A UCU report on the new cross-party consensus and the Americanisation of UK higher education

Privatising Our Universities

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University and College Union

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In this report, we show that there is there is now a dangerous cross-party consensus over the fate of UK universities which will lead to the privatisation of our university sector.

Both the Labour Government and the Tory opposition are committed to a vision of education in which:

- public funding for universities will stagnate or fall and universities will be forced to rely on private income streams, either from donations or from student fees
- as they become consumers of education, the views and preferences of students are given greater weight in judging the quality of education
- as the expansion of public universities slows down, greater encouragement will be given to for-profit universities to offer their own degrees.

We also show that these policies will create a university system far more like that of the US. We look at the problems currently troubling the US education system to show that the consequences of this could be:

- an increasingly unaffordable education system that does little to widen participation and will make it harder for poorer people to access high quality higher education
- increasing financial instability in the university sector with more universities facing cuts, closure and the threat of privatisation
- the devaluation of UK higher education as universities chase a reputation governed by student preferences rather than academic standards
- a growing private sector, aggressively marketing a poorer product at high prices to vulnerable people to satisfy shareholders.

We also note that at the very time when Labour and the Conservatives plan to import elements of this system, there is growing unease within the US about the sustainability of their higher education system.

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How both parties will make universities more reliant on private funding

Both the UK's main political parties—New Labour and the Conservative opposition—are signed up to what they see as the need to cut funding to public universities.

In his *Higher Ambitions* document, published in late 2009 shortly before he announced cuts of £135 million from the higher education budget for 2010-11, Peter Mandelson, secretary of state for business, innovation and skills, made it clear that the New Labour government expected universities to find future funding from the private sector:

> ***Universities have enjoyed a benign financial climate over recent years. Growth based so heavily on state funding cannot continue and this confronts government and universities with a series of challenges. Maintaining excellence in both teaching and research is key. We recognise that per capita funding is important but also that in the current circumstances maintaining that level through public expenditure alone will be extremely difficult. That is why the development of a diverse set of funding streams is important if the quality of higher education is to be maintained and improved…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. It is also the result of the government's decision to introduce variable fees, which has generated an additional £1.3bn of income into the sector, without any apparent negative impact on access.***[1]

If the government is relatively guarded about its position in relation to raising fees, it is not in its view of the importance of endowments:

> ***The higher education sector needs to adopt a more active and professional approach to fund raising and endowment building, exploiting the opportunities established by our £200 million matched giving fund. Strategically, in the next 15 years higher education needs fully to establish itself as a legitimate cause for charitable giving, especially from alumni. We know from experience in the US, Canada, Hong Kong, and South Korea that charitable giving can make a vital contribution to turning a good institution into an excellent one.***[2]

So, New Labour sees universities resettling their finances on student fees and philantropic sources such as endowment schemes. As Lord Mandelson said in a speech on 11 February 2010:

> ***The best university systems in the world are defined by a wide range of public and private funding and British universities need the same diversity.***

The Conservatives have also been careful not to take an early position on whether fees should be raised in the wake of the Browne review, but they are equally committed to the idea that universities should be dependent on student contributions. In June 2007, shadow secretary for business, innovation and skills David Willetts said:

> ***I welcome the realism which has led people to accept that co-payment is here to stay and that the review must be more about the shape and level of that co-payment than about whether it is the right idea. My party has shifted its position because we recognise fees are here to stay.***[3]

The Conservatives are just as keen, if not more so, to increase university dependence on endowment income. They believe that making universities more dependent on endowments will enable the growth of successful universities. As Willetts has said:

> ***One important reason why American universities are in a stronger financial position is because they receive far more donations from individuals and they are better at building up endowments. And that is by no means restricted to the Ivy League universities. An interesting report from the Sutton Trust points out that 'the model for UK universities should be US state universities, which, 25 years ago, raised very little from voluntary giving'.***[4]

In addition, influential groups close to the Conservative Party have suggested that struggling public universities should not be merged or bailed out, but could be taken over by private companies.

Policy Exchange, the rightwing think tank closely connected to David Cameron's party, has argued that financially struggling universities should be allowed to fail. It has argued that universities like London Metropolitan could be liquidated and their activities taken over by private providers:

> ***...private providers could have a key role to play in stepping in where institutions are failing. They might not be suitable or willing candidates to take over an entire university, particularly a large one with many powers devolved to individual departments, but they could have a useful part to play if an institution is broken up into smaller parts. One private company told us that they would look to move into vocational subjects such as business, law and technology. In the US, there is also quite significant private provision in health and education courses.***[5]

In their visions of the future of the university system, both parties see the emergence of a system more like that in the US. So it's instructive to see how a system in which universities are more dependent on private income has been faring and what UK higher education could look like if the major parties get their way.

The US experience

Endowments: capital dependency, job losses and closures

Evidence from the US shows that however parlous the state of publicly funded universities is here, greater dependence on private income brings far greater instability.

US universities have sought to build up endowments, which are then invested in equities to compensate for falling state funding. These endowments represent significant income streams. Many universities provide around 25% of their income through their endowments. Typically, the endowments' rules stipulate that they can only spend 5% of their value in any one year.

However, the financial crisis revealed that the strategy of building up endowments increases the exposure of universities to the risks of unstable equity markets.

According to the credit-rating agency Moody's, in 2008 and 2009 as financial markets were hit dramatically: 'Endowment asset classes, thought to be more protected from downside risks have plummeted in value. Balance sheets of endowed universities have been weakened commensurately.

'In the US, most universities are reporting investment losses of approximately 30% due to high exposure to equities and alternative investments'.[6]

Moreover, with the onset of a full recession, this is not predicted to be a short-duration loss of value. As Moody's report continues, 'we have frequently seen fundraising accelerate and slow down with financial markets and the overall economy and we would expect the downward pressure to be that much more substantial given the magnitude of the current recession and the substantial declines in the wealth of potential donors'.[7]

What this means for institutions themselves can be quite catastrophic:

- In January 2009, Stanford's faculty senate was briefed on projected endowment losses that could reach 30%. The university will cut $120 million over two years from an $800 million budget. **49 business school employees have already been laid off**, senior administrators have taken salary cuts and some employees have even been asked to turn in their university-owned Blackberries.
- Harvard's endowment, which stood at $37 billion on 30 June 2008, tumbled to $29 billion by December of that year and was projected to end in June 2009 at about $25 billion, hit by volatility in financial markets and a drop in donations. The endowment funded about a third of Harvard's operating budget in 2008. **Harvard University announced 275 job cuts in June 2009.**
- Duke's endowment, which is set up to fund about 15% of its annual operating costs, has lost $2 billion since 1 July 2008, or about one-third of its value. Once at $6 billion, the endowment is now worth about $4 billion. In April 2009 it was reported that the university was preparing contingencies, including an offer of early retirement to a to-be-determined number of workers, not including faculty. The university has already instituted a freeze on the pay of any employee earning more than $50,000 a year. The university was **said to be considering cutting 1,000 staff positions as the primary way to cut $125 million from its $2 billion budget over the next three years**.
- In January 2009, Brandeis University in Massachusetts announced that it would **close its art museum and sell its modern art collection**. Again, it cited the losses to its endowment as the reason.
- Emory University in Atlanta is expecting $60 million less annually from its endowment ($5.5 billion in June 2009).
- The Universities of Washington and Illinois have lost around 25%, or $500 million and $370 million respectively.
- In July, the University of Calgary announced that it was **planning to cut 200 jobs** following the news that its endowment fund has shrunk by $40.4 million, since hitting a high in 2009 of $411 million.
- Transylvania University in Lexington, Kentucky, which was dependent on its endowment for 25% of its budget, has cut back on staff travel, frozen job vacancies, frozen overtime and **halted all its construction projects**.[8]
- Dartmouth University, which funded 35% of its budget through its endowment, saw its endowment lose 23% of its value in 2009 and **cut 200 jobs** as part of a plan to slash its budgets. But the redundancies were not enough to stop its credit rating falling, affecting its future borrowing and the unversity has engaged on another round of layoffs and budget cuts, affecting **another 76 employees**.[9]

It is notable that the universities least affected by the endowment crisis have been the smaller public universities more dependent on public funding.

What might be the effects of introducing such instability into UK higher education?

According to the latest published HEFCE figures, published in 2004, 12 higher education institutions were at immediate risk and 41 were in category 2, for 'institutions likely to be at risk in the near future unless action is taken by the institution within the forecast period', ie the current financial year, and the following three financial years.

When Peter Mandelson unveiled his cuts to university funding, UK universities responded by saying that around 30 universities might face closure from the cut in funding.

Whatever their true financial position, currently, UK institutions have been shielded from the effects of the slumping capital markets. Endowments and investments together only account for 2.2% of the income of a UK university at present.

A US university dependent on endowments for 25% of its income and seeing a cut in its value of 30% could face a cut in income of around 8.3% of its overall income.

Peter Mandelson has said: 'Public funding cuts are the regrettable cost to the UK of saving the banking sector and getting the country through the recession.' If on top of the cuts to their public funding, UK universities had taken a hit of a further 8% in their income from endowments, how many more might be in danger of closure or takeover from the private sector?

And of course a major difference between public funding and that dependent on the capital markets is that however immune the parties may seem to lobbying, the capital markets are even more indifferent.

At the very time when the policy of allowing US universities to build up large endowments as a permanent and significant income stream has been exposed by the crash in the capital markets, the major parties are proposing to make UK universities more dependent on this unstable resource.

We believe that the result will be to inject massive further financial instability into the UK higher education sector, possibly leading to the collapse and or privatisation of more than 40 universities.

A crisis of accessibility and a higher education bubble

In the UK, the universities are already pushing hard through the Browne review to be allowed to raise the current cap on fees from £3,000 to between £6,000 and £10,000.

The US experience shows that increasing universities dependence on fees will inevitably drive up the cost of education, creating a crisis in affordability:

- Fees in UK universities are currently capped at £3,145.
- Fees in US universities are higher across the board. In the publicly subsidised colleges and universities, the average fee was $7,020. But in the large private universities, including the 'Ivy League' which many of the Russell Group like to take as their comparators, average fees were $26,273, equivalent to £17,000.
- The average fee for private for-profit sector, including companies like Apollo and Career Education, which now have outlets in the UK, was $14,174, equivalent to £9,171.
- So, if the UK higher education system is allowed to develop in the same way as the US system, the average fee would rise sharply across the board.
- However for some universities such as private for-profit and the 'elite' Russell Group universities who

consider themselves an 'Ivy League', **the cost of university could be between three and five times what it is now**.

Average annualised cost of higher education in the US compared with the current cost in the UK, 2009[10]

US institutions	US (value expressed in $	UK equivalent institutions	Current UK average	Current US fee level expressed in £ sterling
Public university/college	$7,020	Million +	£3,145	£4,544
Private not-for-profit	$26,273	Russell Group	£3,145	£17,005
Private for-profit	$14,174	BPP	£5,000[11]	£9,171

However, it's not just the expense of a US college education that's the issue. The cost of US higher education is growing rapidly.

The cost of college tuition in the US has grown at four times the rate of inflation in the last 25 years. According to the National Centre for Public Policy in Higher Education's biannual report *Measuring Up 2008*, between 1982 and 2008, the cost of college and tuition fees rose 439% as compared with the Consumer Price Index rise of 106% over the same period.[12]

The cost of higher education has also grown to consume an astonishingly high proportion of family income. Taking into account fees, living costs and accommodation, and subtracting the aid provided by bursaries, grants, the NCPPHE calculates that in 2007-8:

- public higher education cost 28% of median family income
- a private university cost 76% of median family income.

But of course, poor families pay more than wealthier families. Low income families in the US can now expect to consume 55% of their income on a public college education, as opposed to 39% in 1984, whereas the richest families still consume less than 9% of their income on college.

According to the National Centre for Public Policy in Higher Education, the consequence of relying on private tuition fee income and holding down public expenditure has been a long-term and increasingly drastic **'deterioration of college affordability'**, while **'the continuation of the trends of the last quarter century would place higher education beyond the reach of most Americans and would greatly exacerbate the debt burdens of those who do enrol'**.[13]

The Centre's President, Professor Patrick M. Callan, says that **'If we go on for another 25 years, we won't have an affordable system of higher education'**.[14]

Some commentators have suggested that the inflation of the costs of HE could make it the next bubble to burst after the property markets. As Joseph Cronin and Howard Horton have argued:

> ***Although questions about the mounting prices of colleges have been raised for more than 30 years and just a few private colleges have closed, the stakes and volume of the warnings are mounting. Only during a critical moment in economic history can one warn of bubbles and suggest that the day of reckoning for higher education is, in fact, drawing near.***[15]

Another cost of rising tuition costs is the public perception of universities. According to a report released in February 2010 by the NCPPHE: **'Six out of ten Americans now say that colleges today operate more like a business, focused more on the bottom line than on the educational experience of students.'**

The report concludes that:

> ***Many Americans are becoming more skeptical about whether colleges and universities are doing all that they can to control costs and keep tuition affordable. It may also indicate that Americans will be increasingly less receptive to the argument that higher education institutions need more money to continue to provide high-quality services.***[16]

In other words, universities will find it far harder to make a case for any public investment or against cuts if they are driving up the costs of tuition at the same time.

In summary, the evidence of the US situation suggests that the policies proposed by the two major parties of increasing university dependence on private funds would make universities more dependent on chronically unstable capital markets.

They would also drive up the cost of higher education, putting it increasingly out of reach of lower income and middle income families and undermining the system's ability to function in the longer-term.

Empowering the student consumer

How the major parties will lock universities into a beauty contest for students

'Student expectations are also changing. They will increasingly demand high-quality provision that they themselves are funding directly through fees as well as through taxes.' Secretary of state for innovation and skills, John Denham, February 2008.

Increasing dependence on private funding fundamentally alters the relationship between educa-tion providers and students. Consumers of education now have the power to determine the fate of universities and the main parties have followed the logic of this development faithfully by outlining policies that will make students the arbiters of quality. If these policies are enacted, they will overthrow the idea that academic standards can be maintained by peer review.

The New Labour government has committed to increasing the market information available to students in making their choices. All universities will be expected to:

> *...publish a standard set of information setting out what students can expect in terms of the nature and quality of their programme. This should set out how and what students will learn, what that knowledge will qualify them to do, whether they will have access to external expertise or experience, how much direct contact there will be with academic staff, what their own study responsibilities will be, what facilities they will have access to, and any opportunities for international experience. It should also offer information about what students on individual courses have done after graduation.*[17]

In addition, they will develop web-based information allowing comparisons so that: 'students can make well-informed informed choices, based on an understanding of the nature of the teaching programme they can expect, and the long-term employment prospects it offers.'

The Quality Assurance Agency's remit will change so that it reflects the need to ensure a high standard of teaching service to universities.[18]

The Conservatives are more extreme. Conservative policy will be based on making students the ultimate arbiters of the quality of a university. Again, the argument is based on the fact that universities will be more dependent on student fees. David Willetts has said: 'You couldn't win the argument for higher fees unless you could show what was in it for students and their parents.'[19]

The Conservatives may well scrap the Quality Assurance Agency altogether. Anna Fazackerley, head of education at the think-tank Policy Exchange has suggested that while she was 'unconvinced' that scrapping Hefce would be a good idea: '...However, she suggested that other sector bodies were ripe for the plucking. "Top of my list would be the Quality Assurance Agency, which seems to monitor paper trails and not quality", she said.'[20]

David Willetts has indicated that he may agree:

> *Do we really need to have the QAA inspect all university courses on a rolling 3-5 year basis, with requirements for self assessment in between? Apparently, one department had to cope with three inspections in one term. Surely, the whole point is to ensure that students are getting a high quality teaching experience. Wouldn't an equally good indicator be a series of well crafted student surveys coupled with basic university statistics about graduates' employment rates and salaries, and wouldn't that be a lot less bureaucratic to assemble?*[21]

And indeed, the Conservatives are now working with Microsoft to develop such a website:

> ***David Willetts, the Shadow Universities Secretary, is working with Microsoft on a website that would give salary information for graduates from each degree course and record students' views of their experience of higher education...The proposed website, which has been under development for some months, would build on the National Student Survey, which asks final-year undergraduates to rate the quality of teaching on their course.***
>
> ***The online format would allow individual students to give their views of teaching standards and the quality of feedback on their work... The proposed website would also provide more detailed information than universities currently publish on graduate employment rates and salary levels. At present, information is released only nationally for different subjects, or for whole universities.***[22]

The theory is that the existence of this market information should drive efficiency which raises standards. The league tables are supposed to provide the market knowledge to allow consumers to make informed choices – in theory, the competition to appeal to these students forces poor competitors out of the market and drives up standards in the remaining universities.

However, the US experience suggests that a quality regime based on student evaluations does little to raise academic standards and can produces rampant grade inflation as institutions and staff compete to secure positive feedback.

The US experience

Grade inflation and other pressures on standards

When in August 2009, the Select Committee for Innovation, Universities and Skills published a report revealing that the number of firsts awarded in UK universities had doubled in a decade, it was merely beginning a debate in the UK that has been raging in the US for around a decade.

In February 2002, the American Academy of Arts and Sciences published an influential report showing that grade inflation had become a major problem in US universities, particularly in the prestigious and Ivy League institutions.

The report showed that at Harvard, for example, the number of undergraduates earning an A more than doubled quadrupled from 22% in 1966 to 46% in 1996. That same year, 82% of Harvard seniors graduated with honors.

The report said that among the key factors driving this development were:

- the advent of student evaluations of professors
- the rise in the 1980s of consumerism with universities operating like business for student clients
- the increasing use of adjunct faculty (casualised staff whose chance for tenure is in part dependent on student feedback).[23]

Grade inflation is one symptom of the creation of a market system in HE. Academic studies of the US university system have shown that the fierce competition among universities to attract students leads them to adopt a range of strategies that undermine academic standards.

For example:

- Research in the US has shown that universities and colleges have responded to a competitive market not by improving standards but by chasing other indicators of prestige and sacrificing standards in the process. Many institutions 'seek to build their reputation in the competitive market not by pedagogical improvements, or by meeting new types of student demands, but by enhancing their reputations.' This was done by focusing on increasing the selectivity of the admissions process, linking student financial assistance with academic performance, investing in new accommodation and facilities. Everything, in fact, except improving academic standards.[24]

- Another option for market-sensitive institutions is to manipulate the information that gets into the public domain. According to US academic David D Dill: 'There have been numerous reported incidents of US colleges and universities manipulating the data submitted to commercial league tables in an attempt to enhance their rankings'.[25]
- Finally, the institutional pressure to boost market position has also led many universities to link academic promotion to student evaluations and tie department budgets to student enrollments, creating **an inbuilt incentive to overgrade students**.

As Valen E Johnson, a biostatistics professor at the University of Michigan and author of the influential book *Grade Inflation: A Crisis in College Education* says: **'As long as our evaluations depend on their opinion of us, their grades are going to be high.'**[26]

A lecturer explains that:

> ***It's easier to be a high grader…You can write that A or B, and you don't have to defend it. You don't have students complaining or crying in your office. You don't get many low student evaluations. The amount of time that is eaten up by very rigorous grading and dealing with student complaints is time you could be spending on your own research.***[27]

US higher education experts have noted that with the rising costs of college tuition, this situation is set to worsen:

> ***Faculty fear of negative evaluations, and the mentality that students who pay increasing amounts of tuition are entitled to good grades are only two reasons cited for escalating GPAs. But both threaten to make things worse, as costs continue to rise and an increasing proportion of faculty become part-time and untenured, rather than full-time, making them even more dependent on evaluations by their students.***[28]

A student voice:

> ***During a graduate course at one of the country's most highly regarded universities, I took a seminar with one of the world's foremost Shakespeare professors. I didn't speak much in the classroom; the professor didn't think much of my two papers. Yet I was given an A-. I couldn't reconcile the disparity between his evaluation of my course work and the eventual grade I received. Frankly, it undermines the reputation and integrity of the academic and his institution. I dropped out—not because I couldn't handle the work, but because little seemed to matter anymore: not the subject, not my contribution to my field, not the integrity of the tutelage I was receiving.***
>
> ***By contrast, I earned my undergraduate degree from a top British institution. No one in the modern era has ever received an A from this institution. Once every few years, someone is brilliant enough to merit an A-. On examinations, a typical top grade would be an A--. (That's right—an A double minus.) Some American visitors to the university were told that***

> *an A at their college (an excellent one by American standards) would be worth no more than a B- at this one.*
>
> *With the subsequent experiences I've had, I'm no longer surprised at this remark. It's truer than can be imagined.*[29]

In summary, recent research in the States indicates that the development of a market in higher education, tailored to increasing market information for student consumers has had no upward impact on academic standards and indeed has produced in-built downward pressures as institutions and lecturers chase student approval.[30]

If the major parties' policies are enacted, it will create a market environment very similar to that operating in the US, with all of its attendant risks of rampant grade inflation and other downwards pressures on academic standards.

Ironically, given the position adopted by the major parties, since the late 1990s, some US academics and commentators have been looking at the UK system and some have suggested the model of the QAA as a possible answer to their problems.[31]

How both major parties will subsidise the growth of profit-making universities

Both New Labour and the Conservatives are signed up to encouraging the growth of the private for-profit sector. For both major parties, the growth of the private sector is a way of squaring the circle of widening participation without any substantial injections of public funding.

The private providers are seen to be cheaper, since they do not require large amounts of public funding, and more flexible, as they are more open to developing online learning, two year degrees and flexible timetabling to suit 'non-traditional' students. In his grant letter to HEFCE in December 2009, Peter Mandelson said:

> ***We want to see more programmes that are taken flexibly and part-time and that a learner can access with ease alongside their other commitments. We also wish to see more programmes, such as foundation and fast-track degrees, that can be completed full-time in two years. The underlying theme is providing for diversity. Over the next spending review period, we will want some shift away from full-time three year places and towards a wider variety of provision.***[32]

In his *Higher Ambitions* document, he had earlier made clear that he considers the private sector to have a key role in this process:

> ***Alongside the development of our publicly funded universities and colleges we also see an important role for fully private providers over the next 10-15 years. The government has made it possible for such providers to obtain degree awarding powers. We see no reason why this type of provision should not grow in the future and provide greater choice for students and employers, adding to innovation and diversity in the range of HE options available.***[33]

David Willetts is even more open. The Conservatives, as we might expect, believe that competition from the private sector will drive efficiency in the sector as a whole, driving inefficient providers out of the market as well as 'widening participation':

> ***As a 'believer in supply-side reform', Mr Willetts said if the Conservatives came to power next year, they would look to remove barriers to new entrants to the sector.***[34]
>
> ***...it is clear that under a Tory government, universities may find themselves vying for students with more private and not-for-profit rivals setting up in Britain too. 'There are American university chains that are looking to come into Britain, talk of mergers between British and American universities. India is looking at links. I think it's ripe for these kind of supply-side reforms', says Willetts.***[35]
>
> ***We welcome private providers' interest in higher education. They can usefully supplement publicly-funded univer-sities and are likely to play an increasing role under any government. Internationally, private providers are extending choice, widening participation and responding to employers' needs.***[36]

Who are the private providers?

The private sector in UK higher education is still relatively small. Besides a number of private education companies offering pathway courses for international students like INTO, Navitas, Study Group International it consists of the University of Buckingham, Kaplan's Holborn College and two companies with degree awarding powers, the College of Law and BPP College.

However, BPP College's receipt of degree-awarding powers in 2007 marked a new departure as it was the first for-profit company to enter this retricted market. BPP have built a highly profitable business by delivering law conversion courses to wealthy City law firms and have used their degree-awarding powers to branch out into professional and business undergraduate and postgraduate courses. As their strategy document explains:

> ***The market for law and business degrees in the UK is significant. Around 400,000 students are currently studying for such a qualification, 130,000 of them at postgraduate level. The postgraduate market is worth £1bn annually and it is into this market that we are launching a Business School.***

BPP have focused on non-traditional students and will initially continue to do so:

> ***Our initial focus will be on the postgraduate market, aiming at part-time working adults, full time international students who are already here in the UK and new graduates seeking to enter the professional world.***

But it is clear that this is not the endgame:

> ***Our core plan is aimed at achieving break-even run rate in 2011 and we see very significant potential for accelerating profitable growth beyond that point as our reputation becomes established in this market and the business gains traction.***[37]

It was probably this potential that attracted the attention of the giant US education company Apollo. In July this year, BPP Holdings plc was bought by Apollo Global (a subsidiary of the US education giant Apollo Inc), which is 20% owned by the private equity firm Carlyle Group.

This is symptomatic of a wider move by US private education companies into UK higher education, attracted in all likelihood by the probability of increasing opportunities whichever party forms the next government. For example:

- **Laureate** which now operates 24 overseas universities on three continents, as well as its all-online Walden university, operates a partnership delivering online courses with Liverpool University.
- **Career Education** have operated the American Intercontinental University in London since 1995.
- **Kaplan** operate Holborn College in London, delivering law courses, as well as operating partnerships with Nottingham Trent, Glasgow and Sheffield universities recruiting international students onto pathway programmes. In 2006, Kaplan stated that it was interested in seeking degree-awarding powers from the QAA.

However, there are still significant obstacles to the further growth of the for-profit sector in the UK.

What the private providers need the parties to do to help them grow

Public subsidies

The biggest obstacle to the expansion of the private sector is their inability to access state funding.

Policy Exchange, which as we have seen, is closely linked to the Conservative Party, has argued that private for-profit companies should be allowed to draw down state funding, as in the US.

> ***Currently private providers cannot receive funding from HEFCE, and this is the most significant obstacle to their entry into the higher education marketplace. However, the government could solve this problem by offering a contract to a provider to take over all or***

> ***part of an institution and deliver particular education services. There would be two possible options here: the merger could be done as a full acquisition or the private provider could effectively rent the university under a Private Finance Initiative agreement for a number of years.***
>
> ***Some of the senior university figures we spoke to speculated that private education companies would not be willing to enter the university sector while the cap on top-up fees is set so low. However, a senior figure in one private education company countered that: "The £3,000 fee cap would not put us off, because there are a lot of inefficiencies in universities. If we charge a £3,000 fee and draw down £3,000 of funding we could make a profit by getting rid of inefficiencies. I feel confident that we could make a ten per cent return.***[38]

In a recent article, Chris Brady, Dean of BPP's Business School, oozed confidence that access to state funding would shortly be accomplished. From 2010 onwards, he predicted:

> ***...private institutions will begin to access HEFCE funding. There is currently no legislative impediment to this. Therefore, only a change of attitude is needed.***[39]

He was also bullish about the chances of private providers being able to take over bits of struggling universities:

> ***…private companies will buy out some failing universities, while others will go to the wall. The manner in which these buy-outs will be achieved might be tortuous at first, not least because of the potential new legislation to deal with issues which may be triggered under Section 75 of the Pensions Act. Nevertheless, it*** **will** ***happen…***[40]

Light touch regulation

The second obstacle that the private providers would seem to like removed is the restriction posed by the current quality assurance regime.

BPP's Chris Brady, for example, outlines three things that he thinks will happen in the near future regarding quality assurance.

> ***1. Private companies will form collaborations with existing universities 'as a quick route to degree awarding power'.***
>
> ***2. The process by which private providers such as BPP can move from approved Degree Awarding Powers (DAP) institutions to formal University status will be simplified. 'Unless this happens', he says, 'the changes necessary for the sector will be considerably hampered.'***
>
> ***3. Legislation will be enacted which will establish parity between the private and public sector in relation to Degree Awarding Powers. At present private HEIs have powers valid for six years only, whereas public HEIs have no statutory time limit.***[41]

It seems clear from this, that the current route to obtaining degree awarding powers, the limits upon their duration and the route to being formally recognised as a university are seen to be major fetters on the growth of the private sector. They would prefer a lighter touch regime that gave them faster access to the reputational claims of university status but without the current constraints on private companies.

In this, as we have already seen, they have the support of conservative-leaning think tanks like Policy Exchange, who would like to abolish the QAA altogether, and possibly of David Willetts.

We can perhaps speculate as to why the private providers might like a lighter touch regime by looking at their experience of the QAA so far.

In 2005, the American Intercontinental University in London, a subsidiary of Career Education's American Intercontinental University, was given a devastating report by the QAA. Following its institutional audit, the agency stated that 'at present, no confidence can be placed in the soundness of AIUL's management of the quality of its programmes'; and, 'at present, there can be no confidence in AIUL's institutional level capacity to manage effectively the security of the awards validated by the Open University'.[42]

Private colleges like BPP are not subject to the Freedom of Information Act which means that unlike a university they are not legally required to disclose the report of the review that the QAA conducted when the college were granted Degree Awarding Powers. BPP will not be audited again until 2012, and if the Conservatives win the next election, it is questionable whether the QAA will even exist by then. This means that nobody can identify any areas of concerns expressed by the QAA or hold the college to account externally.

As part of their ongoing war with BPP, conducted via *LegalWeek* magazine and the CharonQC blogsite, the private College of Law recently challenged BPP to publish their report and confirmed that they were prepared to publish their own report. BPP's chief executive Peter Crisp replied that he was unable to publish the QAA's report as it was marked 'Confidential' by the agency.

Mike Semple Piggot, an academic lawyer who writes the CharonQC blog, then wrote to the QAA and the agency confirmed that they would publish the report following the first audit in 2012. Crucially, they also confirmed that BPP could grant access to the initial report before this time. However, BPP refused to do so.

Since this controversy, BPP appear now to have published the report, but it remains the fact that because the company is not subject to Freedom of Information legislation, it was not obliged to do so. Companies like BPP delivering higher education are, to this extent, unaccountable to the public.[43]

Without a QAA to hold it to account, the defence of academic standards would lie with its academic council. Most universities have an academic board or a senate which deals with academic matters and which is entirely composed of practising or senior academics at the institution. BPP appear to have something similar. As the company explains, 'within BPP College we have an independent board that manages the educational risk. This body, called the Academic Council, is the academic authority of BPP College.'

While this sounds grand, it's actually hard to find out anything about this from BPP. What is discoverable is not reassuring with regard to its independence or its academic credentials. UCU research has turned up the names of only four people connected with BPP's Academic Council:

- **Baroness Janet Cohen** is the Chair of the Council, and was a solicitor and a crime writer before moving into corporate finance. She was also served as Chairman [sic] of BPP Holdings PLC from July 2002 to June 2006. Her highest academic qualification is a BA. She is not and has never been an academic.[44]
- **David Holmes** was for some years the Registrar of Oxford University and is a leading expert in university administration. He is not, however, an academic.

- **Professor Martyn Jones** is the Chair of the Council. He was an academic and is also Pro-Vice Chancellor of Kingston University.
- **Julia Chain** is a partner at H4 Partners, a legal consultancy firm. She is not and has never been an academic.[45]

We can find only one academic among them. Yet these people constitute the guarantee of academic quality and standards for BPP.

In summary, it appears that the private providers would like and are reasonably confident of achieving access to public funding and a lighter-touch regulatory regime.

This is important as, together with tighter public funding in general, this would create a very similar environment to that in which private providers have expanded in the US.

Private providers in the US

The US has a developed and rapidly growing for-profit higher education sector. For-profit companies have taken advantage of cuts in public funding for public provision and a more deregulated quality assurance regime to pitch their offer.

Of the 9,000 post-secondary institutions in the US, at least one third are now run by the 'for-profit' private sector. And as profits have grown, the sector has attracted the attention of Wall Street finance and private equity, moving in and funding companies like Career Education Corporation, Education Management and Apollo in 'consolidating the market' by buying up their smaller competitors. The market is becoming more dominated by publicly trading companies. Of the roughly 3,000 for-profit institutions, 40% are now owned by one of 13 large, publicly traded companies.[46]

Publicly trading higher education is one of the highest performing and most profitable areas of investment. The return on invested capital for Apollo, for example was calculated at 69% in 2006, double that of names like Exxon Mobil and Microsoft.[47]

The eight largest publicly traded for-profit companies delivering higher education have consistently outperformed the US stock market since the year 2000.[48]

According to Jeffrey M Silber, a stock analyst and managing director of BMO Capital Markets, the for-profit sector brought in $26 billion in 2009. Most of that was earned by 13 large publicly traded companies that now dominate the market.[49]

The biggest of these companies is the Apollo Group, which now owns BPP. Apollo owns the University of Phoenix which has grown astronomically since 1995, when it had 21,500 students, to a figure of 455,600 today. This makes it the second biggest higher education institution in the US after the State University of New York. Phoenix has over 200 campuses in 39 states of the US as well as Canada, Mexico, Puerto Rico and the Netherlands.[50]

Where does the profit come from?

Fees and grants

The US private for-profit sector is massively dependent on income from student fees and state grants. On average, the for-profit sector relies on fees for 90% of their income. This compares with a figure of between 20 and 30% in the public colleges and 50 and 60% for the private no-for-profits in the US.[51]

That means they have an in-built imperative to raise fee levels. As we saw earlier, fee levels in the US for-profit sector are far higher than in the public universities. For the lower income families targeted by the private for-profit sector, the disparity is particularly acute as they receive less aid from the institutions themselves for their studies than they would from public universities:[52]

- the average tuition fee charged by a for-profit provider is around **$13,046** a year
- the average value of a federal grant for low income families is around **$3,000** a year.[53]

The difference is made up for many by taking out loans. More than 50% of students in for-profit higher education make use of private loans to fund their education.[54]

This leaves them vulnerable to heavy debt burdens, particularly as some private companies seem to have a track record of encouraging students to take out private loans under agreements with commercial lenders like the SLM Corporation ('Sallie Mae'), which carry interest rates that can be as high as 15%, rather than making use of the federal backed low-interest loans.[55]

However, as well as its income from fees, the for–profit sector in the US is also heavily reliant on the availability of publicly supported student aid. It has been estimated that for-profits derive 80% of their income from federal student aid.[56]

According to US academic Kevin Kinser: 'Without the framework of federal grants and loans, the for-profit sector in its current formulation would be untenable as a business and fail as an access path.'[57]

Low staff costs

Another key condition of profitability is low costs:

- UK universities spend, on average around 60% of their income on staff.
- US public universities and colleges spend, on average, 50-60% of the value of their fees on teaching staff.[58]
- By contrast, US for-profit colleges and universities only spend around 25% of the value of the fees they charge on salaries for their teaching staff.

We can see how this is done by examining the University of Phoenix. According to the *Chronicle of Higher Education*, the university relies almost entirely on part-timers, called 'practitioners':

- They are paid by the course and in most cases they use a standardised syllabus handed to them by the university.
- They have no tenure and there is no relationship between scholarly activity or research and teaching activity.
- Staff are less qualified than at public universities. To teach, you must have only a Masters and a full-time job. Only around 30% of Phoenix faculty members go on to earn PhDs or Education Diplomas.
- Staff are trained and assessed for 20 to 24 hours before being allowed to teach.[59]
- Phoenix's teaching model is reportedly designed to allow them to pay staff less. Classroom time is divided into teaching, which takes place once a week for four hours, and weekly 'study groups' at which staff are not required to be present.
- According to one commentator, the key to Phoenix's profitability is that the smaller amount of class time the university requires of instructors allows it to pay them less than traditional institutions do.[60]

Richard Chait, Professor of Education at Harvard University, says that Phoenix's model 'poses a threat to the livelihood of other faculty—and it runs counter to the conception most faculty have of the necessary elements of high-quality education'.[61]

Light touch quality assurance The growth of the for-profit private sector in the US was partly made possible by the lighter touch regulatory environment. Instead of being subject to a central independent quality assurance body, universities and colleges are accredited by a range of regional accrediting agencies and there is a lighter touch regime. There is, for example, no external examiner system in the US and there are not full academic audits. This has given private companies space in which to grow.

The director of the North Central Association of Colleges and Schools which accredits the University of Phoenix, was quoted as saying: 'We do a minimal level of quality assurance…we don't claim that all institutions we accredit are all of equal quality'.[62]

What has been the effect of the growth of the private for-profit sector in the US?

The US for-profit sector has grown in an environment in which public funding has been cut or held down and in which quality assurance is relatively light-touch.

In this context, they have developed a business model based on offering flexible, vocational courses to lower income students, charging relatively high fees and claiming a subsidy from the state in the form of grant income. Their dependence on Wall Street finance also gives them a need to show fast expansion. This has led to serious concerns that the business model is inherently flawed.

'Recruit at any cost'

David Hawkins, director of public policy at the National Association for College Admission Counseling has said: 'The pressure to enrol that Wall Street places on these companies is almost unbeareable and that creates incentives to misbehave. Unfortunately, we're seeing plenty of evidence that the 'recruit at any cost' mentality is becoming more the rule than the exception'.[63] This pressure has resulted in some very high profile scandals.

In 2006, the US Justice Department, the Securities and Exchange Commission (SEC) and officials in California, New Jersey and Pennsylvania investigated Career Education Corporation, which owns the American Intercontinental University, about allegations that the university was engaged in widespread enrolment fraud. According to a report in the *Chronicle of Higher Education*, allegations included:

- admitting students who had not graduated from high school or gained the necessary qualifications to qualify for federal aid, which is illegal
- sending students to unaccredited high schools to 'purchase' qualifications, in order that the university could claim the federal aid
- encouraging staff to sign up family members and friends to boost enrolment figures, even if they never attended.[64]

In 2003, staff at the University of Phoenix blew the whistle on the institution's recruitment practices, leading to an investigation by the Department of Education. In February 2004, the Department published a report condemning the University of Phoenix for flagrant violation of the law prohibiting higher education institutions from compensating recruiters on the basis of successful recruitment.

According to the report, the University of Phoenix 'systematically and intentionally operates in a duplicitous manner so as to violate the Department's prohibition against incentive compensation while evading detection'.[65]

The company agreed to pay the Department $9.8 million as a settlement. It was then successfully sued for $280 million by shareholders after it 'fraudulently misled' investors as to the seriousness of the report in order to hold its share price up.[66]

In February 2009, it was reported that Phoenix were being sued by a former recruiter alleging that the company focuses on recruitment predominantly to get the federal funding, regardless of what happens to them afterwards.[67]

According to a news release of 31 August 2009, Phoenix's parent company, Apollo, is preparing to spend $80.5 million to settle a six-year-old whistle-blowing case filed by former admissions officers who allege that the university obtained federal student aid under false pretenses. The company also announced that the SEC's Enforcement Division has 'commenced an informal inquiry into the company's revenue recognition practices.'[68]

A poor product?

There have also been concerns about the quality of what the for-profit sector offers.

Non-completion is a major problem for some of the for-profits. The official graduation rate for Phoenix is astonishingly low. According to a report in 2007, the graduation rate by federal measures was only 16%, compared with an average of 55% in the sector as a whole. At some Phoenix campuses, it was even lower: a mere 4% among online students at the Southern California campus.[69]

As a result of the Phoenix model, students spend 20-24 hours with an instructor during each course, compared with around 40 at a traditional university.

For those who complete, research indicates that student loan default rates among former students at for-profit universities are almost twice as high as at public universities, suggesting that the 'graduate premium' promised by higher education is not operating so well for those who come out of a for-profit education.[70] This impression is reinforced by the actions of many disgruntled former students.

Career Education Corporation, which owns the American Intercontinental University has been sued on several occasions by angry students:

- In 2007, its culinary academy in California was sued for allegedly 'misrepresenting the quality of its program and overstating the job prospects of the academy's graduates'.[71]
- In March 2008, a class action suit alleged that Career Education Corporation's American Intercontinental University 'made false or misleading statements about its reputation, the quality of its programs and the career prospects of its graduates'.[72]

The University of Phoenix markets itself as providing flexible learning centred on what students need. Yet even the most cursory internet search reveals a host of consumer sites with complaints about Phoenix provision.[73]

The complaints turn on allegations such as:

- Phoenix credits are not transferrable to other colleges
- Phoenix enrol students and then continue claiming fees from them after they have dropped out

- Phoenix advisors mislead students as to the true costs of courses
- Phoenix tutors do not give feedback or assistance with work.

In 2007, the *New York Times* covered the company's trouble and interviewed two students of Phoenix. Both stated that they had received little instruction from lecturers who instead concentrated on setting the students assignments in 'learning teams'. One of them said: **'You're not learning from an actual teacher, you're teaching yourself'.**[74]

One former Phoenix student who contacted UCU, said:

> ***'The last straw for me was when I was in my Psychology class and my instructor was on a cruise…and somehow she managed to read all of our theses and give fair grades. No, I don't believe that a person who is on a cruise in the ocean, having drinks and whatnot, can give fair and accurate grades, especially a thesis.'***

Concerns about the quality of the education offered by these companies are not just the preserve of students. Even the light-touch quality regime in the US has had to step in at times:

- In December 2005, the Southern Association of Colleges and Schools (SACS) placed the American Intercontinental University on probation and then kept the university there for two years. The agency described probation as **'the most serious sanction, short of loss of membership'** and 'an indication of the gravity of non-compliance.'
- SACS found 14 standards that AIU failed to meet. The concerns raised included the integrity of its student records, accuracy of its recruitment materials, questions around its governance, information given to consumers and student complaint procedures.
- One year later in 2006 SACS once again found AIU's practices unacceptable by failing to correct all of the stated problems. The college was again placed on probation for a second year. In 2008, the University got off probation, but earlier this year it decided to change its accrediting agency.[75]

In summary, the experience of the US's for-profit private sector shows what could happen in the UK if the policies being pursued by the major parties are enacted.

- **We could see private companies receiving state funding—in effect, subsidies.**
- **We could see rapid expansion of the private sector, backed by Wall Street and City of London finance.**
- **We could see non-traditional students channelled toward online provision in vocational education.**
- **We could see over-recruitment and mis-selling scandals as a poorer product is aggressively marketed to lower income students.**
- **Coupled with an increasingly inaccessible and financially unstable public sector, ever more dependent on private funding and desperately pursuing student approval even if it means rampant grade inflation, UCU believes that the visions of the future contained in the policies of the two main parties offer a bleak prospect for both the university sector and the people of our communities.**

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