The Impact of Fee Policies on Recruitment to LSC-funded Provision

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Of interest to everyone in the learning and skills sector, in particular FE institutions delivering LSC-funded provision.
Further information
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Executive Summary

Introduction

This research project investigated the impact of changes to fee policies on recruitment to LSC-funded provision. The research was carried out by RCU between August 2006 and February 2007.

The project explored college fee policies, fee levels and fee concessions. It focused on the impact of changes to tuition fees (hereafter referred to simply as ‘fees’) on recruitment and the overall effect of these changes on college fee income. Finally, the research explored full-cost recovery work (that is, work for which the costs are recovered in fees and added to the college’s income) and the extent to which this had been increasing in recent years.

Research activities included a national postal survey, in-depth interviews with 70 colleges and analysis of key data sets such as the Individualised Learner Record (ILR) and college financial accounts. The research built on previous research in this area commissioned by the Learning and Skills Council (LSC) and the Department for Education and Skills (DfES).

Fees and Fee Policies

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

There appeared to be considerable variation in the fees for specific courses across England. In general, 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 the National Vocational Qualification (NVQ) awarded by the Association of Accounting Technicians (AAT) at Level 3 and an NVQ at Level 2 in Hairdressing were able to sustain significant fee increases without dampening demand.

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.

At most colleges, fees for adults studying full time 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 per cent. Fees for adults studying full time appeared to be highest in colleges serving more affluent areas.

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.

Most colleges surveyed 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.

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

Local Fee Concessions

Subsidised tuition for adults studying full time 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.
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.

The fall in local concessions has been matched by a similarly sized 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.

Many colleges use the Learner Support Fund (LSF) to support fee remission policies. The variability of the process across the country and the lack of nationally available data mean that this system needs urgent review.

**Impact of Fees on Recruitment**

The majority of surveyed colleges felt that the LSC’s prioritisation of the adult budget was the major reason for the decline in LSC-funded adult recruitment to further education (FE) in the past two years.

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

More than half 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 were said to have had a positive impact on retention.

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.

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

Elasticity of demand (that is, the sensitivity of demand to price increases) appears to be highest for non-vocational adult courses and occurs 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.

Many colleges have concerns about the impact of future fee increases on local communities and people on low incomes.

**Impact of Fees on Income**

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.

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

The majority of colleges in the survey 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.

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. This relationship may explain some of the regional differences in fee performance.

Fee income collected per taught hour is relatively high in sparsely populated rural areas. This may be due to higher costs and lower levels of deprivation.
Full-cost Work

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

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 customised provision (building, where appropriate, on established employer links) was more likely to be successful.

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 their total activity.

Many colleges are looking to expand full-cost work and see it as a key part of 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

Significant changes have taken place in college fee policies 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 surveyed are 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.

It is recommended that the LSC consider using a performance measure such as fee collected per guided learning hour (glh), which would show 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 out before introducing any new measure.

A performance measure such as fee collected per glh could be used by colleges and the LSC to demonstrate the excellent value for money provided by the FE sector in comparison with other services to businesses or individuals.

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 individuals on low incomes and/or living in rural areas should be monitored.

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

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 on 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 to ILR-based measurement over time.

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 nationally.

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 normally 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 and so on) for the push to increase fee income.
1: Introduction

Background

1 This 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 versus 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 LSC-funded provision in FE institutions 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 qualification at 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 (DfES, 2003) committed the LSC to developing a new national framework for setting fees in FE. This involved agreeing an aggregate income target for each college.

6 The LSC consultation document Investing in Skills: Taking forward the Skills Strategy (LSC, 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 (that is, targeting 16–18 year olds, basic skills, areas of market failure and adults who do not have a full qualification at Level 2). Outside 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 25 per cent of the national base rate to 27.5 per cent, and increased again (to 32.5 per cent) in 2006/07. It will rise again to 37.5 per cent for 2007/08, with a clear intention that it should be around 50 per cent by the end of the decade (LSC, 2007).

8 The FE funding allocations for 2005/06, outlined in a letter from the LSC’s Director of Resources to college principals in June 2005, announced an overall reduction of 3 per cent for learners aged 19 and over (£55 million) and an increase of 10.3 per cent for 16–18 year olds.

9 The 2006–07 Grant Letter (DfES, 2005a) 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 per cent) by 2007/08.

10 **Priorities for Success** 2006–08 (LSC, 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’s annual statement of priorities for 2007/08 (LSC, 2006) stated that college fee income targets continue to be a key element of the planning framework for 2007/08 and will be extended to include full-cost recovery 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 for 2007/08 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 per cent, with a 62 per cent increase in funding for Train to Gain, a 7 per cent increase in funding for WBL for learners aged 19 and over, and a 1 per cent fall in funding for FE learners aged 19 and over (following a 5 per cent fall in 2006/07).

13 The Leitch review of skills (Leitch, 2006) proposed that all adult funding should, as far as possible, be routed through mechanisms that put effective purchasing power in the hands of customers. It reinforced the view that outside the priority areas, employers and individuals should make a full contribution to the cost of their learning.

**Research Methodology**

14 A questionnaire was designed in consultation with the LSC and posted to 292 FE 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 and 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 (DFES, 2006). This involved telephone interviews with 32 FE colleges.

17 During the autumn term, in-depth interviews took place with 51 colleges, the majority of these including face-to-face meetings with senior staff responsible for fee policy.

18 Early analysis of the results from the postal survey and interviews highlighted a need to look at specific aspects of fee policy in more detail. This included adult learners on full-time courses, the use of the Learner Support Fund (LSF), elasticity of demand and full-cost recovery work. In December 2006 and early January 2007, 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 used the Individualised Learner Record (ILR) from 2003/04 to 2005/06 and linked this to external data sets such as the Index of Multiple Deprivation and the Census of Population. LSC fee performance data from 2004/05 and 2005/06 was also analysed.

20 Finally, the research team used previous studies such as *Fee Income: A good practice guide* (DFES, 2005b) and *The Impact of New Fees Policies in FE* (Learning and Skills Development Agency (LSDA), 2006) to guide the analysis.
2: Fees and Fee Policies

Fees for Part-time Courses

21 More than 90 per cent of colleges surveyed said that they had set their part-time course fees with reference to the LSC assumed fee element. Just over a quarter, however, were phasing this in over a number of years so the actual fees were still below the fee assumption. The precise mechanism used for setting part-time fees varied 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 compare with the LSC fee assumption of 32.5 per cent of the national base rate (NBR).

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 per cent of the NBR. However, in more than a quarter of colleges, fee levels were substantially below the LSC fee assumption (less than 27.5 per cent of the NBR).

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

Figure 1: College fee levels, 2006/07.

Source: Questionnaire data
Only six of the colleges who said that they were setting fees above the fee assumption were general FE colleges (the others were specialist colleges and sixth form colleges). However, the general FE 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 per cent of the NBR in 2006/07.

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 10 deprivation bands. These bands are based on the postcodes of learners linked to the Index of Multiple Deprivation (2004) and therefore take into account the actual recruitment pattern of colleges.

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\(^1\) The methodology used in the research to apportion deprivation assigned each provider to one of 10 deprivation bands based on the average deprivation score of learners attending that institution, using the Index of Multiple Deprivation (IMD).
Recent changes in the LSC fee assumption translate into actual fee increases of 15 per cent and 21 per cent in 2005/06 and 2006/07 respectively. Over a two-year period, this represented a potential fee increase of 39 per cent. Some senior managers 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). Most 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.
In-depth interviews with colleges confirmed that the majority of institutions had increased their part-time fees by approximately 20 per cent in 2006/07. However, one institution said that it had deliberately limited fee increases in 2006/07 due to adverse reactions to fee increases in the previous year. Another college felt that it did not need to apply the full increase in 2006/07 because of its existing strong fee income performance. A couple of colleges were addressing historical variations in fees across the institution, so fee increases were very variable and an average fee increase was hard to estimate.

Colleges were also asked about specific tuition fees for a range of the most popular part-time FE courses (excluding examination, registration and material costs). As an example, Figure 5 compares the fees for GCSE AS-level evening courses from 64 colleges. Fees ranged from £98 to £295, with a mean of £172. The LSC assumed fee element for GCSE AS-level evening courses is £188, only slightly above the average for this sample. Approximately half the colleges in the sample were within £30 of the assumed fee element, consistent with survey results that found that 46 per cent of colleges were setting fees close to the assumed fee element of 32.5 per cent of the NBR.

**Figure 5: Comparison of course fees for GCSE AS-level evening courses, 2006/07.**

<table>
<thead>
<tr>
<th>Fee range</th>
<th>Percentage of colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td>£250–£300</td>
<td>5%</td>
</tr>
<tr>
<td>£200–£250</td>
<td>10%</td>
</tr>
<tr>
<td>£150–£200</td>
<td>35%</td>
</tr>
<tr>
<td>£100–£150</td>
<td>25%</td>
</tr>
<tr>
<td>Less than £100</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Source: Questionnaire data*
30 Course fees for the Association of Accounting Technicians (AAT) accredited NVQ at Level 3 were much more variable across the country, probably because there is much greater opportunity for market pricing in areas such as accountancy. Figure 6 compares the tuition fees from 74 colleges. The spread of fees for AAT-accredited NVQ at Level 3 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 (glh), but the course fee per taught hour still varied enormously (from 77p per hour to £5 per hour). The LSC assumed fee income for this programme, if it were delivered in 270 glh, is £440, close to the average for this sample.

31 Figures 7–9 compare the tuition fees for three other common FE courses: the Diploma in Indian Head Massage, NVQ at Level 2 in Hairdressing and the Certificate in FE Teaching Stage 1. The results are based on survey results from a minimum of 55 colleges.

32 Figures 7–9 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 fee consistency suggests that there could be opportunities for further fee rises in many colleges. For example, whilst a third of colleges are charging under £100 for the Diploma in 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 glh, would be £129 and more than half of colleges set fees that met or exceeded this level.

34 Published fees for NVQs in Hairdressing, AAT-accredited NVQ at Level 3 and the Certificate in FE Teaching Stage 1 are much more variable across the country than those for GCSE AS-levels. This may be because some colleges are charging higher fees for employer-related, vocational activity.
Figure 7: Comparison of course fees for the Diploma in Indian Head Massage, 2005/06.

Source: Questionnaire data

Figure 8: Comparison of course fees for the NVQ at Level 2 in Hairdressing, 2005/06.

Source: Questionnaire data
Fees for Full-time Adults

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

Source: Questionnaire data
36 Many colleges set a tuition fee for adults studying full time 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 fees for part-time and full-time courses and set both at the LSC fee assumption (around £830 for a 450-glh course). The reason for the two different approaches seems to be largely historical.

37 Most colleges in-filled adults onto existing provision for 16–18 year olds 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 with 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 5–10. However in the most deprived areas (1–4), advertised fees are higher than might be expected. This is likely to be because the majority of learners in these colleges are not actually paying fees but are claiming government fee remission.

**Figure 11: Full-time fees and deprivation, 2005/06.**

![Graph showing full-time fees and deprivation](image-url)

Source: Questionnaire data (91 responses in total), ILR F04 2005/06 and Index of Multiple Deprivation 2004
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 the Learner Support Fund (LSF) to pay fees, making it unlikely that any students pay an actual fee. The use of the LSF to pay tuition fees is examined at paragraphs 64–72.

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

Late in the autumn term, the research team went back to six colleges who had made substantial changes to their full-time adult fees (increases of between £180 and £800). At five of these colleges, recruitment was the same as for 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 per cent and 61 per cent 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 Fee Policy in Colleges

Virtually all the colleges interviewed 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.

Survey responses supported the view that government policy was the main reason for fee increases in colleges. Figure 12 identifies colleges’ 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 fee 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.
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 among 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 shows how the colleges surveyed communicated fee increases. Less than 10 per cent of colleges said that they had a targeted media campaign that reflected changes in course fees.

Role of governors

46 Fee Income: A good practice guide (DfES, 2005b) recommended that governors should receive an annual costed plan modelling 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. For example, 84 per cent of colleges we surveyed reported that governors approved the broad principles of the fee policy, with only 16 per cent reporting that governors received a detailed, costed policy. Several 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.

Figure 13: Methods used by colleges to communicate fee increases, 2006/07.

Source: Questionnaire data
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 per cent. More than half of 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 among senior managers of fees and fee income compared with 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 nationally and regionally that could support this goal. For example, publishing average fee levels per qgl could help demonstrate the value for money that the FE sector provides compared with 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 per cent of colleges did not charge a fee for this category of learner, whereas by 2006/07 this had fallen to just 7 per cent. 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 the LSF.

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.
Substantial discounts for adult learners studying full time remained a significant area of fee concession in 2006/07. However, as discussed in section 2, colleges are making significant progress in limiting this concession.

The pattern of fee concessions for part-time courses outside the LSC fee remission categories is shown in Figure 14. A third of colleges that responded provided no local concessions and of the remaining two-thirds, the most common concession was for targeted courses. This includes community-based provision (such as IT); many colleges reported that the volume of this activity had declined massively in the last couple of years. Discounts for senior citizens were offered by approximately 20 per cent of colleges, although a number of providers were phasing this out or reviewing the policy, in part because of concerns about age discrimination.

Figure 14: Pattern of fee concessions, 2006/07.

Source: Questionnaire data (119 responses in total)
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 per cent of colleges serving the 10 per cent most affluent areas in the country said that they offered some form of local fee concession for adult learners studying part time.

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.

**Individualised Learner Record Fee Remission Records**

The 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. Examples of potential problems that they raised are listed below.

- ILR data is retrospective so whilst 2005/06 data, as the most recent complete national data set is useful, significant changes have taken place in 2006/07.
- Where a learner pays up front for a two-year course, field A14 is set to 10 (local fee remission) in year 2, thus skewing results and potentially suggesting a greater degree of local fee remission than is actually the case.
- If a learner is considered to be a basic skills learner (that is, his or her main learning aims are predominately basic skills qualifications), fees are remitted on all extension activities.
- The 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.

Further research may be required to quantify the extent to which these issues compromise analysis based on field A14 of the ILR (including fee shortfall 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.

**Figure 15: Percentage of enrolments recorded as local fee remission, 2003/04–2005/06.**

Source: ILR F04 2005/06  
**Note:** Based on ILR field A14 = 10 or 19 (local fee concessions are recorded on the ILR by setting field A14 to 10 (fees waived for another reason consistent with local provider policy) or 19 (fee is zero)
58 Locally determined fee remission (that is, fee concessions falling outside the national fee remission categories) fell from 42 per cent of all enrolments in 2003/04 to 33 per cent 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 number of learners on subsidised outreach work had also fallen (Figure 15).

59 Over the same period, the number of enrolments recorded as fee remitted due to LSC fee remission increased from 30 per cent in 2003/04 to 39 per cent in 2005/06 (Figure 16). This reflects how colleges have responded to government priorities, with a focus on basic skills and a first full qualification at Level 2.

60 As a result of these changes, the proportion of enrolments for which learners are paying the advertised course fees has remained roughly constant over the three-year period 2003/04 to 2006/07 at 25 per cent, 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 per cent compared with an average of 33 per cent in 2005/06), while Greater London had the lowest proportion at 23 per cent. The North East had the greatest reduction in this category between 2004/05 and 2005/06 (a reduction of 15 per cent), but the level of local fee remission remained high at 40 per cent of all enrolments. Table 1 (overleaf) shows the level of local fee concessions in 2005/06 by region.
Table 1: 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 the Humber</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 in 2005/06 is shown in Figure 17. As expected, a high proportion of learners who lived in the most deprived wards in the country received LSC fee remission (over 60 per cent of learners). An additional 25 per cent of learners who lived in these wards received local concessions from the college. Interestingly, almost 40 per cent 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 sparsely populated rural areas are more likely to receive college-based fee concessions than learners in more densely populated urban areas (Figure 18). This is probably due to lower levels of deprivation and the consequent lack of LSC 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.

Figure 17: Relationship between the percentage of enrolments receiving fee remission and deprivation measured by Index of Multiple Deprivation, 2005/06.

Source: ILR F04 2005/06 and Index of Multiple Deprivation 2004

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2 In this case, each learner enrolment is allocated to one of 16 bands according to the Index of Multiple Deprivation (IMD), which is associated with the learner’s postcode. This is a different measure of learner deprivation from that used at paragraph 26, where learner deprivation scores are averaged across an entire institution.
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 the LSF to pay fees is not recorded as fee remission (in ILR 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 using 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 per cent of the colleges that we surveyed knew how much from the LSF was spent on tuition fees. Figure 19 (overleaf) 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.
We asked a small number of colleges more detailed questions about the use of the 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.

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 learners extra help.

The proportion of the LSF used for tuition fees varied greatly between the colleges in our sample (from 10 per cent to 64 per cent). 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 LSF is used. One college, for example, has introduced a policy that requires everyone to contribute 30 per cent of the course fee. This has ensured that more people can access the fund and has avoided an allocation based on first come, first served. Another college caps the total support available per student and another confines the help to full-time students.

Colleges 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 do not 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.

There was no consistent view about the possible effect of preventing LSF being used to pay tuition fees. 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 adult learners studying full time, and one college felt that some discretionary help was needed for low-paid workers who did not fit into the LSC’s fee remission categories. One college pointed out that tuition fees are only one element of cost for learners and that a large amount of its LSF allocation was spent on equipment for vocational courses such as hairdressing and beauty therapy kits, catering equipment and so on.
Conclusions

73 There is clear evidence that the volume and financial value of local fee concessions have been falling since 2003/04. There appear to be three reasons for this. First, specific fee concession categories have been reduced or removed at many colleges, including discounts for senior citizens, early payment and adults studying full time. Second, the volume of adult learners has declined significantly in areas that traditionally received substantial concessions, such as IT courses at community venues. Third, 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 learner’s ability to pay), the variability of the process across the country and the lack of nationally available data mean that this system needs urgent review.
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 the overall effect on fee income, and will this differ for different communities or regions?

**Views of Colleges**

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 20). Most felt that the LSC funding allocation was the most important factor and this was confirmed in the face-to-face interviews. More than half also felt that course fees had had an impact on recruitment.

Most of the senior managers 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.

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

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.

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.

**Figure 20: Reasons given by colleges for a decline in enrolment numbers, 2006/07.**

- LSC adult funding allocations
- Course fees
- Shifting provision from LSC funded to full-cost recovery
- Growth in 16–18 provision
- Range of courses available at the college
- Long-term national trends in demand (not related to course pricing)
- Local competition

Source: Questionnaire data
81 Some college managers, however, were very concerned about the possible impact of fee increases on deprived communities. Whilst it was recognised that LSC 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 (paragraphs 93–96 and Figures 21–23) 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 did not 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 FE provision for adults aged 19 and over and increased funding for priority areas such as 16–18 year olds and hard-to-reach employers (LSC, 2006: 27). This has led to large falls in publicly funded places for adults on FE courses 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 publicly funded adult learners on FE courses between 2004/05 and 2006/07. Analysis of the 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 recovery 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 to fill the available places.

87 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 fee remission, such as basic skills and first full qualification at Level 2
- full-cost recovery courses
- Train to Gain.

88 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 recovery work.

89 One college principal explained that focusing on 16–18 year olds and LSC fee remission categories minimised financial risk for the institution. Developing high-cost, high-value, employer-specific provision (including full-cost recovery work) often required, he said, significant up-front investment with no guarantee of future financial returns. Other colleges, however, were planning to increase significantly their employer-focused work, building on past successes, such as centres of vocational excellence (CoVEs).

Evidence for Elasticity of Demand

90 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 fees, 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 factors that might increase the price sensitivity of a course (that is, elasticity of demand) include:

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

If courses with these 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 project.

Impact of low income

Many colleges felt that the learners who were most affected by recent fee increases were those on low incomes. However, nationally, the biggest decline in learner numbers has been from the most affluent areas. Figure 21 shows the change in enrolments by learner deprivation band (based on the home postcode of learners) between 2003/04 and 2005/06. In the most deprived areas, enrolments fell by between 10 per cent and 15 per cent, whilst in the most affluent areas, enrolments fell by almost 30 per cent. Whilst there is no direct correlation between deprivation band 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.

Source: ILR F04 2003/04, 2005/06 and Index of Multiple Deprivation 2004
The results are partly explained by the use of LSC fee remission for learners in the areas of highest deprivation, the targeting of basic skills learners by colleges and the closure of some general FE adult provision that may have been accessed by fairly affluent learners.

Nevertheless, the absence of any noticeable dip in enrolments for low-income earners not in receipt of LSC fee remission (for example, those in IMD 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.

Figure 22 shows the change in enrolments by age band between 2003/04 and 2005/06. The decline in enrolments was particularly noticeable for older learners (aged 30–64), 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.

Figure 22: Trends in learner numbers (FTE) by age band, 2003/04–2005/06.

Source: ILR FO 2003/04, 2004/05, and 2005/06
Note: FTE is the full-time equivalent number of learners. Part-time learners have a fractional FTE based on the percentage of 450 glh that make up their programme of study.
Impact of local competition

97 The majority of colleges that we spoke to did not feel that local competition was a major factor in determining the level of course fees. In addition, survey respondents rated competition as the least significant factor that influenced their recruitment (see Figure 20 at paragraph 76).

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 was crucial. It was 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 sparsely populated areas (Figure 23). It is possible that lower levels of competition in rural areas have led to higher fee increases and reduced enrolments. However, many other factors may be responsible (such as changes to the general curriculum profile) and further investigation would be worthwhile.

Figure 23: Changes in adult enrolments by sparsity category, 2003/04–2005/06.
Influence of course type on recruitment

Recruitment onto courses in highly vocational areas that are likely to lead to improved employment prospects has been less affected by recent increases in course fees than more general adult provision (Figure 24).

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.

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

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.

Some colleges felt that employers, particularly in small companies, were often more sensitive to fee 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 24: Trends in adult enrolments by sector subject area, 2003/04–2005/06.

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 per cent of the national base rate. Figure 25 shows how important they felt a range of different factors were in achieving this goal.

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 for people on a low income.

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

![Figure 25: College perceptions of the most important factors for successfully implementing future fee increases, 2006/07.](source: Questionnaire data)
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 publicly funded adult places in FE has fallen considerably over the past couple of years due to the re-prioritising of 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 numbers. Many college managers told the research team that they were surprised by the limited impact fee increases had had, 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, where individuals 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 more 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.
5: Impact of Fees on Income

116 This section explores in detail the 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. The possible impact of regional factors, deprivation, curriculum mix and competition on fee income are also 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 section 4.

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. Table 2 shows how tuition fees and income from other educational contracts were recorded in the annual accounts, with the absolute values and relative percentages recorded under each category.

Table 2: Tuition fees in college accounts by tuition fee category, 2004/05.

<table>
<thead>
<tr>
<th>Tuition fee category</th>
<th>Value (£'000)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition fees and educational contracts a) EU i) UK</td>
<td>£227,014</td>
<td>34%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts a) EU ii) Other</td>
<td>£7,364</td>
<td>1%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts b) Non-EU</td>
<td>£48,206</td>
<td>7%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts c) HE</td>
<td>£100,409</td>
<td>15%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts d) Employer fees and contracts</td>
<td>£67,044</td>
<td>10%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts e) LEA and schools</td>
<td>£42,750</td>
<td>6%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts f) New deal</td>
<td>£14,751</td>
<td>2%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts g) UFI</td>
<td>£6,300</td>
<td>1%</td>
</tr>
<tr>
<td>Tuition fees and educational contracts h) Other</td>
<td>£148,124</td>
<td>22%</td>
</tr>
<tr>
<td>Total</td>
<td>£661,962</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: ILR F04 2003/04, 2004/05 and 2005/06
Note: HE = higher education, LEA = local education authority
120 In 2004/05, tuition fees for UK and EU learners on LSC-funded provision (row 1 in Table 2) represented 3.75 per cent 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 have only a marginal impact on total income, whereas recruiting additional 16–18 year olds may have a much larger effect.

121 Table 3 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 and EU learners to total income were in the North East and Yorkshire and the Humber. These areas both had high levels of local concessions in 2005/06.

### Table 3: Tuition fees in college accounts by region, 2004/05.

<table>
<thead>
<tr>
<th>Region</th>
<th>Proportion of total income</th>
<th>Proportion of total income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S1A.2 Tuition fees and</td>
<td>Total tuition fee and</td>
</tr>
<tr>
<td></td>
<td>educational contracts a)</td>
<td>educational contract income</td>
</tr>
<tr>
<td></td>
<td>EU i) UK</td>
<td></td>
</tr>
<tr>
<td>East of England</td>
<td>4.35%</td>
<td>11.61%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>3.71%</td>
<td>9.54%</td>
</tr>
<tr>
<td>Greater London</td>
<td>4.31%</td>
<td>9.62%</td>
</tr>
<tr>
<td>North East</td>
<td>2.69%</td>
<td>11.69%</td>
</tr>
<tr>
<td>North West</td>
<td>3.24%</td>
<td>11.75%</td>
</tr>
<tr>
<td>South East</td>
<td>4.48%</td>
<td>11.25%</td>
</tr>
<tr>
<td>South West</td>
<td>4.35%</td>
<td>10.97%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>3.23%</td>
<td>10.04%</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>2.82%</td>
<td>8.97%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.75%</strong></td>
<td><strong>10.57%</strong></td>
</tr>
</tbody>
</table>

Source: ILR F04 2003/04, 2004/05 and 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 compare data reliably.

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 Table 4. 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 (that is, colleges with average fee increases of less than 15 per cent or those that were not sure) are highlighted in Table 4 (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 A total of 54 per cent 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 first full qualification at 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.
Table 4: Fee income, 2004/05 and 2005/06.

<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>
</thead>
<tbody>
<tr>
<td>1</td>
<td>£215</td>
<td>£613</td>
<td>£398</td>
<td>185%</td>
</tr>
<tr>
<td>2</td>
<td>£435</td>
<td>£570</td>
<td>£135</td>
<td>31%</td>
</tr>
<tr>
<td>3</td>
<td>£386</td>
<td>£490</td>
<td>£104</td>
<td>27%</td>
</tr>
<tr>
<td>4</td>
<td>£340</td>
<td>£431</td>
<td>£91</td>
<td>27%</td>
</tr>
<tr>
<td>5</td>
<td>£475</td>
<td>£560</td>
<td>£85</td>
<td>18%</td>
</tr>
<tr>
<td>6</td>
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</table>

Source: Questionnaire data and 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 who are on LSC-funded provision and not in receipt of LSC fee remission.

127 Figure 26 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 per cent). Significant falls in fee income at a small number of providers (in Yorkshire and the Humber and Greater London) accounted for a large percentage of this change and further research suggests 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 in the face-to-face interviews, where a large decline in fee-paying adults (largely driven by prioritising a full qualification at 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 27 shows a regional comparison of theoretical fees collected in these years (data recording issues discussed in paragraph 127 again must be taken into account). Overall, less than 60 per cent of theoretical fee income appeared to be collected in both years and large regional differences exist, with around 40 per cent collected in the North East and 70 per cent 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 per cent) and colleges would have needed to collect substantially more fees just to stand still.

Figure 26: Fee income by region, 2004/05–2005/06.

Source: ILR F04 2004/05 and 2005/06
The percentage of theoretical fees that colleges actually collect is not affected by falls in recruitment. Possible explanations for the measured fee collection rates in 2005/06 could include the following.

- 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 per cent of the national base rate in 2006/07 and very few set fees above this level.

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

- Local fee concessions remained high in 2005/06. Whilst many colleges increased fees for adults studying full time in 2006/07, a high proportion of colleges were still charging zero fees in 2005/06. Table 1 at paragraph 61 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 in section 6.

- Data recording issues: the total fee income recorded in the annual accounts is not easily reconciled at national and regional levels with fee income from ILR-derived fee shortfall data (ILR field A13). Of the colleges that we interviewed, 45 per cent said that A13 was reliable and was used, 23 per cent said that it was not reliable and 32 per cent were not sure. One college 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, field 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.

The relationship between the percentage of fees collected and the deprivation of the community that a college serves is shown in Figure 28. This indicates that the most affluent areas are collecting the highest percentage of theoretical fees (around 80 per cent) and that there is a steady increase in fee collected as the deprivation band rises from 5 to 10 (5 being the more deprived). This pattern is similar to the relationship between full-time fees and deprivation discussed earlier in the report (paragraphs 38–39 and Figure 11) and it suggests that the level of fee collection is highly influenced by concessions for full-time learners. The reported increase in full-time fees in 2006/07 should make a substantial impact on future fee collection.
The Impact of Fee Policies on Recruitment to LSC-funded Provision

Figure 28: Impact of deprivation on theoretical fees collected, 2004/05 and 2005/06.

Percentage of fees collected

Source: ILR F04 2004/05 and 2005/06 and Index of Multiple Deprivation 2004
Note: 1 = most deprived and 10 = least deprived

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, for example the relationship between fees and sector subject area (SSA) or level of study.

132 The research team developed an alternative measure of fees collected per guided learning hour for this purpose. The measure calculates the fee collected for each enrolment and divides this by the number of guided learning hours (glh) on the programme. Only UK and EU students on LSC-funded programmes that are eligible to pay fees (that is, are not in receipt of LSC 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 glh. The fee collected per glh measure can be calculated directly from the ILR and does not require input from the funding formula.

133 Fee collected per glh is a simple measure of fee performance. It shows how much on average an institution is actually collecting in fees for all UK and 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 glh would on average be £1.24 per hour in 2004/05, £1.43 per hour in 2005/06, £1.73 per hour in 2006/07 and £2.05 per hour in 2007/08.

134 The fee 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 29 shows the fees collected per glh in the nine LSC regions in 2004/05 and 2005/06. Regional variations are similar to those in Figure 27, with Greater London collecting the highest fees and the North East the lowest. Figure 29, however, highlights year-on-year improvements made by providers (up 22 per cent), which exceed the increase in the fee assumption and national base rate (up 15 per cent).
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 30 shows trends in fees collected per glh by SSA from 2003/04 to 2005/06. The most lucrative subject areas are:

- business, administration and law
- education and training
- languages
- construction.

Average fee levels are particularly low in:

- ICT
- social sciences
- leisure, travel and tourism.
The low average fee levels are likely to be due to high levels of local remission (for example subsidised IT provision in community learning venues). It is clear from Figure 30 that the curriculum profile of a provider is likely to influence its fee-earning potential and its fee shortfall. In all SSAs, average fee levels per glh increased over the three-year period, although the total volume of activity fell, as discussed in section 4.

Average fees collected per glh increases with NVQ level (Figure 31), suggesting that some degree of market pricing is taking place. This finding is consistent with our discussions with providers, many of whom said that professional course fees for qualifications at Level 4 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 SSAs.
This may be partly due to the fact that learners from deprived areas are more likely to enrol 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.

Figure 32 shows the relationship between average fees collected per ghl 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. There is a very clear relationship between learner deprivation and average fee level.
Figure 33 shows the relationship between average fees collected per glh and population density. Average fee levels tend to rise as sparsity of population increases; this may be due to reduced levels of competition. However, in general, sparsely populated areas tend to be the most affluent and this in practice might be the key factor. A concern is the impact 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.

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 LSC fee remission and advertised course price is a less significant issue.

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

143 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.

144 The postal survey also asked colleges about the fee-setting process. The results are summarised in Figure 34.

145 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 fee collected per glh (see paragraph 132) may be a more useful basis for targets as they are potentially easier to understand and easier for colleges to control.

Figure 34: College perceptions of LSC fee income targets, 2005/06.

Source: Questionnaire data
Conclusions

146 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.

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

148 The research team recommends using a measure such as fee 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 with 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 and so on, as it can be derived entirely from the ILR. Note however that the fee collected per glh specifically excludes learners receiving LSC fee remission.

149 Initial research shows a clear relationship between fee level and deprivation, with the lowest fee levels being in areas of highest deprivation. This relationship is likely to at least partly explain regional differences in fee performance.

150 Fee collected per glh is relatively high in sparsely populated, 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.
Full-cost recovery 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, for example, higher education (HE) and overseas student fees, 14–16 work with schools, European Social Fund (ESF) and other public funding sources such as the Increased Flexibility Programme, Higher Education Funding Council for England, Jobcentre Plus and Quality Improvement Agency.

The researchers sought to explore the following questions:

• What types of full-cost courses and other activities do colleges currently undertake?

• To what extent has there been conversion from LSC- (or local authority)-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?

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

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

A sub-sample of eight colleges was selected for in-depth telephone interviews carried out in December 2006, focusing primarily on full-cost recovery 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 recovery activity.

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

Types of Full-cost Recovery Work

Within the relatively restricted definition of full-cost recovery work set out in paragraph 151, colleges distinguished six broad types of full-cost recovery activity. These are dealt with under individual headings at paragraphs 158–163.

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 its area, all such employers were in the public sector – local government, health and Ministry of Defence – and facing budget pressures. In general, colleges saw this as a traditional area of full-cost recovery work where modest increases might be expected but significant growth was unlikely.

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 recovery 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. 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 college’s strategy. A number of colleges had recently reorganised their management structure to ensure that the organisation was employer focused. This was often driven by initiatives such as Action for Business Colleges and the emerging New Standard. Many colleges felt that developing employer-focused, full-cost recovery provision often required a significant cultural 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 recovery work depended on the type of businesses in the local area and the nature of the community 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 (2005) and Leitch (2006) reviews and the introduction of Train to Gain. However, the full benefits of this increased focus on additional income from full-cost recovery provision may take many years to realise.

Professional and vocational courses for individuals where demand is high

160 Most colleges identified a set of programmes where demand was strong because individuals saw economic benefits from acquiring skills. Examples included AAT, the Chartered Institute of Personnel and Development, programmes in the hair and beauty SSAs, such as nail technicians, alternative therapies and 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 recovery regime had taken place.

Adult recreational programmes

161 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.

Miscellaneous

162 Some other types of full-cost recovery work were identified that did not fit 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 which invariably failed to recruit).

Consultancy and services

163 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 the expansion of full-cost recovery work.

Conversion from LSC-funded Programmes

164 Earlier work and particularly the snapshot survey conducted for DfES over the summer of 2006 (DfES, 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.

165 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 on CLAIT when faced with the full cost.

166 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, sugarcraft, beauty, floristry, holistic and other therapies, counselling and so on – appear to be more strongly linked to the opportunities for self-employment rather than employment.
In some areas of the country, it appears that aspects of the adult recreational 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; others felt it was not worth trying to run such programmes at full cost because of the nature of the catchment area; still others had never offered significant amounts of leisure-related activity.

The postal questionnaire asked colleges to estimate how many full-cost learners in 2006/07 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 these 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.

These figures are smaller than the estimated numbers of extra full-cost learners derived for the DfES in the summer of 2006 from the snapshot survey (DfES, 2006). 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 learner numbers from all sources rather than just conversion from LSC-funded work and so is not markedly inconsistent.

Detailed conversations with college staff confirm that the increase in learner numbers from conversion of LSC-funded programmes is unlikely to be substantial. The colleges selected for detailed follow-up were those where some significant degree of conversion had been reported. Their comments included the following general observations.

- In some cases, colleges’ estimates for 2006/07 had been over-optimistic and reflected aspirations rather than plans.
- Colleges felt they had exhausted most of the opportunities for straightforward conversions – 2006/07 had been a ‘one off’.

Colleges that we interviewed felt that the successful development of full-cost recovery work required more than the simple conversion of existing LSC-funded programmes. The development of effective relationships with employers and the provision of innovative, flexible and high-quality programmes 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 used 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 the business. Thus in some institutions a special unit might be responsible for a series of services to business and combine, say, full-cost recovery 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 recovery work might be placed with other activities within a college company which keeps records in a different format than that used by the main college.

Where colleges seek to use the ILR as the main vehicle for record-keeping in respect of full-cost recovery 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 it is therefore often excluded from the ILR. A key advantage of bespoke work for employers is that they are not limited to particular qualifications.

A further reason often quoted is the reluctance of some colleges to tell the LSC about its fully funded work, and resistance on the part of some adults towards filling in enrolment forms for provision for which they are paying in full.
A final problem is that with some customised training such as management workshops, individual enrolment forms are not completed and the college invoices the employer for the complete training package.

Whilst recognising these limitations, the research team looked at the evidence on full-cost income that is currently available from the ILR. Table 5 shows the fee income recorded for all adult provision (UK and EU students only), not in receipt of LSC or other funds (HE, ESF, project initiatives and so on).

Table 5: Full-cost income as measured by ILR for UK and EU learners, 2003/04–2005/06.

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Source: ILR F04 2003/04, 2004/05 and 2005/06
19+ providers A10 = 99, A14 = 99, A11a/b = 999, 13, 14

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 recovery work (for the reasons given above), this is reasonably consistent with previous estimates based on college interviews.

A similar analysis has been completed at regional level and appears to confirm real growth in this category of income across the country (Figures 35 and 36).

Figure 35: Full-cost income as measured by ILR by region, 2005/06.

Source: ILR F04 2005/06
Note: Data for North East excludes one college where data was unreliable
Figure 36: Percentage change in full-cost income as measured by ILR by region, 2004/05–2005/06.

Source: ILR F04 2005/06
Note: Data for North East excludes one college where data was unreliable

180 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.

181 Contributions in kind could be regarded as an additional form of full-cost recovery income. Examples of contributions in kind include donations of equipment, staff secondments, expert advice and attendance at college–employer 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.

Conclusions

182 Full-cost recovery 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, this is due to changes in data recording as well as one-off shifts in provision from LSC-funded to full-cost recovery work. In many colleges, full-cost recovery income has increased substantially but from a low base. Nevertheless, the research team found an increased awareness of the importance of full-cost recovery provision among senior management teams, linked to a greater focus on provision for employers and the introduction of Train to Gain.

183 This research confirms earlier findings that there are no simple ‘secrets of success’ in relation to generating full-cost recovery income. Those colleges that generate substantial levels of full-cost recovery income often seem to do so because they have a particular market niche and have successfully developed relationships with employers over a long period.
Part of the explanation for this lies in the different contexts within which colleges operate. Their locality will affect the demand for full-cost recovery work and the nature of an individual college's resources and competing demands for those resources will affect a college's capacity to respond.

The distinction between full-cost recovery 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 do not have the ability to pay, but 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.

In most colleges, full-cost recovery 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 and Leitch reviews (Foster, 2005; Leitch, 2006) will have a substantial impact on the ability of colleges to generate significant volumes of full-cost recovery income. This research study has shown, however, that early progress has already been made.
Annex:

References


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