

Scoping Exercise for a Study of the Efficiency of the Qualifications System

A report for QCA

Archived Content

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EXECUTIVE SUMMARY

This report represents the views only of Europe Economics and its external sub-contractors, not necessarily those of QCA.

Background

- 1 This report represents a “Scoping Study” commissioned by QCA to precede an efficiency study called for by the then Department for Education and Skills (now the Department for Children, Schools and Families) into the qualifications system in England.¹ The principal purpose of the Scoping Study is to advise QCA on what the scope of an efficiency study could reasonably be, given the capacity of stakeholders to contribute to it and the experience available from other sectors in the conduct of such studies.
- 2 Following an invitation to quote Europe Economics (“we” or “us” in this report) were appointed by QCA to undertake the Scoping Study. Our recommended approach to QCA was to start from what an economics-based efficiency study would normally encompass and to work back from there to establish what would be feasible in the educational qualifications sector.

Process

- 3 The first part of our work was taken up with 23 interviews among stakeholders in the qualifications system, covering the Department, QCA and equivalent regulators in Wales and Northern Ireland, the Learning and Skills Council, awarding bodies covering general and vocational qualifications, and representatives of schools, colleges and other learning providers (“centres”). These categories of stakeholder represent, in this report, levels in the system hierarchy. From them we gathered evidence about what they understood by an efficiency study, what they would be able to contribute to it, and what they would like to see it deliver.
- 4 We made one interim presentation to a number of stakeholders, principally regulators and awarding bodies, about half way through the project, when almost all the interviews had been completed. The feedback we received from the interview programme was diverse. Unsurprisingly, each level in the hierarchy voiced criticisms of the costs caused by players at higher and lower levels. The main positive theme to emerge from the interviews was a desire on the part of most stakeholders for more transparency in the system.
- 5 We then conducted our own analysis of what we had learned, applying it against the experience we have of efficiency analyses in other regulated sectors, and of market economics.

¹ The DCSF's remit covers only England. Nevertheless, QCA invited its counterpart bodies in Wales and Northern Ireland to participate in the Scoping Study, and they chose to do so.

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System analysis

- 6 We first assessed the functions and the nature of relationships between stakeholders in the qualifications system in order to establish whether the system contains inbuilt incentives on stakeholders to sustain or raise efficiency. We concluded that, by and large, it does not. We acknowledge that the Department applies budgetary squeezes to QCA (as it does to other NDPBs), and we acknowledge that QCA recognises the importance of efficiency in its policy deliberations, but these are not the same thing as system incentives. In broad terms decisions taken at the highest level without detailed consideration of cost or resource implications work their way through the system until the taxpayer picks up an estimated 92 per cent of the bill, the remaining 8 per cent being paid for by the independent sector.²
- 7 Despite widespread use of the term “qualifications market”, and although there are multiple awarding bodies supplying qualifications and support services, we do not see evidence for the existence of a conventional competitive market, nor even a single market. We say this for several reasons:
- Decision makers, users and those who actually foot the bill are three distinct groups who do not act in concert in any way which contrives to raise efficiency.
 - Vocational and general qualifications are generally not substitutable for, or therefore competitive with, each other.
 - Price dispersion is small, and product differentiation, at least in the view of several interviewees, limited.
 - The supply of each type of qualification is in the hands of oligopolies selling to centres whose principal concern is not (nor should necessarily be) price or system efficiency.
 - Awarding bodies say that regulators continue to impose added cost on the development and delivery of qualifications without obvious regard for the effect on fees or on centres.
- 8 In our view this combination of features does not have the pursuit of efficiency at its heart.

High-level efficiency study

- 9 This being so, we recommend in the main body of our report (at section 7) a once-off high-level study of efficiency *in the system as a whole* before any more detailed study is carried out. We emphasise, particularly for the benefit of those who felt that they were

² Our calculation is based on the number of candidates from independent schools sitting GCSE and A level examinations as a percentage of the total of such candidates. We acknowledge that the percentages are not exact but we believe them to be robust.

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being unfairly singled out for scrutiny, that such a study should encompass *all* the players in the system. It would start with Impact Assessments (formerly Regulatory Impact Assessments) of policy initiatives taken at Departmental level and would work through successive levels in the system hierarchy. Part of the work encompassed by a high-level study would be assessments by awarding bodies and by centres of the efficiency problems they felt were imposed upon them from elsewhere in the system.

- 10 Our preliminary assessment of the system in relation to efficiency gave rise to two further issues which in our view deserve closer attention.
 - The first is a review of QCA's powers in relation to economic regulation. Section 6 compares QCA's economic powers with those of other sector regulators. We are unable to make specific recommendations here since any changes would be matters for the Department and government to consider first and would require primary legislation.
 - The second is a detailed examination of how competition works in the qualifications sector and the extent to which competition is effective.
- 11 The benefits of a high-level study would be:
 - a clear idea for QCA of which policy or regulatory initiatives are putting pressure on system efficiency;
 - a clear idea of the connection between efficiency effects at each level in the hierarchy;
 - reasoned self-assessment by awarding bodies of efficiency problems said to be caused by policy makers and regulators and by centres;
 - reasoned self-assessment by a sample of centres of efficiency problems caused by policy and regulatory initiatives and by awarding body practices; and thus
 - a considered assessment of pressures towards efficiency or inefficiency at each level in the system hierarchy.

Detailed efficiency study

- 12 It would then be feasible – though not essential, since the high-level study has value in its own right – for QCA to proceed to a detailed study of costs and efficiency.
- 13 The essence of the detailed study would be to acquire detailed costs from stakeholders and then to distribute them across qualification types (horizontally in a matrix) and by function (vertically in the same matrix). If awarding bodies are unable to provide cost information, it may be feasible to achieve a part solution by re-using the data gathered by PKF for its 2006 review of fees.

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- 14 The matrix of costs would then be replicated at a “per unit” level by dividing the total costs in each cell of the matrix by the number of candidates attempting each type of qualification.
- 15 Once the total and unit costs had been established with reasonable certainty, QCA would be in a position to compare costs with prices, and then to examine relative efficiency by type of qualification (general or vocational), by country (England, Wales and Northern Ireland), by awarding body, and by policy or regulatory function. The possibilities of analysis are numerous, and would be for QCA rather than its external contractor to continue to explore.
- 16 The matrices could be used to assess the costs of syllabus choice but not the benefits. We take the view that an independent pedagogical study would be necessary to assess the benefits of choice relative to costs.
- 17 Even then, it might still be difficult to put an economic value on the benefits. If the benefits appear small against the costs, our suggestion is that QCA might like to contemplate how to raise diversity for the same cost rather than drive down diversity in order to reduce costs.

Future proofing

- 18 We urge, by way of “future proofing”, that, as in other regulated sectors, efficiency reviews in qualifications be conducted at regular intervals (5 years is the norm). In this way, system disciplines will become accepted, will adapt to changing qualifications, and may well start to grow by themselves.

1 INTRODUCTION

Project brief

- 1.1 On 19 April 2007, the Qualifications and Curriculum Authority (hereinafter “QCA”) issued an Invitation to Quote for a Scoping Study the aim of which was to provide advice on how an efficiency study of the qualifications system might be carried out, and what it might encompass. The full text of QCA’s Invitation to Quote appears at Appendix 1 to this report.
- 1.2 This Invitation to Quote followed a remit letter to QCA from the then Department for Education and Skills (DfES) asking QCA to undertake an efficiency study of the qualifications system in England. As we have already mentioned, QCA invited its counterpart bodies in Wales and Northern Ireland, DCELLS and CCEA respectively, to participate, and they chose to do so. The term “qualifications” in this report refers to academic or general qualifications such as GCSE and A level and to vocational and occupational qualifications such as (for example) those awarded by City & Guilds and BTEC.³ It does not cover testing carried out in schools before students sit GCSE, nor does it cover university degrees.
- 1.3 The particular aims of the efficiency study are summarised in the Invitation to Quote as:
 - To develop a coherent picture of the qualifications system, its cost to the taxpayer and the benefits it brings to the public and the economy.
 - To identify measures to reduce the financial burden of the examinations system.
 - To identify measures to reduce the administrative burden of the qualifications system on schools, colleges and training providers.
 - To propose measures to improve the efficiency of the qualifications market.
- 1.4 The remit gives QCA substantial freedom in determining the limits and methods to be used. In order to assist its thinking as to the structure and format of the final efficiency study QCA commissioned a Scoping Study, for which it sought quotations from competent firms during April 2007.
- 1.5 Europe Economics (“we” or “us” in this document) submitted a proposal on 11 May 2007. We were appointed, subject to contract, on 6 June 2007, and the project formally started on 18 June 2007.

³ The terms “academic” and “general” have traditionally been applied to GCSE and A level. “General” appears now to be the preferred term, so we use that in this report.

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- 1.6 The purpose of the Scoping Study is to advise QCA on the feasibility of a full efficiency study and to set its parameters and methodological approach. Indeed, the terms of reference for this project state that, given the complexity of the qualifications system, the task of the scoping study is “to confine the [efficiency] study to manageable proportions while ensuring that the purposes of the study are met.”
- 1.7 It should be stressed that this Scoping Study is not the efficiency review and implies no judgement of levels of efficiency; rather it sets out what one might expect to be contained in an efficiency study given system complexities, the views of stakeholders and our own experience in efficiency studies. For the avoidance of doubt we did not assume that an efficiency study would necessarily be feasible, nor did we make assumptions about when such a study would be carried out, nor whether third party assistance would be required.

Organisations consulted

- 1.8 It was from the outset envisaged (by QCA as well as by us) that an important part of our approach to the Scoping Study would be an extensive stakeholder interview programme. This has been invaluable in three principal ways:
- introducing us to the major participants and issues to be considered in any future efficiency study;
 - alerting us to differences between the regulation of educational qualifications and regulation as practised in other sectors; and
 - allowing us to develop an up-to-date picture of the current state of the qualifications system and of impending changes.
- 1.9 The initial list of stakeholders was provided to us by QCA. All in all, we conducted 23 interviews with stakeholder representatives. Table 1.1 below summarises the organisations we consulted, and we thank the representatives of them all for their time and cooperation:

Table 1.1: Stakeholder organisations consulted

Category of stakeholder	Organisations
Policy makers	Department for Children, Schools and Families (DCSF)
Regulators	Qualifications and Curriculum Authority (QCA) National Assessment Agency (NAA) Council for Curriculum Examinations and Assessment, Northern Ireland (CCEA) (Note: CCEA is both a regulator and an awarding body) Department for Children, Education, Lifelong Learning and Skills, Wales (DCELLS) (Note: DCELLS is both a policy-maker and a regulator)
Planning/funding body	Learning and Skills Council (LSC)
Awarding bodies	Assessment and Qualifications Alliance (AQA) City and Guilds Edexcel Education Development International (EDI) Oxford Cambridge and RSA Examinations (OCR) WJEC
Representative bodies	Association of Colleges (AoC) Association of Learning Providers (ALP) Association of Schools and College Leaders (ASCL) Federation of Awarding Bodies (FAB)

1.10 Although the Scottish Qualifications Authority (SQA) was not included in QCA's list of stakeholders we understand that SQA has been kept informed throughout the study.

Other relevant studies

1.11 We understand that this is the first time QCA has investigated the concept of efficiency in the qualifications system. Nevertheless, it has commissioned, and shared with us, work related to some aspects of qualifications that bear upon efficiency. We were given two studies carried out by PricewaterhouseCoopers, namely "The Market for Qualifications in the UK" (2005) and "Financial Modelling of the English Exams System 2003-04" (2004). We were also given a redacted (non-confidential) version of a report for QCA by PKF dated December 2006 and entitled "Review of Awarding Body Fees". This considered influences on the costs facing the three unitary awarding bodies (AQA, Edexcel and OCR) and WJEC and CCEA, and thus on the prices they charge – but PKF says explicitly that it did not consider efficiency in assessing the reasonability of the awarding bodies' costs or charges. In section 3 we discuss these reports in greater detail.

About Europe Economics

1.12 Europe Economics is a private sector consultancy, based in London, which specialises in the application of economics and econometrics to problems arising predominantly in the fields of public policy analysis, regulation and competition. Our clients include government departments, regulators and competition authorities, multinational agencies,

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companies large and small, professional and trade associations, charities, law firms and public affairs firms.

- 1.13 For this project our team consisted of three permanent members of the firm – Bob Young (the Project Director), Haris Irshad and Jonathan Todd – together with two specialist external contributors, Henneke Sharif and David Carter. Abbreviated biographies of the five team members appear at Appendix 2.

Structure of the report

- 1.14 The rest of this report is structured as follows:

Section 2 describes the approach which formed the core of our proposal to QCA.

In section 3 we briefly review previous work commissioned by QCA in relation to efficiency.

Section 4 sets out our understanding of the current qualifications system and forthcoming changes to it.

Section 5 offers a distillation of the views we obtained from stakeholder interviews, grouped by theme.

Section 6 compares the powers and policies of QCA in relation to efficiency with those of other sector regulators.

In section 7 we set out the methodology we suggest for a system analysis and a high-level efficiency study.

Section 8 recommends a methodology for a detail-level efficiency study.

Section 9 considers practical and logistical issues concerned with any efficiency study.

Four appendices conclude the report.

2 THE ECONOMICS-BASED APPROACH TO EFFICIENCY

- 2.1 The approach that we proposed to QCA, and that QCA accepted, was that the Scoping Study should work backwards from what an efficiency study in qualifications might look like. We begin therefore by describing in outline terms what such an efficiency study could and should encompass.

The concept of efficiency

- 2.2 We begin by describing the concept of efficiency and how regulatory efficiency studies are generally conducted.
- 2.3 The Oxford English Dictionary defines “efficient” as “producing the desired result with the minimum wasted effort”. The most important aspects of efficiency naturally vary depending on context. For example, in industrial management, efficiency is often taken to mean labour efficiency. An economics-based assessment of efficiency takes into account not only labour efficiency but also efficiency of all other factors, including material inputs and efficiency of capital. Furthermore, economic efficiency does not relate only to costs or inputs but may also consider whether a process delivers an “efficient outcome”, meaning an outcome that is of greatest value to society. A market that is working efficiently is likely to produce this result.
- 2.4 It is this broader, economics-based definition of efficiency which we use in this report.
- 2.5 Economics acknowledges a variety of types of efficiency. Principal types include productive efficiency, allocative efficiency, and Pareto efficiency, though the full list is much longer. Here we have considered only one type, namely “productive efficiency” or (sometimes) “x-efficiency”. Productive efficiency is defined as the effectiveness with which a given set of inputs is used to produce outputs. To take an example, if a manufacturing firm is producing the maximum output it can from the resources it employs, such as labour, machinery and the best technology available, it is said to exhibit productive efficiency. Conversely, if the inputs used can be shown to be excessive for the output achieved, then productive inefficiency is said to arise. To put it simply, productive efficiency is equated with lowest (or lower) unit cost, all other things held constant.
- 2.6 In a market characterised by effective competition, productive inefficiency is unlikely to arise because any player less efficient than the others will not make sufficient profits to survive long-term. However, where other market forms persist, for example monopoly or oligopoly, it may be possible for productive inefficiency to persist.
- 2.7 Our concern here is to consider whether there are known or likely conditions in the qualifications system which contribute to productive efficiency or inefficiency. From this point on we refer to efficiency as meaning productive efficiency.

Efficiency of process

- 2.8 Economic efficiency studies are routinely carried out by sectoral regulators in utility industries, where competition is largely or wholly absent and does not therefore exert pressure on rivals to squeeze out “inefficient costs”. Thus, the purpose of regulation is to simulate competitive conditions in such a way that suppliers reach the “efficient” level.

An illustration – efficiency in the water sector

- 2.9 The water services regulator, Ofwat, reappraises the performance (in effect the efficiency) of each water and sewerage company in England and Wales every five years in order to determine the maximum prices the companies may charge. Because competition between water companies is virtually non-existent Ofwat estimates what costs the companies would incur if effective competition were present, and does not allow them to include in charges any cost judged to be “inefficient”.
- 2.10 The costs that the regulator examines are not merely the day-to-day running costs of the business (“operating expenditure”). Ofwat recognises that the companies have to replace ageing capital equipment, and also to increase capacity from time to time, and it therefore also assesses whether their capital expenditure proposals are reasonable in the circumstances (i.e. “efficient”). Ofwat also recognises that the companies may be required by statute to raise water quality standards and/or reduce pollution levels, and will therefore allow in the companies’ charges the recovery of capital investment and running costs that efficiently achieve any such imposed objectives. Because the supply of water and sewerage services is seen to be essential to civilised life, Ofwat also has a duty to ensure that the companies can, in the words of the legislation, “finance their functions”. This means that Ofwat is obliged to allow charges that are sufficient for an efficiently run water undertaking to cover its costs, including a realistic return on capital employed.
- 2.11 The question arises: how does Ofwat judge what costs are “efficiently” incurred? The following extracts from Ofwat’s website⁴ may provide useful insight into the background against which it arrives at such judgments:

“What are our duties?”

Our main duties are to:

protect the interests of consumers, wherever appropriate by promoting effective competition;

secure that the functions of each undertaker (referred to in this note as companies) are properly carried out and that they are able to finance their functions, in particular by securing a reasonable rate of return on their capital;

...

⁴ <http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/Content/RegulatingCompanies>

Subject to our main duties, we also:

promote economy and efficiency by companies in their work;

...”

“Promoting economy and efficiency:

The price limits we set companies are based on demanding efficiency assumptions. These encourage the poorer performing companies to catch up with the more efficient ones. We make comparisons between companies, against each individual company's targets, and with other sectors. Where necessary we seek improvements.

We provide companies with incentives to keep their operating costs and the costs of maintaining their assets to the minimum necessary and to adopt cost-efficient solutions to achieve their outputs.

For the revenue raised through the price limits, each company must deliver the outputs set out in our determination. It is for the company to decide how to allocate resources to deliver these outputs.

However it is done, the amount of detail involved in a quinquennial review of costs and charges in water is very large. Characteristically, regulators and the regulated companies might begin the process two or three years ahead of the effective date of new charges.”

“Monitoring activities:

We monitor the activities of the companies. Every year we ask the companies to provide information about the previous year in the June return. These statements provide us with details on a wide variety of activities including, for example, levels of customer service, new additions to the network and leakage information and allow us to compare performance levels between companies.

We check that companies are meeting the outputs assumed in the price limits we set. Ongoing monitoring allows us to take early action if needed. We publish four reports annually on the performance of each of the companies:

Levels of service for the water industry,

Security of supply and the efficient use of water,

Financial performance and expenditure of the water companies, and

Water and sewerage service unit costs and relative efficiency.”

- 2.12 The picture we have described for water has been replicated, in broad principle, in other sectors too – in the supply of gas and electricity, in telecoms, in airport charges and in rail charges. Like water, these other regulated sectors reveal characteristics which may also be relevant to an assessment of the qualifications system. We acknowledge that the qualifications “market” has a number of distinguishing features that set it apart from traded utility services, but there are also fundamental similarities which in our view make the generic economics-based approach to efficiency relevant to qualifications.

Efficiency of output and outcome

- 2.13 In some cases – though certainly not all, as we show below – efficiency of outcome can be quite easily measured. Water is to all intents and purposes an undifferentiated commodity, and, subject to quality and safety standards, its supply is either adequate or not. However, in other sectors “outcome” may be more complex than the adequacy of supply (output) at efficient cost. Outcome may be, for example, some desired social or socio-economic result that is dependent on economic infrastructure. A (hypothetical) analogy from the communications sector may be helpful.
- 2.14 The Government makes much of wanting to abolish the “digital divide” by enabling people of every income and age category to have a broadband connection to the internet. It believes that digital access enhances access to training, makes for more flexible working practices, stimulates business creation and employment, and generally improves economic and social life.
- 2.15 Against that policy objective, it would be perfectly possible to put in place economic incentives on communications providers to lay down broadband infrastructure accessible to every household in the country, and it would be perfectly possible to measure what coverage had been achieved, and at what cost. However, providing broadband access is one thing, but getting “digitally disadvantaged” people to connect to it is another. And getting them to use the connection in a way that benefits them or their communities, socially or economically, is yet another.
- 2.16 If the aim of the enabling policy had been (say) to provide broadband access to an additional 10 million people, communications providers might well be able to show that they had laid infrastructure which achieved that at efficient cost. In that sense, the *output* would be efficient. But if only 5 million consumers then actually bothered to take up the connection, and if only 1 million of the 5 million used the connection in such a way as to improve their economic or social life, the question would arise: does the economic benefit achieved by the 1 million represent an efficient *outcome* from the investment that went into providing access for 10 million? It might very well not.
- 2.17 It is thus possible to have efficient *output* at one level of measurement and an inefficient *outcome* at another. Much depends on how one defines “efficient outcome”. We have more to say on this later in this report.

Advantages and disadvantages of the economics-based approach

- 2.18 The principal advantage of the approach we recommend to QCA is its wide-ranging nature and its thoroughness. A further advantage can be – though this is not necessarily the case when commercial sensitivities require excisions to be made from published documents – is its transparency. Thoroughness and transparency together usually serve to promote public confidence in the regulatory régime.

The economics-based approach to efficiency

- 2.19 The principal disadvantages are in effect the other side of the coin: thoroughness requires the capture and analysis of large amounts of data, so that time and cost may, at the extreme, deter thorough study.
- 2.20 Relationships between regulators and regulated entities can also become problematical (though not only in the context of efficiency). It is almost inevitable that regulated entities know more about their business than the regulator does, and for that reason the regulator will often struggle to obtain that which he needs. Companies have been known to mount legal challenges against the regulator's right to require information.
- 2.21 Thus, hostility and game-playing between the regulator and the regulated may become adjuncts of the regulatory régime. Alternatively, and at the opposite extreme, one may see what is referred to as "regulatory capture" – a situation in which the regulator becomes so intimately familiar with the business of the regulated entities as to lose objectivity and independence.
- 2.22 Much depends on the powers and duties of the regulator and on how these are applied. In section 6 of this report we consider in more detail the powers of QCA in relation to conducting an economics-based efficiency study.

End users, buyers and taxpayers

- 2.23 In most traded sectors identifying the end user or consumer is straightforward. The end user of the product is typically the person who pays for it. In this respect qualifications are different.
- 2.24 It is not obvious who the end user of a general qualification is. In the crude sense it is the person who is awarded the qualification who then uses it to seek employment or further study. However, it could be argued that end use comes only when that individual begins to apply his/her acquired skills and generates wealth and intellectual and social capital for society as a whole.⁵ On such a reading, the end user of qualifications is society collectively not the individual. But if this is the case the end user has only a very indirect relationship with qualification choice.
- 2.25 In respect of choice, the learner too normally has only minimal influence. Once he or she decides to seek a particular qualification in a particular subject it will be for the learner's school or college, not the learner, to decide which syllabus from which awarding body is to be followed.⁶ At examination time the school or college then pays the awarding body the necessary fee.

⁵ This argument makes the assumption that qualifications are more than a signal, i.e. that during the teaching of the qualification the student's skills and intellectual capital improve. Thus the qualification is not simply a signal or sifting device for employers or universities. Such an argument is, however, by no means uncontested.

⁶ And in effect this choice is limited to those qualifications that are accredited and for which funding is available.

- 2.26 Yet the purchaser, who is not the learner, is also not the person who, ultimately, pays. Schools and colleges are for the most part funded by government, which itself is funded by taxpayers. Independent schools, which provide about 8 per cent of the candidates sitting the qualifications considered in this report, finance qualifications through the fees they charge.⁷ We are also aware that some state schools recover from students (or in practice their parents) examination entry fees for re-sits.
- 2.27 In vocational qualifications similar issues arise. However, in some cases an employer may finance an employee to sit for a qualification. In such circumstances the employer may have a role in deciding the qualification to be taken and also benefit from the employee's improved skills (although there would also be some externalities captured by society). However, for vocational qualifications not taken in the workplace, the distinction between end user and purchaser is largely similar to that in general qualifications.
- 2.28 It should be noted that for many vocational qualifications, the funding comes not directly from government, but via the Learning and Skills Council, which in turn is guided by Sector Skills Councils as to how to respond to the needs of employers.

Qualifications – a market or a public good?

- 2.29 Some of those whom we consulted suggested that educational qualifications should be seen not as a market but as a form of public good.
- 2.30 In strict economic terms a qualification is not a public good. A public good is one which no-one can be excluded from using and where one person's consumption does not affect the availability of the good for others. Almost by definition, a benefit is conferred upon society as a whole. An oft-quoted example is street lighting.
- 2.31 Those who did not see qualifications as a public good frequently used the term "market" or "qualifications market". In many instances it was evident that their use of the term "market" meant "system", i.e. the collection of activities covered by the development, regulation and award of qualifications. Where we challenged the interviewee's use of the term market, opinions differed widely as to whether there is a market (or markets) for qualifications in the sense that there is a market in (say) washing machines or cheese. Where we then asked if the market(s) in qualifications could be regarded as competitive, again answers varied.
- 2.32 It is clear to us, both from our consultations in this project (see section 5) and by reference to our own experience in other sectors, that educational qualifications are different in a number of key respects from conventional competitive markets in traded goods. We see the differences as follows.

⁷ See paragraph 6 and footnote 2 of the Executive Summary.

The economics-based approach to efficiency

- (a) Those who buy qualifications (schools and colleges) are not end users (learners and employers) and they are not the intermediate or ultimate providers of funds (government and taxpayers respectively).
 - (b) The majority of learners in schools are entered for qualifications by their teachers and do not necessarily choose to do so on a voluntary basis.
 - (c) The choice of a specific qualification (even where choice is possible) is not generally price-based. The majority of learners do not know about the pricing of qualifications, while the decision-makers among buyers (generally heads of department in each subject) do not base their decisions on price.
 - (d) Supply prices are not led by demand.
 - (e) Some demand influence is exerted by employers through SSCs in relation to some vocational qualifications.
 - (f) Government intervenes quite frequently in qualifications. It alone determines policy at the highest level and has created a further layer of intervention, namely regulators, to implement policy.
 - (g) For general qualifications, the structure of supply is oligopolistic, with just three “unitary” awarding bodies providing the bulk of accredited qualifications. All three say that price is not the primary basis on which they seek to compete. WJEC and CCEA place little competitive pressure on the unitary bodies.
 - (h) For vocational qualifications the supply side is more heavily populated, so it may be more competitive. The involvement of employers in vocational qualifications may serve to make the vocational segment more price-sensitive than the general.
 - (i) Despite government policy intentions to dismantle the long-standing divide between general and vocational qualifications, the two types are, for the moment, still distinctly different. Very few vocational qualifications substitute for, and therefore compete with, general qualifications or *vice versa*.
- 2.33 For all these reasons we do not espouse the idea that there is, currently, a single overall competitive market in qualifications. This has substantial implications for efficiency, which we consider in later sections of this report.

3 BACKGROUND STUDIES

- 3.1 As we noted in the Introduction, some aspects of efficiency in qualifications have been touched upon in previous studies, though efficiency itself has not been explicitly examined. In this section we note relevant points raised in previous studies contributed by PricewaterhouseCoopers (PwC) and PKF, and discuss the principal issues arising.

PwC reports

“The Market for Qualifications in the UK”

- 3.2 PwC’s report to QCA on *The Market for Qualifications in the UK* was submitted in final form in April 2005. The purpose of the report was to provide a comprehensive and detailed analysis of the market for qualifications across the UK, to identify the drivers of change, to project future trends and to assess the implications of the findings from the analysis for the regulatory authorities.
- 3.3 The PwC study does not, however, cover the entire market for qualifications. Paragraph 2.7 clearly indicates that its main focus is on vocational and occupational qualifications, and indeed the rest of the document provides little coverage of general qualifications.
- 3.4 PwC identified 115 awarding bodies recognised by QCA, DCELLS and CCEA (covering both general and vocational qualifications) and estimated an additional total of approximately 900 unrecognised awarding bodies.⁸ Examples of unrecognised awarding bodies include professional bodies (e.g. The Law Society and the Institute of Chartered Accountants in England and Wales), local open college networks, professional and trade associations (e.g. The Master Locksmiths’ Association and the Guild of Hairdressers) and product vendors (e.g. the Rank Group plc and Hewlett-Packard Limited).
- 3.5 The report notes great diversity among recognised awarding bodies. From a sample size of 80, PwC estimates that 10 per cent have been operating for three years or less, while just over half (53 per cent) have been in business for over 25 years. The majority have less than 50 employees, with a significant minority (over a third) having less than 10. The recognised sector is thus characterised by a small number of large bodies and a long tail of small ones.
- 3.6 PwC says that these characteristics are generally replicated in the unrecognised sector.
- 3.7 Within the recognised sector, government policy is clearly identified as the main driver of change. In the unrecognised sector the picture is more complicated, with demand from employers, quality assurance and access to funding emerging as more influential on change.

⁸ PwC subsequently adjusted its figure of 115 to 118, and reduced its estimate of the number of unrecognised awarding bodies to 406. Its report *Unrecognised awarding bodies – database extract listing all identified bodies*, March 2006, identifies the 406.

Background studies

- 3.8 Awarding bodies expressed mixed views as to whether a market for qualifications exists. Those who thought it did noted that in recent years price had become a more important factor in choice than quality, and that funding had also become a key influencing factor in FE college decisions. Yet a substantial number of FE colleges said that their choices of awarding body were largely predicated on the “fitness for purpose” of qualifications, and on content and range: cost is said not to be a decisive factor.
- 3.9 PwC also records that learners have a poor understanding of what different levels of qualifications mean and, since they do not choose the syllabus, are generally unaware that their learning providers have a choice of awarding body.
- 3.10 Given such diversity of evidence PwC does not conclude whether there is an effectively functioning economic “market” for qualifications, or, if there is, whether there is only one. We have more to say on this later. Given the limitation of scope of the PwC report and its ambivalence on the term “market” it does not bear decisively on the question of efficiency in the qualifications system as a whole.

“Financial Modelling of the English Exams System 2003-04”

- 3.11 PwC’s study (the report itself is undated) presents the results of a financial modelling exercise “designed to inform strategic and tactical decision-making on system reforms”. The financial model is run across a number of scenarios including the baseline “as is” case and various “what if” policy scenarios.
- 3.12 The geographic scope of the study is England only, though its product coverage is broad, encompassing general qualifications (A levels, AS-Levels and GCSEs), National Curriculum Key Stage tests, and Key/Basic skills tests. It also includes some, though by no means all vocational qualifications: it includes BTECs and GNVQs but not those awarded by (for example) City & Guilds. PwC also notes that around 60 per cent of college exam activity takes place outside those qualifications captured by its study.
- 3.13 Costs are defined as “financial value[s] attributed to all activity that explicitly correlates to the system that can be quantified in monetary terms, whether or not actual cash has been physically exchanged.” The costs of the then DfES are not considered, on the grounds that they were not material.
- 3.14 The key inputs and associated costs identified by PwC as occurring at schools and colleges (“centres”) are those of examinations officers, invigilation, and such other costs as the purchase of past papers. In order to avoid double counting, the exam fee expenditure of centres is equated with the costs of awarding bodies. The report also takes into account a share of costs incurred by QCA.
- 3.15 Awarding body costs include the development of specifications and delivery costs; recruitment and deployment of markers/examiners and moderators; printing of papers and examination materials; postage and carriage of papers to and from exam centres; and overall administration.

Background studies

- 3.16 On the basis of a sample size of one awarding body and 20 centres, the following costs were estimated.⁹

Table 3.1: Key findings of PwC Financial Model (£m)

	Direct costs	Time costs	Total
QCA Core costs	8	-	8
QCA NCT costs	37	-	37
Awarding body costs	264	-	264
Exam Centres: invigilation	-	97	97
Exam Centres: support and sundries	61	9	70
Exam Centres: examination officers	-	134	134
Total	370	240	610

Source: PwC "Financial Modelling of the English Exams System 2003-04"

- 3.17 Direct costs are those that are clearly and directly identifiable in financial terms. Typically these are extracted from an organisation's own management and accounting systems. Time costs are calculated by multiplying the time spent on exam-related activities by average standard salary rates.
- 3.18 PwC's calculation of £264 million of awarding body costs is lower than figures that QCA subsequently obtained from DfES sources (for schools) and LSC sources (for colleges). QCA's total for 2003/04 was £310 million, 20 per cent higher than PwC's.
- 3.19 At best, and not least because it is now several years old, the PwC report is background to this Scoping Study.

PKF's Review of Awarding Body Fees

- 3.20 In June 2006, PKF was commissioned by QCA to undertake a review of fees charged by awarding bodies. It reported in December of that year. Only general qualifications were considered and fees were defined to include examination entry fees, centre and qualification approval fees, and moderation and verification visit fees. The three unitary awarding bodies, namely AQA, Edexcel and OCR, were covered, as were WJEC and CCEA.
- 3.21 The PKF report is split into three: views of centres, presentation of fees in a common format and reasonableness of fees.¹⁰ Broadly speaking the views of centres can be summarised in the following bullet points:

⁹ PwC's calculations were not based on a statistically significant sample, and QCA accepted this. To achieve a 95 per cent confidence level, PwC estimates that it would have required a sample of approximately 600 centres: there was neither time nor budget to cover such a large number.

Background studies

- It is the Head of Department who makes the decision which awarding body to use and his/her decision is based primarily on syllabus content.
 - Whilst there is good understanding about what the various components of fees are, there is little understanding on how fee levels are determined.
 - Demand would appear to be largely price–inelastic (i.e. not sensitive to price). A change of awarding body typically occurs when results are poor or when staff change.
- 3.22 Of the criticisms levelled at awarding bodies by centres, the two most prominent were a lack of consistency between them, especially in the areas of documentation and deadlines, and levels of late entry fees.
- 3.23 Once a decision has been made in favour of a particular awarding body for a given qualification, centres effectively tie themselves to that body for the life-cycle of the qualification.
- 3.24 The second part of PKF's report considers ways of achieving a common format for the presentation of fees, and that has little relevance to this Scoping Study. We do note that a common format for presentation is identified as a way to "improve the transparency of the process".
- 3.25 The final part of the report has a direct bearing on efficiency – to establish whether the fees charged by awarding bodies to centres are "reasonable". Reasonableness of fees is considered against four criteria:
- QCA's qualifications priority,
 - NAA processing improvement priority,
 - awarding body business priority and
 - awarding body business assumptions on profitability.
- 3.26 Together these do not amount to a definition of "reasonable" in economics terms.
- 3.27 PKF adopt a top-down approach to reviewing the fees and costs of each of the awarding bodies. Eight GCSE and A level subjects were selected for review on the basis of volume, complexity, mode of assessment and multiplicity of options. PKF's approach involves using the then latest available financial accounts and stripping out irrelevant costs in order to identify specific costs for the selected eight subjects.

¹⁰ We were given a redacted (non-confidential) version of the PKF report.

Background studies

- 3.28 PKF conclude that awarding bodies are not making “significant” profits and that, at the highest level, the fees charged are considered “reasonable”. They add that in assessing “reasonability” they have not looked at the efficiency with which the awarding bodies conduct their business.
- 3.29 PKF reach a number of additional conclusions that touch upon efficiency:
- (a) Given that the NAA is seeking to achieve better quality examination offerings through more accurate and faster marking, awarding bodies need to incur high investment costs in order to comply with the increased quality requirements.
 - (b) A levels are generally loss-making, and for both GCSEs and A levels there are only a few profitable subjects that subsidise the rest of the loss-making subjects. Further, although no detailed analysis is given, PKF contends that vocational and international examinations are “more profitable” and are used to subsidise losses on domestic general qualifications.
 - (c) A reduction in coursework will add to costs for awarding bodies (because more material will need to be marked by paid examiners).
 - (d) Awarding bodies incurred losses on the Curriculum 2000 initiative.¹¹ In order to recoup these losses, higher fees have since been passed on to centres.
- 3.30 PKF makes three recommendations:
- that awarding bodies should set their fees one year in advance of current publication.
 - that awarding bodies provide a high level rationale for fee changes; and
 - that they develop a coordinated strategy to ensure that all stakeholders are aware of such changes.
- 3.31 We understand that these recommendations are being discussed with awarding bodies.
- 3.32 Given that we have seen only a heavily expurgated version of the PKF report, and that it has some acknowledged shortcomings in relation to assessing efficiency, we cannot make much use of it for this Scoping Study.

¹¹ Curriculum 2000 relates to reforms to A levels introduced in September 2000 whereby A levels would consist of six units. Typically the first three units would be assessed in the student’s first year (and could make up a stand-alone qualification – AS Level) and the remaining three units assessed at the end of the second year (though the latter three units, despite being referred to as A2, do not make up an individual qualification).

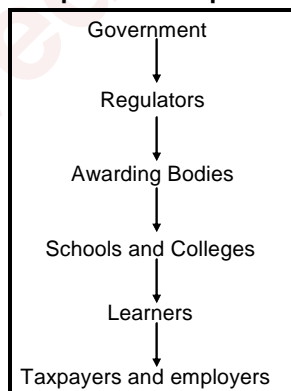
4 THE QUALIFICATIONS SYSTEM

- 4.1 A necessary first step in scoping an efficiency study in qualifications is to define the system itself. In this section we aim to define the system for the purposes of this Scoping Study, identify the key participants and trends, and consider whether all qualifications belong in the same system or “market”.

System participants

- 4.2 It is important to distinguish the qualifications system from the wider educational system. The education system encompasses teaching, training and learning, and developments conceived to meet the needs of individuals, the economy, and society.
- 4.3 Qualifications are only one form of evidence of acquired learning and skills, and can thus be said to be only one part of a bigger picture. Consistently with this, proposals for the new Qualifications and Credit Framework (QCF) lead towards a flexible set of arrangements in which units of accredited learning can be combined to form a larger recognised qualification.
- 4.4 Those who operate or otherwise participate in the qualifications system appear as in Figure 4.1 below.

Figure 4.1: participants in the qualifications system



- 4.5 The participants are diverse. Each is likely to have different motivations and different objectives. It is the role of the Government and regulators collectively to ensure that the system works to achieve desired outcomes (which are generally political in nature and society-wide in their effect), while other participants may be more interested in outputs (which are not). We return to outputs versus outcomes below.
- 4.6 Using the above diagram, we can categorise and identify particular participants along the following lines.

Table 4.2: types of participants in the qualifications system

Category	Participants	Roles
Policy maker (public sector)	Department for Children, Schools and Families	Policy design and implementation.
	Department for Innovation, Universities and Skills	High level funding decisions
	Other relevant national and devolved Government departments	
Regulatory or funding agency	Qualifications and Curriculum Authority	Quality regulation.
	National Assessment Agency	Service delivery and implementation
	Council for Curriculum Examinations and Assessment, Northern Ireland (Note: CCEA is both a regulator and an awarding body)	Funding allocation
	Department for Children, Education, Lifelong Learning and Skills, Wales (Note: DCELLS is both a policy-maker and a regulator)	
	Learning and Skills Council	
	Sector Skills Councils Local Education Authorities	
Awarding body	Recognised awarding bodies	Provision and development of qualifications.
	Unrecognised awarding bodies	
Learning provider	Schools (private and public sector)	Teaching and providing access to qualifications.
	Colleges (private and public sector)	
	Private tutors	
	Home schooling	
	Employers	
Representative body (Examples only)	Association of Colleges (AoC)	Represent their members in the qualifications system.
	Association of Learning Providers (ALP)	
	Association of Schools and College Leaders (ASCL)	
	Federation of Awarding Bodies	
Learners and end users	Students	Using qualifications as a means to an end.
	Employers	
	Universities and other educational establishments	Also using qualifications for non-income related reasons.

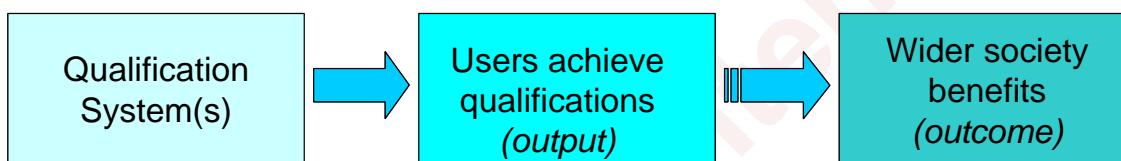
Note: one might also include the Charities Commission as a regulator in Table 4.2 since it has a role in relation to the governance of those awarding bodies that are registered as charities. Since the Commission has no role in relation to the regulation of qualifications per se, we did not include it in this Scoping Study.

4.7 In the third column of Table 4.2 we have identified functions and roles, so that a diversity of motivations can be seen. Dividing lines between categories are fluid to the extent that participants regularly interact with and influence one another.

Output versus outcome

- 4.8 As we mentioned in paragraphs 2.13 to 2.17, there is a difference between outcomes and outputs in relation to qualifications. At the simplest level output refers to the number of students who receive, or possibly sit for, qualifications.
- 4.9 Outcomes are a more nebulous concept and encompass notions of how receiving a qualification is transmitted into society-wide impacts such as economic growth or social and intellectual capital.¹² The figure below summarises the relationship between outputs and outcomes.

Figure 4.3: The relationship between outputs and outcomes



- 4.10 While there are undoubtedly linkages between outputs and outcomes, the transmission mechanism from outputs to outcomes is a subject of debate and uncertainty, and it lies outside the scope of this Scoping Study. We discussed this point with QCA and the DCSF and agreed that outcome should not be covered as part of the Scoping Study.

One or more markets?

- 4.11 In competition and regulatory investigations, economists are often required to consider what the relevant market is. “Relevant market” is a technical term which helps to set the boundaries of investigation and to identify which products to include and exclude. A single *product market* comprises all those products (or services) that are regarded as interchangeable or “substitutable” by consumers, whether by reference to function, price or intended use. Similarly, a relevant *geographic market* comprises the physical area over which enough firms are realistically able to supply to provide competition to each other, or across which consumers are realistically able to buy. We can apply such reasoning to qualifications.
- 4.12 One can consider, for example, whether general qualifications are substitutes for vocational qualifications. Although regulations might insist that a BTEC qualification be regarded as equivalent to 2 A levels,¹³ in practice learning providers, students and employers do not consider them to be so, at least as regards content.

¹² For instance, see the work of Gary Becker: <http://home.uchicago.edu/~gbecker/>

¹³ See <http://www.ucas.com/candq/btec.html>

The qualifications system

- 4.13 For some subjects (e.g. French or History) only a general qualification is available, and for others (e.g. Hairdressing) only a vocational qualification. In such cases the two types of qualification clearly belong to different markets.
- 4.14 Furthermore, general qualifications are taught and assessed in quite different ways from vocational qualifications, and pursue different objectives. While GCSEs and A levels are normally regarded as gateway qualifications to Further and Higher Education, vocational qualifications usually provide more direct routes to employment and specified trades.
- 4.15 Within the vocational segment, buyers (whether colleges, employers or individual learners) may be able to choose (for example) between BTEC qualifications and those offered by City & Guilds. Where buyers, or, strictly speaking, enough buyers, consider the two offerings to be substitutable, both qualifications would be considered part of the same market.
- 4.16 Within general qualifications one might argue that a particular syllabus for A level English is not substitutable for another syllabus because the set texts are not the same. But if, over the life-cycle of a qualification, decision makers consider that they could switch from one awarding body's syllabus to that of another (and at intervals we know that some do) the two syllabuses belong in the same market. Our working hypothesis is that different syllabuses in the same subject are substitutable over time and thus belong to the same market.¹⁴
- 4.17 While general qualifications are currently dominated by GCSE and A levels, the new Diploma is intended to sit alongside A levels. A levels themselves are undergoing change for the 2008/09 academic year. In addition, rival qualifications to A level are emerging, including the International Baccalaureate and the Pre-U. In addition, the Welsh Baccalaureate Qualification, which can incorporate A levels, is being rolled out in Wales. These are described more fully in Appendix 3.
- 4.18 In Appendix 4 we cover qualifications awarded by unrecognised bodies and apprenticeships. These are significant parts of the overall qualifications system but we were not able to consider them in detail for the Scoping Study.

Geographic markets

- 4.19 Distinct qualifications markets can also be identified along geographic lines. Although there is regulatory liaison between England, Wales and Northern Ireland each country pursues its own educational arrangements as a whole. Wales and Northern Ireland have awarding bodies for general qualifications, although they are free to export and import. All the English awarding bodies export to Wales, where collectively they account for about 25% of the Welsh market, with no one body doing substantially better than the

¹⁴ A similar argument can be used to confirm that different subjects for the same qualification belong in the same market.

The qualifications system

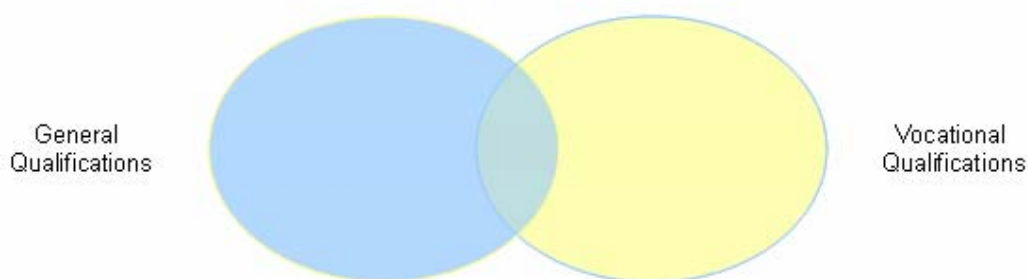
others. Conversely we were told that WJEC is “the sole provider of some film and media qualifications, and the second largest provider of English, in England”.

- 4.20 Vocational qualifications are traded freely across the three country borders. It is possible that the role of the SSCs in identifying and funding specific skills needs in each region may have some effect on geographic market definition, but we do not have enough evidence to suggest the existence of distinct *regional* markets.
- 4.21 Our working hypothesis is therefore that there are distinct geographic markets for general qualifications in England, Wales and Northern Ireland, but that there is only one geographic market for vocational qualifications.

Future developments – the blurring of distinctions

- 4.22 Although we suggest that there are currently two distinct markets or systems in qualifications (one general, one vocational) forthcoming policy changes to the education system will blur the boundaries.
- 4.23 One can thus foresee a partial overlap between vocational and general qualifications increasing (as in Figure 4.4 below), though not a complete overlap.

Figure 4.4: overlap between vocational and general qualifications systems



The Diploma

- 4.24 An obvious question therefore arises: which qualifications sit in the overlap? It is clear from our discussions and from policy statements by main players in the qualifications system that the introduction of Diplomas as a new type of qualification will occupy the middle ground between general qualifications and vocational qualifications.
- 4.25 The Diploma is a new qualification for 14-19 year olds, to be introduced in September 2008. The stated intention is to “bring an innovative approach to learning...[to] enable

The qualifications system

students to gain knowledge, understanding and hands-on experience of sectors...".¹⁵

The Diplomas will have three levels of learning:

- level 1 equivalent to 4-5 GCSEs at grades D to E;
- level 2 equivalent to 5-6 GCSEs at A* to C; and
- level 3 equivalent to 3 A levels.

- 4.26 The subjects that the Diploma will cover will be those traditionally covered by vocational qualifications. The first five subjects to be taught will be creative and media, construction and built environment, engineering, IT, and society, health and development.¹⁶ Given the nature of these subjects and that Diploma content has been developed in conjunction with Sector Skills Councils, it could be argued that Diplomas look very much like vocational qualifications. However, the Government has insisted otherwise¹⁷ and its announcement on October 23rd that additional Diplomas – in Sciences, Languages and the Humanities – would be launched in 2011 lends weight to its insistence.
- 4.27 Furthermore, the style of learning associated with Diplomas is intended to be markedly different from traditional vocational learning. Diplomas will involve “applied learning to work”, rather than lead straight into work. Thus, if a student takes an Engineering Diploma, he/she will have the opportunity to study physics and see its application through workplace based projects.¹⁸
- 4.28 Diplomas will require (in addition to the core components of the subject) generic skills such as maths and English functional skills, and in that respect they owe something to general qualifications. Diplomas can be complemented by optional specialist or additional learning such as BTECs, A levels or GCSE. Further, Diploma Level 3 is intended to provide a direct route into university.
- 4.29 Some stakeholders argue that Diplomas constitute an entirely new third market. If they gain popularity and become a qualification of choice, this third market may well emerge. But it could well take time and it seems likely to retain, long term, elements of substitutability with both vocational and general qualifications. And indeed it can be taken alongside (i.e. in addition to) traditional qualifications.

¹⁵ http://www.qca.org.uk/qca_5396.aspx

¹⁶ By 2010 it is expected that Diplomas will be offered in the additional following subjects: environment and land based studies; hair and beauty; business, administration and finance; manufacturing and product design; hospitality and catering; public services; sport and leisure; retailing and; travel and tourism.

¹⁷ See, for example, an article in the Times Educational Supplement of August 3 2007, headed “Dreaded V word is forbidden by Ministry”. The article can be seen at http://www.tes.co.uk/search/story/?story_id=2416758.

¹⁸ Each Diploma contains 10 days of work placement.

The qualifications system

Changes to A level

- 4.30 Changes to A levels will also come into effect during the academic year 2008/09. These changes, among other things, will entail a reduction in the number of examinations taken by students and a reduction in reliance on coursework.

Conclusion

- 4.31 The current structure of, and distinctions between, general and vocational qualifications represent the evolution of government and regulatory policy over many years. Our other researches (see section 7 in particular) suggest that efficiency was never a primary consideration in their development.
- 4.32 Furthermore, because general and vocational qualifications have been developed along largely separate paths, neither segment has had the effect of raising (or for that matter weakening) efficiency in the other. Some awarding bodies offer both general and vocational qualifications, but we have seen no evidence that either *materially* benefits the other in respect of cost or efficiency. We acknowledge that some joint and common costs among awarding bodies can be spread more broadly when both types of qualification are offered, with the result that unit costs should be lower, but it is not clear to us whether the presence of both may add to total costs in such a way that unit costs do not reduce.
- 4.33 The government's intention to dismantle some of the distinguishing features of general and vocational qualifications, and to achieve parity of esteem between them, may result in a situation where one does bring economic benefit to the other – but we are far from sure about this. The transition and continuing costs of “merged” qualifications (for example the Diploma) and their continued existence alongside “pure” general and vocational qualifications may indeed serve to reduce overall efficiency rather than raise it.

5 MAIN STAKEHOLDERS' VIEWS ON EFFICIENCY

We wish to emphasise that in this section we are simply reporting stakeholder interviews, not endorsing or challenging them. Furthermore, the views we obtained from individual interviewees may not necessarily represent the policy position of the organisation concerned.

Feedback from interviews

- 5.1 During the period June-August 2007, Europe Economics conducted interviews with each of the stakeholders identified in section 2 of this report. These stakeholder bodies, and named interviewees in each, were identified for us by QCA. In some cases we interviewed one person from a given body; in other cases we interviewed more than one. Each interview was at least an hour long, some longer. Most were conducted face to face; one or two were conducted via telephone call.
- 5.2 The interviews were done to an outline topic guide and interviewees were encouraged to add their own issues to the discussion. In this way we sought to ensure that we covered key topics but also allowed interviewees the opportunity to set out the issues as they saw them.
- 5.3 Overall, the feedback was highly diverse, reflecting what is clearly a complex and changing environment.
- 5.4 We have recorded the feedback by theme rather than by organisation – partly in order to ensure anonymity for respondents but more because we feel that the issues are more easily understood by theme and their relevance to efficiency made clearer.

The market for qualifications

- 5.5 From the basic fact that there are multiple sellers and multiple buyers, most interviewees see that there is a market of some sort in qualifications. However, there were diverse views on what exactly a market – in this context - means. Much of the diversity of view seems to us to reflect the complexity of the sector and that the application of the concept of market to it is relatively new. Most interviewees implicitly or explicitly identified at least two markets, one for general qualifications and one for vocational. But according to one respondent there were a “number of qualifications markets” some largely competitive, some highly imperfect.
- 5.6 Relevant to market imperfections (and highly pertinent to efficiency) was the question of whether competitive pressures are strong enough to drive down costs. The answer was broadly no, and the main reasons given were high levels of specialisation and non-substitutability (especially in the vocational sector) and the fact that decision-making by schools and colleges is not determined primarily by price. Indeed, awarding bodies were reported by almost every interviewee as not competing on price, a point we develop in more detail below.

Main stakeholders' views on efficiency

- 5.7 One respondent saw the defining characteristics of the market for qualifications as its highly fragmented consumer base (several thousands of centres and many more thousands of decision-makers) and market power exercised by awarding bodies.
- 5.8 Other interviewees noted that funding arrangements can distort decision-making processes, skewing them towards approved qualifications.
- 5.9 Even respondents who thought that a market or markets in qualifications did exist also thought that general qualifications were largely supply-driven. Different respondents put different weight upon the extent to which the driver of supply is the awarding bodies or the Department. It was put to us that vocational qualifications are more demand-driven than general qualifications and would be even more so if funding arrangements were overhauled.
- 5.10 Some questioned whether there should be a market for qualifications at all. Most respondents recognised the value of a market in some form, though there were differing views on the extent to which the market should operate.
- 5.11 A small minority of interviewees argued that qualifications should not be provided in the current "market" form and that, if it were desirable to safeguard diversity, there were other ways of doing so – for example, having one contractor providing multiple specifications. Even those respondents who were most uneasy about a market-based model felt, however, that no alternative model would be completely immune from commercial pressure.¹⁹

General qualifications and vocational qualifications

- 5.12 Many respondents suggested that there are two distinct markets, one for general qualifications and one for vocational. The reasons given include:
- (a) differences in the regulatory régime;
 - (b) differences in the accreditation framework; and
 - (c) the lack of transferability (and therefore of substitutability) between general and vocational qualifications, despite considerable amounts of work done to develop parity of esteem and greater movement between the two pathways.
- 5.13 On the face of it there seem to be at least two distinct markets – possibly more – and a full efficiency study would be needed to examine the features of both.

¹⁹ It is technically possible for a firm to operate in a market yet not be guided by profit maximisation, as, for example, charities. Two of the three unitary awarding bodies are registered as charities.

Main stakeholders' views on efficiency

- 5.14 Many told us that among politicians, public and press there is a very low tolerance of risk in respect of general qualifications for pre-19 year olds, especially in so far as risk relates to standards, accuracy and timeliness of results, and to the continuing supply of minority subject syllabuses.
- 5.15 Further, there was said now to be a much greater willingness by parents and centres to challenge grade decisions (which adds cost to the system). We were told that the most frequent challenges concerned the grades awarded, especially over coursework components.²⁰
- 5.16 Low tolerance of risk manifests itself in closer regulation of general qualifications for 14-19 year olds. A number of parties alleged persistent regulatory creep. It was asserted that the assessment of vocational qualifications, which is generally competence-based and less frequently aimed at a final exam, encourages a higher tolerance of risk.
- 5.17 Complaints in the vocational sector tended not to be related to grades but rather to course standards or content, and to situations in which a qualification is discontinued.

Qualifications system and the wider education system

- 5.18 Among providers there was a concern that any efficiency study should review the qualifications system from first principles and that its full complexity should be taken into account. In one awarding body's words: the efficiency study should take "a high level view of all the costs in the qualifications system, including those of government departments, QCA itself and other public bodies, and to assess the high level impact of public policy and regulatory practice on the overall efficiency of the system." Another said that *all* costs should be examined, so that, for example the increase in unit prices could be set against the increase in costs associated with late and multiple entries.
- 5.19 Some respondents noted that qualifications are one part of a much bigger picture which covers the wider examinations system and includes, for example, national curriculum tests. Awarding body respondents in particular felt that a full study would need to take into account the effect of the costs of the examination system (effectively the education system) on the efficiency of the qualifications system.

Competition

- 5.20 Most interviewees other than those from the awarding bodies said that, because of lack of transparency, they found it difficult to be certain on what basis competition takes place. There was felt to be less competition in general qualifications than in the vocational segment. A number of respondents wanted to know what the impacts of this asymmetry might be in terms of efficiency.

²⁰ In Wales the complaint was also voiced that not all documents produced outside Wales are translated into Welsh.

Main stakeholders' views on efficiency

- 5.21 One respondent suggested there might be varying levels of competition even within general qualifications, with greater competition at A level and less at GCSE.
- 5.22 Respondents see the vocational sector as generally competitive. There are several providers in most subject areas; qualifications are driven by demand and are built to satisfy employer needs; and failures tend to be quickly corrected by the market in that employers can and do vote with their feet.
- 5.23 The factors that are believed to influence buying decisions include the curriculum itself (syllabus choice), support to centres and the accessibility of advisers. According to the awarding bodies themselves, the primary bases of competition are brand and service.
- 5.24 Most respondents believed that competition does not take place on price, although we received conflicting accounts on this point. One interviewee from one awarding body told us of another awarding body's unsuccessful attempts to compete on price; yet another awarding body (referring to the vocational sector) said it would be happy to discount.
- 5.25 However, we were told by one body (representing centres) that awarding bodies' reaction to price pressure is to bundle more services into the fee. Awarding bodies themselves did not present a uniform view as to whether economies of scale, if indeed there are any, are sufficient to allow them to reduce unit prices.
- 5.26 We encountered one view that it is probably easy for awarding bodies to estimate each other's costs with reasonable accuracy, so it is unsurprising that prices stay within fairly tight limits – in other words, that price following takes place. One respondent suggested that if prices diverged more they would become more of a determining factor in centres' choice of syllabus.
- 5.27 Awarding bodies cited quality of service as one of the drivers of market share, examples ranging from ensuring that their own staff have previous experience of centres through to technological innovations, especially in IT. However, one representative body questioned how much real value there was in these claimed technology advances.
- 5.28 It was thought that there may be greater price competition in vocational qualifications. We were told that some awarding bodies have done deals with colleges on exam fees and certification fees. But, otherwise, competition in the vocational segment takes place on similar grounds to that for general qualifications – centre support, centre visits, and accessibility of advisers.
- 5.29 One respondent suggested the competitive effects would be interesting if, as is now being publicly debated, colleges, like universities, were to become accredited to offer their own qualifications.²¹ The Leitch plan²², as well as giving funding powers to the SSCs, also

²¹ See the *Times Educational Supplement* dated July 20th 2007. http://www.tes.co.uk/search/story/?story_id=2412346

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suggests accreditation for providers, and seeks to rebalance supply and demand by changing funding arrangements to provide individual skills accounts. Such rebalancing is likely to have an effect on the structure of supply of qualifications.

- 5.30 Finally, one awarding body in the vocational sector suggested to us that the presence of large numbers of unrecognised awarding bodies and unaccredited qualifications created a parallel market in the vocational segment which exerted some competitive constraint on the providers of accredited qualifications.

Choice and diversity

- 5.31 Overall choice is said to have diminished over the last fifteen years – with a decline in the number of awarding bodies and a decline in the number of syllabuses. Some awarding bodies said that in the general sector the high watermark of syllabus conformity came during the period 2000 - 2002. Since then, there has been a slight increase in diversity, but it is still nowhere near the levels seen in the 1980s. Although in general qualifications, large-scale entry subjects provide a number of syllabuses for centres to choose from, in the very small-scale subjects, there may be only one syllabus on offer. The small-scale syllabus will generally be cross-subsidised from the larger-scale subjects. There is an overall view among awarding bodies that this is the right thing to do, but it results in costs becoming non-transparent, which in turn puts the regulator in a relatively poor position in negotiations with awarding bodies.
- 5.32 Although there is general, if not universal, support for diversity, there was a widespread feeling among respondents that the efficiency study should seek to understand the costs associated with diversity.
- 5.33 The fact that churn takes place at all was suggested by some as evidence of a well functioning market characterised by diversity and choice. However, some said there was too much choice in the system and that this led to consumer confusion, particularly in the vocational segment. Our impression is that this view is peculiar to centres, while providers felt that employers were happy with the situation.
- 5.34 Some respondents felt that, aside from the extent of choice in the system as a whole, there were too many syllabuses for the same subject.
- 5.35 Syllabus changes are thought to be largely supplier- or policy-led, and there is inadequate cost consideration before and during development.
- 5.36 However, efficiency is not the only consideration: standards and resilience too are important. One view suggested that a drive for consistency in standards would point to fewer awarding bodies and specifications. However, the alternative view is that choice

²²

http://www.hm-treasury.gov.uk/independent_reviews/leitch_review/review_leitch_index.cfm.

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drives up standards and enables comparability. Some respondents among both regulators and awarding bodies also suggested that plurality of awarding bodies and syllabuses contributed to system resilience. (In contrast to a situation in Scotland, where the monopoly supplier had experienced a serious, and thus pervasive, failure.)

- 5.37 Many felt it would be helpful to identify the trade-off between the benefits of choice and the benefits of uniformity.
- 5.38 There was no single view on how choice should operate. Some leaned towards full market competition; others saw a value in contracting models and urged that an efficiency study should consider them. Some spoke of a need for vertical dis-integration (for example, the separation of syllabus development from exam delivery), while others wanted to see the removal of “unnecessary duplication” and a narrower range of qualifications with a common core.
- 5.39 QCA told us about its efforts to restrict “unnecessary duplication”: if an awarding body wanted to offer more than one specification for a qualification it had to present evidence in support of its proposal.
- 5.40 Others outside QCA confirmed that there remains scope not only for the rationalisation of specifications but also for a clearer division of responsibilities between QCA and the Department. In the vocational sector the view was expressed that SSCs are already a further source of unnecessary duplication and that matters could be made worse by the extra responsibilities that Leitch proposes the SSCs should acquire.
- 5.41 The cost and value of diversity is clearly a complex issue in any consideration of efficiency, not least because it may be much harder to assess the benefit of diversity than its costs. But diversity loomed so large in our discussions with stakeholders that it cannot in our view be overlooked.

Buyers

- 5.42 There were mixed views as to whether centres are commercially intelligent buyers. Many suggested that there was inadequate understanding of what happens in decision-making in centres. Respondents generally said they would like the efficiency study to consider ways of promoting more intelligent purchasing among centres.
- 5.43 The so-called contracting model (in which, essentially, contracts for the supply of qualifications would be let by competitive tendering) gave rise to widely differing views. Some saw it as a vehicle to improved efficiency because it would rebalance bargaining power towards buyers through bulk purchasing, while others saw it as likely to be ineffective because they thought economies of scale do not exist in qualifications.
- 5.44 Switching by centres between awarding bodies, or “churn”, does take place. However, it appears to be, in a sense, cyclical. The greatest churn coincides with changes to qualifications; thus centres are more likely to switch awarding bodies with the introduction

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- of new style A levels and GCSEs and less so within the qualification cycle. Lags and leads in the system discourage frequent switching and to that extent competition.
- 5.45 There is little evidence of centres choosing awarding bodies on the basis of which syllabuses are alleged to be “easier”. Neither do centres choose on price. There was a view among some respondents that the propensity of centres to switch may be retarded by high sunk costs, i.e. the investment (whether of materials or teaching approach) that they have made in particular syllabuses.
- 5.46 Buying decisions are said to be made largely by department heads (not examinations officers) and are based on custom and practice, support materials, and training offered. We were told that for teachers change is a risk, so they tend to stick to what they know, with some pressure applied through league tables. All this leads to certain “stickiness” in their decision-making.
- 5.47 A number of interviewees noted that examination officers in centres remained generally unable to influence buying decisions and in some cases were not even in a position to reduce late entries and their associated penalties.
- 5.48 Expenditure on awarding body fees by centres is said to be rising rapidly. It was hard to distinguish a single reason for this in the interviewing we did: contributory factors could include awarding body fee increases, increases in the volume of late and very late entries, and larger volumes of multiple entries (i.e. candidates taking more exams). QCA is currently examining this issue in more depth, and its findings so far are referred to in section 7 of this report. We are also aware that NAA has been and still is working on ways to reduce the incidence of late and very late entries among centres.
- 5.49 We were told that colleges find moderation and verification processes time consuming and therefore costly.
- 5.50 Centre representatives we spoke to felt that government does not consult enough about implementation or about the costs that might arise from policy change; the new Diplomas are seen as a classic case of this.
- 5.51 There were mixed views on how well the qualifications system meets the needs of employers. One respondent said that, at present, the system is built around not what employers want but what awarding bodies choose to supply. However, others suggested there was healthy competition and that employers got what they wanted. Some objected that employers are usually required to pay for everything that goes into a qualification when only some aspects of it are actually relevant to their businesses.
- 5.52 There were also mixed views on the SSCs. Some said they did a good job of representing employer interests, but others felt they added bureaucracy and complexity into the system, with, in some cases, evidence of mission creep.

Transparency of costs

- 5.53 The generality of respondents said they wanted the costs of the system made more transparent; they wanted to understand where costs arise and how they accumulate in the system. There is a concern, particularly mentioned by regulators, about the overall system cost, both *per se* and against a background of qualifications reforms.
- 5.54 It was suggested by more than one respondent that it would be good if the efficiency study could enable the cost implications of proposed policy changes to be assessed before decisions were made.
- 5.55 Awarding body costs are imperfectly understood, and greater clarity on the relationship between costs and fees would be welcomed by the regulators.
- 5.56 The awarding bodies said they were keen that the efficiency study should recognise the impact on efficiency and costs of each element of the process, from policy through regulation to execution.
- 5.57 Other costs in the system that respondents said would have a bearing on an efficiency study include development; launch; accreditation; marking (one respondent suggested this amounted to a third of awarding bodies' costs); and operating costs.
- 5.58 A number of learning providers expressed concern that costs associated with qualifications (especially examination fees and late entry fees) were accounting for a rising share of their budgets, though they acknowledged that the volume of examinations being taken would have some effect.

Regulation

- 5.59 Everybody we spoke to recognised that regulation contributes to the costs of the system, although regulators, awarding bodies and centres each have differing views on the extent of the burden.
- 5.60 Key issues pointed out to us that an efficiency study should consider included:
- (a) The cost of developments, especially where they do not go to market because of a change of mind by policy makers or regulators (two examples put to us were Functional Skills and certain IT system developments);
 - (b) Cost of policy or regulatory change (though it was acknowledged that no awarding body had ever said it could not implement a change for cost reasons); and
 - (c) Distortions caused by funding policy or arrangements.
- 5.61 We came across differing views on the way in which QCA carries out its role as a quality and economic regulator.

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- 5.62 For the moment, interviewees noted different levels of regulation for pre-19 and post-19 qualifications, and a much more interventionist approach to general qualifications than to vocational.
- 5.63 Some respondents suggested there were disparities that should be looked at in QCA's approach to accreditation. We were told of one awarding body-initiated specification which took over six months while National Diplomas took five days. There is a view among awarding bodies that QCA engages in needless micro-management which, among other things creates process bottle necks at busy times of the year. QCA emphasised to us that its accreditation processes were now much speedier than in the past.
- 5.64 There was also a view that SSCs will constrain provider flexibility as they seek to develop into gatekeepers (proxy regulators) rather than advisory bodies.
- 5.65 One respondent wanted to see a consideration of accreditation by organisation rather than by specification. The argument runs that if a single organisation was accredited then there would be no need for QCA to engage in the routine accreditation of a large number of qualifications, but could instead carry out random checks. (Such a change was also thought likely to reduce the distinction between the awarding bodies' UK and international business streams and thereby assist their exports.)
- 5.66 It was also said that awarding bodies receive more valuable feedback on qualification development from the JCQ than from QCA, and that they have greater capability to self-regulate than QCA admit.
- 5.67 Awarding bodies believe there is a lack of understanding by regulators of what regulation can and cannot achieve. They felt that efficiency gains could emerge from a better understanding of these limitations but that regulators tend naturally to favour more regulation. This tendency is seen as partly encouraged by political pressure but more by risk aversion on the part of regulators. Awarding bodies felt that increased efficiency at regulatory level would lead to a fall in their own costs.
- 5.68 Such views were in sharp contrast to those of a considerable number of other interviewees, who see the sector as too weakly regulated, with awarding bodies having scope to do as they please.

Funding

- 5.69 Funding decisions are largely driven by government policy, determined (it appears) largely by considerations of what is good for the UK economy, and, within that, government's assessments of priorities.²³ The key player in the level of funding is the Department, while

²³ For example policy on attainment – to get school leavers to a level of employability (level 2).

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QCA and the LSC (and, some suggested, increasingly the SSCs) are influential in its distribution.

- 5.70 Some awarding bodies suggested that funding decisions served to distort the operation of the market. We were also told that the LSC has huge powers to affect the vocational market, but that it rarely exercises funding re-allocation to save endangered courses.
- 5.71 One view was that funding distorted the vocational market in four ways: access to qualifications, learner choice (a consequence of access distortion), source and content of courses, and the use of funding as a proxy for regulation.
- 5.72 We were told that one factor affecting competition in the vocational market was the presence of many unrecognised awarding bodies creating a "parallel market" which has impacts on the recognised market.

Forthcoming changes

Diplomas

- 5.73 The development of diplomas may blur the boundaries between the general and vocational markets. A full efficiency study should consider the likely impact of Diplomas on the structure of the qualifications market as a whole and thus on its efficiency.
- 5.74 The introduction of the Diplomas also brings new development costs and uncertainties for awarding bodies and for the regulator, and indeed for centres in trying to deliver them, all of which will need to be considered by any full study.
- 5.75 Some interviewees thought it was unclear what the take-up of Diplomas will be. If there is a significant level of take-up, then there will predictably be effects on centres: more partnership is likely to be required between schools and colleges, and that in turn may affect efficiency and buying power.

Technological developments

- 5.76 The impact of technological changes that awarding bodies are implementing will need to be factored in. Some respondents, especially buyer representatives, thought that exam entries and results could usefully go through a common electronic portal as a way of increasing efficiency.

Changing roles of regulators

- 5.77 Two developments emerging from our interviews seem to us particularly relevant to a future study of efficiency – QCA's desire to move to a higher level lighter touch regulatory regime; and the possibility of SSCs gaining approval powers for qualifications.

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Leitch

- 5.78 Implementation of the Leitch plan will also have implications for the market and for the post-19 sector in particular. Change will take place in funding arrangements, with a move towards demand led funding through an increase in Train to Gain funding and the development of Skills Accounts for individual learners.
- 5.79 There may also be some changes to the bodies involved in delivery: in particular, providers will need to become more responsive to employers' needs; the SSC will have a direct grant from 2008 enabling them to recognise and fund particular qualifications; and providers may be accredited to offer their own qualifications. Therefore, it is suggested, one of the biggest impacts of Leitch is likely to be a shift in the balance between the supply and demand sides.

Data availability

- 5.80 The provision of data is crucial for an efficiency study. Data availability, to a large extent, conditions the chosen methodology for the study (as we explain in section 7). In general terms, the Department, QCA and representative bodies expressed a willingness to share information, and some offered to conduct primary research via questionnaires.
- 5.81 Regulators said they would expect to be able to break their costs down by component, division and function and, after some apportionment, by qualification type.
- 5.82 Awarding bodies were more cautious. Within defined parameters, they signalled a general willingness to contribute to an efficiency study, though non-disclosure agreements would probably be essential. Data might not be consistent between awarding bodies as each has its own accounting conventions and businesses divisions. Some awarding bodies also told us that they do not normally calculate unit costs for each qualification. Thus, some form of cost attribution would be necessary.

Expectations for the efficiency study

- 5.83 The three principal themes to emerge are (a) a desire for much greater transparency of cost, (b) a desire to see the study encompass all contributions to cost, and (c) the assessment of the costs and benefits of awarding body and syllabus choice.
- 5.84 Subsidiary expectations are the emergence of techniques to assess the costs of policy impacts, identification of means to reduce the bureaucratic burden, and the analysis of alternative procurement models.

6 POWERS OF QCA IN RELATION TO EFFICIENCY

- 6.1 This section aims to compare the regulatory powers of QCA with those of regulators in other sectors and to consider what implications these differences may have for the conduct of an efficiency study, led by QCA, of the qualifications system. For the avoidance of doubt, we do not argue that the powers granted to other sector regulators should simply be conferred on QCA. Regulatory powers – and duties – need to be appropriate to the sector in which they are to be exercised. The analysis which follows should therefore be read as illustrative rather than prescriptive.
- 6.2 For purposes of comparison we chose three other regulated sectors which seem to us to have *some* characteristics in common with educational qualifications, although the end products are very different. They are: gas and electricity (regulated by Ofgem), water (Ofwat) and civil aviation (CAA). In each of these sectors we observe either monopolistic or oligopolistic markets with little or no recent entry and substantial barriers to entry, coupled with some important characteristics of quality or safety or security of supply.
- 6.3 The characteristics we considered for each regulator are those that bear upon their powers to investigate efficiency, and whether they have an explicit duty to promote it. We considered the following six powers:
- to obtain information
 - to set a limit to the prices of regulated products or services
 - to regulate quality/safety/security as well as economic matters
 - to secure the ability of regulated entities to finance their functions
 - to apply sanctions in the event of unacceptable behaviour by regulated entities
 - to refer issues for investigation to the competition authorities
- 6.4 To these powers we added two other considerations:
- the funding of the regulator
 - the regulator's ability to act independently of the Secretary of State

Information

Table 6.1: power to require information from regulated entities

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
Require information from regulated entities	Can require "right of entry to premises and to inspect and copy documents so far as is necessary ... to satisfy themselves that appropriate standards are being maintained." (Education Act 2002).	Once Ofgem has decided that there are reasonable grounds for suspecting a breach of any legislation that it has the power to enforce, it may commence an investigation. Ofgem may then request information from the company concerned and from third parties, either informally or by using its powers under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 or the Enterprise Act 2002.	Licensed water and sewerage companies are required to complete a return each June that enables Ofwat to monitor their progress towards achieving quality objectives; to ensure that standards of service to customers are being observed; to compare performance between companies currently and over time; to measure and compare their costs; and to prepare for the next review of price limits.	Statutory powers to collect information. Criminal penalties apply if companies refuse to supply information (although these have never been applied). Confidentiality provisions (CAA Act 1982, section 23) apply to personal and commercial information.

6.5 In this respect (information gathering) there are notable differences between QCA and the other regulators considered. QCA holds a "right of entry to premises and to inspect and copy documents so far as is necessary ... to satisfy themselves that appropriate standards are being maintained". The term "appropriate standards" does not, however, appear to require QCA to determine *ex ante* that quality might not be of a satisfactory standard, and it seems to us (given that standards and costs are often connected) that information relevant to economic efficiency could be secured. Nevertheless, the powers of the other three regulators, while different from each other, are more clearly set out and less constrained than those of QCA.

Price setting

Table 6.2: regulatory powers to cap or set prices

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
To cap/set prices	Can "place a limit on the amount of fee that can be demanded in respect of any award or authentication of the qualification in question" but QCA "shall obtain the consent of the Secretary of State as to such matters relating to the exercise of that power" (Education Act 2002).	In electricity Ofgem regulates: generation; transmission; distribution; supply/retail; and interconnectors. Ofgem has price control powers in all these areas. In gas Ofgem regulates: shipping; transmission; distribution; supply/retail; interconnectors; and storage. Ofgem has price control powers in all these areas too.	Setting price limits for the water and sewerage companies is Ofwat's main task. Ofwat protects customers' interests by making sure that they receive reliable services and value for money. Ofwat reviews price limits every five years. The most recent Ofwat review set prices for the five years from April 2005.	Four UK airports have been designated by the Secretary of State for the purposes of price regulation, and CAA is responsible for setting price caps on airport charges at these four. The price caps are reviewed every 5 years.

Powers of QCA in relation to efficiency

- 6.6 In respect of power to cap prices QCA is again distinct amongst the regulators considered above. To cap a fee QCA requires the support of the Secretary of State; the other regulators do not.
- 6.7 It is well recognised that regulated entities may engage in some form of gamesmanship in providing regulators with information, but regulators too have weapons in their armoury and can generally devote significant resource to getting at the facts. Since their co-operation is required by law, regulated entities in the other three sectors considered here have, ultimately, no option but to co-operate. Our experience is that the review process in general works smoothly and well. In qualifications, however, the absence of any tradition of efficiency studies may well render work involved in obtaining and processing relevant information much harder.

Quality and economic regulation

Table 6.3: non-economic regulation

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
Also quality regulator?	Yes. Accredits qualifications and monitors awarding bodies.	Yes. There are two main types of quality of service measures that Ofgem regulates and for which it has powers to collect data. First, guaranteed standards of performance which provide protection to individual customers. Second, output measures which are taken as annual performance indicators for specific service areas.	No. Drinking water quality is regulated by the Drinking Water Inspectorate, and river water quality is regulated by The Environment Agency.	No. Its activities include economic regulation, airspace policy, safety regulation and consumer protection. A separation is made between primary and secondary objectives. The legislation puts "health, safety and environment" on a secondary level, which means that CAA must take account of them but is not responsible for them. These responsibilities lie primarily with the Health and Safety Executive.

- 6.8 The fact that QCA is both a quality regulator and an economic regulator also marks a contrast with other regulators.
- 6.9 Regulated entities may be wary of an efficiency study conducted by a combined economic and quality regulator on the grounds that they could be criticised for meeting quality standards by incurring inefficient costs or achieving efficient costs by failing to maintain quality. The consultation exercise we undertook suggested that some stakeholders are sceptical whether QCA is capable of acting sufficiently impartially for inefficiencies to be avoided. We think, however, that this is more a potential risk than a likely one, manageable by a clear awareness of the connection between quality and costs, and by maturity and good will on both sides.

Powers of QCA in relation to efficiency

6.10 While we were finalising a draft version of this report, we learned of the Government’s intention to restructure QCA in such a way as to separate out the key functions of standards setting and monitoring, and it seems likely that such a restructuring would alleviate the concerns described here.

Viability of regulated entities

Table 6.4: duty to ensure regulated entities can finance their functions

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
Duty to ensure suppliers can finance their functions	No	Ofgem has a statutory obligation under the Electricity Act (1989) to carry out its functions having regard to the need to secure that licence holders are able to finance their licensed activities.	It is Ofwat's duty to enable companies to finance their functions.	Yes

6.11 The fact that other regulators are legally required to ensure that those whom they regulate are able to finance their functions provides a degree of reassurance to the regulated undertakings. It is noticeable that QCA has no such duty.

Sanctions

Table 6.5: power to apply sanctions for unacceptable conduct

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
Sanctions for unacceptable conduct by suppliers	"The QCA may direct the Awarding body to take or refrain from taking specified steps with a view to securing compliance with the conditions subject to which the accreditation has effect" (2002 Act). QCA is entitled on its own initiative to withdraw accreditation from one qualification up to the entire range of qualifications from an Awarding Body.	Licensed companies have a range of obligations to customers, both residential and commercial/industrial, which they must fulfil under the terms of their licences. Ofgem monitors companies' compliance with these conditions. If they are found to be in breach of, or to fall short of their obligations, the options available to Ofgem include issuing an enforcement order to require compliance, and imposing financial penalties of up to 10 per cent of turnover of the licensee's business.	Ofwat has a range of sanctions that it can impose upon companies, including fines, if they fail to comply with licence conditions.	The licensing and approvals regime is complex, and designed primarily to ensure the safety of civil aviation operations.

6.12 The other regulators considered have power to impose sanctions for behaviour that contravenes licence conditions. However, licences in the other regulated sectors considered here are not the same thing as accreditations: utility licences cover many conditions and are applied to the undertaking, whereas accreditations cover a smaller

Powers of QCA in relation to efficiency

range of features and are applied to individual qualifications rather than to the supplying organisation.

Reference to competition authorities

Table 6.6: power to refer to competition authorities

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
Powers to refer to competition authority	No	Ofgem is a sectoral competition authority. As with their powers under the Competition Act 1998, the Authority and other sectoral regulators have concurrent jurisdiction with the Office of Fair Trading under the Enterprise Act 2002 to make market investigation references within their regulated sector.	Same as Ofgem	As part of the price review process the CAA is required under the Airports Act to refer the designated airports to the Competition Commission (CC). The CC provides advice to the CAA on the maximum limits for airport charges and investigates whether the designated airports have pursued a course of conduct against the public interest since the last price review. Note, however, that it was the OFT, not the CAA, which referred the structure of BAA to the CC.

6.13 Unlike the other regulators considered here, QCA lacks powers to determine competition issues, whether independently of or concurrently with the Office of Fair Trading (OFT), or to make references direct to the Competition Commission.

Funding of regulators

Table 6.7: funding of regulators

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
Funding arrangements	DSCF is the sponsor Department of QCA and funds QCA from its vote.	Ofgem recovers its costs from licensed companies. Licensees are obliged to pay an annual licence fee which is set to cover Ofgem's costs.	OFWAT is funded by an annual fee based on turnover, charged to the water and sewerage companies in England and Wales.	The CAA's costs are met entirely from its charges on those whom it regulates.

6.14 Funding arrangements make QCA more dependent upon its sponsoring Department than other regulators. This has implications for the ability of QCA to finance an efficiency study and to put in place the resources required to fund efficiency studies on a continuing basis.

Independence

Table 6.8: independence of regulator from the Secretary of State

Regulatory Power	Regulators			
	QCA	Ofgem	Ofwat	CAA
Independence from Secretary of State	Non-departmental public body (NDPB) that is accountable to the Secretary of State for Children, Schools and Families (DCSF). DCSF is a strategic partner. SoS appoints the QCA board and can require QCA to undertake tasks. QCA shall "comply with any directions given by the SoS" (1997 Act).	Responsibility for UK energy regulation lies with the Gas and Electricity Markets Authority (GEMA) set up under the Utilities Act 2000. GEMA operates through the Office of gas and electricity markets, Ofgem. It must submit an Annual Report to the Secretary of State, which must be laid before Parliament.	Ofwat is not subject to direction from Ministers but is accountable to Parliament and regularly provides evidence to select committees. Each year Ofwat provides an annual report to the Secretary of State and the First Minister for Wales, which is laid before Parliament and published.	CAA is a public corporation, an institution independent of Government. The CAA's regulatory process is thus independent of Government.

6.15 The relationship between QCA and the Secretary of State is a further factor that distinguishes it from other regulators. QCA is less operationally independent than the other regulators considered above – or was so at the time we conducted this study. As we reported above, recent Government announcements about the restructuring of QCA are aimed at bringing about important changes on this point.

Summary

- 6.16 All in all, in relation to assessing and promoting efficiency, QCA has substantially fewer powers than those of regulators in other sectors, and, on economic matters, a lower level of independence from the relevant Secretary of State. Our reading of the 1997 and 2002 Education Acts is that the Secretary of State has no powers to intervene directly in efficiency matters either.
- 6.17 In the short term QCA could proceed to an efficiency study most effectively if the other stakeholders were willing to offer relevant information or if the study could be based on information available in the public domain.
- 6.18 For the longer term, if efficiency in qualifications is to be considered as a matter of routine, policy in relation to the powers of the Department and/or QCA needs to be reviewed. We now understand that such a review is implicit in the intended restructuring of QCA.

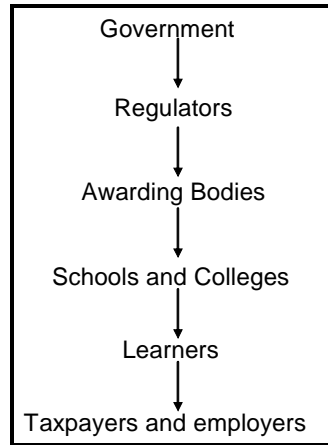
7 SYSTEM ANALYSIS AND HIGH-LEVEL EFFICIENCY STUDY

First considerations

- 7.1 We first consider the starting point from which QCA might undertake or commission an efficiency study in qualifications.²⁴ While other sectoral regulators have access to data and techniques developed in earlier reviews, QCA has no prior efficiency studies that it can roll forward into a current assessment. Even with the contributions of the two PwC reports and the PKF review of fees, QCA is to all intents and purposes starting from scratch.
- 7.2 QCA can thus begin in either of the following ways:
- Consider the efficiency implications of the way in which the qualifications system as a whole is structured, which we term the **high-level approach**. This requires, principally, an assessment of the incentives to efficiency on each of the contributors at each level in the system hierarchy. Case studies (in these case policy initiatives) could then be used against which to test the theoretical assessment: for example, one could track the way in which recent or current initiatives have worked or are working their way through the system. From this high-level approach one could gauge whether the system *as a whole* shows an inbuilt tendency to improve its own efficiency, or, conversely, to nurture or tolerate inefficiency.
 - Alternatively, to adopt what we term the **detailed approach**, which would examine, in as detailed a manner as is feasible, the contributions made, and the costs caused, by all the players in the qualifications system. The aim would then be to explore whether each element of cost is efficiently incurred, to arrive at an overall assessment of efficiency at each level in the hierarchy, and to identify possible means of reducing or eliminating any inefficiency.
- 7.3 The system hierarchy referred to in Section 4 is summarised again in Figure 7.1 below.

²⁴ As with this Scoping Study, so with an efficiency study it would be necessary to draw the dividing line between the qualification system and the education system more broadly defined. This is not straightforward. To take an example, one might be interested in the efficiency implications of a reduction in the number of modules making up a particular type of qualification: would all the cost changes be captured in the qualifications system alone? Where there is no neat dividing line between costs attributable to qualifications and those attributable to the education system, the efficiency study would need to define the dividing lines *ad hoc*.

Figure 7.1: simplified qualifications system hierarchy



System analysis

- 7.4 In our view, and especially for a first assessment, the conduct of a high-level study would be (a) an important exercise in its own right and (b) a highly desirable preliminary to a detailed study.
- 7.5 Our reason for saying this is that, if one could show with reasonable certainty that the qualifications system functioned, whether by statute or economic incentive, in such a way as to squeeze out all or almost all inefficiency, there would be no need to devote time and resource to the detailed study. Conversely, if the high-level analysis identified *system* deficiencies in relation to efficiency, it might be advantageous to deal with them first.
- 7.6 It is important to emphasise that the high-level study we go on to describe would need to be done once only unless the qualifications system itself is radically altered.

System structure and incentives to efficiency

- 7.7 If the system is to be seen as tending towards efficiency one would expect, as a minimum, evidence of some sort of ability for bodies at any level in the hierarchy to influence or constrain the decisions of the bodies above or below. Thus one would expect regulators to be able to deter or sway decisions by government that would otherwise cause a loss of efficiency in the system downstream; and/or an ability by awarding bodies to deter intervention by regulators that would have a similar effect.
- 7.8 We do not argue that the only touchstone of efficiency assessment should be lower unit cost. In qualifications, raising a quality standard (or forestalling a fall in quality) might well justify increased unit costs. But one would then expect to see costs weighed explicitly against benefits, preferably in quantitative terms. If no such assessment is required by the system, or if the result of any negative assessment is ignored, one might conclude that there was little or no incentive to efficiency at that level in the system.

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- 7.9 Any such theoretical assessment should desirably be backed up with evidence from recent relevant case studies. Case studies have the advantage over theoretical analysis that they may shed light on where decision making is defective and what might be effective in improving it.
- 7.10 We begin by assessing the structure of the qualifications system and the relationships between the players in relation to efficiency.

Departmental level*Regulatory impact analysis*

- 7.11 An important analytical step in assessing incentives to efficiency is to examine what Impact Assessments (formerly known as Regulatory Impact Assessments or RIAs) have been carried out by the Department in relation to policy initiatives in the qualifications system. Impact Analyses are regarded by the Cabinet Office regulatory team as “a key tool in delivering better regulation that helps departments deliver policy”.²⁵ The Cabinet Office goes on to say (our underlining):

“Preparing and publicising Impact Analyses can ensure that those interested in certain policies understand and can challenge:

- why the Government is proposing to intervene;
- how and to what extent new policies may impact on them; and
- the estimated costs and benefits of proposed and actual measures.”

- 7.12 We searched the DCSF website for published RIAs and Impact Analyses in the three calendar years 2004-2006 and this reveals one Departmental document relating to qualifications, namely a partial RIA of the reform of the 14-19 Curriculum and Qualifications Framework.²⁶
- 7.13 The assessment says that the expected costs of the policy initiative will be covered by the reallocation of existing funding, but that additional funding may be needed as implementation is rolled out. The RIA does not go so far as to identify the activities whose funding will be curtailed to pay for the new policy, nor is the possible extent of the further call on public expenditure assessed – though we acknowledge that these might have been covered in internal Departmental documents.

²⁵ <http://www.cabinetoffice.gov.uk/regulation/ria>. While this report was being finalised, material on impact analysis was being transferred to the DBERR website. Readers may now find it more useful to go to <http://bre.berr.gov.uk/regulation/documents/ria>.

²⁶ There are also DfES RIAs covering the Education Act 2005 and the Education and Inspection Act 2006, but these Acts do not relate to qualifications. See <http://www.dfes.gov.uk/publications/14-19educationandskills/pdfs/ria.pdf>.

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- 7.14 From a hypothetical taxpayer's point of view it is hard to escape the conclusion that in this instance policy at the highest level had been determined without a *published* assessment of the cost consequences.

Budgetary pressures exerted by the Department

- 7.15 This is not to say that the Department does not apply pressure on system costs in other ways. QCA's website carries correspondence with successive Secretaries of State which make clear that its budget is under continuing pressure. However, we note that the debate pursued between the Department and QCA does not touch upon total *system* costs.

Regulatory level

- 7.16 In relation to QCA (we have too little evidence for DCELLS and CCEA) we found an encouraging picture as regards awareness of efficiency and intention to pursue it. We gathered evidence from three QCA sources: its website, some of its publications and its board minutes.

QCA website

- 7.17 We considered first two prominent pages on QCA's website (again, our underlining):

http://www.qca.org.uk/qca_7667.aspx

“QCA's regulatory approach

QCA has a strategy for a proportionate approach to regulation, aiming to intervene only when necessary, after assessing whether there is a risk to the fairness of the system or to an individual learner.

QCA's regulatory approach follows the five principles of regulation established by the government's Better Regulation Task Force:

proportionate - regulators should only intervene when necessary. Remedies should be appropriate to the risk posed, and costs identified and minimised.

accountable - regulators must be able to justify decisions and be subject to public scrutiny.

consistent - government rules and standards must be joined up and implemented fairly.

transparent - regulators should be open, and keep regulations simple and user friendly.

targeted - regulation should be focused on the problem and minimise side effects.”

http://www.qca.org.uk/qca_10354.aspx

“Encouraging better performance

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Effective and constructive regulation of the awarding bodies continues to lie at the core of our regulatory work. Although we are removing unnecessary bureaucracy from our regulatory activities, we have not changed our commitment to intervening directly when necessary. We still monitor the awarding bodies to ensure that they provide good-quality qualifications that meet the needs of learners, and, as part of our commitment to transparency, continue to publish our findings."

- 7.18 Taken together with relevant QCA publications and with QCA board minutes, all of which are available on QCA's website, we believe QCA shows continuing concern with internal efficiency and with the efficiency of at least some aspects of the qualifications system as a whole. There is also a pleasing commitment to transparency.

QCA's scrutiny of awarding body fees

- 7.19 QCA's board minutes of February and May 2007 considered how to take forward the PKF report of December 2006 on awarding body fees. QCA's approach is based on seeking consensus and cooperation from awarding bodies as far as possible.
- 7.20 We have seen a fees implementation plan recording QCA's intention to assess the impact of awarding body fees on total expenditure, to consider awarding bodies' proposals for A level fees for the academic year 2008/09, and to require awarding bodies to publish their fees for GCSE and A level by a common date one year in advance of when the fees take effect.
- 7.21 These are all subjects that bear upon efficiency as broadly defined, and in other regulated sectors equivalent activities would be non-contentious. Yet QCA's process is lengthy: because it involves quite extensive consultation with the awarding bodies it runs from July 2007 to implementation in September 2008. And we have noted earlier that if QCA determines that any fee should be capped it requires the prior agreement of the Secretary of State.
- 7.22 QCA's activities in relation to awarding body fees reveal the limitations of its economic powers, and particularly its ability to gather information aimed at assessing what the policy impacts on costs, fees and system efficiency might be.
- 7.23 In summary, given that QCA has no statutory duty to promote efficiency and (perhaps because of that) limited economic and financial powers, its ability to examine and bring about efficiency upstream or downstream from its own activities seems to us quite tightly constrained.

Awarding bodies

- 7.24 As our interview programme showed, awarding bodies feel that they are being singled out when other aspects of system efficiency need scrutiny too. More specifically they contend that:

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- on the one hand their activities and initiatives are largely determined by policy and regulatory decisions over which they have little or no influence and which give rise to cost impacts that are often considered only at a late stage;
 - on the other, they face competitive pressure from each other, in both general and vocational qualifications; and
 - the revenue they earn from exam or course fees is only one part of total qualifications system costs.
- 7.25 One awarding body pointed out that QCA's budget is bigger than some of the larger awarding bodies' turnover. This may well be true, but it fails to recognise that not all of QCA's budget relates to matters connected with awarding bodies. National Curriculum Tests alone absorb a significant amount of QCA's resources.
- 7.26 The evidence we have received leads us to agree with the first and third points above, but we have doubts about the second – the question of competition and its effectiveness. Particularly in relation to general qualifications, we see little evidence of the features one would expect in what economists would regard as a market in which competition is effective.

Price

- 7.27 Price appears not to be the primary basis of competition. The awarding bodies themselves say so, representatives of schools and colleges say so, and the Department and QCA also appear to accept that this is so.
- 7.28 We used the NAA's Exam Fees Calculator 2006-2007 to check price levels and dispersion.²⁷
- 7.29 The calculator shows that GCSE standard entries (i.e. not "late" and not "very late") are priced at almost identical levels by each of the three unitary awarding bodies. We obtained prices for 20 single award/linear candidates for nine subjects (Chemistry, Economics, English, Latin, Maths, Modern Foreign Languages 1, 2 and 3, and Media Studies) and found that AQA charged £466, Edexcel £475, and OCR £460. The price dispersion around the average of £467 is thus just over 1.5 per cent. Each awarding body charges the same price for each subject.
- 7.30 WJEC and CCEA's prices are close to those of their English counterparts, which effectively discourages imports and exports between the three countries.
- 7.31 The awarding bodies differ somewhat in respect of late and very late entry prices. AQA charges £699 for 20 late entries and £932 for 20 very late entries, and OCR charges

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much the same (£700 and £940). These represent premia of 50 per cent and 100 per cent respectively over standard charges. Edexcel charges £950 for 20 late entries and £1425 for 20 very late entries, representing premia of 100 per cent and 200 per cent respectively.

- 7.32 For A level the picture is – at least in parts – more differentiated.
- 7.33 We used the NAA calculator to give prices for 20 A level candidates sitting six modules each across the nine subjects we considered for GCSE. Except for Modern Foreign Languages 2 and 3, considered below, standard entry prices for 20 X 6 modules are £1,452 for AQA, £1,548 for Edexcel, and £1,440 for OCR. The average price is thus £1,480 and the price dispersion around the average is roughly 4.5 per cent, compared with 1.5 per cent at GCSE. The awarding bodies apply the same percentage uplifts to late entries and very late entries at A level as at GCSE.
- 7.34 We did, however, find some instances of more substantial price dispersion in some subjects. For example, Edexcel charges more than the other unitary awarding bodies for A level Music – £2,328 compared with AQA's £1,452 and OCR's £1,440.
- 7.35 Further evidence of price differentiation is apparent in “Practical Physics, Chemistry and Biology”. The NAA calculator does not give AQA's price for this course, but for 20 X 6 standard entries OCR charges £1,866 and Edexcel £2,988.
- 7.36 While there is some price differentiation in some areas of A level, the evidence does not suggest that the awarding bodies feel they need to compete much on price in general qualifications. A closer examination of prices, trends and the awarding bodies' pricing policies would be needed in a full-scale efficiency study.
- 7.37 Finally, we checked whether any of the awarding bodies offers price reductions for larger candidate volumes, or price penalties for smaller volumes. NAA's calculator reveals none. We are aware, however, albeit only anecdotally, that at least one awarding body has been willing to discount fees if a centre places all its business with that one body.

Buyer power

- 7.38 We were told by virtually all parties to whom we spoke that, in general qualifications, the decision as to which awarding body is chosen for each subject is taken, almost always, by the relevant subject head of department; and that price does not generally figure in his or her decision. Rather, the departmental head's primary concern is (and has traditionally been) to maximise pass/grade rates. In that context syllabus familiarity among teaching staff is important, so the propensity of subject heads to stick with known syllabuses dampens whatever willingness they might otherwise have to switch awarding bodies. We

²⁷ An Excel document downloadable from http://www.naa.org.uk/downloads/NAA_ExamFees_Calculator_2006_2007.xls.

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were also told that, over time, academic staff acquire familiarity with awarding body personnel and may thus be able to put some pressure on awarding bodies in relation to administrative support.

- 7.39 Heads of establishments tend to defer to such processes because of the pressure exerted by the publication of league tables.
- 7.40 It is thus understandable that switching by centres is somewhat “sticky” and that little price pressure is exerted on awarding bodies. We were told in interview that the willingness of centres to switch awarding body was at its strongest when a major change of curriculum or syllabus was due, and that at that time price considerations could (though not necessarily would) come into play.
- 7.41 We were interested to know whether, regardless of switching opportunities, several centres using the same awarding body for a given subject or subjects could combine their purchases and negotiate a bulk discount. We were told that, given current entry and results methods, it is hard to see how scale economies could be achieved by the awarding bodies, although technology developments may free up some of the constraints. One representative body suggested that the development of a common entry and results portal could possibly facilitate bulk buying.
- 7.42 As we reported above, awarding bodies do not give per subject quantity discounts. We learned that some awarding bodies had offered discounts if a centre placed all its business with them but were told that such offers had been unsuccessful – unsurprisingly if a centre’s awarding body choices are determined largely by heads of department on non-price grounds. On the other hand it is surprising that awarding bodies do not offer volume incentives to centres. The PKF report (at paragraph 1.26) suggests that about 50 per cent of awarding body costs are overhead rather than direct. If the figure is that high, one would expect to see, in a competitive market, incentives to buyers to increase volumes so that the overhead element could be spread across a greater number of purchases. Prices would be driven down to marginal cost. The fact that this does not happen suggests strongly to us that if there is a market in general qualifications it is not effectively competitive.

Exam volumes and expenditure on fees

- 7.43 QCA has shared with us some research into volumes and fees for general and NVQ qualifications. The research is as yet incomplete, but it is drawn from published sources and is thus non-confidential. We are aware that it has been shared with awarding bodies.
- 7.44 It indicates that fees paid by centres have increased faster than the numbers of candidates and faster than inflation.
- 7.45 DfES and LSC sources show that expenditure by schools and colleges on exam fees rose from £279 million in 2002/03 to £388 million on 2005/06, an increase of 39 per cent.

- 7.46 Over the same period the numbers of candidates who sat the exams increased by only 4.4 per cent overall. The details are shown in Table 7.2 below.

Table 7.2: volumes of general and NVQ qualifications

Qualification type	2003	2006	Percentage change
GCSE	5,800,493	5,793,101	-0.1
A level	748,116	808,526	+8.1
AS Level	990,169	1,097,641	+8.5
NVQ	433,000	622,000	+43.6
Total	7,971,778	8,321,268	+4.4

Note 1: 2006 figures are provisional.

Note 2: figures for GCSE, A level and AS Level are candidates, figures for NVQ are awards.

Source: QCA

- 7.47 These figures have to be treated with caution. The research is not yet complete, nor does it take into account specification changes or quality improvements that might have affected awarding body costs, and thus their prices; nor does it split expenditure on fees between general and vocational, nor between GCSE, A level and AS Level. Nor does it show what proportion of expenditure was on late or very late fees. Closer analysis might thus present different pictures for different qualification types. Yet, at first blush, for a taxpayer the bigger picture can only be worrying: an overall increase in expenditure on fees of almost 40 per cent compared with a volume increase of just over 4 per cent.
- 7.48 We went on to consider, from QCA's research, the market shares of the awarding bodies that offer general qualifications, namely the three unitary bodies (AQA, Edexcel and OCR) together with WJEC and CCEA. The picture that emerges is as in Table 7.3 below.

Table 7.3: market shares of awarding bodies offering general qualifications, 2006 estimated

Qualification	AQA	Edexcel	OCR	Unitary ABs	CCEA	WJEC
GCSE	51.1%	20.0%	18.8%	89.9%	2.9%	7.3%
A Level	42.9%	23.9%	25.1%	91.9%	2.5%	5.5%
AS Level	44.3%	22.1%	25.9%	92.2%	2.3%	5.5%

Source QCA. Based on 2006 provisional figures

- 7.49 Although Table 7.3 presents figures only for 2006, figures for the four years 2003 to 2006, are little different. AQA and OCR have slightly lost ground to Edexcel, while, overall, CCEA and WJEC have increased their shares, WJEC especially so.
- 7.50 The market for general qualifications is very highly concentrated. A standard measure of concentration is the Herfindahl-Hirschman index (HHI) and we have calculated HHI

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values for each of the three qualification types in Figure 7.3.²⁸ For GCSE the value is 3425, for A level 3077, and for AS Level 3156. Competition authorities regard HHI values over 1800 as indicating highly concentrated markets and would pay especially close attention to them in market or merger investigations. Values persistently over 3000, as here, are exceptionally high.

- 7.51 An alternative and simpler measure is the concentration ratio, which adds up the market shares of the X largest firms. A common measure is the three-firm concentration ratio (CR3), which, as Table 7.3 shows, is around 90 per cent – again, very high.
- 7.52 PKF considered that the awarding bodies which award general qualifications are not making “significant” profits. In the non-confidential version of the report that we were given it is not clear what “significant” means, nor whether it refers to margins on revenue or on capital employed. The judgments that we would be interested to see are:
- whether the awarding bodies individually or collectively are making “super-normal” profits, i.e. profits in excess of those needed to cover their cost of capital²⁹; and
 - whether profits are derived from an efficient level of costs.
- 7.53 PKF say explicitly in paragraph 1.5 that they did not consider whether the costs that the awarding bodies incur are efficiently incurred. Thus, while the prices that awarding bodies currently charge may not result in “significant” profits i.e. are not “significantly” above cost, there is no indication whether or not the costs are reasonable.
- 7.54 All in all, and in relation to general qualifications, we see little system pressure on the awarding bodies (whether from above or below) to lower their unit costs and thereby raise efficiency. It is not at all obvious that the taxpayer’s interest is being safeguarded in these respects.
- 7.55 We are unable to carry out a comparable analysis for vocational qualifications. On the face of it, the vocational supply side is more fragmented than the general, which may possibly result in greater competitiveness, and some awarding bodies suggest that the presence of unrecognised awarding bodies applies some competitive pressure. But in the time available we have been unable to consider the basis or extent of competition between awarding bodies offering vocational qualifications, nor do we have a detailed

²⁸ An HHI value is calculated by squaring the market share of each firm competing in the market and summing the resulting numbers. In Table 9.3 the value of 3425 for GCSE is calculated as the sum of: 51.1 squared + 20.0 squared + 18.8 squared + 2.9 squared + 7.3 squared. The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.

²⁹ Cost of capital is a return just sufficient to cover all the operating and capital costs of a business, together with the cost of meeting the expectations of shareholders and lenders, and thus to secure the continuity of the business. It is a calculation frequently done by economic regulators as an aid to price-setting or price-capping.

picture of vocational volumes or price history. It is not clear to us what, if any, benefits accrue to those awarding bodies which offer both general and vocational qualifications.

A competition investigation?

- 7.56 The situation in which the awarding bodies find themselves, at least as regards general qualifications, is complex. On the one hand they face policy and regulatory pressures which they say they cannot realistically resist – and we accept that that is the case. They and others also point out that Ministerial, press and public tolerance of failure in the general qualifications system is at or close to zero – and we accept that too. Yet on the other hand the awarding bodies appear to enjoy the benefits of oligopoly, an absence of competitive new entry and a lack of countervailing buyer power which in combination enable them to be relatively price-insensitive. They say that they compete not on price but on syllabus differences and on quality and service. Yet the extent of these types of differentiation, and the value that buyers place upon them, is unclear. In any event buyers (centres) contemplate switching awarding bodies only at intervals of three or more years, and overall market share shifts have been moderate, so the market (if that is what it is) is at best “sticky”.
- 7.57 Balancing the evidence and arguments is not straightforward. For these reasons, and separately from other recommendations that we make, we take the view that the supply of general qualifications may merit a competition investigation. There are a variety of ways, informal and formal, by which this could be done. To the extent that a competition investigation could be done outside the confines of an efficiency investigation, it would be beyond our remit to recommend any particular course of action, though we would be happy to discuss the options with QCA.
- 7.58 If the supply of general qualifications were to be subjected to competition scrutiny, it seems likely to us that the supply of vocational qualifications ought to be included too. Some awarding bodies supply both types of qualification, and government’s stated policy intention is, over time, to dismantle the distinctions that have historically separated the two. These are factors which influence market structure, conduct and performance.

Schools and colleges (“centres”)

- 7.59 One of the awarding bodies criticised both us and QCA for not including a survey of schools and colleges in the Scoping Study. We acknowledge that such a survey would have been useful, but it would have extended substantially both the cost and timescale of the Study. In any event we were given access to three bodies representing schools and colleges – the Association of School and College Leaders (ASCL), the Association of Colleges (AoC) and the Association of Learning Providers (ALP) – and we have no reason to doubt the veracity of their responses to our questions.
- 7.60 All three representative bodies impressed upon us that there was too little consultation with learning providers when qualifications initiatives were in contemplation – whether about cost impacts or practical feasibility. The heaviest criticism in this respect was reserved for the Department rather than for QCA.

- 7.61 The costs that centres face in relation to qualifications (as distinct from education more widely defined) are largely (a) internal costs arising from the appointment and/or allocation of staff to manage the examinations entry, invigilation and results process and (b) the amounts they pay to awarding bodies in fees.
- 7.62 PwC had identified in its cost modelling work of 2003/04 that about £240 million per annum of costs fell under heading (a) for England alone. We assume that such costs must have increased by at least the rate of inflation. For our purposes Wales and Northern Ireland should be included too. We estimate on this basis, therefore, a current figure of at least £300 million.
- 7.63 PwC had also estimated a cost for centres under heading (b) of £264 million, again for England alone. QCA's research identified a cost for England of £390 million for 2005/06. We estimate that adding Wales and Northern Ireland in would bring this figure up by more than 10 per cent, making over £430 million. However, not all that cost falls upon the taxpayer – some 8.5 per cent of the candidates covered by QCA's research are from independent schools, so their costs fall upon private individuals. Nevertheless, a figure in excess of £400 million per annum falls upon state-funded schools and colleges.
- 7.64 Schools and college representatives were vocal in their criticisms of the rate at which exam fee expenditure had risen in the last few years. One interviewee cited a case where exam fee costs at one school had risen over five years from £30,000 per annum to £100,000 for an unchanged number of pupils. That figure would need adjustment to reflect the possibility that the average number of subjects per pupil had increased, and/or a possible increase in late or very late fees. (Awarding bodies criticise centres for making too many late or very late entries and, as we have seen, seek to deter them by substantial price penalties. An efficiency study would need to consider why late entry happens, and why penalty fees appear, in the view of awarding bodies, to make little difference.)
- 7.65 School and college representatives confirmed that awarding body and syllabus choice was not determined by price except in a few vocational qualifications, and that most decisions were taken by heads of department on syllabus grounds. Heads and Principals were unlikely to challenge their preferences for a number of reasons, including particularly the risk that doing so might jeopardise the institution's position in league tables. It was acknowledged that, in institutions where a full-time exams officer had been appointed, resistance to price increases was likely to be greater, but generally speaking exams officers were over-ruled by heads of department.
- 7.66 We were told that where centres complained to awarding bodies about fees, they found that the tendency of awarding bodies was to bundle more services together rather than reduce fees.
- 7.67 We asked about the value to centres of awarding body and syllabus choice in general qualifications, and got mixed answers. Some we spoke to doubt whether the extent of syllabus choice and diversity is now significant enough to justify the presence of multiple awarding bodies offering multiple syllabuses. Others, even while acknowledging that the

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National Curriculum had tended to trample out syllabus diversity, observed that teachers still appeared to value such diversity and choice as remained.

- 7.68 It is not clear to us what system costs are caused by the existence of multiple awarding bodies offering multiple syllabuses. Duplication of development costs would be a category to explore, together with the cost to centres of dealing with multiple awarding bodies. On the other hand, it would be hard to dispute that in most markets diversity and choice improves the product or service. As economists who spend a good deal of time analysing monopoly, regulated and competitive markets we are sceptical about the claimed efficiency benefits of monopoly, or even of diminished choice, except where natural monopoly is inevitable (as, for example, in energy transmission and distribution).
- 7.69 One interviewee felt that a certain system resilience was implied by the presence of multiple awarding bodies, i.e. that if one failed or withdrew from the system, others would take up the available business. QCA told us that one awarding body said it had made evaluations and could provide additional operating capacity at short notice in the event of failure of one of its major competitors. We are less sure about this: it is hard to see how one or more awarding bodies could step in *rapidly* in the event of catastrophic failure.
- 7.70 All in all, it is hard to see from within this Scoping Study whether the presence of multiple awarding bodies and multiple syllabuses in general qualifications gives rise to large costs or large benefits or both, and where the balance of advantage lies now, or could lie in future given likely technological developments. It is a matter which would require serious attention within an efficiency study. We recognise that this is a matter of great sensitivity for the Department, QCA and the awarding bodies, but in our view it is a matter that cannot be ducked.
- 7.71 Our overall view in relation to centres is that they do not have sufficient muscle to resist policy or regulatory change where it threatens their own efficiency.

Summary view

- 7.72 Our view is that, considered even at a high level, the current system contains insufficient obligations or incentives on the major players to estimate or act on the cost (efficiency) implications of the decisions they make before they make them. Over time the system almost certainly has engendered inefficiency and in our view is likely to go on doing so. Unless action is taken, the burden on taxpayers will increase.
- 7.73 In paragraphs 7.91 to 7.112 below we suggest a sequence of events as to how the high-level study could be conducted.

Method of implementation

- 7.74 It is important to bear in mind that the primary purpose of the high-level study would be to assess whether and where activities take place that promote or undermine efficiency, not to measure efficiency, or the lack of it, in precise or highly quantified terms.

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- 7.75 The method we propose makes no assumptions about who would conduct the analysis, except that it would be led by QCA. For the most part the method is non-technical in the economics sense. The economics component could be dealt with by economists already in QCA or contracted or seconded from third party firms.
- 7.76 In essence, we propose that the high-level analysis should proceed level by level through the hierarchy, assessing activities relating to qualifications and relating to efficiency at each level. The specific steps we suggest follow.

Departmental policy impact analyses

- 7.77 To the extent that Impact Analyses have not been carried out for important policy initiatives taken at Departmental level, we recommend that they should be. It does not matter that the initiatives identified may already be decided or on the way to implementation – the important thing is for the likely cost impacts to be considered, even if only in broad terms. The sooner the process is started, the sooner potential downstream problems can be assessed and the sooner relevant experience will be acquired for later assessments.
- 7.78 Logically, Departmental initiatives should be assessed by the Department (clearly it has the capability to do so). Although QCA is not in a position to require its sponsor department to conduct Impact Analyses, it is, we suggest, reasonable for QCA to propose which initiatives should be assessed. For practical purposes, initiatives that are thought likely to have the greatest impact on the system or on the costs of stakeholders should be assessed first.

Regulatory policy impact analyses

- 7.79 QCA is already conducting Impact Analyses of its own devising in respect of initiatives that it has pursued in its own right. It is clearly right that it should continue to do
- 7.80 The Cabinet Office has published guidelines on how Impact Analyses should be undertaken, and we suggest that QCA work to these.³⁰ In addition, we as a firm have written Impact Analysis guides for regulators and would be happy to supply them without charge. Our suggestion is that, wherever possible, QCA's assessments of costs and benefits should be in quantitative terms.
- 7.81 Thus the step we propose here could be completed quite quickly.
- 7.82 As with Departmental Impact Analyses, we urge that whatever assessments of costs and benefits may have taken place should be checked, and if necessary revisited, for thoroughness in quantitative terms.

³⁰ Again, see <http://www.cabinetoffice.gov.uk/regulation/ria> and scroll down to Impact Assessment – Template.

*System analysis and high-level efficiency study**Awarding body efficiency*

- 7.83 For the high-level analysis proposed here we see no need for QCA to require from the awarding bodies information which they might regard as commercially sensitive or beyond QCA's right to request. We suggest that QCA should simply seek a structured view from each recognised awarding body above a certain size (the definition of size to be determined by QCA) about its experience of pressures which help to improve, or conversely to undermine, efficiency.
- 7.84 The "structured view" we refer to is best achieved by a questionnaire which needs to be very carefully conceived and worded in order not only to avoid ambiguity but also to strike a balance between being over-prescriptive and so loose as to encourage imprecise responses. The trick will be to get awarding bodies to be clear and precise about what makes for efficiency and inefficiency in the qualifications system, and the extent of those impacts – but stopping short of asking for precise financial details.
- 7.85 In respect of finance, QCA already knows or can reasonably expect to ascertain what prices the awarding bodies charge and, from PKF's report, what costs the unitary awarding bodies incur. For the purely vocational awarding bodies we understand that QCA has few if any cost details, but for this high-level assessment the absence of absolute figures does not much matter: it is the direction of travel (towards or away from greater efficiency) that counts.
- 7.86 For each awarding body the essential coverage of the questionnaire would, we suggest, be as follows:³¹
1. Initiatives from the Department in the last [two] years that have added to or reduced the awarding body's own costs
 2. The extent of such cost additions and reductions, in relative rather than absolute terms
 3. Ditto (1 and 2) for QCA initiatives
 4. Ditto (1 and 2) for the awarding body's own initiatives
 5. The effect of increased/decreased candidate volumes on the awarding body's costs
 6. The effect of increased/decreased volume of late and very late entries from centres on the awarding body's costs

³¹ It is likely that some wording changes would be required to accommodate different types and possibly sizes of awarding bodies, but the questionnaire content would be closely comparable for all.

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7. The effect of changes in mix on the awarding body's costs [distinguish between mix of levels, e.g. GCSE and A level, and mix of subjects, e.g. more Maths, fewer minority subjects]
 8. The effect of other activities by centres on the awarding body's costs [e.g. more grade challenges, more demand for awarding body staff support]
 9. The extent to which the awarding body's costs are becoming increasingly or decreasingly fixed
 10. Specific steps taken by the awarding body in response to competitive activity by other awarding bodies [distinguishing general, vocational and unrecognised as appropriate]
 11. [Three] initiatives that would bring about a material difference in the awarding body's costs, and the extent of reduction attached to each.
- 7.87 We emphasise that this is only an outline of the kinds of information that should be sought. Much more detailed work would be required in the efficiency study itself to bring the questionnaire to a finished state.

Centres

- 7.88 We propose a survey-based approach to centres too. ASCL, AoC and ALP all offered to facilitate surveys among their members and we urge QCA to take advantage of their offers.
- 7.89 Given that the population of schools and colleges is large relative to awarding bodies, a first step would have to be the selection of a sample. It would be for the efficiency study proper to determine the sample size and the sampling method, but two basic approaches are feasible:
- A purely random sample of schools and the same for colleges. A random sample would normally be obtained by producing a randomised list of centres and selecting every n^{th} occurrence until the required sample size had been achieved.
 - The categorisation of schools and colleges by key characteristics, e.g. type (grammar, independent, comprehensive, sixth form, FE) size, region, and then the construction of a sample that represents the proportions of each in the population.
- 7.90 A random sample is usually to be preferred on statistical grounds, provided it is large enough. If the co-operation of individual centres has to be sought or negotiated, it may be necessary to settle for a sample of the second kind.
- 7.91 The issues to be covered are, we suggest:

System analysis and high-level efficiency study

1. Numbers of candidates [for relevant qualifications] entered during the last academic year, split by qualification type as most appropriate.
 2. Numbers of late and very late entries included in 1.
 3. Number of awarding bodies that the centre deals with, and the approximate split of candidates by awarding body.
 4. Exam fees paid to awarding bodies, split between standard and late entries.
 5. Other fees (e.g. centre review fees) paid to awarding bodies.
 6. The proportion of total centre budget represented by payments to awarding bodies.
 7. [If possible] items 1 to 5 for the academic year [three] years before.
 8. Numbers of staff involved in the management (not the teaching) of qualifications included in 1. This would include not only full time staff (e.g. Exam Officers) but also best estimates of the time spent on qualifications by staff who have other primary roles.
 9. Time spent by centre staff on training provided by awarding bodies.
 10. Impacts of specified initiatives [to be discussed] on centre resources. [Here we are thinking about additional or reduced administration connected with qualifications, e.g. demands on staff time, on IT investment, and on operating expenses. It is important to exclude teaching impacts, since for purposes of the Scoping and efficiency studies they lie outside qualifications.] Impacts to be quantified as far as possible.
 11. The estimated costs for the centre of dealing with multiple awarding bodies. [Or, to put the question differently, the costs that would be saved if the centre dealt only with one.]
 12. Other issues that in the view of the centre have increased or decreased costs connected with the qualifications system.
- 7.92 From among the list of subjects above we should like to comment in more detail on two – late entry fees and the costs of dealing with multiple awarding bodies.
- 7.93 Much has been said by awarding bodies and by centres about late entry fees: centres say that the fees are too high, awarding bodies that there are too many late entries and that centres should get a grip of them. It would be useful to canvass the views of centres on why late entries arise, and what could be done to improve the situation (taking into account the efforts already applied by NAA).

System analysis and high-level efficiency study

- 7.94 As regards the question of multiple awarding bodies and multiple syllabuses, we recognise that, while the costs might be relatively easy to identify, the benefits may be hard to quantify. As a first step, we suggest that centres be asked to consider only the costs.
- 7.95 It is for consideration whether the questionnaire for centres should include questions connected specifically with Diplomas. ASCL made the point that Diplomas will require schools and colleges to cooperate more (to bring the general and vocational components together) and that this by itself will add to costs. There may thus be a type of cost connected with Diplomas that is not captured wholly as a teaching cost or an exam-administrative cost.

Summary

- 7.96 Our recommendation is that QCA should begin a first efficiency study by undertaking or commissioning a high-level study of the qualifications system as a whole, examining incentives and disincentives to efficiency at each principal level in the system hierarchy, namely Department, regulators, awarding bodies, and centres. Such a study would be reinforced (a) by a non-contentious questionnaire concerning, in the main, relative costs among awarding bodies and (b) by surveys of costs incurred by centres.
- 7.97 The high-level study could be undertaken as an exercise of value in its own right. It does not need to be followed by the detailed study. But if the detailed study is to be undertaken, we recommend that the high-level study be undertaken first.
- 7.98 Separately from initiating an efficiency study, we also urge QCA to consider a competition analysis of the supply of general and vocational qualifications by the awarding bodies.
- 7.99 Although we cannot make a specific recommendation – since changes would involve primary legislation – we urge that the duties and powers of QCA in relation to efficiency (and in relation to its economic role generally) should be reviewed. That said, we welcome the fact that the Government's intended restructuring of QCA will include a review of precisely these issues.

The value to QCA of the high-level approach

- 7.100 The high level approach would convey the following benefits to QCA:
- a systematic assessment of pressures towards efficiency or inefficiency at each level in the system hierarchy;
 - through Impact Assessments, a clear idea of which policy or regulatory initiatives are causing pressure points on system efficiency;
 - a clear idea of the connection between efficiency effects at each level in the hierarchy;

System analysis and high-level efficiency study

- a reasoned self-assessment by awarding bodies of efficiency issues along subject lines of relevance to QCA's functions, including particularly problems said to be caused by policy makers and regulators and by centres; and
 - a reasoned self-assessment by a sample of centres, again along subject lines of relevance to QCA's functions, of problems caused by policy and regulatory initiatives.
- 7.101 The questionnaire coverage of the largest awarding bodies and of a good representative sample of centres should give QCA robust evidence with which to debate efficiency issues at a policy level with the Department.
- 7.102 Although the cost data required from awarding bodies is (we think) unlikely to make them reluctant to cooperate, it is sufficient for QCA to begin to make *some* quantitative assessment of efficiency. It should, for example, be possible for QCA to assess the likely percentage effects of current or recent policy initiatives, albeit in broad rather than precise terms. Assessing costs in absolute terms, and with greater precision, would be covered by what we have termed the detailed approach, which we turn to in section 8.

8 A DETAILED EFFICIENCY STUDY

Costs through the hierarchy

- 8.1 The detailed study we propose is in technique closely similar to the efficiency reviews conducted, usually at five-year intervals, by other sector regulators. They begin with – and we propose that a QCA study would be founded upon – a detailed examination of the costs of the contributors to the qualifications system.
- 8.2 It is important to emphasise that the focus of interest at this stage of our argument is on costs, not on prices. In some circumstances one might expect to see prices closely related to costs, while in others there may be good reasons for divergence: the point is that pricing needs to be considered only once costs are known.
- 8.3 An efficiency study of qualifications requires that, for each player in the system, costs other than those related to qualifications need to be eliminated. In some cases this may be quite straightforward, and in others quite complex. We consider separately each level in the hierarchy.

Department

- 8.4 The Department disposes of an annual budget in excess of £60 billion. The Department's own administrative costs total £238 million, a tiny percentage of £60 billion.³²
- 8.5 The element of Departmental cost we need to establish is that of policy-making, and only in the field of those qualifications that are relevant to the study. If these costs are not readily discernible in the Department's own financial records, we suggest that the number of FTE staff engaged upon qualifications policy-making and monitoring be estimated, then multiplied by an average figure for salary and on-costs.³³ It would be desirable to split the total of estimated costs by qualification type, at least into GCSE, A level, vocational, Diploma, and others.
- 8.6 It would be desirable for comparable costs to be gathered for Wales and Northern Ireland if the appropriate authorities are willing.
- 8.7 While it may be relatively straightforward to identify the direct costs associated with qualifications, there remains the question of how to deal with costs that are shared across multiple activities, for example the costs of senior managers and administrators who cover a portfolio of activities, and such costs as heating, lighting and utilities. In some regulated organisations, such joint and common costs are very high, so it becomes important to distribute them carefully across activities. In qualifications we doubt that this is the case,

³² See <http://www.dfes.gov.uk/aboutus/reports/pdfs/deptreport2007.pdf>, Annex E, p.128.

³³ When we spoke to DCSF during the interview programme we were told that there should be no great difficulty in producing disaggregated budget figures.

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and that it is not worth applying a great deal of effort to achieve a degree of precision that does not much matter. If the Department is able to identify joint and common costs as a whole, it may then be sufficient to allocate a share to qualifications based on headcount, i.e. if the qualifications FTE staff account for 5 per cent of the total, then one might reasonably allocate 5 per cent of joint and common costs to qualifications.

Regulators

8.8 Broadly speaking, the same principles apply to QCA as to the Department – that is to say, QCA would need to determine how much of its total budget is spent on regulating the qualifications considered here, with the same breakdown between qualification types as proposed above.

8.9 We also propose the same approach to the allocation of joint and common costs.

LSC and the SSCs

8.10 We take a substantially similar view as regards the approach to be adopted for the Learning and Skills Council and the SSCs. Although they deal with vocational rather than general qualifications, and the analysis of their costs may thus be relatively straightforward, these costs do need to be included.

Awarding bodies

8.11 The ideal approach would be to require awarding bodies to reveal and allocate costs in exactly the same way as we suggest should be done by the Department and regulators. We further suggest that awarding body costs should be allocated vertically (i.e. by function) as well as horizontally (by qualification type). A simplified matrix might look like Table 8.4 below – though we emphasise that it is very simplified.

8.12 It would be for the efficiency study to determine exactly what the column and row headings would be.

Table 8.4: possible matrix of awarding body costs

	GCSE	A level	Vocational	Diploma	Other
Policy formulation					
Syllabus design					
Syllabus testing					
Exam delivery					
Late entry costs					
Post-delivery					
Centre support					
Training					

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- 8.13 We fully recognise that obtaining such information from the awarding bodies might raise problems of confidentiality.
- 8.14 If the awarding bodies are unable to provide the information sought, a useful fall-back could be to use the data provided to PKF. The analysis of costs gathered by PKF would not be as complete as would be desirable, but for a first-time study it would, we suggest, be an acceptable starting point.
- 8.15 There would remain the question of obtaining information about vocational qualifications and the Diploma, none of which were covered by PKF. There are three possible approaches here:
- to seek the cooperation of all awarding bodies in providing them;
 - to seek the cooperation of vocational-only awarding bodies and to compare their returns with the analysis of general qualifications; or
 - to leave them out of the study in the expectation that they could be picked up in a later study.
- 8.16 It would be for the efficiency study – or a preparatory stage to the efficiency study – to determine which of the three options is to be preferred.
- 8.17 Our own view is that the first option is much to be preferred. The wide-ranging nature of the efficiency study we propose here ought to allay the concerns of awarding bodies that they are being singled out for scrutiny.
- 8.18 If the first option proves to be unworkable, the second would be next-best. There are a substantial number of awarding bodies that provide only vocational qualifications, and a sufficient sample would provide at least a broad basis of comparison with general qualifications. The value of the comparison would be in round terms proportional to the sample size.
- 8.19 If the first and second options prove infeasible, the third is in our view a perfectly viable approach. A study confined to the efficiency of general qualifications is preferable to no study at all.

Centres

- 8.20 We propose that a detail-level efficiency study should use the sample of centres and responses gathered for the proposed high-level study (see paragraph 7.91).
- 8.21 The responses that cover fees paid to awarding bodies (4. and 5. in paragraph 7.91) would be multiplied up from the sample of centres to the full population to provide a form of back-check on revenues stated or estimated by awarding bodies.

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Summary of cost information

- 8.22 The steps we suggest for data gathering at each level in the hierarchy would produce a matrix of information along the lines of Table 8.5 below. The table assumes the maximum amount of information; in practice it might be less.
- 8.23 Depending on its completeness, such a matrix would permit QCA to see costs disaggregated by type of qualification, by type of body, by function and (provided there is sufficient data available from Wales and Northern Ireland) by country. The matrix of total costs would provide a core component for the analysis of efficiency.

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Table 8.5: summary of costs

Body	Cost element	Qualification type					Total
		GCSE	A Level	Vocational	Diploma	Other	
DCSF	Direct						
	Allocated						
QCA	Direct						
	Allocated						
CCEA	Direct						
	Allocated						
DCELLS	Direct						
	Allocated						
Learning and Skills Council	All (central+ regional)						
SSCs	All						
Awarding body	Policy formulation Syllabus design Syllabus testing Exam delivery Late entry costs Post-delivery Centre support Training (Other)						
Schools	Exam fees Of which late entry Other fees Staff training with ABs Other costs						
Colleges	Exam fees Of which late entry Other fees Staff training with ABs Other costs						
Total							

Analysing efficiency

8.24 We suggest that the next step is to estimate a unit cost for each of the elements above. This would be done by dividing the costs in each cell of Table 8.5 by the numbers of learners sitting each type of qualification (we recognise that there are no such numbers yet for Diplomas, but estimated numbers could be used on a what if basis). If there were (say) 5 million students sitting GCSE examinations, each cost element shown under the GCSE heading would be divided by 5 million.

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- 8.25 A new version of Table 8.5 (which we will refer to as Table 8.5u for convenience) would then emerge showing unit costs down and across the table. At that point it becomes possible to compare costs horizontally across qualification types, and vertically by contributing body and function. Country comparisons can be done in both directions.
- 8.26 Together Tables 8.5 and 8.5u provide the tools for achieving transparency upon which QCA (and the Department) said they place such value.

“Yardstick” assessment

- 8.27 Table 8.5u would permit QCA to begin what other sectoral regulators would know as “yardstick” assessment. In other words, comparing results: why do (say) GCSEs in Wales cost X per cent more (or less) than in England. Should A levels be on average X per cent more costly than GCSE? Why is the regulatory cost of GCSE so much higher (or lower) than for vocational qualifications? What do the costs and the lower numbers of candidates in Wales and Northern Ireland tell us about economies of scale?
- 8.28 Table 8.5u will not provide the answers, but it is likely to highlight some compelling questions that cannot be identified on any other basis.
- 8.29 In our proposal to QCA for this Scoping Study we raised the possibility that comparisons of UK qualifications costs with overseas experience might be of use. However, several interviewees told us that the UK system was so far removed from practice overseas that comparisons would be meaningless, and we therefore decided not to pursue them.

Comparison of costs with prices

- 8.30 Since awarding body prices are publicly available, Table 8.5u permits a comparison of costs with prices. Such an assessment would be independent of and different from the review carried out by PKF, and to the extent that it might be different would be worth exploring further. PKF compared only the awarding bodies’ own costs with prices, and, so far as we are aware, did not consider any upstream costs faced by the awarding bodies as part of their costs.

Comparison of regulatory costs with regulatory value added

- 8.31 Because Table 8.5 (and 8.5u) enable the summation of costs horizontally as well as vertically, it becomes possible to isolate regulatory costs, whether by qualification type, by country or in total.
- 8.32 With this in mind, we suggest that such assessments should be done – to highlight and explain differences and to identify steps for improvement. We suggest also that some “vertical” assessment should be done too. For example, what cost does QCA incur in (say) taking an initiative from the Department and turning it into something that an awarding body can work on, and how does the cost it incurs for doing that compare with the cost that the awarding body incurs in developing a specification? Some of the answers may be uncomfortable for regulators, and others uncomfortable for awarding

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bodies, but if transparency is what QCA desires in an efficiency analysis, such analyses are unavoidable.

- 8.33 The costs and contributions of SSCs are particularly worthy of attention in the opinion of vocational awarding bodies. The judicious use of Tables 8.5 and 8.5u would permit both a factual assessment and a comparison with the contributions of other bodies.

The cost and value of diversity

- 8.34 The interview programme left us in no doubt about the importance of this issue or of its relevance to efficiency in qualifications. The essential question is one of cost-benefit analysis: whether the costs to the system, and ultimately to the taxpayer, of having diversity and choice are justified by the benefits achieved.
- 8.35 The recommendations we have made for cost collection and analysis enable the cost side of the analysis to be done relatively easily. The principal cost elements – the administrative costs to centres and the development costs to awarding bodies – emerge clearly. The benefits, however, do not, and we have concluded that it is beyond the capability of an economics-based study of efficiency to define them.
- 8.36 We were told that, although there is evidence to suggest that syllabus diversity is diminishing even where choice remains, teachers still like to have it. Switching between awarding bodies may not be frequent but it does take place, and subject heads of department see it as important to grade and pass rates (and thus to league table positions) that they should choose the syllabus which they judge best suited to pupil and teacher capabilities.
- 8.37 It seems to us that the right way forward (if it has not already been attempted) is for QCA to undertake or commission a pedagogical analysis of “competing” syllabuses in the same subject, with a view to obtaining an independent judgement of the extent and nature of the differences. It would be desirable to back up such analysis with a survey of teacher views about the value of the differences. In this way one could get at least a toe-hold on whether the costs incurred were justified by the extent of differences.
- 8.38 If the differences seemed small relative to the costs, it would not necessarily follow that choice should be eliminated. There would be an equally good case for considering whether diversity could be increased in ways that justified the costs. In an effectively competitive market the balance between cost and diversity would be determined by Adam Smith’s “invisible hand” – the decisions of thousands of buyers acting in their own self-interest.
- 8.39 In qualifications, this is clearly not so: the guiding hands are clearly those of Department and regulator, and they are all too visible. In this study we have been engaged to consider efficiency not as experts in education but as economists with experience of competition, regulation and monopoly. As economists, therefore, we suggest that, if the value of diversity is under question in relation to costs, the interests of efficiency may be

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served by an increase in diversity for the same cost rather by lower costs achieved through lower diversity. At the least there is a case for examining both options.

- 8.40 A formal competition analysis of the supply of qualifications would in our view contribute substantially to clarifying the issues and the evidence.

Summary

- 8.41 We recommend a detailed study in order to make possible the closer identification of problems and potential solutions in the qualifications system.
- 8.42 Our principal recommendation under this heading is the construction of a matrix of costs, disaggregated by system player, by country (England, Wales and Northern Ireland) and by type of qualification. We further recommend that a second version of such a matrix be constructed from the first in order to provide unit costs in the same format. The two matrices would then form a basis for a wide variety of cost and efficiency comparisons, both vertically (by body and function in the system) and horizontally (by type of qualification).
- 8.43 We recommend that the comparisons made possible by the two matrices should open up dialogue between the system participants. We do not envisage that they would lead directly to prescriptions for remedying defects.
- 8.44 We recommend that a cost-benefit analysis be undertaken of the costs and benefits of diversity of syllabus choice. The costs would emerge from the two matrices mentioned above, but we recommend that estimating the benefits of choice should be undertaken by independent subject specialists in teaching.
- 8.45 We further recommend that, in relation to syllabus choice, QCA consider how a more competitive market might work, and that it should keep an open mind about the possible value of increasing diversity for the same cost rather than aiming for lower cost through lower diversity.

9 RESOURCE IMPLICATIONS AND PRACTICAL ISSUES

- 9.1 In this section we aim to break down the main recommendations into smaller modules and to assess what time might be required to conduct each module, no matter whether QCA or a third party carries out the work.
- 9.2 In addition, we cover ways in which the efficiency study might be “future proofed”, given the apparently remorseless programme of Departmental and regulatory changes trained upon the qualifications system.

Breaking down the tasks

- 9.3 We take the view that, if the high-level study is to be initiated, there should first be early notification to all stakeholders in the manner that QCA applied to this Scoping Study. Any such notification would explain what is meant by the high-level study but would leave the possibility of the detailed study in abeyance until the high-level study had been completed.

The high-level study

- 9.4 The high-level study breaks down naturally into a module for each level in the hierarchy, and we suggest that they be tackled from top to bottom, since that is the activity flow in the hierarchy. There are thus four modules in all.
- 9.5 In practice, it may be possible to telescope the Departmental-level and regulator-level modules where the appraisals are of initiatives already completed. We think, however, that the analysis of the awarding body and centre levels should be conducted sequentially.

The detailed study

- 9.6 Like the high-level study the detailed study would need to be preceded by early notification to all stakeholders. Also like the high-level study, the detailed study would break down into modules which logically follow levels in the hierarchy.
- 9.7 It was suggested during the interview programme that there should no great difficulty in breaking down the budgets of government departments or of relevant NDPBs, so we suggest that acquiring the costs of DCSF, QCA, LSC and the SSCs (and of CCEA and DCELLS if they are willing) should be tackled as the first module. Part of the work required under this module would be to determine methods for allocating joint and common costs across the different qualification types. To the extent possible, the allocation rules should be uniform across each of the bodies, but where strict uniformity proves impossible consistency should be applied.
- 9.8 We emphasise that, although it would be natural for the detailed study to proceed next to the awarding bodies, the study of the qualifications costs of the Departments and of the NDPBs would form a useful exercise in its own right.

Resource implications and practical issues

- 9.9 The second module covers the involvement of awarding bodies. It requires the construction of a questionnaire to be sent to the unitary bodies and the recognised vocational bodies. The sequence of events here, we suggest, should be the development of the questionnaire, the approval thereof by QCA, and consultation with the awarding bodies in the expectation of gaining agreement to it. It would be for QCA to gauge how long it might take to gain the co-operation of awarding bodies, though we would hope that, since no information of a commercially sensitive nature is being sought, the process of gaining cooperation and approving the questionnaire should take a couple of weeks rather than several months.
- 9.10 The third module would cover schools and colleges. It would involve, as preparatory steps, gaining the cooperation of their representative bodies, the devising of a suitable survey questionnaire (or questionnaires) and the development of the representative samples required. There would then be the conduct of the surveys themselves and the analysis of results. Together, these activities would make this third module in the detailed study one of the longest – and the timing would need to be carefully judged to miss those times of the year when centres might feel most under pressure.
- 9.11 The final module would be one in which the matrices are developed and QCA embarks on the exploration of as many efficiency issues as it feels it wants to undertake. Almost by definition, the time required for this last module is elastic: it is limited only by the currency of the data supplied for the matrices.

Future proofing

- 9.12 We have tried to establish through the recommendations in section 7 of this report a mode of analysis which can be applied as often as necessary so long as the structure and relationships of stakeholders remain much as they are now. Formal “future proofing” is not a feature of regulatory efficiency investigations in other sectors: the expectation is that a review will take place at or around intervals of five years along broadly established and predictable lines. Our most important recommendation as regards future proofing is therefore that the idea of regular efficiency studies of the qualifications system be established now.
- 9.13 There is one other initiative already under way which seems to us worth an investigation in its own right, and that is the Diploma. Its likely costs and uptake are as yet (so far as we can tell) largely unexplored, and its value alongside established qualifications unclear. Our suggestion is simply that the costs already incurred in pursuit of the Diploma – and the costs still to be incurred – be tracked starting now.

APPENDIX 1: TERMS OF REFERENCE

SCOPING EXERCISE FOR A STUDY OF THE EFFICIENCY OF THE QUALIFICATIONS SYSTEM

Specification of requirements

A1.1 The Qualifications and Curriculum Authority (QCA) invites quotations from contractors to undertake a scoping exercise for a major study of the efficiency of the qualifications system.

Introduction

A1.2 QCA has been given a remit by the Department for Education and Skills to undertake a major study of the efficiency of the qualifications system in England, Wales and Northern Ireland. The study will focus on how the efficiency of the system can be improved in order to deliver the commitments set out in Chapter 7 of the White Paper "Further Education: Raising Skills, Improving Life Chances" (the "FE White Paper" published in March 2006).

A1.3 The proposed purposes of the study are to:

- Develop a coherent picture of the qualifications system, its cost to the taxpayer and the benefits it brings to the public and the economy
- Identify measures to reduce the financial burden of the examinations system
- Identify measures to reduce the administrative burden of the qualifications system on schools, colleges and training providers
- Propose measures to improve the efficiency of the qualifications market.

Context

A1.4 Work has recently been undertaken by the qualifications regulatory authorities to address specific issues within the qualifications system, and the contractor will need to be familiar with the outcomes of this work and the on-going follow-up activities during the scoping exercise. QCA received two remits in the FE White Paper; the first was a review of the fees charged by awarding bodies for GCSEs and A levels; the second was concerned with reducing the burden that awarding bodies' quality assurance monitoring places on centres. Work on these remits was completed at the end of 2006. Another major area of work designed to reduce the administrative burden on centres is the Centre Recognition Project. This project aims to establish a common process of requirements for centre recognition and approval across all awarding bodies.

A1.5 Two earlier reports commissioned by QCA provide background material that will be of value in scoping the study: "The Market for Qualifications in the UK" (2005) and "Financial Modelling of the English Exams System 2003-04" (2004). Both reports are available on QCA's website.

Scoping exercise

- A1.6 The contractor will work with Isabel Nisbet (Director, Regulation and Standards), to undertake a scoping exercise for the above study. The qualifications system is large and complex and the task of the scoping exercise will be to confine the study to manageable proportions while ensuring that the purposes of the study are met. The contractor will add value by designing a suitable analytical framework for the study that will enable key cost drivers and efficiency measures in the system to be identified and quantified.
- A1.7 The contractor will be required to:
- i) Engage in discussions with stakeholders and key informants to set the parameters of the study. Stakeholders will include QCA, NAA, DfES, DELLS, CCEA, LSC and the awarding bodies
 - ii) Propose the methodology to be employed to ensure that the purposes of the study are achieved
 - iii) Prioritise the information required for the study, according to its importance and the difficulty that will be encountered in accessing it
 - iv) Identify key sources of quantitative data to inform the research
 - v) Produce a comprehensive project brief for the study
 - vi) Produce a written report on the scoping exercise.

APPENDIX 2: BIOGRAPHIES OF TEAM MEMBERS

- A2.1 The Europe Economics team consisted of Robert (Bob) Young, as Project Director, together with Haris Irshad and Jonathan Todd. The external consultants were David Carter and Henneke Sharif, who between them have extensive experience of education, qualifications and public policy issues associated with both. Brief biographies are as follows (names in alphabetical order).
- A2.2 **David Carter** has worked as an independent consultant since 1992. In recent years most of his work has been for organisations with responsibility for training and education policy and for community-based organisations. His particular specialisms include further and higher education development, funding and policies; training policy development and evaluation; European funding; labour market research; community economic development and social inclusion issues. David has carried out substantial amounts of work for the LSC, both nationally and locally, and has completed repeat projects for QCA, and the DfES. David Carter and Bob Young worked together on projects for Edexcel, where Henneke Sharif (see below) was Edexcel's project manager.
- A2.3 **Haris Irshad** joined Europe Economics in October 2005 after completing a two-year Overseas Development Institute fellowship in Lesotho, working on efficiency and related issues as a Senior Economist in the Privatisation Unit. In addition, to having experience in carrying out efficiency studies (both in Lesotho and in Europe, e.g. Jersey Post), Haris has substantial experience in conducting impact assessments — many of which have involved preliminary scoping exercises and stakeholder interviews. He is currently managing a project on impact assessment for the European Commission, which involves a pan-European stakeholder consultation exercise and detailed modelling. In Lesotho he also supervised international consultants carrying out a number of studies (some of which dealt directly with efficiency and tariff setting). Haris' work at Europe Economics has ranged widely over sectors and techniques. He has recently worked on a number of high profile public policy projects (for example, housing, energy efficiency, and infrastructure planning), and has experience working with regulators such as Ofcom and being seconded to Government on two occasions (Cabinet Office and the Department of Communities and Local Government). Other sectors he has worked in include transport, financial services, post, and telecommunications.
- A2.4 **Henneke Sharif** is a freelance consultant in public policy matters. She has previously been a partner with LLM Communications, the co-editor of a political journal, and the Public Affairs Development Manager of Edexcel. At Edexcel she developed and steered a major research series on the economic cost of the education system; on regulation and fairness in the education system; and on parity of esteem. Henneke's clients include the Design Council, CABE, ippr, Demos, the Work Foundation, Manchester City Council, Nottingham City Council, KPMG, and the CBI. She has recently advised Oxfam on the contribution of the UK education system to Oxfam's goals. Last year, she worked with an agency advising the DfES on its communications, and is currently advising the Royal Society of Arts on its public affairs.

- A2.5 **Jonathan Todd** has worked on projects for the European Parliament relating to the Financial Services Action Plan, for the think-tank Open Europe on the European Union Energy Trading Scheme, and for DG Internal Market on public procurement. The procurement study included the evaluation of the economic impact of the EU procurement directives since 1992. Based on a postal survey and a series of in-depth interviews in all EU15 Member States the study was in essence a cost-benefit analysis of EU regulation in public procurement. Before joining Europe Economics Jonathan was researcher to Siôn Simon MP and Tony Cunningham MP, in which role Jonathan led research, analysis and briefing across a wide range of Government policies. He followed particularly closely the investigatory and analytical activities of the Public Accounts Committee.
- A2.6 **Bob Young** has fifteen years of consultancy experience, much of it in regulated sectors, preceded by six years as a member of the Monopolies & Mergers Commission and two years on secondment to the Cabinet Office and the 10 Downing Street Policy Unit. Bob also served 10 years, from 1994 to 2004, as a member of the UK/US Fulbright Commission. Before that, he had a career of some twenty years in private sector manufacturing. In consultancy, Bob has spent most of his time in the economics of competition and regulation, and before joining Europe Economics carried out three projects relating to standards and choice for Edexcel. As Project Director, Bob Young takes responsibility for the quality and timeliness of the Scoping Study project.

APPENDIX 3: OTHER GENERAL QUALIFICATIONS

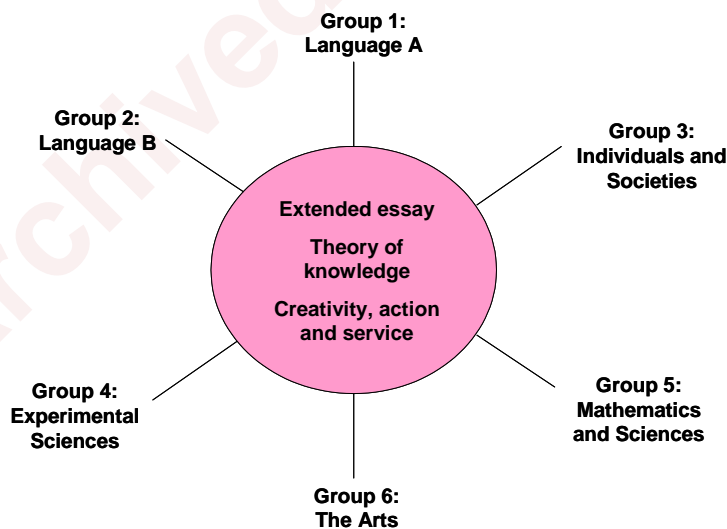
A3.1 These further general qualifications are explained here primarily for the sake of completeness. The extent to which they have been taken up in the UK is as yet limited, so we did not attempt to examine them in greater detail in the main body of our report.

International Baccalaureate

A3.2 An increasingly well-known alternative (and by implication substitutable) qualification to A levels is the International Baccalaureate (IB). Strictly speaking, the term International Baccalaureate refers to the name of the provider, while the qualification itself is known as the Diploma Programme (for 16-19 year olds).³⁴ The IB's Directorate General is located in Geneva, Switzerland with regional offices around the world. Its largest curriculum and assessment centre is based in Cardiff and its research unit is located in the University of Bath.

A3.3 With the proviso above on definition, we hereafter refer to the qualification as the IB. It is a two-year programme that is widely recognised by universities across the world. The IB curriculum contains six subject groups clustered around a core of three separate parts, shown in Figure 4.5 below.

Figure A3.5: IB at a glance



Source: www.ibo.org

³⁴ The company offers curriculum and assessment programmes for other age ranges as well, see: <http://www.ibo.org/general/what.cfm>

- A3.4 Students study six subjects from the subject groups, with three of these being studied to a higher level. Assessment is done both internally and externally.
- A3.5 Until recently, IBs were not commonly taught in the UK, and were historically confined mainly to independent schools. But a government announcement in November 2006 that it would provide funding to ensure that every local authority has at least one centre offering the IB will mean that more students will be likely to sit the IB. Currently there are around 100 centres offering the IB in the UK.
- A3.6 However, we were told that the IB course is not suitable for all students taking A levels. In some cases, A levels offer more choice and a chance to specialise if the student knows his/her intended career path. Further, the IB is said by some to be too difficult for a number of candidates and requires commitment which may not be forthcoming.

Welsh Baccalaureate

- A3.7 The Welsh Baccalaureate Qualification (sometimes referred to as the Welsh Bac) has been piloted in Wales since 2003. It is an overarching qualification consisting of two parts: core and options. The core is made up of four main components: key skills; Wales, Europe and the World; work-related education; and personal and social education. The options are approved qualifications (such as A levels, GCSEs or NVQs) already taken post-16. Together the core and options make up a Welsh Baccalaureate Diploma. At present two levels (Intermediate and Advanced) are being rolled out in post-16 provision and a third (Foundation) level is being piloted in 14-19 provision. The Intermediate model is also being piloted alongside the Foundation level in 14-16.
- A3.8 Given that the Welsh Baccalaureate Qualification allows for the inclusion of A levels and other qualifications (including vocational qualifications such as NVQ and BTEC) it cannot be classed as a substitute for other post-16 qualifications. Rather, it could be regarded as a wrapper that accommodates, rather than competes against, existing qualifications.

Pre-U

- A3.9 In October 2005, Cambridge International Examinations (CIE) announced that in addition to the IB it would offer a new post-16 qualification labelled the "Pre-U". This qualification would (like A levels) be taken over two years in three subjects. However, in contrast to A levels the course would not be modular and there would be an extended essay. The Pre-U would differ from IBs by virtue of having no mandatory subjects.
- A3.10 The Pre-U has been designed in conjunction with universities and the independent sector (and a specialist school representative) in order to offer a more challenging qualification, with university entry as the main goal. Pre-U is currently being trialled and it remains to be seen whether it will become a sustainable competitor to A levels.

International GCSE (IGCSE)

A3.11 At the pre-16 level there is no competition within the state school sector to GCSEs. However, independent schools have the option of offering IGCSEs, and there is some suggestion that it is attracting increasing attention. A BBC story dated September 20th 2005 (see <http://news.bbc.co.uk/1/hi/education/4263600.stm>) records the Director of Studies at King's School, Ely as saying that the attraction of the international version is that it is a more rigorous preparation for A-level. We understand that this qualification is provided by only two awarding bodies: Cambridge International Examinations and the international division of Edexcel.

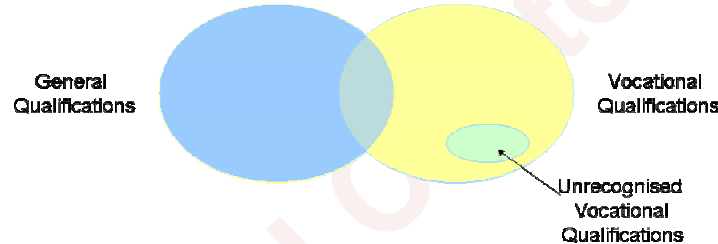
Archived Content

APPENDIX 4: UNRECOGNISED BODIES AND APPRENTICESHIPS

Unrecognised awarding bodies

- A4.1 As was noted in section 2, within the vocational qualifications market there is a large number of unrecognised awarding bodies offering qualifications. These bodies and their qualifications are not accredited by QCA.³⁵ (For a qualification to be offered in state schools it must be accredited.)
- A4.2 Thus, one might modify our previous Venn diagram to accommodate a sub-market within the vocational segment.

Figure A4.1: Market for qualifications with unrecognised segment



- A4.3 Awarding bodies may choose not to seek accreditation for a number of reasons. In the first instance, the qualification may already command a high level of respect and credibility in the relevant sector. The example of Microsoft offering its own qualifications was cited by some stakeholders as evidence that lack of accreditation is not necessarily a reflection on quality.
- A4.4 Further, as the supplementary PwC report on the market for qualifications demonstrated, there are more than 400 unrecognised awarding bodies in existence.³⁶ Within this group there is a great deal of diversity, ranging from the Duke of Edinburgh's Award to the Lace Guild, and encompassing professional bodies in law and accountancy. For some bodies, especially smaller unrecognised bodies, the cost and time involved in accreditation may not be justified by volume.
- A4.5 Certain qualifications offered by unrecognised bodies may be accredited by other industry associations rather than by QCA. Such examples include qualifications offered by the Health and Safety Executive. For these bodies further accreditation by QCA may be deemed redundant.

³⁵ It is rare to find recognised awarding bodies offering non-accredited qualifications.

³⁶ "The Market for Qualifications in the UK – further research on organisations awarding qualifications in the UK: stage 1", PwC March 2006.

- A4.6 While unrecognised awarding bodies are an important component of the qualifications market, we argue against including them in a future efficiency study. They are numerous; because of their great diversity they would be difficult to sample reliably; there is uncertainty as to who their customers are, what costs they incur and how their business models work. The inclusion of the unrecognised sector in any efficiency study would complicate the work and add substantially to its cost and timescale.
- A4.7 Furthermore, as the PwC reports show, most unrecognised bodies appear to be offering qualifications for the post-19 market. Thus, they would not be relevant for an efficiency study aimed at 16-19 qualifications.

Apprenticeships

- A4.8 As we recorded in the main body of our report, we recognise that apprenticeships are an important part of the UK qualifications system. But limitations of time for this Scoping Study meant that we could not give them proper consideration. It would be for discussion whether apprenticeships should fall within an efficiency study as recommended in section 7 of this report, or whether they should form the subject of a study in their own right.