

# Research into the funding for and costs of higher technical education

## Report

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## Executive Summary

### Introduction

- 1 acI Consulting was commissioned by The Gatsby Foundation to research the funding of and costs associated with higher technical education [HTE] in higher education institutions [HEIs] and general further education colleges [GFECs] in England.
- 2 Broadly our research covered the range of L4/L5 programmes currently offered by some HEIs and GFECs for which individual students could claim HE student finance – in this context, principally Higher National Diplomas and Certificates [HNDs and HNCs], and foundation degrees [FDs] – and the impact of and implications for the development of higher technical qualifications [HTQs].
- 3 Our report is based on findings from semi-structured qualitative interviews with senior staff in nine HEIs and eleven GFECs with significant L4/L5 programme activity. Interviews took place during May and June 2021.
- 4 This study forms part of the evidence base that will inform the development and funding of HTE in general, and of HTQs more specifically. We were asked to focus on identifying, reporting and commenting on the current position, rather than to provide advice and make recommendations to those taking policy forward.

### The L4/L5 offer

- 5 An institution's L4/L5 offer has to be consistent with its current capabilities, its strategy for development of its provision, and with local demand. Employer demand is a strong factor influencing HNCs in particular; student demand appears to be more significant in determining the FD offer. Government policy and initiatives appear to have little or no influence in determining the overall shape of the L4/L5 offer.
- 6 At HEIs, FDs tend to dominate the L4/L5 offer (five of the nine HEIs in our sample offer no HND or HNCs). HEIs also franchise and validate L4/L5 provision at GFECs, meaning that our GFECs tend to offer all of FDs, HNCs and HNDs, or a combination of FDs and HNCs.
- 7 There is no broad consensus that L4/L5 qualifications are either “for progression” and/or “stand-alone qualifications in their own right”. In practice, FDs are more likely to be for students who are progressing (fairly directly) from L3 provision, and who have the intention of progressing directly on to L6. HNCs in particular, but also HNDs, are more likely to be studied as stand-alone qualifications in their own right.
- 8 Student numbers, rather than specific income levels or any desired balance between income and expenditure, are the key factor in deciding whether or not to continue with a programme. The extent to which savings can be realised, and the prior investment in developing and delivering a course, means there is a degree of inertia in the system – programmes are redesigned or repurposed rather than closed.

- 9 Generally, institutions are more than willing to expand their provision, certainly where this can be done at marginal cost. The ability to recruit staff with the interest, and the necessary skills and experience, to teach at L4/L5 is the main barrier to expansion.

## Fees and fee-setting

- 10 Fees are set centrally for the institution as a whole. Most institutions set a single common fee – i.e. the same fee for all the FDs, HNDs and/or HNCs they offer. Our data is summarised in the following table.

<i>Provider type (n=11, GFEC; n=9, HEI)</i>	<i>Annual fee for full-time provision (or equivalent)</i>		
	<i>FD</i>	<i>HND</i>	<i>HNC</i>
GFEC – mean	£7,554	£6,646	£6,722
GFEC – median	£7,500	£6,725	£6,725
HEI – mean	£8,437	£8,077	£8,077
HEI – mean (adjusted) <sup>1</sup>	£8,700	£8,513	£8,513
HEI – median	£9,250	£8,600	£8,600
HEI – median (adjusted)	£9,250	£8,925	£8,925
HEI – mode	£9,250	n/a	n/a

- 11 Six out of our nine HEIs charge the maximum fee allowed for undergraduate courses for their FDs. Of these six, two offer HNs: one at the full rate and one at a discounted rate. Two other HEIs offer HNs at the same (discounted) rate as their FDs, three at the same rate. One HEI offers FDs only, at a discounted rate.
- 12 The position in our GFECs is more variable. For FDs, three have agreed Access & Participation Plans [APPs], allowing them to charge at, or close to, the maximum tuition fee – this they do; others charge c. £7,500; a third group charge c. £6,000. Five offer HNs at the same rate as FDs; five offer HNs at a lower rate; one does not currently offer HNs.
- 13 Where institutions offer lower rates for HNs than for FDs, this is because these are the qualifications most likely to be subject to market forces in determining the fee, particularly where it is being paid by employers. Differences in awarding body and validation costs, which are largely only relevant to GFECs, were also mentioned as a reason for this differential.
- 14 Where there are differential fees by type of qualification, the fee rarely varies by subject – i.e. there is a single fee for an FD and a different single fee for an HND and/or HNC, regardless of the technical or vocational area concerned.

<sup>1</sup> Adjusted figures have data for one, very much non-traditional, HEI removed; they therefore probably better-reflect the position of the sector, at least in our sample.

- 15 In general, GFECs charge lower fees for their L4/L5 qualifications than HEIs. We were told that this was because “a GFEC cannot provide the full HEI experience”, and/or that their market is price-sensitive and higher fees would adversely affect demand for their programmes. Some GFECs appear to have no such concerns.
- 16 Overall, our sense is that, for various reasons, the market is perhaps less price sensitive than some GFECs believe. Those that had recently increased their fees, including up to £9,250, said they had seen no reduction in demand: this is the reverse of what would be expected if their L4/L5 market was price sensitive, and may presage further increases in fees over time.

### Sources of income

- 17 Fees paid by students are by far the major source of income for L4/L5 programmes. In the majority of cases, students are able to take advantage of Student Loans Company [SLC] tuition fee loan arrangements. In addition, all institutions also reported that they have a relatively small number of students whose employers pay their fees. There are no other significant sources of income for L4/L5 provision.
- 18 There is some evidence of individual fee negotiations with significant employers. Otherwise, apart from (of course) institutions not setting fees higher than would be supported by the SLC arrangements, there is no direct relationship between sources of income for L4/L5 provision and the fees set.

### Costs of provision

- 19 Of our twenty institutions, the majority (ten GFECs and six HEIs) operate a faculty<sup>2</sup>-based variable contribution to overheads [CTO] financial model. Faculties are set individual targets to yield 50% CTO across the institution as a whole – some will be asked to contribute less than 50%, some rather more.
- 20 There is a range of cost drivers that influence programme costs – principally staffing, equipment and materials, fees charged by awarding/validating bodies, and space requirements. Were these to be tracked, they would explain the majority of any differences between costs by programme and by level. However, apart from new programme development, there is a general absence of detailed programme- or course-level costing; most institutions see little or no practical value in having access to cost data at this level.
- 21 With the important exception of Institutes of Technology, capital costs associated with L4/L5 provision are typically relatively small, probably because institutions’ L4/L5 programmes are in vocational areas where they already have a significant presence.

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<sup>2</sup> In this context, a “faculty” may be a large department or a group of departments. Terminology varies from institution to institution.



## Sufficiency of funding

- 22 Both GFECs and HEIs consider they are under increasing general financial pressure. However, at present, the majority view is that there is sufficient funding available to run current L4/L5 programmes; the fact that all institutions believe this when fees (and we assume costs) for L4/L5 provision vary widely, is interesting – though as just noted, institutions (with one exception) do not routinely match income for L4/L5 provision to expenditure on it.
- 23 Since institutions either budget at faculty or whole institution level, there is a weak relationship between costs and income for L4/L5 provision – the fact that L4/L5 also constitutes only a small proportion of activity further weakens the relationship. To this we need to add the fact that a programme that makes any contribution to overheads puts the institution in a (slightly) better position financially than closing it, and that even if a programme is not covering its direct cost – i.e. making no contribution to central overheads at all – any savings its closure may offer theory could still prove difficult to realise.
- 24 Taking the above points together this means that cuts are more likely to be “absorbed” as a rather small reduction in overall funding, rather than taken only by those programmes directly affected by the decrease; similarly, any increases are likely to benefit the faculty or institution as a whole, rather than specific programmes. It is possible that, if cuts affect a number of programmes (e.g. all those L4/L5s that are not HTQs) and are substantial, they may be much harder simply to absorb and this position may change.
- 25 This could argue for any additional funding that is available to support L4/L5 provision in general – and HTQs in particular – to be directed at supporting their development and introduction, rather than attempting to fund programmes differentially according to delivery cost.
- 26 Of course, over time reducing funding for any programme potentially sends a signal that it is not (as) “valued”; it might not actually be “closed due to lack of funding”, but it might be left gradually to decline.

## Impact of, and implications for, HTQs

### *The L4/L5 offer*

- 27 Developing a new programme is always an expensive process, and there is little if any “slack” in the system. As a result, institutions may be slower to respond to opportunities for new programme development, including for HTQs, than would otherwise be the case. In addition, for those who had looked into or been through it, the HTQ accreditation process was demanding (“Byzantine”) and difficult to navigate.

### Costs

- 28 Overall the expectation is that the introduction of HTQs will lead to additional costs – development-related in the short term; delivery- and awarding body-related in the longer term (for example those associated with inspection, placements, employer engagement and the need for more employer-facing work more generally, validation, and OfS and other regulatory charges).

### Fees

- 29 Interviewees believed that any increases in costs will lead to pressures to increase fees – certainly for those not currently charging at the maximum tuition fee loan level. This runs somewhat counter to the lack of any reported direct relationships between costs incurred and fees charged. However, any HTQ-related costs will be incremental to the existing cost base – and as such potentially more clearly identifiable as being directly associated with L4/L5 provision.

### Demand

- 30 Whilst there was general hope that the impact of HTQs would be positive, most interviewees considered it was too early to be definitive. There was general uncertainty as to whether or not any value would be added to qualifications at L4 and L5, what the net effect of HTQs on demand would be, and how qualifications were necessarily going to be improved as a result of the process. In particular, HNCs and HNDs generally have good and positive brand recognition among employers and individuals; some institutions were hard pressed to see what “HTQ” would add here, and felt there was a risk of damaging or even losing these established and well-understood qualifications.
- 31 Specific concerns were raised that HTQs could have a detrimental impact on local demand from employers. In particular, interviewees questioned whether national standards would be sufficiently dynamic to ensure that HTQs remained current, and sufficiently flexible to ensure the ability of qualifications to meet local needs was not lost. They were also concerned that progression pathways to and from L4/L5 may be disrupted.
- 32 Equally, there was recognition that the scope for the current profusion of qualifications to lead to confusion about which are most relevant, and in what circumstances, meant that there is a need for something to help the consumer. An appropriately marketed and publicised HTQ “brand” might be a powerful aid to recruitment.
- 33 The fact that employers can use the Apprenticeship Levy to pay for work-related training at L4/L5 was seen as a more systemic threat to growth in other qualifications at L4/L5, including HTQs.

# 1 Our study

## Introduction and context

101 We are pleased to present our report into the costs associated with higher technical education [HTE] provision in higher education institutions [HEIs] and general further education colleges [GFECs] in England. Our study of these costs was commissioned by the Gatsby Charitable Foundation and was supported by the Foundation and the Department for Education [DfE].

102 We were asked to address:

- The extent to which cost and income issues influence the choice of the level 4/5 [L4/L5] qualifications offered by providers
- The likely impacts of varying fee income on the provision made
- The possible existence of other barriers to growth, particularly in approved Higher Technical Qualifications [HTQs].

103 Our study is intended to inform the ongoing debate about the funding of Higher Education provision at L4/L5, in particular the funding of HTQs, and concerns about the Resource Accounting and Budgeting [RAB] Charge<sup>3</sup>, and public finances more generally. It is based on fee regimes in place as of June 2021; while interviewees were asked about the possible impact of changes to these, the report is not intended to speculate nor (emphatically) to advise for or against any such changes.

## The scope of our study<sup>4</sup>

104 Broadly our research covered the range of L4/L5 programmes offered by some HEIs and GFECs for which individual students could claim HE student finance – in this context, principally:

- Higher National Diplomas and Certificates [HNDs and HNCs]<sup>5</sup>
- Foundation degrees [FDs].<sup>6</sup>

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<sup>3</sup> In this context, the estimated cost to Government of borrowing to support the student finance system.

<sup>4</sup> What follows is only the broadest summary of current circumstances, intended to inform the reader of the scope of our work and this Report; it is absolutely not definitive.

<sup>5</sup> These qualifications, offered by Pearson Education Limited, are now branded “BTEC Higher Nationals” (see <https://qualifications.pearson.com/en/qualifications/btec-higher-nationals.html>). However interviewees uniformly refer to “HNDs and HNCs” and we have used this language in our report.

<sup>6</sup> A small number of HEIs also referred to offering Diplomas and Certificates in HE at L4/L5 – both as stand-alone qualifications and as awards for those who started, but failed to complete, an Honours degree.

- 105 In the remainder of this report we use “L4/L5” as a general shorthand for the programmes that represent the scope of our study, and “HNC, HND, and/or FD” where we report findings that are specific to a particular type of qualification at that level.
- 106 Specifically, our study excluded:
- Higher level apprenticeships funded through the Apprenticeship Levy and otherwise by the Education & Skills Funding Agency
  - “Non-prescribed HE” – funded by the student, potentially through an Advanced Learner Loan [ALL], or their employer. (We do however make occasional reference to non-prescribed HE where relevant.)

## Approach

- 107 Our study was based on a series of semi-structured qualitative interviews with senior staff in nine HEIs and eleven GFECs during May and June 2021.<sup>7</sup>
- 108 As far as could be arranged, the institutions chosen represented a geographic range of GFECs and HEIs with significant L4/L5 programme activity. “Significant” in this context is a relative term since of our twenty institutions only one had L4/L5 student numbers in excess of 10% or so of the student body: this is important context for our findings. In fact many GFECs and HEIs do not offer programmes with a L4/L5 qualification as their intended outcome at all.<sup>8</sup>
- 109 Our typical GFEC interviewee was the member of the college senior management team with responsibility for HE provision; in some instances they were joined by other colleagues from Finance and/or a member of the senior management team at Vice or Deputy Principal level. Similarly our interviewees in HEIs were generally in roles with L4/L5 responsibilities – Director of Apprenticeships [and other forms of HTE] or similar – and/or with other staff in either finance, planning and/or business/employer development roles.

## Acknowledgements

- 110 We are exceptionally grateful to all colleagues in HEIs and GFECs who committed their time to participating in our interview programme. Early summer 2021 was at the end of an unprecedented year in higher education, and taking time out to answer detailed questions about a small part of their institution’s activity at a point when the whole scope of that activity was changing day to day as the pandemic effects

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<sup>7</sup> The interview schedule we used is included in this report as Annex 1.

<sup>8</sup> There is a technical debate about whether the first year of a three-year Honours degree programme is in fact at Level 4, the second year at Level 5, and only the final year at Level 6. In some HEIs students who only complete one or two years of a three-year Honours degree programme may be awarded a qualification at Level 4 (a “Certificate of HE”) or Level 5 (a “Diploma of HE”) – for our purposes these are out of scope. (For the purposes of describing qualifications in this study we will regard an *entire* Honours degree programme as a “Level 6” [L6] programme from its first day.)

continued to be felt represented a real commitment to our project. We are also most grateful for the support of colleagues at the Gatsby Foundation and the Department for Education, and staff at the Association of Colleges [AoC] and Universities UK [UUK].

- 111 Our study was intended to complement a quantitative study of costs at course level for a sample of courses undertaken by a joint team of researchers working for the Foundation, AoC and UUK, which has been separately published.<sup>9</sup> Whilst we drew on the same subset of GFECs and HEIs for our sample, there was neither methodological nor data overlap between the two studies, which are fully independent.

## This report

- 112 Following this introductory section, the layout of this report is as follows:

*Section 2: The context of Level 4 and Level 5 programmes*

*Section 3: Fees and fee setting*

*Section 4: Sources of income*

*Section 5: Costs of provision*

*Section 6: Fees, sources of funds and costs – implications*

*Section 7: Higher Technical Qualifications and the future development of L4/L5 provision*

*Section 8: Other issues*

- 113 This is a report of findings, and explicitly does not contain recommendations, though we have sometimes made observations and interpretations of what we have found. We have taken care to distinguish these from objective reports of what was said to us. Our study identified a number of areas where we suggest further work might be useful; these are listed in Annex 2.

- 114 Throughout the report we include “quotes” from our notes in boxes and refer to precise numbers of GFECs/HEIs who said/reported/commented etc. along the lines quoted; these are intended to be illustrative of the sort of point that our interviewees made. They are not verbatim (we do not voice record our discussions), but we would expect the interviewee to recognise the sentiment if not the precise statement as “theirs” if we put it to them.

- 115 It is also worth pointing out that where we give an indication of a number of institutions (e.g. “Two HEIs and three GFECs commented to the effect that ...”), this

<sup>9</sup> See <https://www.aoc.co.uk/sites/default/files/AoC%20briefing%20paper%20on%20level%204-5%20costings%20research%20FINAL.pdf>.

should not be taken to mean that this was a minority view (i.e. that the remaining sixteen either had no view or disagreed). It is in the nature of semi-structured interviews, as opposed to structured questionnaires, that as the discussion evolves some points will get covered and others will not. The level of detail covered will vary by interview; not every interviewee will make the same point in the same way (or at all); and some interviewees may choose to make a comment about an issue that others do not happen to comment upon. For consistency, we do not ask later interviewees to comment on statements made by earlier colleagues.

## 2 The context of Level 4 and Level 5 programmes

### Introduction

- 201 To set the scene for our interview, we asked interviewees to describe:
- Their current L4/L5 offer
  - Where L4/L5 qualifications sit within their overall provision map – for example whether L4/L5 programmes are a discrete part of provision, and/or as part of progression pathways from lower/to higher levels
  - Any arrangements for validating and/or franchising L4/L5 provision at GFECs
  - How the L4/L5 offer was determined, what factors (local and/or national) were considered when deciding what to offer, and how the offer had evolved/developed over time
  - How decisions on when to start new (and to discontinue existing) L4/L5 programmes were taken, and what key factors play a part in these decisions.

### The offer

- 202 A majority of institutions in our fieldwork offered both FDs, and HNC and HNDs, mainly on a full-time basis, but also with a range of opportunities for part-time study. Broadly:
- HEIs tend to do less at L4/L5 themselves (one had two FDs only) –but often franchise their own provision at GFECs, and validate GFECs’ provision. FDs tend to predominate in the HEI L4/L5 offer
  - GFECs tend to offer FDs, HNDs and HNCs – the number of FDs broadly equating to the total of HNs (HNCs plus HNDs), though there were clear exceptions either way:
    - GFECs that were effectively exclusively FD at L4/L5, apart from subjects where the HNs had good brand recognition from employers (principally Construction and Engineering)
    - GFECs that had considerably more HNs than FDs
    - A GFEC that was intending to retain HNCs but phase out HNDs in favour of FDs.
- 203 One HEI currently had no L4/L5 offer, but was planning to reintroduce FDs, broadly in line with the rollout of HTQs.
- 204 Some of our HEIs considered that the “Year Zero”/Integrated Foundation Years at L3 provided a better route into a L6 degree programme than an equivalent FD for those students who were clear that an Honours degree was their goal, and had shaped at least the “in house” part of their offer accordingly – with FDs still being available through their GFEC partners. L3 “Access” courses are clearly another option for mature students seeking to start an Honours degree.

- 205 All GFECs and most HEIs also offered a range of non-prescribed courses. Many of these are targeted at those working at technician level in a profession (e.g. the Association of Accounting Technicians) and are delivered out of the business school (or equivalent), but other faculties/departments can deliver these programmes also.

#### *The context of the L4/L5 offer*

- 206 As noted, for all but one of our institutions (a GFEC) L4/L5 programmes made up no more than 10% or so at most of student enrolments; they were therefore important, but not necessarily “core”, areas of business. This is important contextually for the findings of this study. More generally, it would be interesting to see, and relatively easy to measure, whether this is true across HEIs and GFECs in England – if so, it has important implications for the extent to which the L4/L5 offer can be influenced by national policy.
- 207 However, small does not necessarily equate to insignificant: for GFECs in particular the importance of this provision is often greater than relatively small numbers may suggest. (One GFEC’s “small L4/L5 offer” was another’s “jewel in the crown”.)

#### *The “purpose” of the offer*

- 208 Broadly the possible “purposes” for L4/L5s are as:

- Progression routes into higher levels of learning – progression may be immediately after study at L3, or after a break from learning

*Being able to offer progression is an important part of our marketing, even if most L3 students do not immediately take-up the offer. (GFEC)*

*We consciously map what we do at L3 to L5 onto what our local HEI offers at L6, deliberately engineering what we do to ensure that pathways that will enable aspirations to be realised are opened up rather than closed off. (GFEC)*

*All our [and our GFEC franchisee] L4/L5 programmes must and do provide an onward pathway for learners wishing to continue their studies with us at L6. (HEI)*

- A stand-alone qualification in its own right – often the motivation for individuals furthering their own learning for future employment prospects or other reasons, or employers supporting their employees to achieve a specific qualification for work-related purpose.

*Take-up of our L4/L5 provision tends to be discrete – we do not really have direct progression from our own L3 provision to it, or onto our and others’ provision from it. (GFEC)*

- 209 Our providers were asked if they could generalise; their responses divided into three broadly equal groups:
- Those who regarded the qualifications as essentially stand-alone – that is, students took them to fulfil an immediate need (e.g. for a better qualification in



the jobs market): this view was mainly held by HEIs. Whilst this group felt it was their duty to offer progression routes (and articulation<sup>10</sup>), most students were not currently taking advantage of them. (Of course they might well return to study later in their careers)

*FDs [and CertHEs and DipHEs] are different qualifications for different students in the main; whilst articulation and top-up should be possible, they are not the main focus. Similarly, for the provision we validate the primary goal is not to get a third year 'with us' from course completers. (HEI)*

- Those who believed that the main purpose of their L4/L5 offer was to provide progression opportunities through from study at Level 3 or below ["≤ L3"] into university study at Level 6: GFECs predominated among those holding this view

*Our L4/L5s are marketed as part of a progression pathway and feed into the University – we have reverse engineered our curriculum to ensure that the offer maps onto progression routes from L3, and that pathways into and through the University work well for our students. (HEI)*

- The remaining GFECs and HEIs, broadly equal in numbers, believed that their L4/L5 qualifications served both purposes – “stand alone” and “progression” – and that there was a considerable degree of flux between them: students might enrol on a L4/L5 programme with that as the goal they have in mind, but subsequently decide to stay on and gain a full Honours degree once they “got into the way of studying”.

210 There was therefore no broad consensus that L4/L5 qualifications were, in their design and delivery, either “for” progression or “not”. It depended entirely on local factors and on the individual circumstances of the students concerned.

211 There is however a suggestion in the fieldwork that FDs are more likely to be for students who are progressing fairly directly from L3 provision and, at least at the start of their course, are more likely to intend to progress directly from L4/L5 to L6. Conversely HNCs in particular, but also HNDs, are more likely to be studied as stand-alone qualifications in their own right – the students are also more likely to be employer-funded than is the case for FDs<sup>11</sup>.

*More students now progress internally and directly from L3 to L4/L5. Any gap now tends to be between L4/L5 and L6, rather than between L3 and L4/L5. (GFEC)*

<sup>10</sup> In this context, the guarantee of progression into a later year of an Honours degree course providing a reasonable (specified) standard is reached in the L4/L5 programme being followed. Thus (for example) high marks in a two-year FD might lead straight to the third year of a L6 degree; reasonable marks might lead to the second year; etc.

<sup>11</sup> HTQs, of course, are being marketed as qualifications in their own right, so in this respect HNCs and HNDs show commonality of purpose with the new qualifications.

- 212 Individual students will of course have any number of “purposes”, which they may not make known to their institution, and which may not match the intentions of their provider – just because an institution markets its L4/L5s as progression opportunities does not mean that this is why students will take them up.

### Validation and franchising issues

- 213 GFECs without degree awarding powers [TDAP or FDAP]<sup>12</sup> that offer prescribed higher education courses need to partner with an awarding body.
- 214 For HNDs and HNCs, most GFECs (and some HEIs) use Pearson themselves as their awarding body. A major reason for this is the simplicity of extending the range of qualifications offered – to offer any of Pearson’s vocational or work-based qualifications, an organisation must be a Pearson-approved centre; once it is, it is a very straightforward and quick process to add other qualifications, including those at L4/L5, to the portfolio.
- 215 It is also argued that the HNC/D brand, particularly in certain subjects<sup>13</sup> (Construction, Engineering, Health & Social Care etc.), is sufficiently strong for the additional *imprimatur* of an HEI on an equivalent FD certificate to convey no advantage.<sup>14</sup>
- 216 HEIs<sup>15</sup> are also able to offer Pearson’s HNCs and HNDs. For some it can be attractive to offer their “own” HNC or HND under licence from Pearson: this will allow the institution to develop its own content and apply its own validation processes. HEIs can, in turn, offer their “own” HNCs and HNDs to local GFECs, and we found at least one example of this: see below.
- 217 For FDs, there is no Pearson-equivalent to a national awarding body; these qualifications can only be awarded by institutions that have FDAP or TDAP. All HEIs have these powers as a matter of course; most GFECs do not, and will therefore need to partner with an HEI (or HEIs) to be able to offer FDs (and HNCs and HNDs if they do not want to use Pearson).

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<sup>12</sup> Taught degree awarding powers [TDAP] cover degrees up to and including taught masters’ degrees [Level 7]. Foundation degree awarding powers [FDAP] just cover foundation degrees [Level 5]. See [https://www.qaa.ac.uk/docs/qaa/guidance/the-right-to-award-degrees-18.pdf?sfvrsn=4a2f781\\_14](https://www.qaa.ac.uk/docs/qaa/guidance/the-right-to-award-degrees-18.pdf?sfvrsn=4a2f781_14) for details.

<sup>13</sup> We would usually refer to “sectors”, in the vocational or occupational sense here. However, to avoid confusion with education sectors (further and higher), we will use “subject” instead throughout this report.

<sup>14</sup> These qualifications can also be awarded by an HEI if it has a “licence” from Pearson to use the HNC/HND brand and specification (the HEI then provides its own content and internal validation process).

<sup>15</sup> And GFECs with FDAP/TDAP (two in our sample). Interestingly one of these two GFECs still preferred to use Pearson for their HNCs and HNDs.

- 218 A GFEC-HEI partnership can be for:
- A “validation” arrangement – the GFEC proposes content and delivery methods (etc.) and the HEI (for a fee) ensures the qualification comes up to its internal academic standard
  - A “franchise” arrangement, where the HEI is responsible for the content and delivery method (indeed every aspect of the course design), and the GFEC basically uses its staff and resources to deliver the HEI’s qualification to the HEI’s specification.<sup>16</sup>
- 219 In either case – validation or franchise – the qualification awarded is formally a qualification “of the HEI” and will be noted as such on the certificate and transcript (though the name of the GFEC is usually referred to). HEIs, and for that matter GFECs, have preferences between validation and franchise; these do not necessarily coincide.
- 220 To state the obvious, a GFEC cannot require an HEI either to validate a qualification they propose to offer or for that matter to enter into a franchise arrangement. It must “shop around” to see who will partner with it and on what terms. HEIs vary in the sums they charge and in the balance between the amount of work GFEC staff have to do and the amount HEI staff will undertake.
- 221 GFECs who expressed a view usually preferred validation arrangements to franchises because they considered that validation gave them more control over content and delivery. Often a franchised qualification is simply a copy of a qualification already offered on the HEI’s “parent site” and it is not straightforward (and potentially not possible) for it to be customised to local needs.
- 222 HEIs, for their part, were usually happy to franchise qualifications that they already offered and prepared to validate qualifications that they did not.<sup>17</sup> However, GFECs with experience of local HEI partners varied – some GFECs were perfectly content with the arrangements under which they worked while others reported difficulties. Most often these related to HEI reluctance to validate a programme that was similar to one it offered. It is clear why this may be so – the HEI is in effect setting up a local competitor, either for its own L4/L5 qualifications, and/or for students who would otherwise register for its L6 programme. Similar issues may arise for GFECs seeking a franchise arrangement. One of our GFECs had more or less decided to seek validation partners some considerable distance away in order to minimise this potential conflict of interest.
- 223 There is of course a potential downside to using a geographically remote validating partner in what may be perceived to be a local market. Conceivably the programme could look less attractive to potential students (or indeed potential employers) if it

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<sup>16</sup> In the interests of brevity, these are simplistic descriptions. Actual practice may vary between institutions.

<sup>17</sup> Technically an HEI can franchise a qualification that it does not offer itself, though it is not clear why it should want to do so when it has validation as an alternative.

was not “obtained locally”. Equally, if the local HEI *is* involved articulation to L6 may be more likely. However without further investigation this is largely speculation on our part.

- 224 More generally, GFECs were concerned that an HEI could withdraw from a franchise or validation agreement at relatively short notice: GFECs were coping with this risk by working with more than one partner for their FDs, or by switching provision to HNCs and HNDs on the basis that Pearson’s provision was more secure in the long term.

*Putting on new programmes is much more time-consuming when an HEI is involved; we are in the hands of the HEI as to whether it wishes to validate the programme at all; and HEIs can decide not to validate, therefore stopping our offer, for example if it would compete with their own provision. We have had examples of this. (GFEC)*

- 225 On the other hand a benefit of validation is that it allows the GFEC to tailor content more precisely to local needs.

*When it comes to accreditation, our preference is generally for a local HEI that is willing to validate an FD as this offers us greatest scope for meeting local needs; Pearson’s HNs usually have compulsory elements, which may not always be relevant. Which award we go with is a significant discussion for us. (GFEC)*

- 226 Validation also creates the possibility of a GFEC putting forward “their” qualification for approval as an HTQ (with the validator’s permission). Otherwise, it is the awarding institution (e.g. the HEI, or Pearson for “their” HNC/Ds) that must submit a qualification for HTQ status. However we were told (by GFECs) that many HEIs were sympathetic to the GFEC “doing the necessary work” and essentially just passing the application on once it was complete. We return to this point in Section 7.
- 227 The process of validation, incidentally, requires the application of academic rigour through laid down procedures and it does not necessarily follow that the validating institution needs to possess the range of academic or technical expertise that it would need were it to want to deliver the qualification concerned itself. In contrast, a franchising HEI will generally (though again not necessarily) also deliver the qualification concerned itself on its own campus.

## Determining the offer

- 228 Interviewees were asked how they determined which qualifications at L4/L5 they should offer; the procedure for deciding to offer new qualifications; and the circumstances in which the offer of a qualification could be withdrawn.

### *The overall offer*

- 229 All respondents stated that their L4/L5 offer had to be consistent with:
- Generally local demand/needs. “Demand” in this context could of course be employer demand, student demand, or (commonly) a combination of both. As

noted, there was a tendency for employer demand to be stronger in the case of HNCs in particular, but also HNDs, and student demand in the case of FDs, but the distinction is not clear cut.

For these purposes “local” was sometimes “sub-regional”, especially for Institute of Technology [IoT]-based provision

*The L4/L5 student group is not one that will travel great distances for provision – local very much means local. (GFEC)*

- The institution’s current capabilities
- The institution’s strategy for development of its provision.

*Fundamentally we assess likely employer demand, then student demand, then see if we can offer the qualification within our skill set. Programmes need to be within the core capabilities of the organisation ... and there is no point in running things that do not recruit. (HEI)*

- 230 Even when the principal purpose of the provision was to allow progression into L6 study, it was important for those who chose not to progress that both the range of qualifications and their design/content was consistent with the local employment market and local employer demand.
- 231 Institutions identified this demand through a range of sources: national research on destinations (including HESA); liaison with their local LEP; the economic development team in their local authority (or local combined authority if they had one); and employer advisory groups (titles vary) to give them direct access to the perceptions of skill needs shared by local employers.
- 232 To the extent that it was mentioned, Government policy and initiatives appeared to have little or no influence in determining the overall shape of the offer – the long lead time (typically two years) involved in setting up and validating new qualifications, and a belief in the relative transience of policies and programmes, meant that institutions felt it was difficult for them to do otherwise.

### *Establishing new programmes*

- 233 All institutions had some form of procedure for establishing new courses or programmes, in addition to the requirements for academic validation. These procedures almost always required some comparison of anticipated income and likely expenditure required to offer the programme concerned. Where a degree of financial autonomy has been devolved to faculties, the *faculty* submitting a proposal is taking on some of the financial risk involved and central oversight of the approval process may be less stringent.
- 234 Procedures varied in complexity, from “a spreadsheet” to a full business case. At least one HEI had a two-tier process where new programmes below an annual turnover threshold could follow a “lite” procedure while a full business case was necessary for programmes likely to fall above it.

*We start new programmes if we see there is a justifiable commercial/industrial need and if we believe we can attract sufficient students. (GFEC)*

*We go through a detailed course appraisal process that reviews likely income from the new programme against its costs, reviews capital equipment needs, and checks that appropriate staff are available. We also check that the new course offers a reasonable progression route (into either further study or employment). (HEI)*

- 235 Key factors in “making the case” included: employer demand for course graduates (commitment from named employers to take on graduates was more valuable than vague estimates of likely numbers); the probable number of students that could be recruited both initially and in the longer term steady state; the consistency between the proposed programme and existing programmes already running well in the institution; and the confidence the institution could have that the new programme would be delivered to quality standards.
- 236 In terms of student numbers, most institutions felt comfortable with realistic projections for the steady state of around fifteen – recognising that new programmes might not hit this level initially; that by the end of the programme, particularly for part-time provision or courses that otherwise ran for more than a year, numbers may have dropped below this; and that demand may push student numbers above this level over time. Programmes where employers guaranteed to sponsor students, and/or to offer placements and employment opportunities, might be allowed to start with lower numbers than this.

### *Discontinuing programmes*

- 237 Most institutions review their programme portfolio regularly.
- 238 Institutions with FDAPs or TDAPs (i.e. mostly HEIs) are expected to review their entire portfolio “periodically”<sup>18</sup> and this includes, in theory, programmes that they validate or that are franchise-delivered by others. The review is not specifically intended to reference the financial viability of the programmes reviewed – for a validated or franchised programme this is more a matter for the GFEC partner in any case – but it would be reasonable to expect that when reviewing whether a course or programme still met academic standards, HEIs would check at the same time whether it still met employer demand, or whether students were still coming forward to do it in sufficient numbers.
- 239 An institution can carry a course that is not making much of a contribution to central overheads, but a course that is failing in quality or destination terms may have a much more deleterious effect on the whole institution or at least the part of the institution concerned.

<sup>18</sup> See for example the Quality Assurance Agency for Higher Education [QAA]’s *UK Quality Code for Higher Education* (<https://www.qaa.ac.uk/quality-code>). This used to be termed “quinquennial review”, but the Code no longer specifies a time period. Nevertheless five years is still a popular choice.



- 240 Almost invariably our institutions specifically referenced student numbers, rather than specific income levels or any desired balance between income and expenditure, as a central factor in deciding whether or not to continue with a programme. As we will explore below, none actually routinely reconciled income and expenditure at programme level across the institution. Although detailed estimates of income and expenditure are usually required to establish the case for a new course, once the course is running they generally seem to be put aside and not referred to again or refreshed; instead, student numbers per course, programme, or module are used as a proxy for viability (which of course it is).
- 241 All were agreed that closing a programme was an expensive business and was not likely to yield savings in the immediate short term. Although a particular low enrolment course may not be paying its way in absorption costing terms it may still be covering its direct costs – defined in this instance as costs that can in theory be saved if the course is discontinued. If it is, then by definition discontinuing the course will leave the institution worse off – unless the course can be replaced with something more closely attuned to student and/or employer needs.
- 242 In practice, reducing staff costs – the largest single component of any programme’s cost – can be notoriously difficult, especially if the members of staff concerned are on permanent contracts and will be required for teaching elsewhere even after the course in question has shut. (One of our sample institutions had recently discontinued an entire curriculum area at all levels, not just L4/L5, and reckoned it would be three years before any savings were actually realised.)
- 243 Given the level of achievable savings and the (lack of) speed with which they can be realised, and the investment in developing and delivering a course, there is a degree of inertia in the system – most institutions would prefer to attempt to redesign or repurpose a programme that does not recruit (perhaps by developing new modules, converting an HND to an FD, or vice versa), rather than simply close it. Potentially this has implications for the introduction of HTQs.
- 244 Changes to courses can also have a “domino effect”; if students/employers who might previously have been attracted to a particular institution because their course included a particular module or placement opportunity decide not to come to the institution at all when the opportunity is withdrawn, the whole course can be put into jeopardy.
- 245 Also, for GFECs in particular, L4/L5 programmes may share elements of provision with other types of programmes – in this context most often apprenticeships – meaning, for example, that those on HNDs and HNCs and/or FDs may find that apprentices join their class for the off-the-job/underpinning knowledge elements of their apprenticeship. The wider impact of any changes therefore also needs to be considered.

*We discontinue programmes if they serially fail to recruit. We do bear in mind, however, that closing one programme may influence recruitment on others and do not take the decision lightly. (GFEC)*

*We always try to discover the reason behind the drop in student numbers and would also look at the programme's overall place in our offer, the progression opportunities it offers, further progression routes it supports, etc. before coming to a conclusion. (GFEC)*

*We would discontinue programmes if they failed to recruit, or if outcomes (including destinations) were unsatisfactory, or if we were unhappy about the academic quality of the programme concerned. (HEI)*

### Are student numbers sufficient?

- 246 Given the difficulty in doing much about programmes where student numbers decline, it was important to ask our interviewees whether in general they regarded the student numbers on their L4/L5 programmes as sufficient to make and keep the programme portfolio sustainable.
- 247 All but two interviewees (one GFEC and one HEI) believed that student numbers were in general sustainable. It might be necessary to close some modules, repurpose others, and in particular ensure that programmes and modules continued to reflect student demand and employer need, but at present interviewees were sanguine about this element of their portfolio.
- 248 The GFEC that dissented had experienced a three-year decline in numbers coming forward for L4/L5 programmes. It felt that foundation degrees were not fully understood by its target student market, and was in the process of reconfiguring its L4/L5 offer to reduce dependence on them in favour of HND/Cs.
- 249 The dissenting HEI had a more general concern that L4/L5 programmes were not an attractive offer compared to doing a "proper" L6 degree, and was therefore not entirely convinced that it should be in this market. Certainly the L4/L5 portfolio did not contribute greatly to the institution's success.



### 3 Fees and fee-setting

#### Introduction

301 Interviewees were asked about the fees they set for L4/L5 programmes:

- At what level(s) they are set
- The factors that are considered in their determination
- The extent to which market-related factors apply.

#### Overall fee policies

302 The overall fee rates set for L4/L5 programmes by institutions in the sample are shown in the following table<sup>19</sup>. There is one entry for each institution participating in our study: where different fees are shown for “franchised” and “validated” provision at the same GFEC this is indeed the case<sup>20</sup>. To anticipate a point made later in this Section, there is little if any variation (e.g. by vocational area) from the fee quoted in the table.

Type of prov.	Annual fee for full-time provision (or equivalent)			Comment
	FD	HND	HNC	
GFECs	£6,150	£5,999		HNC rates variable according to market and competition
	£7,500			Lower than HEIs and competitive with other GFECs
	£9,000	Not offered	£4,800	HNC rate (£2,400 part time, equivalent to £4,800) determined by market forces
	£9,000	Not offered		
	£6,950			One HNC at £3,300 due to local competitive factors
	£7,500			
	£6,350	£5,100		FD fee is for validated provision; franchised FD fees (from different HEIs) generally set at a higher level Some variation by sector for HNC & HND fees

<sup>19</sup> A version of this table showing means, medians and modes is given in the Executive Summary above.

<sup>20</sup> Bear in mind that the GFEC sets the fee for validated provision while the franchising HEI sets the fee for franchised provision (and indeed notionally collects it, paying the GFEC for the service it delivers).

Type of prov.	Annual fee for full-time provision (or equivalent)			Comment
	FD	HND	HNC	
	£7,500	£6,500		FD-HN differential is driven by different charges by the awarding body/HEI concerned
	£9,250	Not offered	£9,250	
	£6,165	£5,895		FD fee is for validated provision; franchised FDs are charged at £8,000
	£7,725			
<b>HEIs</b>				
	£5,500	Not offered		Minimal FD provision offered
	£9,250	Not offered		No franchised or validated provision
	£6,336			Almost all provision offered on a distance and blended basis
	£9,250			For non-campus/GFEC-franchised provision fees are two thirds to half of the fee shown
	£9,250	Not offered		No franchised or validated provision
	£9,250	£6,950		HNCs & HNDs are offered by group GFECs only
	£9,250	Not offered		Franchised fee generally required of partner GFECs is £8,500
	£8,600			Franchised fee required of partner GFECs is £6,150
	£9,250 (proposed) <sup>21</sup>	Not offered		No franchised or validated provision

## Determining fee levels

**303** Where more than one type of qualification is offered, most institutions set a common fee for all their L4/L5 qualifications – i.e. a single fee for all FDs, HNDs, and HNCs. This is so for:

- All the HEIs that offer more than just FDs – the apparent exception in the table is due to group GFECs, which do not offer FDs, charging HNCs and HNDs at less than the FD rate. The group HEI does not offer HNs
- Half the GFECs that offer HNCs and/or HNDs in addition to FDs.

**304** Where GFECs have differential fees by type of qualification the fee rarely varies by subject – i.e. there is a single fee for all FDs and a different single fee for all HNDs and/or HNCs, regardless of the subject or vocational area of the course concerned. There are a very few exceptions, which we list below.

<sup>21</sup> This HEI was proposing to re-launch FDs in September 2022. See paragraph 203.

## FDs

- 305 Two thirds of HEIs charged the maximum fee allowed for undergraduate courses for their FDs – i.e. the same rate that they charge for a L6 Honours degree. Of the three that do not, one charges the same rate for its L6, L5 and L4 qualifications (the rate for all is set at less than the maximum currently allowed); specific and unusual circumstances apply for the other two.

*We do not regard FDs as price sensitive. We used to charge lower fees but recently realised that, due to the lack of price sensitivity, we might as well charge the full amount. (HEI)*

*We charge the same [maximum loan] fee on the basis that all students have access to the same on-campus experience and facilities, regardless of the level of course they are on; also we are convinced that our portfolio means that programmes will incur broadly the same level of costs, albeit on different content, so the notion of some being substantially higher cost than others does not apply for an HEI like us. (HEI)*

- 306 Three of our GFECs have agreed Access & Participation Plans<sup>23</sup>, which allows them to charge at, or close to, the maximum tuition fee this allows for their FDs. There is then a c. £1.5K step down to a group charging at/around £7,500; and a further group charging around £6,000.
- 307 Based on our discussions, we consider it is likely that the polarisation of the market will continue:
- The two GFECs who are almost charging the maximum fee will progressively increase their fee towards the maximum (they could see no reason not to do this)
  - To the extent that they are not already there we would expect others to progressively increase their fee towards the maximum they are allowed to charge
  - There is a group towards the bottom of the range that believe that local factors prevent them from raising their fee much above the current level. (We expand on this point later in this Section.)

## HNCs and HNDs

- 308 HNCs and HNDs are generally offered at the same rate where both are available in the same institution

<sup>23</sup> Interviewees were vague about the actual cost of the access and participation activities they offered within their APP, and one interviewee implied that it was the *administration* required to submit and get approval for an APP that had stopped them applying, especially as they did not need an APP to charge the fee they wished to. The interviewee believed that the institution already provided sufficient access and participation activities to qualify, had it been necessary to do so.

309 Fees for HNCs are more likely to be paid by employers rather than self-funding individual students, and are therefore more subject to the market than other L4/L5 qualifications that they offer; they can also vary, but only occasionally on a subject-by-subject basis. Specific examples were quoted in our interviews (all amounts are per year):

- £5,625 for a Hair and Makeup Performing Arts qualification (compared to £5,100) (GFEC)
- £4,000 (compared to £3,750) for an HNC in Aircraft Maintenance (GFEC)
- £3,950 compared to £5,100 for an HNC (also an HND) in Engineering (GFEC)
- £3,300 compared to £4,650 for a part-time HNC in Construction (GFEC)

310 While any differences in fees paid by students supported by a Student Loans Company [SLC] loan only affect the future date when loan repayments cease, differences in fees paid by employers are “real money” and – to anticipate our next sub-section (*Demand, price sensitivity and competition*) – it is quite likely that employers will “shop around”, particularly in urban areas with multiple FE/HE providers, to find a good price. (The reduction in fee for an HNC in Construction noted above was a specific price-match to the fee charged by another local provider.)

*Our HNCs are competitively priced [all at £2,400 per year] since this is what we believe the market will bear. (GFEC)*

*HNCs and HNDs are more likely to be price sensitive as employers are more likely to be funding them, so we have to keep an eye on what competitors are charging. The employer market has also been influenced by the rise of apprenticeships: employers paying the levy are attracted by the possibility of using this money for training [and this is having a wider impact on the market for non-apprenticeships at L4/L5]. (HEI)*

311 Although these were the only specific instances quoted, as already noted our general sense is that HNCs (and to a lesser extent HNDs) are the most likely prescribed L4/L5 qualifications to be subject to market forces in determining the fee actually paid, particularly by employers. (One of our interviewees stated that all GFECs would negotiate on price, particularly with employers who put a significant level of business their way, and sometimes more generally.) Non-prescribed L4/L5 qualifications are also likely to be much more competitive and price sensitive.

#### *Franchised and validated FDs in GFECs*

312 Those HEIs that franchise FDs set lower fee rates for their franchised qualifications than for those FDs delivered on-site – in one case the difference is marginal; in two it is substantial.

*For franchised FDs, our fees are subject to individual agreements with the providers concerned – they are significantly below our ‘on site’ fees, reflecting the fact that the student is not getting a full-HE experience, and also the local market conditions. (HEI)*

- 313 Where one of our GFECs offers both franchised and validated FDs at different prices these are for provision from different HEIs. It is not therefore clear whether the higher price involved for a franchised qualification from one HEI than for a validated qualification from a different HEI is a structural difference or just the consequence of different approaches to price-setting by the institutions concerned – but that the difference is in the same direction in both cases we found is suggestive.

#### *The treatment of part time qualifications*

- 314 Most institutions that offered part-time qualifications broadly charged the same fee *pro rata* as for full time qualifications. Exceptions were:
- A GFEC charging £4,650 for an HNC over two years (£9,300 for the full qualification), which thus comes in total to rather more than the institution's standard £6,950 full time fee
  - A GFEC charging "a few hundred pounds more" (the interviewee was not more specific)

And going the other way:

- A GFEC also charging £4,800 in total for an HNC over two years rather than its standard annual £9,000 fee for L4/L5 qualifications.
- 315 We also note that no institution set its part-time fee at the maximum annual tuition fee loan value permitted for part-time provision (£6,935).
- 316 Interviewees could not account for the reasons behind these several variations, since – as noted – the setting of fees is typically a central function. However our other experience suggests that a higher *pro rata* fee for part-time provision might represent the greater administration and student service input perceived to be required, while (to explain the contrary example) part-time study is particularly likely to be paid for by employers and therefore particularly price sensitive.

#### *Overseas students*

- 317 There is not a great demand for L4/L5 qualifications from overseas students in HEIs or GFECs; interviewees therefore found it difficult to answer questions on what fees are/would be charged. Three figures only were quoted by institutions in our sample – all around £13,000 to £14,000.

## **Differentials**

#### *Between FDs, and HNCs/HNDs*

- 318 The HNC rate is below the FD rate by up to c.25% in the four HEIs that offer HNCs and/or HNDs – the differentials between the qualifications in GFECs are generally smaller than this.

- 319 The two GFECs that routinely set fees where the difference between FDs and HND/Cs was significant believed that HNC/D costs were actually lower, and that the lower cost should be passed on to students. These GFECs stated that Pearson charged less on a per capita basis for an HNC/D than their validating HEI: we have noted the impact of this in the table above.

*Between L4/L5 and L6 in GFECs*

- 320 Some GFECs that set lower fees for their L4/L5 programmes than for their L6 programmes argued that the lower fee was appropriate for the lower level of qualification. (We note that HEIs, and other GFECs, appear to have no concerns in this regard.)
- 321 In general, and as we explore more generally in this report, institutions do not routinely track expenditure at the programme level so were unable to evidence lower *per capita* expenditure on L4/L5 programmes – intuitively, unless staff costs differ substantially, it seems unlikely that any material differences exist.

*Between HEIs and GFECs (including franchise arrangements)*

- 322 In general, though interestingly not in all cases, the table at paragraph 302 suggests that GFECs are more likely to charge lower fees for their L4/L5 qualifications than HEIs.<sup>24</sup>
- 323 In these cases, GFEC interviewees were likely to argue that “a GFEC cannot provide the full HEI experience”, and therefore it was only fair/appropriate to charge a lower fee: this is surprising given that GFECs may in fact invest more in student support and guidance, and offer more small-group support to struggling students, than an HEI can afford to do.<sup>25</sup> Also, particularly for franchised but also for many validated programmes, GFEC-based students often enjoy the same level of access to online, and potentially to other, learning resources, campus-based and otherwise.
- 324 It is significant in this context that when – later in this Report – we discuss institutional reactions to a possible reduction in [SLC] fee support from £9,250 to £7,500, some of those GFECs whose fees were *already* at or below £7,500 felt they would be under pressure to reduce their fees even so, purely to maintain a differential.

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<sup>24</sup> If there is a trend in this, it is towards the GFECs concerned increasing their fees to bring them more in line with HEIs’.

<sup>25</sup> This is of course a significant generalisation, and worthy of further study before too much argument is built upon it.

## Demand, price sensitivity and competition

- 325 Interviewees were asked about the extent to which fees set affected student demand, either directly or in the light of competition from other institutions. There was some variation in the answers we received.

### *Institutions arguing there is no price sensitivity*

- 326 Some institutions (mainly HEIs) specifically stated that there was no relationship between fees charged and student demand; these institutions all charged the maximum permitted fee. Broadly speaking they articulated the argument that, under current SLC arrangements, the size of a student loan only affects the date when the loan will finally be paid off, rather than the repayments, and only higher earning students would be likely to pay the loan in full. More to the point, they believed that an increasing number of students understood this.

*When the (then) £9,000 fee regime was introduced, we did not charge the full amount immediately. However we found that the market was not price competitive and within a year had moved to the maximum. (HEI)*

*We did look at others to see where our proposed fee would place us [within the range of fees being charged by our competitors]. However, we also found, through research, that the level of fee is not something that determines why students do HE with us – our location relative to where they live, and their actual or potential place of local employment are far more important. (GFEC)*

*Students increasingly accept their loan as “just one of those things”. Because we wish to deliver the best learning experience possible, we will therefore always charge the maximum fee. (HEI)*

- 327 The GFEC just quoted had previously run its L4/L5 programmes with fees of around £7,000 but had recently decided to increase these to £9,250 for September 2021. Explicitly, it is returning some of the additional fee to students – for example by providing financial support for internships and an increased number of grants for establishing small businesses on graduation, thereby supporting students’ progression into employment. They argue that this is more to the advantage of the students concerned than simply bringing forward the date at which their (otherwise lower) student loans would be paid off.
- 328 Some of these institutions went further and argued that setting fees too low could suggest that their provision was not of a high quality (“reverse price sensitivity”, one might say<sup>26</sup>):

<sup>26</sup> The phrase is ours. Classic economic theory of price elasticity argues that the demand for any good or service “should” decrease as its price increases, and the two standard exceptions to this rule (known respectively as “Veblen” or “Giffin” goods/services) do not really apply here. We have not found a ready-made phrase that covers the circumstances where price is used as a signal of quality and therefore price and demand are positively associated: yet the circumstance must be common,



*Price seems to be an indicator of quality in the market – post- our fee increase, our applications are up. (GFEC)*

... and/or that a valid HE experience simply cannot be offered for less than £7,000:

*At a fee of £6,500 we thought we were probably losing money on our L4/L5 provision. Any additional money coming in above our L3 income was being spent on the costs we have to incur to offer HE (additional admin.; fees to the validator; fees to the Office for Students [OfS] etc.). To enable us to enrich and enhance the L4/L5 student experience, the fee had to be increased above £6,500. (GFEC)*

*At £6K we were actually short-changing our HE students – they were paying more for an experience that was arguably no better than an FE student would receive – and the college was losing money on it. (GFEC)*

### *Institutions arguing there is price sensitivity*

- 329 On the other hand, there are institutions (mainly GFECs) that charge less than the maximum fee permitted, at least in part because they believe that demand for their programmes would be adversely affected were they to raise their fee.

*Though we are quite discrete as a market and not many young people would travel to another campus just because their fees were different, our HE fee [£7,500 for all provision at L4/L5] is certainly influenced by the market – it needs to be lower than the £9,000+ charged by HEIs, and broadly comparable with what other GFECs are doing. (GFEC)*

*The college believes that it is important for its fees to remain below £7,000 – this is largely dictated by what the local area it serves will pay<sup>27</sup>. We have done research which indicates that recruitment will fall significantly if fees are above £7K; £7K almost represents a psychological barrier for our students. (GFEC)*

- 330 Clearly demand and competition are intertwined, so it is highly interesting in this context that two such different views of the price sensitivity of higher education (specifically to fees under £9,250) are extant. This is we suggest an area that is worth further investigation.

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particularly where the purchaser has no valid independent way of assessing the quality of what is offered.

Interestingly, an article by Havranek, Irsova and Zeynalova (2018) found the price elasticity of higher education tuition fees was, after a meta-analysis, effectively zero. See <https://onlinelibrary.wiley.com/doi/10.1111/obes.12240>

<sup>27</sup> Key characteristics include: low income; high deprivation; high immigrant population; high reluctance to take on debt, especially for parents. Many of this GFEC's HE students are young and direct/recent progressions from its L3 provision.



### *Non-prescribed programmes*

- 331 It is also worth pointing out that non-prescribed programmes (i.e. those not covered by SLC arrangements, and where students are more likely to be self-funded by Advanced Learner Loans [ALLs]) also appear to be much more competitive and price sensitive. Although the issue was not specifically covered in our interview checklist, some of our institutions that provided these programmes were aware of the need for prices to be competitive, and kept a careful eye on what competitors were doing. (These comments were made by our interviewees to draw the contrast between these programmes and the L4/L5 qualifications that are in scope for this study.)
- 332 In one case, a “price minus” approach was explicitly adopted by a GFEC for some programmes; planning started with a decision as to what the market would bear, and it was then determined what could be offered for this level of income (based on assumed student numbers). More generally the relevant ALL value determined the fee charged.

*Market comparisons are important, particularly where students are paying their own fees without any support from student loans etc. (i.e. non-regulated programmes). These fees are particularly competitive, and it would be foolish to charge hundreds more than our competitors for the same programme. Professional programmes studied by employees can usually bear the full costs, competitor analysis notwithstanding. (GFEC)*

## 4 Sources of income

### Introduction

- 401 Interviewees were asked for details of the sources of income for their L4/L5 programmes, and whether there were any instances where source(s) of income affected the fee(s) charged.
- 402 We also considered whether income from L4/L5 programmes subsidised other L4/L5 programmes, and/or other provision.

### Sources of income

#### *Student fees*

- 403 Unsurprisingly, all institutions confirmed that fees paid by students were by far the major source of income for these programmes. In the majority of cases, prescribed HE students from the UK were able to take advantage of the SLC tuition fee loans arrangements, and all fees were set within SLC maxima.<sup>28</sup>
- 404 There is a small proportion of UK students who are not entitled to an SLC loan, usually because of prior study, and one HEI commented that for them the proportion was significant. For other HEIs and all GFECs numbers were small.
- 405 Institutions that could easily estimate the proportion of students paying their own fees (whether SLC supported or not) said that it represented typically 80% or more of L4/L5 income, with three exceptions, typically but not exclusively for students following HNC or HND qualifications:
- An HEI reported that around half its L4/L5 students were employer supported
  - Another HEI said around 75% of its L4/L5 students were employer supported
  - A GFEC said its L4/L5 students were “employer-supported in the main”.
- (We cover employer-supported students in the following sub-section.)
- 406 Institutions reported a very small number of “overseas students” on these programmes – in many cases interviewees knew of none at all: these students needed to find their own sources of finance at the rate set by the institution concerned.

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<sup>28</sup> Depending, as already noted, on whether or not an approved Access and Participation Plan was in place.

### *Students supported by employers*

- 407 All institutions reported that they had a number of students whose employers paid their fees. Apart from the three exceptions just reported – and a more general comment that, where offered, HNCs tended to be more employer-funded than FDs and HNDs – the proportion tended to be relatively low. Interviewees did not necessarily have detailed information at course or subject level.
- 408 Students on non-prescribed programmes were also more likely to be employer-supported, depending on the nature of the qualification and the extent to which it met a specific employer need, as opposed to providing general professional development for the student.
- 409 Three GFECs referred to the impact of the Apprenticeship Levy on their prescribed programmes at L4/L5; experiences varied:
- Employers’ desire to “use their Levy” had led to them preferring higher level apprenticeships to L4/L5 taught programmes – effectively their Levy payments constitute the extent of their training budget for qualifications at this level

*Employer-funded learning at this level tends to be dropping for us. We attribute this to the Apprenticeship Levy effect; employers used to fund a reasonable amount of part-time learning out of a training budget. Now if it is not an apprenticeship (i.e. Levy-fundable) some employers no longer send employees to the college. (GFEC)*

- Employers remaining loyal to HNCs and HNDs even if this means foregoing Levy use (at least at this level)

*A few are employer-funded, particularly in Engineering – this includes some who prefer to pay for the HNC rather than use their Levy for a higher-level apprenticeship. (GFEC)*

- Employers that appeared to have established criteria in order to choose between the two funding streams (the exact criteria varying from employer to employer, of course, and not necessarily known to our institutions).
- 410 One GFEC noted that its employers were starting to offer salary sacrifice support for students wishing to study for their personal development. Although the student still in effect “pays” the fee for the programme, there can be Income Tax and National Insurance benefits to funding through salary sacrifice. On the other hand, its use could be taken to imply that “the employer is committed to supporting the student’s learning [but perhaps not as much as it might be]”.

### *More generic employer support*

- 411 Aside from paying fees, employers can also support course provision by contributing in-cash or -kind directly to the programmes concerned. Four GFECs referred to donations of, or provision of access to, equipment.

- 412 More generally, institutions sought – and found more valuable – less immediately tangible support from employers to their programmes: offering placements where appropriate; sharing plans for sending future employees on programmes on a regular basis, etc.

*The greatest contribution employers make to our programmes is the input they provide into their design and specification, which helps support the very high rates of progression into employment for our graduates. (GFEC)*

- 413 GFECs in particular noted that involvement of local employers in helping design programmes was particularly important – two expressed concerns for the future of skills provision under HTQs given that standards were, it was claimed, often designed only with *major national* employer inputs. They felt that, on the basis of the evidence to date, the perceptions/requirements of these national employers generally did not appear to coincide with those of local employers.

*Employers support our programmes through Industrial Advisory Boards, which advise on curriculum development and also support placements (not by providing in-cash or -kind contributions). Most of our IAB employer representatives are SMEs, which helps counteract the domination of national bodies by large employers. (HEI)*

- 414 An HEI commented that employer support was easier to gain for L6 programmes, though there may be some trickle down to L4/L5 provision.

#### *ESFA and Apprenticeship funding*

- 415 Five institutions specifically referred to apprenticeship income as significant, though one reported that there was still a substantial national shortfall in the availability of L4/L5 and degree apprenticeships which hampered take-up of this route.
- 416 Elsewhere in our report we have also noted the important indirect contribution of apprentices to L4/L5 provision – in particular making classes viable in certain subject areas (e.g. Engineering and Construction) – and, earlier in this Section, a “Levy effect” which may be suppressing demand for non-Apprenticeship provision, including at L4/L5.

#### *Further Teaching [Strategic Priorities] Grant funding from OfS*

- 417 Interviewees were aware of this funding stream for price groups A, B or C1 and they or colleagues within their institution ensured that appropriate data returns and claims were made. Given the scale of L4/L5 programmes in most institutions, the amount of funding is usually quite small in the context of institutional funding as a whole<sup>29</sup>; some retain it centrally, others pass the income on to the faculty concerned.

<sup>29</sup> Particularly for GFECs. Of course HEIs attract this funding, as appropriate, for their Level 6 programmes too.

- 418 Three GFECs referred to significant recent reductions in the amounts payable (due, we understand, to formula changes rather than changes in student numbers); one of these suggested that it would be forced to look at whether some higher cost programmes should continue if funding for them through this route was reduced further, even though the overall amount of money involved was small, as just noted.
- 419 GFECs also compared the funding received from the Grant with the charges to be paid to OfS and QAA (see below) and felt that a disproportionate share of the funding was “given with one hand and taken away with the other”: this was a source of irritation to them, and is again we understand formula-related and under review.

### *UK and other grants*

- 420 Interviewees struggled to identify any remaining sources of grant funding that delivered significant support to L4/L5 programmes (with the exception of Institutes of Technology; see below). One HEI received a small amount of funding for Early Years training; another referred to the scholarships and bursaries available for teacher training in certain subjects – though of course these are payable to the individuals concerned rather than to institutions.

### *Other sources of income*

- 421 One HEI noted that the Adult Education Budget might conceivably be a source of funding for some programmes in the future, but had no present examples to quote. For some non-prescribed, non-employer-funded provision the Advanced Learner Loan [ALL] limits are important factors in determining fees.
- 422 A West Midlands-based GFEC reported that its regional combined authority had recently been identifying priority areas for the local economy, and offering students on programmes in these areas targeted financial support. (As we understand it the financial support offered covers the course fees, effectively making the course available free of charge to the student.)
- 423 One of our HEIs referenced the Higher Technical Education Provider Growth Fund as a source of support for capacity-building and preparedness to deliver the newly approved Digital HTQs from September 2022, and the Cycle 2 Digital, Construction, and Health & Science HTQs from September 2023. However, in their view, the funding available was relatively insignificant; there was only a month-long window to apply and it closed in early July; and if the institution is also getting IoT funding it has to demonstrate the further additionality of its bid.<sup>30</sup> For these reasons, this HEI was unlikely to apply.

<sup>30</sup> See <https://www.gov.uk/government/publications/higher-technical-education-provider-growth-fund> . The current round closed on 9 July 2021.

## The relationship between sources of income and fees charged

- 424 None of our interviewees argued for there being any relationship between sources of income and fees charged. As already noted, fee setting was in all cases a central function with little variation in the fee charged on any dimension – level; type of programme; subject area etc. – being noted.<sup>31</sup>
- 425 The most that can be said is that (of course) institutions did not try to set fees higher than would be supported by the SLC arrangements or (mainly for some non-prescribed courses) by the conditions of an ALL, and that there is some evidence of individual fee negotiations with significant employers.

## Cross-subsidies

- 426 In order to identify whether or not a particular programme or group of programmes is generating or receiving cross-subsidy, the income of the programme(s) can be compared with programme direct costs, and the resulting “contribution to overheads” [CTO]<sup>32</sup> compared with the institutional target.
- 427 Thus if an institution sets an overall target of 50% CTO for the institution as a whole (a not untypical level) then a programme that generates a 60% CTO is effectively generating income to cross-subsidise other activity (or build up reserves); conversely a programme generating 40% CTO is effectively receiving cross-subsidy from elsewhere in the institution. Institutions that use the CTO system typically operate it at “faculty” level; that is to say that each faculty is charged with making a specific contribution to overheads once its income and local expenditure have been assessed as a whole. Different faculties are usually set different CTO targets; how each chooses to achieve their target, in terms of the contributions of individual programme areas, types of provision etc., is generally left up to the faculty to determine.<sup>33</sup>
- 428 One GFEC, which treats its higher education provision as a “faculty”, stated that its L4/L5 programmes did indeed cross-subsidise other provision made by the college concerned. Otherwise, none of our other interviewees was definitively able to comment on or evidence cross-subsidy either into or out of L4/L5 programmes – the necessary data was “not routinely assessed”, this is “not specifically tracked”, “we have no evidence” etc.
- 429 Anecdotally, what people “believe” is that cross-subsidy would certainly be happening somewhere – not least because it was most unlikely that income and

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<sup>31</sup> With a possible exception for non-prescribed courses, where fees were sometimes determined at faculty level.

<sup>32</sup> Terms vary among the institutions that use this system; a more comprehensive discussion follows in Section 5.

<sup>33</sup> It would be possible in theory to work out CTOs on a programme-by-programme basis, but none of our fieldwork institutions do so. We explore this point further in Section 5.

expenditure would match at the programme or overall qualification level. On this basis:

- Three GFECs and two HEIs believed any cross-subsidy was probably marginal
- Four GFECs believed that (if anything) L4/L5 programmes cross-subsidised general FE programmes at L3 and below – this was based on an assessment of broadly similar costs across levels but higher income for L4/L5 provision

*Subjectively we feel that HE is cross-subsidising other provision. Certainly, in the latest round of planning, those faculties that were best-placed to grow their HE provision seemed to be finding it easier to achieve the 50% CTO target (or to contribute significantly above this). Given that our FE numbers are essentially flat, we think it is a reasonable assumption that HE is the main factor in this, and therefore the more profitable provision to run. (GFEC)*

- One HEI suggested that L4/L5 would probably be receiving cross-subsidy from its L6 provision, were the calculation to be carried out – as with the four GFECs just mentioned, this was based on an assessment of broadly similar costs across levels but lower income for L4/L5 provision.

430 Equally, it would be most surprising if the costs of individual courses accurately matched the exact cost of running them – not least because the exact costs are difficult to determine, and there will be variations in costs, recruitment patterns and hence income etc. over time. When asked, most interviewees believed that some programmes were more likely to be (more) profitable to run than others – Business Studies programmes were often quoted. However, where they arise, these will be programme area-level cross subsidies, and do not (or cannot be demonstrated to) amount to cross subsidy into or out of L4/L5 provision as a whole.

*As long as each department is contributing to its required level, the centre is not especially interested in which programmes/levels are doing more of the contributing. Since common fee rates are set, and it is unlikely that all courses actually cost the same to run, there must be cross-subsidy. However, there is no evidence on what this might amount to [and we are not especially interested in finding out what it might be]. (GFEC)*

431 It is also important to note that, whether any cross-subsidy is occurring or not, in practice any effect is almost certainly marginal as L4/L5 programmes constitute a small proportion of any given institution's provision – L6 dominates for HEIs; L3 and below for GFECs. Hence, in part, the lack of any interest in determining where it is occurring.

## 5 Costs of provision

### Introduction

- 501 Interviewees were asked for any qualitative information they could offer on drivers of costs of provision and how these varied between:
- Different programme areas
  - Different types of L4/L5 qualification
  - Programmes at L4/L5 and at other levels the provider also offered.
- 502 We also asked about regulatory and other “external” costs incurred in providing L4/L5 qualifications, and associated development costs and capital expenditure.
- 503 In the absence of course- or programme-level costing<sup>34</sup>, colleagues found the questions that asked for more detail difficult to answer. However they were able to identify a range of cost drivers that influence programme costs and, were these to be tracked, believe that these drivers would explain the majority, if not indeed all, of any differences between costs by programme and by level.
- 504 Of course, as noted in Section 3, where they exist differential fees are almost invariably only set for different types of qualification (i.e. FD, HND, HNC level) – and then only by some GFECs in the main. Such differences as there are between fees (e.g. between the fee for an FD and the fee for an HND) do not appear to be related to costs in any way – subjectively or objectively.

### Cost drivers

- 505 Interviewees identified the following cost drivers, broadly in priority order:
- Staffing
    - The costs of employing staff make up the most significant part of the unit costs of any provision. Group size is the most significant determinant of staffing costs – workshop- (broadly defined) or laboratory-based programmes usually require smaller groups and are therefore more expensive per capita
    - “Market premium” enhancements to salaries may have to be offered to recruit lecturers in particular specialist areas, either because there is a shortage of appropriately qualified staff, or because private sector salaries for staff with a required expertise are particularly high, or both

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<sup>34</sup> A number of our institutions had completed the costs data collection exercise for the parallel AoC project: in the vast majority of cases, this data was produced specifically for that project, and was not something that the institution did routinely and across its full range of provision.



- For GFECs, L4/L5 programmes are likely to be taught by the college's most experienced staff, which will increase costs for this provision to some extent
- Where required, again usually in workshop-/laboratory-based programme areas, programme-specific support/technician staff will impact on staffing costs
- Where students require intensive one-to-one supervision/mentoring staff costs are particularly high – architecture was specifically mentioned in this context
- Equipment and materials: though these do vary markedly between programmes, they are not necessarily a very great proportion of expense to start with, and therefore do not have a great effect
- Programmes requiring a great deal of physical space would show up as more expensive were space to be costed (again workshops or laboratories, but also due to students' need for space for practical work, in some Arts-related subjects for example).

506 What are the implications of this in terms of programmes? Architecture has been mentioned, but interviewees also referred to a number of programme areas traditionally regarded as more expensive – STEM; Construction; Digital Media; some Creative Arts programmes – plus others that are not (e.g. Health & Social Care). These tend to combine one or more of the above factors – smaller group sizes; more expensive staff; more support staff required; specialist facilities and/or equipment; space-heavy etc.

507 Interviewees noted in passing that the differential funding provided for these higher cost programmes (principally through the Further Teaching [Strategic Priorities] Grant funding from OfS) would almost certainly not prove sufficient to cover the actual cost differential involved were this to be calculated.

## External costs

508 GFEC interviewees commented that validation fees charged by universities varied considerably to the extent that this would impact on the unit cost of provision – though only in one instance on the fees charged.

*The higher fee for our FDs compared to our HNDs/Cs is largely a reflection of the validation charges that our partner HEI makes. (GFEC)*

For some GFECs these costs were affecting their choice of HEI partner:

*Our validation costs for L6 provision are very high and this has had an impact on which HEIs we choose to partner with for our L4/L5 provision. (GFEC)*

509 GFECs and two HEIs also believed that the registration and other costs imposed by OfS and QAA were disproportionate for institutions with lower levels of HE activity, and again these were significant enough to impact on course costs – though again not on the fees charged.

- 510 In contrast, other institutions' validation and/or OfS/QAA charges were simply paid centrally, and were therefore "not relevant" at faculty or programme level. For some this was a conscious decision to ensure that costs that were "beyond faculty control" did not affect their choices on what to offer at L4/L5.
- 511 Looking forward to L4/L5 costs under HTQs, there is an expectation that these will increase – for example those associated with: inspection; placements; employer engagement, and the need for more employer-facing work more generally; validation; and OfS and other regulation charges. Interviewees believed that any increases here will lead to pressures to increase fees – certainly for those not currently charging at the maximum tuition fee loan level. This runs somewhat counter to the previously reported lack of a direct relationship between costs incurred and fees charged. However, it is certainly possible that any additional, HTQ-related, costs will be incremental to the existing cost base – and as such potentially more clearly identifiable as being directly associated with L4/L5 provision.

### Development costs

- 512 One HEI and one GFEC referred to the development costs involved in putting together a new programme and validating it (either internally or externally). These are effectively "sunk costs" that are incurred before any income stream for the programme concerned actually begins, and (were they to be tracked and allocated to the programme) would probably leave the programme in deficit for a number of years.<sup>35</sup>
- 513 In this context, interviewees argued that the development time and resource required to obtain HTQ status for existing programmes would add significantly to their costs in the short term – again if analysed and allocated – and were behind the decisions of two institutions in particular not to rush to seek HTQ status in its early stages. We return to this point in Section 8.

### The impact of capital costs on L4/L5 programmes

- 514 When establishing a new programme colleagues are generally asked to identify any capital equipment (or premises) demands. However, these are typically relatively small. This may be because institutions are starting and subsequently maintaining L4/L5 programmes in vocational areas where they already have a significant presence, either at ≤L3 in GFECs or at L6 in HEIs – the institution may consider that they already have the necessary capital equipment, supporting the delivery of programmes at other levels. It is notoriously difficult to achieve high levels of utilisation of equipment or specialist facilities (e.g. laboratories) so, when a L4/L5 programme in a particular vocational area is mooted, the chances are that most of the capital equipment required is in the institution already, and not fully utilised.

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<sup>35</sup> In addition, of course, programmes often do not start with their target group size, and this will also increase the deficit in early years of the programmes concerned.

- 515 Of course, were an institution to consider starting a L4/L5 programme in a vocational area where it currently had no provision this would not be the case, and more investment would be needed.
- 516 It should also be borne in mind that (with one exception) institutions reported that only 10% or less of their provision was at L4/L5. Almost by definition, and with the important exception of IoTs, any provision at L4/L5 in these circumstances is likely to be an incremental (if any) change from what the institution currently offers rather than a move into an entirely new area where significant capital investment is likely to be needed.
- 517 Two GFEC-based exceptions are interesting:
- A proposal to create a “mini-campus” for L4/L5 students, away from the 16 to 18 dominated ≤L3 students, to enhance the former’s learning experience. It was accepted that this would lead to duplication of a certain amount of capital equipment, and the GFEC had costed this
  - A specialist programme in digital technology, largely at the request of a particular employer (though open to all), for which the employer had agreed to allow its specialist equipment to be used. Had this not been possible, the capital expenditure needed would have made the programme difficult to justify.

## 6 Fees, sources of funds, and costs - implications

### Introduction

- 601 It is worth bringing our discussion of fees, income, and costs together at this point, considering how the fees charged to students relate to the costs of running the provision, and what the implications of this are.<sup>36</sup>
- 602 It is also an appropriate point to consider the current viability of L4/L5 provision – effectively whether current levels of funding for L4/L5 programmes are sufficient to sustain the current offer, and to enable/encourage its expansion.
- 603 In this context, the funding of higher education is currently under review; we therefore explored with our interviewees the possible impact of potential changes in funding levels and arrangements (some of which stem from the recent Augar review<sup>37</sup>), specifically the impact of:
- Reductions in funding for non-HTQ-‘badged’ qualifications at L4/L5
  - A tuition fee limit of £7,500 (as opposed to the current £9,250), possibly for L4/L5 programmes only, and possibly across the board with top-ups for certain subject areas.

### Fees, income, costs, and budgeting

- 604 We observed/identified two main approaches to budgeting during the course of our interviews.

#### *A whole institution model*

- 605 Some institutions have taken a decision to plan their budgets at a whole-institution level. In brief (exact procedures vary), they estimate likely student numbers and fee income based on proposed fees, and then see how this income total – alongside any other sources – can be made to meet the costs of delivering the learning programmes required.<sup>38</sup>

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<sup>36</sup> Technically, the “teaching” element of institutions – particularly HEIs, who have significant research functions. This is not the place to go into whether teaching subsidises research, and if so to what extent. One GFEC interviewee did make the argument that GFEC-delivered programmes should be cheaper than HEI delivered programmes because “HEI staff have all that research activity” – but it is one thing to acknowledge that a cross-subsidy does exist and another to try to build it into pricing.

<sup>37</sup> *The Post-18 Review of Education and Funding*. The report is at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/805127/Review\\_of\\_post\\_18\\_education\\_and\\_funding.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/805127/Review_of_post_18_education_and_funding.pdf).

<sup>38</sup> As noted above, this describes the procedure for the teaching-related element of HEIs; the costing of research, and any cross-subsidy between the two, is outside the scope of this project.

*The target of 50% contribution is set College-wide by Finance, based on a whole College analysis of costs, income, and projected numbers. Clearly some programmes are going to make a higher contribution than others (business programmes, for instance, attract large numbers of students and are not expensive to put on), but we are not under pressure provided the HE operation as a whole makes an adequate contribution to central costs. (GFEC)*

- 606 The process is necessarily circular, in that if programmes have to be reduced in scope student numbers may then reduce (leading to a reduction in income and consequently a need for further savings). Nevertheless this approach to budgeting is very familiar, has worked very well over many years for all kinds of education institutions, and continues to be popular. Four out of our twenty institutions (one GFEC and three HEIs) follow this approach, to a greater or lesser extent.<sup>39</sup>
- 607 The salient point for our discussion is that in these institutions there is no attempt to ascribe, or “match”, income and expenditure at anything lower than the whole-institution level. There may be anecdotal evidence that some programmes “seem particularly expensive to deliver” compared to others, but no formal accounting procedure to demonstrate this.
- 608 Nevertheless, this budgeting system does permit “flex” when total student numbers (and therefore income) exceed estimates, or for that matter fall short of them. Reserves can be maintained centrally for this purpose, or adjustments to expenditure budgets required either in-year or in subsequent years.
- 609 Early sensitivity to areas of potential difficulty can be addressed by keeping a watch on recruitment numbers per programme. Often institutions that budget centrally in this way have a formal or informal “acceptable minimum class size” – 15 is a number frequently quoted, as noted above – and for day-to-day purposes believe that if this minimum is not breached (and provided programme delivery expenses are not extravagant) the institution as a whole is likely to be “all right”.<sup>40</sup>
- 610 Note that this “target of 15” is a minimum threshold not an average. Given natural variation in subject delivery, if an institution operates with 15 as a minimum the average class size is likely to be 18, 20 or more. Although an average class size criterion would be a more reliable indicator of viability, it requires calculation: by contrast, anyone can walk into a room, or run an eye down a programme list, and check that every group has at least 15 students in it.

<sup>39</sup> Interviewees were not always entirely clear about the details of how budgets were managed in their institutions, which is in itself an interesting finding.

<sup>40</sup> Of course some local flexibility, particularly where student number modules are concerned, may be in order. A department that usually in practice runs on minimum 20 can be allowed to have the occasional 10 or even 5, providing there are not too many of them.

*A contribution to overheads [CTO] model*

- 611 What the budgeting model above does not do is provide any level of financial autonomy to faculties within the institution. They may have some discretion about virement between budget headings, but should *their* numbers exceed projections they are not automatically entitled to any additional income to enable them to deliver the expanded programme. (Nor, for that matter, are they automatically held to financial account if numbers fall short of prediction.)
- 612 For this reason, among others, a number of institutions have a CTO model operating at the level of their faculties (or equivalent).
- 613 Under this model, faculties are allowed to “keep” the funds they generate through student fees<sup>41</sup> and spend them on the direct costs of provision – staffing, consumables, etc. – providing they make a defined level of “contribution” to the central, indirect costs of the institution. The most usual figure adopted is that direct costs so defined represent around 50% of total institutional budget, so that faculties jointly need to make a 50% “contribution to overheads” from their fee income before being free to apply the rest to programme delivery.
- 614 It does not follow that *every* faculty in a particular institution is required to make the same, 50%, contribution to overheads. Indeed this is very rarely the case. Senior management negotiate with heads of faculties a set of individual faculty targets that will yield 50% overall; but individual faculties may pay rather less, or rather more, than this.
- Contributions are set – and costs are taken – at faculty level; this allows faculty management the flexibility to determine its offer and smooth out any differences between programme areas, levels etc. internally. CTOs range from 49% to 57%. (GFEC)*
- 615 Once a faculty’s CTO is agreed, it is not necessary (at least in theory) for central senior management to monitor class sizes or apply minima (though faculties may choose to do so).
- 616 It is argued that an arrangement along these lines stimulates faculties to operate more entrepreneurially: if they can (at least in theory) “keep” a proportion of any additional funds they generate through expanded or new programmes or modules, there is an incentive to do so. (For that matter, if recruitment seems to be declining there is an even more powerful incentive to act to stop the decline.)
- 617 Note that CTO models do not automatically delegate to faculties the right to set their own course fees, which usually remains a central function.

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<sup>41</sup> In theory, and subject to exigent need from the centre in times of crisis.

- 618 From interview responses, we would say sixteen of our institutions (ten GFECs and six HEIs) operate a faculty-based CTO model more or less along these lines. The definition of “faculty” varies (as does the nomenclature).
- 619 Where interviewees knew, and were prepared to share, the contributions to overheads required in their institution, the majority did indeed quote figures at or very close to 50%. Where lower figures were quoted (for example 45% and 30%) these do not necessarily imply that the institutions concerned were “leaner” centrally, but may simply indicate that further categories of cost are being treated as “direct” or allocated directly to programme delivery thus reducing the volume of “indirect costs” that needed central recovery.<sup>42</sup>

*The CTO target for each faculty is a minimum of 50% after deduction of attributable direct costs. Historically, the higher the fee the better the CTO achieved – so HE generates a better CTO than FE, and those faculties with more HE generate a better CTO than those with less. Average group size suppresses the effect to an extent; the ability to in-fill/cross-teach between FE (and/or apprenticeships) and HE also has an effect at the margin. (GFEC)*

*CTO is 50% on average, but varies considerably by subject area – from 70% for “lecture theatre-based” subjects, down to 30% for those that are very resource intensive and/or require a large amount of space per student (lab-based subjects; Engineering; Performing Arts). (HEI)*

### *Programme-level costing*

- 620 Within a CTO model, it would be perfectly possible in theory to allocate direct delivery costs down to individual programme (“course”) level, and calculate the contribution to overheads made by the individual programme concerned. None of our fieldwork institutions currently does this across the whole institution – though one HEI is thinking of doing so; one GFEC does so for its HE provision, which operates as a separate entity for budget-holding purposes.
- 621 There is an obvious reason for this. The nearer one gets to the level of the individual programme or module, the greater extent to which resources are shared. Lecturers deliver, and technicians support, multiple programmes; equipment and consumables are drawn from a central bank. At faculty level, such sharing is much less common (few lecturers teach across more than one faculty, and those who do can be allocated “two part time jobs”) so assessing direct staff costs by faculty is usually straightforward. But allocating direct costs to programmes within faculties requires a great deal of time and resource tracking, and few institutions believe it is “worthwhile” in the sense that it will give them useful management information upon which to base decisions.

<sup>42</sup> Any institutional cost heading can be allocated to “delivery direct costs” if one thinks up a formula to do so.



### *Implications of the models – “price not cost”*

- 622 The lack of programme costing reinforces the decision explicitly taken by all our institutions (and implied in the earlier Sections of this report) to “work backwards from the fee as a fixed price” rather than to arrive at a fee for provision by costing up programme delivery and adding an appropriate margin. For institutions quoting fees of £9,250 this is obvious. But also where institutions quoted lower fees (as detailed above) for some or all qualifications it was clear from our interviews that these lower fees were intended as statements about the intended *price* of the qualifications, given perceived market forces, rather than calculations about the (reduced) *cost* of these qualifications compared to others or to the maximum permissible amount.
- 623 Institutions *can* on occasion operate on a “cost plus” model: for instance, when putting on a course specifically designed for, and intended for the employees of, a company or group of companies.
- 624 We did note three examples of “slightly increased pricing” that in our view do reflect interviewees’ opinion that the programmes concerned cost slightly more to run than other qualifications in the same “family” (see Section 5). Perhaps the additional costs in question were based on an assessment of what this “slightly more” was. But even in these circumstances, and without seeking to get too technical, we consider that the additional “cost” of an HND in X is being overlaid on a standard (all) HND fee that is determined by the “price” the market will bear, rather than bottom-up costings of the HND in X and HNDs more generally that arrives at a specific cost for programme X.

### **Sufficiency of funding currently**

- 625 On the basis of budgeting using one of the methods described above, the unanimous view is that, at present, there is sufficient funding available to run L4/L5 programmes. The fact that all institutions believe this when, as we have seen in Section 3, fees for L4/L5 provision vary widely is interesting.
- 626 However, and again as we have already noted, this needs to be viewed in the context of institutions that (with one exception<sup>43</sup>) do not routinely match funding to expenditure either for individual L4/L5 programmes or for their L4/L5 portfolio as a whole; some of the qualifications applied to this statement by our interviewees are therefore interesting.

*We naturally “average” across all programme areas on the basis of a standard fee for L4/L5 – some are going to cost more than this and some less. There is acute pressure on FE funding, which has not kept pace with inflation. If FE were better funded, then HE would not need to cross-subsidise it and that would help. (GFEC)*

<sup>43</sup> The exception is a GFEC that runs its L4/L5 portfolio out of an “HE Department”, which is required to contribute to overheads in the way we have described for subject area-based faculties elsewhere. Based on discussions with other GFECs, the HE Department model has been used elsewhere but been dropped in favour of an “all levels for each subject-based faculty” approach, generally once the volume of HE provision has grown sufficiently to warrant this.



- 627 An HEI commented that funding was only sufficient if group sizes were maintained at a level higher than it would like – the availability of additional funding would mean that lower group sizes could be accepted, which would be valuable both pedagogically and also to help preserve individual programmes that, while important to the students who chose them (and their employers), were not particularly popular and were therefore always vulnerable to any further drop in numbers from their currently low base.
- 628 Two HEIs and one GFEC referred to the lack of resource available for developing new provision – including validation processes and, increasingly, seeking HTQ status. As we have noted, for almost all of our institutions, L4/L5 currently makes up a small proportion of their offer. Developing a new programme is always a highly expensive process in staff time terms – not to mention the recruitment costs of new staff and (occasional) capital expenditure – and there is no “slack” in the system to enable resources to be put into this. As a result, institutions may be slower to respond to opportunities for new programme development than would otherwise be the case.

*The most immediate need is for development support. Once an HE programme is running the income from fees is sufficient to keep it going. (GFEC)*

- 629 More generally, a clear majority of institutions stated that they were under general financial pressures. GFECs commented that their core funding from ESFA in particular had not kept pace with inflation, and had therefore been reduced in real terms, in recent years – a view that we consider is now generally accepted<sup>44</sup>, as witnessed by the 4.7% increase in the further education base rate in August 2020 (at the time, the first such increase for seven years). HEIs pointed to the reductions in OfS Further Teaching [Strategic Priorities] Grant funding already referred to above and, more significantly, to the fact that the maximum value of a student tuition fee loan, which effectively determines the fee they are able to charge the vast majority of their students, had only been increased once (by £250 in 2017–18) since it was raised to £9,000 in 2012.
- 630 Whilst three GFECs and two HEIs specifically stated that they did not think their institutions were currently under particular financial pressure – or at least that they were able to manage student recruitment and income collection sufficiently well to meet expenditure – their positions were still far from secure.

*Our offer is not constrained by funding at the moment, but we have concerns that it may become so. Where something is borderline, it is now more likely to be lost than was previously the case – and our ability to carry programme areas for a while to see if they recover is being lost. (GFEC)*

<sup>44</sup> See, for example, the report of the Education Select Committee “A ten-year plan for school and college funding”, 19 July 2019. In particular Section 4, at <https://publications.parliament.uk/pa/cm201719/cmselect/cmeduc/969/96907.htm>.

*Funding is sufficient to enable us currently to deliver as we would wish. However, as long as fees are fixed and costs are increasing, the position is being squeezed. Fortunately, we do not offer much really high-cost provision, so are not as exposed as some HEIs. (HEI)*

## Sufficiency of funding under various scenarios

### *Reductions for non-HTQ qualifications*

- 631 As has been already pointed out, institutions in our sample either budget at faculty level or indeed at whole institution level; the metaphor for this budgeting is therefore that all anticipated income is placed in one whole institution or faculty “pot” and then allocated across the various headings of expenditure required to deliver the programmes needed to generate the anticipated income. This “pooling” means that, were funding for some programmes (but not others) to reduce, any decrease in funding would not necessarily be applied strictly to those programmes.<sup>45</sup>
- 632 Under a “funding reductions for non-HTQs” scenario, our interviewees therefore stated that their institutions (or faculties, as appropriate) would look instead at their entire portfolio of provision in the context of the reduced funding now available, and decide how to trim provision and expenditure, or indeed generate extra income, across the piece in order to rebalance income and expenditure.<sup>46</sup>
- 633 Whilst the impact of reductions in funding for non-HTQ programmes at L4/L5 therefore cannot be predicted, what can be said is that it would probably be felt across an institution’s entire portfolio of programmes – not just the non-HTQs directly affected.

*If Government starts differentially funding programmes that we believe are equally valuable to employers (and therefore students) then we would not necessarily match the reductions to the programmes concerned. (GFEC)*

*Any decrease in income for some programmes will be regarded as a decrease in income for the institution as a whole, and appropriate steps would have to be taken to reduce expenditure per capita across the institution accordingly. (HEI)*

- 634 In this context, it is worth reiterating two points. Firstly (to repeat) that, for all but one institution, the number of students on L4/L5 programmes was only a small fraction of the overall size of the institution. Given this, and the importance of providing

<sup>45</sup> As we have already noted, amongst other things pooling has the benefit of breaking what would otherwise risk becoming a circular process tied-in to the review of the existing programme portfolio – as part of this review apparently “uneconomic” programmes might have to be taken out of the expenditure budget, but this of course reduces income in turn and means that overhead costs have to be allocated across a smaller portfolio of programmes, making more uneconomic etc.

<sup>46</sup> For example, an institution might try to expand at marginal cost a popular programme whose funding had *not* been reduced.

progression opportunities – which both GFECs and HEIs argued were a major driver of their L4/L5 portfolios – it is perfectly possible that any reductions in non-HTQ L4/L5 funding would simply be “absorbed” as a rather small reduction in the overall funding for the institution (or faculties, as appropriate).<sup>47</sup> We would expect most if not all of our institutions to adopt this position.

- 635 Secondly, even if a programme does not cover its fully absorbed cost<sup>48</sup> it does not follow that money will be saved by closing it. Only if a programme is not covering its *direct* cost – i.e. making no contribution to central overheads at all – will its closure lead to savings. Interviewees pointed out that, even in this case, the savings will only be realised when the actual physical costs concerned (including particularly staffing) have been taken out; this is often neither easy nor quick to do.
- 636 However, what reducing funding for any programme does is to send a signal that it is not “valued”. One HEI and two GFECs were concerned that, for example, some HNCs and HNDs might not achieve HTQ status and therefore see their funding reduced; in this case, these courses would no longer necessarily be a priority for further development, and while not actually being “closed due to lack of funding” might be left to wither in comparison with HTQ-badged alternatives.
- 637 This might lead, some interviewees felt, to a direct conflict between the value that local employers place on these courses (which in the case of HNCs and HNDs can be high, and date back many years) and the value apparently placed upon them by the funding methodology, with potentially unintended consequences.

*There are two schools of thought here [re. reduced-funded HTE]:*

- *That we will try to run courses for which there is a demand, cutting back on the resources invested in them and incorporating more remote learning at the expense of face-to-face experiences, but ...*
- *That, at some point, we will simply decide not to do what we cannot do “well”.*

*Ultimately if, by cutting fees, Government is signalling that it wishes us to discontinue programmes then that is what we will do – even when these programmes have traditionally led to good, sustainable employment outcomes. (HEI)*

- 638 Of course, were the fee limits for HTQs to be greater than that for non-HTQs, it is perfectly possible that this could provide an incentive for institutions who have so far been slow to pursue HTQ accreditation to do so, over time replacing existing L4/L5s

<sup>47</sup> For example, consider an HEI with a notional 10,000 students, 1,000 of which are following L4/L5 programmes. On current fees of £9,250, fee income is £92.5m. If *all* fees for L4/L5 drop to £7,500, the loss of income is £1,750 per head, or £1.75m. This is 1.9% of total fee income and potentially well within the capacity of the institution to “flex”: for example, recruiting a further 190 students at L6 at zero marginal cost would cover it.

<sup>48</sup> I.e. make the required contribution to overheads [CTO], or more.

with HTQs. Our interviewees felt that it was too early in the development of HTQs to determine the extent to which this would indeed be the case.

### *Reductions for all L4/L5 qualifications, potentially with some top-ups*

- 639 Asked to comment on the impact of reductions for L4/L5 and the associated introduction of top-ups for priority areas, institutions made similar points. The main question would be what the *overall* impact of the reductions might be, and whether this could be managed within the institution as a whole.
- 640 The idea of topping-up fees for some programmes but not others, whilst fine in theory, again assumes a link between income and expenditure at individual programme level that simply does not appear to be there. Each institution in our sample has taken the decision to charge a standard fee for almost every programme area, and indeed the SLC makes the same maximum tuition fee loan available to all students, regardless of their area of study. Thus any “hit” incurred by reducing the maximum loan available (and therefore fee charged) for (say) Business Studies is likely to be taken across *all* programmes and not just those targeted.<sup>49</sup>
- 641 Furthermore, it was suggested that the level to which some fees would then need to be topped up would actually be higher than the current maximum. For example, for the additional costs of higher cost programmes to be met in HEIs at the current level of funding, other programmes must bring in £9,250 whilst costing a great deal less to run. If Business Studies and other lower cost subjects are at some point in the future only bringing in £7,500 then, to compensate, the top-up for higher cost subjects will need to be much more than just the £1,750 that would raise (just) their fee back up to £9,250.<sup>50</sup> (We have reported in Section 5 the difficulties in establishing the level of cross-subsidy, and hence in determining the necessary adjustments.)

### *The impact of overall changes*

- 642 Interviewees were uncertain as to whether these fee proposals were intended to *rebalance* public sector expenditure on L4/L5 programmes overall or *reduce* it. They were not particularly concerned about the first; understandably they were much more concerned about the second.
- 643 First, there is a specific point to make about GFECs. As already mentioned, many GFECs set a lower level of fee for L4/L5 programmes than the maximum permitted

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<sup>49</sup> This is not to say that it might not be worthwhile reviewing the additional funding provided by the Further Teaching [Strategic Priorities] Grant. If the Grant *fully* covered the difference between costs in different subject areas, and represented a much higher proportion of HE expenditure than at present, then it might be possible to reduce the base fee to £7,500, say. But our interviewees argued that the Grant does not at present come near to covering these differences in cost, and is indeed moving in the opposite direction.

<sup>50</sup> For example, an HEI faculty that offered a hundred L4/L5s, currently all at the full tuition fee rate would see its income reduced by £87,500 if the maximum fee for half of these was reduced to £7,500 (100 at £9,250 = £925,000, compared to 50 at £9,250 plus 50 at £7,500 = £837,500).

under the SLC arrangements.<sup>51</sup> Their arguments for doing so are based primarily on a combination of: a perceived need to maintain a differential between the fees they charge and those charged by HEIs; a view of the level of fee their local market will bear; and a belief that their provision is not sufficiently close to what an HEI offers to warrant the “full fee”.

- 644 Where our GFECs currently set fees lower than the maximum for L4/L5 courses, this is commonly at, close to or below the £7,500 level that was proposed by Augar; should this reduction be brought in, what would these eight GFECs in our sample do? Some of them argued that they would then have to reduce their fees further to maintain the differential with HEIs (who will also have had to reduce their fees to £7,500 in turn).

*If our HE programmes were subject to a fee cap of £7,500, although our fees are below the £7,500 level, self-evidently the differential might need to be maintained: this would exert a downward pressure on what we would seek to spend delivering the programmes concerned, and therefore on programme content and viability. (GFEC)*

- 645 However, others made the point that they would consider that a fee below the c. £7.5K level risked compromising the quality of the student experience, to the point that notwithstanding the desire for progression pathways, meeting local employer needs etc., the future of their L4/L5 provision would be in doubt.

*A reduction in funding would jeopardise our entire L4/L5 programme. We cannot absorb reductions on this scale. (GFEC)*

*The HE environment is an expensive environment within which to deliver L4/L5 and we would find it hard to make any reductions. (HEI)*

### Other concerns over viability

- 646 As will be seen from our question brief (Annex 1), we did not specifically seek interviewees’ views on the impact of a reduction of HE student funding to £7,500 for *all* levels of programmes with no further top-ups (except perhaps a continuation of the current Further Teaching [Strategic Priorities] Grant). Nor did we ask about the impact of a “minimum tariff” for student loan entitlement (e.g. DDD at A level or equivalent)<sup>52</sup>. Nevertheless many interviewees were seriously concerned that possible steps in this direction were under consideration, and wished us to record their views.

<sup>51</sup> Indeed GFECs often charge lower fees for *all* their higher education provision, L4/L5 and L6, than HEIs do.

<sup>52</sup> “DDD” was one of the examples used in the Augar report. See page 100. Augar does not specifically recommend its adoption; nor do we. In the current context, the institution raised with us the question of a DDD threshold was concerned that its introduction would significantly reduce student numbers to the extent that the viability of the institution might be threatened.

- 647 Reductions to £7,500 for L4/L5 programmes alone, though significant, could in most interviewees' views be absorbed.<sup>53</sup> However, it would send a message that Government no longer regarded L4/L5 programmes as important: since these programmes are marginal in many institutions, the signal sent might at the very least starve them of future investment, and undermine any future developments at this level.
- 648 In contrast, a fee reduction may conceivably help to boost recruitment for some if not all of the programme areas affected. For interviewees who believed that the L4/L5 market was price sensitive (or to the extent that they did) then increases in student numbers could presumably be expected, and might cushion the effect of fee reductions. However, most of our interviewees did not believe the market is price sensitive in this way.
- 649 Reductions across *all* HE would be a different matter. HEIs<sup>54</sup> regarded the potential impact of such a reduction as catastrophic, and far beyond the ability of any institution to cover through minor adjustments. At the least there would need to be a move towards almost exclusively on-line learning. The resulting provision would be, according to our interviewees, a poor shadow of what is currently available.
- 650 Beyond this, purely on reputational grounds, institutions would generally be reluctant to offer programmes that they considered could not be run well at this lower level of funding. This could lead to significant reductions in current course portfolios.
- 651 In any case, under this scenario, interviewees regarded it as self-evident that no institution would run unfunded programmes – though one GFEC pointed out that employers might be prepared to fund certain programmes if “public” funding<sup>55</sup> for them were withdrawn (or for that matter top up any “public” funding cuts).

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<sup>53</sup> We have provided, in an earlier footnote, an example for an HEI showing the relatively small impact. A similar notional calculation could be carried out for a typical GFEC. Of course any GFEC with an extremely significant L4/L5 programme in number terms (as is the case for one of ours) would find it difficult to “shrug off” any reduction in L4/L5 funding as marginal, as we have argued here.

<sup>54</sup> And the GFEC just referred to in the previous footnote.

<sup>55</sup> I.e. via SLC.



## 7 HTQs and the future of L4/L5 provision

### Introduction

- 701 Interviewees were asked to comment on the potential for their L4/L5 offer to expand, should additional demand be forthcoming (whether created by HTQ or otherwise), and specifically on what impact the introduction of HTQs would have on demand for provision at L4/L5.

### The potential for the expansion of L4/L5 programmes

- 702 Generally, institutions were more than willing to expand their provision at marginal cost (i.e. to increase numbers on existing programmes). Almost all had some spare capacity within their existing provision, though all acknowledged that marginal cost assumptions would cease to hold at some point – for example where additional classes needed to be created, or where additional staff needed to be employed. Even in these cases, however, expansion was largely possible at direct rather than fully absorbed cost only since many overhead charges would already be covered.

*We could cope with additional demand as few of our L4/L5 programmes are absolutely full at present. Obviously there comes a time when additional staff, and in the end additional capital investment (equipment, and ultimately premises) are needed and this will, for a time, increase unit costs, but a reasonable level of expansion is very possible. (GFEC)*

*We would like to hope that demand for L4/L5 will grow considerably. We would be able to respond to this. (HEI)*

- 703 The ability to recruit sufficient staff with the interest, and the necessary skills and experience, to teach at L4/L5 was the main barrier to responding to increases in demand that institutions foresaw.
- 704 Institutions offering particularly employer-facing qualifications (e.g. HNC, HND) saw demand for these as being led directly by employers and their immediate skill needs, and not necessarily greatly influenced by the range of qualifications (old or new) on offer: as an industry (for example construction) went through a “boom and bust” cycle so the demand for HNC and HND programmes reacted accordingly. In this connection they noted again that HNC and HND represented a “gold standard” brand and that, if at all possible, this brand should be retained. FDs were more likely to be an individual’s rather than an employer’s choice and therefore could be more susceptible to effective national marketing.

*There is a demand for L4/L5 as the highest level of qualification achieved by a significant sub-group of the working age population, and employer and employers’ representatives identify a skills gap at L4/L5, so the demand should be there. (HEI)*

- 705 One HEI saw increased potential for L4/L5 qualifications if, as they suspected, T Levels became judged as insufficient preparation for direct entry into an L6 degree

programme – although the option of an integrated foundation year may be a more attractive option for those whose aim on entry is a L6 qualification. Another HEI pointed out that by making progression routes from L4/L5 qualifications into honours degree programmes entirely clear (including specifying clearly what points of transfer into the Honours programme were available based on different grades of FD) the marketing of FDs could be made more effective.<sup>56</sup>

### The impact of ‘HTQ’ on L4/L5 provision

- 706 Interviewees were asked whether HTQs were likely, in their view, to drive an expansion of their L4/L5 provision – whether, specifically, the HTQ “badge” would in itself drive additional recruitment. Whilst there was general hope that the impact would be positive, most interviewees considered it was too early to be definitive.

*If we were absolutely certain re. the market for HTQs, and their impact, we would opt for new curriculum design; at the moment our view is that neither is clear, and therefore we will be mapping in our existing qualifications and will not be making significant investment in such an uncertain space. (HEI)*

- 707 Four institutions heavily involved in the provision of HNCs and HNDs (two GFECs and two HEIs) thought HTQs would have minimal impact; these qualifications were, as already noted, marketed at those who were most likely to understand current terminology, and least likely to be familiar with the new qualification framework – i.e. employers and their employees. Unless the current labels were lost in the process, they would be neither less nor more likely to support HNCs and HNDs if they were HTQ “badged”.
- 708 In contrast, four HEIs and four GFECs thought that the HTQ “brand” might be a powerful aid to recruitment, if appropriately marketed and publicised. “Higher technical” sounded better than “foundation” as a label, and the accreditation process could be seen as an indicator of value to potential fee payers.
- 709 Two GFECs and one HEI were not clear what the policy was going to be on marketing HTQs, and were not sure what effect the brand might have.
- 710 As a result, institutions varied as to the extent to which they intended to “drive” expansion of their L4/L5 provision or simply respond to the market (including funding signals from Government) and let provision grow or shrink accordingly. Not all interviewees felt able to state what their institution’s policy would be in this respect but of those who did around half went for proactive expansion and half for responding to the market (across GFECs and HEIs alike).

*We would hope that “HTQ” will have an impact, given the work that is going into the accreditation process. However, it is very much up to Government to give it status*

<sup>56</sup> Examples of transfer into the first, the second and the third year of an Honours degree programme were all pointed out to us. Students need to know which of these are likely to apply to them, and what level they need to achieve in their FD to qualify for them.



*and clear marketing will be needed – institutions cannot talk up the brand on their own. (HEI)*

*Government intervention will be needed to make things happen. The Apprenticeship Levy and take up of higher level apprenticeships shows that funding is an effective way to do this. (HEI)*

### *Barriers to growth: HTQs*

- 711 Institutions were asked what factors might stand in the way of growth in L4/L5 provision, both in the context of HTQ and more generally.
- 712 Three GFECs, after looking into the matter and talking to colleagues, and one HEI, having actually been through it, felt that the current HTQ accreditation process was so demanding (“Byzantine” was the word one interviewee used) and so difficult to navigate that it would hamper the introduction of the initiative. The expense in staff time terms of the necessary procedure was a significant and unfunded cost – to the extent that it was constraining institutions’ ability to engage with the process.
- 713 One further GFEC believed that it simply did not have the capacity to consider applying for HTQ status for any of its programmes at present.
- 714 In contrast to the above, one GFEC commented positively on the HTQ process – it had found the process of applying for HTQ status helpful in reviewing the relevance and effectiveness of the underlying qualification.
- 715 And no doubt the Higher Technical Education Provider Growth Fund<sup>57</sup> will have encouraged a number of GFECs and HEIs to embark on the HTQ process who otherwise might not have done so. One of our HEIs referred specifically to this: see paragraph 423 above.
- 716 In an HTQ context, Pearson will have to do the work to ensure that its HNC and HND qualifications are HTQ accredited; (in the view of our interviewees) it is almost certain to seek do so in order to preserve the value of its qualifications and their place in the market. HTQ accreditation only needs to be done once per HNC or HND; any institution in England offering the qualification in question is then automatically offering an HTQ.
- 717 For HEIs offering their own HNC or HND under licence from Pearson, in due course each will have to apply for HTQ status for each qualification they offer – this is because its content will be different from that for which HTQ status has been sought

<sup>57</sup> One of our institutions (an HEI) mentioned the Fund in this context, but were concerned that the level of funding was not high when taken over the country as a whole. They also pointed out that the time window for applications was short, and that the need to demonstrate additionality over any IoT funding was restrictive.

See <https://www.gov.uk/government/publications/higher-technical-education-provider-growth-fund> . The current round closed on 9 July 2021 but we gather there may be further rounds in the future.

by Pearson, it will therefore not be covered by Pearson's accreditation. Given that individual qualifications will have to be accredited anyway, others may prefer/choose to award their own FDs, in which case the introduction of HTQs may therefore have an impact on the HND and HNC offer in HEIs.

- 718 For FDs, GFECs understand that it is the (validating or franchising) HEI that will have to apply for HTQ status for L4/L5 programmes, not the GFEC. Early experience of the HTQ application process suggests that there is a considerable amount of work involved; the fear among GFECs is that HEIs cannot be obliged to make the application, and that their ability to offer FDs will therefore be curtailed.

*We do not have awarding body status as a college, so it is entirely up to our awarding bodies as to whether they put forward our various programmes for HTQ status. Pearson clearly will, and we are due to meet with them shortly to talk about this. What our [validating] HEI will do is less clear, and there may be a charge on us for the work required of them to secure accreditations. (GFEC)*

*For franchised provision, we are in the HEI's hands – if they decide not to apply for HTQ status for their qualifications then there is little/nothing that we can do. HEIs may decide that getting the HTQ kitemark is not a priority for them. (GFEC)*

- 719 We understand that the GFECs concerned may be incorrect in this: it may be entirely acceptable for the GFEC to make the application required provided the HEI in question agrees that they may do so. Indeed, one GFEC had already negotiated that in effect its staff would do all the work and the HEI would “sign the documents and pass them on”.
- 720 Overall the expectation was that the introduction of HTQs would lead to additional costs (development-related in the short term; delivery- and awarding body-related in the longer term) with, for those at the top of the fees scale already, no way of reflecting these costs in higher fees.
- 721 There was general uncertainty as to whether or not any value would be added to qualifications at L4 and L5, what the net effect of HTQs on demand would be, and how qualifications were necessarily going to be improved as a result of going through the process – expressed as “a solution in search of a problem” in the words of one of our interviewees.
- 722 Concerns were expressed that the overall effect may be negative. Interviewees often mentioned some or all of the following in this context:
- Progression pathways. Currently these are carefully planned to take account of local offers at lower levels and local demand for higher skills, as reflected in employment and higher HE opportunities; will HTQs undermine this by imposing a national, large employer-based, standard that has little relevance to our local market?
  - The risk to HNs. The HNC/D brand is well-established. Construction and Engineering programmes in particular are often only run as HNCs because this is what employers know. They will continue to prefer an HNC as their

“qualification of choice” (and whether this is badged an HTQ or not will make little or no difference)

- National standards. The general inflexibility of national standards might mean that HTQs are constantly behind the curve in terms of current needs – a particular concern given that some of the most dynamic subjects (e.g. Digital) were perceived to be those where there was greatest need for HTQs to cut through the plethora of competing qualifications.

*We have no idea how this will play out and what the impact on demand and growth will be. Our fear is that the content of our L4/L5 offer will be determined at a national level and become too standardised, and that the HTQed product we have to offer will therefore not meet the local need and that demand will fall. (GFEC)*

#### Other more general barriers to growth

723 GFECs commented on the complexity of the vocational education marketplace.

*There is a lot of noise in the FE sector – IoTs; HTQ; LLL; L3 qualifications review; T Levels etc. – too much in fact, and too little capacity in the sector to engage with everything to the same level. At the moment HTQs are too remote to feature. Our strategic priority is to deliver growth in HE student numbers, and we will proceed on that basis – franchising most of our L4/L5 provision and ensuring there are clear pathways to L6, either with us or at our franchisees, for those who want them. (HEI)*

724 Specifically in relation to apprenticeships, the fact that employers could use the Levy to pay for training at this level was seen as a barrier to growth in other qualifications at L4/L5 – and therefore to HTQs. An equivalent form of financial incentive may be required to level the playing field if HTQs are to have a major effect – without this, they may still have an impact, but it will be reduced because HTQs will primarily be the preserve of those unable to secure the backing of an employer to support their further learning/development.

725 One GFEC believed that the historical and relatively simple principle that “GFECs do FE, HEIs do HE”, which in most cities has its roots in mid-1960s institutional planning, had been lost in favour of “every institution does everything” and speculated whether it would not be better to transfer all L4/L5 programmes to the general further education sector, so “everyone knew where they stood”.

726 The requirement for an HEI to validate L4/L5 FD programmes offered by a GFEC<sup>58</sup> was also cited as a barrier to growth. Local HEIs in particular might either not be at

<sup>58</sup> Except for those GFECs with degree awarding powers (two in our sample).

<sup>59</sup> Where an HEI franchises a qualification to a GFEC then effectively the HEI determines every aspect of it, including the curriculum, the mode of delivery and the fees to be charged. The initiative to provide a franchised programme is, in our experience in this project, usually the HEI’s. In this report we have effectively included provision franchised by an HEI to a GFEC in our discussion of HE provision.

all interested in the qualification concerned, or indeed be trying to run the same programme themselves (see above) and very wary of supporting a GFEC's attempts to run it too, hence:

- One GFEC had failed to find a local HEI prepared to validate its proposed nursing associate course since every HEI it approached was trying to start its own
- One GFEC had chosen as validation partner an HEI "on the other side of the country" and found this effective (albeit it weakened the "brand value" of the validation since few local students had any knowledge of the HEI concerned)
- Another GFEC proposed that it should be made much easier for GFECs to obtain awarding powers for qualifications at L4/L5 only, particularly if the policy is that GFECs should be the first port of call for qualifications at this level.

## 8 Other issues

### Institutes of Technology

- 801 Institutes of Technology [IoTs] are collaborations between GFECs, HEIs and employers. They are important for our project because they specialise in delivering higher technical education at L4 and L5, and within this have a focus on STEM-related subjects (with STEM fairly broadly defined in this context).
- 802 At the time of our fieldwork, a total of 12 IoTs had been announced (on 12<sup>th</sup> April 2019); a further 13 in “Wave 2” were at stage 2 of the IoT process (i.e. having the viability of their proposals tested).
- 803 Five GFECs and two HEIs in the sample were involved in six different IoTs; a further three institutions (one GFEC and two HEIs) were involved in bids currently in draft, or waiting for their IoT to open. One HEI had specifically decided not to participate in an IoT bid, having been invited to do so, on the grounds that it appeared largely to duplicate facilities and links that were already in place locally. All other interviewees had no comment to make.
- 804 We asked a general question about the impact of the IoT programme on L4/L5 qualification delivery, and in particular about plans for sustainability of any L4/L5 programmes that were being run in or through an IoT.
- 805 IoTs receive capital funding rather than revenue funding from DfE, and in two of the cases described to us major capital building projects on new sites had been involved. Importantly in our context, IoTs also have KPIs from DfE related to the number and diversity of level 4/5 learners recruited onto their courses. One of our GFECs had already enrolled a thousand students on IoT-based programmes, 70% of whom were studying at L4/L5; two others had received capital funding that it was anticipated would lead to increased student numbers (across the board; not necessarily at L4/L5). Naturally all this additional capital funding was very welcome.
- 806 Three GFECs commented that their IoT’s opening had been disrupted by Covid-19, and that they could not therefore comment on what its long-term impact on L4/L5 qualifications would be.

*It is not immediately obvious that being part of the IoT has had much impact on the L4/L5 offer – most of the Engineering programmes on offer at FD and HNC/D level were available before the IoT. However, plans have obviously been severely disrupted by Covid so difficult to say anything at this time. (GFEC)*

- 807 However, in terms of cooperation and the development of new provision, there were some encouraging signs.

*Our hub and spoke IoT has:*

- *Led to joint development and delivery with our other local HEI that would not otherwise have happened (a CertHE Engineering for example)*

- *Strengthened relationships between the HEIs and the two GFECs*
- *Strengthened and developed progression through pathways that were notionally there but not really delivering – between HNDs and BScs, and between apprenticeships, higher level apprenticeships and BScs.*

*(HEI)*

808 In terms of sustainability, interviewees recognised that they would have to ensure the revenue funding they received for the courses run in their IoT made adequate provision for the future support and eventual replacement of the capital investment concerned, either through the accounting convention of depreciation or otherwise.

### Possible modularity of HTQs

809 Separately, interviewees were asked for their views on whether HTQ-based learning should be available at modular level (i.e. at a level below whole-qualification), and if so in which particular markets – and whether they would be prepared to support it.

810 Apart from two HEIs that expressed no view, all interviewees were broadly in favour of modular learning across all markets that demanded it, and were prepared to give it their support. Between them, however, interviewees did qualify this support:

- It would be necessary to ensure that the current student support model was able to support modular learning in the same way as it supports conventional full-time study (three GFECs made this point)
- Professional bodies are often not well disposed towards drawn-out programmes leading to professional accreditation, and their consent would be needed to any extended part-time route offered if graduates were not to be left unaccredited (an HEI)
- There would be a need to distinguish between the student who wishes for a full qualification but for personal reasons needs to take additional time over it, and the student (or possibly their employer) that only wants or thinks they need specific modules (a GFEC).

811 More generally, there are a number of places where “the devil will be in the [further] detail” – for example: for how long modules remain “valid” to contribute to an eventual full qualification; what the minimum size of a module should be; arrangements to transfer/recognise module credits between providers (and awarding bodies); what the employment market thinks of “part qualified” employees<sup>60</sup>, etc.

*Sorting out the recognition, accreditation and funding issues is complex – and even if this is done, is there sufficient employer and student demand to warrant the effort? Most of our students want a full qualification within a reasonable period of time.*  
*(HEI)*

<sup>60</sup> The accountancy profession specifically recognises “part qualified” as a status, but may be unique in this respect.

812 If and when these and other details are addressed – and most interviewees were sceptical as to whether the sorts of concerns listed above would ever be addressed – it is not unreasonable to conclude that both FE and HE would welcome a modular approach to HTQ being at least possible. However, there was general uncertainty as to what the level of demand for such a mode of delivery would be.

# Annexes



**Annex 1****Our question brief**

This annex contains the list of questions that formed the basis of our interviews with participating institution. The list of questions was sent out in advance of our interviews in each case.

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*Thank you for agreeing to participate in our interview programme. Our primary interest is in the factors, financial and otherwise, which determine if and what HTE you offer. The findings will be used to develop scenarios for possible changes to the fee and funding regime for HTE.*

*For the purposes of the checklist, we have bracketed level 4 and 5 together – as they generally are presented. We would be interested in exploring any differences between provision at each level where these exist; also between full- and part-time students where this is a factor.*

*If you have completed cost/income templates as part of stage 1 of the research, we may want to raise issues identified from the data. (Otherwise, if you have any data to support your answers that would be of interest to us.)*

*If you have you any further points you would like to make on L4/L5 programmes and their funding that are not covered by the questions, please feel free to raise these.*

### *Level 4 and 5 programme overview*

- 1 Please describe your current offer at L4 and L5.
- 2 Where do you see L4 and L5 qualifications within your overall provision map? Are L4/L5 programmes marketed as a discrete part of your provision, and/or as part of progression pathways from lower/to higher levels? With what effect?
- 3 [Mainly for GFECs] Which awarding organisations do you use for your L4/L5 programmes; what are your relations like with them; and, for HEI franchisees, how does the franchise relationship impact on your offer (and fees)?
- 4 How do you decide what to offer? To what extent do “national” (e.g. Government policy) and/or “local” issues (e.g. employer demand) influence what is offered? How has your L4/L5 offer evolved/developed?
- 5 What influences your decisions on when to start new (discontinue existing) L4/L5 programmes – and at what level, and in which programme areas? What role do cost and income considerations play in these decisions compared to other factors?

### *Fee setting*

- 6 How do you set fees for L4 and L5 qualifications? How often and in what circumstances do they change?
- 7 What fee rates do you set? How do these vary by:
  - a. Type of qualification (e.g. FD, HNC, HND etc.)
  - b. Level
  - c. Learner group (e.g. by home and overseas/EU students)
  - d. Mode of delivery
  - e. Programme area?
 What other factors, if any, are you able to take into account?
- 8 To what extent does the market dictate the fees? Are there parts of the market that are more price-sensitive than others?
- 9 What account do you take of equality and widening participation when setting fees for L4 and L5 qualifications? If you have an approved Access & Participation Plan, what impact does this have when setting fees for L4 and L5 qualifications?

- 10 How does your approach to setting fees differ for non-prescribed HE? What factors do you have to consider? To what extent does the maximum Advanced Learner Loan available dictate the fee charged?

### *Sources of income*

- 11 Where does your income for L4/L5 programmes come from:
- Fees (loans; employers; self-payers)
  - ESFA and the apprenticeship levy
  - Further Teaching [Strategic Priorities] Grant funding from OfS for price groups A, B or C1
  - UK and other grants
  - Other forms of employer support (including in-kind contributions)
  - Cross-subsidy from other programmes, either in the same programme area or from the institution more generally
  - Any other sources?
- 12 How do sources of income affect the fees that are charged?

### *Costs*

- 13 What drives the costs of L4 and L5 qualifications? How are the costs made up? In particular:
- How does the overall cost, and/or the breakdown of costs, vary by programme area?
  - How does the overall cost, and/or the breakdown of costs, vary for programmes at L4/L5 compared to programmes at other levels that you offer?
  - Which programme areas are the most expensive to deliver L4 and L5 qualifications in? Are you able to reflect this in the fees charged?
  - How do costs vary by type of qualification (e.g. FD, HNC, HND etc.) and/or by level?
  - What regulatory and/or awarding body costs are incurred? What are the implications of these costs in your plans for L4/L5 provision?

### *Overall assessment*

- 14 Do you believe you receive sufficient funding to deliver your L4 and L5 qualifications in their current form?
- 15 Are any particular L4 or L5 programmes or vocational areas over- or under-funded?

- 16 Is what you offer at L4 and L5 constrained by the current level of funding? If the level of funding was higher, what would you do differently?

*The future and HTQs*

- 17 What impact do you anticipate the introduction of HTQ will have:
- on the costs of your L4 and L5 programmes?
  - on the fees you are able to charge for your L4 and L5 programmes?
- 18 If demand for L4/L5 programmes grows – as a result of HTQs or otherwise:
- What would the impact of this be on your cost base and the margins you make on provision at these levels?
  - What barriers are there to the growth of L4/L5 programmes and/or to the further diversification of the student body through qualifications at these levels?
- 19 The government has previously committed to looking at reducing the public funding for non-approved qualifications at L4/L5. If you have programmes at L4 and L5 that you anticipate will not qualify for HTQ status, and in due course these are differentially funded (at lower rates or fee caps):
- What impact will this have on these programmes?
  - What if they became unfunded?
- 20 The Augar Report recommended:
- A tuition fee limit of £7,500. What would the impact of this be on L4/L5 courses, if existing fee caps operated at L6 (degree level)?
  - Adjusting levels of top-up funding depending on the cost of the subject, or the value of the course to learners/the taxpayer. If a £7,500 cap was introduced, which subjects would require (or benefit most from) top-up funding?
- 21 What are your long-term plans for L4 and L5 qualifications? How do these relate to emerging Government policy (e.g. HTQs, Lifelong [learning] Loan entitlement)?
- 22 Would you be interested in a model that allowed for HTQ-based learning to be funded at less than whole qualification level? Are there particular qualifications/markets where there is a demand for modular delivery? Are you able to deliver on a modular basis and, if not, what would be required to enable you to do so?

## Suggestions for further work

This annex contains suggestions of areas for further work identified during the project.

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- A. It would be interesting and informative to extend the sort of information collection exercise we undertook as part of this study across all HEIs and GFECs – which qualifications they offer; in which subject areas; what fee(s) they charge etc. (potentially what other provision they have at L4/L5). Not least, such an exercise would provide a baseline against which to measure change as HTQs are introduced.
- B. A deeper delve into franchising and validation arrangements, including both quantitative (the number of HEIs used; charges made by HEIs; the fees GFECs charge), and qualitative aspects (what impacts a GFEC’s choice of partner; how providers might be supported to move to approved HTQs).
- C. A comparison between the HEI campus and GFEC HE experience. It is claimed by some that a student’s HE experience at a GFEC is “inferior” to what it would be at an HEI – there are, it is claimed, both curricular (size of the group; access to more qualified staff; access to learning resources etc.) and non-curricular dimensions to this (student support; access to societies and clubs; access to other facilities etc.) These differences have an impact on the fees some GFECs feel able to charge. It would be interesting to explore the extent to which these differences are real or imagined, and how this impacts on costs incurred and fees charged.
- D. Students’ sensitivity to price for this provision. We received mixed evidence and messages re. price sensitivity from this project:
- There is little firm evidence that L4/L5 provision in HEIs is actually in any way price sensitive<sup>61</sup>
  - Some GFECs claimed that their markets were price sensitive, had supporting evidence/research to demonstrate that this is the case, and were therefore pricing their provision below the maximum level they could charge
  - Other GFECs had put up their fees with little evidence of demand falling as a result – in some cases demand had actually increased.

It would be interesting to explore this issue in more depth. Which markets are/are not price sensitive and why? Is student age a factor? Does this vary by qualification type? By type of provider? By location?

- E. Employer behaviour in the L4/L5 market. Employers are a relatively small part of the market for L4/L5 provision currently; it is not unreasonable to assume that they will

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<sup>61</sup> With the exception of fees paid by employers.

become more influential under HTQs and research to understand their behaviour, and how institutions work with them, could therefore be helpful.

In this context, by report employers do appear to be more price sensitive, to be more willing to switch between providers, and to be moving provision from traditional L4/L5 provision to higher level Apprenticeships (at least in part in response to the opportunity to fund training at this level via the Levy). Understanding the dynamics of employer behaviour would seem to be particularly important to inform the development of policy in relation to HTE/HTQ.

- F. The wider debt/loan issue, especially for mature students. Our study is institution-focused and therefore has only considered the tuition fees that students are paying. L4/L5 students may also need to take out maintenance loans; a fuller consideration of price sensitivity and debt accrual, and how they affect take-up of L4/L5 programmes, would need to take a wider view of costs incurred and loans taken out. Policy in relation to the Lifelong [Learning] Loan Entitlement is also relevant here.
- G. Around half of level 4-5 students are taught in GFECs; around a third in HEIs: this leaves a substantial proportion (c.20%) being delivered by other providers (private training providers, specialist colleges, sixth form colleges, in adult community learning etc.). The role played by other providers did not form any part of our study, and it would be interesting to understand their role in the L4/L5 market, and how they envisage it developing under HTQ.