Title: The influence of commercialisation of Higher Education

Steve Egan – Deputy Chief Executive
Higher Education Funding Council for England

There is widespread agreement throughout the world that high quality higher education with high participation and high graduation rates is essential for a high performing knowledge based economy. Everyone also agrees that a world class research base well connected to industry and commerce is a foundation for economic growth. Everyone agrees that access to education improves social mobility and that a civilised society is a well educated one.

Governments therefore have high aspirations. Individuals have high aspirations. Universities see themselves as global players, competing and collaborating with other institutions throughout the world.

But all countries are addressing critical questions, many are very similar, but all are shaped by the context and political challenge of each particular country. For instance, in Europe there is a tradition that government pays a substantial element of higher education costs. In other countries there is a more general acceptance that parents and students pay for their own education. There is also a varied mix of 'for profit' and 'not for profit' privately and publicly funded higher education in different countries. I shall refer mostly to the situation in England, but will also draw on the experiences of others.

In England, the key challenges are:

- Maintaining a well funded HE system.

- The pressures on public funding. Increasing student numbers, a very large fiscal deficit, and increasing pressure on government financing from healthcare, pensions and defence mean a fully publicly funded HE system is not a viable option. To achieve it either taxes would need to be increased or student numbers or funding per student reduced, risking quality standards. None of these options is acceptable to government, students or institutions.

- Ensuring research delivers sufficient economic and social benefit to justify public investment.

- Supporting universities to be economic and social anchors in their local communities. They need to be well connected and active.

- Enabling universities to promote social mobility. The risk of an increasingly stratified and unfair society needs to be managed.

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In England, it is now widely although not universally accepted that:

- Students should make a contribution to the costs of higher education as they personally gain from it.
- Publicly funded research should be selective, providing public support to only internationally excellent research.
- Institutional autonomy is critical to maintain academic freedom, limiting stifling top-down interventions and driving improved performance.
- Targeted public investment is important to achieve public benefit objectives, including access and equality, early stage research, the infrastructure for knowledge exchange and supporting high cost and/or strategically important subjects, for example chemistry or modern foreign languages.

With so much agreement it is perhaps surprising that phrases like marketisation and commercialisation dominate the debate.

There is an implicit critique that these forces will corrupt and undermine what is good and valuable in higher education. The profit motive, it is argued, will compromise quality standards and the need to please customers will threaten academic integrity, both in research and in teaching.

There is evidence from around the world that these concerns are real and need to be addressed, but is the answer more public funding and top-down centralised systems of accountability? Can the risks be better managed by effective and proportionate regulation, trusted and relevant information and public funding targeted to achieve public policy outcomes?

In England we have always had a higher education system that has had what I term, constrained competition. Universities compete for students and staff. They have been able to charge unregulated tuition fees for part-time and postgraduate students. There is a completely free market for overseas students. Research funding is fiercely competitive with public funding allocated on the basis of internationally recognised research excellence, measured by a research assessment exercise carried out every 5-6 years. Institutions compete in other areas, constantly seeking alternative income streams through targeted educational offerings, commercial research and more intensive use of their physical assets for example conference centres, libraries, or sports facilities.

The English system relies on universities being free to act and make decisions. They have financial freedom not common in other countries; for instance they can borrow on commercial terms and invest surplus resources. The public funding is provided on the basis of outputs not inputs. They are free to determine their own curricula and research strategies and have complete control over admissions decisions. Management teams are used to being responsive to what their stakeholders require and responding swiftly to changes in these demands. The system is dominated by universities that are constituted as not-for-profit charities. Governance systems in these are mature and generally meet very high standards with a Code of Governance universally adopted and followed.

The controversy, in my view therefore, should not be about marketisation. Universities have for a long time worked within markets and responded to market pressures. The controversy is about the political choice of how much (not whether) students and their families should pay and how increased competition for undergraduate students should be promoted and regulated.

In saying this I do not want to underplay the seismic nature of the changes we are going through in England. We do not yet know how universities and students will react and we probably will not know for another year or so, at least.

Let me just set out the new fees and funding system in England so you can better understand the implications:

From August 2012 universities have been able to charge up to £9,000 per year in tuition fees, that is about 3 times the previous level. The average fee is over £8,000. Students only have to repay this debt when their income after graduation exceeds £21,000 per annum. They pay 3% above the rate of inflation on any outstanding debt, any debt that remains after 30 years is then written off.

This level of fee has profound political and economic consequences. Parents and students are very unhappy about the increased fee level that could mean students have to pay back close to £100k over their lifetime. One party in the Coalition Government dropped its electoral pledge to reduce tuition fees and neither of the two Coalition partners signalled their intention to increase fees on this scale before the election. It remains a contentious political issue and one that may have some prominence in the next general election in two years time.

The Government argues that the reforms save public money and were necessary to meet wider economic challenges. In practice, the cash outflow is greater in the short term, as the value of loans is greater than the value of the grants they replaced. The savings are delivered over time as the loans are repaid by graduates; savings, however, are not the only rationale for the new system. The Government also argues that the new system is more progressive, with those earning more paying more, and with monthly repayments reduced due to an increase in the earnings threshold (Now £21,000 per year, previously £15,000). Of course, whilst monthly repayments are lower, the period over which these payments are made is considerably longer.

The Government's White Paper that set out the new system was titled "Students at the heart of the system" and signalled more than an increase in fees. It pointed to a change in the fundamental accountability mechanisms.

Student choice would be the key to driving innovation and improving quality. To increase the impact of competitive forces the White Paper heralded:

- Improved information to students. This covers information that students identified as important to them, including fee levels, contact hours, methods of assessment and earnings of previous graduates.
- Lower barriers to entry and promotion of a more diverse system. This included changes to the controls around the use of "University" title and encouragement of the development of non publicly-funded providers (both not–for-profit and for-profit).
- Extension of student loans to part time study. Previously loans were only available to students studying full-time.
- Improved regulation, providing students with improved assurance over quality and the financial security of providers. It also reinforced existing regulations that required institutions charging more than £6,000 per year in fees to invest in outreach and support activities to students from lower socio-economic groups.
- Targeted funding to support access and retention of students from lower socio economic backgrounds, and support for high-cost activities that would otherwise be uneconomic even with fees of £9,000.

Increasing competitive forces are seen as a critical component of the reforms but they are constrained. Fee levels are capped at £9,000 per year, regulation has been strengthened and public funding is still considerable. In cash terms it is actually higher than under the old system since a £9,000 fee is more than previous levels of public funding. The taxpayer benefits because the expectation is that these outlays will be repaid, although write-offs will be significant. The Government expects the write-off to be just over 30% of the total amount loaned to students; some commentators believe this to be optimistic and suggest a more realistic write-off will be closer to 50%. The Government contests this view and it is impossible to be definitive since the write-off critically depends upon assumptions of graduates' future earnings.

The system therefore retains important constraints which mean it is not a free market, and the loan subsidies and direct investments mean there is still considerable public investment.

We don't yet know the impact of these changes and key questions remain, including:

- The impact on aggregate student demand – in particular part-time provision.
- The impact on certain subjects especially those that are not clearly vocational or offer the prospect of high incomes after graduation.
- The impact on students from lower socio-economic groups, who may be deterred by the perception of high levels of debt.
- The stimulus on the system to innovate and to provide alternatives to traditional forms of higher education.
- Variability and predictability of income flows to institutions.

- The impact on postgraduate studies, with students having accumulated large debts to repay.

These changes will take time to bed down. Students will need to understand the way the system works. Some do not yet appreciate that loans are income contingent. They only need to be repaid once a graduate's salary exceeds £21,000 per annum. Institutions will need to refine their pricing and marketing strategies. Employers will need to determine their approach to supporting employees that wish to study.

The Higher Education system in England is in a good position to deal with these uncertainties. It is strong financially, having reduced costs in anticipation of the changes. It is also used to working entrepreneurially and autonomously. In recent years it has achieved impressive growth in student numbers, performing particularly well in attracting overseas students.

The task for policy makers will now be to monitor the system for unintended consequences, intervening where necessary with funding, regulation and information to achieve improvements. This is a challenging task since there are considerable time delays between a particular intervention, a behavioural response and then reliable data to quantify the response. We at HEFCE have established an Observatory function to carry out this important role.

There has been at least a temporary impact on demand. Overall demand for full-time undergraduate education has reduced by around 5-10% (having adjusted for transitional factors) with larger reductions amongst part-time and mature students. Postgraduate demand has declined by around 2%. We do not yet have reliable data to assess the impact on students from lower socio-economic groups. These initial observations may also not be a good guide to the future. For example, it is too early to determine whether these are simply transitional effects as students and institutions adjust to the changes, or whether these changes will translate into a more permanent reduction in student numbers. Both the demand and supply side of higher education will adjust as the system is better understood. Fee level strategies are likely to get more sophisticated and students will be able to access better information and will have a wider range of choices. Employers will develop their approaches to supporting students in order to secure the services of talented individuals and to upgrade the skills of their workforce. It will be important to monitor developments in the sector closely in the short to medium term. We believe that there is great value in building on our understanding of the activity and impact of higher education in England, and the issues and changes that may affect it, not least so that reasonable action can be taken when needed to address risks and grasp opportunities.

Higher education institutions have traditionally opposed all forms of regulation, regarding it at best as an unnecessary cost, and at worst as a threat to institutional autonomy. There now seems to be a wider appreciation that trusted and effective regulation is important to secure stakeholder confidence, especially that of students, bankers and donors. This developing attitude is as strong in the non publicly-funded and for-profit part of the sector as it is in the traditionally public-funded sector. The importance of market confidence and reputation is well understood. This means the performance of regulators is very important to the effectiveness of the system. This is an area where countries can learn from each other. We are looking particularly at the experiences of countries like the USA, Canada and Australia where they have faced challenges with some for-profit providers. But we are also interested in learning from other countries such as Japan and other Asian countries where there is a much greater experience with working with a diverse higher education sector We also observe that in some countries the for-profit sector is a significant, valuable and innovative part of the system. This is not true of England where the for-profit sector is around 1% of the total.

Whilst it is natural in England to focus discussion on the funding reforms to teaching, it is important to note that the Government has sustained levels of investment in both research and knowledge exchange. This is at a time of considerable cuts in public funding in other areas. The UK research performance and its ability to translate this into economic benefit remains one of the best in the world. The Government has invested directly in the universities' capacity to commercialise its outputs and to engage with industry and commerce. We estimate that for every £1 of public investment this has delivered £6 of income. This links with the broader agenda of teaching, entrepreneurship and local economic development. Universities have a multi-faceted contribution to social and economic development.

In conclusion, the forces at play in higher education are far more complicated than the terms marketisation and commercialism imply. Some system of constrained competition is inevitable. The continuing political question is the size and nature of public investment. The policy questions concern how to make the system effective through regulation, information and targeted funding. This is far from a settled issue. Competitive forces that operate globally will shape responses, and the potential for new forms of provision and new forms of competition all make things more complicated. We cannot afford to hold on to the past but we do need to be active in defining what future we desire.

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