

Oligopoly Case Study - Private schools in row over fee fixing

Eton, Westminster and Marlborough are among the schools that appear to have colluded on the fees they charge. The Office of Fair Trading is now considering launching an investigation as parents face record hikes in fees averaging 10%, four times the rate of inflation. In the past decade fees have risen by 56%.

Across the country, local and national groups of schools have "cartel-style" private meetings where they share sensitive financial information. The result is near-identical increases in fees.

One bursar admitted last week that he had shared pricing information with other schools and compiled a dossier of his rivals' future fees that would be presented to his governing body before finalising his own.

David Chaundler, bursar at Westminster school, said he acquired details of rivals' fee proposals and costs from meetings of the Eton Group of 12 top private schools. At one meeting in February each bursar announced their school's proposals for increasing fees.

"We do compare school fees," Chaundler said. "If I went to my governors with a rise substantially above the others they might tell me to rethink. We do ensure we are pretty well in line."

Competition lawyers believe the relationship could constitute a cartel. Jonathan Tatten, a partner at Denton Wilde Sapte, said the schools, which have charitable status and are non-profit-making, were not exempt from competition laws: "Showing confidential pricing information to competitors is a very serious breach of competition rules. You know where you can safely pitch your own fees and it's a way of fixing the market."

The maximum punishment if a cartel is found is a five-year prison term, he added. In America, a price-fixing inquiry into Ivy League colleges ended without any principals going to jail but led to new rules banning discussion of fees with each other.

Westminster and the other schools say they still make independent decisions on the precise level of fees, and claim the prices are close because many schools have similar cost bases.

This year private schools face a financial crunch from higher salaries and pension payments for teachers, plus Gordon Brown's rise in National Insurance contributions. Fearing a backlash from parents against big fee rises, this spring schools were particularly keen to present a united front.

Top boarding schools are set to cross the £20,000-a-year fees watershed for the first time.

On February 7 the Eton Group, including Westminster, Marlborough, King's College school (London), Sherborne, Tonbridge and Bryanston, met at Dulwich College, south London. Each of the bursars outlined the fees they proposed to charge for the next year.

Andrew Wynn, of Eton, admitted: "We do meet and talk about fees to get some idea of what other schools are thinking. We are a co-operative bunch, and we are not out to slit each other's throats."

Although their academic results vary, the group's six provincial boarding schools are already closely aligned on fees of £6,300 to £6,445 a term. Its two major London boarding schools, Westminster and Dulwich, charge fees of more than £6,000 and are just £138 apart. Day school members Highgate and nearby University College school have charged exactly the same for the past two years.

A similar meeting held by a rival network, the Rugby Group, whose members include Winchester, Radley, Harrow, Clifton College and Shrewsbury, is also understood to have discussed plans for the first £20,000 annual fees.

William Organ, bursar of Winchester, said: "Sometimes schools feel they are too far ahead in fees and row back a bit, or the other way round. They look at their competitors in the area and say: Gosh, we're slipping behind in the fees league we'd better catch up."

A network of six leading private day schools in Manchester, known as the Consortium, holds similar meetings. The schools including Manchester Grammar, William Hulme's Grammar and Stockport Grammar, last year charged about £1,900 a term, with a difference of £131 between them.

Elizabeth Fritchley, William Hulme's bursar, said the group met every term and phoned each other in March: "We decide what our increase is to be and then phone the other schools. If we are thinking of putting the fees up by, say, 15% and the rest were proposing far less, then it would make us rethink our strategy."

Yesterday Mike Sant, general secretary of the Independent Schools' Bursars Association, denied any cartels were operating: "Schools will decide where they want to be in the market and will be watching their competition and move fees accordingly. All the schools are so different they are just not in competition. They do exchange information, but just to get a feel for what others are doing."

Questions:

- i. If a group of schools simultaneously raises their fees by a similar amount, is this evidence of collusion? What other explanation might be possible.***
- ii. If fees have risen much faster than the rate of inflation, 56 % over a decade, is this evidence of collusion, or are other explanations possible?***
- iii. Describe the factors that are favourable to the formation of a successful cartel, and those that are unfavourable, for the elite private schools mentioned in the article. Use the statements in quotations as evidence.***