



ASSOCIATION
OF COLLEGES

Adult Programme Costs and Rates

November 2020

The Association of Colleges (AoC) represents nearly 93% of the 266 colleges in England incorporated under the Further and Higher Education Act 1992.

If you have any questions or queries about this report, please do not hesitate to contact marguerite.hogg@aac.co.uk.

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Introduction

The analysis presented in this report was carried out because of increasing concerns about the lack of funding rate increases in the adult budget for 10 years. It was clear that without any uprating for inflation that the purchasing power had reduced. What we did not know was how difficult it had become to viably support many vital courses and programmes.

The report clearly shows that without an increase in funding rates, that the government's flagship programme, the National Skills Fund, will fail. The report provides evidence on the similarities and differences with 16-19 programmes which have been funded at a higher rate for more than 10 years.

The stark reality is that the current funding rate results in all of the adult courses sampled being unviable, even at the maximum class size. None of the courses generate the benchmark 50% contribution to overheads.

Budgets for adult skills programmes were cut by 40% in the first half of the last decade and have been fixed in cash terms since then despite inflation. Funding for adult skills is routed via the adult education budget which is devolved in nine combined authority areas but with a common formula that pays:

- a full rate for students who are unemployed, on low income or enrolled on a course covered by statutory basic skills, Level 2 or first Level 3 under 24 entitlement;
- a half rate for students paying fees.

The Prime Minister's recent welcome announcement of a Lifetime Skills Guarantee will extend full funding for a first Level 3 qualification to adults over the age of 23. This means that more activity will be fully funded, heightening the importance that funding rates are sufficient to cover necessary costs.

Recommendations

Our recommendations are:

- Immediately implement 16-19 rate equity for the Single Activity Matrix (SAM) not including SAM exceptions such as for Functional Skills;
- Implement the High Value Courses Premium as per the 16-19 methodology. These need to be implemented as the rate increase alone won't fix the viability issues;
- Review the SAM rate card so it matches the 16-19 methodology;
- The success of the National Skills Fund roll-out will be dependent on adult funding rates being increased.

Course costs

Education involves common financial characteristics associated with:

- the employment of qualified, specialist staff (teachers, generally on permanent contracts with job security).
- support services everything from administration to quality assurance to individual assistance to those with additional needs.
- classroom and workshop spaces with the right equipment.

The high proportion of fixed costs is common across all stages of education. Staff costs invariably account for more than 50% of income (ranging from 55% in universities to 85% in primary schools and centring on the 60-70% range in colleges).

Course costs in schools and academic 16-19 provision (A Levels) is simple to calculate because class sizes are fairly standardised and there is (in most cases) one member of staff per class. ASCL's Equation of Lifeⁱ sets out the relationships.

Adult skills programmes have similar core costs but there are often considerable variations in lecturer, capital and consumable input so it is worth looking at subjects individually.

There is no official guidance to colleges on budget setting, but work carried out by McKinsey for HM Treasury in 2015 confirmed that the main drivers of teaching costs are:

- staffing mix
- teacher salaries
- teaching contact hours.
- class or group size
- teaching hours per learner

The funding formula for the Adult Education Budget (AEB) is as follows:

$$\text{Funding} = \text{rate} \times \text{disadvantage uplift} \times \text{area cost uplift}$$

The funding rate can be found on the Single Activity Matrix (SAM)ⁱⁱ. There are a few exceptions to the SAM (where qualifications sit outside the matrix, such as Functional Skills) and the Government contributions can be found in Annex B.

Our approach

Our approach involved the development of 15 course contribution models for 15 different subjects.

The subject types cover the full curriculum range including blended learning, ESOL, technical (e.g. electrical, counselling and accounting), basic skills, GCSE resits

- electrical
- plumbing

- accounting
- counselling
- hairdressing
- ESOL
- Functional Skills

The courses were all classroom based ESFA funded delivery (all college types) up to Level 4.

Our college sample of 15 came from all parts of the country and including colleges in cities, suburbs and rural towns.

The data we collected from colleges included:

- actual and maximum class sizes (so that we could calculate average class sizes);
- waiver profiles by course (i.e. the percentage with full funding);
- direct delivery costs (primarily teacher/technician pay plus direct non-pay costs);
- Information on weighting factors, uplifts and use of technicians.

There were very small delays in collecting data from some colleges due to the introduction of the first COVID-19 related lockdown just as we were due to start this piece of work. Colleges had to move quickly to working from home and online delivery of teaching and learning. We used this data to create contribution models.

Colleges are self-governing organisations and have full responsibility for the provision of education and everything that supports it. This means that college income needs to cover a range of non-teaching costs including:

- the costs of running buildings (premises, maintenance and security);
- administrative services like finance and HR, IT, enrolment and examination administration;
- support services to students including guidance, careers advice and mental health services;
- catering and transport subsidies for lower income students where these are not covered by grants;
- employer engagement and work experience co-ordination;
- enrichment courses;
- the revenue costs of keeping buildings and equipment up to date (capital finance, depreciation);
- contributions to cover the costs of pension deficits;
- management costs.

These costs typically account for 50% of a college's income which means that courses need to make a minimum 50% contribution after teaching costs to avoid a loss. This model is under pressure with recent pension increases and on-going inflation.

The group of colleges submitting data for this research, pay costs averaged 61% of income.

Our research identified considerable variations in non-pay costs across different courses:

- in material intensive workshop courses - materials such as metal and specialist equipment;
- in accountancy courses - software subscription and professional membership fees;
- in ESOL and Functional Skills courses - diagnostic and specialist software;
- in courses where event/residential activities (e.g. skills competition) are involved this also increased the costs.

Initial setup and marketing have not been included in the model. Including these costs always produce a poor contribution, resulting in few colleges launching new courses.

We then created viability models using two sets of class size data:

- average and maximum class sizes from the research group;
- class size data collected in 2018 from a national class size survey;

The model used current staff utilisation data (98%) which shows that colleges are already operating at capacity when it comes to deployment of teaching staff;

This class size data identifies the average, maximum and reason for maximum class size by level and subject sector area.

In most cases the reason for the maximum class size at Level 3 (differentiated by subject) was due to physical or health and safety restrictions in classrooms workshop spaces. Class sizes and maximums are typically smaller for more 'specialist' provision such as plumbing, electrical and hairdressing and larger for more general provision such as accounting, counselling, ESOL and Functional Skills.

The results of this analysis are shown in the following table (Fig. 1). This shows that all five programmes make a contribution below 40%, with some provision going into negative contribution rates, which means that they do not make an adequate contribution to central running costs and are therefore loss-making - but to varying amounts.

Key findings

Based on average class sizes in the sample, on current funding rates and cost weighting factors, this produced contribution rates ranging from 44% in hairdressing to -32% in accounting.

A very small number of colleges in our national survey achieve higher class sizes in plumbing. In the other six learning areas the national class size numbers are the same or lower. The second table (Fig. 2) describes the learning area's maximum class sizes. This represents the maximum number of students that can be occupied, due to health and safety or physical constraints.

Even using maximum class sizes from our national data set along with the current programme cost weighting factors, none of the courses were viable with a maximum contribution rate of 34% for ESOL down to negative rates of -3% for electrical and accounting. The other four areas also have contribution rates well below that of ESOL's highest with counselling, hairdressing and Functional Skills all at 27% and plumbing at 14%.

Fig. 1.

| Learning Area | Actual Class Size | | National Class Size | | Actual Viability | | National Viability | |
|-------------------|-----------------------|------|-----------------------|------|-----------------------|-----|-----------------------|-----|
| | Contribution | | Contribution | | Contribution | | Contribution | |
| | Prog Weighting Factor | | Prog Weighting Factor | | Prog Weighting Factor | | Prog Weighting Factor | |
| Electrical | Class size: | 16 | Class size: | 15 | Class size: | 16 | Class size: | 15 |
| | Contribution rate: | -14% | Contribution rate: | -17% | Contribution rate: | 50% | Contribution rate: | 50% |
| | PWF: | 1.3 | PWF: | 1.3 | PWF: | 3.0 | PWF: | 3.0 |
| Plumbing | Class size: | 12 | Class size: | 15 | Class size: | 12 | Class size: | 15 |
| | Contribution rate: | 8% | Contribution rate: | 14% | Contribution rate: | 50% | Contribution rate: | 50% |
| | PWF: | 1.3 | PWF: | 1.3 | PWF: | 2.4 | PWF: | 2.2 |
| Accounting | Class size: | 13 | Class size: | 13 | Class size: | 13 | Class size: | 13 |
| | Contribution rate: | -32% | Contribution rate: | -32% | Contribution rate: | 50% | Contribution rate: | 50% |
| | PWF: | 1 | PWF: | 1 | PWF: | 2.6 | PWF: | 2.6 |
| Counselling | Class size: | 13 | Class size: | 13 | Class size: | 13 | Class size: | 13 |
| | Contribution rate: | 7% | Contribution rate: | 4% | Contribution rate: | 50% | Contribution rate: | 50% |
| | PWF: | 1.12 | PWF: | 1.12 | PWF: | 2.1 | PWF: | 2.2 |
| Hairdressing | Class size: | 14 | Class size: | 12 | Class size: | 14 | Class size: | 12 |
| | Contribution rate: | 44% | Contribution rate: | 40% | Contribution rate: | 50% | Contribution rate: | 50% |
| | PWF: | 1.3 | PWF: | 1.3 | PWF: | 1.5 | PWF: | 1.6 |
| ESOL | Class size: | 15 | Class size: | 15 | Class size: | 15 | Class size: | 15 |
| | Contribution rate: | 25% | Contribution rate: | 25% | Contribution rate: | 50% | Contribution rate: | 50% |
| | PWF: | 1 | PWF: | 1 | PWF: | 1.9 | PWF: | 1.9 |
| Functional Skills | Class size: | 14 | Class size: | 13 | Class size: | 14 | Class size: | 13 |
| | Contribution rate: | 16% | Contribution rate: | 13% | Contribution rate: | 50% | Contribution rate: | 50% |
| | PWF: | 1 | PWF: | 1 | PWF: | 1.7 | PWF: | 1.7 |

Fig. 2.

| Learning Area | National Class Size | PCWF | Contribution % |
|----------------------|----------------------------|-------------|-----------------------|
| Electrical | 15 | 1.3 | 9% |
| Plumbing | 15 | 1.3 | 14% |
| Accounting | 13 | 1.0 | -22% |
| Counselling | 13 | 1.12 | 4% |
| Hairdressing | 12 | 1.3 | 50% |
| ESOL | 15 | 1 | 18% |
| Functional Skills | 13 | 1 | -64% |

Conclusions

A number of observations follow:

- Few colleges can achieve the maximum class size because of physical constraints in buildings, particularly heightened currently due to the COVID secure measures colleges currently have to implement, and because of the difficulties associated with recruiting and retaining enough students on new qualifications.
- In the short-term colleges, like other education organisations, cross-subsidise different courses in their portfolio. This is just about sustainable if a course covers a niche subject with a small proportion of total student numbers and can also be done if other activities are generously funded.
- The current funding level in all the adult courses sampled were not viable, even at the maximum class size, none of the courses generated the benchmark 50% contribution.
- It is within the capacity of the Government to adjust the funding rates to ensure that study programmes cover necessary costs. One option for doing this would be to increase the cost weighting factors from current levels. To achieve a 50% contribution, 5 out of 11 of the sample courses would require over 110% uplift in the programmes weighting factor, and a further four require over 60% uplift. As the programme cost weighting factors apply to all programmes, this would not be workable.
- Cost weightings would create unhelpful incentives for colleges and other providers to run courses and would make the funding system harder to administer. A better alternative would be to increase the core funding rates to bring equity with the 16-19 funding rate which would improve contribution, but most courses will continue to be unviable. Funding rates as they are act as a disincentive to run resource intensive programmes where cost and unit price pressure may drive colleges and other providers away from specialist provision as it will be deeply unviable. Without increases in the base rate and programme cost weighting factors, colleges will not be able to supply the range of programmes the economy needs which will damage productivity and exacerbate skills gaps and shortages. These are often the courses that support key workers or the productive sectors.
- Capital funding is a requirement in some courses to ensure that education is focused on the modern workplace. A typical engineering workshop, for example, will need to be equipped with lathes, milling machines, grinding machines and CNC machines to meet the requirements of industry. The equipment will then need to be maintained, staff will need to be trained, and accommodation adjusted to continue to meet the on-going requirements of employers. Colleges cannot rely on employers to subsidise equipment on a long-term basis.
- Our calculations (Fig.3) suggest that subject level adult funding rates would need to increase but that it would be administratively simpler to pay a rate equitable to that of 16-19 funding and implement a High Value Premium.

Fig. 3

| Learning Area | Proposed Hourly rate | |
|----------------------|-----------------------------|-------|
| Electrical | £ | 12.87 |
| Plumbing | £ | 9.83 |
| Accounting | £ | 17.02 |
| Counselling | £ | 13.38 |
| Hairdressing | £ | 7.04 |

Recommendations

Our recommendations are as follows:

- Immediately implement 16-19 rate equity for the Single Activity Matrix (SAM) not including SAM exceptions such as for Functional Skills;
- Implement the High Value Courses Premium as per the 16-19 methodology. These need to be implemented as the rate increase alone won't fix the viability issues;
- Review the SAM rate card so it matches the 16-19 methodology;
- The success of the National Skills Fund roll-out will be dependent on adult funding rates being increased.

Association of Colleges
4 November 2020

Appendix A

i The Equation of Life

Pupil Teacher Ratio

The equation links five quantities to the Pupil Teacher Ratio a school can afford in a balanced budget set for an academic year. The terms are defined below and the derivation of the equation is also given.

The equation is

$$\text{PTR} = \text{ATC} / (\text{I} * \text{PT}) = \text{c} * \text{ACS}$$

Where

PTR is Pupil to teacher ratio

ATC is Average Teacher Cost

I is revenue available per pupil

PT is proportion of revenue available for expenditure on teacher cost

c is teacher contact ratio

ACS is average class size

Annex B

ii Single Activity Matrix (SAM)

| Funding band – hours | Activity type | Programme weighting (PW) | | | | |
|----------------------|--------------------------|--------------------------|---------|------------|----------|----------------------|
| | | A – Base (unweighted) | B – Low | C – Medium | D – High | E or G* (specialist) |
| Up to 2 | Very small provision (1) | £14 | £16 | £18 | £22 | £24 |
| 3 to 4 | Very small provision (2) | £21 | £24 | £27 | £34 | £36 |
| 5 to 6 | Very small provision (3) | £35 | £39 | £46 | £56 | £60 |
| 7 to 12 | Small provision (1) | £50 | £56 | £65 | £80 | £86 |
| 13 to 20 | Small provision (2) | £100 | £112 | £130 | £160 | £172 |
| 21 to 44 | Small provision (3) | £150 | £168 | £195 | £240 | £258 |
| 45 to 68 | Medium provision (1) | £300 | £336 | £390 | £480 | £516 |
| 69 to 92 | Medium provision (2) | £450 | £504 | £585 | £720 | £774 |
| 93 to 100 | Medium provision (3) | £600 | £672 | £780 | £960 | £1,032 |
| 101 to 196 | Large provision (1) | £724 | £811 | £941 | £1,159 | £1,246 |
| 197 to 292 | Large provision (2) | £1,265 | £1,417 | £1,645 | £2,025 | £2,176 |
| 293 to 388 | Large provision (3) | £1,987 | £2,225 | £2,583 | £3,179 | £3,417 |
| 389 to 580 | Very large provision (1) | £2,573 | £2,882 | £3,345 | £4,117 | £4,425 |
| 581 to 1060 | Very large provision (2) | £4,170 | £4,670 | £5,421 | £6,671 | £7,172 |
| 1061 or more | Very large provision (3) | £6,602 | £7,395 | £8,583 | £10,564 | £11,356 |

Single Activity Matrix (SAM) enrolment count

| Funding band – hours | Activity type | Programme weighting (PW) | | | | |
|----------------------|--------------------------|--------------------------|---------|------------|----------|--------|
| | | A – Base (unweighted) | B – Low | C – Medium | D – High | E or G |
| Up to 2 | Very small provision (1) | 760 | 130 | 40 | 0 | 0 |
| 3 to 4 | Very small provision (2) | 2,220 | 200 | 510 | 0 | 60 |
| 5 to 6 | Very small provision (3) | 2,060 | 810 | 4,240 | 10 | 70 |
| 7 to 12 | Small provision (1) | 20,720 | 4,860 | 4,990 | 30 | 790 |
| 13 to 20 | Small provision (2) | 37,280 | 9,240 | 4,000 | 110 | 1,970 |
| 21 to 44 | Small provision (3) | 49,720 | 20,720 | 8,880 | 50 | 1,490 |
| 45 to 68 | Medium provision (1) | 97,320 | 6,220 | 6,630 | 10 | 690 |
| 69 to 92 | Medium provision (2) | 71,900 | 2,960 | 3,960 | 30 | 180 |
| 93 to 100 | Medium provision (3) | 37,390 | 1,060 | 2,060 | 0 | 240 |
| 101 to 196 | Large provision (1) | 115,860 | 156,030 | 23,300 | 20 | 3,500 |
| 197 to 292 | Large provision (2) | 26,410 | 12,280 | 5,880 | 0 | 750 |
| 293 to 388 | Large provision (3) | 10,730 | 4,390 | 10,750 | 0 | 730 |
| 389 to 580 | Very large provision (1) | 1,100 | 1,040 | 17,260 | 0 | 770 |
| 581 to 1060 | Very large provision (2) | 370 | 1,580 | 3,530 | 0 | 390 |
| 1061 or more | Very large provision (3) | 330 | 970 | 1,060 | 0 | 320 |

Single Activity Matrix (SAM) enrolment percentage

| Funding band – hours | Activity type | Programme weighting (PW) | | | | |
|----------------------|--------------------------|--------------------------|------------|---------------|-------------|--------|
| | | A – Base (unweighted) | B – Low | C – Medium | D – High | E or G |
| Up to 2 | Very small provision (1) | 0% | 0% | 0% | 0% | 0% |
| 3 to 4 | Very small provision (2) | 0% | 0% | 0% | 0% | 0% |
| 5 to 6 | Very small provision (3) | 0% | 0% | 0% | 0% | 0% |
| 7 to 12 | Small provision (1) | 2% | 0% | 1% | 0% | 0% |
| 13 to 20 | Small provision (2) | 4% | 1% | 0% | 0% | 0% |
| 21 to 44 | Small provision (3) | 5% | 2% | 1% | 0% | 0% |
| 45 to 68 | Medium provision (1) | 10% | 1% | 1% | 0% | 0% |
| 69 to 92 | Medium provision (2) | 7% | 0% | 0% | 0% | 0% |
| 93 to 100 | Medium provision (3) | 4% | 0% | 0% | 0% | 0% |
| 101 to 196 | Large provision (1) | 12% | 16% | 2% | 0% | 0% |
| 197 to 292 | Large provision (2) | 3% | 1% | 1% | 0% | 0% |
| 293 to 388 | Large provision (3) | 1% | 0% | 1% | 0% | 0% |
| 389 to 580 | Very large provision (1) | 0% | 0% | 2% | 0% | 0% |
| 581 to 1060 | Very large provision (2) | 0% | 0% | 0% | 0% | 0% |
| 1061 or more | Very large provision (3) | 0% | 0% | 0% | 0% | 0% |

SAM exceptions

| Qualification type | Programme weighting (PW) | | | | |
|---------------------------------------|--------------------------|------------|---------------|-------------|-------------------------|
| | A – Base (unweighted) | B – Low | C – Medium | D – High | E or G* (specialist) |
| GCE AS-level | £724 | £811 | £941 | £1,159 | - |
| GCE A-level | £1,987 | £2,225 | £2,583 | £3,179 | - |
| GCSE | £724 | £811 | £941 | £1,159 | - |
| GCSE short course | £300 | £336 | £390 | £480 | - |
| Functional skills in English or maths | £724 | - | £941 | - | - |
| Functional skills in IT | - | £336 | - | - | - |
| Access to Higher Education | £3,022 | £3,384 | £3,928 | £4,835 | £5,197 |

| Qualification type | Programme weighting (PW) | | | | |
|---------------------------------------|--------------------------|------------|---------------|-------------|--------|
| | A – Base (unweighted) | B – Low | C – Medium | D – High | E or G |
| GCE AS-level | 110 | 100 | 10 | 0 | |
| GCE A-level | 530 | 440 | 60 | 0 | |
| GCSE | 290 | 2,840 | 0 | 0 | |
| GCSE* | 41,080 | | | | |
| GCSE short course | 0 | 0 | 0 | 0 | |
| Functional skills in English or maths | 97,760 | | 30,210 | | |
| Functional skills in IT | | 9,790 | | | |
| Access to Higher Education | 2,100 | 3,280 | 480 | 50 | 30 |

| Qualification type | Programme weighting (PW) | | | | |
|---------------------------------------|--------------------------|------------|---------------|-------------|--------|
| | A – Base (unweighted) | B – Low | C – Medium | D – High | E or G |
| GCE AS-level | 0% | 0% | 0% | 0% | |
| GCE A-level | 0% | 0% | 0% | 0% | |
| GCSE | 0% | 0% | 0% | 0% | |
| GCSE English and Maths | 4% | | | | |
| GCSE short course | 0% | 0% | 0% | 0% | |
| Functional skills in English or maths | 10% | | 3% | | |
| Functional skills in IT | | 1% | | | |
| Access to Higher Education | 0% | 0% | 0% | 0% | 0% |

Government Contributions

| Provision | 19- to 23-year-olds | 24+ unemployed | 24+ other |
|--|--|----------------|---------------|
| English and maths, up to and including level 2 (Must be delivered as part of the legal entitlement) | Fully funded* | Fully funded* | Fully funded* |
| Level 2 (excluding English and maths) (First full level 2 must be delivered as part of the legal entitlement) | Fully funded* (first and full) | Fully Funded | Co-funded+ |
| Learning to progress to level 2 | Fully funded^ (up to and including level 1) | Fully funded | Co-funded+ |
| Level 3 (First full level 3 must be delivered as part of the legal entitlement) | Fully funded* (first and full) | Loan-funded | Loan-funded |
| | Loan-funded** (previously achieved full level 3 or above) | | |
| Traineeship [#] | Fully funded (including 16- to 24-year-olds ^{##}) | N/A | N/A |
| English for speakers of other languages (ESOL) learning up to and including level 2 | Co-funded+ | Fully funded | Co-funded+ |
| | Fully funded – unemployed | | |
| Learning aims up to and including level 2, where the learner has already achieved a first full level 2, or above | Co-funded+ | Fully funded | Co-funded+ |
| | Fully funded – unemployed | | |
| Learning aims up to and including level 2, where the learner has not achieved a first full level 2, or above | N/A | Fully Funded | Co-funded+ |

*Must be delivered as one of the English and maths, and/or first full level 2 or first full level 3 qualifications required as part of the legal entitlements.

^Must be delivered as entry or level one provision from local flexibility.

Excludes flexible element where funding depends on age and level.

16- to 18-year-old learners must be eligible under the [ESFA's young people's residency requirements](#).

** Availability of loans at level 3 does not replace the legal entitlement to full funding for learners aged 19 to 23 undertaking their first full level 3.

+ Low wage flexibility may apply, refer to paragraph 158.