half of the SSC negligible. Returns not only vary by sector but by type of qualification with, in general, traditional qualifications showing a better return than NVQs. The performance of vocational qualifications relative to academic qualifications improves if one takes into account the fact that they can be achieved in a shorter time.

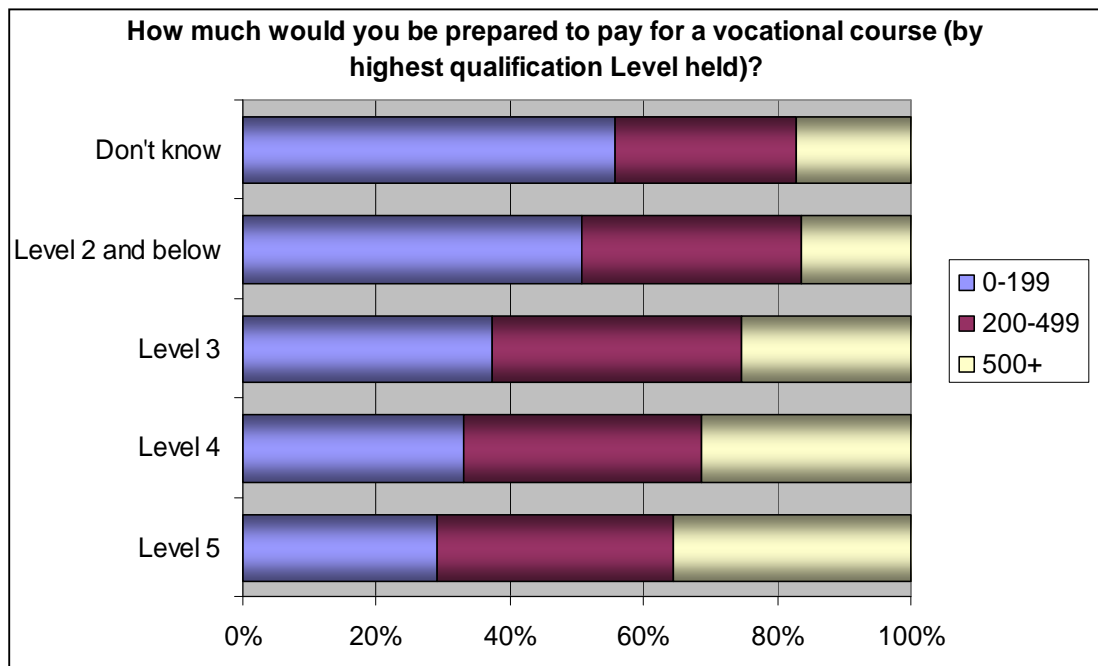
46. Returns to qualifications at Level 4 and 5 are substantial (Dearden et al., 2002; Dickerson, 2005). For example, males with a degree earn up to two-thirds more than an unqualified worker. However, there is some suggestion that returns to graduate qualifications for young people is falling due to the recent expansion of higher education (Vignoles 2007).

47. NVQs delivered at work are associated with better returns than NVQs delivered in college. There is some evidence that NVQs delivered in the workplace provide better financial returns to individuals; but the most likely explanation for this is that employers are selective in who they train and tend to back winners.

48. Obtaining lower level NVQs may not benefit earnings but can assist in obtaining employment. There is some evidence that those obtaining NVQs at Levels 1 and 2 are more likely to gain and keep employment than those without. Workers with NVQ 3 qualifications have employment rates that are 10 percentage points higher for males and 17 percentage points higher for females. However studies for Department for Work and Pensions (DWP) still suggest that 'work first' is the most effective way to produce sustainable employment.

49. The 2007 Ipsos-MORI survey of consumers found a strong link between the amount an individual is willing to pay for a course and the level of qualification that they hold (Figure 6). Whilst more than 35% of respondents holding a Level 5 were willing to pay £500 or more, less than 20% of those holding a Level 2 or below qualification were willing to pay this amount. This may be because individuals holding a Level 5 qualification have a higher level of disposable income and are looking to take courses that are more expensive. It is also likely that individuals with higher levels of qualifications have a greater perception of the *value and economic return* from learning.

Figure 6: Consumer Views – Amount Willing to Pay for a Vocational Course and Highest Qualification Level Held



Source: Ipsos-MORI 2007

50. The provider study *The Impact of Fee Policies on Recruitment to LSC-funded Provision* found that college average fee rates increased as the level of qualification increased. For example, fees for Level 4 qualifications were often double the fees set for Level 2 and 3. This suggests that providers are responding to changes in both economic returns from learning and consumer willingness to pay at different NVQ levels. The likely explanation in practice, however, is that the types of courses delivered at Level 4 are very different to the types of courses delivered at Levels 2 and 3. A large proportion, for example, of the LSC funded Level 4 qualifications offered by colleges are professional and business & management courses and these often carry a price premium. In other words Figure 6 could show an accurate understanding of prices, rather than willingness to pay.

51. *The Distribution and Returns to Qualifications in the Sector Skills Councils* found considerable variation in economic return across different sectors. Figure 7, for example, shows the economic return for Level 2 vocational qualifications by SSC area. Whilst Energy and Utility Skills saw an 8.3% return for male learners, Financial Services saw an almost 20% decline. Within this context it may be important for the Big Skills Campaign to develop separate marketing plans for each industrial sector.

Figure 7: Returns on Level 2 Vocational Qualifications by Sector

Sector Skills Council	Male	Female
1. Lantra	-5.5%	-4.60%
2. Cogent	0.0%	-4.00%
3. Proskills UK	-0.1%	-4.10%
4. Improve Ltd	-1.3%	1.90%
5. Skillfast-UK	-2.5%	2.60%
6. SEMTA	-1.4%	0.60%
7. Energy & Utility Skills	8.3%	-4.80%
8. Construction & Summit	1.3%	-5.20%
9. Automotive Skills	0.5%	13.40%
10. Skillsmart Retail	-1.3%	-1.90%
11. People 1st	5.6%	2.30%
12. GoSkills	-1.5%	-2.80%
13. Skills for Logistics	1.0%	0.60%
14. Financial Services	-19.9%	-8.90%
15. Asset Skills	-3.0%	-4.50%
16. e-skills UK	-13.2%	-17.30%
17. Government Skills	-4.4%	-6.30%
18. Skills for Justice	-6.9%	-4.80%
19. Lifelong Learning UK	-6.1%	-15.30%
20. Skills for Health	-9.0%	-7.60%
21. Care and Development	-11.0%	-3.90%
22. Skillset	-11.6%	15.00%
23. Creative and Cultural	-11.5%	-14.80%
24. SkillsActive	-3.5%	-3.30%

Source: Vignoles and Dickerson 2007 (Reference16)

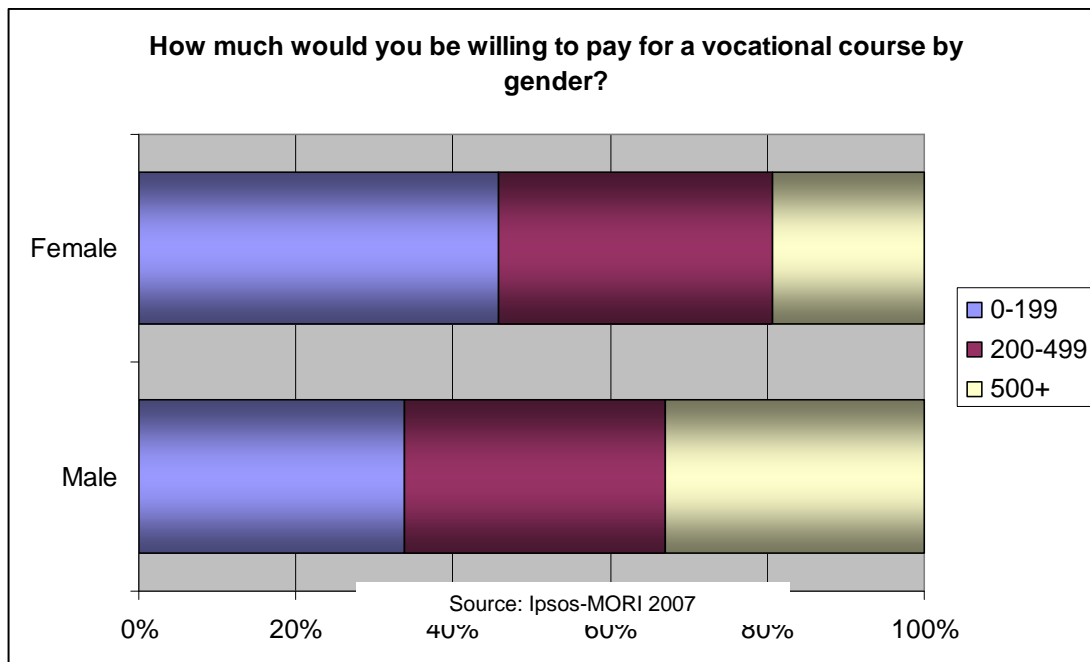
52. The level of fees set by providers, consumers attitudes to fees and the economic return from learning might also vary by gender, age, geographical region and population density. These factors are explored in the following sections of the report.

53. Value of Adult Learning and Gender

The Ipsos –MORI survey 2007 suggest that male learners are willing to pay higher fees than female learners (Figure 8). Part of the explanation for this is that 42% of male respondents were earning over £30,000 per year whilst only 31% of female respondents had incomes at this level (household income is one of the factors most strongly correlated with willingness to pay). Almost 46% of male respondents had a Level 4 or 5 qualification, compared to only 36% of female respondents.

Figure 8: Consumer Views – Amount Willing to Pay for a Vocational Course by Gender

54. However, it is possible that there is some correlation between willingness to pay and



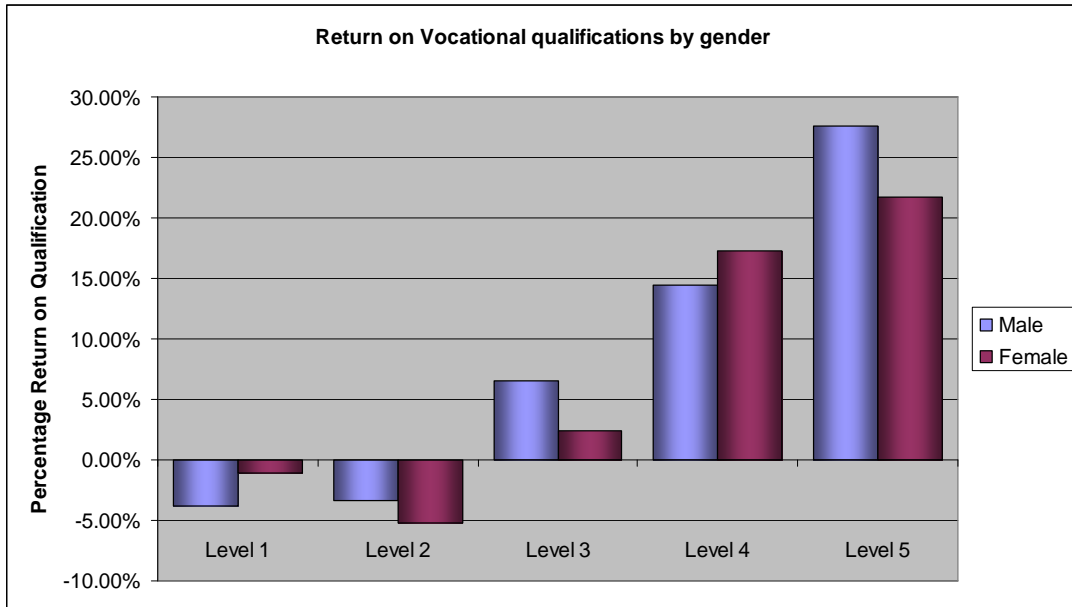
gender, independent of income level and highest qualification held. Figure 9 shows the economic return from vocational qualifications by gender (Vignoles – Skills for Business 2007). Male learners tend to achieve a higher overall wage premium at Levels 3 and 5 than female learners, although female learners have a slight edge at Level 4. This is possibly due to different relative gender balances in different industrial sectors.

55. The Big Skills Marketing Campaign may wish to take into account gender issues when promoting the value of learning. However, existing research suggests that variations in attitude to fees by gender is partly explained by differences in household income, level of qualification held and industrial sector in which people are employed.

Figure 9: Return on Vocational Qualifications by Gender

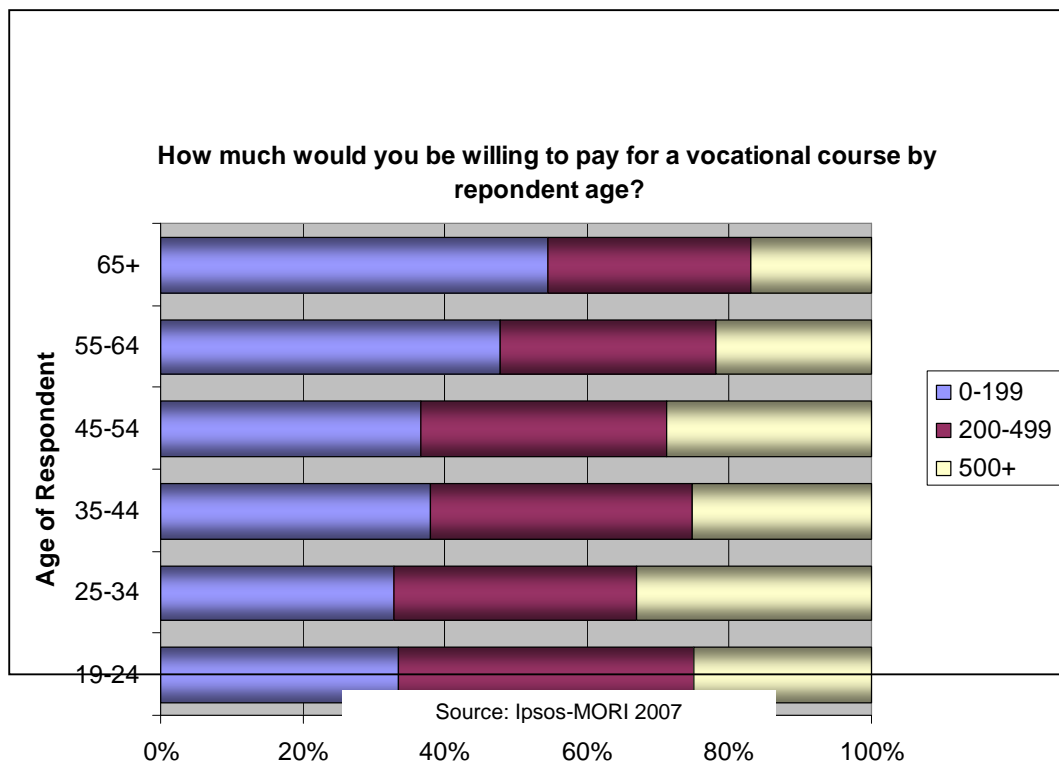
Vignoles and Dickerson 2007 (Reference16)

56. Value of Adult Learning and Age



The fee levels that individuals would be prepared to pay for a vocational course, broken down by age band, are shown in Figure 10 (Ipsos-MORI 2007 survey).

Figure 10: Consumer Views – Amount Willing to Pay for a Vocational Course by Age



57. Older people appear to be willing to pay less for a vocational course than younger people, possibly because any qualifications gained will have less impact on their career and future earnings potential. Individuals in the age range 25-34 are prepared to pay most, despite the fact that disposable income in this age range may be limited (due to family and mortgage costs).

58. Outside HE there is little tradition of saving or borrowing to finance learning. Unlike other countries⁴ there is little evidence that individuals save or borrow significantly to finance further education. This is probably because they are not normally faced with significant costs. However, developing and marketing improved loan schemes, targeted at young people who see the value of learning as an investment, but do not have sufficient levels of disposable income may be particularly productive.

59. *The Impact of Fee Policies on Recruitment to LSC-funded Provision* (LSC 2007) noted that the decline in FE funded adult recruitment over the past three years had been particularly noticeable for older learners (30-65) and this may be (at least partly) due to a greater reluctance to pay higher fees amongst the older age group. The Big Skills Marketing Campaign may need to stress that periodic re-training and lifelong learning are important at all ages and have an economic and financial benefit. However, the research study *The Distribution and Returns to Qualifications in the Sector Skills Councils* (Vignoles, Skills for Business 2007) did not look at economic returns to qualifications by age and future studies may wish to address this.

60. Variations by Geographical Region

The Ipsos-MORI 2007 consumer survey suggests that individuals living in Greater London are willing to pay higher fees than people living elsewhere in the country (Figure 11). This is probably due to higher wage rates in the capital, but no specific data exists for the economic returns on qualifications on a regional basis. ILR analysis carried out for the *The Impact of Fee Policies on Recruitment to LSC-funded Provision* study highlighted further characteristics of Further Education and fees policy in Greater London:

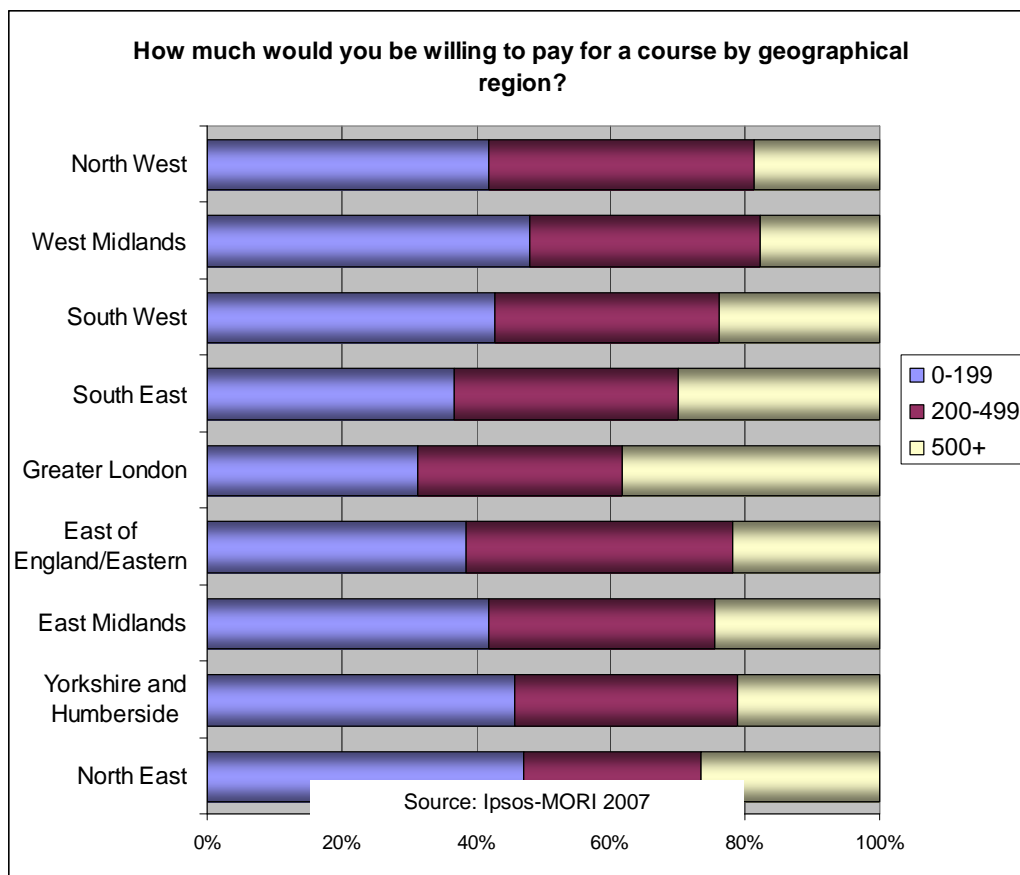
- Average fee levels set by Greater London providers are higher than elsewhere in the country;
- Greater London providers recruit the highest proportion of adult learners;
- Greater London providers have the highest proportion of 24-29 year olds in training;
- Greater London has the highest fee collection rate;
- Greater London providers recruit the highest proportion of Entry Level learners;
- Greater London providers have the highest full cost fees (as measured by the ILR).

The Big Skills Marketing Campaign should consider the regional dimension of the marketing strategy, taking into account the particular characteristics of Greater London.

⁴ 'Saving for Learning: An international comparison' Charles River Associates, LSRC 2002

Figure 11: Consumer Views – Amount Willing to Pay for a Vocational Course by Region

61. The North East region has the highest proportion of learners willing to pay fees in the



lowest fee band. This region also had the lowest average fee levels across the country and the largest fee shortfall. It also has the lowest household incomes per head.

62. Issues related to Rural Isolation

The Impact of Fee Policies on Recruitment to LSC-funded Provision (LSC 2007) noted that increases in course fees may have a particularly adverse effect on people on low incomes in sparsely populated rural areas. The report expressed concern about this issue because fees have risen most sharply in these areas and people on low income face additional transport costs and may have limited access to training.

63. *The State of the Countryside 2007* (Commission for Rural Communities 2007) stated that access to services continues to be an important issue for rural residents. Distances to service outlets tend to be longer than in urban areas, and public transport provision is usually worse. For those with cars in rural areas, travel times can actually be quite short, but for those without, journey times can be very much longer.

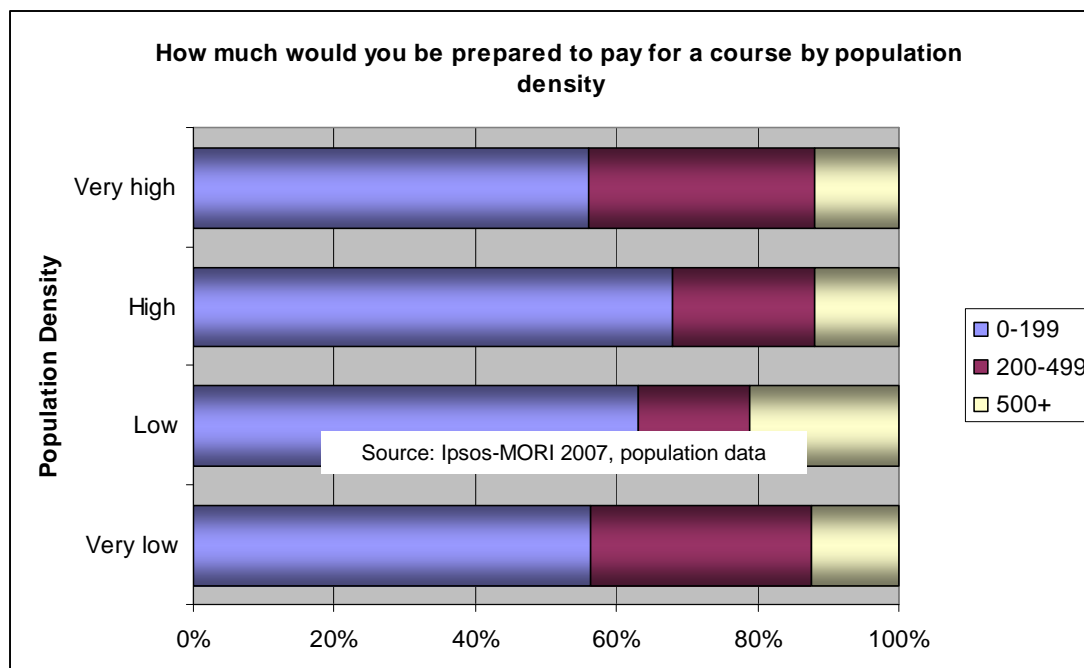
64. The research team interviewed a college serving a sparsely populated rural area and it was clear that problems of rural access were a very important issue for them. Living in the country, they explained, incurred additional costs, especially transport and housing and there was virtually no public transport in the evening. Access to public services also appeared to be

poor. The college has had to close a number of community venues and this has removed provision, particularly for the rural poor.

65. Figure 12 shows the fee that consumers in the lowest household income band (up to £9,499 per year) were willing to pay for a vocational course, by population density levels (Ipsos-MORI 2007).

Figure 12: Consumer Views – Amount Willing to Pay for a Vocational Course by Population Density (household income up to £9,499 per year)

66. In general people on low incomes living in the most sparsely populated rural areas have similar fee paying attitudes to those living in the most densely populated urban areas. However, the higher fees and transport costs in rural areas impose additional financial burdens and may have an impact on recruitment. There is some suggestion that PCDL type provision is being delivered in rural locations by private providers and that this provision is not



formally recorded as part of national statistics (*Impact of Fees Policies in Personal and Community Development Learning in the South East* – LSC 2007). However, the extent of this provision (as well as its quality and future capacity) is unclear.

67. There have been several studies commissioned by the LSC and others on rates of participation in rural areas. Although there are grounds for suspecting that the extra costs associated with attending college in rural areas might lead to the under-representation of certain groups there is little by way of hard evidence suggesting that they are in fact under-represented, although it should be noted that this research is historical and does not take into account fee increases and declines in adult participation in recent years. A study by Fletcher for LSC in 2004 ('Funding Vocational Learning in Rural Areas' Fletcher, M. LSDA 2004) concluded that 'people in rural areas do not have significantly reduced rates of participation in learning'. Studies of both FE and Work-based Learning, which took account of the different

Value of Learning in the Adult Market

RCU ref. 07.108

Final



Leading learning and skills

participation rates of people with different backgrounds using the geo-demographic mapping software Mosaic found few differences in the numbers participating, as opposed to differences in the level of provision in those areas. More people from rural areas go to towns to study than vice versa.

68. There is nothing in the existing literature that re-examines the question of rural participation in the light of the most recent increases in fees. Studies such as that by RCU (LSC 2007) do note that a number of colleges (though not exclusively rural colleges) have closed out-centres which will impact upon accessibility. These changes however are more likely to have been brought about by reduced funding allocations rather than fees policy. To the extent that some colleges saw user IT courses as a key part of their widening participation strategy the reductions in attendance following fee increases will have reduced opportunities to participate; but again this effect is reported as frequently from urban areas as from rural centres.

69. The only factor about which one can be reasonably certain is that the indirect cost of participation attributable to travel is greater in rural areas than in urban settings. To the extent that this is preventing access to learning the proper place to make provision would seem to be through learner support funds. The average distance travelled does not seem to be a feature systematically recognised in LSF allocations at the present time.



70. Additional Provider Perceptions of the Value of Adult Learning

Perceptions of the value of adult learning were tested with a small sample of providers during July 2007 (see Appendix 3). A number of these issues have been discussed elsewhere in the report but specific points related to the value of adult learning are listed below. The views presented are not intended to represent a definitive set of opinions or issues, but rather add some additional perspective on developing the fee paying market and the value of adult learning.

71. An issue raised by several providers was the feeling that they were being *micro-managed* by the LSC, and that this hindered their opportunity to respond flexibly to employers and the needs of the marketplace. A number of the colleges that we spoke to felt that maintaining ownership of their own fees and remission policy was important and separate targets could be counter-productive. In general, however, colleges were supportive of the overall thrust of Government policy and increasing the perception of the value of adult learning was welcomed.

72. Successfully increasing the fees charged to employers, we were told, requires a clear articulation of the business benefits. These benefits are not just about qualifications and the economic benefits of qualifications, but involve wider aspects of service delivery. It is important, we were told, to regard training solutions as a highly customised service and not as an off the shelf product that has the same benefits for all employers in all locations. One provider felt that many staff in FE lack sales skills and all staff in the organisation require first class customer service skills. A business development manager who had recently joined the college from the commercial sector said that colleges were about *adding value* and this could be done in many different ways. Developments such as the *New Standard* were welcomed in promoting these type of cultural and structural changes. Changing and adapting the curriculum had been a successful strategy in some colleges, although outside of full cost market there are constraints on the freedom of providers to vary the product.

73 Colleges welcomed the greater transparency of funding that Learner Accounts might bring and thought that this could lead to a better understanding of the true economic cost and value of learning. However, many providers felt that the current funding system was over complex and sent mixed messages, particularly to employers. An expectation of free training had developed, and initiatives such as Train to Gain were reinforcing this perception. Within this context it was difficult to establish, they felt, a proper fee paying market. One college manager said that 'free' was equated with poor quality in the minds of some employers and that this potentially undermined the Government's strategy. Another provider suggested that Government subsidy would be better directed at hard to reach or special category employers rather providing blanket discounts for whole levels of qualifications. This, they argued, would ensure that a commercially based training market could be established, whilst encouraging training in specific companies or sectors.

Value of Learning in the Adult Market

RCU ref. 07.108

Final



Leading learning and skills

74. One provider was concerned that the focus on Train to Gain funding might make it more difficult for employees to move between jobs. A large proportion of adult skills training in colleges, he said, has traditionally been targeted at individuals who wish to re-train and change careers and are therefore paying their own fees. Most employers would not pay for this through Train to Gain and individuals could not afford to pay the higher fees (in some cases provision has been removed entirely). A flexible labour force, he argued, was essential for a dynamic economy, but this might be compromised by the current focus of Government funding.

75. Colleges welcomed the Big Skills Campaign and were pleased that LSC National Office were promoting the benefits of post 16 education and training. Providers that we spoke to felt that the campaign should promote long term career aspirations rather than short term skills. This approach may help to overcome the perception (and reality) of poor economic returns for Level 1 and Level 2 qualifications. One college manager suggested that Government funding should be marketed as *achieving aspirations* rather than dealing with market failure. For example, a high quality LSC sponsorship scheme, with matched employer funding sounded more positive and inspirational than free training for low level qualifications. The same individual felt that these aspirational messages should be directed towards the most academically gifted as well as low achievers – for example, the benefits of part time degrees with employment could be promoted as a preferred solution for all ability groups.

76. Several stakeholders have raised the issue of *deadweight* in relation to fee remission. Some colleges have referred to Train to Gain in this respect suggesting that a number of employers receiving free training would have been prepared to pay for training, or indeed had paid for training in the past. There is some support for this view in the IES evaluation of the Employer Training Pilots which suggested that a large majority of employers participating would have trained their staff anyway. The issue is larger than Train to Gain however. Fletcher, in an unpublished report for LSC, used a Mosaic analysis to show how fee remission on full time courses benefited significant numbers of learners from the most affluent groups. Furthermore it is likely that many learners receiving remission because there are on means tested benefits are following courses that do not fall in LSC priority categories. The sums of money involved in loosely targeted remission are much larger than those directly targeted through learner support funds and a detailed exploration of this area is long overdue.



Case Study – Implementing a Business Focused Charging Policy

One Work-based Learning provider had implemented a 4 stage approach to implementing charges. The stages were:

1. Understand how your current customers view price
2. Define and promote soft benefits
3. Quantify the added value
4. Instil winning behaviour for successful implementation

The provider had categorised its customers as type A, B, C and D each of which had different characteristics and attitudes to price:

A = Loyal and profitable customers who value quality and their long term relationship with you

B = Important customers who may chose you amongst several providers and are attracted by both quality and price

C = Price sensitive customers who shop around frequently. This is often the largest group, but are currently not particularly profitable for the provider

D = Demanding, unrealistic employers who normally expect free training and provide little support for their trainees. Tend to exploit providers and steal time and resources

The provider explained that the greatest financial gains are to be made from developing the relationship with customers in categories B and C.

They work with potential customers to shift their view of training from their existing perspective (price, time frame and quantity) towards an understanding of the **soft benefits** (quality, flexibility and personal service). The essential next step is to **quantify these benefits** (i.e. translate benefits into cash values) so that the customer understands the rationale and benefits of charges.

77. Conclusions

The evidence overall suggests that there is general support in principle for the Government's aim to increase the proportion of the costs of learning that is met by individuals. People agree that individuals should meet most of the costs of leisure learning; for vocational learning they are more inclined to say that employers and the government should also share the costs.

78. It should not be assumed however that this general support will translate into a willingness to pay the fees that providers have to charge. Many of those who express support in principle do not intend to study themselves; and also underestimate the level of fees they will face. A possible outcome (that is already evident in User IT courses and in some traditional adult education) is that participation may decline substantially without significant public outcry.

79. Few providers have seen course fees as a strategically important issue, partly because fee income has been such a small proportion of total income. Colleges have often had little incentive to raise fees, since losing even a small number of learners would put at risk a large LSC subsidy. Even worse, losing a few students may make the whole provision unviable if learner numbers fall below a certain minimum class size. However, the move towards a 50% fee assumption provides a much greater incentive for colleges to gain financially from adopting appropriate pricing policies.

80. At current levels of fees there is no substantial evidence of price elasticity in vocational FE, though in respect of full time provision most providers have not moved to the full fee assumption. It is possible that price increases will impact upon demand before the 50% target is reached. However, there is some evidence that people are more resistant to fee increases than are deterred by the absolute level of fees. For example one college increased fees for a 20 hour course from £7 to £80 over a four year period. Despite large initial falls in enrolment numbers, recruitment is now at a similar level to four years ago.

81. Evidence appears to suggest that the key factors affecting elasticity of demand are the type of provision (vocational or leisure), whether the consumer is a repeat learner, the level of competition and income levels (ability to pay).

82. Elasticity of demand is not a constant and developing the service and articulating the business benefits and value added can lead to changes in demand patterns.

Value of Learning in the Adult Market

RCU ref. 07.108

Final



Leading learning and skills

83. Successfully implementing a national fees strategy probably requires a phased approach. First of all dependence on LSC subsidy is progressively reduced to ensure that providers operate in an environment with financial incentives (during this phase fee increases may have little impact on revenue and very large fee increases may lead to dramatic falls in learner numbers). Secondly, supply side measures, aimed at improving employer responsiveness across an organisation are implemented. Finally, once the other stages have been accomplished, providers will use fees strategically as a means of responding to the market and increasing revenue. There is strong evidence that LSC policies in recent years have been moving the sector forward along this path and it is important that all stakeholders appreciate that there are no instant solutions.

84. Promoting free training through schemes such as Train to Gain can undermine attempts to establish the value of skills and implementation of fees policies.

85. Price awareness is less well developed in less affluent areas and any marketing campaign promoting the concept of the value of adult learning may need to specifically target individuals in these areas.

86. There did not appear to be a strong link between consumer views on willingness to pay in a geographical area and actual fees set by a college serving that area. This suggests that there is scope for colleges to use market research to help them set their fees.

87. There are no well developed mechanisms to help people pay, either through loan or savings instruments, and no culture of personal investment.

88. Returns to qualifications at Level 2 and below are weak or non-existent and vary considerably by gender and industrial sector. The Big Skills Marketing campaign may wish to stress the long term aspirational benefits of learning rather than the short term benefits from acquiring a particular skill. The campaign should look to promote learning for all ability ranges, not just the low achievers. The campaign may also wish to consider separate strategies for different industrial sectors and different regions.

89. The study found considerable variation in willingness to pay and recruitment levels by age. Individuals in the age range 25-34 appeared to be prepared to pay the most, despite the fact that they may have limited disposable income. However a modern successful economy requires individuals to retrain throughout their working life and promoting the value of learning to older working people may be more challenging. The LSC will need to ensure that its funding mechanisms allows individuals to retrain (cost-effectively) for alternative careers at any stage in their working life and doesn't hinder labour mobility.

90. The fee paying market in Greater London appears to have significantly different characteristics to other regions in the country and the Big Skills Marketing Campaign may wish to take this into account.



Value of Learning in the Adult Market

RCU ref. 07.108

Final



Leading learning and skills

91. Increases in course fees may have a particularly adverse effect on people on low income in sparsely populated rural areas. There is very little primary research looking at this and the LSC may wish to investigate this area further.

92. A promotional campaign to support the fee policy faces three special problems which the LSC may wish to consider:

- It is unusual to stimulate demand for a product by telling people it costs more than they think;
- It is difficult, without detailed caveats, honestly to argue that lower level vocational qualifications represent good value for money;
- It is difficult to promote increased contributions from employers at the same time as promoting free provision.



93. Recommendations

The LSC is recommended to:

- Focus its monitoring of policy around the fee percentage charged by colleges not the level of fee income collected.
- Consider moving to a 50% fee assumption in 2008/09, following a full costed risk assessment.
- Develop with colleges a financial support strategy linked with fee policy (as in HE), targeted at those learners who may be disadvantaged by an early rise to a 50% fee assumption. This may include the targeted use of bursaries and sponsorship funds.
- Carry out a detailed examination of who benefits from local and national practice in respect of fee remission and how the courses followed align with priority categories of provision and to look at how best value for money can be obtained.
- Consider how it can best support employed individuals who wish to retrain or gain new skills but cannot access training through their employer (e.g. due to a planned career change) or cannot afford to pay higher fees.
- Carry out further studies into elasticity of demand and in particular determine:
 - The levels of elasticity in different learning markets and contexts;
 - How elasticity changes when the levels of Government subsidy is reduced and
 - The extent to which individuals are sensitive to fee changes rather than absolute fee levels.
- Encourage providers to publish the element of LSC subsidy on a course by course basis in order to promote the excellent value for money offered by the sector (including Train to Gain provision).
- Respond to the extra indirect costs in rural areas through LSF prioritisation and allocations.
- Consider the extended use of income contingent fee and maintenance loans in FE as in HE.
- Support colleges by collecting and publishing on an annual basis the range of fees charged for the most common courses.
- Support colleges by publishing examples of programme redesign that have helped retain learners at higher fee levels.
- Use the Big Skills campaign to:
 - Promote public awareness of costs (e.g. “for the price of a gym membership you could train to become a plumber”) or
 - Stress the wider and aspirational benefits of learning rather than short term economic benefits
- Consider how regional differences can be taken into account in fees policies, particularly in Greater London.
- Consider how changes in the delivery of other programmes such as Train to Gain might best support fees policy.

Moving to 50% Fee Assumption in 2008/09 – What are the Risks?

Value of Learning in the Adult Market

RCU ref. 07.108

Final



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Increasing the fee assumption from 37.5% NBR to 50% NBR in one year would move colleges more rapidly to a position where they are less dependent on LSC subsidy and have a greater incentive to raise income from fees.

This would require a fee increase of +33% (plus any change in the national base rate between the two years).

If we assume an elasticity of demand of 0.3 (see paragraph 29)

Fall in learner numbers as a result of the fee increase = 10%

Additional risks:

- Individuals may be more sensitive to fee increases than absolute levels of fees and a 33% fee increase in one year might be regarded by some as unacceptable. The overall impact on learner numbers might in these circumstances be greater than 10%.
- The fall in demand due to price sensitivity may reduce some class sizes to a level where they are un-economic. Colleges might cut whole groups as a result, magnifying the fall in learner numbers.

However:

- One college that has moved to a 50% fee assumption noticed very little impact on recruitment (see Case Study on page 13)
- There is some evidence that any fall in recruitment is temporary and numbers recover in subsequent years.
- College provision appears to have shifted towards vocational provision and Government priority areas in recent years and individuals and employers accessing these types of courses may be less sensitive to price increases than previous analysis suggests.
- Targeting LSF, bursaries, loans and Government fee remission on those individuals who are most sensitive to price increases may offset some of the fall in numbers
- A national media campaign focusing on the value of adult learning may stimulate demand to counteract some of the impact of fee increases.



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RCU ref. 07.108

Final

94. Action Plan



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ACTION	OWNER	START	END
Fee Assumption			
LSC should consider monitoring progress in raising fee rates rather than fee income			
LSC and DIUS should review whether to move to a 50% fee assumption in 2008/09			
LSC should consider the extent to which targets should take into account regional differences, particularly in Greater London			
Support for Individuals			
LSC should consider whether higher transport costs in rural areas should be reflected in LSF allocations			
LSC should consider with colleges how a bursary scheme could be developed as part of a self regulating sector			
LSC and DIUS should review the scope for developing income contingent loans as operated in the HE sector			
LSC should carry out a detailed examination of the current use and value for money of national fee remission			
Support for Institutions			
LSC should publish on an annual basis the rates currently charged for the most common FE qualifications			
LSC should encourage providers to publish the level of Government subsidy for adult courses			
LSC should publish case studies showing how some providers have successfully re-configured provision or payment systems to support higher fees			
Communications			
LSC and DIUS should stress the wider and aspirational benefits of learning rather than simply the economic benefits			
LSC and DIUS should ensure that all LSC programmes, including Train to Gain, provide a consistent message on fees			
LSC and DIUS should ensure that individuals and employers understand the full cost of FE			



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- (14) *The Impact of Post-school Vocational Qualifications on the Labour Market Outcomes of School Leavers* McIntosh S. CEP 2004
- (15) *Estimating the Returns to Level 2* Frontier Economics for LSDA (unpublished) 2006
- (16) *The Distribution and Returns to Qualifications in the Sector Skills Councils* Vignoles A. and Dickerson A. for Skills for Business 2007
- (17) *Saving for Learning: An empirical study of household behaviour in relation to saving and investment in learning* Charles River Associates for LSRC 2004

Consumer Attitudes to Fee Paying

[Attitudes to Fees in Further Education Research for DfES/COI by MORI November 2005](#)

This study interviewed a random sample of 2006 members of the public over the age of 19 in England by telephone in September 2005. The report suggests that most members of the public expect to pay fees, but are ignorant about the level of costs and public subsidy. They felt that the government and employers should pay more than currently for vocational FE, whereas the individual and government should jointly fund leisure courses.

[In a Quandary: who should pay for Learning? NIACE 2006](#)

The study is based on a sample of 6,000 people in Spring 2006. Individuals responses to the question of who should pay suggested that the balance should shift towards individual users but the answers differed significantly depending on whether the alternative was described as the government or the taxpayer.

[Beg, Borrow, Steal or Save Callender c. for CfBT 2006](#)

[Paying for Learning Ivens, C. and Callender C. for CfBT 2006](#)

These two publications are the final outcome of a project jointly funded by LSDA and CfBT called Saving for Learning. The series also contains work on international comparisons of paying for learning and an empirical study based on BHPS, both by Charles River Associates. The final reports are based on telephone interviews with 4,169 respondents drawn from two waves of the NOP random omnibus survey in September 2004 and February 2005. A further 58 depth interviews were undertaken with those saving or paying for FE. It showed that while many were willing to pay for learning a majority felt they could not do so out of current income.

Provider Response to the Fee Agenda

[Fees in Colleges Pye Tait Ltd. For DfES](#)

This research is based on visits to 10 colleges, email and telephone contact with a further 50 and a subsequent telephone survey of 150 colleges in November 2002 and February 2003. It showed that colleges used discretionary fee remission to increase enrolment as part of the 'Widening Participation' agenda and felt strongly that it was effective and important.

[Research into FE Colleges Fee Charging Policies and Practices York Consulting Oct 2000](#)

The study is based on 117 questionnaires returned from a survey of all FE colleges in 2000 plus 24 conversations with employer representatives and some conversations with stakeholders. It suggested that colleges in areas of deprivation had difficulty in raising fee income; and that many colleges did not have detailed estimates of fees from individuals or employers.

[Talking about Fees Perry A 2004](#)

This study was based on case study work with 24 GFE colleges and 3 AE providers. It highlights how practice varies significantly but fee collection was not seen as a priority by

Value of Learning in the Adult Market

RCU ref. 07.108

Final



Leading learning and skills

many colleges. It makes recommendations for improving performance which are developed in [Fee Income A good practice guide 2005](#) by the same author.

[Snapshot survey of college fee changes and impact RCU 2006](#)

The study is based on 32 telephone interviews with colleges conducted in August 2006. It suggested that most colleges were aware of fee policy, based fees on LSC assumptions, but a minority (5) were moving more slowly because of price resistance.

[The Impact of New Fee Policies in FE LSDA 2006](#)

The study is based on a mixture of visits and telephone interviews with 40 providers in late 2005 & early 2006. It highlighted variability in fee practice, but three quarters reported that they had put up fees with little impact.

[The Impact of Fee Policies on LSC Funded Provision. RCU 2007](#)

The study combines ILR analysis, a survey of colleges and telephone interviews and included a special focus on full cost work. It confirms earlier analyses suggesting that colleges support the direction of changes but a minority are concerned about the pace in the light of some resistance from learners. Developing full cost work is not seen as an easy option.

[The Economic Value of Learning](#)

[The Distribution and Returns to Learning in the Sector Skills Councils Vignoles A & Dickerson A 2007](#)

This is the most recent and most detailed work in a series of studies by colleagues from the Centre for the Economics of Education and the Centre for Economic Performance. It confirms earlier findings by a series of researchers showing that vocational qualifications have lower returns than academic ones at the same nominal level; and that lower level NVQs have little economic benefit. A full list is available from CEE website.

[Understanding Demand for Adult Learning McLeod D LSDA 2006](#)

An independent assessment of the returns to level 2 qualifications was made by Frontier Economics as part of the 'Prospects for Growth' project reported by McLeod above. They suggest there is a small (4%) return to NVQ 2s for people with no prior qualifications once account is taken of sectoral differences in wage rates



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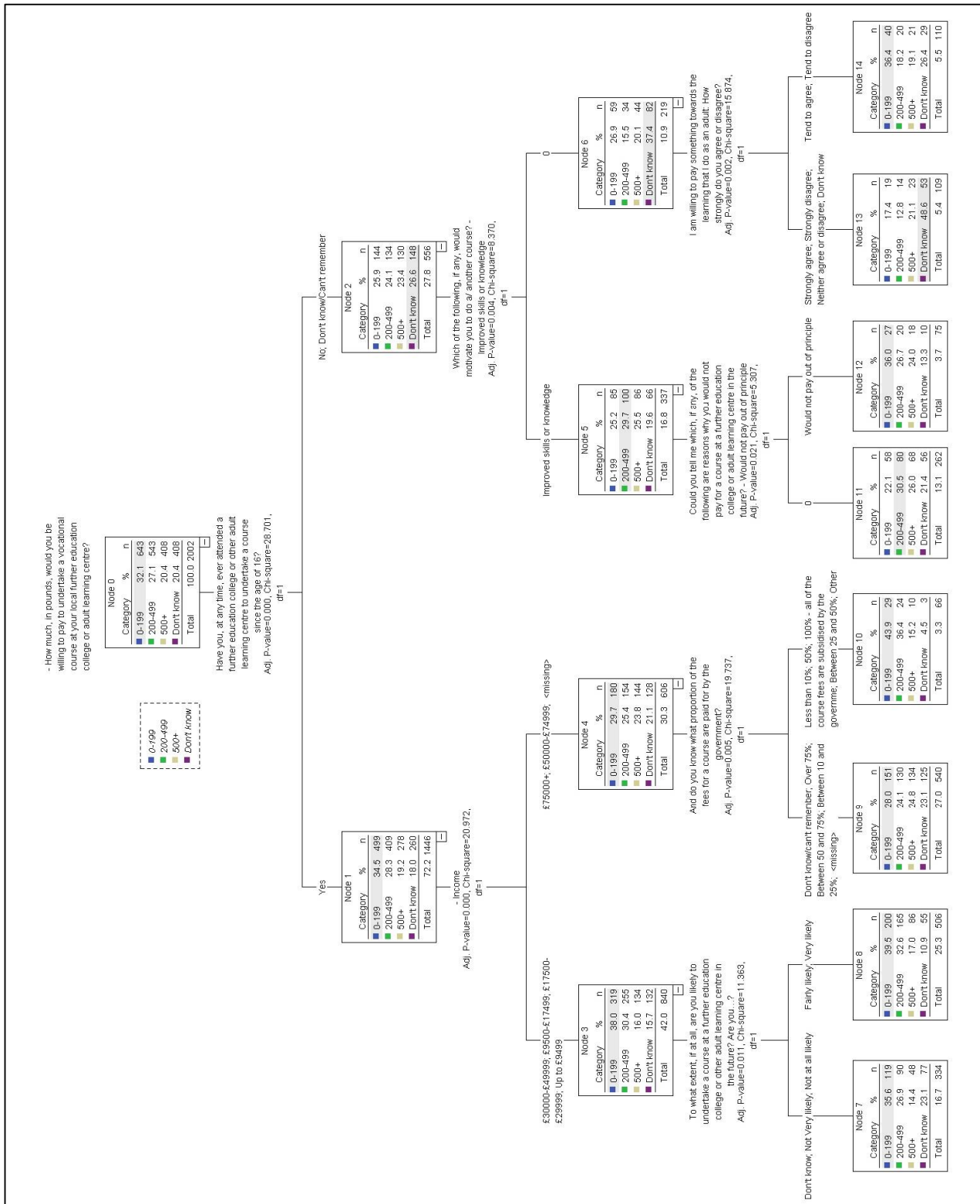
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Appendix 2 – Statistical Analysis of Ipsos-MORI Consumer Survey 2007



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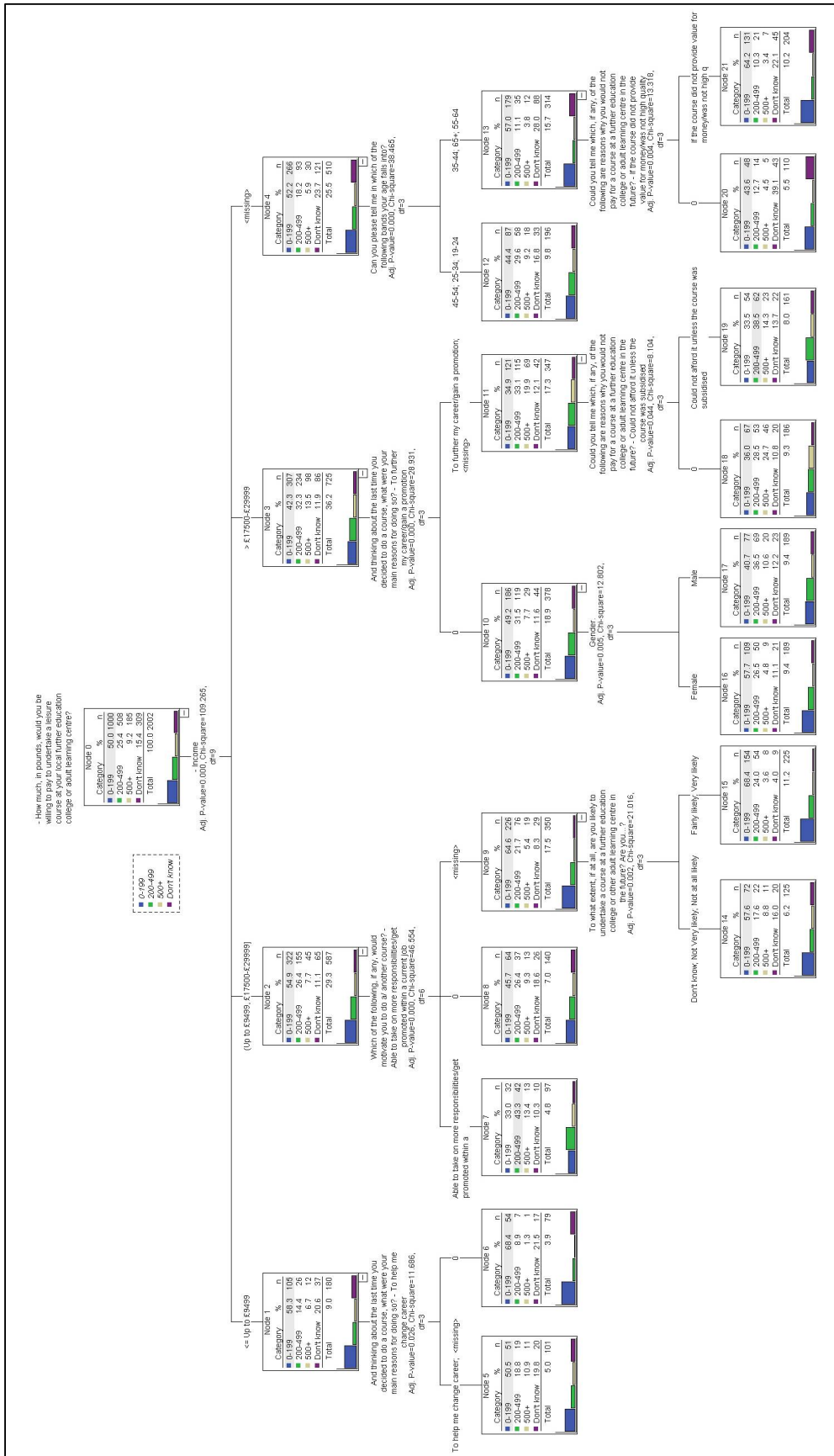
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RCU ref. 07.108

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Appendix 3 – List of Providers Interviewed for the Research Study



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Cambridge Regional College
Lambeth College
Burnley College
Kendal College
Bracknell and Wokingham College
Key Training
Bedford College
Eastleigh College
Great Yarmouth College
City College Brighton
MANCAT



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Publication reference: LSC-P-NAT- 080133