

Submission to the Southwark Education and Children's Services scrutiny committee meeting from Southwark Save Adult Learning, 3/3/11

A low or high price strategy for Adult Learning?

1. From Peter John's letter of 17th February it would seem that the two key issues for Southwark Council are that income should more or less cover costs and that the number of unique learners per academic year satisfies SFA requirements. Restricting the consideration here to Personal Community Development Learning, the contention of this submission is that the new pricing policy is far from optimal and is likely to result in neither of the two aims being met.
2. Currently a learner receives a SFA subsidy which, counting over one term, amounts to £18.75 per hour for a 20 hour course and £12.50 for 30 hours, and for that first term pays an additional £1.55 or £3.60 per hour in fees. For any subsequent class all learners pay fees of £5.50 per hour. A high price fee system by any standard.
3. Southwark reject allowing the SFA subsidy to run over the whole academic year judging it to be unaffordable. Calculating the SFA money per learner over three terms yields hourly subsidies of £6.25 and £4.17 respectively for a course lasting 60 and 90 hours. It is hard to see why any more than a moderate charge should be added to this subsidy in order to cover costs, unless the costs are excessively high or the classes are attracting only a few learners. Southwark's new pricing policy charges a premium fee for learners taking a second course or staying a second term, but a high price policy does not tackle the first problem and exacerbates the second.
4. Given the paucity of data made publicly available this submission cannot make any detailed comments on these issues, but it does make some comments based on the data that is provided in Peter John's letter. The conclusion is reached that Southwark's high price policy is based on rather faulty logic and a seemingly tenuous appreciation of the data. An alternative strategy is suggested, that is, a return to a sensible pricing policy commensurate to other local providers and a concerted effort to increase student numbers.

The data provided

5. There is an assumption in Peter John's letter that the cost of a three term course could not be covered by a class of unique learners, but this is not justified by argument or by the figures given in the annexed table 2. In fact, a rather odd logic has been applied throughout. This logic seems to be based on an appreciation of average rather than marginal cost, misses the distinction between the marginal cost of additional classes and additional students, and implicitly assumes a crowding out problem. Whereas the likely problem isn't too many but not enough students. Moreover, it appears to be assumed that higher prices necessarily generate greater income or at least greater income over costs.

6. Particularly puzzling is the claim that the 'full cost recovery' is £9.50 per hour per student, but this claim does not seem justified by the figures given. The number of students on which the calculation is based is not given, but taking, for example, a full year (3 x ten week term x 3 hours) course of 18 students, the total cost would be £15, 390, of which teaching costs would make up only 15%, leaving 85% taken up by management, admin and building costs (contrary to Peter John's letter course materials are not generally provided). This seems far from realistic. Moreover, in order to calculate an average cost the third category of costs in the given table would have to be known. But these costs: initial assessment, building assessments &c, are not shown in the table, rather a residual is given as a contribution to covering these costs.
7. Also puzzling is the second item of costs: non-teaching staff management. This is calculated as 15% of the money received from the SFA for a one term course and 3 x 15% (45%) of the money received from the SFA for a year course. This seems rather odd and no justification for this is given. One has to wonder if this should have been 15% of the first row of costs, teaching plus teaching staff management costs? If so, this would significantly reduce the estimate of total cost.
8. Returning to the question of the £9.50 per hour per student 'full cost recovery': looking at the final column (the figures for a three hour course run over three terms of 10 weeks), one can't help but notice that if the residual figure: initial assessment, building assessments &c, was mistaken for an estimate of actual costs and added to the teaching/supervision and other management costs then the total cost per student per hour works out to £9.58. A mere coincidence?, perhaps, but if so, it still begs the question of what were the costs and the number of students per class on which the average cost figure was calculated and why was this information not given in the table presented.

Marginal cost

9. This is somewhat beside the point, however, without an estimate of the marginal cost per student. This is vital, particularly if the average cost has been based on only a low take up of places, because a pricing policy based on average rather than marginal costs may well increase not reduce an historic shortfall in income over cost. If the cost per additional student to a class is low compared to the fixed costs of a class then a high pricing policy is likely to drive away revenue with little compensation in cost saving. Far better in this case to have a low price policy to attract more learners. This would be true whether the student takes a second term of the same course or takes a completely separate course. Only if classes are likely to fill up and those intending to take only one course for one term are 'crowded out' could this be an issue. This seems unlikely for the moment, too few students is surely the main problem faced. Besides which, if this is or were to become an issue, the problem could be solved by giving preference to those taking only one course.

10. The data provided in the annexed table is rather scant and does not distinguish clearly between fixed and variable costs so one can only guess at the marginal cost of additional students. Bearing this shortcoming in mind, the last column of the annexed table is of some interest to our submission. This column gives the figures for a three hour course run over three terms of 10 weeks. This works out at a total staffing cost of £4,949. Of this, the cost of teaching makes up less than half (£2,250), whilst 55% is taken up with management and admin (£2,700). Leaving aside the issue of why management costs should be so high, as Southwark receive £375 from the Skill Funding Agency per student, this cost would be fully recovered (and with a surplus of £300) by 14 learners¹.
11. That is, if a three hour course attracted 14 learners then from day one it could be offered completely free for the whole year and still cover teaching and management costs. Any charge levied or SFA income from additional learners would contribute to the upkeep of equipment, building overheads and other admin &c. These last costs are not likely to increase greatly by adding students to an already running course, but it is of course a great pity the figures or estimates for these costs aren't given. It is hard to believe, however, that any reasonable estimate would require a large fee from students as long as there are at least a dozen or more students on the course and surely only a very small fee if the course were full or nearly full.

Demand

12. So why has Southwark had a problem in the past? It is highly likely that Southwark has lost money in the past because it didn't attract enough learners to anywhere near fill classes. What is Southwark's answer to this? Put up prices and risk driving students away.
13. This highlights the problem of the apparent lack of consideration given to demand. The issue of the effect of a price rise on demand isn't tackled in Peter John's letter, but there is an implicit assumption that raising a fee from £1.55/£3.60 per hour to £5.50 will generate significant extra income. There is a great danger, however, that not only will this rise in price not generate much extra income, but rather, the almost inevitable reduction in demand that will follow, may well lead to a fall in income and with very little saving in cost to compensate. Average cost would soar, endangering the continued running of the course. For, apart from the fact that those on low incomes are likely not to be able to afford the higher fees, even those on a reasonable income will surely notice that they can get the same product considerably cheaper elsewhere, or (to be frank) a better product at Morley or City Lit for much the same price or less.

¹ This takes the other management costs in the table for eight new learners as given for all numbers of learners. Because it is such an odd way of calculating this cost, it is hard to know what to do when considering 14 learners. If one took this cost to be 15% of the money from the SFA then just 12 students would cover the total course costs with a surplus of £112. At 45% for the year it would take 16 learners. If, however, one calculated this cost as 15% of the teaching and teaching management costs then just 11 learners would cover the total costs of the course with a small shortfall of £15.

14. Without access to the figures one can't say for certain, but one can only guess that PCDL student numbers are significantly down this term compared to last term or compared to the second term last year, and that to balance the books classes have been closed. If the current pricing policy continues into the third term matters could well be worse with even fewer returners and not enough new learners to compensate.

Conclusion

15. In short, a high price strategy can only mean fewer students, which is likely to mean static or even reduced income despite higher prices, with little compensation in reduced costs unless fewer classes are run. If too many students are driven away by high prices so many classes will close that the system may not be viable at all.
16. There is an alternative, one based on increasing student numbers not prices. That is, a return to a sensible pricing policy commensurate to other local providers coupled to a concerted marketing effort to increase student numbers.