



Accountants &  
business advisers

# **Qualifications and Curriculum Authority**

## **Review of Awarding Bodies' Fees**

### **Executive Summary**

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# 1 Executive Summary

## Background

- 1.1 Awarding Body fees are a major source of costs for further education colleges, training providers and schools. The fees include examination entry fees, Centre and qualification approval fees, and moderation and verification visit fees. The further education, training and schools sectors have expressed concern about increased spending on fees in recent years, in particular the financial burden this is placing on Centres. In order to address this issue, the regulatory authorities require a greater understanding of Awarding Body fees to assess how reasonable they are.
- 1.2 In undertaking this exercise, we have focussed solely on GCSEs and A levels through three streams of work:
- ***Reasonableness of fees;***
  - ***Views of Centres; and***
  - ***Presentation of a common format.***

## Reasonableness of fees

- 1.3 ***At the highest level the fees charged by the Awarding Bodies are considered to be reasonable*** as there are no significant profits being made. Minimal profitability is made by the Awarding Bodies on GCSEs and A levels, with GCSEs being more profitable than A levels. A levels are generally loss making. For both GCSEs and A levels there are only a few profitable subjects that subsidise the rest of the loss making subjects.
- 1.4 In analysing the reasonableness of fees ***we need to consider more than just the profitability of the Awarding Bodies.*** To do this, we have identified four different drivers that influence the level of fees charged by the Awarding Bodies for GCSEs and A levels. These are:
- ***QCA qualification priority;***
  - ***NAA processing improvement priority;***
  - ***Awarding Body business assumptions on profitability; and***
  - ***Awarding Body business priority.***
- 1.5 Our assertion regarding reasonableness has been made assuming the reasonableness of cost and effort recovery. We have not reviewed efficiency, effectiveness or economic value

added measures that could impact on the view that Awarding Body fees were reasonable as these were outside the scope of our work.

### ***QCA qualifications priority***

1.6 ***The introduction of new government initiatives means there are changes to qualifications introduced into the system.*** These changes to curriculae and qualifications have to be implemented by Awarding Bodies which usually results in increased costs.

1.7 Examples of qualification changes are:

- ***Specialised Diplomas (new);***
- ***Changes from six to four units in A levels (major change); and***
- ***Changes in coursework (minor change).***

1.8 The qualification changes are discussed in further detail in paragraphs 1.23 to 1.30.

### ***NAA processing improvement priority***

1.9 NAA is aiming at achieving better quality examination offerings through greater accuracy and faster speed to the market. This means ***Awarding Bodies need to incur high investment costs in order to comply with the increased quality requirements.***

1.10 Currently there is a need for development of e-marking and e-assessment. Risk management is important when implementing these initiatives to ensure that the quality of assessment is not lost during implementation of the new technologies. To reduce any risk, implementation will need to be gradual with parallel runs in place to provide a backup for any problems that may occur during the switch over to the new system.

1.11 ***The implementation of new technology means increased costs to the Awarding Bodies.***

### ***Awarding Body business priority***

1.12 The ***business decisions made by Awarding Bodies will directly affect their profitability on qualifications.*** From an academic perspective a full range of qualifications needs to be offered to ensure that students choosing their subjects are not limited in their decisions. This leads to a number of loss making subjects as the volumes required are not sufficient to recover the cost of production. ***From a commercial perspective it is more profitable to offer high volume subjects by reducing the number of low volume subjects.***

1.13 Awarding bodies may make the business choice to offer GCSEs and A levels at the same price to ensure that everyone has equal access to the subjects offered. In this case it is the

*high volume subjects that subsidise the low volume subjects to recover the losses made by them.*

- 1.14 Awarding bodies may also decide to sell examinations other than GCSEs and A levels. *Vocational and international examinations, which tend to be more profitable, could be used to subsidise any losses made in their GCSE and A level offering.*

### ***Business assumptions on profitability***

- 1.15 Each Awarding Body differs in their business activities and the qualifications they offer to Centres. Currently there are two charities, one non-departmental public body (NDPB), one not-for-profit company limited by guarantee and one limited company. The variations in the types of Awarding Body highlight the potential for different business priorities.
- 1.16 Typically the business assumptions for not-for profit charities would be either to break-even, to make sufficient profits to recover past losses, or to invest in the future. A commercial company's business assumption would primarily be to make profits. The level of profits made by each Awarding Body is determined by decisions made regarding mark up and which subjects to choose.

### **Financial Risk**

- 1.17 The discussion of reasonableness in the above section highlights the amount of financial risk within the education market. This risk can either be borne by the Centres, the Awarding Bodies or a combination of the two. We have split our discussion below into the risk to Centres and the risk to Awarding Bodies.

### ***Risk to Centres***

- 1.18 *The risk to Centres is predominantly around the timing of decisions and budgeting.*

### **Deciding on qualifications**

- 1.19 *When the Centres choose an Awarding Body for a particular qualification they are effectively tying themselves to that Awarding Body for the lifecycle of the qualification.* This is in effect three years and the costs of switching part way through are very high due to expenses incurred for teacher support, materials and coursework.

### **Budgeting**

- 1.20 *The Centres are required to set their budgets before the Awarding Bodies have finalised and released their fee information. Even if a Centre has effective budgeting processes they cannot predict the changes that Awarding Bodies can potentially*

**make to their fees.** Therefore even an efficiently run Centre will more than likely have inaccuracies in their examination budget.

- 1.21 Any overspend by Centres is likely to require a cut-back in areas so that the Centre can still achieve their business objectives. Even though an overspend may not be significant in monetary terms, it is money that Centres would ordinarily use for items such as consumables and which is likely to directly impact on the learner. Most other types of expenditure incurred by Centres cannot be cut-back as these costs are largely fixed in nature.

### ***Risk to Awarding Bodies***

- 1.22 ***The risk for the Awarding Bodies is mainly around historical losses and uncertainty of future costs to be incurred.*** The following are the areas where Awarding Bodies face the biggest risks:

#### ***Qualification changes***

- 1.23 Within the education market there are a number of recent or planned changes to qualifications that directly impact on the risk discussion. The three changes that are currently on the horizon are listed below:

- ***Specialised Diplomas;***
- ***Changes to A levels; and***
- ***Changes to coursework.***

#### ***Specialised Diplomas***

- 1.24 A new and potentially significant risk to the Awarding Bodies is the introduction of specialised diplomas. ***A large amount of capital investment needs to be made by each of the Awarding Bodies to develop specialised diplomas.*** Not only is the cost of investment in the diplomas uncertain, but there is also uncertainty about what the level of demand will be. If there is low demand for the diplomas the Awarding Bodies risk not recovering their initial cost of investment.

- 1.25 If there is high demand for the specialised diplomas there is also the risk that diplomas will be substituted for some of the GCSEs and A levels.

#### ***A level specification***

- 1.26 ***The change to A levels from six to four units is also a significant financial risk to the Awarding Bodies.*** The reduced number of units means that there will be savings in the direct development costs associated with the units, but the fixed overheads will remain the

same. This will effectively increase the amount of overheads apportioned to each unit. The split between direct costs and overheads for most Awarding Bodies is approximately 50:50. ***The increased apportionment of overheads to the lower volume of units means each unit may cost approximately 25% more to produce.***

1.27 ***Although there is likely to be an increased per unit cost for an A level there should also be a reduction in total cost for each qualification of approximately 17% due to the reduction of units.***

1.28 Development costs will also be incurred to produce the new A levels. These will need to be taken from Awarding Bodies' existing development budgets, meaning that other initiatives are likely to receive potentially less. Any incorrect assumptions made at this stage may cause losses for the Awarding Bodies.

### **Changes to coursework**

1.29 Changes to coursework announced by QCA in the 2006/2007 academic year means that ***Awarding Bodies have to take into consideration the increased costs arising from the reduction in coursework.***

1.30 Although coursework is more expensive than external assessment, a large portion of this cost is absorbed by the teachers' salaries. A reduction in coursework and the corresponding increase in external assessment will cause increased costs for the Awarding Bodies and an outflow of cash for Centres paying for these examinations. There are unlikely to be any financial cost savings for the Centres as teachers' salaries remain fixed. However, savings may be possible in other areas, such as the freeing up of teachers' time which can be used elsewhere.

### **New processes**

1.31 The NAA are currently driving the need for increased quality. This means that Awarding Bodies need to improve or develop new processes so as to meet the required standards. ***The cost of investment to Awarding Bodies does not ensure future cost savings. The improved processes are focussed more on quality which indicates there might be no break-even on the initial costs incurred.***

1.32 Due to the risky nature of examinations and assessment there should be parallel runs for the introduction of all new process or system changes. This will increase the costs to Awarding Bodies as two systems will be run at the same time.

### **Pension costs**

1.33 ***There have been significant increases in Awarding Body pension costs over the last number of years and this is expected to continue into the future.*** This is typical of all

companies that have final salary schemes for their employees. Costs have increased due to increased longevity as well as historically poor stock market returns.

- 1.34 These increased costs are currently borne by the Awarding Bodies. In order to reduce the impact of the increased costs the Awarding Bodies may need to generate more income through increased fees.

### Reserves from previous years

- 1.35 ***Awarding bodies have needed to recover losses through incorrect assumptions made in the past.*** An insufficient understanding of how the cost drivers worked has meant the Awarding Bodies have spent several years recovering the losses from Curriculum 2000. In order to recoup these losses, the Awarding Bodies have had to increase the fees they charge to Centres.

### Markers' and examiners' fees

- 1.36 Examiners' and markers' fees have increased significantly in the last couple of years. Salary increases have been higher than the inflation rate and are a major cost component of an examination.
- 1.37 ***NAA currently subsidise the increases in salary, but this subsidy is due to be withdrawn next year. Once this subsidy is removed the Awarding Bodies will need to make up these costs through an increase in fees or cut-backs elsewhere.***

### Views of Centres

- 1.38 The views of Centres were obtained through a series of telephone interviews, a web survey and in-depth interviews with several selected Centres. The responses to the telephone interviews and web survey both gave the same findings which were conclusive in their results.

### Telephone interviews and web survey

- 1.39 The Centres selected for the telephone interviews and web survey formed a representative sample in the UK, Wales and Northern Ireland to include schools (private and public) and colleges (6<sup>th</sup> Form and General Further Education).
- 1.40 The views of Centres have highlighted ***that Awarding Bodies' fees do not significantly influence them when deciding which Awarding Body to use for their qualifications. Instead Awarding Bodies are primarily chosen by heads of departments and subject teams with the decision based predominantly on syllabus considerations.*** Most interviewed Centres are aware of what fees are for, but do not know how they are set. There

is also a split in opinion as to whether the Centres get value for money based on the fees charged by the Awarding Bodies.

- 1.41 ***The main impact that fees have on Centres is the potential for overspend on examination budgets.*** Budget overspends result in less funding on other resources which could be used to improve the quality of qualification offerings (for example learning resources such as books and software).
- 1.42 Providing more information to Centres regarding the breakdown of fees charged will allow Awarding Bodies to show the value of their service provision. This information could be shown as part of the common format, discussed below in paragraphs 1.48 to 1.56.
- 1.43 Budget overspends can be reduced through improved processes at Centre level (e.g. late penalty costs). However, this does not reduce the risk that Awarding Bodies will increase their fees by more than has been budgeted by the Centres. The financial risk has been discussed in paragraphs 1.17 to 1.37.

### ***In-depth interviews with Centres***

- 1.44 The in-depth interviews were performed at seven Centres where budget holders, examinations officers and principals were interviewed to gain a better understanding of their views around Awarding Bodies' fees.
- 1.45 Findings from the in-depth interviews matched the findings from the telephone interviews and web survey. Additionally it was found that ***changes in Awarding Body qualifications are rare unless there are poor examination results, poor customer service, changes in policies or a change in teaching staff.***
- 1.46 The Centres also indicated that budgeting for examination fees was incremental year on year based on an increase of about five to ten percent. The timing of when the Centres set their budgets happens before they currently receive fees information from the Awarding Bodies. The Centres thus need to guess fee increases and any incorrect assumptions may result in budget variances. ***Centres feel that any help with budgeting would be welcomed, although there was concern about the value to be achieved from the budgeting tool.***
- 1.47 Although the Centres find it easy to obtain information with the current means they indicated that a common format would help them make better decisions.

### **Common format**

- 1.48 The White Paper on Further Education sets out to consider how a common format might be created for the future presentation of fees. Through a better understanding of the views of Centres and the differing natures of the Awarding Bodies ***it has become apparent that the***

*common format will need to show more than just the fees charged* by them. The presentation of fees in a common format has been confined in scope to GCSEs and A levels.

1.49 *The views of Centres and different offerings from Awarding Bodies has highlighted that a common format for the presentation of fees would allow the Centres to obtain the information they require.* The common format can be split into three category types depending on the needs of the user:

- *decision making;*
- *budgeting; and*
- *transparency.*

### **Decision Making**

1.50 *Fees do not significantly influence a Centre's decision on which Awarding Body to use for GCSE and A level examinations.* It is usually heads of department or subject teams who make this decision, which is based more on the qualitative aspects of qualifications such as services offered and syllabuses covered. *The common format therefore needs to improve the ability of Centres to make decisions based on robust, accurate and comprehensive fee information.*

### **Budgeting**

1.51 The *overspend on examination budgets has been highlighted as the main factor to impact on* Centres when there is a change in the fees charged by Awarding Bodies. *The common format should therefore be a tool that can improve the ability of the Awarding Bodies and Centres to make effective and realistic budgeting decisions.* The information needs to include actual fees charged by the Awarding Bodies as well as any other hidden costs that may be incurred by the Centres (e.g. late penalties, withdrawal costs and re-marks).

### **Transparency**

1.52 *The differing natures of the Awarding Bodies mean that their qualification and other service offerings may vary between Awarding Bodies.* An understanding of these differences is useful for individuals making decisions about Awarding Bodies. *The common format should aim to improve the ability of all stakeholders to understand the difference in qualification offerings due to the different natures of the Awarding Bodies.* The information needs to include geographical differences, specific qualification offerings as well as a breakdown of what the fee levels cover.

- 1.53 To ensure the common format is used effectively, it is important that these three functions are located centrally so users do not need to switch between locations when gathering information.
- 1.54 Currently NAA have a budgeting tool on their website called 'The Exam Fees Calculator'. This is a spreadsheet that automatically totals the cost of on-time, late and very late GCSE and A level entries by subject and by Awarding Body. The regulators also have NDAQ which allows users to search for details of qualifications that are accredited.
- 1.55 With the increased information required for the presentation of fees we recommend that ***if the common format is introduced it is linked to NDAQ to ensure ease of use through central access***. Access to the common format should be through the internet, with a link on the QCA website.
- 1.56 When deciding on whether the common format should be implemented it is important to take into consideration costs versus benefits. ***The benefit of having all information in one central location needs to be weighed up against the initial cost of implementation and the ongoing costs to keep the information up to date.***

## Options

- 1.57 ***The further in advance the Awarding Bodies set their fees the more financial risk is transferred from Centres to the Awarding Bodies.*** By setting the fees in advance the Awarding Bodies need to take on the risk of uncertainty. Examples of these risks are changes in qualifications or changes in processes. Due to this uncertainty and the lack of reserves the Awarding Bodies would likely require the charging of a risk premium on fees. This additional cost will be what the Centres pay to ensure a known fee.
- 1.58 In order to overcome the problem of financial risk in the education market there are three options that can be assessed:
- ***Nothing changes*** – The risk remains with the Centres in that their budgets are directly affected by changes to fees made by the Awarding Bodies. This will not resolve issues faced by Centres;
  - ***Awarding bodies set fees one year in advance*** – This reduces risk that Centres face in that they can budget more accurately for examination fees, but still face the risk of being tied to an Awarding Body for the life cycle of any given qualification. Any inaccuracies in Centres' budgets will be seen as a result of inadequate processes at Centre level. A small risk premium is likely to be charged by the Awarding Bodies to take into consideration the increased risk; and

- **Awarding bodies set fees three years in advance** – The risk is transferred entirely to the Awarding Bodies as they will be required to set their fees three years in advance. The difficulty in setting fees three years in advance is the uncertainty of what might happen in the market (e.g. qualification changes, new government initiatives etc). A risk premium will therefore need to be charged by the Awarding Bodies to take into consideration the extra risk taken on by them.

## Recommendations

- 1.59 ***We recommend that the Awarding Bodies set their fees approximately one year in advance of current publications (ie September - November 2007 for September 2008 – August 2009 academic year).*** This would cause a reallocation of risk from the Centres to the Awarding Bodies. ***We also recommend that fees are released at the same time for all of the Awarding Bodies.***
- 1.60 In setting their fees one year in advance, ***we recommend that the Awarding Bodies provide a high level rationale which highlights to the sector, and centres in particular, the reasons for any changes to fees.*** This will ensure the Awarding Bodies have taken into consideration any factors that might affect their fees and will provide greater transparency of those factors impacting the qualification fees. The following considerations will need to be taken into account when producing the high level rationale:
- Level of detail to be produced;
  - Increase for which a rationale will be required; and
  - Timing.
- 1.61 With the high level rationale and co-ordinated release of Awarding Body fees, ***we recommend that there is a co-ordinated communication strategy to ensure that the sector is aware of:***
- ***any changes in fees;***
  - ***the rationale for any changes; and***
  - ***an explanation of the continuing Value for Money***
- of Awarding Body fees.***
- 1.62 If the Awarding Bodies set their fees approximately one year in advance of the current dates, the Centres will be able to budget more accurately. Budgets will then be able to be set with the correct fee assumptions. This will not eliminate inaccurate forecast of candidate numbers which is the other major variable for Centres' examination fees variances.

- 1.63 The fees charged by the Awarding Bodies may need to be increased to take into account the risk associated with financial forecasting given the level of profitability of GCSEs and A levels. Awarding Bodies may not have the financial capacity to bear the increased financial risk associated with the recommended changes.
- 1.64 We recommend that all GCSE and A level information be assessable through a single website. Rather than creating a complex new system, the new website should be user friendly and asking appropriate questions, present relevant summary data. Further details would be supported by links to already existing information on other websites.
- 1.65 With the Awarding Body fees being available earlier, the NAA Fees Calculator should be enhanced to be able to assist budgeting and variance analysis.