THE GREAT UNIVERSITY GAMBLE

Money, Markets and the Future of Higher Education

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Introduction: Privatisation – The Plan and the Gamble

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

requires an *increase in upfront* government borrowing. In the medium term, Public Sector Net Debt is projected to grow by an additional £20 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.'[1]

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.[2]

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.)[3]

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.[4]

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

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.

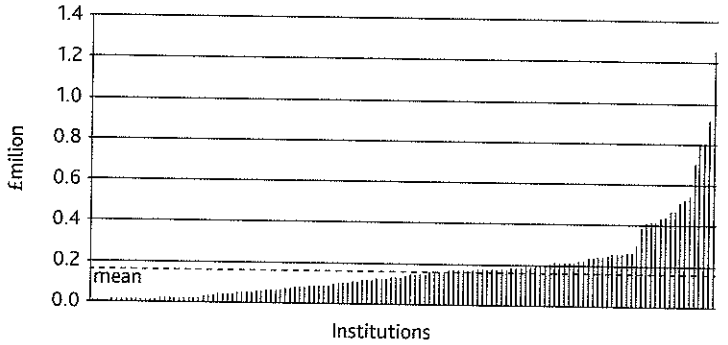

Figure 0.1 Annual income by English higher education institutions, 2010–11

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:

> 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.[5]

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.[6]

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.[7]

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 revivified 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.[8]

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',[9] 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.

1
The Mass Higher Education System and its Funding

To understand the new level of tuition fees in England and the cuts to direct grant funding of institutions, one needs to understand the recent history of the sector, which has been transformed in the last 20 years or so by an initially rapid expansion. This has placed the funding of students and the financing of universities at the centre of policy debate and brought the Treasury into the dominant position when it comes to decision-making.

THE ADVENT OF A MASS SYSTEM

Expansion of higher education began under Kenneth Baker, Secretary of State for Education in the Thatcher government. Initiated by the 1988 Education Reform Act and the 1992 Further and Higher Education Act, participation rates by age cohort leapt from around 15 per cent in 1988 to close to 35 per cent within a decade. Contrary to popular misunderstandings, this participation rate was not the simple result of polytechnics being reclassified as universities: those attending polytechnics were already included in the *higher education* participation statistics. But, the polytechnics and their successor institutions did expand, some dramatically: Hatfield Polytechnic, as it became the University of Hertfordshire, saw an expansion in its student numbers from around 5,000 to over 30,000 during the 1990s.

Figure 1.1 illustrates the dramatic spike in participation between 1988 and the mid 1990s. The two lines on the graph reflect different methods of measuring the initial participation rate in higher education. The lower line shows the Age Participation Index (API) of those under 21 as a percentage of the cohort, which has more recently been replaced by the Higher Education Initial Participation Rate (higher line) which covers those aged between 17 and 30.[1] Doubts about API methodology mean that is only used here to illustrate the *relative change in participation.*

There are now over one million Home undergraduates studying full-time and many more part-time, not to mention postgraduates

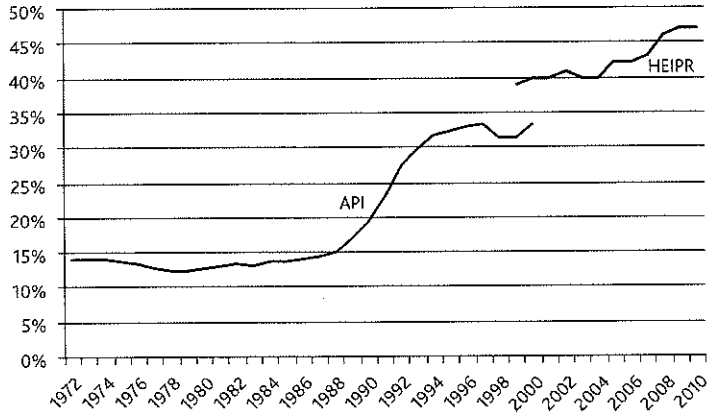

Figure 1.1 Participation of young people in HE as percentage of age cohort (England)

Source: John Thompson and Bahram Bekhradnia, *Male and Female Participation and Progression in Higher Education*, Hepi, 2010; *Higher Education in Facts and Figures*, Universities UK, 2012

and students from outside the EU. Despite populist and popular grumblings, this approach, expanding to meet demand, has largely found cross-party support, underpinning both Baker's initiative and Tony Blair's 1997 election campaign mantra of 'Education, Education, Education', which set a new target of 50 per cent of school leavers moving on to higher education. In some ways, the advent of a mass system is the consummation of the 1963 Robbins Report which argued that 'courses of higher education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so'.[2]

FUNDING THE MASS SYSTEM

The flipside to expansion is the question of funding. Figure 1.2 shows the funding per student in 2006/7 prices between 1948 and 2009.

Funding per student declined precipitously in real terms from 1981 and declined even faster with the expansion of the late 1980s and early 1990s. The last two major reviews of higher education, Dearing (1997) and Browne (2010), focused on this question of funding. Dearing recommended a means-tested upfront fee of £1,000 per year, the introduction of which stabilised the per-student resourcing (black squares in Figure 1.2). This move established the principle of 'co-payment', whereby the benefit accruing to the

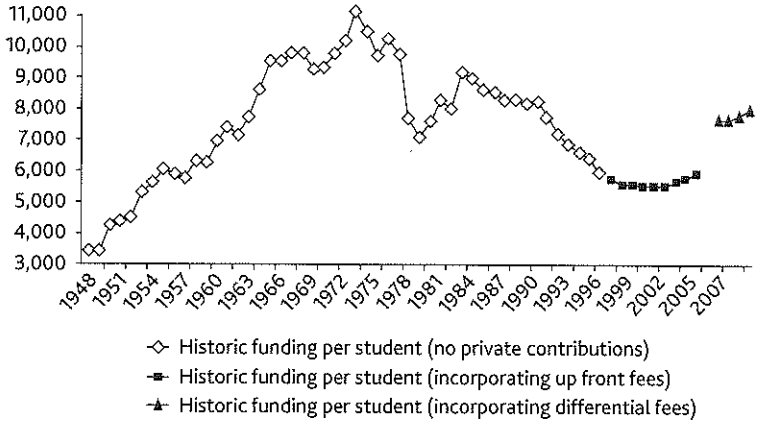

Figure 1.2 University funding per full-time student in England, 1948–2009 (at 2006/7 prices)

Source: London Economics (BIS Research Paper Number 10), *Review of Student Support Arrangements in Other Countries*, September 2010, www.bis.gov.uk/assets/biscore/corporate/docs/r/10-670-review-student-support-in-other-countries.pdf

private individual from higher education should be reflected in more than taxation on higher earnings.

In 2004, Labour pushed through the contentious policy of 'variable fees', winning its passage by only four votes despite its large parliamentary majority. A new maximum fee was set at £3,000 per year. (Thereby introducing the legislation used by the Coalition for its snap vote in December 2010.) These fees, however, were no longer paid upfront and were instead covered by an expansion of the student loan scheme, which had previously been restricted to loans to cover some of the costs of maintenance while studying.

All institutions soon moved to this new fee level and no pricing variation occurred at undergraduate level. It is important to note that, in contrast to the latest reforms, these fees did not replace any central funding but provided *additional* resourcing to universities and college and so restored per-student funding to a level comparable to the 1980s (black triangles in Figure 1.2). Advocates of fees have in mind the manner in which their introduction broke with government rationing of resources.

THE BROWNE REVIEW

In 2009, Peter Mandelson, then Labour Secretary of State for Business, Innovation and Skills, published a report, *Higher*

Ambitions, which set out a vision for a more entrepreneurial higher education sector less reliant on central funding.[3] (In the course of 2010, the Labour government announced a reduction in the higher education budget for 2010/11 of £135 million.)

Subsequently, a review panel was established, led by John Browne, formerly chief executive of BP. Its remit was to set in place a sustainable system of financing higher education that would lighten the burden on public finances, but also enable the sector to expand to meet the current unmet demand for undergraduate education. Its final recommendations were published in October 2010 as *Securing a Sustainable Future for Higher Education*, after the change in government.[4] A short report of 60 pages, it had eight main recommendations:

1. Massive reduction in direct grants including the removal of direct public funding for arts, humanities and social science degrees.
2. The abolition of the current tuition fee cap allowing universities to set whatever fees they wished.
3. A levy scheme, or 'soft cap', requiring universities to *return an increasing proportion of those higher fees to central coffers* for each thousand pound increment above £6,000 (see Table 1.1). It was designed to dissuade universities from setting fees indiscriminately, since universities do not bear the cost of non-repayment on loans, the Exchequer does.

Table 1.1 Browne's proposed fee levy

Nominal Fee	£6,000	£7,000	£8,000	£9,000	£10,000	£11,000	£12,000
Levy per additional £1,000	none	40%	45%	50%	55%	65%	75%
Percentage of total fee received by institution	100%	94%	89%	85%	81%	77%	73%

Source: *Securing a Sustainable Future*, 2010, p. 37

4. A change to the parameters of the loan scheme so that repayments would only begin once the graduate was in receipt of more than £21,000 per annum from 2016.
5. The introduction of *real* interest rates on the loans, i.e., above inflation, which were previously subsidised against the government's cost of borrowing.
6. The removal of all institutional recruitment caps (bar medicine and dentistry).

7. An increase in maintenance loans, grants and other financial support to full-time students.
8. Extending access to loans for tuition fees to part-time students.

On the one hand, the proposed system would be more 'sustainable' by having more funding return as loan repayments. On the other hand, removing all 'supply-side' restrictions on universities by abolishing fee and recruitment caps would mean on average that institutions would receive more income providing demand remained constant.

While there was consensus on the objectives of the reform of higher education funding (increasing participation, improving quality of provision, and making the funding solution sustainable), the solution of opening up competition by removing all direct public support and hiking fees was not unanimously received. Indeed the sole piece of research commissioned by the review revealed that: 'Most full-time students and parents ... believed that the government should pay at least half the cost of higher education. This is because the personal benefits of higher education were seen by many to match the benefits to society.' This striking finding did not appear in the final report and had to be revealed through a Freedom of Information request produced by *Times Higher Education*.[5]

The report argued that it had balanced the trade-off between public and private benefits accruing to the individual, but its private sector-style solutions reflected the background of its Chairman and several of its members, with CVs that included stints at the management consultancy firm McKinsey.

THE GOVERNMENT'S RESPONSE

Although the previous Labour administration had commissioned the Browne review, when it reported in October 2010 many of its suggestions were acceptable to the Conservatives now in government. The first recommendation, cutting direct central funding to institutions, was accepted. The Comprehensive Spending Review later in October announced the reduction in central grants to universities and colleges: around £3 billion per year by 2014/15 when the new regime is to be fully implemented. BIS will no longer offer any direct funding for degrees in the arts, humanities, business, law and social sciences, thus removing one impediment to competition from private providers. (The new higher fees will

replace lost funding and therefore do not significantly alter the per-student funding seen in Figure 1.2.)

In a formal response to Browne the following month, the proposed interest rate taper and the higher loan repayment threshold (£21,000 in 2016 as opposed to £15,000 today) were both accepted. However, the 'levy', Item 3 above, proved unpopular with universities who wanted to keep more of, and more control over, the higher fees they expected to receive. In addition, the removal of a maximum tuition fee cap (Item 2) was unacceptable to the junior Coalition partners, the Liberal Democrats. Their 2010 Election manifesto had committed to abolishing tuition fees; they had actively campaigned around the issue and had signed an NUS pledge promising to vote against any increase.

Instead, a compromise was reached with a new maximum tuition fee (and no levy). Through a snap vote held in the House of Commons on 9 December 2010, the maximum fee allowed was raised from £3,375 per year to £9,000 for undergraduates commencing their studies in September 2012. Almost two years later, Nick Clegg, the Deputy Prime Minister and Leader of the Liberal Democracts, felt compelled to issue a filmed apology to the nation: not for the policy, but for signing the NUS pledge.

It was a political coup to bring that vote forward using existing secondary legislation *before* publishing a White Paper and detailed proposals on the actual functioning of the loan scheme and the new market in undergraduate recruitment. No detail could be examined; the House of Lords, which voted the following week, was deprived of its now conventional role as a *revising* chamber.

Had the new maximum fee moved through Parliament slowly, accompanying primary legislation, it may have been lost and split the Coalition. As it was the vote narrowly passed. This abuse had the desired effect of spiking the guns of those opposing the remainder of the plans and confusing potential activists about just what had been won or lost on that occasion.

MISTAKE AND COMPROMISE

Browne had warned the government not to cherry-pick from his proposals and to treat them as a coherent whole, but political compromises and mistakes frustrated this further. With no levy as per Browne to encourage universities to set lower fees, the government proposals contained only the bare maximum of £9,000 per year. In early 2011, most universities moved to set their fees for

2012 entry at this level, thus challenging the Coalition's pledge that the average, mean figure would be £7,500 per year. Treasury models had been constructed on that latter assumption in Autumn 2010.

However, a huge mistake had been committed in the rush to push through the snap vote. It had been assumed that a quango, the Office for Fair Access (for more on Offa see Chapter 2), had powers to negotiate with universities wishing to charge more than £6,000 per year and to limit what was set. This would have enabled direct control of higher education expenditure and underpinned Vince Cable's public assertion that only in 'exceptional circumstances' would any university set the maximum fee. But Offa has no such legislative powers. It can only determine whether or not a publicly funded higher education institution should be able to charge more than £6,000 in tuition fees. Depriving any institution of the higher level of fees is the so-called 'nuclear option' available to Offa.

A second problem resulted from compromise. On the eve of the December 2010 vote, only a last-minute concession persuaded 27 Liberal Democrats to vote in favour (21 voted against and 8 abstained). That concession committed to ensuring that the repayment threshold of £21,000 in 2016 would be increased annually in line with average wage inflation.

BIS's intention had been to review the threshold every five years. A review could decide to freeze the threshold, move it up or move it down. It is a straightforward mechanism for ensuring the sustainability of the loan scheme since the threshold both triggers when former students start repaying *and determines the amount repaid monthly* (see Chapter 3 for more detail). The concession to index-link the threshold altered the workings of the scheme in its fundamentals and introduced problems not intended in its original design. In effect, were this pledge to come into force from 2017 it would *lower* repayments and therefore increase the burden on the Treasury and the taxpayer.

The government therefore had to manage two problems, one the *larger than expected loan outlay* owing to higher fees, and the other, a compromise that meant that *repayments are likely to be lower* than was anticipated back in Autumn 2010. This combination threatened the viability of the scheme and ensured that Browne's aim to expand the system had to be rejected: supply-side restrictions on numbers would have to be maintained. Indeed, planned numbers were reduced by 10,000 owing to the expense of the government borrowing needed to finance the new higher loans.

published in late June. The delay was largely attributable to this need to fix the finances on which the government's plans had been based.

Students at the Heart of the System concentrated entirely on the reform of undergraduate education. Such a document is supposed to set out a clear vision for future changes to policy and legislation, but this one was a frustrating read. Mostly covering measures already undertaken, much of the detail one might have expected was displaced into a series of reviews and consultations (I counted at least fifteen) that launched, reported and concluded at various points over the following months.

The political function of the various consultations was to map out what might actually require primary legislation and to gauge in advance where opposition might lie. Following the eruption of opposition prior to the December 2010 vote, the government has been keen to avoid the focus for protest that primary legislation – with its long progress through Parliament – would represent. Instead, the plans were to be implemented little by little in piecemeal fashion using various means. These methods include budgetary cuts, instructions to quangos, secondary legislation, and what are termed 'statutory instruments' (which can even be issued quietly over the summer while parliamentary representatives are on holiday: they come into law *if no objections are tabled*). As far as possible the government is using powers that already exist or giving existing bodies new tasks.

The major new announcement in the document concerned the new restrictions on undergraduate recruitment. These market reforms, designed to drive down price but also allow the more prestigious universities greater freedom to expand, are set out in detail in Part 2.

However, the complicated recruitment mechanisms it introduced combined with the off-putting nature of the leap to £9,000 annual fees seems to have contributed to a large reduction in places. At the beginning of September 2012, UCAS was reporting that there were 50,000 fewer accepted places for 2012 entry as compared to 2011. Although a drop in places was also seen after the higher fees were introduced in 2006, this was only around 15,000 lower – a third of the impact. The Treasury may welcome this development, but the university sector does not.

This chapter and the following set out the fundamental reforms initiated by the Coalition government. This will look at the new higher fees and funding regime. These changes are profound and have been achieved without primary legislation and with limited parliamentary scrutiny.[1] Although higher fees are not the whole story, the move to what is primarily a fees system is the essential condition for implementing a new kind of market in undergraduate provision, which will be the subject of Part 2.

First, when fees were introduced in 1998, and when they were increased to £3,000, this was *additional funding*. Now, it is replacement funding covering the removal of the central block grant to universities. Such a shift to fees combined with a cut to grants effects the true intent of the reforms: 'opening up the system' to private money and operations. In so far as fees replace public funding, we see an *internal privatisation* of the university, even if the loan used to pay the fees is publicly backed. Second, money will now increasingly follow the student, which is the central tenet of the proposed market in undergraduate recruitment. This is the chief market reform. Third, the higher fee encourages the applicant to consider undergraduate study as a form of 'human capital' investment, or the purchase of a financial asset, the returns on which are to be seen after graduation in the form of higher earnings. As 'In Defence of Public Higher Education' summarises:

> These changes will encourage students to think of themselves as consumers, investing only in their own personal human capital with a view to reaping high financial rewards, and discourage graduates to think of their university education as anything other than something purchased at a high price for private benefit.[2]

FEES REPLACE FUNDING

With the increase of the maximum tuition fee to £9,000 and the average fee after waivers for 2012 being around £8,100, we should