Joint review of Further Education costs
Context

- The publicly funded Further Education sector delivers formal learning to ~4 million people a year, including basic skills, formal qualifications, vocational and skills training for apprenticeships and some higher education courses. The sector is made up of 1,232 institutions spanning GFE Colleges, Academies, Sixth Form Colleges, School Sixth Forms, Specialist Colleges and private sector/independent publicly funded institutions. The sector receives £10.4bn a year in funding from the EFA and SFA.

- In February 2015, the Treasury, BIS and DfE commissioned a ‘Joint review of Further Education (FE) cost drivers’ to understand the funding, cost drivers and outcomes of the FE system in England, with a particular focus on teaching costs, E&M provision and financial management.

- Over 6 weeks, the project team worked with HMT, BIS and DfE to build a cost baseline for the FE sector, conducted deep dives on teaching, E&M and financial management, and looked at the relationship between input costs, outputs and outcomes in the sector.

- The findings from this project were informed by an analysis of system-level financial data (including financial health metrics for 1,232 FE institutions and cost breakdowns for 341 colleges, using AoC information), and by 20 deep dive visits to FE institutions (including structured interviews, observations and data requests).

- The findings of the project are inevitably constrained by the short time-line (6 weeks) and data availability (cost data only available for 341 colleges), but hopefully provide a rapid source of insight into the cost drivers of the FE sector.
Headline insights

The FE sector is **grant-funded** (£10.4bn in annual EFA and SFA funding) and **fragmented** (1,232 colleges and providers), driving significant variation in outcomes, financial performance and reporting.

A The overall FE system operates at 1% profit, so any future reduction in funding would need to be offset across the system by a reduction in costs, additional income generation or reduction in outputs.

B However, there is a significant difference in profitability of individual providers (15% profit difference between top and bottom decile performers), suggesting efficiency opportunities in the sector.

C The most profitable providers use a set of practices that could be transferred across colleges to achieve higher income per learner and course profitability (£3.7k vs. £2.9k), lower teaching costs (4% difference), and non-teaching costs (4% difference) and admin costs (6% difference).

D Colleges have been able to achieve low teaching costs (46% of total spend in the sector) through managing their staffing mix, managing costs per teacher (e.g., greater use of high performing staff from lower tenure bands), and optimising the number of learners per teacher (e.g., 75% higher income per teacher).

E Providers have reacted to the market disruption caused by the new **E&M requirements** (additional costs from teaching, timetabling and exams) by redesigning timetables around E&M delivery and re-training existing workforce to integrate E&M tuition.

F Providers with the best financial management in the sector have an SMT with both private sector and educational expertise; collect and use financial and operational data at every level; conduct market analysis of local employer needs; establish SPs with private companies.

G We did not find a relationship between success and cost per learner or in the 40 other relationships we examined.

H If funding is reduced in the next SR, the centre can support providers by: i) giving clear guidance on future funding and funding formula ii) working with the sector to develop more consistent unit cost reporting and iii) sharing best practices of what the sector is doing to achieve ‘best in class’ teaching costs and low admin costs - which make up the majority of both costs and cost variation.
We took a structured approach to the costing project

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Build funding and cost baselines</td>
</tr>
<tr>
<td>2</td>
<td>Understand variations in costs across sector</td>
</tr>
<tr>
<td>3</td>
<td>Compare profitable and lossmaking institutions</td>
</tr>
<tr>
<td>4</td>
<td>Detail unit costs</td>
</tr>
<tr>
<td>5</td>
<td>Deep dive to understand high-priority areas</td>
</tr>
<tr>
<td>6</td>
<td>Assess link between inputs, outputs and outcomes</td>
</tr>
</tbody>
</table>

**Objective**
- Understand large areas of expenditure by cost area, provider and qualification
- Analyse General FE colleges to identify areas of variation to explore further
- Identify traits of cost/income structures and operating circumstances for both profitable/loss-making providers
- Understand unit costs of actions to deliver qualification
- Understand cost drivers especially for teaching, E&M, and opps for better financial management
- Understand typical cost of a successful outcome/output
- Identify any links between cost and outcomes

**Approach**
- Top down analysis of national system data
- Bottom-up deep dive interviews and analysis of course and content area expenditure
- Analysis of institution data on outcome vs cost

**Example outputs**
- Value maps
- Spend histograms
- Comparisons, histograms
- Cost driver trees
- Deep dive reports
- Regression analyses

1. [Value map]
2. [Spend histogram]
3. [Comparisons histogram]
4. [Cost driver tree]
5. [Deep dive report]
6. [Regression analysis]
Total EFA and SFA funding of the FE sector is £10.4bn, of which General FE and Tertiary colleges receive the largest proportion.

**Breakdown of EFA/SFA funding (14/15)**

<table>
<thead>
<tr>
<th>Category</th>
<th>EFA Funding</th>
<th>SFA Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>General FE and Tertiary</td>
<td>£2.8B</td>
<td>£2.2B</td>
</tr>
<tr>
<td>Sixth Form College</td>
<td>£0.7B</td>
<td></td>
</tr>
<tr>
<td>Academy</td>
<td>£1.4B</td>
<td></td>
</tr>
<tr>
<td>School Sixth Form College</td>
<td>£0.7B</td>
<td></td>
</tr>
<tr>
<td>CCP</td>
<td>£0.2B</td>
<td></td>
</tr>
<tr>
<td>A&amp;HC</td>
<td>£0.1B</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>£0.3B</td>
<td></td>
</tr>
<tr>
<td>Private Sector Public Funded</td>
<td>£1.3B</td>
<td></td>
</tr>
<tr>
<td>Other Public Funded</td>
<td>£0.6B</td>
<td></td>
</tr>
<tr>
<td>Specialist</td>
<td>£0.1B</td>
<td></td>
</tr>
</tbody>
</table>

**BUILDING FUNDING AND COST BASELINES**

1 Excludes Residential Bursary and DaDA

**SOURCE:** SFA – Funding Allocation to Training Providers; EFA – Funding 16-19 Allocations
There is variation in all major cost areas in Further Education – the most significant of which is in teaching and administrative costs

n = 338, all AoC providers

### Total costs of AoC providers (12/13), (% of total income; variation in % of total income for upper and lower deciles)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage (% of Total Income)</th>
<th>Variation in % of Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and central staff</td>
<td>17% (10% - 28%)</td>
<td></td>
</tr>
<tr>
<td>Non-staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teaching staff</td>
<td>46% (33% - 59%)</td>
<td></td>
</tr>
<tr>
<td>Teaching non-staff</td>
<td>8% (3% - 16%)</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>7% (3% - 13%)</td>
<td></td>
</tr>
<tr>
<td>Maintenance non-staff</td>
<td>2% (0% - 7%)</td>
<td></td>
</tr>
<tr>
<td>Maintenance staff</td>
<td>1% (0% - 2%)</td>
<td></td>
</tr>
<tr>
<td>Running staff</td>
<td>2% (0% - 4%)</td>
<td></td>
</tr>
<tr>
<td>Running non-staff</td>
<td>4% (2% - 8%)</td>
<td></td>
</tr>
<tr>
<td>Other staff</td>
<td>2% (0% - 9%)</td>
<td></td>
</tr>
<tr>
<td>Other staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other 7% includes conference</td>
<td></td>
<td></td>
</tr>
<tr>
<td>maintenance, rent, SFA and EFA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>franchised provision costs, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>income generating activities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 This heat map shows costs as a % of total income, using AoC data. AoC colleges have a marginal overall surplus, therefore the costs shown here add up to 99% of total income.

SOURCE: AoC college accounts 12/13, all AoC providers
Admin is the largest of the non-teaching costs, averaging 17% of income compared to 11% for academies and NHS hospitals

n = 338, all colleges (AoC data)

### Breakdown of costs for colleges (staff and non-staff costs)

<table>
<thead>
<tr>
<th>% of total income</th>
<th>Teaching</th>
<th>Admin &amp; central</th>
<th>Premises</th>
<th>Other</th>
<th>Finance</th>
<th>Exam</th>
<th>Surplus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>54</td>
<td>17</td>
<td>9</td>
<td>8</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

#### Deep Dive Providers

- **High admin costs as % income:**
  - College B – 34%
  - College C – 30%
  - College D – 27%

- **Low admin costs as % income:**
  - College F – 12%
  - College G – 10%

- Admin costs range from 6% to 41% across FE providers
- Admin costs as % of total income are 17% (11% staff and 6% non-staff)
- Average admin costs are **11.1% of income for academies** and are **11.2% of total staff** costs at NHS hospitals

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1. Administration and central services (staff) + Administration and central services (non-staff) costs
Wide variations between teacher salaries at different Further Education providers drive much of the variation in teaching staff costs (46% total).

<table>
<thead>
<tr>
<th>College</th>
<th>Average Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>College A</td>
<td>33,600</td>
</tr>
<tr>
<td>College B</td>
<td>29,700</td>
</tr>
<tr>
<td>College C</td>
<td>30,300</td>
</tr>
<tr>
<td>College D</td>
<td>32,100</td>
</tr>
<tr>
<td>College E</td>
<td>33,200</td>
</tr>
<tr>
<td>College F</td>
<td>36,300</td>
</tr>
<tr>
<td>College G</td>
<td>37,800</td>
</tr>
<tr>
<td>College H</td>
<td>38,600</td>
</tr>
<tr>
<td>College I</td>
<td>39,700</td>
</tr>
<tr>
<td>College J</td>
<td>43,900</td>
</tr>
<tr>
<td>College K</td>
<td>44,000</td>
</tr>
<tr>
<td>College L</td>
<td>45,200</td>
</tr>
<tr>
<td>College M</td>
<td>47,700</td>
</tr>
<tr>
<td>College N</td>
<td>64,000</td>
</tr>
</tbody>
</table>

Even if we exclude the extremes, average costs vary from £32k to £45k from lower to upper quartile.

Average teaching salary is driven primarily by tenure, but subject geography and performance are also important

<table>
<thead>
<tr>
<th>Driver of variation</th>
<th>Reasons for variation</th>
<th>Ways to reduce costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenure</td>
<td>Typical pay ranges guidelines indicate pay ranges from £19-36k for full time lecturers, depending on tenure and qualifications</td>
<td>College A found that reducing average tenure of teaching staff can reduced the median wage</td>
</tr>
<tr>
<td>Subject</td>
<td>Demand for teachers varies by subject with providers reporting up to a 50% premium for E&amp;M and a range from £61k for plumbing to £21k for business studies</td>
<td>Increasing supply of teaching staff in subjects in high demand will reduce average salaries</td>
</tr>
<tr>
<td>Region</td>
<td>Average teacher salaries ranges from £30-43k, driven by cost of living. However only London based providers receive supplementary funding</td>
<td>Regions with higher cost of living outside of London may be forced to recruit lower tenure staff to compensate</td>
</tr>
<tr>
<td>Performance</td>
<td>Few colleges pay based on performance, so this is not a major driver of variation – however some providers signaled desire to move to performance based pay</td>
<td>Linking performance to well-defined performance metrics, align teacher and students’ incentives</td>
</tr>
</tbody>
</table>

SOURCE: Deep Dive interviews; Association of Teachers and Lecturers
More profitable providers have higher average income per learner, often due to more diverse funding sources or a funding mix balanced towards 16-18 learners.

- More profitable providers obtain higher incomes per learner than loss-making colleges through:
  - Higher share of funding from EFA for 16-18 year olds, for which funding per learner is higher than SFA funding
  - More non-EFA or SFA-funding, e.g., HEFCE funding, endowments, catering, conferences and franchised provision

### Average all FE colleges (%, £m)

<table>
<thead>
<tr>
<th>Source</th>
<th>Income per learner</th>
<th>Income per teacher</th>
<th>Students per teacher</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFA</td>
<td>£2.5k</td>
<td>£114k</td>
<td>36</td>
</tr>
<tr>
<td>SFA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other¹</td>
<td>18%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>73%</td>
<td></td>
</tr>
</tbody>
</table>

### Loss-making providers (%, £m)

<table>
<thead>
<tr>
<th>Source</th>
<th>Income per learner</th>
<th>Income per teacher</th>
<th>Students per teacher</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFA</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFA</td>
<td>35%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other¹</td>
<td>16%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>75%</td>
<td></td>
</tr>
</tbody>
</table>

### Profitable providers (%, £m)

<table>
<thead>
<tr>
<th>Source</th>
<th>Income per learner</th>
<th>Income per teacher</th>
<th>Students per teacher</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFA</td>
<td>41%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFA</td>
<td>24%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee</td>
<td>-8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other¹</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>65%</td>
<td></td>
</tr>
</tbody>
</table>

1 Includes HEFCE, other funding bodies, conferences, endowment income, catering, conferences, farming, franchised provision and creche income.
Institution-level income and expenditure driver analysis

College A is starting to diversify income streams through partnerships with local employers.

College A has been growing apprenticeships and 24+ loans, explaining high SFA and other funding.

College A recruits lower tenured (and lower cost) teachers as believe younger teachers motivate learners better.

Admin costs are higher than the average. This is explained by lack of economies of scale, given small size of college.

What is the operating surplus of College A?

Surplus 1 4

College A is starting to diversify income streams through partnerships with local employers.

College A recruits lower tenured (and lower cost) teachers as believe younger teachers motivate learners better.

Admin costs are higher than the average. This is explained by lack of economies of scale, given small size of college.

Expenditure 99 96

Income 100 100

Tuition fees 7 8

Other 9 1

Funding bodies 84 90

SFA 26 39

EFA 49 42

HEFCE 3 7

Local authority 1 2

Other1 5 0

Research grants 1 0

Conference 2 0

Endowment 0 0

Other2 5 1

Teaching 46 31

Administration & central 11 17

Premises 2 4

Other3 2 8

Teaching non-staff 8 6

Administration 6 5

Examination cost 3 0

Premises 7 5

Other4 6 14

Finance 8 6

Teaching 35 24

Contract tuition services3 2 0

Teaching support 10 7

Maintenance 1 2

Running costs 2 2

Teaching 5 5

Teaching support 3 1

Running cost 4 3

Maintenance 2 2

Rent/lease 1 1

Depreciation 7 6

Interest 1 0

Pension 1 0

1 Includes EU grants, release of capital grants and other funding body
2 Includes farming, catering, exam fee, creche, releases from deferred capital grants and other
3 Includes income generating activities, farming, conference, SFA and EFA franchised provision and other. All categories average at <1% of income
4 Some providers may have included contract tuition services in non-staff costs
NB: % reflect allocation of cost across AoC providers (FE Colleges, Tertiary Colleges, Sixth Form Colleges, Specialist Colleges)
NB: Due to rounding up of small percentages, branches further to the right may not add up exactly to their parent branch on the left

SOURCE: AoC college accounts 12/13, Deep dive visits
Root cause cost driver analysis

Teaching staff costs are 15% lower than the average. College A has been on a turn-around journey, requiring significant cost cutting. 6% of income saved through redundancies and lowering teaching costs by recruiting lower tenure teachers.

Teaching staff costs

- 31% £3.2 £953
- 46% £10.3 £1,879
- College A cut loss-making course offerings as part of its turnaround e.g., no longer offers A-Levels. Streamlining course offerings can drive more efficient teaching costs (breadth is costly for a small provider).

Total teaching costs

- 37% £3.7 £1,137
- 54% £12.1 £2,170

Teaching non staff costs

- 6% £0.6 £183.9
- 8% £1.8 £291

Teaching (FTE)

- 24% £2.4 £729
- 35% £7.8 £1,461

Average salary

- £33,583

# learner

- 3,317

Learners/Teacher

- 46.07

Teaching hrs per teacher

- ~840

Teaching hrs per learner

- ~98%

Teacher utilisation

- 13.1

Class size

Teaching support (FTE)

- 7% £0.7 £224
- 10% £2.2 £371

Average salary

- £27,617

# learner

- 3,317

Learners/Teacher

- 72

Teaching hrs per teacher

- ~-

Teaching hrs per learner

- ~-

Teacher utilisation

- ~-

Class size

13.1

Average class sizes are small. College A is a vocational specialist, and certain vocational courses necessitate small classes e.g., for health and safety reasons. As a small FE College, there is also less flexibility to increase class sizes by combining learners across courses. For English & Maths, College A chooses to run small class sizes to customise content to learner abilities and interests.
Some providers have adopted a ‘high efficiency classroom’ strategy to increase dependence on cost effective learning support staff.

- % of teaching staff that are full time teachers ranges from 50% at College A to 83% at College B.
- College A ‘high efficiency classroom’ strategy is evident by the high % of learning support staff.
- College D focus on quality rather than quantity of contact time, which is evident by high % of teaching staff.

**Mix of teaching, teaching support and SMT staff at deep dive providers (%), 12/13**

<table>
<thead>
<tr>
<th>College</th>
<th># staff</th>
<th>Learning support</th>
<th>Teaching staff</th>
<th>SMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coll A</td>
<td>348</td>
<td>49%</td>
<td>50%</td>
<td>1%</td>
</tr>
<tr>
<td>Coll B</td>
<td>122</td>
<td>39%</td>
<td>59%</td>
<td>2%</td>
</tr>
<tr>
<td>Coll C</td>
<td>1,032</td>
<td>37%</td>
<td>62%</td>
<td>1%</td>
</tr>
<tr>
<td>Coll D</td>
<td>419</td>
<td>26%</td>
<td>70%</td>
<td>4%</td>
</tr>
<tr>
<td>Coll E</td>
<td>604</td>
<td>26%</td>
<td>73%</td>
<td>1%</td>
</tr>
<tr>
<td>Coll F</td>
<td>196</td>
<td>26%</td>
<td>71%</td>
<td>4%</td>
</tr>
<tr>
<td>Coll G</td>
<td>154</td>
<td>12%</td>
<td>85%</td>
<td>3%</td>
</tr>
<tr>
<td>Coll H</td>
<td>193</td>
<td>12%</td>
<td>83%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**SOURCE:** Deep dive visits, AoC college accounts 12/13
Many providers are struggling to recruit quality teachers in response to the new English & Maths GCSE requirements.

Providers report increasing competition for E&M teachers...

“Increasing competition form English and Maths teachers with upward pressure on salaries of English and Maths”

88%¹ of providers

“High cost in management time from increased interviews”

A LA

“We are unable to pay significantly higher salaries, so it takes longer to recruit. We have also had teachers turn us down due to salary being too low”

A college

...however this is not consistently reflected in higher salaries for E&M teachers

Salaries are not always higher for English and Maths as some providers are:

- Not setting differential pay rates for morale/union reasons
- Finding additional hidden costs (e.g., more time spent recruiting)
- Employing lower skilled or lower quality teachers

<table>
<thead>
<tr>
<th>College A (2013/14)</th>
<th>Full time (annual pay)</th>
<th>Variable hours (hourly rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average other departments</td>
<td>34,389</td>
<td>24.31</td>
</tr>
<tr>
<td>English</td>
<td>NA</td>
<td>28.19</td>
</tr>
<tr>
<td>Maths</td>
<td>35,106</td>
<td>23.60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>College B (2013/14)</th>
<th>Full time (annual pay)</th>
<th>Variable hours (hourly rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average other departments</td>
<td>37,735</td>
<td>34.40</td>
</tr>
<tr>
<td>English</td>
<td>37,070</td>
<td>34.40</td>
</tr>
<tr>
<td>Maths</td>
<td>NA</td>
<td>34.40</td>
</tr>
</tbody>
</table>

SOURCE: Deep dive interviews and data
A few providers have redesigned timetables around English and Maths, however many split groups into small class sizes at higher cost.

Some providers have put E&M at the centre of their course delivery...

College A timetables high volume classes early in the morning or in the evening and organises other courses around this to maximise class size.

College B set a policy to only run classes of 20+ for English and Maths ability on timetable.

College C timetable E&M classes at the centre of core vocational programmes, maintaining relatively large class sizes.

Many still run high volumes of E&M classes to accommodate different abilities of different learner groups, resulting in small class sizes.

Example College D: Average class size for selection of courses

<table>
<thead>
<tr>
<th>Number of students</th>
<th>309</th>
<th>171</th>
<th>169</th>
<th>149</th>
<th>206</th>
<th>2,535</th>
<th>1,234</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of classes</td>
<td>16</td>
<td>10</td>
<td>10</td>
<td>11</td>
<td>15</td>
<td>16</td>
<td>112</td>
</tr>
</tbody>
</table>

One college offers over 100 different courses in English and Maths across different levels and modes of delivery i.e. Maths for Plumbing (levels 1 and 2), Functional skills English (delivered by training group),

SOURCE: Deep dive visit
Profitable institutions and/or those who have been on a financial turn-around have four distinct management capabilities in place

**A combination of private sector and educational expertise in the SMT**
- Skill mix of private sector business skills; deep experience in FE, including teaching; and knowledge of the local economy and market demands. For example:
  - **College A** employed an FD with experience in college turnarounds to support improvement
  - **College B** have an SMT with a mix of experience between the HE and FE sector, service firms (KPMG) and industry (hotel industry)

**Data driven decision making on courses and expenditure**
- Data collected, understood and used at every level to inform decision making on strategy, budget and course offerings at organisational and departmental level. For example:
  - **College C** track data down to course level to understand inefficiencies
  - **College D** require business case for any substantial financial decision including use of agency staff (targeting break-even in 2015/16 following a 12% deficit)
  - **College E** tracks enrolment and course contribution data on a weekly basis and makes real-time adjustments

**Market assessment of local employers**
- Continuous monitoring of the local labour market and close collaboration with employers to test new courses or scale-back unprofitable courses. For example:
  - **College F** adjusts course offerings on a semester by semester basis depending on market demand and enrolment data
  - **College G** have an outreach team working closely with local employers in the community, who gather insight on demand for learners and apprenticeships that feeds into course planning
  - **College H** (and many other colleges) work closely with LEP and local employers

**Strategic partnerships with local, national and international businesses**
- Build strategic partnerships with local, national and international businesses to develop sector capabilities and anticipate changes in demand. For example:
  - **College I** working with Siemens on a mechatronics lab and course
  - **College J** work with Luton Airport on courses in aviation, travel and tourism
  - **College K** train 500 learners per year for Nissan on a replica of the Nissan production line
We did not find a strong relationship between success and cost per learner, or in over 40 other relationships we analysed

Example 1: Outputs and costs per learner in FE colleges

Similar success rates, range of >£9,000 in cost per learner

Similar cost per learner, range of >20% in success rates

1 Includes general further education colleges and tertiary colleges

SOURCE: AoC College accounts 2012/13; Participation by Provider by Funding Stream, Learner and Learning Characteristics 2012/13
There are four potential reasons why finding causal relationships between costs and outputs in further education sector is challenging:

1. **Cost not a key driver**
   - Academic research\(^1\) has found no statistically significant relationship between expenditure and output.
   - McKinsey research\(^2\) shows no relationship between cost and outputs above a minimum expenditure level.

2. **Limited incentives for cost-efficiency**
   - Cost per learner is not a reliable measure of efficiency in the FE sector in England.
     - FE colleges generally not profit maximising.
     - Internal funding allocation between learners unknown.

3. **Other inputs are more important drivers of quality**
   - There are other inputs that are not reflected in cost that have a direct impact on quality. For example, teaching quality has a direct impact on student outcomes, however teachers are not paid according to quality or effectiveness.

4. **No universal definition of quality**
   - There is not a single agreed definition of quality for the sector.
   - Success rate metric we use gives no distinction between grade, subject or level of qualification.
   - Many other potential metrics are either not available (e.g., detailed destination link), or are confidential (grades for students).

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\(^1\) Hanushek (2002) who found that 66% of 162 studies found no statistically significant relationship between expenditure and output.
\(^2\) Research across school systems.

**SOURCE:** Team analysis