



"I thought that there would never again be an opportunity to be involved with an industry as socially destructive and morally bankrupt as the sub-prime mortgage industry. I was wrong. The for-profit education industry has proven equal to the task." Steve Eisman, hedge fund manager

FOR-PROFIT EDUCATION A STEP TOO FAR?

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Introduction

The role of for-profit education providers is likely to be a key feature in the government's forthcoming white paper on higher education. The universities minister, David Willetts, has already made his position clear by arguing that competition from private universities will create a 'more open, dynamic and diverse higher education system.'¹

With public universities facing huge funding cuts, what impact would the expansion of for-profit universities have on our higher education system? *For-profit education: a step too far?* has canvassed 500 of our senior academics for their thoughts on the issue.

The results of the survey will be detailed over the coming pages. However, the overwhelming consensus is that if the UK relaxes its current regulatory framework and allows for-profit companies to gain a foothold, then the standard of degrees, students' educational experience and the UK's international reputation will be put at risk.

Many of those questioned point to the example of the US where for-profit universities have been likened to the sub-prime mortgage industry, and are currently being investigated following a series of scandals.

As Professor Alan Rector from the University of Manchester notes: 'For-profit institutions there [the US] have become a fraud on students – employers assume that they attended these institutions because they were not good enough to get into "real" universities.'

Other academics raise concerns about the reputational damage that could be done by encouraging the growth of the for-profit sector. Professor Daniel Waldram from Imperial College London warns:

¹ The Guardian, 13 April 2011, *Universities fear private colleges will 'cherry pick' lucrative degrees*. <http://bit.ly/hd1UXQ>

² HEFCE, July 2010, *Diverse Provision in higher education: options and challenges*, pp 41-42. <http://bit.ly/m7jUSx>

³ Daily Mirror article. <http://bit.ly/inmXm1>
Phoenix investigated. <http://bit.ly/hg1A7k>
BPP lobbying. <http://bit.ly/jlxA90>
Parthenon Group story. <http://bit.ly/lv90PL>

'The for-profit model is wholly inappropriate for providing high-quality university education appropriate to the needs of the UK.'

His concerns echo those of the government's own funding council, the Higher Education Funding Council for England (HEFCE), who warned that for-profits' short and long-term goals may not match the national interest and could diminish the standing of UK higher education.²

It's a shame that our government doesn't seem to be listening. The Daily Mirror recently reported that David Willetts held secret meetings with four American for-profit companies. One of those listed was Apollo, which owns the University of Phoenix in the US, and is the parent company of UK-based private university, BPP University College (BPP). Phoenix is currently being investigated by its accrediting agency, the Higher Learning Commission (HLC), for deceiving students. Yet here, its sister company, BPP, is reported to have lobbied ministers to relax regulations. Meanwhile, the senior principal of the Parthenon Group, a major consultancy to for-profit providers, recently described the UK higher education system as a potential 'treasure island' for for-profits.³

The chief executive of BPP, Carl Lygo, has accused the University and College Union (UCU) of scaremongering. I would argue that we are simply reflecting the concerns of the majority of UK academics who care passionately about the health and reputation of our higher education system and the quality of education provided to students.

A number of those who took part in the survey have either taught or studied in the US, and provided a valuable insight into the practices of for-profit companies.

The last word should be given to Professor Anahid Kassabian from the University of Liverpool.

Anahid says: 'I left a fully marketised system to come here to teach. I know all too well what for-profit institutions do to the quality of education, and it is not good. The fantasy of a free market improving quality is just that – pure fantasy, with no substantiation in data or experience.'

SALLY HUNT, UCU GENERAL SECRETARY

Summary of results

Question 1: Quality of degrees

85% of professors said they thought courses offered by for-profit universities would be of lower quality to comparable courses offered by public universities.

Question 2: How degrees will be viewed by employers

79% said they thought employers would view qualifications offered by private providers as of lower quality than those offered by public universities.

Question 3: Access to student loans

80% of professors believed for-profits should not be allowed to access state subsidies.

Question 4: Relaxing the regulations

88% of professors strongly disagreed with any relaxation of regulations to allow private providers greater access to public subsidies.

66% of professors said that for-profit providers should be even more tightly regulated than existing universities.

Question 5: Degree-awarding powers

99% of professors said that for-profit providers should only be granted degree awarding powers on a renewable basis.

Question 6: Obligations to provide public information

99% of professors said for-profits in receipt of taxpayers' money should provide the same information as public universities.

Question 7: Widening participation

93% of our respondents said for-profit companies should have the same obligations to widen participation as public universities.

Question 8: Risk to global reputation

81% of professors said they believed that the expansion of for-profit provision in the UK would lead to a decline in the global reputation of UK higher education.

Analysis

Questions 1 and 2: Quality of degrees

'It is an ill thought-through attempt to save money at the expense of education and the students who would be hoodwinked into getting a low-cost but no-worth degree.'

Professor Alex Warleigh Lack, Brunel University

'I left a fully marketised system to come here to teach. I know all too well what for-profit institutions do to the quality of education, and it is NOT good. The fantasy of a free market improving quality is just that – pure fantasy, with no substantiation in data or experience.'

Professor Anahid Kassabian, University of Liverpool

'This policy will create a gulf between research and teaching, the unity of which has been one of the great sources of strength of British higher education compared with many European countries, where a research elite is cut off from the system of educating young people.'

Professor Colin Crouch, Warwick Business School

'Coming from the US and being acutely aware of the situation with for-profit institutions there, they have become a fraud on students – employers assume that they attended these institutions because they were not good enough to get into 'real' universities. The credentials from for-profit institutions are also not recognised for immigration purposes by many countries.'

Professor Alan Rector, University of Manchester

Our academics echo a concern shared by the chief executive of Universities UK (UUK), Nicola Dandridge,

⁴ The Guardian, 13 April 2011, *Universities fear private colleges will 'cherry pick' lucrative degrees*. <http://bit.ly/hd1UXQ>

⁵ The Education Trust, Nov 2010, *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*. <http://bit.ly/g2i4on>

⁶ United States Senate, 24 June 2010, *Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education*. <http://1.usa.gov/9y3Z0r>

⁷ <http://chronicle.com/article/U-of-Phoenix-s-Faculty/29478>

⁸ Financial Times, 25 September 2007, *Private Company Given Power to offer Degrees*. <http://on.ft.com/j2ADCw>

who warned in April that: 'Many believe the quality of provision among the for-profit providers in the US has been poor and the costs have been high, particularly in terms of the costs to students and to the state.'⁴

In the US, the Education Trust has calculated that only one in five students graduate from four-year degree courses at for-profit institutions, compared with 55% at public community colleges.

For those who do finish, the future is not secure. Almost 10% of students at for-profit colleges default on their federal loans within two years of finishing their courses, while almost 20% default within three years. That is around double the rate seen at public community colleges.⁵

Perhaps one of the reasons for this is that the for-profits spend less on their students and their staff. A recent US Senate report revealed that the eight largest for-profit companies devoted an average of 50% of their expenditure to education and 32% on marketing. One company spent more on marketing than education.⁶

Students at BPP's sister university, the University of Phoenix, spend 20-24 hours with an instructor during each course, compared with around 40 at a traditional university.⁷

Another key concern cited by the professors who took part in the survey is the lack of time given to academics to undertake research. The BPP employment contract, for example, does not contain time or resources for scholarship; merely an expectation that staff will remain current in their fields. Indeed, CEO Carl Lygo has referred to such research and scholarship time as part of the 'baggage' of traditional academia which BPP can do without.⁸

85% of those taking our survey said that they thought courses offered by for-profit universities would be of lower quality to comparable courses offered by public universities.

79% of those taking our survey said that they thought that employers would view qualifications offered by private providers as of lower quality than those at public universities.

Challenging **the market** in education

Q1: The government wants to see an expansion of private 'for-profit' provision of higher education in the UK. Thinking about the quality of education offered to students, would you say that the courses offered by for-profit providers will be:

of higher quality than comparable courses offered by public universities	1.1%
of similar quality to comparable courses offered by public universities	13.7%
of lower quality than comparable courses offered by public universities	85.3%

Q2: Turning to the qualifications offered by private for-profit providers, do you think that they would be viewed by employers and others as:

of higher quality than comparable qualifications from public universities	1.5%
of similar quality to comparable qualifications from public universities	19.4%
of lower quality than comparable qualifications from public universities	79.2%

Question 3: Access to student loans

In April 2011, the universities minister, David Willetts, increased the amount of publicly-subsidised loan money available to students at private institutions. The maximum loan available to a student at a private institution rose from just over £3000 to £6000 per year. Mr Willetts described this as a first step towards increasing the role of private providers in higher education.⁹

In the US, the for-profit education industry depends on these publicly-subsidised loans. They are its lifeblood.

Figures collected by the US Senate show that huge quantities of taxpayers' money are used to support the for-profit industry.

- According to a recent US Senate report, for-profit companies in education took almost a quarter of all federal grants and loans designed to support students. However, they only recruit and teach 10% of the total enrolment in US higher education.

- In 2008-9, federal support represented a total investment by the US taxpayer of almost \$24 billion in for-profit education. (\$4.3 billion in 'Pell' grants and \$19.6 billion in federal 'Stafford' loans.)
- The for-profit colleges, on average, rely on federal loans and grants for 86% of their revenue.¹⁰

In return for this investment, as we have seen, for-profit institutions in America have much lower graduation rates and students are twice as likely to default on their loan payments.

80% of the professors questioned believe for-profits should not be allowed to access to state funds at all.

88% of professors strongly disagreed with any relaxation of regulations to allow private providers greater access to public subsidies.

QUESTION 3: ACCESS TO STUDENT LOANS

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
For-profit companies with a primary obligation to shareholders should not be allowed access to public subsidies	80.1%	8.6%	4.1%	4.7%	2.5%
For-profit companies with a primary obligation to shareholders should be allowed access to public subsidies but only if they are more tightly regulated than public universities	24.7%	18.6%	12.9%	15.4%	28.3%
For-profit companies with a primary obligation to shareholders should be allowed access to public subsidies but only if they are regulated on the same basis as public universities	21.0%	12.1%	10.3%	19.6%	37.1%
For-profit companies with a primary obligation to shareholders should be allowed greater access to public subsidies and regulations should be relaxed to encourage this	2.2%	0.9%	2.0%	6.0%	88.9%

Question 4: Relaxing the regulations

Universities minister, David Willetts, has long been a 'believer in supply-side reform'. Ahead of last year's general election, and before the major funding cuts, Mr Willetts said if the Conservatives came to power they would look to remove barriers to new entrants to the sector. Now, in the context of swingeing cuts to university funding, Mr Willetts argues that the private providers are a 'cost-effective means of spreading educational opportunity in straitened times'.¹¹

Mr Willetts is being lobbied hard by the private providers to remove 'barriers to expansion' to help them compete on a 'level playing field'. In the case of BPP this could be

essential as it is losing money and recently saw \$220m wiped from its value by their parent company, Apollo, for underperformance.¹²

Despite BPP's underperformance Apollo professes to remain confident the UK government will bail it out by relaxing the existing regulations.

Apollo head, Greg Capelli, recently reassured investors that: 'Despite the non-cash write-down, we do remain very optimistic about the opportunity with BPP and continue to believe that this will be an important and valuable part of Apollo Global going forward. When we acquired BPP, we saw it as a strategic part of Global that could be expanded in the UK due to the unique degree-granting capability and then internationally throughout Europe'.

He went on to explain: 'The UK Government is encouraging private sector growth in the UK post-secondary education market. They're looking for innovative cost-effective solutions to help meet the growing demand for higher education in the UK. And BPP, with Apollo's support, we think is well-placed as a leader in the sector.'¹³

66% of professors taking the survey said that for-profit providers should be even more tightly regulated than existing universities.

⁹ David Willetts in BIS press release. <http://bit.ly/hNGiQq>

¹⁰ United States Senate, 24 June 2010, *Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education*. <http://1.usa.gov/9y3Z0r>

¹¹ Financial Times, 17 August, *Private providers to offer university places*. <http://on.ft.com/clteil>

¹² Times Higher Education, 2 June 2011, *BPP write-down raises penetrative questions*. <http://bit.ly/10zZaD>

¹³ Apollo Group Earnings Conference Call, 29 March, page 5. <http://bit.ly/1Gciyw>

Challenging the market in education

Q4: Answer options

For-profit providers in receipt of public subsidies should have to subscribe to the Quality Assurance Agency (QAA) and be subject to a specially tailored and tighter review regime that takes into account their primary obligation to their shareholders:	65.6% agreed
For-profit providers in receipt of public subsidies should have to subscribe to the Quality Assurance Agency on the same basis as public universities:	22.4% agreed
For-profit providers in receipt of public subsidies should not have to subscribe to the Quality Assurance Agency but should have to have their courses validated by a public university:	4.6% agreed
For-profit providers in receipt of public funding should be encouraged to enter the sector with a lighter regulatory burden:	0.6% agreed
There should be some other solution	6.8% agreed

Question 5: Degree-awarding powers

BPP is currently the only private for-profit company with degree-awarding powers (DAPs) but Kaplan is also interested. The for-profit companies want the government to make it simpler and more straightforward to obtain degree-awarding powers.

But currently, even if they have degree-awarding powers, for-profit providers only hold them on a renewable basis. Every six years, they must submit to a full inspection from the QAA.

The for-profit providers want this regulatory burden on them removed.

As a recent Policy Exchange document reported: 'Many senior personnel at private HEIs [higher education institutions] expressed the view that the six-year period before renewal is required is far too short, and indeed that the renewal requirement should be removed altogether.'

As the report says, it's not hard to see why they feel that way.

'Organisations which fail to achieve [a judgment of confidence from the QAA] will be required either to carry out an agreed action plan to the QAA's satisfaction, or face the loss of DAPs and the probable transfer of its students' registrations to another institution. The first option could involve major restructuring carrying significant costs, while the second would be likely to lead to an institution's collapse.'¹⁴

Not the sort of thing calculated to comfort investors.

Yet UCU has argued that the risks associated with lifting the regulatory burden on for-profit providers are too great. And the respondents to the poll agree with us.

An overwhelming 99% of respondents said that for-profit providers should continue to hold degree-awarding powers on a renewable basis only.

Q5: Currently, private providers have to renew their degree-awarding powers every six years, in contrast to public universities which hold theirs in perpetuity. It has been reported that for-profit providers want degree-awarding powers to be granted in perpetuity. Do you think that for-profit private providers should hold their degree-awarding powers:

in perpetuity	1.2%
on a renewable basis, as now	98.8%

Question 6: Obligations to provide public information

For-profit companies are not subject to the same obligations to provide public information as public universities, or to Freedom of Information legislation.

That means that for-profit companies, in receipt of growing amounts of public money, are not accountable in the same way as public universities.

As HEFCE pointed out, 'they are not subject to the same data return requirements as HEIs, and there is no equivalent of the National Student Survey operating in the private sector. This lack of regular, reliable and valid data flows makes it difficult to monitor the private providers and the student experience they provide, and inhibits policy making. It is even difficult to obtain such basic data as the total number of students enrolled at private providers.'

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HEFCE goes on to warn: 'Private providers are not under the pressure or obligations of HEIs to provide transparent marketing and comparable public information. Some qualifications may not be as widely recognised as those from a publicly funded UK higher education institution.'¹⁵

An overwhelming 99.4% of those who took part in the survey want for-profits, in receipt of taxpayers' money, to provide the same information as public universities.

Q6: Currently, private providers are not subject to the same obligations to provide public information on student numbers, performance, staffing, etc. Do you believe that private providers in receipt of public subsidies should have the same obligations to provide public information as public universities?

Yes	99.4%
No	0.6%

Question 7 – Widening participation

HEFCE has also warned that private providers may focus on only those subjects and those students that are most profitable. As the funding council point out: 'They will not necessarily have an interest in widening participation or the high-cost STEM [science, technology, engineering and mathematics] subjects, for example. There is also no guarantee that they will continue to provide certain kinds of higher education if these do not remain profitable.'¹⁶

Neither BPP nor other private providers in receipt of public subsidies currently have to make access agreements with the university regulator, OFFA, as public universities do.

93% of our respondents said they should have the same obligations to widen participation as public universities.

¹⁴ Policy Exchange 2010, *Higher Education in the Age of Austerity – the role of private providers*, p 31. <http://bit.ly/90T9nK>

¹⁵ HEFCE, July 2010, *Diverse provision in higher education: options and challenges*, pp 41-42. <http://bit.ly/m7jUSx>

¹⁶ HEFCE, July 2010, *Diverse provision in higher education: options and challenges*, pp 41-42. <http://bit.ly/m7jUSx>

¹⁷ Bloomberg, 24 January, *Big Short Eisman Vies With Goldman Over For-Profits*. <http://bloom.bg/i5K5It>

¹⁸ The Guardian, 13 April 2011, *Universities fear private colleges will 'cherry pick' lucrative degrees*. <http://bit.ly/hD1UXQ>

Q7: Widening participation: Do you believe that private providers should be subject to the same obligations in terms of widening participation as public universities?

Yes	93.2%
No	6.8%

Question 8: Global reputation

'The UK currently has an exceptionally strong, world-class university sector. The expansion of for-profit private universities will only damage the UK's higher education reputation. The for-profit model is wholly inappropriate for providing high-quality university education appropriate to the needs of the UK.'

Professor Daniel Waldram, Imperial College London

'Everyone in the UK already profits directly or indirectly from our high quality higher education system. For-profit providers of higher education will increase inequalities of many kinds for future generations of young people. They will produce increasing division and dissatisfaction through all sectors of society regarding higher education and this will fundamentally undermine the high respect it receives throughout the world. This must not be allowed to happen to the futures of all young people in this country.'

Professor Baz Kershaw, University of Warwick

Steve Eisman – the short-selling investor who predicted the collapse of the sub-prime mortgage industry, said recently: 'I thought that there would never again be an opportunity to be involved with an industry as socially destructive and morally bankrupt as the sub-prime mortgage industry. I was wrong. The for-profit education industry has proven equal to the task.'¹⁷

Mr Eisman is by no means alone in warning of the dangers of expanding the for-profit sector.

HEFCE warned the government in February that increasing the number of private providers could damage the UK's international reputation. The report, published without fanfare in February, says that:

- ▶ for-profits' short and long-term goals may not match the national interest and could lead, as in the case of Australia, to international reputational damage
- ▶ for-profits are subject to much lighter regulation than mainstream universities and provide less public information about the service they provide to students

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- for-profits and private providers offer qualifications which may not be widely recognised
- for-profits may cherry pick profitable courses and put public universities in financial danger.

UUK chief executive, Nicola Dandridge, warned in April: **'We would be concerned if private providers cherry-picked the more lucrative courses, making it unsustainable for universities to run the less lucrative but often more socially valuable courses.'**¹⁸

These concerns are shared by the professors questioned in the poll, who overwhelmingly believed that that an expansion of for-profit providers would do lasting damage to the status of UK higher education.

81% of those taking the survey said that they believed the expansion of for-profit provision in the UK would lead to a decline in the global reputation of UK higher education.

Q8: Do you believe that an expansion of private for-profit provision in the UK would:

enhance the UK's global reputation for higher education	4.8%
make no difference to the UK's global reputation for higher education	14.3%
lead to a decline in the UK's global reputation for higher education	81.0%

Glossary of abbreviations

BPP	BPP University College
DAP	Degree-awarding powers
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HLC	Higher Learning Commission
OFFA	Office for Fair Access
QAA	Quality Assurance Agency
STEM	science, technology, engineering and mathematics
UCU	University and College Union
UUK	Universities UK

Appendix: Results in full

506 professors participated in this online survey between 24–28 May 2011.

QUESTIONS 1 & 2: QUALITY OF DEGREES

Q1: The government wants to see an expansion of private 'for-profit' provision of higher education in the UK. Thinking about the quality of education offered to students, would you say that the courses offered by for-profit providers will be:

of higher quality than comparable courses offered by public universities
1.1%

of similar quality to comparable courses offered by public universities
13.7%

of lower quality than comparable courses offered by public universities
85.3%

QUESTIONS 1 & 2: QUALITY OF DEGREES

Q2: Turning to the qualifications offered by private for-profit providers, do you think that they would be viewed by employers and others as:

of higher quality than comparable qualifications from public universities
1.5%

of similar quality to comparable qualifications from public universities
19.4%

of lower quality than comparable qualifications from public universities
79.2%

QUESTION 3: ACCESS TO STUDENT LOANS

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
For-profit companies with a primary obligation to shareholders should not be allowed access to public subsidies	80.1%	8.6%	4.1%	4.7%	2.5%
For-profit companies with a primary obligation to shareholders should be allowed access to public subsidies but only if they are more tightly regulated than public universities	24.7%	18.6%	12.9%	15.4%	28.3%
For-profit companies with a primary obligation to shareholders should be allowed access to public subsidies but only if they are regulated on the same basis as public universities	21.0%	12.1%	10.3%	19.6%	37.1%
For-profit companies with a primary obligation to shareholders should be allowed greater access to public subsidies and regulations should be relaxed to encourage this	2.2%	0.9%	2.0%	6.0%	88.9%

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QUESTION 4: RELAXING THE REGULATIONS

Q4: Answer options

For-profit providers in receipt of public subsidies should have to subscribe to the Quality Assurance Agency (QAA) and be subject to a specially tailored and tighter review regime that takes into account their primary obligation to their shareholders: 65.6% agreed

For-profit providers in receipt of public subsidies should have to subscribe to the Quality Assurance Agency on the same basis as public universities: 22.4% agreed

For-profit providers in receipt of public subsidies should not have to subscribe to the Quality Assurance Agency but should have to have their courses validated by a public university: 4.6% agreed

For-profit providers in receipt of public funding should be encouraged to enter the sector with a lighter regulatory burden: 0.6% agreed

There should be some other solution 6.8% agreed

QUESTION 5: DEGREE AWARDING POWERS

Q5: Currently, private providers have to renew their degree-awarding powers every six years, in contrast to public universities which hold theirs in perpetuity. It has been reported that for-profit providers want degree-awarding powers to be granted in perpetuity. Do you think that for-profit private providers should hold their degree-awarding powers:

in perpetuity 1.2%

on a renewable basis, as now 98.8%

QUESTION 6: PROVIDING PUBLIC INFORMATION

Q6: Currently, private providers are not subject to the same obligations to provide public information on student numbers, performance, staffing, etc. Do you believe that private providers in receipt of public subsidies should have the same obligations to provide public information as public universities?

Yes 99.4%

No 0.6%

QUESTION 7: WIDENING PARTICIPATION

Q7: Widening participation: Do you believe that private providers should be subject to the same obligations in terms of widening participation as public universities?

Yes 93.2%

No 6.8%

QUESTION 8: GLOBAL REPUTATION

Q8: Do you believe that an expansion of private for-profit provision in the UK would:

enhance the UK's global reputation for higher education 4.8%

make no difference to the UK's global reputation for higher education 14.3%

lead to a decline in the UK's global reputation for higher education 81.0%

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