The private providers' 'designation' bonanza

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INTRODUCTION – THE PRIVATE PROVIDERS STRIKE GOLD

Student support funded by taxpayers is paid to students studying with private providers, referred to officially as 'alternative providers' who have had courses 'designated; (approved) by the department for business, innovation and skills (BIS) for public support. This support can be accessed in the form of loans to cover tuition fees, maintenance loans and grants.

Since the Coalition government came to power, the amount of money paid to private companies via this route **has increased exponentially**.

Data released by the Student Loans Company in November 2013 and January 2014 showed that since 2009/10, the year the Coalition came to power, the total outlay in grants and student loans to 'alternative providers' had risen more than tenfold from £22 million to £269 million. Student support for private companies now represents **3.4%** of all the money paid out by the Student Loans Company.

These figures are themselves underestimates of the real position as the Student Loans Company's figures only represent the situation as of August 2013. The Department of Business, Innovation and Skills (BIS) recently confirmed that as of October 2013 the figure was closer to £340 million in grants and loans.

This figure is projected to rise still further. In a Parliamentary answer to Liam Byrne, David Willetts indicated that BIS was projecting that outlay on loans alone would rise to **£400 million in 2014/15 and £600 million in 2015/16**. With grants rising too, the total figure in student support going to private providers is likely to be in excess of **£750 million.**[1]

So great has been the growth that BIS recently had to take drastic steps to stop private providers recruiting any more students. Because it opened up the market to these companies without a proper regulatory system in place, it had to **suspend the 'designation' of 23 private companies**, stopping them recruiting any more students.

[1] http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140129/text/140129w0004.htm#140129w0004.htm_wqn49. This is also discussed and clarified in: http://andrewmcgettigan.org/2014/02/07/expansion-of-private-providers-201314-201415/ and http://andrewmcgettigan.org/2014/02/10/estimated-loan-outlay-at-private-providers-201415-201516/

The government is now cutting funding designed to support poorer students at mainstream universities and reducing core teaching grant yet further, in large part to pay for its blank cheque to private companies.

It is not yet clear what the legal status of this act was and it is possible that some companies might seek a judicial review against the government.[2]

This expansion is now directly eating into the budget for mainstream not for profit universities and colleges. Most of the cost of this outlay counts against the department's budget. For example, all of the **grant expenditure and 40% of the loan outlay** that it is estimated will never be repaid is counted as public spending and charged to BIS's budget.

Indeed the budgetary consequences of David Willetts's actions for BIS are so serious that the government is now **cutting funding designed to support poorer students at mainstream universities and reducing core teaching grant yet further,** in large part to pay for its blank cheque to private companies.[3]

DAVID WILLETTS OPENS THE FLOODGATES

David Willetts set out the Conservative Party's approach to higher education reform as early as 2008, stating that the Party would 'welcome private providers' interest in higher education' and cited their growing international role: 'Internationally, private providers are extending choice, widening participation and responding to employers' needs'. In May 2009, he pledged that as a 'believer in supply-side reform', if the Conservatives came to power 'they would look to remove barriers to new entrants to the sector'.[4]

One of the key barriers he sought to remove was access to public subsidies. Private providers cannot currently access the HEFCE administered funds. The government sought to change this by making radical moves to switch the form of funding for higher education teaching away from centrally administered grants, towards publicly subsidised loans. However, it was difficult to quickly bring private providers into the mainstream of higher education to fund this as the statutory body that regulate the higher education sector in England, HEFCE, does not have the power to regulate private companies.

David Willetts sought to bring in a bill to change this situation and bring private providers into the higher education mainstream, but in the face of growing opposition, the legislation was abandoned.

However, in the meantime, Willetts had already taken steps to deregulate the sector and allow private providers to access public funds, even though there was no regulatory system yet in place. He did this by widening a loophole that allows BIS to directly grant access to funds to private companies, bypassing HEFCE completely and enabling their students to get loans and grants for tuition and maintenance from the Student Loans Company. In April 2011, Willetts announced that private providers teaching on courses in 2012-13 would be able to access £6,000 in loans.[5] Following this, there was a flood of applications for designated courses.

In June 2012 it was revealed that **the number of private college courses designated by BIS increased from 157 in 2009-10 to 228 in 2010-11, and again to 403 in 2011-12.**

[2]http://www.theguardian.com/education/2013/nov/28/government-stops-colleges-taking-new-students

[3]http://www.theguardian.com/education/2013/nov/18/college-course-chaos-budget-shortfall; http://www.theguardian.com/education/2013/nov/22/poorest-students-face-350m-cuts

[4]http://www.timeshighereducation.co.uk/406516.article

[5]http://www.bbc.co.uk/news/education-13061886

The government risks a repeat of scandals in the US, where under-regulation and a steady supply of public subsidies have made shareholders and CEOs very rich, but left taxpayers out of pocket and students with degrees of questionable quality.

The institution that gained the most designations in 2011 and 2012 was the London College UCK. On 5 December 2011 alone, it gained designation for 98 Edexcel-awarded higher national diploma and higher national certificate courses.[6]

Following questioning from Labour MPs it was also revealed that BIS officials were signing off hundreds of courses for public support while neither BIS nor the student loans company had any idea how many students were completing their courses with the private providers they were designating.[7]

The Quality Assurance Agency said that they were unable to vouch for many of the companies being designated. No one had the statutory power to control the numbers of students being recruited to these companies, yet BIS continued to designate courses in ignorance of the quality of what they were designating.[8]

In 2011/12, the total paid to students studying at alternative providers via these forms of support **trebled in one year to £100,069,600.**[9]

In May 2012, following repeated attempts to persuade the government that this was hugely dangerous to the higher education sector, UCU wrote to the Minister publicly calling on him to close the designation loophole. Commenting at the time, UCU general secretary, Sally Hunt, said: *'The government has got itself in a complete mess over the way it regulates private providers. Unless ministers close this loophole private companies will continue to siphon off public cash to run courses that have been subject to little quality assurance. The government risks a repeat of scandals in the US, where under-regulation and a steady supply of public subsidies have made shareholders and CEOs very rich, but left taxpayers out of pocket and students with degrees of questionable quality.'*

In spite of these warnings, in 2012/13, the total in student support paid to students studying with private providers **almost trebled once again, totaling £269,739,458.**[10]

Total of public support in the form of maintenance grant, maintenance loans and tuition fee loans paid to 'alternative providers'

Academic year	Total student support paid to students at private providers
2007/8	£15,156,700
2008/9	£17,780,600
2009/10	£22,097,100
2010/11	£33,006,000
2011/12	£100,069,600
2012/13	£269,739,458

Source: Student Loans Company

[6]http://www.timeshighereducation.co.uk/420545.article

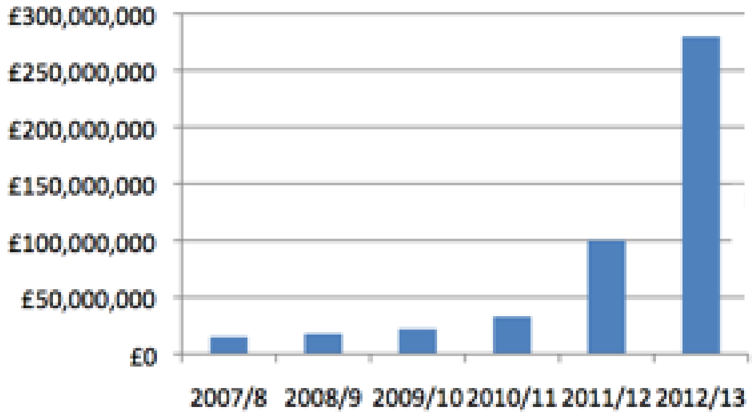
[7]http://www.ucu.org.uk/6090

[8]http://www.timeshighereducation.co.uk/419116.article

[9]Department for Business, Innovation and Skills: Applying Student Number Controls to Alternative Providers with Designated Courses: Consultation, November 2012, Annexe A, pp 23-25

[10]Calculated from the Supplementary Tables, published on 2 January 2014, as a supplement to the Student Loans Company's Statistical First Release in November 2013: http://www.slc.co.uk/statistics/national-statistics/newnationalstatistics1.aspx

Total student support paid to students at private providers



WHO GOT THAT CASH?[11]

Easier access to increased levels of student support was a huge victory for private companies, a victory which has allowed them to grow fast at public expense. The front pages of many company websites proudly display their access to loans and grants as a major recruiting draw.

US and private equity-owned for-profits

This year has seen fast growth from the US-backed for-profit companies owned by private equity firms, including some with close links to the government.

For example, Sovereign Capital, the private equity fund founded by the minister for Schools, Lord Nash, owns two higher education companies who have done very well out of the government's deregulation of the market – **Greenwich School of Management** and **Brighton Institute of Modern Music** (BIMM).

In 2011/12, the 2,400 students claiming student support enrolled at **Greenwich School of Management brought in £22 million** in public support for the company. In 2012/13, they recruited almost 4,000 students able to access this money which brought in **£44 million** in student support, **a growth of 100% in one year.**

BIMM also enjoyed growth this year, with their total student support rising from £5.4 million to £8.7 million over the year.

In 2011/12 the private equity-owned **University of Law** (then an independent not-for-profit company called the College of Law) recruited 50 students with access to student finance, **pulling in £127,000.** In 2012/13, at the time of its buyout by Montagu Private Equity, that had doubled to 100 students claiming **£891,075, a growth of 600% in one year.**

There was also steady growth from American for-profit education giant Apollo's BPP University. In 2011/12, it recruited just over 1000 students with access to student support, claiming **£9.3 million in public support**. In 2012/13 that rose to just over **£12 million, a growth of 32%.**

[11]This analysis is based on the Supplementary Tables, published on January 2th 2014, as a supplement to the Student Loans Company's statistical First Release in November 2013: http://www.slc.co.uk/statistics/national-statistics/newnationalstatistics1.aspx

The amounts of public money involved are huge. £270 million of publicly backed student support is involved, representing 3.4% of all the money dispensed by the Student Loans Company to all providers.

Exponentially growing 'Enterprise' colleges

The government's loophole has been of the biggest service to a group of for-profit companies owned by 'entrepreneurs' running vocational programmes looking for very fast growth and often delivering sub-degree courses like HNDs and HNCs, mainly validated and quality assured by Pearson's Edexcel.

Many of these companies have moved into this market recently having previously been chiefly oriented toward international students. Experiencing problems recruiting international students, as a result of changing visa rules and smelling an opportunity as more private providers move into the sector, these companies have regeared themselves very quickly for domestic students.

London School of Business and Finance Ltd, which is owned by the entrepreneur Aaron Etingen, had no courses designated for public support at all until it got an HND in business approved by BIS in March 2012. This approval was backdated to November 2011 and HNDs in interactive media and photography approved in March 2013, backdated to September 2012, allowed them to recruit to these three courses from a position of having no designated courses at all prior to March 2012. Nevertheless in the academic year 2012/13, they recruited around 1,500 students and received **£7,575,457.**

Their partner company **St Patrick's International College**, with whom they have a 'campus alliance' that allows them to share facilities, enjoyed even more spectacular growth. In 2011/12, St Patrick's recruited 50 students with access to public support valued at **£370,000**. In 2012/13, they recruited **4,500 students**, pulling in public support to a value of **£41.5 million, a growth of 11,000% in one year.**

As it happens, according to 2013 Company Accounts, St Patrick's was recently bought by a company then called Interactive World Wide Ltd (IWW). IWW is itself owned by Aaron Etingen. The company accounts for IWW from 2013 also reveal that it owed £4.8 million to... London School of Business and Finance Ltd, owned by Aaron Etingen.

LSBF, and St Patrick's both shared an orientation toward international students which has been made more problematic by the government's visas policy. Fortunately for them, by opening up a massive loophole, the government has effectively pump-primed them with public cash to allow them to expand rapidly into the domestic student market.

BIS: WRITING BLANK CHEQUES FOR PRIVATE PROVIDERS

The amounts of public money involved are huge. £270 million of publicly backed student support is involved, representing 3.4% of all the money dispensed by the Student Loans Company to all providers. UCU warned back in 2012 that this would happen yet our warnings were ostentatiously ignored by the government. Now, so fast has been the growth that BIS has had to suspend the designation of 23 providers to stop them recruiting any more students, leaving BIS £80 million over budget.

BIS has acted recklessly. The department was repeatedly warned that it was designating providers for public support without knowing enough about them, without a robust quality assurance regime being in place and without knowing even the most basic information about how many students they recruited or how many completed their

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courses. Neither did BIS or any other regulator have the statutory power to control the numbers of students these providers recruited. BIS was, in effect, writing blank cheques to anyone who could show a set of company accounts and a website, cheques which these companies have gleefully cashed at the public's expense.

There are serious questions about the quality of the providers that BIS has pump-primed at public expense. **Greenwich School of Management**, for example, was removed from the clearing house of providers for international students stranded when London Metropolitan was suspended from recruiting overseas students by the UK Border Agency. It was removed after the Quality Assurance Agency raised concerns about some aspects of its provision. Yet this year, it still managed to walk off with £44 million of public money.

As the latest edition of Education Investor magazine reports, the **London School of Business and Finance** was the subject of an ITV Exposure programme which was broadcast in October 2013. As Education Investor reports, the documentary saw *'journalists secure jobs at LSBF's Holborn and Birmingham campuses, where they filmed undercover for six months. The allegations that surfaced generally centredon the firm's sales and operational practices. A member of staff was head saying that merit-based scholarships are actually used arbitrarily as fee discounts. Chaotic scenes were also captured at the firm's Birmingham campus, with complaints aired about teachers not turning up and last-minute class cancellations'.*[12] As the Education Investor report goes on to note, LSBF denies all the allegations made in the ITV documentary.

The expansion of **St Patrick's also** raises serious doubts about what students are receiving. Both are based in very small premises. Where is this sudden influx of domestic students being taught? What are they being promised? While St Patrick's seems to have recently had an Education Oversight review from the Quality Assurance Agency, how can that review, which is primarily designed to assess whether they can have Highly Trusted Sponsor Status for visa purposes, hold good for an institution which has so radically changed its provision in such a short time? In the meantime, quality assurance for HNCs and HNDs at these providers remains largely in the hands of Edexcel, Pearson's validation and examinations company. What quality assurance regime does Edexcel have in place to ensure the standards of its degrees?

CONCLUSION

All of this was completely predictable because, in effect, it's repeating very recent history. When the US higher education sector was deregulated to allow for-profit companies to expand, the result was the rapid growth of companies fuelled by private equity and geared toward low cost provision and fast recruitment, in order to maximise the revenue from public subsidies. The result of this was scandals involving the industrial scaled misselling of courses and allegations of companies sweeping homeless shelters and recruiting brain-damaged military veterans.

UCU has consistently warned that the government is opening the floodgates to a repetition of history and appears determined to learn nothing from the US example.

[12]Dan Thomas, 'The Men who would be King: Special Report', Education Investor, February 2014, pp 18-19; See also http://www.youtube.com/watch?v=9VLvblsvuig for a copy of the original documentary.

The government has consistently ignored these warnings.

It is time that the government shut this loophole for good and listened to those people who have said that for-profit companies are too dangerous to operate freely in the UK.

- **The government must stop all further recruitment to alternative providers and until there has been a proper investigation into those companies who have had courses designated.**
- **Every private provider, especially those which are for-profit companies must be submitted to a completely redesigned and transparent multi-agency designation process, including the publication of full accounts, spot checks, on-site visits and publication of full data on student enrolments and completions.**
- **In addition, BIS must instruct regulatory agencies to begin urgent work on a new regulation and inspection regime tailored to for-profit providers and designed to deal with the extra risks they pose.**
- **It is also high time that BIS was held to account for its recklessness with public money, with students' futures and with the reputation of UK higher education.**

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