The Impact of Fees Policies on Recruitment to LSC Funded Provision already published

July 2008

Of interest to Copy of Target Audience to be overtyped here
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**About RCU and the Project Team**

RCU has been providing research and consultancy to the education and training sector since 1987 and has established a national reputation for data analysis and the development of strategic recommendations. RCU was set up in its current format by a consortium of colleges at the time of college incorporation in order to provide a specialist research facility for the sector. Its market quickly spread both geographically and in terms of client type and in recent years it has been one of the fastest growing market research companies in the country. It is now a free-standing company owned entirely by its staff.

The Project Team included:

Richard Boniface (Project Manager) former Deputy Principal and author of several research studies into fees practice for LSC South East and DfES


Mick Fletcher, former Research Manager at LSDA and co-author with Adrian Perry of The Impact of New Fee Policies in FE (May 2006)

Keith Rowland O.B.E, former Principal and co-author of DfES Snapshot Survey of College Fee Changes and Impact (August 2006)

Paul Smith, former Vice Principal and involved in a number of recent fees projects including LSDA study in 2005/06

Graham Whalley, Senior Data Analyst at RCU with particular expertise in ILR analysis and database manipulation
Executive Summary

Introduction

1. The research project investigated the impact of changes to fees policies on recruitment to LSC funded provision. The research was carried out between August 2006 and February 2007.

2. The research project explored college fee policies, fee levels and fee concessions. The research focused in particular on the impact of changes to fees on recruitment and the overall effect of these changes on college fee income. Finally, the research explored full cost recovery work and the extent to which this had been increasing in recent years.

3. Research activities included a national postal survey, in depth interviews with 70 colleges and analysis of key datasets such as the Individualised Learner Record (ILR) and college financial accounts. The research built on previous research in this area commissioned by the LSC and DfES.

Fees and Fee Policies

4. Broadly speaking the research found that the majority of colleges are responding to the policy to increase fees. Over 80% of the surveyed colleges increased their fees in 2006/07 in line with the increase in the LSC fee assumption (i.e. a fee increase of about 20%) and more than half of the surveyed colleges said that their part time fees were at or above the fee assumption.

5. There appeared to be considerable variation in the fees for specific courses across the country. Generally, vocational provision showed a much wider variation in the fees charged than general courses such as GCSE AS Levels. In some colleges vocational courses such as AAT NVQ3 and NVQ2 in Hairdressing were able to sustain significant fee increases without dampening demand.

6. Colleges are starting to develop more sophisticated approaches to fee setting. Many colleges told us that individual course fees could vary above or below pre-set levels according to market conditions.

7. At most colleges, fees for full time adults have historically been very low. However, fees in this area increased significantly in 2006/07. The mean average tuition fee reported by surveyed colleges, increased from £352 in 2005/06 to £550 in 2006/07 – an increase of over 56%. Fees for full time adults appeared to be highest in colleges serving the most affluent areas.

8. Reported fee levels did not vary significantly between regions, but institutions serving deprived areas were more likely to set fee levels below the LSC fee assumption.

9. Most colleges said that Government policy was the biggest influence on their course fees. In general course fees were not seen as a central part of college strategy, largely because fee income was a small proportion of total income.

10. The research found that greater use could be made of Governors in supporting the development an effective fees strategy. Governors rarely received a costed plan showing the possible implications of fee increases or the cost of fee concessions.
Local Fee Concessions

11. Subsidised tuition for full time adults remained a significant area of fee concession in 2006/07. However, colleges are making substantial progress in limiting this concession. Many colleges are concerned about the possible implications for learners on low incomes.

12. A third of surveyed colleges said that, apart from concessions for adults on full time courses, they offered no other local fee concessions in 2006/07. There is clear evidence that the volume of college based fee concessions has been reducing in recent years. Many colleges have phased out certain categories of fee concessions, such as discounts for senior citizens.

13. The fall in local concessions has been matched by a similar size increase in the volume of adult learners receiving Government fee remission. This suggests that colleges have been shifting their focus towards disadvantaged learners and Government priority areas.

14. Many colleges use the Learner Support Fund to pay tuition fees. The variability of the process across the country and the lack of nationally available data means that this system needs urgent review.

Impact of Fees on Recruitment

15. The majority of surveyed colleges felt that LSC re-prioritisation of the adult budget was the major reason for the decline in adult LSC funded FE recruitment in the past two years.

16. It is difficult to provide hard evidence about elasticity of demand in the current context of declining adult LSC funded FE recruitment. Whilst fee increases may have deterred some learners, demand may still exceed the number of fundable places.

17. More than half of the surveyed colleges felt that increases in course fees had had some impact on recruitment. In depth interviews with colleges, however, revealed that many senior managers were unsure about the impact of increases in course fees. Very few examples were given by colleges of complaints from learners and some managers were surprised by the limited impact of fee rises. In some instances, increases in fees was said to have had a positive impact on retention.

18. The largest falls in adult enrolments have been in the most affluent areas. Whilst this may be largely explained by changes in the curriculum profile, it also suggests that fee increases have not been a significant factor.

19. Sparsely populated rural areas have seen larger falls in adult recruitment. Increases in course fees may have had a particularly adverse effect on low income earners in these areas, who often face high transport costs and limited access to training.

20. Elasticity of demand (i.e. sensitivity of demand to price increases) appears to be highest for non-vocational adult courses and where there is a high proportion of older learners. This suggests that ‘price-awareness’ and the importance of the course for career progression are more important factors than disposable income.
21. Many colleges have concerns about the impact of future fee increases on local communities and low income earners.

Impact of Fees on Income

22. LSC fee performance data and interviews with colleges suggest that fee income from LSC funded courses remained roughly constant across the sector in 2005/06. This is because fee increases were offset by a reduced volume of LSC funded adult learners. Significant regional differences exist in fee income performance.

23. The amount of fees collected per taught hour (for those eligible to pay fees) increased substantially in all regions in 2005/06.

24. The majority of interviewed colleges did not feel that the LSC fee target setting process had been particularly useful. However, almost two-thirds of colleges thought that LSC data was accurate and reliable.

25. There appears to be a clear relationship between fee income levels per taught hour and deprivation, with the lowest fee income levels being in the areas of highest deprivation. The relationship may explain some of the regional differences in fee performance.

26. Fee income collected per taught hour is relatively high in sparse rural areas. This may be due to higher costs and lower levels of deprivation.

Full Cost Work

27. The research team identified a number of broad categories of full cost activity. These included customized management and professional courses for employers, customized occupationally specific courses for employers, professional courses for individuals, adult recreational programmes and consultancy services.

28. Direct conversion of LSC funded courses to full cost has had mixed success. Often courses have been subject to large fee increases and recruitment has fallen dramatically. Developing new customized provision (building where appropriate on established employer links) was more likely to be successful.

29. ILR recorded full cost income collected by colleges appears to have increased significantly over the past couple of years (between 2004/05 and 2005/06 ILR recorded full cost income increased by £9.5 million). For most colleges full cost work is a small percentage of total activity.

30. Many colleges are looking to expand full cost work and see it as a key part of future college strategy. However, the full benefits of the increased focus on employer related activity in terms of substantial full cost income may take some time to realise and the LSC should consider how it could assist in speeding up the required change in culture.
Conclusions and Recommendations

31. Significant changes have taken place in college fees policy and practice in the past couple of years. The vast majority of colleges set fees with reference to the fee assumption and more than half of the colleges are already at this level. Local fee concessions, including free tuition for adults on full time programmes have been reduced or removed and full cost income has started to increase.

32. It is recommended that the LSC consider using a performance measure such as fee collected per guided learning hour, which shows year on year progress. Current LSC fee performance measures set a higher and higher annual bar for colleges, due to an ever increasing fee assumption, and fail to show the real achievements that have been made. Further work, in consultation with colleges, should be carried prior to introducing any new measure.

33. A performance measure such as fee collected per guided learning hour could be used by colleges and the LSC to demonstrate the excellent value for money provided by the further education sector in comparison to other services to businesses or individuals.

34. There is very little evidence that fee increases, in themselves, have had a significant impact on learner numbers. However, the implications of fee increases for low income individuals in rural areas should be monitored.

35. Many colleges were concerned about the possible effects of future fee increases. There was a real fear that at a certain price level recruitment would fall dramatically and that this would have long lasting implications for the community. It is important that the impact of fee changes continues to be monitored in the future.

36. Full cost income collected by colleges appears to have increased significantly over the past couple of years. This is confirmed by ILR analysis as well as questionnaire returns. It is recommended that the LSC consider using a performance measure for full cost income that builds upon the ILR analysis presented in this report. It will be necessary to determine the proportion of full cost income that is currently recorded on the ILR and the extent to which other forms of full cost income can be migrated towards ILR based measurement over time.

37. The LSC should review the use of the Learner Support Fund to pay tuition fees and, in particular, seek to ensure greater consistency of approach across the country.

38. Whilst colleges have responded positively to the policy to increase fees, increasing fee income from LSC funded courses was not seen as a major strategic priority for many colleges. This is probably because tuition fee income is normal a small percentage of total income. The LSC should consider the implications of other policy drivers (16-18 year olds, Level 2 and Level 3 entitlement etc.) on the push to increase fee income.
Introduction

Background

1. The research project investigated the impact of changes to fees policies on recruitment to LSC funded adult provision. The research was carried out between August 2006 and February 2007.

2. Specific objectives of the project included the:
   - Measurement of actual fee levels, fee income and enrolments between 2004/05 and 2006/07
   - Measurement of the attitudes and perceptions of providers on the likely impact of fees on enrolments
   - Investigation of how current learner support programmes assist those who are unable to pay fees
   - Analysis of trends and impacts at an area level and an investigation into the impact of competition, deprivation and urban/rural environments on fee policy and recruitment
   - Assessment of the effectiveness of the LSC fee target setting process
   - Investigation of full cost recovery courses and the potential of full cost recovery courses for increasing fee income

3. The primary focus of the research was FE funded institution in England. Fee policy and practice in Work Based Learning (WBL) and Personal and Community Development Learning (PCDL) were beyond the scope of this study.

Policy Context

4. 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 college 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.

5. 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).

6. 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, individuals and employers should contribute more towards the cost of their own learning.
7. 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.

8. 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 pounds) 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.

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.

12. 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).

13. 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 full contribution to the cost of their learning.

Methodology

14. A questionnaire was designed in consultation with the LSC and posted to 292 further education colleges in England in September 2006. Responses were received from 120 colleges.

15. Responses received were reasonably representative of the sector. The sample included colleges from all regions, although the North East and Eastern regions were slightly under-represented. There was a good spread of colleges from a range of socio-demographic areas, a good urban/rural spread and a wide range of fee performance.
16. The research also drew on the evidence from the short snapshot survey, conducted for the DfES over the summer of 2006. This involved telephone interviews with 32 FE Colleges.

17. During the Autumn Term held in depth interviews with 51 colleges were conducted, the majority of these included face to face meetings with senior staff responsible for fees policy.

18. Early analysis of the results from the postal survey and interviews highlighted a need to look at specific aspects of fees policy in more detail. This included adult learners on full time courses, the use of learner support funds, elasticity of demand and full cost work. In December and early January, focused telephone interviews were arranged with 19 providers to explore these issues.

19. Data analysis was an additional element of the research activity. The research team utilised the Individualised Learner Records (ILR) from 2003/04 to 2005/06 and linked this to external datasets such as Indices of Multiple Deprivation and the Census of Population. LSC fee performance data from 2004/05 and 2005/06 was also analysed.

20. The research team utilised previous research in the fees area such as Fee Income: A Good Practice Guide (DfES 2005) and The Impact of New Fees Policies in FE (LSDA 2006).
Fees for Part Time Courses

21. More than 90% of interviewed colleges said that they had set their part time course fees with reference to the LSC assumed fee element. Just over a quarter of interviewed colleges, however, were phasing this in over a number of years so actual fees were still below the fee assumption. The precise mechanism used for setting part time fees varied between colleges and included combinations of fee bands, rates per hour and individual course costing. Many colleges told us that individual course fees varied above or below pre-set levels according to market conditions. However, decisions were rarely based on hard market research evidence and were largely determined by local departments in consultation with senior managers.

22. Figure 1 shows how part time fee levels in 2006/07 compared to the LSC fee assumption of 32.5% National Base Rate (based on 120 returned questionnaires).

Figure 1; College Fee Levels 2006/07

23. More than half of the colleges who replied to the survey said that their fees for adult part time courses were at or above the fee assumption of 32.5% National Base Rate. However, in more than a quarter of colleges, fee levels were substantially below the LSC fee assumption (less than 27.5% National Base Rate).

24. Reported fee levels did not appear to vary substantially between LSC regions. Figure 2 below compares fee levels in the four regions with the highest questionnaire response rate – the West Midlands, South East, North West and Greater London.

Figure 2: Fee Levels for Selected Regions

Source: Questionnaire Data
25. Only six of the colleges who said that they were setting fees above the fee assumption were general further education colleges (the others were specialist colleges and sixth form colleges). However, the general further education colleges were widely dispersed geographically and served a range of different communities, including affluent rural areas and deprived urban areas. One college based in a deprived metropolitan region had moved fee levels to 50% National Base Rate in 2006/07.

26. Institutions serving the most deprived areas\(^1\) were more likely than others to set fee levels below the LSC fee assumption. However, the correlation between deprivation and reported fee levels was fairly weak. Figure 3 compares fee levels of colleges grouped by ten deprivation bands. These bands are based on the postcodes of learners linked to the indices of multiple deprivation and therefore takes into account the actual recruitment pattern of colleges.

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\(^1\) The Provider Deprivation methodology used in this report involves assigning each provider to one of ten deprivation bands based on the average deprivation score of learners attending that institution (using the indices of multiple deprivation).
27. Recent changes in the LSC fee assumption translate into actual fee increases of 15% and 21% in 2005/06 and 2006/07 respectively. Over a two year period this represented a potential fee increase of 39%. A number of senior managers that we spoke to were unclear about how changes in the fee assumption affected actual course prices (even when they told us that college fee policy tracked the fee assumption). The majority of colleges that completed the questionnaire said that their fee increases in 2006/07 were broadly in line with changes in the LSC fee assumption. This is illustrated in Figure 4.

28. Detailed interviews with colleges confirmed that the majority of institutions had increased their part time fees by around 20% in 2006/07. However, one institution said that they had deliberately limited price rises in 2006/07 due to adverse reactions to fee increases the year before. Another college felt that they did not need to apply the full increase in 2006/07 because of their existing strong fee income performance. A couple of colleges were addressing historical variations in fees across the institution, so fee increases were extremely variable and an average fee increase was hard to estimate.

29. Colleges were also asked about specific tuition fees for a range of the most popular part time FE courses (excluding examination, registration and materials costs). Figure 5, for example, compares the prices for GCSE AS Level (evenings) from 64 colleges. Fees ranged from £98 to £295, with a mean of £172. The LSC assumed fee element for GCSE AS evening is £188, only slightly above the average for this sample. Approximately half of the colleges in the sample were within £30 of the assumed fee element, consistent with survey results that found that 46% of colleges were setting fees close to the assumed fee element of 32.5% of National Base Rate.
30. The course fees for AAT Intermediate NVQ3 were much more variable across the country (probably because there is much greater opportunity for market pricing in areas like accountancy). Figure 6 compares the tuition fees from 74 different colleges. The spread of fees for AAT NVQ3 was considerable, ranging from less than £200 to over £700, with a mean of £452. Colleges delivered the programme in a range between 180 and 450 guided learning hours but the course fee per taught hour still varied enormously across the country (from 77p per hour to £5.00 per hour). The LSC assumed fee income for this programme, if it were delivered in 270 hours, is £440, close to the average for this sample.

31. Figures 7-9 compare the tuition fees for three other common FE courses – Diploma in Indian Head Massage, NVQ2 in Hairdressing and Certificate in FE Teaching Stage 1. The results are based on survey results from a minimum of 55 colleges.

32. The charts clearly show the wide variation in fees across the sector for equivalent learning outcomes. Whilst this is partly due to different delivery hours and different target markets, the lack of price consistency suggests that there could be opportunities for further price rises in many colleges. For example, whilst a third of colleges are charging under £100 for Indian Head Massage, a similar number are charging more than £150 for the same qualification.
33. The average tuition fees charged in these examples were close to or above the LSC fee assumption. For example the fee assumption for the Diploma in Indian Head Massage, if delivered in 60 hours, would be £129 and more than half of surveyed colleges set fees that met or exceeded this level.

34. Published prices for NVQs in Hairdressing and AAT and FE Teaching Certificate are much more variable across the country than GCSE AS Level. This may be because some colleges are charging higher fees for employer related activity.

Figure 7: Course Fee for Diploma in Indian Head Massage 2005/06

Figure 8: Course Fee NVQ2 in Hairdressing 2005/06

Figure 9: Course Fee for FE Teaching Stage 1 2005/06
Fees for Full Time Adults

35. Many colleges have traditionally charged substantially less than the fee assumption for full time adults. However, fees in this area increased significantly at many colleges in 2006/07 (Figure 10). In 2005/06 45% of surveyed colleges said that they did not charge tuition fees for full time adults but in 2006/07 this had fallen to just 7%. The mean average tuition fee charged increased from £352 to £550 and the median average from £99 to £400.

Figure 10: Adult Full Time Tuition Fees

36. Many colleges set a tuition fee for full time adults in the range £200 - £300, particularly where they had moved from zero fees or a nominal fee in previous years. Another broad group of colleges made no distinction between part time and full time fees and set both at the LSC fee assumption (around £830 for a 450 hour course). The reason for the two different approaches seems to be largely historical.

37. Most colleges in-filled adults onto existing 16-18 year old provision across a wide range of vocational areas. Very few colleges (13 out of 120 responses) had different fees for young adults (19-25 year olds) compared to older learners.

38. The relationship between advertised full time adult tuition fees and deprivation is shown in Figure 11 (this is based on 91 questionnaire responses so a degree of caution in interpreting the results is required). Colleges recruiting learners from the most deprived areas are in deprivation Band 1 and those recruiting learners from the most affluent areas are in Band 10.

39. There appears to be a correlation between full time fee and deprivation in deprivation bands 5 to 10. However in the most deprived areas (1 to 4), advertised fees are higher than might be anticipated. This is likely to be because the majority of learners in these colleges are not actually paying fees but are claiming Government fee remission.
40. The Principal of one college serving a deprived area, for example, said that whilst full time students are nominally charged the full fee, most students are in LSC fee remission categories and the remainder will receive assistance from Learner Support Funds to pay fees (i.e. it is unlikely that any students pay an actual fee). The use of Learner Support Funds to pay tuition fees is examined later in this report.

41. Many colleges were uneasy about the possible effect of full time fee increases, particularly on low income earners.

42. Late in the autumn term the research team went back to six colleges who had made substantial changes to their full time adult fee (increases of between £180 and £800). At five of these colleges recruitment was the same as in the previous year or only slightly lower, suggesting that fee levels were not a major factor influencing recruitment. However, a large proportion of adult full time learners at these five colleges received Government fee remission (between 28% and 61% of learners). It is possible, therefore, that fee increases have changed the balance of recruitment towards those receiving Government fee remission and away from fee paying learners.
Factors Driving Fees Policy in Colleges

43. Virtually all interviewed colleges said that fee increases were largely driven by government policy. There was little evidence that senior managers saw fee increases as a way of securing new income for the college although some saw it as a way of partly compensating for the loss of adult LSC funding.

44. Survey responses supported the view that Government policy was the main reason for fee increases in colleges. Figure 12 identifies college's perceptions of the relative importance of a range of different factors in determining the actual course fees set by colleges in 2006/07. Less than half of the colleges surveyed felt that demand from local residents and their ability to pay were important reasons that were driving their fees policy. Interestingly, a third of colleges did not feel that the need to secure additional income was an important factor. This is probably because fee income is a small percentage of their total income.

Figure 12: Relative Importance of Different Factors in Determining Course Fees (College Perceptions)

- **Government policy**
- **The need to secure additional income**
- **Prices set by local competitors**
- **Local residents'/employers' ability to pay**
- **The costs of different types of provision**
- **Prioritising different types or categories of learners**
- **Demand from local residents/employers**
- **Historical precedent and local expectations**
- **The need to achieve growth**

Source: Questionnaire Data
Communication of Fee Increases

45. Most colleges took no special action to publicise increases in course fees. The general belief was that maintaining a low profile was the best policy and that this approach was least likely to incur public hostility. One college told us that there was a limited awareness amongst new learners of course fees in previous years or at other institutions, and therefore there was little need to have a specific communication strategy for fees. Figure 13 below shows how colleges communicated fee increases based on questionnaire responses. Less than 10% of colleges said that they had a targeted media campaign that reflected changes in course fees.

Figure 13: Methods used by Colleges to Communicate Fee Increases

Role of Governors

46. Fee Income: A Good Practice Guide (DfES 2005) recommended that Governors should receive an annual costed plan modeling the implications of fee changes and the cost of local concessions. From both the survey results and detailed interviews we found very little evidence that this was happening. 84% of surveyed colleges, for example, reported that Governors approved the broad principles of the fees policy but only 16% received a detailed costed policy. Several of the interviewed colleges stressed that Governors were involved in robust discussions about the impact of fees particularly where they felt that it might have implications for community access.

Conclusions

47. Over the past couple of years the vast majority of colleges have increased their course fees by substantial amounts, responding to the increase in the LSC fee assumption of 39%. More than half of the colleges reported that their fees were at or above the fee assumption and many of the remaining colleges were phasing the increases in over a number of years because of historically low fee levels. There is also much greater awareness amongst college senior managers about fees and fee income compared to a couple of years ago.

48. There did not appear to be significant regional differences in fee levels, although this might be affected by relatively low questionnaire response rates from a couple of regions. Fee levels tended to be lowest in deprived areas, although there was significant variation between colleges.
49. The fees for individual courses tended to vary considerably across the country and this suggests that there may be scope for further fee increases in the future. It does not appear as though specific courses have an established price in the marketplace at a national or regional level that would be recognisable to learners. However, at a local level there may well be expectations about fee levels based on historical experience. The challenge for the sector is to establish a clear relationship between value and price that is widely understood by individuals and employers. The LSC may wish to consider how it might develop and share information at a national and regional level that could support this goal. For example publishing average fee levels per hour could help demonstrate the value for money that the further education sector provides compared to other activities such as gym membership.

50. Fees for adult full time learners have increased significantly over the past couple of years. In 2005/06, for example, 45% of colleges did not charge a fee for this category of learner whereas by 2006/07 this had fallen to just 7%. In some colleges however the impact of this fee increase has been minimised by recruiting more learners in receipt of Government fee remission and by using Learner Support Funds.

51. Whilst colleges have responded positively to the increase in the fee assumption, increasing fee income from LSC funded courses does not appear to be a major strategic priority for many colleges. This is probably because fee income is normally a small percentage of total income and factors such as 16-18 recruitment have a much larger impact on financial health.
Fee Concessions

52. Substantial discounts for full time adult learners remained as a significant area of fee concession in 2006/07. However, as discussed in the previous section, colleges are making significant progress in limiting this concession.

53. Details of fee concessions for part time courses outside of Government fee remission categories are shown in Figure 14 (based on 119 questionnaire responses). A third of colleges provided no local concessions and of the remaining two-thirds the most common concession was for specific targeted courses. This includes community based provision (such as IT) and many interviewed colleges reported that the volume of this activity had declined massively in the last couple of years. Discounts for senior citizens were reported at about 20% of colleges, although a number of providers we interviewed said that they were phasing this out or reviewing the policy (partly due to concerns about age discrimination).

54. Survey responses on fee concession policy did not appear to be strongly linked to the deprivation or affluence of an area that a college serves. In fact 90% of colleges serving the 10% most affluent areas in the country said that they offered some form of local fee concession for part time adult learners.

55. Postal survey responses suggested that colleges in densely populated urban areas were slightly more likely to offer local fee concessions than colleges in rural areas, possibly due to greater levels of competition. However, this is based on a small sample so some degree of caution is required in interpreting these results.

ILR Fee Remission Records

56. The FE Individualised Learner Record (ILR) records details of fee remission in field A14. The majority of colleges that we spoke to said that this field was likely to be filled in accurately. However a small number of colleges expressed concern about how this data might be used and examples of issues that they raised are listed below.

- ILR data is retrospective and whilst 2005/06 data is useful (the latest complete national dataset), significant changes have taken place in 2006/07.
- Where a learner pays up-front for a two year course A14 is set to 10 (local fee remission) in year 2.
- If a learner is considered to be a basic skills learner (main learning aims are predominately basic skills qualifications) fees are remitted on all extension activities.
• Full time fee is charged per learner not per qualification, so the fee may only be recorded against one main qualification and other qualifications are recorded as having local fee remission.

57. Further research may be required to quantify the extent to which these issues compromise analysis based on A14 (including fee shortfalls measures produced by the LSC). However, the ILR remains the most comprehensive record of learners and qualifications and many of the issues raised are related to inconsistencies in local practice rather than fundamental problems with the ILR itself.

58. Locally determined fee remission (i.e. fee concessions falling outside of national fee remission categories) fell from 42% of all enrolments in 2003/04 to 33% in 2005/06. This is consistent with the comments of college managers who reported that many fee concessions had been removed or cut back in recent years and that the numbers of learners on subsidized outreach work had also fallen.

Figure 15: Percentage Enrolments Recorded as Local Fee Remission (A14=10 or 19)

59. Over the same time period the number of enrolments recorded as fee remitted due to Government fee remission increased from 30% in 2003/04 to 39% in 2005/06. This reflects how colleges have responded to Government priorities, with a particular focus on basic skills and first full Level 2.

Figure 16: Percentage Enrolments Recorded as LSC Fee Remission

60. As a result of these changes the proportion of enrolments where learners are actually paying advertised course fees has remained roughly constant over the three year period (25%), although the number of learners paying fees has reduced by over 230,000.
61. The East Midlands region had the highest proportion of enrolments receiving local fee concessions (43% compared to an average of 33% in 2005/06) and Greater London had the lowest proportion (23%). The North East had the greatest reduction in this category between 2004/05 and 2005/06 (-15%) but the level of local fee remission remained high at 40% of all enrolments. Figure 17 shows the level of local fee concessions in 2005/06 by region.

Figure 17: Percentage of Enrolments Receiving Local Fee Concessions 2005/06

<table>
<thead>
<tr>
<th>Region</th>
<th>A14= 10 or 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>East of England</td>
<td>29%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>43%</td>
</tr>
<tr>
<td>Greater London</td>
<td>23%</td>
</tr>
<tr>
<td>North East</td>
<td>40%</td>
</tr>
<tr>
<td>North West</td>
<td>28%</td>
</tr>
<tr>
<td>South East</td>
<td>34%</td>
</tr>
<tr>
<td>South West</td>
<td>37%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>37%</td>
</tr>
<tr>
<td>Yorkshire and Humberside</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: ILR F04 2005/06

62. The relationship between the percentage of enrolments receiving fee remission and Learner Deprivation\(^2\) in 2005/06 is shown in Figure 18. As expected a high proportion of learners who lived in the most deprived wards in the country received Government fee remission (over 60% of learners). An additional 25% of learners who lived in these wards received local concessions from the college. Interestingly, almost 40% of learners who lived in the least deprived wards in the country received local concessions from the college – a considerably higher proportion than in the most deprived areas.

63. Learners who live in rural areas are more likely to receive college based fee concessions than learners in urban areas (Figure 19). This is probably due to lower levels of deprivation and the consequent lack of Government fee remission. It is possible that low paid workers in rural areas may face particular difficulties such as high transport costs and long travel times that are not reflected in existing national fee remission categories.

\(^2\) Each learner enrolment is allocated to one of 16 bands according to the indices of deprivation score associated with the learner postcode. This is a different measure to Provider Deprivation where learner deprivation scores are averaged across an entire institution.
Figure 18: Relationship between the Percentage of Enrolments receiving Fee Remission and Deprivation (2005/06)

Source: ILR F04 2005/06 and Indices of Deprivation 2004

Figure 19: Relationship between the Percentage of Enrolments Receiving Fee Remission and Population Density (2005/06)

Source: ILR F04 2005/06 and Census of Population 2001
Learner Support Fund and Fees

64. In many colleges learners with identified needs can get help with their tuition fee payments from the Learner Support Fund (LSF). However, the practice is extremely variable across the country.

65. The use of LSF to pay fees is not recorded as fee remission (in field A14) and as far as the ILR shows, the learner has paid the fee in full. This means that some colleges will have (on paper) a much smaller fee shortfall than others, simply by utilising their LSF budget.

66. Some colleges said that using the LSF ensured that an appropriate and fair assessment of learner need and ability to pay is carried out. However, the variability of the process across the country and the lack of consistent records make it difficult to assess value for money on a regional and national basis.

67. Only 56% of the colleges that we surveyed knew how much from the LSF was spent on tuition fees. Figure 20 shows the responses from these colleges. Seven colleges said that in excess of £100,000 from the LSF had been spent on fees in 2005/06.

Figure 20: LSF Expenditure on Fees 2005/06

68. A small number of colleges were asked more detailed questions about the use of LSF for paying tuition fees. These colleges included both large and small colleges in the north and south. Respondents confirmed the accuracy of the LSF figures they had given in the initial survey.

69. The respondents said that they had no plans to change the way in which they used the LSF. The impression was of accurate record keeping and well controlled systems that gave regular information to senior managers, though a couple of overspends were reported. Three colleges said that they topped up the LSF allocation in order to give extra help for learners.

70. The proportion of the LSF used for tuition fees varied greatly between the colleges in our sample (from 10% to 64%). Only one college said that the proportion was increasing as fee levels rise, although many were becoming more restrictive in the way in which the fund is being used. One college, for example, has introduced a policy that requires everyone to contribute 30% of the course fee. This has ensured that more people can access the fund and has avoided a first come, first served allocation. Another college caps the total support available per student and another confines the help to full time students.

71. Colleges that we spoke to said that a fee subsidy from the LSF was allocated on a learner needs basis and not to specific programmes. Personal interviews and means tests by student services staff form the usual system, with appeals for special cases that don’t fit the rules. One college was considering targeting LSF fee subsidies at
specific courses, but was concerned about the possible adverse publicity resulting from similar students receiving markedly different deals.

72. There was no consistent view about the possible effect of preventing LSF being used to pay tuition fee. One large college was not sure of the impact and was surprised at the lack of reaction to a large fee increase this year. A couple of colleges were worried about the effect on full time adult learners and one college felt that some discretionary help was needed for the *working poor* who did not fit into Government fee remission categories. One college pointed out that tuition fees are only one element of cost for learners and a large amount of their LSF allocation was being spent on vocational equipment such as hairdressing and beauty therapy kits, catering knives etc.

**Conclusions**

73. There is clear evidence that the volume and financial value of local fee concessions have been falling over the past couple of years. There appear to be three reasons for this. First of all specific fee concession categories have been reduced or removed at many colleges, including discounts for senior citizens, early payment and full time adults. Secondly the volume of adult learners has declined substantially in areas that traditionally received substantial concessions, such as IT courses at community venues. Thirdly, colleges have tightened up their recording and monitoring systems. Increasing fees for adult full time learners and the introduction of the Level 3 entitlement should reduce local concessions still further in the future.

74. Many colleges use the LSF to pay tuition fees. Whilst the process has many positive features (such as a fair assessment of a learners ability to pay) the variability of the process across the country and the lack of nationally available data means that this systems needs urgent review.
Impact of Fees on Recruitment

75. This section explores the impact of fee increases on recruitment and looks at the concept of elasticity of demand. Whilst increases in fees are likely to deter some learners, what evidence is there to show that the overall effect on fee income will be positive or negative (and will this be different in different communities or regions)?

Overall Views of Colleges on the Impact of Course Fees on Recruitment

76. Surveyed colleges were asked to select (and rank) the three most important factors that they believed had led to recent declines in adult recruitment (Figure 21). The majority of colleges felt that the LSC funding allocation was the most important factor and this was confirmed by face to face interviews. More than half also felt that course fees had had an impact on recruitment.

Figure 21: Reasons for Decline in Enrolment Numbers (Survey Responses)

77. Most of the college senior managers that we interviewed, however, were unsure about the impact of fee increases on enrolment. There was little evidence of detailed research within colleges into the impact of fee increases and most of the fears expressed by college staff seemed to be anecdotal.

78. Very few examples were given by colleges of complaints from learners or employers following fee increases. However, this in itself does not mean that increasing course fees were not a barrier to some students. A couple of colleges said that there was anecdotal evidence of increasing demand for Learner Support Fund in 2006/07 as a direct result of fee increases.

79. Many of the colleges that we interviewed were surprised by the limited impact of fee increases on learners and in general felt that individuals and employers were more worried by course closures than fee increases.

80. A couple of senior managers felt that recent fee increases had had a positive impact on learner retention and that future fee increases could lead to improved respect for the sector by employers. Some examples were given where fee increases had led to increased recruitment.
81. A number of college managers, however, were very concerned about the possible impact of fee increases on deprived communities. Whilst it was recognized that Government fee remission provided support for those receiving benefit, individuals and families on low wages are particularly badly hit, they felt, by recent fee increases. However data presented later in this report suggests that recruitment has, in practice, fallen most sharply in affluent areas.

82. Other colleges told us about particular curriculum areas where fee increases, they believed, had led to large falls in enrolments. Common examples cited included IT, provision at outreach centres and language courses. Other colleges reported particular falls in recruitment in arts and performance, distance learning, non-priority areas, care and professional courses although they didn’t specifically link these falls to fee increases.

College Responses to LSC Funding Priorities

83. Fee increases over the past couple of years have taken place during a time of reduced funding for general 19+ FE provision\(^3\) and increased funding for priority areas such as 16-18 year olds and hard to reach employers. This has led to large falls in FE publicly funded adult places at many colleges, particularly on short courses. Attempting to isolate the impact of fees on recruitment within this overall context is difficult.

84. Most colleges that we interviewed reported large falls in FE publicly funded adult learners between 2004/05 and 2006/07. Analysis of the FE Individualised Learner Record (ILR) showed that the decline was particularly pronounced for older learners in the age range 30-64 and for Level 1 courses (including a wide range of general interest provision and short courses).

85. A large proportion of the decline in adult recruitment was specifically planned by the colleges to ensure that their curriculum mix was aligned with Government priorities. This included planned reductions in:

- Distance learning
- ‘Other’ provision and franchised work
- General qualifications for adults including languages and leisure courses
- Outreach work, including IT
- Short courses
- Provision that was unviable or marginal
- High margin provision such as professional courses, that could be moved to full cost work

86. In many colleges demand from potential learners for some courses exceeded the number of publicly fundable places. Whilst some learners might be deterred by higher fees, there would probably still be sufficient numbers of potential learners in to fill the available places.

\(^3\) LSC Annual Statement of Priorities 2006 (Table 5)
Many colleges told us that they were re-focusing their curriculum so that it met Government priorities. The details varied from college to college, but often included shifts away from LSC ‘fee income courses’ and towards:

- 14-19 learners
- Qualifications receiving Government fee remission, such as Basic Skills and full Level 2.
- Full cost recovery courses
- Train to Gain

The overall impact of such a shift would be a fall in fee income from LSC funded courses. This is particularly exacerbated where some of the more lucrative fee earning courses (such as Professional courses) are moved to full cost.

One college Principal explained that focusing on 16-18 year olds and Government fee remission categories minimized financial risk for the institution. Developing high cost, high value employer specific provision (including full cost) often required, he said, significant up front investment with no guarantee of future financial returns. Other colleges, however, were planning to significantly increase employer focused work, building on past successes, such as Centres of Vocational Excellence (CoVE).

Elasticity of Demand

It is impossible to provide hard evidence about elasticity of demand within the current context of an overall reduction in the adult budget – some individuals may be deterred by higher prices but there may still be sufficient potential learners who can fill the available places. However, investigation of some of the factors that influence price sensitivity may be helpful.

Elasticity of demand is likely to vary from course to course and between geographical areas. Some of the key factors that might increase the price sensitivity of a course (i.e. elasticity of demand) include:

- A high proportion of potential learners who have a low disposable income (but do not qualify for Government fee remission)
- A high degree of competition such that cheaper alternatives may be available locally
- A high proportion of repeat learners (i.e. learners that are aware of prices in previous years and could therefore be more sensitive to price changes)
- Training is purchased by an employee (e.g. a Training Manager) who has a fixed budget and has no authority to negotiate on price
- Training is not essential for employment, career progression or promotion and so can easily be cancelled or postponed

If courses with these types of characteristics have been particularly badly hit by recent increases in course fees, this might provide evidence for high elasticity of demand. Some of these issues are explored below. However, a detailed investigation into all of these factors is beyond the scope of this research project.
Impact of Low Income

93. Many colleges felt that the learners who were most affected by recent fee rises were those on low incomes. However, on a national basis the biggest decline in learner numbers has been from the most affluent areas. Figure 23 shows the change in enrolments by Learner Deprivation band between 2003/04 and 2005/06 (based on the home postcode of learners). In the most deprived areas enrolments fell by between 10% and 15%, whilst in the most affluent areas enrolments fell by almost 30%. Whilst there is no direct correlation between deprivation index and personal income (no data source exists for this), it is reasonable to assume that the most deprived wards contain a high proportion of low income individuals and families.

94. The results are partly explained by the use of Government fee remission for learners in the areas of highest deprivation, the targeting of basic skills learners by colleges and the closure of some general adult provision that may have been accessed by fairly affluent learners.

95. Nevertheless, the absence of any noticeable dip in enrolments for low income earners not in receipt of Government fee remission (e.g. Deprivation Bands 3-8) suggests that price sensitivity was not a major factor. However, continued fee rises and the reduction in local concessions may change the profile in the future.

96. Figure 22 shows the change in enrolments by age band between 2004/05 and 2005/06. The decline in enrolments was particularly noticeable for older learners (30-64 year olds), and these individuals are likely on average to have the highest levels of disposable income. Whilst the decline in numbers may be largely due to a change in the curriculum profile in response to Government priorities it again suggests that price sensitivity is not a critical factor.

\[\text{FTE is the Full Time Equivalent number of learners. Part time learners have a fractional FTE based on the percentage of 450 guided learning hours that make up their programme of study.}\]
Figure 23: Changes in Adult Enrolments by Deprivation Band 2003/04 -2005/06

![Deprivation Band Diagram]

Source: ILR F04 2003/04, 2005/06 and Indices of Deprivation 2004

Figure 24: Changes in Adult Enrolments by Sparsity Category

![Sparsity Category Diagram]

Impact of Local Competition

97. The majority of colleges that we spoke to didn’t feel that local competition was a major factor in determining the level of course fees. In addition, survey respondents rated competition as the least most significant factor that influenced their recruitment (Figure 21).

98. However, there was a notable exception in one metropolitan area where a couple of colleges reported that there had been huge pressure to limit fee increases due to local competition.

99. The most significant area of competition seemed to be in general community based adult learning (including IT). Examples were given of colleges deliberately undercutting their neighbours and aggressively marketing low fees.

100. A couple of colleges pointed out that whilst competition with other providers was not a major factor, competition with other lifestyle and leisure activities were crucial. It was more important to focus on “value”, they said, rather than cost.

101. It is interesting to note that the greatest falls in adult enrolments between 2003/04 and 2005/06 were in rural and sparse areas (Figure 34). It is possible that lower levels of competition in rural areas have led to higher price rises and reduced enrolments. However many other factors may be responsible (such as changes to the general curriculum profile) and further investigation would be worthwhile.

Impact of Course Type Vocational/Non-Vocational

102. Recruitment onto courses in highly vocational areas (and likely to lead to improved employment prospects) has been less affected by recent increases in course fees than more general adult provision (Figure 25).

103. However, as has already been discussed, this can be explained to a large extent by planned changes to college provision, focusing on areas of Government priority and does not directly show that vocational provision is more or less elastic than non-vocational provision.

104. Most colleges that we spoke to said that they didn’t know whether employers were more sensitive to price increases than individuals, but felt that price was probably less of an issue with employers.

105. Few colleges said that they kept any specific records on recruitment where the employer pays and felt that ILR records on this were not reliable.

106. Some colleges felt that employers, particularly in small companies, were often more sensitive to price rises than individuals and often seek out where they can get training at the lowest possible cost. This has been driven, they said, by historical expectations of free or low cost training,
Figure 25: Trends in Adult Enrolments by Sector Subject Area

Source: ILR F04 2003/04, 2004/05 and 2005/06
Future Fee Increases

107. Surveyed colleges were asked about the potential implications of an increase in the fee assumption to 50% national base rate. Figure 26 shows how important they felt a range of different factors were in successfully achieving this goal.

Figure 26: Most important factors for successfully implementing future fee rises (Survey Responses)

108. The majority of colleges felt that communicating the true cost of provision to employers and individuals was the most important factor. This is consistent with previously reported comments about the expectations of free or subsidised training.

109. Whilst many colleges felt that recent fee increases, in themselves, had not had a major impact on recruitment so far, most colleges had considerable concerns about the future impact if the policy is pursued. There was particular concern about the long term viability of certain types of adult provision and the effect that this might have on the local community, particularly those on low income.

110. However, a few colleges saw future increases as fully justified and despite some initial problems, would help re-focus and improve the sector.

Conclusions

111. This section has explored a wide range of evidence relating to the impact of fee changes on recruitment. Very little direct evidence exists about elasticity of demand, mainly because the number of FE funded adult places has fallen considerably over the past couple of years due to re-prioritising adult funding. Indeed in many institutions fee increases have actually been used to help throttle back demand in order to match supply.

112. The limited evidence that does exist suggests that fee increases over the past couple of years, in themselves, have not had a dramatic impact on learner number. Many college managers told the research team that they were surprised by the limited impact of fee increases and the number of complaints.
related to fee increases appears to be very small. The largest decline in learner numbers has in fact been in the most affluent areas, suggesting that ability to pay has not been a decisive factor.

113. Sparsely populated rural areas have seen the largest decline in adult recruitment in the past couple of years and it is possible that the fee increases and reductions in local concessions have started to have a real impact on low income earners in these areas – individuals who are often faced with high transport costs and limited choice or access to training. Problems of rural poverty can be particularly acute because of the surrounding affluence and the lack of a well developed support infrastructure that may exist in densely populated urban areas.

114. Elasticity of demand appears to be highest for non-vocational courses and where there is a high proportion of older learners. This suggests that ‘price-awareness’ and the importance of the course for career progression are more important factors than ability to pay. If these types of courses are to be successfully shifted to full cost recovery it will be essential to market the added value and not simply to re-sell existing products.

115. Many colleges have real fears about the impact of future fee increases on recruitment and on local communities. Continued research at a local level will be essential in the future.
Impact of Fees on Income

Introduction

116. This section explores in detail fee income from LSC funded courses and investigates how it has changed over the past couple of years. Measurements of fee income and fee income performance examined include:

- Fee Income from annual accounts
- LSC fee performance data
- Fee collected per guided learning hour
- Primary data from questionnaires and provider interviews

117. The curriculum profile of a college and the type of community that it serves may also influence its fee earning potential and the possible impact of regional factors, deprivation, curriculum mix and competition on fee income are investigated.

118. The situation is complex and it is important to understand fee income changes within the broader context of developments within the FE sector. An overview of changes in adult recruitment and the possible relationships between fee changes, fee income, recruitment and LSC funding were discussed in the previous section.

Fee Income from Annual Accounts

119. Financial accounts submitted by providers are an important source of information on the overall level of tuition fees and other sources of income. The latest audited financial accounts available during the period of the research project were for 2004/05. Figure 27 shows how tuition fees and other education contracts were recorded in the annual accounts, and the absolute values and relative percentages recorded under each category.

<table>
<thead>
<tr>
<th>Tuition Fee category</th>
<th>Value (£ 000)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuit fees &amp; ed cont a) EU i) UK</td>
<td>£227,014</td>
<td>34%</td>
</tr>
<tr>
<td>Tuit fees &amp; ed cont a) EU ii) Other</td>
<td>£7,364</td>
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</tr>
<tr>
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<tr>
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<td>£100,409</td>
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<tr>
<td>Tuit fees &amp; ed cont d) Employer fees and contracts</td>
<td>£67,044</td>
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<tr>
<td></td>
<td>£661,962</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: College Accounts 2005/06

120. In 2004/05 tuition fees for UK/EU learners on LSC funded provision (Tuit. fees & ed. cont. a) EU i) UK) represented 3.75% of total college income. The low percentage of fee income to total income explains why some colleges feel that fee policy is a relatively unimportant part of their overall strategy. A large increase in fees may only have a marginal impact on total income whereas recruiting additional 16-18 year olds may have a much larger effect.

121. Figure 28 shows the percentages broken down by region, along with the percentage of total fee income to total income. The lowest proportions of fee income from UK/EU learners to total income were in the North East and Yorkshire and Humberside. These areas both had high levels of local concessions in 2005/06.
122. Financial accounts provide a useful way of tracking overall trends in income and expenditure, especially at a national and regional level. However, because there is no direct link between the figures in the accounts, the curriculum offering and learners, we have no easy way of knowing whether fee income is higher or lower than expected. For example, a college that recruits more basic skills learners (responding to Government priorities) will record a fall in fee income and the percentage of total income that comes from tuition fees will also fall. There can be long delays before annual accounts are available and different practices between institutions can make it difficult to reliably compare data.

123. The research team asked a sample of colleges about the changes in their fee income between 2004/05 and 2005/06. Their responses are summarised in Figure 29. The colleges in the sample included large and small colleges from all regions. If this group of colleges were representative of the whole country, the increased fee income for the sector from LSC funded courses would be around £4 million.

124. Most colleges in this sample said that they increased their fees in line with the fee assumption in 2005/06. The exceptions (i.e. colleges with average fee increases of less than 15% or those that were not sure) are highlighted in Figure 29 (shaded cells). Factors such as overall enrolment levels and shifts in provision are playing a key role in fee income performance and must be considered alongside headline fee increases.

125. 54% of colleges in the sample said that fee income as a percentage of total LSC income was increasing or staying roughly constant. Most of the colleges who reported a fall in fee income in 2005/06 said that the percentage of fee income to total LSC income was going down. The reasons for this included:

- An increase in the volume of 16-18 year olds
- More subsidised adult provision such as basic skills and full Level 2
- A reduction in the volume of fee paying adults
- A shift of some high fee courses from LSC funded to full cost
- Fee collected per guided learning hour
Figure 29: fee Income 2004/05 and 2005/06 (sample of colleges)

<table>
<thead>
<tr>
<th>College</th>
<th>Fee Income 2004/05 (£ '000)</th>
<th>Fee Income 2005/06 (£ '000)</th>
<th>change (£ '000)</th>
<th>% change</th>
</tr>
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<tbody>
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<td>1</td>
<td>£215</td>
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</tr>
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<td>£244</td>
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<td>-30%</td>
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<td>£15,663</td>
<td>£16,092</td>
<td>£429</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Interviews with Providers
LSC Fee Performance Measurement

126. The LSC produces annual data on fee performance that is derived from the ILR and the funding formula. This allows a comparison to be made at provider, regional and national level between theoretical fee income and actual fees collected, expressed as a fee difference. The theoretical fee income is calculated, on a course by course basis, from the fee assumption for eligible learners on LSC funded provision and not in receipt of Government fee remission.

Figure 30: Fee Income 2004/05 and 2005/06

127. Figure 30 shows regional comparisons of fee income in 2004/05 and 2005/06 using LSC data. The total fee income appears to have fallen from £161.3 million in 2004/05 to £156.6 million in 2005/06 (a decline of just under 3%). Significant falls in fee income at a small number of providers (in Yorkshire & Humberside and Greater London) accounted for a large percentage of this change and further research suggested that data recording issues at these institutions may be a major factor. However, even taking these issues into account it is likely that fee income at best remained roughly constant between 2004/05 and 2005/06 and actually fell at a large number of colleges across the country. These findings are consistent with what colleges were saying during face to face interviews and the large decline in fee paying adults (largely driven by prioritising full Level 2 and basic skills) was cited as the major reason.

128. LSC data suggests that the percentage of theoretical fee income actually collected did not improve between 2004/05 and 2005/06. Figure 31 shows a regional comparison of theoretical fees collected in these years (data recording issues discussed in the previous paragraph again need to be taken into account). Overall less than 60% of theoretical fee income appeared to be collected in both years and large regional differences exist, with around 40% collected in the North East and 70% in the East of England. However, it should be noted that in 2005/06 the theoretical target increased substantially (the fee assumption increased by 15%) and colleges would have needed to collect substantially more fees just to stand still.
The percentage of theoretical fees that colleges actually collect is not affected by declines in recruitment. Possible reasons for the measured fee collection rates in 2005/06 could include:

- Fee levels in many institutions, whilst often increasing substantially, remained below the fee assumption. Survey data (Figures 1 and 2) suggests that a significant proportion of colleges set fees well below 32.5% National Base Rate in 2006/07 and very few set fees above this level.

- The increase in the fee assumption from 25% to 27.5% in 2005/06 meant that a higher target was set for colleges. Colleges needed to increase fees by 15% just to track this change.

- Local fee concessions remained high in 2005/06. Whilst many colleges increased fees for full time adults in 2006/07, a high proportion of colleges were still charging zero fees in 2005/06. Figure 16 showed that whilst the proportion of locally fee remitted learners fell substantially in 2005/06, a third of all LSC funded adult enrolments were still recorded as having some form of fee concession.

- Some of the more profitable courses were moved out of LSC funding and into full cost recovery. Whilst this might worsen the fee performance on LSC funded courses the overall effect for the sector is positive. This issue is explored in more detail later in the report.

- Data recording issues. The total fee income recorded in the annual accounts is not easily reconciled at a national and regional level with fee income from ILR derived fee shortfall data (ILR field A13). Of the colleges that we interviewed 45% said that A13 was reliable and was used, 23% said that it was not reliable and 32% were not sure. One college for example said that it was using the results from A13 on almost a weekly basis and analysing the results at departmental level. A couple of colleges said that because of the marginal impact of fees on the college budget A13 is not checked. Another institution explained that the fee data from the accounts
included a materials fee on some courses and that some institutions may be using this combined fee in field A13.

130. The relationship between the percentage of fees collected and the deprivation of the community that a college serves is shown in Figure 32. The chart indicates that the most affluent areas are collecting the highest percentage of theoretical fees (around 80%) and that there is a steady increase in fee collected as deprivation band rises from 5 to 10. This pattern is similar to the relationship between full time fee and deprivation discussed earlier in the report (Figure 11) and it suggests that the level of fee collection is highly influenced by the concessions for full time learners. The reported increase in full time fees in 2006/07 should make a substantial impact on future fee collection.

Figure 32: Impact of Deprivation on Theoretical Fees Collected 2004/05 and 2005/06
(1 = Most Deprived, 10 = Least Deprived)

Source: ILR F04 2004/05, 2005/06 and Indices of Deprivation 2004
Fee Collected Per Guided Learning Hour

131. LSC fee performance data is calculated at provider level and uses a combination of learner records (ILR) and funding software. Whilst this data is extremely useful for comparing institutional and regional performance, it cannot easily be used to carry out analysis at a qualification level e.g. the relationship between fees and Sector Subject Area (SSA) or Level of Study.

132. The research team developed an alternative measure Fee Collected per Guided Learning Hour (GLH) for this purpose. The measure calculates the fee collected for each enrolment and divides this by the number of guided learning hours on the programme. Only UK/EU students on LSC funded programmes that are eligible to pay fees (i.e. not in receipt of Government fee remission) are included. The fee per GLH will in most cases be much less than the advertised hourly rate (or the national fee assumption) because local fee concessions will reduce the average fee per hour. The fee collected per GLH measure can be calculated directly from the ILR (it does not require inputs from the funding formula).

133. Fees collected per guided learning hour (glh) is a simple measure of fee performance. It shows how much on average an institution is actually collecting in fees for all UK/EU learners who should be paying fees. If a college charged the full fee assumption for all courses and did not apply any local concessions the fee collected per guided learning hour would on average be £1.24/hour in 2004/05, £1.43/hour in 2005/06, £1.73/hour in 2006/07 and £2.05/hour in 2007/08.

134. *Fees collected per glh* shows year on year improvements in college fee performance. This, we believe, is a significant improvement over the current LSC fee performance measure, where annual increases in the fee assumption means that colleges are judged against ever increasing targets – and so appear to make limited progress.

135. Figure 33 shows the fees collected per glh in the nine regions in 2004/05 and 2005/06. Regional variations are very similar to those in Figure 31 (LSC Theoretical Fees Collected) with Greater London collecting the highest fees and the North East the lowest. Figure 33, however, highlights year on year improvements made by providers (+22%), which exceeded the increase in the fee assumption and national base rate (+15%).

Figure 33: Average fees collected per glh in each Region 2004/05 and 2005/06

Source: ILR F04 2004/05 and 2005/06
136. The relationship between fee level per GLH and SSA and NVQ Level provides further insight into how fee practice has changed over the past three years. Figure 34 shows three year trends in fees collected per GLH from 2003/04 to 2005/06. The most lucrative subject areas are Business, Administration and Law, Education and Training, Languages and Construction. Average fee levels are particularly low in ICT, Social Sciences and Leisure Travel and Tourism. The low average fee levels are likely to be due to high levels of local remission (e.g. subsidised IT provision in community learning centres). It is clear from this chart that the curriculum profile of a provider is likely to influence their fee earning potential and their fee shortfall. In all SSAs average fee levels per GLH increased over the three year period, although the total volume of activity fell (this was discussed in the previous section).

137. Average fees collected per GLH increases with NVQ Level (Figure 35) suggesting that some degree of market pricing is taking place. This finding is consistent with our discussions with providers, many of whom said that Level 4 professional course fees were often set above the fee assumption. The large rise in Level 1 average fee per GLH between 2003/04 and 2005/06 was accompanied by a significant fall in recruitment, particularly in the IT and leisure area.

138. Figure 36 shows the relationship between average fees collected per GLH and Learner Deprivation. Deprivation in this case is based on the postcodes of individual learners enrolling on qualifications, rather than the deprivation of a community that a college serves (as in Figure 32). There is a very clear relationship between learner deprivation and average fee level. This may be partly due to the fact that learners from deprived areas are more likely to enroll on lower level courses, where average fee levels are lower. It may also reflect ability to pay as well as the mission and priorities of institutions serving deprived areas.

139. Figure 37 shows the relationship between average fees collected per GLH and population density. Average fee levels tend to rise as sparsity increases and this may be due to reduced levels of competition. However, in general sparse areas tend to be the most affluent and this in practice might be the key factor. A possible concern, that has already been mentioned, is the impact that larger than average fee increases could have on low income earners in rural areas (who may face additional travel costs and poor access). As we have already discussed, colleges in rural areas saw the largest fall in recruitment.

140. The most densely populated areas tend to have slightly higher fees collected per GLH than other urban areas. This may be because a high proportion of learners qualify for Government remission and advertised course price is a less significant issue.
Figure 34

Average Fee Income per Guided Learning Hours by SSA

Figure 35

Average Fee per Guided Learning Hour by NVQ Level

Source: ILR F04 2003/04, 2004/05 and 2005/06

£0.00 £0.20 £0.40 £0.60 £0.80 £1.00 £1.20 £1.40 £1.60 £1.80 £2.00

2003/4 2004/5 2005/6

Not Known / Not Supplied Entry Level Level 1 Level 2 Level 3 Level 4+ Total
Figure 36

Average Fee per Guided Learning Hour by Deprivation Band

Source: ILR F04 2003/04, 2004/05, 2005/06 and Indices of Deprivation 2004

Figure 37

Average Fee per Guided Learning Hour by Sparsity Category

Source: ILR F04 2003/04, 2004/05, 2005/06 and Indices of Deprivation 2004
LSC Fee Income Targets

141. The majority of colleges that were interviewed did not feel that fee income targets set in consultation with the LSC were particularly meaningful or helpful. There were concerns about the accuracy of the supporting data and in some cases the lack of consultation.

142. The postal survey also asked colleges about the fee setting process. The results are summarized in Figure 38.

143. Fee income targets should be discussed within the overall context of the college budget and curriculum profile with the understanding that increasing fee levels to the fee assumption will not necessarily lead to higher fee income. Measures such as fees collected per glh may be a more useful basis for targets as they are potentially easier to understand and easier for colleges to control.

Figure 38: Provider Perceptions of LSC Fee Income Targets

Fee income targets for 05/06 agreed with LSC:

- Were based on relevant and meaningful discussions with the LSC
- Were supported by the use of good data
- Were linked to key objectives in the college strategic plan
- Took into account the characteristics of the local community

Source: Questionnaire Data
Conclusions

144. Whilst fee income from LSC funded courses remained roughly constant between 2004/05 and 2005/06, there is clear evidence that colleges are working hard to respond to the national agenda. The amount of fees collected per glh (for those eligible to pay fees) increased substantially in 2005/06. Declining LSC funded adult recruitment over this period and the increasing fee assumption has, to a large extent, masked this progress.

145. The majority of colleges that we interviewed did not feel that the LSC fee target setting process had been useful or that the data to support this had been meaningful.

146. The research team recommends using a measure such as fees collected per glh, which shows year on year progress. Current LSC fee performance measures set a higher and higher annual bar for colleges to reach, due to an ever increasing fee assumption. Fees collected per glh would still allow college performance to be compared to the theoretical fee assumption expressed as a rate per hour. The new measure also allows comparisons of fee performance by factors such as Level of Study, Sector Subject Area, course duration etc. as it can be derived entirely from the ILR.

147. Initial research shows a clear relationship between fee level and deprivation – the lowest fee levels being in areas of highest deprivation (Note: fees collected per glh specifically excludes learners receiving Government fee remission). This relationship is likely to at least partly explain regional differences in fee performance.

148. Fees collected per glh is relatively high in sparse, rural areas. This may be due to higher costs and lower levels of competition. The removal of local concessions may improve fee collection performance but may have a significant impact on low income earners in these areas.
149. Full cost work, for the purposes of this research, was defined as work that is largely financed by charging fees to individuals and employers. It includes those activities described by some colleges as ‘cost recovery’ which make a modest contribution to overheads but do not cover total costs. It excludes a number of items that several colleges loosely refer to as full cost (e.g. HE and overseas student fees, 14-16 work with schools, ESF and other public funding sources such as IFP, HEFCE, JCP, QIA etc).

150. The researchers sought to explore:
   - What types of full cost courses and other activities do colleges currently undertake?
   - To what extent has there been conversion from LSC (or LEA) funded work and is there scope for more?
   - What are the issues around the recording and analysis of full cost income streams?
   - What are the secrets of success and are they transferable?

151. The study also sought to examine what were the current levels of income, learner numbers and prices for each type and what were the college plans and expectations for the future. In practice colleges found it hard to produce quantitative data analysed in this way.

152. The research team were able to draw on the evidence from the short snapshot survey, conducted for the DfES over the summer of 2006, as well as the returns from the postal questionnaire and detailed visit reports and general telephone interviews carried out in the early autumn.

153. A sub sample of 8 colleges was selected for in-depth telephone interviews carried out in December, focusing primarily on full cost work. This enabled the researcher to check whether early estimates of income were still felt to be realistic at the end of the first term; and to explore wider issues around the organisation and nature of full cost activity.

154. The research team also investigated whether ILR data could be useful in measuring full cost work and explored the advantages and limitations of this approach.

Types of Full Cost Work

155. Within the relatively restricted definition of full cost work set out earlier, colleges in general distinguished six broad types of full cost activity. These are listed below:

156. **Customised management and professional courses for employers.** This could include management programmes for senior staff or basic computer skills for large numbers of employees. A limited amount of such provision was offered by most colleges. Some respondents stressed that this sort of activity was dependent upon a small number of large employers in their area. One emphasised that in their area all such employers were in the public sector – local government, health and MoD – and facing budget pressures. In general colleges saw this as a ‘traditional’ area of full cost work where modest increases might be expected but significant growth was unlikely.
157. **Customised occupational specific provision for employers, including work linked to regulations.** For some colleges this was a significant area of activity, linked for example to CoVE status. Areas of specialism with particular opportunities for full cost work included gas installation, the chemical industry and construction. The ability to deliver programmes in this area depended critically on the college having the appropriate specialist staff and resources and the CoVE initiative had supported the development of these resources in specific curriculum areas. Many colleges were looking to expand this area of work and saw it as a key part of the future college strategy. A number of colleges had recently re-organised their management structure to ensure that the organisation was employer focused and this was often driven by specific initiatives such as Action for Business Colleges and the emerging New Standard. Many colleges felt that developing employer focused full cost provision often required a significant culture shift both within the institution and with local employers and this often took a considerable amount of time and effort to achieve. Also, the ability to develop full cost work depended on the type of businesses in the local area and the nature of the community that a college served. Over the past year many colleges have increased their focus on this type of work, influenced to a large extent by the Foster Review of Further Education, the Leitch Review of Skills and the introduction of Train to Gain. However, the full benefits of this increased focus in additional income from full cost provision may take many years to fully realise.

158. **Professional and Vocational courses for Individuals where demand is high.** Most colleges identified a set of programmes where demand was strong because individuals saw economic benefits from acquiring skills. Examples included AAT, IPD, programmes in the Hair and Beauty area such as nail technicians; alternative therapies, counselling and some higher IT skills such as CISCO. It was in this area where many of the most effective transfers of programmes from LSC funding to a full cost regime had taken place.

159. **Adult recreational programmes.** Some colleges had identified elements of their adult course offer as being able to stand fees that covered at least all variable costs and made a contribution to overheads. Others felt that there was no such opportunity, either because they had not traditionally offered leisure programmes, or they judged that the market in their area would not support high fees. Examples of programmes offered at full cost included photography, massage, sport and fitness, and modern foreign languages.

160. **Miscellaneous.** Some other types of full cost work were identified that did not fit into the previous categories. This included adult provision that had lost LSC funding and was offered at full cost in order to ‘test the market’ (and invariably failed to recruit).

161. **Consultancy and services.** Many colleges offered services to local employers at full cost where it was difficult to identify individual students in a traditional sense. This type of activity covered consultancy, product testing and training needs analysis, but similar issues arose where a firm paid for a course for up to a maximum number of participants but set no
minimum number. In general this type of work did not make a major contribution to college plans for expansion of full cost work.

Conversion from LSC funded programmes

162. Earlier work and particularly the snapshot survey conducted for DfES over the summer of 2006 identified plans in many colleges to move work from LSC funding to a full cost recovery basis. In some cases this seems to have been precipitated by the fact that certain programmes were no longer eligible for funding. Those colleges interviewed more recently emphasised the overall cut in adult FE funding allocations which had prompted a decision to see whether some courses might survive on the basis of full cost fees.

163. The response from clients appears to have been mixed. One college reported that a large private employer had ceased to make use of Health and Safety training when asked to pay. Another reported that a large public sector employer had abandoned a substantial IT programme based around CLAIT when faced with the full cost.

164. Several colleges reported success in getting individuals to pay for programmes that had previously been subsidised by the LSC, particularly those with some occupational relevance. Some of the examples quoted – massage, sugar craft, beauty, floristry, holistic and other therapies, counselling etc. – appear to be more strongly linked to the opportunities for self employment rather than employment.

165. In some areas of the country it appears that aspects of the adult recreation programme can be offered by colleges at full cost. Examples were quoted of languages, dance and fitness, art and craft and photography being offered in this way. In other areas of the country this does not happen. Some colleges quoted examples of significant reductions in demand as a result of a high fee regime; other colleges felt it was not worth trying to run such programmes at full cost because of their catchment area; still others had never offered significant amounts of leisure related activity.

166. The postal questionnaire asked colleges to estimate how many full cost learners in 06/07 would have previously been LSC funded and how much full cost income would result from such conversion. Useable sets of data were received from 42 institutions with 10 of them answering nil to both questions. Including these nil responses the median estimated increase in the number of full cost learners was 200 and the median additional income was £32,000. If these 42 cases are representative of the 450 colleges in the sector they imply an increase of 90,000 full cost learners from this source or increased full cost income of £14.4 million.

167. These figures are smaller than the estimated numbers of extra full cost learners derived for DfES in the summer of 2006 from the snapshot survey. That report provided a (heavily caveated) figure of 145,000 extra full cost learners. It was based on a sample of only 12 returns and is therefore less robust than the current estimate (which should itself be treated with a great deal of caution). It did however include increased full cost numbers from all sources rather than just conversion from LSC funded work so is not markedly inconsistent.
Detailed conversations with college staff confirm that the increase in learner numbers from conversion of LSC programmes is unlikely to be substantial. The colleges selected for detailed follow up were ones where some significant degree of conversion had been reported. Their comments indicated that

- In some cases their estimates for 2006/07 had been optimistic and reflected aspirations rather than plans
- They felt they had exhausted most of the opportunities for straightforward conversions – 2006/7 had been a ‘one off’
- The opportunities for converting LSC work differed markedly between colleges depending on their curriculum mix and their social context

Colleges that we interviewed felt that successful development of full cost work required more than the simple conversion of existing LSC funded programmes. Developing effective relationships with employers and providing, innovative, flexible and high quality products were also essential.

Recording and Analysis

Most colleges do not generally work with a detailed analysis of full cost income using the definitions and categories quoted here. There are several reasons for this, the most important being that even in colleges with significant amounts of full cost income it usually only amounts to a small percentage of overall income. Until now at least it seems to have been judged not worth the effort.

A further cause of difficulty is that college records tend to be structured in the same way as they structure their business. Thus in some institutions a special unit might be responsible for a series of services to business and combine, say, full cost work with Train to Gain and work based learning. The unit’s targets and the management accounts in such a case might not separate the three. In other institutions full cost work might be placed with other activities within a college company which keeps records in a different format to the main college.

Where colleges seek to use the ILR as the main vehicle for record keeping in respect of full cost work they quote three principle difficulties. One is that unless there is a valid qualification aim the record will trigger an error report. Unless a full cost programme leads to a recognised qualification therefore it is often excluded from ILR for this reason. A key advantage of bespoke work for employers is that they are not restricted to a limited range of qualifications.

A further reason often quoted is that participants who are paying a full fee may object to providing detailed information for the benefit of a third party who has not contributed to the activity. While this in part might be the projection of a college reluctance to tell LSC about its fully funded work it is true that many adults resent filling in enrolment forms and the loss of subsidy deprives colleges of an argument to justify the imposition.
174. A final problem is that with some customised training (e.g. management workshops) individual enrolment forms are not completed and the college invoices the employer for the complete training package.

175. Whilst recognising these limitations, the research team looked at the evidence on full cost income that is currently available from the ILR. Figure 39 shows the fee income recorded for all adult provision (UK/EU students only), not in receipt of LSC or other funds (HE, ESF, project initiatives etc.).

176. The ILR appears to be showing a £9.5 million increase in fee income measured in this way between 2004/05 and 2005/06. Given that the ILR is likely to be underestimating the true value of full cost work (for the reasons given above) this is reasonably consistent with previous estimates based on college interviews.

177. A similar analysis has been completed at regional and provider level and appears to confirm real growth in this category of income across the country (Figures 40 and 41).

178. An ILR based measurement of full cost, despite its difficulties, would minimise additional bureaucracy for colleges and allow a simple method of tracking year on year changes. Estimates for additional forms of full cost income could then be added to this figure at provider level, with an intention to move towards full ILR recording in the future.

179. Contributions in-kind could be regarded as an additional form of full cost income. Examples of contributions in kind include donations of equipment, staff secondments, expert advice and attendance at college employer’s forums. Colleges that we spoke to felt that it would be virtually impossible to assign agreed monetary values to these contributions and they would therefore be subject to local interpretation and inconsistency.

Figure 39: ILR Measured Full Cost Income

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</table>

Source: ILR F04 2003/04, 2004/05 and 2005/06

19+ Providers A10=99, A14 = 99, A11a/b = 999, 13, 14
Figure 40: ILR Measured Full Cost Income 2005/06

Source: ILR F04 2005/06

Figure 41: Change in ILR Measured Full Cost Income 2004/05 to 2005/06

Source: ILR F04 2005/06

Note: In Figures 40 and 41 North East data excludes one college where data was unreliable
Conclusions

180. Full cost income collected by colleges appears to have increased significantly over the past couple of years. This is confirmed by ILR analysis as well as questionnaire returns. In some cases that is due to changes in data recording as well as one off shifts in provision from LSC funded to full cost. In many colleges full cost income has increased substantially but from a low base. Nevertheless the research team found an increased awareness of the importance of full cost provision amongst senior management teams, linked to greater employer focus and the introduction of Train to Gain.

181. This research confirms earlier findings that there are no simple ‘secrets of success’ in relation to generating full cost income. Those colleges that generate substantial levels of full cost income often seem to do so because they have a particular market niche and have successfully developed relationships with employers over a long period of time.

182. Part of the explanation for this lies in the different contexts within which colleges operate. The nature of their locality will affect the demand for full cost work and the nature of college resources and of competing demand for those resources will affect a college’s capacity to respond.

183. The distinction between full cost and externally funded provision can be a barrier towards developing a proper market price for training and can confuse employers. The expectation of free training is well established in many areas and employers may be unwilling to pay full fees, not because they don’t have the ability to pay, because they feel that bargains are to be had elsewhere. The LSC needs to take a lead in changing employer attitudes towards course fees (at a national level) and reinforcing the value of high quality training.

184. In most colleges full cost income is still a relatively small proportion of total income. It is likely to take several years before the cultural and organisational changes taking place in the sector, in response to the Foster Review of FE and Leitch report on skills, will have a substantial impact on the ability of colleges to generate significant volumes of full cost income. This research study has shown, however, that early progress has already been made.