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## Introduction: Privatisation – The Plan and the Gamble

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In May 2010, the UK Coalition government formed under an overarching narrative: austerity measures had to be introduced to restore economic health, given the large and increasing public sector deficit (the difference between annual income and expenditure). Its political ending was envisaged as follows: the structural deficit would be eliminated by 2015, the rate of increase of the national debt would have been slowed to zero in relation to GDP, and that year's general election would be fought on the platform of economic competence. Public funding therefore had to be cut across the board and the budgets used to fund higher education could not be immune.

The government department responsible for English higher education – the Department for Business, Innovation and Skills (BIS) – chose to concentrate its reductions on the block grant received by universities and colleges for undergraduate provision. In the Comprehensive Spending Review of October 2010, the Chancellor, George Osborne, announced that by 2014/15 the block grant would be cut from nearly £5 billion to roughly £2 billion, an annual saving of £3 billion, with many subjects seeing all central funding removed. This measure protected the independent science and research budgets while effecting a change necessary to create a new regulated market in higher education.

However, something else is afoot: the government is not simply implementing a change driven by temporary difficulties; it does *not* intend to restore the block grant when national finances improve. Instead, austerity is the occasion which makes the prominent changes more acceptable politically: 'there is no alternative'.

In order to maintain an equivalent level of financing for universities, higher tuition fees must make up for the shortfall. A vote in December 2010, which precipitated public protests outside Westminster, raised the maximum fee permissible at a state-funded university to £9,000, a sizeable increase on the 2011/12 fee of £3,375.

Understandably, headlines focused on this dramatic rise in price and its apparent expense for graduates, while obscuring the greater burden placed on the publicly backed student loan scheme, which

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requires an *increase in upfront* government borrowing. In the medium term, Public Sector Net Debt is projected to grow by over £50 billion as a result. Aided by accounting conventions, BIS is able to show a reduction in departmental expenditure, but, perversely, the standard narrative about deficit reduction and borrowing does not apply here.

Instead, the move to a generalised fee and loan regime is part of a more profound transformation of higher education and the public sector in general. The agenda is to create a lightly regulated market of a diverse range of private companies with direct public funding to institutions diluted to homeopathic levels. An experiment is being conducted on English universities; one that is not controlled and that in the absence of any compelling evidence for change threatens an internationally admired and efficient system.

As I write two years on, with the economic strategy unravelling, pressures to cut funding further are mounting, while a promised Higher Education Bill has been delayed. Now is the time to set out what agenda the government has been pursuing, how it has been pursued without democratic mandate or oversight, and how it is now being extended without parliamentary scrutiny. For the time being, the legislative change necessary to fully realise its ambitions has been stymied by focused pressure, but the government may be gathering its strength for a push before 2014. David Willetts, the Minister for Universities and Science, hopes to be ‘ingenious’ and to legislate retrospectively once the effects of his policies become clearer: as it stands he intends to use the powers put in place by the previous Labour administration to pursue a privatisation agenda, opening space for private equity and commercial companies to operate within the public higher education system and distribute profits out to backers, shareholders and owners.

Much of what any Bill would propose will appear obscure and technical; it will be presented as the rationalisation of historical anomalies, the removal of ‘unfair’ restrictions, and as liberating for individual institutions. The aim, however, will be to break what appears to its ideologues as a state monopoly in higher education.

As this book will set out, there is large mixture of cock-up and compromise in these developments, with BIS, the department responsible for universities, under extended pressure from the Treasury to control costs, while also recently losing out to the Home Office and the UK Border Agency over student visas at London Metropolitan University. The broader aim and strategy can be pieced together as one which is consistent with the reforms of the

NHS under Andrew Lansley and primary and secondary education under Michael Gove. What is introduced is the idea that health and education can be offered and run in a manner akin to utilities such as gas and electricity. ‘Public Service Reform is an omnibus term. We should understand it to embrace economic services as well as social services – telecoms, water, rail and postal services as well as health, education and policing.’<sup>1</sup>

What is challenged, eroded or destroyed in all these areas is democratic accountability, the disappearance of a public service in a positive sense.

#### PRIVATISATION: AIMING FOR A REGULATED SECTOR OF PRIVATE COMPANIES

Markets of this kind have to be created. David Willetts is committed to creating a ‘level playing field’ for any qualified provider able to recruit. The basic building blocks have been put in place without the need for primary legislation.

First, cut the block grant to public universities *entirely* in those areas where private providers are able to compete; thereby removing a ‘subsidy’ which allows the established universities and colleges to charge lower tuition fees. In a speech to the vice-chancellors of England’s universities in February 2011, David Willetts said:

Currently, one of the main barriers to alternative providers is the teaching grant we pay to publicly-funded HEIs [higher education institutions]. This enables HEIs to charge fees at a level that private providers could not match, and so gives publicly-funded HEIs a significant advantage. Our funding reforms will remove this barrier, because all HEIs will – in future – receive most of their income from students via fees. This reform, of itself, opens up the system.<sup>2</sup>

To confirm, austerity is the cover for an end desired for other reasons.

Second, BIS is rapidly expanding a scheme they inherited from Labour to ‘designate’ courses at private providers for student support. That is, students on such courses are able to access loans to pay up to £6,000 for fees while also being able to access maintenance grants and loans, used to cover costs of living while studying, on the same terms as those at the established universities. Under such arrangements, the private providers find a further impediment

removed: students do not need to pay fees upfront and can more easily study full-time owing to maintenance support.

Third, it has announced changes to regulations governing the protected title of ‘university’, which would allow institutions with only 1,000 students to apply. Although this will benefit some smaller higher education institutions currently within the state system, its main aim is anticipatory: offering new entrants to the market access to a title which can boost market perceptions. (‘University’ will effectively be a kitemark within the new market.)<sup>3</sup>

These reforms remove barriers to ‘market entry’ and enable more ‘providers’ to compete within the state system: the first two changes obviously alter the separation of private and public providers. But market entry barriers are also about quality control – determining the standards of the public system.

It is part of the general conservative ideology that bottom-up consumerism, having funding follow the student, will drive up quality. Both Lansley and Willetts hold to the credo that ‘competition is a tide which lifts every boat’. As Willetts elaborates:

The case for our higher education reforms is quite simply that they will lead universities to focus far more intensively than ever before on the quality of the teaching experience because they will be competing for students who bring their funding with them.<sup>4</sup>

First, it is not clear that quality here will mean academic quality, rather than general student experience: the evidence points to investment in non-teaching facilities, such as sports centres, social facilities and landscaped campuses, to attract applicants. Second, there are obvious inefficiencies in this competition as increasing resources have to be devoted to recruitment and marketing. Which leads to the third point.

The cost of financing higher education through the botched loan scheme means that the Treasury has insisted on an overall cap on student numbers. This creates a zero sum game where the sector is unable to expand overall and individual institutions are fighting for market *share*. This has the potential to turn inefficiencies into something potentially destructive. Especially if the new providers prove capable of disrupting the market.

Importantly, competition will be competition on *price* at least in terms of headline fees and initial graduate debt. New providers will offer a cheaper tier of provision that might steal away applicants from the more expensive middle seam of higher education

institutions, who will be labouring under recruitment restrictions which prevent them from out-competing market entrants. This is desirable from the Treasury perspective as it has the potential to drive down the costs of the system. But it is hard to reconcile this situation with the promise of improved quality in general: as we will see, the government wants to promote ‘value for money’ rather than standard quality.

In the longer term, these measures are designed to create a wholly different *system* with markets determining what is offered. The overall impact on public life is unclear, but certain subjects are threatened, individual graduates will be more indebted, while the broader civic or public missions of universities that have defined their histories may be undermined by a challenge from private training providers who have no such interest and will therefore strip back unprofitable overheads: for example, they are not required to participate in widening participation or access initiatives. Nor do they pursue research.

In effect, the majority of universities will need to become more akin to commercial operations, charging for services. Faced with competition from profit-distributing entities with rich backers, it is not clear whether maintaining charitable status will be viable in the long-run for most.

## THE DEMOCRATIC DEFICIT

This book concentrates on explaining this vision, how it is meant to work, and in particular the culture it engenders within universities. It is an attempt to explain what is going on in an area where there is little public debate. Without the planned legislation, and the national attention generated, there is a democratic deficit here.

Creeping reform is inconsistent with democratic oversight. What debates there have been, have been about fee levels; what has been put out to consultation often lacks concrete proposals. In the 2011 Higher Education White Paper and its accompanying technical consultations, key issues were couched in obscure paragraphs, which when consulted upon revealed no further detail, only open-ended questions. Secrecy surrounded some of the reviews, such as that being conducted by the financial investors, Rothschild, into ‘monetising the loan book’. A piece of jargon which masks something more than a simple sale of student loans to third parties. One concrete example can be proffered to illustrate this charge. The vote on tuition fees in December 2010 was a ‘snap vote’ called with little notice and with

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little time scheduled in the House of Commons: a tactical means to curtail debate both inside and outside Parliament.

Besides protests, what we have seen is largely lobbying conducted by either privateers or the vice-chancellors, through Universities UK (akin to the CBI) or the various ‘mission groups’. The interests of these do not match those of academics, students or the public in general. Universities, increasingly acting like corporations, were paid off: overall universities had expected to see an increase in annual income, albeit unevenly distributed, with the cost passed on to the individual graduate and the underwriter of the loans: the Treasury or taxpayer.

However, the September 2012 figures from UCAS – the higher education organisation overseeing undergraduate applications – showed that accepted places at English universities were down by over 50,000 students compared to 2011. These results cast doubt on the competency of vice-chancellors and their ability to understand the government’s plans.

### WHY A GAMBLE?

The government is taking a huge gamble with England’s universities, introducing uncertainty into a stable and productive system, though one not without its faults. On almost every international survey, once size of population and the economy are factored in, English higher education demonstrates excellent value for money in relation to the public spending that supports it.

Concerns ought to be to the fore given the pace of change. The rush to implement these changes before the next general election in 2015 itself creates dangers and entirely avoidable short-term challenges for universities who in some cases need to replace £40 million per year in public funding. It is not clear what the impact on academic quality will be: this is not a controlled experiment.

A small elite of institutions will benefit. As they are allowed to expand, and their prestige supports higher fees, they will be better positioned to monopolise resources. It is the fate of the remaining majority of UK universities to be the stakes in this game. Most university leaders may think that they may be lucky enough to thrive in the new setting, but we should expect a diminution in the number of universities in England, whether through merger or collapse, and prospective students are likely to soon face less choice as to where and what to study.

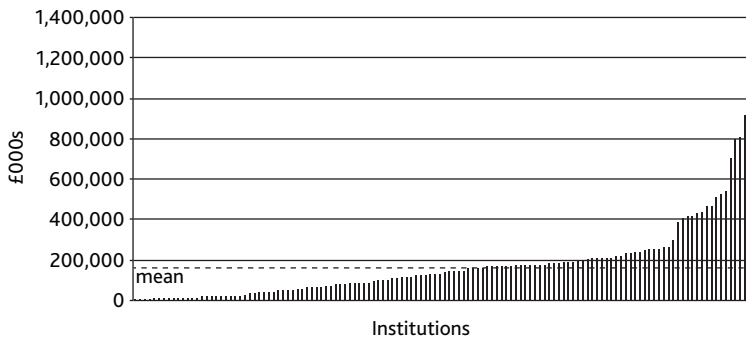


Figure 0.1 Annual income by English higher education institutions, 2010–11

Source: HESA 2011

Figure 0.1 shows the distribution of annual incomes by higher education institution in England for 2010/11. The mean annual income is £170 million. Note it only shows *income*, not wealth or assets or endowments, those measures which favour Oxford and Cambridge even further. These disparities are a historical legacy but they will be exacerbated by the new regime as those institutions which are the richest will be able to generate higher levels of income from undergraduate study than previously.

On the former regime, each institution received the same funding for the same activity – that is, a sociology student at Huddersfield or Nottingham produced the same income. That will not now be the case over the medium term: fees produce funding differentials. There are therefore a number of institutions – the mass of mass higher education – whose operating conditions will be transformed and potentially rendered unviable. So any question as to who benefits would need to clearly demarcate the self-positioning, constantly lobbying elite and new private providers primed to enter the ‘level playing field’ from the middle tier.

What motivates this gamble (which as yet lacks any clear controls on its outcome) is not hard to find. On the one hand, the clear intent of the government is to make universities more customer-, business- and industry-focused. Tightening the purse strings encourages institutions into such collaborations; universities are able to attract other sources of income if they are forced to do so as part of a ‘knowledge economy’ and export-oriented strategy. As Peter Mandelson, then in charge of BIS, wrote in 2009:

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Universities will need to seek out other sources of funding, from overseas sources as well as domestic ones. The experience of the last decade suggests there is considerable capacity to do this. New money has come from creating greater economic benefits from the knowledge they generate or the teaching expertise they provide and from philanthropic sources of income and increased international earnings.<sup>5</sup>

Again, that universities are *able* to do so, does not mean that it is the broader interest of society that they should, if it involves re-orientation away from public benefit objectives and reduces universities to private training providers with no interest in promoting public goods.

But why destabilise and possibly sacrifice the rest of the system? There are free market ideologues in both Coalition partners who simply see increasing competition and student consumerism as the battering rams with which to overcome university inertia. Further, the efficiency of the English higher education system indicates that it is ripe for privatisation. Opening new outlets for capital is a boon to the financial services sector backing the Conservative Party. The Bureau of Investigative Journalism detailed the figures: half of the £12.2 million donated to Conservative Central Office in 2010/11 originated there, with hedge fund managers and financiers providing £2.69 million.<sup>6</sup>

Willetts held twelve meetings with representatives from private equity firms and education multinationals prior to the publication of the Higher Education White Paper in June 2011. These meetings were organised by Hawkpoint: corporate finance advisors specialising in mergers and acquisitions. Attendees included: Pearson plc, Kaplan, Duke Street, Sovereign Capital, Warburg Pincus, A4E. They are keen to gain access to publicly backed student loans and thereby enter a market which has been described by some analysts as ‘Treasure Island’. Representatives from Hefce, the Higher Education Funding Council for England, which is designated to become the sector’s regulator, were also in attendance.<sup>7</sup>

Ultimately, these aspects come together in a single ideological aim. The broader vision in the UK is to roll back the state to a minimum function – to broker deals between finance and private sector provision. This continues a strand of 1980s public policy but one revived by improvements in data management and, yes, financial derivatives. The government will remove itself from as



many public services as possible, whether through reduced funding or, where it has administrative responsibility, sale.

Willetts and his counterpart, the Education Secretary, Michael Gove, favour a new wave of public sector privatisation. In response, we must develop new methods of analysis and concepts which grasp the transformation we are living through. Above all, we need to be attuned to inflections of ‘privatisation’, which in common parlance is normally limited to the transfer of assets and responsibilities from the state to the private sector. In higher education, we see different processes, policy considerations and initiatives:

1. Marketisation or external privatisation, whereby new operations with different corporate forms are allowed to enter the state system to increase competition. This might be seen as dissolving the distinction between separate public and private sectors.
2. Commodification – the presentation of higher education as solely a private benefit to the individual consumer; even as a financial asset where the return on investment is seen in higher earnings upon graduation.
3. Independence from regulation – private providers accessing the student loan book are not bound by numbers controls and do not have to comply with reporting or monitoring requirements nor widen participation initiatives.
4. Internal privatisation – the changes to revenue streams within institutions so that for example, direct public funding is replaced by *private* tuition fee income.

We could add to this list:

5. The outsourcing of jobs and activities to the private sector and management consultants, which has become widespread in England.
6. Changes to the corporate form and governance structures of universities.
7. The entry of private capital and investment into the sector through buyout and joint ventures with established institutions.

## THE ALTERNATIVE

Yet there remains a third revolution, perhaps the most difficult of all to interpret. We speak of a cultural revolution, and we must certainly see the aspiration to extend the active process of learning,

with the skills of literacy and other advanced communication, to all people rather than to limited groups, as comparable in importance to the growth of democracy and the rise of scientific industry. This aspiration has been and is being resisted, sometimes openly, sometimes subtly, but as an aim it has been formally acknowledged, almost universally.

Raymond Williams, *The Long Revolution*

What many would call for is a proper debate about the purpose of universities and higher education in the twenty-first century and how they should be funded. Instead we have the hope that the market solution, that has not been presented to the public, will sort those questions out and that we will not be left with a polarised sector featuring a handful of selective universities (privatised to all intents and purposes) and a selection of cheap degree shops offering cut-price value for money.

Is education a consumer good that benefits from market reforms? It is not consumed in the same way as gas, electricity and water, where privatisation has hardly been an overwhelming success. What alternative vision of public education is available? A proper debate would throw up genuine problems, question assumptions, and discuss the solutions to be implemented. We sit at the end of a century of expansion – both in the number of institutions and the number of people participating in tertiary education. This is not without complexities or problems. We have a system which has formed over time. It was, in Raymond Williams's term, a 'long revolution' involving the transformation of individuals and institutions.

We ought to be putting the question of purpose first and asking what we want from higher education in the twenty-first century. In 1944, the Association of University Teachers set out the core goals of the university as: the pursuit and dissemination of knowledge; the formation of young people as individuals; and the study of social problems and problems of citizenship. The Robbins Report of 1963 outlined four aims: (i) instruction in skills; (ii) promoting the 'general powers of the mind'; (iii) the advancement of learning; and (iv) the transmission of a common culture and common standards of citizenship. We can add to these lists professional and vocational training.

The market envisaged by Willetts depends on universities, already private, exempt charities, acting increasingly like companies chasing commercial ends. The well-known principal-agent problem is

exacerbated in universities as vice-chancellors, or their equivalents, act as if they are principal (owners) and chief executive (agent) in one person. That is, it is not simply that a top-down managerial culture has gained the upper hand, ‘command and control’, but that it has become autocratic.

Attention has been focused on the exorbitant salaries paid to vice-chancellors, but it would be better to consider what that reflects: broken corporatism. A different form of corporatism would be forged about collegiality: a community of scholars and students involved in running the institution needs to be developed. This would be open, participative and accountable to the broader community: an ‘independent public body’ in the terms of the recent von Prondzynski review into Scottish university governance.<sup>8</sup>

Such a set-up would be better able to promote the public goods associated with universities and would address the democratic issue of participation. In the words of Anthony Crosland: higher education institutions should be aspire to be ‘relevant, vibrant, deserving of public support’,<sup>9</sup> not simply prestigious, selective and reassuringly expensive.

## OVERVIEW OF THE BOOK

Beyond the headlines about fees it is therefore important to articulate and set out the extent of the government’s plans and consider their likely consequences. Chiefly, moving to a loan system in large part creates the necessary conditions for a new market in undergraduate recruitment, which in turn will lead to a new phase in ‘privatisation’.

The focus of this book will be on the political economy of institutions in this new environment. It is designed to be a primer on how money is moving in new ways through the system. It will provide an overview of the issues and implications. For this reason, there will be less attention to students than some might have expected. This book will not help you decide whether you should pursue higher education or not; it will help you think about what higher education should look like and how it is being transformed today.

Unfortunately, given the constraints under which this book was produced, there are a number of themes that deserve fuller treatment but which cannot be dealt with in these pages. These include research, part-time study, postgraduate study, business and industry collaboration, further education and issues such as

widening participation, social mobility and the class dynamics of education.

The book is also entirely focused on England, since the changes described are taking place in that part of the United Kingdom: fleeting reference will be made to Scotland, Wales and Northern Ireland for whom education is a devolved issue.

The book is divided into four parts and builds incrementally from a short history of recent policy and funding decisions to set out how the new market in higher education is supposed to work. In particular, it emphasises the polarising effect of the rigged market and the need to seek new income streams.

The first Part will cover recent policy history and the expansion since the late 1980s before continuing with the basics of tuition fees and student loans. The government is offering a revised, publicly backed loan scheme. The complexity of this unfamiliar scheme and the high figures involved have dominated debate. As it involves varying level of repayments for 30 years (or earlier in some cases of very high earners) it is difficult for individuals to assess how much they will repay in total. Those working within higher education may be inclined to skip those chapters, but there are nuances in there which are often misunderstood – particularly around the specifics of the income contingent repayment loans. Loans will be examined in more detail in the final section of the book.

Part 2 is concerned with the new market in undergraduate recruitment. Its four chapters cover everything from the government's complex numbers controls to the planned entry of new private providers into the sector through the creation of a 'level playing field'.

Part 3 will concentrate on 'privatisation'. The implications of such competition will lead to upheaval: transforming institutions from within but also from without through mergers, buyouts and the potential transformation of established charities into other forms. This section will also look at the issue of corporate form, bond issues and other factors altering the internal functioning of established universities.

In a departure from most writing on the subject, the fourth Part will look at the problems with the loan scheme from a fiscal and macroeconomic perspective. How will this and future governments *manage* the liabilities used to create the loan scheme? What does it mean for politics and policy that the outstanding balances on individual loan accounts are predicted on official figures to reach

£191 billion by 2046? What risks are engendered? This section introduces the term ‘financialisation’ to describe how loans produce information and therefore have the potential to produce a new generation of performance metrics.

The sections are designed to be relatively self-contained and to be used as a basic reference point as well as to be read straight through. At the end of the book, you will find a glossary and an index.