Public service or portfolio investment?

How private equity funds are taking over post-secondary education

ucu
University and College Union

'Private investors would love to invest in a traditional university.' *Matt Robb, Senior Principal, Parthenon Group Consultancy*

'This deal will ensure there is a well-funded charity and a successful international higher education business....With the new funding invested in the College, it will be able to build its brand, take its trusted degrees into other countries, and boost British education exports. It's an excellent outcome for everyone.' *David Willetts responding to the news that the College of Law will be bought by Montagu Private Equity, 17 April 2012*

'Financial backing is being investigated from both banks and private equity investors, but we are focusing more closely on private equity investors as they too would bring their own ideas, commercial expertise and greater support....I am certain the students in the classroom would see no difference other than improvements.' *Pete Birkett, Principal, Barnfield College,* FE Week, *20 April 2012*

'Private equity's undisclosed business model is value capture through financial engineering focused on the enrichment of a managerial elite, with mass investors mainly involved in providing the cheap debt which makes the whole thing possible.' *Julie Froud and Karel Williams,* Private Equity and the Culture of Value Extraction, *New Political Economy, 2007*

'Some financial investors spare no thought for the people whose jobs they destroy. They remain anonymous, have no face, fall like a plague of locusts over our companies, devour everything, then fly on to the next one.' *Franz Munterfering, SPD politician,* Bild, *2005*

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How private equity funds are taking over post-secondary education

A UCU report into private equity and post-secondary education
September 2012

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Executive summary

Private equity in the education headlines

In March 2012, the Principal of Barnfield College, a federation which sponsors two Academy schools and a Free School, announced that he was in discussions with a private equity (PE) firm about accessing their investment and using the new powers in the Education Act to alter the Instruments of the college accordingly.

A few weeks later, it was announced that Montagu Private Equity had reached an agreement to buy the College of Law.

These events have initiated much speculation in the press about the possibility of private equity firms moving into the higher education sector and acquiring universities.

Matt Robb, senior principal at the consulting firm The Parthenon Group has said that ***'private investors would love to invest in a traditional university'*** and both he and Glynne Stanfield of Eversheds have claimed to be aware of ***five examples of private equity firms looking to invest in universities***.[1]

What is private equity?

Private equity funds are established by financial investors like pension funds, banks, insurance companies and super-rich individuals to provide management and initial capital to buy other companies, either in part or in totality, and take them off the public share markets.

They look to pay their investors dividends from the company's profits and then sell them at a higher price, passing the profits onto the investors. The private equity firm, typically, makes money by charging commission fees on these transactions. Private equity funds typically look to sell on their companies within a period of three to seven years.

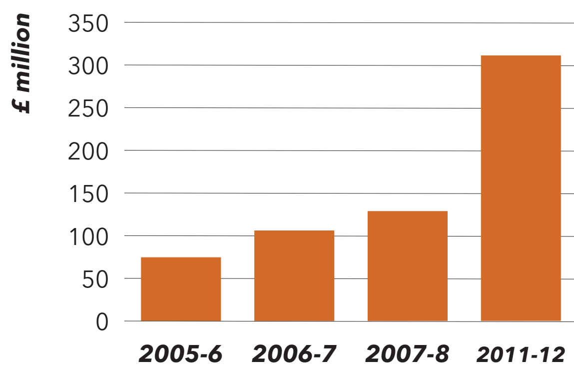
Chapter 1 *Private equity and post-secondary education*

PE funds are extremely active in the adult vocational training market and are capturing a growing share of government funding in the area.

The private training market is being consolidated by a handful of private equity funds, whose investment platforms are accordingly winning more and more funding from the government. The private equity funds active in this market include LDC, Close Brothers Private Equity, Marwyn, Bridgepoint Capital and Sovereign Capital.

Companies owned or backed by these five funds won more than £300 million from the Skills Funding Agency in 2011-12, compared with just over £70 million from the LSC in 2005-6, a growth of more than 320%.

Amount of overall funding from the LSC and SFA captured by companies owned by five private equity funds



In 2008, companies owned by these funds won almost 9% of the entire adult learning budget, compared with 6% three years earlier. In 2011-12, the same companies captured round 9% of a much bigger budget.

Private equity backed companies like BPP, Greenwich School of Management, Study Group International and HE Online are now looking to expand into higher education in the UK. Some of the PE funds backing them are looking to build on their success in extracting profits from the disastrous growth of the US for-profit higher education system.

Chapter 2 *Who pays the piper: private equity and the Coalition's deregulation agenda in post-secondary education*

Twenty-seven per cent of the Conservative Party's funding comes from hedge funds, financiers and private equity funds.

Leading private equity figures have been major donors to key MPs leading the 'public service reform agenda'. For example, John Nash, the founder of Sovereign Capital, which owns healthcare and education companies which stand to gain from public service reform policies, has donated more than £200,000 to the Conservative Party and more than £20,000 to Andrew Lansley.

Private equity figures are also being appointed to key posts in the government, particularly in roles where they can advise on the reform of public services to allow a greater role for private companies. For example, Sovereign's John Nash has been appointed as an adviser to both George Osborne and Michael Gove. Nash's companies are profiting from their contracts from the Skills Funding Agency and from access to public subsidies in higher education, granted to them by David Willetts and the Secretary of State for Business, Innovation and Skills.

Private equity funds have also been lobbying David Willetts for changes in the university sector as part of a for-profit company lobby looking for easier access to subsidies and to tax breaks like VAT exemption, which is granted to not-for-profit universities and colleges. A series of reports by think tanks or consultancies acting as the voices of private providers have identified restrictions on the use of college and university assets as one of the key 'barriers' to private sector investment.

These recommendations have become key parts of the Coalition's deregulatory agenda and threaten to make it easier for private equity funds to move in.

Chapter 3 *Private equity takeover in post-secondary education: is it a real and present danger?*

It is becoming clear that charity law will present no obstacle to private equity companies taking over entire universities or colleges.

The sale of the College of Law seems to indicate that it is possible to take over a chartered university but their prestige and greater financial resources make 'joint ventures' with PE funds more likely than buyouts.

Those universities which are higher education corporations, the majority of post-92 or 'new' universities, have restrictions on how their assets can be used.

There are between 20 and 25 universities or higher education institutions which are set up as companies limited by guarantee and these could, in theory be subject to a buyout that handed their assets to a PE fund.

Thanks to the government's Education Act 2011, it is now possible for further education corporations to dissolve themselves and form companies limited by guarantee. This would make it easier for private equity funds to invest in them or buy them out entirely.

Chapter 4 *Why UCU is concerned about private equity in postsecondary education*

The record of private equity shows it to be a particularly aggressive form of financial engineering designed to extract profits from companies over a very short time-span, in the interests of a small number of managers but at the cost of their workforces and in many cases, the long-term sustainability of the companies involved.

Examples like the collapse of Southern Cross and the sale of Qinetiq in the UK show the threat posed to public services and to publicly owned assets by private equity funds.

The overnight collapse of Carter and Carter in 2008, which left 25,000 learners stranded, shows the risks of private equity-fuelled growth in the vocational training market.

Finally, the scandals involving private equity backed for-profit companies in the US like Education Management Corporation and Bridgepoint Education, show what can happen if private equity backed companies are allowed to expand in higher education.

After Education Management Corporation were bought by a consortium of private equity funds including Goldman Sachs Capital, company employees alleged that it pursued a fast expansion strategy, recruiting students to its online courses in greater and greater numbers, regardless of whether the students were ready, using aggressive call-centre methods. In 2011, the company was served with a federal lawsuit alleging $11 billion of fraud because it illegally paid recruiters according to the number of students they recruited. The company recently slashed 4000 jobs, reportedly as part of a strategy to help boost its share price.

Bridgepoint Education, backed by Warburg Pincus, has pursued a similar strategy, with its Ashford University growing from recruiting 300 students every year in 2004 to 77,000 in 2010.

In 2011, it was accused by US Senator Tom Harkin of being 'a scam' after a Senate investigation showed its profits based on federal subsidies soaring at a time when 84% of its students were dropping out of two-year courses.

UCU argues that if private equity is allowed to expand into post-secondary education, we will see:

- downward pressure on quality through attacks on staff pay, pensions and working conditions and pressure to achieve fast growth and higher revenue;
- a threat learners through the creation of unstable business models;
- a firesale of public assets through the sale of land, buildings and academic reputation to generate cash for the private equity owners;
- the growth of a trade in reputation which will damage the standing of our colleges and universities as a whole.

Recommendations

1. ***The government must instruct HEFCE and the Quality Assurance Agency to institute an immediate review of degree awarding powers and access to subsidies upon any change of ownership by any provider.***

2. ***HEFCE should be given a new explicit duty to ensure that assets accumulated over time through public investment and subsidy are retained for the purposes of advancing the public benefit in education and cannot be disposed of, including disposing of them in part or granting an interest in them, without the approval of the regulator.***

3. ***UCU would recommend that future legislation should give the Skills Funding Agency a similar duty to that recommended for HEFCE. In the meantime, the government should issue guidance to college principals stating that it expects college assets to be held in not-for-profit company forms.***

4. ***UCU recommends that any provider which is sets up a for-profit subsidiary or joint venture, or which changes its corporate form should be subjected to an enhanced quality assurance review regime, either by the QAA or Ofsted.***

Chapter 1
Private equity and post-secondary education

KEY POINTS **Private equity funds are extremely active in the adult vocational training market and are capturing a growing share of government funding in the area. ■ Companies owned by private equity won more than £300 million from the Skills Funding Agency in 2011-12, compared with just over £70 million from the LSC in 2005-6, a growth of more than 320%. ■ In 2008, companies owned by private equity firms won almost 9% of the entire adult learning budget, compared with 6% three years earlier. ■ Private equity owned companies are now looking to expand into higher education in the UK, building on their success in extracting profits from the US higher education system.**

Private equity hits the headlines

In March 2012, the Principal of Barnfield College, a federation which sponsors two Academy schools and a Free School, announced that he was in discussions with a private equity (PE) firm about accessing their investment and using the new powers in the Education Act to alter the Instruments of the college accordingly. Reports indicate that Barnfield and its prospective investor would set up a private company limited by share in which both would presumably have equity and that the assets might be transferred to that company and leased back to a company limited by guarantee which would take receipt of public funds.[2]

A few weeks later, it was announced that Montagu Private Equity had reached an agreement to buy the College of Law, currently a private sector company limited by guarantee, a chartered institution and charitable body with its own degree awarding powers. In that sense it is a strong proxy for the way in which private equity (PE) will look to enter the pre-92 university market.[3]

These events have initiated much speculation in the press about the possibility of private equity firms moving into the higher education sector and acquiring universities. Matt Robb, senior principal at the consulting firm The Parthenon Group has said that ***'private investors would love to invest in a traditional university'*** and both he and Glynne Stanfield of

Eversheds have claimed to be aware of ***five examples of private equity firms looking to invest in universities***.[4]

Private equity in the vocational training market

Private equity is already an increasingly active agent in post-secondary education, largely riding on the back of the private sector's substantial role in delivering government-subsidised adult learning, and has pursued a strategy of targeting private training companies that have been successful in winning funding for adult vocational training from the Learning and Skills Council and its successor the Skills Funding Agency. It has then used these platforms to 'consolidate' what it views as a highly fragmented market, buying up smaller competitor firms to ensure that a greater share of the funding is captured by its companies (see table 1, below).

This process really began in 2000 and 2001, when Bridgepoint Capital, already highly active in the private healthcare market, bought the private training companies Carter and Carter and Protocol. Bridgepoint bought a 46% stake in Carter and Carter for £6.7 million, and used it as a platform for consolidating the private training market, buying up EMTEC, ASSA, Retail Motor Industry Training, Constant Browning Edmonds, Fern Group, Quantica Training, NTP and IMS. Carter and Carter was listed on the stock exchange in 2005 and Bridgepoint were reckoned to have made £35 million from exiting the investment at this point. Bridgepoint also sold Protocol Skills, which operated in the private training market, to Close Brothers Private Equity for £46 million in 2007. In 2011, the company was renamed First4Skills.[5]

Table 1: Private equity acquisitions in the post-secondary education and training market

Training company	Bought by	Date
Carter and Carter	Bridgepoint Capital	2001
ESG	Sovereign Capital	2004
Sheffield Training Limited	Sovereign Capital	2006
Construction Learning World	Melorio/Marwyn	2007
Protocol/First4Skills	Close Brothers Private Equity	2007
Zenos	Melorio/Marwyn	2008
Paragon Education and Skills	Sovereign Capital	2008
JHP	LDC	2010
Lifetime Health and Skills	Sovereign Capital	2011
Learndirect	LDC	2011

In 2004, Sovereign Capital, also active in the private healthcare market, bought up Sencia and Employment Skills Group to create ESG. In 2006, ESG bought Sheffield Training Limited, and Sovereign bought Paragon Skills. In July 2012, Sovereign sold ESG to an investment bank for an undisclosed sum.[6] Marwyn, an asset management fund specializing in buying companies to consolidate markets, created an investment vehicle called Melorio Training in 2007 and used it to buy Construction Learning World the same year and then Zenos training in 2008. In late 2011, Marwyn sold its 26% stake in Melorio to Pearson for £99 million.[7]

Recent deals have seen the private equity arm of the Lloyds Banking Group, LDC move into the postsecondary market. In 2010, LDC bought a controlling stake in JHP Training, a major recipient of LSC funding, as part of a management buyout, while the following year it acquired on-line learning provider Learndirect from the Ufi Charitable Trust for £40 million.

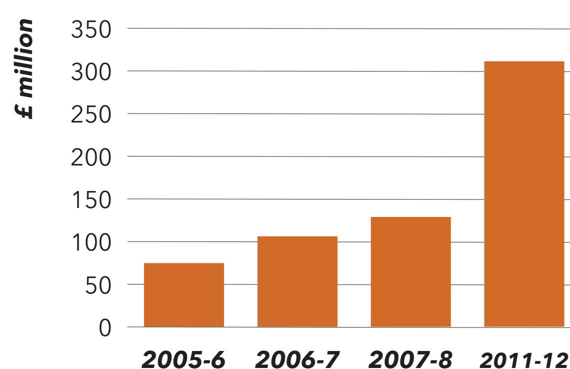
As a result of these acquisitions and the consolidations that followed, companies owned by private equity funds have captured a growing share of the allocations of LSC and SFA funding in the adult skills budgets.

If we look at companies owned or backed by the five private equity firms identified above, for example, we can see this growth clearly (see table 2, right).

In 2005-6, companies owned by LDC, Sovereign Capital, Bridgepoint Capital, Melorio/Marywn or Close Brothers Private Equity won just over £70 million in allocations from the Learning and Skills Council for work-based learning and adult skills.

By 2007-8, this figure had grown to just under £140 million and by 2011-12, they had won £300 million in allocations from its successor the Skills Funding Agency, an increase of 327%.

Table 2: Amount of overall funding from the LSC and SFA captured by companies owned by five private equity funds



The overall proportion of the adult and vocational training budget captured by these firms grew too. In 2005-6, companies backed by PE funds captured just over 6% of the total budget for work-based learning. By 2011-12, they were capturing just under 9% of a far bigger total budget (see table 3, top of page overleaf).

Table 3: Proportion of adult vocational training budgets from the LSC and SFA captured by companies backed by five private equity funds[8]

Year	Total adult vocational training budget	Amount taken by companies owned by 5 PE funds	% of budget
2005-6	£1,081,354,345*	£72,648,859	6.70%
2006-7	£1,279,587,624**	£104,905,759	8.19%
2007-8	£1,532,424,829.38***	£137,118,436	8.94%
2011-12	£3,582,410,140****	£310,922,783	8.70%

* LSC Work-based learning budget ** LSC Work-based learning plus Train2Gain
*** LSC Work-based learning plus Train2Gain *** SFA Adult Skills Budget plus 16-18 Apprenticeships

According to Nexus LLP, the corporate finance advisory firm, government decisions will serve to further consolidate this market in favour of the companies backed by private equity funds. The combination of government funding cuts to colleges, coupled with maintained strong support for apprenticeships and the recent decision by the Skills Funding Agency to raise minimum contract thresholds are expected to favour 'buy and build' investment vehicles which can buy up their smaller competitors and achieve economies of scale:

'Nexus expects higher exit premiums for training providers with existing platforms in place which are scalable as investors back the "best in class" to capitalise on abundant growth opportunities via buy-and-build strategies while taking advantage of companies not meeting MCLs. In addition, strong government support and its focus on quality training along with tuition fee increases will all work in strong favour of driving demand for vocational training services.'[9]

Private equity moves into higher education

In May 2010, BPP Holdings, the parent company of BPP College, a for-profit profit private provider with degree-awarding powers, was purchased by Apollo Global, which is a joint venture, 20% owned by the Apollo Group, which owns the University of Phoenix and the private equity giant, the Carlyle Group. The joint venture paid £368 million for BPP seeing at as a platform for rolling out online learning in the UK higher education model in the same way as the University of Phoenix had achieved in the States.

Private equity has played a key role in fuelling the growth of US for-profit higher education. As we will see later, Warburg Pincus provided the capital to power the astronomical growth of Bridgepoint Education's Ashford University from recruiting 300 students a year in 2004 to 77,000 online students in 2010. Similarly, Goldman Sachs Capital Partners and Providence Equity were instrumental in the rapid growth of Education Management Corporation.[10]

Now these same funds are looking at the British higher education market. As we saw above, Warburg Pincus was among a group of private equity funds meeting with David Willetts to discuss higher education, while Providence Equity recently bought Study Group International, the pathway provider which has established partnerships with UK universities across the country, adding it to an education portfolio that now includes stakes in both Education Management Corporation and ITT in the US. Ryan Craig, formerly a private equity partner at Warburg Pincus and a director at Bridgepoint, has set up a new PE fund aimed specifically at the UK and European higher education markets called University Ventures. University Ventures owns its own investment platform, the online education provider HE Online and at the time of writing, HE Online was in discussions with at least two UK universities about the possibility of setting up a partnership.[11]

Another pathway provider, Cambridge Education Group was bought in 2007 by Palamon Private Equity, a European based private equity firm. Finally, in 2012 it was revealed that two of the biggest beneficiaries of the loophole that allows for-profit higher education companies to access publicly subsidized student loans were owned by none other than Sovereign Capital.[12]

The case of Sovereign Capital

Sovereign Capital is a private equity firm specializing in the buyout of public services companies, particularly in education and healthcare. Sovereign is now a major provider of domiciliary care and fostering services through its buyout of small agencies and fostering firms. According to UNISON, Sovereign Capital achieved a growth in value of around 100% after buying Tracscare for £26m in 2004, followed by another four care businesses for £20m, and then selling the enlarged group for £200m. It owns City & County Healthcare who are currently undertaking a

programme of acquisitions of other businesses in the domiciliary care sector. As the *Guardian* recently revealed, Sovereign's company ESG have also won £73 million in contracts from the Department for Work and Pensions to deliver the Work Programme.[13]

Sovereign has also moved into the post-secondary training and education markets. In 2011-12, three companies owned by Sovereign Capital were among the top 20 private company recipients of SFA allocations, while four Sovereign-owned companies brought in a total of £58,479,032 from the SFA (see table 4, above). In addition, two Sovereign owned companies, Greenwich Management and Brighton Institute of Modern Music, are benefiting from being able to access nearly £10 million in publicly subsidized higher education student loans for their students (see table 5, above).[14]

Table 4: SFA allocations to Sovereign Capital-owned companies 2011-11

Company name	Total
Lifetime Health and Fitness	£24,606,198
ESG Intermediate Holdings	£21,945,597
Paragon Education and Skills	£11,879,580
Paragon Emplyment Advice and Training	£47,657
All companies	**£58,479,032**

* Skills Funding Agency allocations 2010/11
http://skillsfundingagency.bis.gov.uk/providers/programmes

Table 5: Sovereign Capital-owned companies with access to student loan and maintenance grant subsidies through designated courses

Provider	Student loans 2009	Student loans 2010
Greenwich School of Management	£3,494,300	£4,873,000
Brighton Institute of Modern Music	£2,515,000	£4,504,000

Sovereign's success in tapping into public service 'reform' markets, reflect the more general success of private equity funds in targeting growing companies in the deregulated post-secondary markets. But it's also important that Sovereign are very well connected in the Coalition government. As we will see, Sovereign's political connections are also illustrative of their success in influencing both Conservative Party and Coalition policy and in winning them to an agenda that further deregulates the post-secondary market, creating even greater opportunities to extract profit from public subsidies.

Chapter 2

Who pays the piper: private equity and the Coalition's deregulation agenda in post-secondary education

KEY POINTS **27% of the Conservative Party's funding comes from hedge funds, financiers and private equity funds. ■ Private equity figures have been leading donors to key MPs leading the 'public service reform agenda'. ■ The founder of Sovereign Capital, which owns healthcare and education companies which have gained from public service reform policies, has donated more than £200,000 to the Conservative Party, more than £20,000 to Andrew Lansley and has been appointed as an adviser to both George Osborne and Michael Gove. ■ Private equity funds have also been lobbying David Willetts for changes in the university sector. ■ A series of reports by thinktanks or consultancies acting as the voices of private providers have identified key 'barriers' to private sector investment, including actions to loosen restrictions on assets. ■ These recommendations have become key parts of the Coalition's deregulatory agenda and threaten to make it easier for private equity funds to move in.**

Private equity and the Conservative Party

The close connections between the private equity sector and the Conservative Party are by now well-known. As the Bureau of Investigative Journalists revealed recently, 27% of the party's funding in 2010-11 came from hedge funds, financiers and private equity firms.[15] The British Venture Capital Association, the trade body that lobbies on behalf of private equity funds is chaired by Mark Florman, formerly the senior Deputy Treasurer of the Conservative Party and number six in the Bureau of Investigative Journalists' list of the ten most powerful financial lobbyists.[16]

Individual private equity figures are also leading donors to the party and to key Conservative MPs. For example, Adrian Beecroft, author of the now notorious report recommending the loosening of employment laws to make it simpler to sack staff, was reported to have donated £537,076 to the Conservatives, making him the fifth biggest donor to the party in 2011.[17]

Most revealing perhaps though is the example of Sovereign Capital. One of Sovereign's founding partners, Ryan Robson, donated £252,000 to

the Conservative Party and paid £50,000 to be one of the party's Leader's Group donors, granting him access to David Cameron. Robson left Sovereign recently to pursue his ambition to become a Conservative MP, after years as a Wandsworth councillor; he remains a non-executive director of three Sovereign-owned training and education companies, including Paragon, BIMM and ESG. One of Sovereign's other founders, John Nash, has done even better. In January 2011, it was revealed that on top of donating £200,000 to the Conservative Party over a five-year period, Nash donated £21,000 to Andrew Lansley's parliamentary office. At the time of the donations Nash was chairman of Care UK, while Sovereign own a string of private healthcare companies which stand to gain from Lansley's reforms. Sovereign also owned ESG which has won two lucrative contracts from Iain Duncan Smith's Department of Work and Pensions.[18]

Four months earlier, it had been announced that Nash would be appointed by George Osborne as part of a 'red team' of experts drawn largely from the private equity industry to 'think the unthinkable' about ways to reduce public spending. Alongside him were Adrian Beecroft and Richard Sharp, formerly head of Goldman Sachs' private equity arm. Later the same year, John Nash was appointed by Michael Gove as a non-executive board member at the Department of Education.[19]

Meanwhile, over at the Department of Business, Innovation and Skills, it was reported in December 2011 that David Willetts held meetings with a group of private equity firms, including Exponent Private Equity, Duke Street, Providence Equity Partners and Silverfleet Capital 'to discuss higher education'. He separately held a meeting with Warburg Pincus, alongside US for-profit companies.[20]

The deregulatory agenda

We can only speculate about the detail of these meetings, or about what John Nash discusses with Michael Gove and George Osborne, but we can get an idea of what they might have covered by looking at publications by companies lobbying for changes in favour of private providers and private investors. For example, in 2010, Policy Exchange, which is very well connected in the Conservative Party, (David Willetts and Michael Gove were both on the think tank's board) published a document titled *Higher Education in the Age of Austerity*, which identified a series of 'barriers' to

private investment in HE and proposed ways in which the government could remove these obstacles. Key barriers identified in the report were:

1. Lack of access to public funding Private providers, it was argued, should have access to government subsidised loans regardless of their orientation to profit

2. The absence of a light-touch 'level playing field' in regulation Private providers should be able to access degree-awarding powers and university title and be regulated in the same way as public universities and in a way that lightens the overall regulatory burden.

3. The fact that private providers of education could not access VAT exemption, leaving them at a 'competitive disadvantage'

4. The difficulties faced by institutions wanting to change their legal form in order to attract private investment.

In relation to the last, the report recommended that the Government should consider 'a blanket Act to allow universities (including those established by Royal Charter) to change their legal status and become a private limited company. This would allow access to private investment without the need for an institutional takeover'.[21]

In May 2010, KPMG, who are also represented on the tax advisory committee of the BVCA, produced a report for the LSC based on discussions with private sector training providers and other companies and which identified similar barriers and recommendations in relation to the Further Education sector. *Delivering Value for Money through Infrastructural Change* identified the lack of access to VAT exemption, the cost of public sector pensions and the restraints on colleges' governing bodies in creating innovative new structures, including federations, mergers and new collaborations. ***'By far the most important of these'***, said the report, ***'are the rules governing VAT and TUPE (the transfer of undertakings, ie. The requirement to offer 'broadly comparable' terms and conditions to staff on taking over a service previously run by another organization), particularly pensions'. For many private sector providers, it was claimed, 'pensions are the ultimate barrier to them becoming more involved in FE.'***[22]

The report proposed that the government 'remove tax barriers for the whole of the education sector': ***'The current VAT and Corporation Tax***

regime is not equitable across the public sector or even across the wider education sector. We consider that opening up the education market to the private sector to provide competitive neutrality would drive forward VfM (value for money) by:

• Encouraging more private and voluntary sector involvement and investment

• Allowing colleges to work more closely with the private sector in innovative Joint Ventures

• Support the development of shared services

• Allow for true market testing of failing colleges.'[23]

The report also identified the need to 'provide wider freedom of action for the sector to innovate', including rethinking some aspects of legislation and guidance, including the Instruments and Articles of Government to free up the sector to make further changes, to 'support the development of further innovative structures'.[24]

It's easy to see, therefore, the outlines of the deregulatory agenda that might have been discussed in detail by ministers in their meetings with private equity firms. In response, the Coalition government has responded positively to these suggestions.

On the cost of pensions, for example, the government believes it has made progress toward meeting the needs of the private sector. Chief Secretary to the Treasury, Danny Alexander told the House of Commons in December 2011 that the government's proposals for the basis of an agreement over reform of public sector pensions (including the Teachers' Pension Scheme) would make the schemes 'substantially more affordable to alternative providers'.[25]

Similarly, the most recent budget contained proposals to address the VAT 'barrier'. Tucked away in the document was a proposal to 'review the VAT exemption for providers of education, in particular at university degree level, to ensure that commercial universities are treated fairly.' This is aimed primarily at commercial providers offering degrees in the first instance but may well be extended to all commercial providers.[26]

The centrepiece of the de-regulatory agenda in higher education was to have been the White Paper *Students at the Heart of the System*. This contained proposals to allow private providers to access publicly

subsidised loans on an equal footing with public universities, to create a lighter touch regulatory regime and a 'level playing field' in access to degree-awarding powers and university title. Crucially, the White Paper offered to 'simplify the process for changing corporate status', noting that: ***'it has been argued that it would be helpful to institutions to ease their ability to convert to a legal status of their choosing–for example, to make it easier for them to attract private investment'.***

As we will see, this meant enabling universities which were constituted as higher education corporations to change from being corporations to being companies limited by guarantee. In Chapter 3 we will see why this would be so important to private equity funds.[27]

This particular proposal however, fell foul of the more general furore around the White Paper, mainly focused on the prospect of for-profit companies entering the sector. Thanks in part to campaigning by UCU, political pressure to shelve the bill grew within the Coalition, and in January 2012 it was reported that the government would indeed be delaying the bill, which would not feature in the Queen's Speech. The issue has not gone away, but indications are that most institutions themselves were lukewarm about the idea of changing corporate form.[28]

However, in further education, the government was able to secure de-regulatory reforms through largely unscrutinised amendments to the 2011 Education Act. In December 2011, the Department for Business, Innovation and Skills explained how the reforms fitted into its strategy: ***'We have removed a wide range of restrictions and controls on college corporations, putting colleges on a similar footing to charities operating within the independent/private sector. Corporations no longer need to seek permission to change their Instrument and Articles and the legislative requirements for these are now reduced to a minimum core of essential elements. A Corporation can decide to dissolve the college itself, if this seems the best approach to ensure the provision of high quality, flexible provision to meet the needs of their local areas.'***[29]

The document goes on to suggest that new organisational and business models might involve setting up companies or, trust or mutualisation models. As we will see below, as a consequence, colleges will find it easier to alter their powers to suit new corporate forms that could be backed by private equity.

Chapter 3

Private equity takeover in post-secondary education: is it a real and present danger?

KEY POINTS **Charity law will present no obstacle to private equity companies taking over entire universities or colleges. ■ The sale of the College of Law seems to indicate that it is possible to take over a chartered university but 'joint ventures' with private equity funds are more likely. ■ Those universities which are higher education corporations have restrictions on how their assets can be used, whereas those which are companies limited by guarantee can be bought out. ■ The Education Act 2011 makes it possible for further education corporations to dissolve themselves and form companies limited by guarantee, making it easier for private equity funds to invest or buy them out.**

Can colleges and universities be bought or taken over by private equity funds? The key factors determining whether this will happen are the ease with which the assets of colleges and universities can be unlocked and the behaviour of the various regulatory agencies.

Eversheds' Glynne Stanfield has developed a model of how this could work in practice for further education colleges and higher education institutions (HEIs). Under this model, the existing HEI retains its position as an institution designated for public support through HEFCE and the SLC, as well as its own degree-awarding powers, its own governing body and its responsibilities in relation to student education. In return for a cash sum (the total cash value of its assets including its goodwill, it will transfer its physical assets, its undertakings and its agreed liabilities to a new company in which both the parties have interests.[30] The main obstacles to this happening have been seen as charity law and corporate form. We will examine these in turn, assessing to what extent they are a practical impediment to private equity investment and how they would shape company strategy in relation to the post-secondary education sector.

Charitable status

It has been thought that the biggest obstacle to private equity investment is the charitable status of universities and colleges. Almost all higher

education institutions and colleges are either exempt charities or registered charities, regulated by HEFCE under Charity Commission monitoring.

The Charity Commission explained the limits this imposes in its response to the Technical Consultation following speculation that this could make it easier for universities and colleges to become for-profit enterprises. The Charity Commission response indicated that it welcomed proposals to enable charities to change their constitutional form but warned that: ***'charitable assets cannot simply be transferred to a non-charitable organization (such as a for-profit company) for its own benefit or purposes. They must continue to be held for exclusively charitable purposes. Charities cannot simply opt to cease being charities.'***[31]

Similarly, in advice circulated at the same time, HEFCE warned that: ***'A charity cannot just stop being a charity. Its trustees may convert some or all of its assets into cash by selling them but they must continue to use that cash to deliver their charitable purpose.'***[32]

What steps would the trustees of a charity have to take to sell its assets? According to HEFCE's Charity law expert, the sale of a college or unversity's assets would need to take into account complex factors around brand, reputation and 'goodwill': ***'The assets of a charity are not just physical, but include intangible assets such as brand, reputation and potential– the charity's "goodwill". To maximize the value of any assets sold, trustees are obliged to take indepdendent financial advice. Goodwill is not easy to value, but the terms of the sale may need to include 'overage' provisions to secure for the charity a stake in foreseeable but hard-to-quantify increases in value. To reduce the risk of selling at an undervalue, an HEI's trustees will need to consider such things as the value (the potential for increase in the value) of degree awarding powers, of university or university college title, and of the development value of land. The trustees will also need to consider how they will apply the sale proceeds in furtherance of the institution's charitable purpose of advancing higher education for the public benefit. This might include funding research and/or providing student bursaries. In turn this may need changes to the objects or powers (with Charity Commission approval) its constitution.'***[33]

There is a precedent for this in the way that Edexcel's assets and

activities became a subsidiary of Pearson. When the examinations organisation Edexcel was sold to Pearson plc in May 2003 the money went to a holding charity called the Edexcel Foundation. In 2004 the trustees decided that the charity should promote practical and vocational learning and in May 2004 it was officially renamed the Edge Foundation. Meanwhile Pearson and Edexcel set up a new company called London Qualifications Ltd, which traded under the name of Edexcel. The new company was 75% owned by Pearson and 25% by the Edexcel Foundation. All of the business activities and staff transferred to the new company.[34]

Now the fact that the Charity Commission has waved through the College of Law sale makes it clear that Charity Law will be no practical impediment to private equity unlocking the assets of colleges and universities.

Corporate form

Given that exempt charity status is clearly not an obstacle to private equity investment, it's time to look at corporate form. The corporate form that a university or college has determines the powers it has to do certain things, including to change its form, enter into partnership and so on. Corporate form also determines the level of control a university or college has over its assets – whether it can dispose of them, use them as collateral for raising loans or turn them into equity, for example. Universities or colleges tend to take one of a range of forms. The pre-92 universities tend to have been established by Royal Charter. Most post-92 or 'new universities' are higher education corporations, though some are companies limited by guarantee. Most FE colleges are further education corporations. As we will see, these forms carry significant variations in what they can do with their assets. This affects how private equity can become involved and determines how attractive certain universities and colleges are likely to be for such investors.

Pre-92 universities Most pre-92 universities' powers are embodied in their charter and statutes, received from the Privy Council. As chartered corporations, they enjoy certain freedoms that are not enjoyed by higher education corporations. For example, as well as borrowing money from banks, they can go to the capital markets directly by issuing bonds to finance developments and expansion. This may make the idea of com-

mitting equity to a joint venture less attractive to such a university. However, it is clear that it is technically possible for a pre-92 university to engage in a joint venture with a private equity company. Pre-92 universities have for example, created joint ventures with for-profit companies like INTO University Partnerships to develop estate and facilities for the recruitment and teaching of international students.

However, it also appears that it would be possible for a private equity company to buy out a pre-92 university in its entirety. The College of Law sale shows us how. In theory, it should not be possible for a chartered institution to be a subsidiary of another body. However, the sale of the College of Law to Montagu Private Equity seems to show that it is technically possible with a bit of deft footwork.

The College of Law was an entirely private institution, a company limited by guarantee and an exempt charity, but also a chartered institution in receipt of degree awarding powers from the Privy Council. As Andrew McGettigan and other commentators have pointed out, this makes it a reasonable proxy for a pre-92 university.[35] The sale to Montagu Private Equity appears to have been achieved in much the same manner as the buyout of Edexcel by Pearson before it. The charitable entity has been split off from the educational body. The educational institution that made up the College of Law and all its assets have been sold to Montagu, which will form a new company limited by share. In line with charity law, the proceeds of the sale will be used for charitable ends. In this case, that means that they will be used to set up a new £200 million charitable trust called the Legal Foundation, disbursing bursaries to law students. Presumably at least some of these bursaries will return to the new owners through assistance to College of Law students.[36]

There are still unresolved problems. For example, it is unclear at this stage what precisely will happen to the degree awarding powers, which will have been a big driver for the deal. While under charity law, these must have been valued and included in the transaction price, they cannot technically be traded as assets. It may be that the management of the College of Law have argued with the Privy Council and the QAA that the institution remains the same, whatever its corporate form as the entire body of assets has simply transferred as a whole and that the particular ownership or corporate form that this body of assets takes is not relevant. This

seems to be what the College are arguing as their website says: ***'Degree awarding powers (or DAPS) are granted by Order of the Privy Council. They are granted to institutions and ring-fenced to those institutions. DAPS cannot be sold neither can they be transferred from one institution to another…. In the case of The College of Law, for example, the DAPs have been granted to the institution that is the College. In purchasing the College Montagu does not gain the DAPs, these powers remain solely with the College of Law. To retain the DAPs, the College must maintain the standards, value and integrity of what they represent.'***[37]

It may also be relevant that as a private provider, its degree awarding powers are up for renewal this year and that the College will look to secure these to the new institution.

Then there is the question of its chartered status. If a chartered body cannot be a subsidiary of another body, it may be that the College will look to amend or revoke its charter, either of which it could do by a petition to the Privy Council. The Privy Council would then issue an Order of Council which has the force of primary legislation.[38]

The technical complications of this deal are important as they raise questions about how attractive such a transaction would be either for a university or for a private equity company.

While College of Law is a reasonable proxy for a pre-92 university in terms of its chartered status, a university selling itself to a private equity fund would have to maintain the part of its operation receiving HEFCE funding separately from any for-profit enterprise. This is not overly problematic but there are other potential problems. As David Palfreyman and Dennis Farrington have pointed out, the QAA and Privy Council might take a different view of any transaction that involved the degree awarding powers of a university granted in perpetuity to one involving a private college which has to have them renewed.[39] Equally, chartered status is a mark of prestige that universities would have to think hard about threatening. From the point of view of private equity companies, it may be that the regulatory uncertainties might outweigh the attractions of buying out a traditional university tout court. It may be that joint ventures remain for the time being the best option for private equity anxious to get involved with a pre-92 university. The example of INTO University Partnerships Joint

Ventures, in which university assets are handed to a joint venture with a private company for development, gives an indication of how this would be possible.

Post-92 universities Most post-92 universities are higher education corporations with powers laid down in the 1988 Education Reform Act. As such, to alter them or to dissolve the corporation would currently need the consent of the Secretary of State. While a higher education corporation can borrow money and can create subsidiary companies, it is limited in what it can do with its assets. Crucially, the 1988 Act also contains a partial asset lock in a clause that sets out what happens to its assets in the event of the corporation's dissolution. Any property transferred under an order to dissolve a higher education corporation 'must be transferred on trust to be used for charitable purposes which are exclusively educational purposes'.[40]

The statutory limit that any property must be held in trust effectively impedes the kind of buyout seen at the College of Law as it would appear to prevent a private equity firm forming a company limited by share out of the assets of a dissolved higher education corporation. A company limited by guarantee, whether it is charitable or not, has more freedom to transfer its assets to the control of a company limited by share, which can generate a profit, than a higher education corporation. This is one reason why proponents of private sector involvement like Eversheds and Policy Exchange, have advocated the government passing a blanket act to make it easier for higher education institutions to become companies limited by guarantee rather than corporations. The government was clearly attracted to the idea, which was why the government's abortive initial White Paper talked about making it easier to change corporate form. As things stand, it might be possible for a higher education corporation to argue that certain assets can be used for joint ventures or to sell them off piecemeal, but a large scale transfer looks difficult.[41]

There are between 20 and 25 higher education institutions, including universities like LSE, Greenwich and London Metropolitan which are already companies limited by guarantee. This would make the issue of transferring their assets wholesale to a different company form far easier. In these cases, the only practical restraint would be fulfilling the terms of charity law. As we have seen, this actually represents very little impediment.

In these cases, the model developed by Glynne Stanfield at Eversheds looks entirely plausible. In this model, the assets of the university would be transferred to a new company limited by share, jointly owned by a private company and the university management, while the legal form of the university would remain a separate charitable body, in the form of a company limited by guarantee, with its degree-awarding powers intact. The new company would then lease or contract back use of its assets to the charitable company limited by guarantee.[42] The plausibility of such a scenario would then depend on how much the university needed the equity and whether a private equity company would want a university in that amount of financial trouble.

While some commentators are doubtful that private equity companies would be interested in a struggling university, the lesson of the US market is that for-profit companies of all kinds have targeted struggling colleges for their accreditation and then radically developed them as online providers. One of the biggest for-profit higher education companies in the US, Bridgepoint Education, was built in exactly this way, through the development of struggling 'bricks and mortar' accredited colleges into two massive online universities. It is not difficult to imagine such a scenario in the UK.

Table 6: Higher education institutions which are currently companies limited by guarantee

England
Conservatoire for Dance and Drama
University of Gloucestershire
University of Greenwich
University College Plymouth St Mark and St John
Leeds Trinity University College
Leeds College of Music
Liverpool Hope University
London School of Economics
London Metropolitan University
London South Bank University
St Mary's University College
Newman University College
Roehampton University
University College Suffolk
Trinity Laban Conservatoire of Music and Dance
University of Westminster
University of Winchester
York St John University
Scotland
The University of the Highlands and Islands
Scottish Agricultural College
Glasgow School of Art
Royal Conservatoire of Scotland

Further education corporations Perhaps the most likely target institution for private equity in the immediate term is the further education college. Most FE colleges are corporations whose powers derive, ultimately, from the 1988 Education Act and the 1992

Further and Higher Education Act. As with higher education corporations they are also and must remain exempt charities.

As we've seen, under the Education Act 2011, the government has put in place a range of technical reforms that make it easier for further education corporations to change their instruments and articles, form new companies and, crucially to change their form to companies limited by guarantee without having to get the approval of the Secretary of State.

With their new powers, the governing bodies of Further Education Corporations can now alter their instruments and articles and form new companies without reference to either the Secretary of State or the Skills Funding Agency, though they must not jeopardise their charitable status. While they remain in the form of a further education corporation, colleges cannot form companies limited by share or use any profits to pay dividends. Any profits from subsidiary companies must go back into the charitable business.[43]

However, governing bodies can now, without reference to the Secretary of State, dissolve their corporations and change their legal form to those of a company limited by guarantee. This would remain consistent with the requirement not to threaten exempt charitable status but as we've seen in the case of higher education corporations, once this is done, the corporation's assets are less locked in and the company can establish subsidiary companies limited by share, to which their assets could be transferred.

This seems to be confirmed in an Eversheds briefing which advises colleges that: ***'Apart from merger, the other situation in which a college corporation may wish to consider dissolving itself would be if it felt that it would be advantageous to convert to a different legal form, for example to a private company limited by guarantee. Colleges may also wish to consider a wide variety of innovative structures, including federation and other collaborative arrangements, perhaps involving the use of joint venture companies.'***[44]

This appears to be precisely what is being proposed at Barnfield College. In the case of Barnfield, the principal, Pete Birkett, has said 'By changing our legal form to being a company limited by guarantee there could be greater financial flexibility as the company limited by guarantee could possibly establish a subsidiary, a company limited by shares, which

could then seek investment and make a surplus.'[45]

What this means is that the government has achieved with further education colleges precisely the reform that was being considered in relation to higher education corporations in the White Paper and the potential beneficiaries might well be private equity companies looking to break into post-secondary education.

Furthermore, crucially, because the government has opened up the market in HEFCE controlled student places to competition from FE colleges, a private equity company now has the prospect of buying a 'platform' for investment with the potential for expansion into the HE market and a pathway to seeking teaching degree awarding powers without the problems associated with taking over or buying a stake in a traditional university. Further education colleges, therefore, might represent the most straightforward way into both the vocational training market and the prestigious HE market. As a recent article in *Education Investor* magazine put it: ***'If an investor wants to buy its way to the fabled degree-awarding powers, FE colleges are looking like the best bet.'***[46]

Chapter 4
Why UCU is concerned about private equity in post-secondary education

KEY POINTS **The record of private equity shows it to be a particularly aggressive form of financial engineering designed to extract profits from companies over a very short timespan, in the interests of a small number of managers but at the cost of their workforces and in many cases, the long-term sustainability of the companies involved. ■ If it is allowed to expand into post-secondary education it will lead to: downward pressure on quality through attacks on staff pay, pensions and working conditions and pressure to achieve fast growth and higher revenue; a threat to learners through the creation of unstable business models; a firesale of public assets through the sale of land, buildings and academic reputation to generate cash for the private equity owners; and the growth of a trade in reputation which will damage the standing of our colleges and universities as a whole.**

The growth of private equity funds

Private equity, as a distinctive form of investment vehicle, originated and has grown most markedly in the US and the UK, where Wall Street and the City of London form major international financial centres.

The deregulation of these financial centres in the 1980s, prompted a bloating of the financial sector and an abundance of cheap credit, as capital was sucked in from China, Russia and the Middle East, fuelling a series of speculative booms in property and company shares. Private equity emerged from the mergers and acquisitions by banks and other financial institutions in the 1980s and 90s.

From its own point of view, private equity is a solution to the a perceived problem within publicly regulated shareholder owned companies—that the interests of owners and managers diverge and that owners don't see enough of the rewards. It also has the benefit that companies owned by private equity evade much of the regulation that surrounds plcs and protects the interests of wide groups of shareholders. Private equity's advocates see it as a 'purer' form of capitalism that ensures that small numbers of owners get higher rewards for their 'risk'.

In the US and the UK, the growth of private equity has been phenomenal. Between 1995 and 2007, the value of private equity in the UK alone deals grew from £10 billion to £46 billion, while the scale of the biggest deals also grew. By 2007, 67 out of 1330 companies receiving private equity backing accounted for 76% of the total value of UK private equity deals. The biggest firms, like Goldman Sachs, control funds as big as £35 billion. It has been estimated that only 200 companies in the world are too big to be targeted by private equity syndicates.[47]

How private equity works in practice

The advocates of private equity make some heroic claims for their industry. The British Venture Capital Association, the trade body that lobbies for private equity in the UK, has claimed that private equity investment increases employment by 9% per year on average. It also estimates that one in five British workers is employed by a company either owned by or making use of private equity investment.

However, the public perception of this industry has been permanently damaged by a series of high profile public scandals and a Select Committee enquiry, following active campaigning by trade unions. These turned around particularly notorious takeovers of companies with well-established public brands, like the AA and Debenhams.[48] In Germany, in 2005, Social Democrat politician Franz Munterfering famously referred to private equity funds as 'locusts'.

Studies by academics like Julie Froud, Karel Williams, David Hall and Glenn Morgan, as well as trade union studies by Peter Rossman and Gerard Greenfield, have shed a brighter light on the way in which these funds operate. They show how private equity funds operate in practice not so much to create value and employment than to extract value from companies through financial engineering. This value is then redistributed to a small number of investors over a short term investment horizon, while companies are ladened with heavy and sometimes unmanageable debts and workforces face greater job insecurity and attacks on wages and conditions.[49]

Typically, a private equity fund will look to make between ten and 20 investments in companies, often in widely different sectors but all identified as having the potential for fast growth over a 3-7 year period. The fund will

attempt to buy the company or a major stake in the company. This can be done by a management buyout, in which the existing management team continues in place, a management buy-in, in which the fund places several managers on the board, or an institutional buyout in which the entire board is replaced. As with a normal takeover, the sale price is paid for by a combination of debt (borrowing from banks) and equity (the purchase of shares). But the ratio of these elements is radically different in a private equity buyout. Typically, only 30% of the price will be paid for with equity and 70% will be raised through debt, meaning that the buyout is highly leveraged.

The private equity owners will then place two or three managers on the board of the company, usually including a partner of the equity fund. The company will then be geared entirely toward generating high returns very fast. This enables it to grow in profitability and the fund will then sell the company—'exit'—at a higher price after a period of between three and seven years.

As Froud and Williams, among others, have shown, the structure of private equity investment is designed to redistribute and extract value for the benefit of a very small number of managers. At a time of cheap credit, it was possible to borrow 70% of the asking price of a company at low cost. The costs of servicing this debt were capped. With only 30% of the value of the company held in the form of equity, fast growth in revenue and high profitability could be turned into very high dividends for a small number of equity holders.

But revenue growth and profitability are misleading guides to what's actually happening to companies subject to buyouts. The structure of private equity investment also creates incentives to destroy capacity in the search for short-term profitability. Management's incentive is to reduce the heavy debts incurred at acquisition in order to ensure that the company can pay short-term fees to its private equity owners and that as much of the value of the company at sale is captured by the small number of equity holders. This leads them to take a range of measures that are designed to create fast growth in revenue or 'cash': sale of non-core assets like land; refinancing debt; cutting jobs and plant closures; restructure; pensions holidays; casualisation and outsourcing and attacks on wages. Academic research looking at institutional buyouts, for example, has shown that these

lead to attacks on jobs without any corresponding increase in the productivity or profitability of the firms. This reinforces the analysis that private equity buyouts are peculiarly destructive. Typically, attacks on jobs and wages are driven not by any consideration of whether the enterprise is productive, but by the short-term needs of private equity investors. Profit is no longer dependent on productive investment but depends rather on redistributing value away from employees and actively eliminating productive capacity.[50]

This helps to explain an apparent paradox. The record of private equity investment in delivering profitable companies over the longer term is very patchy. As some commentators have pointed out, given that these investors pick companies that are likely to see growth, the record should be better, but some analysts claim that half of all mid-market private equity fund investments perform less well than than comparably timed 'public' investments, while the overall average returns are not noticeably superior to those of plcs. There have also been some notorious public failures of private equity investments, usually due to the heavy debts incurred by the companies, as with the Southern Cross care homes scandal.[51]

Yet in spite of this, many private equity fund managers and partners have become staggeringly wealthy. For example, in 2012 in the UK alone, John Moulton, founder of Better Capital, was assessed as being worth £143 million and ranked 529th in the *Sunday Times* Rich List; Greg Hands, the founder of Terra Firma was valued at £93 million; and Damon Buffini from Permira was said to be worth £95 million.[52]

In summary, private equity has grown as a particularly aggressive form of financial engineering designed to extract profits from companies over a very short timespan, in the interests of a small number of managers but at the cost of their workforces and in many cases, the long-term sustainability of the companies involved.

The financial crisis which began in 2008-9, created a worsened credit environment which has also thrown doubt on the sustainability of many private equity acquisitions. As we've seen, private equity depended for its growth on a context of cheap and readily available credit to fund high levels of debt in buyouts, together with a ready supply of potential buyers. With banks less ready to lend and fewer buyers for their 'exits', many private equity funds are finding it harder to raise the borrowing they need

and to dispense with their acquisitions at a profit. The result can be that private equity firms are stuck with managing their companies as profitably as possible and given the debt that needs to be serviced and the fees charged by the funds themselves, this can mean a greater resort to asset stripping, plant closure and job cuts.[53]

Private equity's record in public services

Private equity is now active across the increasingly privatised public services and utilities, particularly in water, waste management, energy, healthcare and social services.[54]

The peculiar form of private equity investments and the 'value extraction' that follows have tended to accelerate the worst tendencies of private sector ownership in public services. For example, the growth of the private sector care industry has seen falling wages, worsening terms and conditions for staff and worsening standards of care with some notorious cases exposed by the BBC's *Panorama* programme. PE firms now own a significant proportion of these care companies, caring for an estimated 200,000 vulnerable people.[55] Private equity ownership has added an extra element of risk, as witnessed by the collapse of healthcare company Southern Cross and the problems faced by its main competitor Four Seasons.[56]

Both companies embarked on aggressive expansion plans fuelled by private equity ownership. In 2004, Southern Cross was sold by its then owners, West Private Equity, to Blackstone, a Wall Street private equity firm specializing in buyouts. Southern Cross had developed a fast growth and high dividend model whereby they sold the freeholds of their care homes to private landlords and paid the rents with the fees they collected from residents. Blackstone benefited from a rapid growth period before selling the company on for £500 million, three times the value of its initial investment. Blackstone also owned and sold at a profit, the main landlord company benefiting from leasing the homes back to Southern Cross. However, shortly afterwards, falling standards of care in the homes led to a drop in fee income at the same time that the financial crisis saw rents rise sharply. Southern Cross collapsed in 2011 and 140 of its 755 care homes were taken over by its competitor Four Seasons.

Four Seasons was bought by Allianz Capital Partners in 2004 for £775 million and then sold on to a Qatari Sovereign Wealth Fund in 2008 for

£1.4 billion. The cost of this expansion was that Four Seasons was saddled with heavy debts when the financial crisis broke. In 2009, Four Seasons had a debt of £1.6 billion which it halved by issuing equity in exchange for bonds. The company is still carrying £780 million in debt which it cannot refinance in the current environment and which falls due in September 2012. In 2011, Four Seasons took over 140 homes from the collapsed Southern Cross. In February 2012, Four Seasons announced that it was trying to raise up to £230 million in new equity from existing and new shareholders in order to refinance as much as possible of its debt. That month, City insiders were predicting that Four Seasons would not be able to achieve their refinancing targets.

In April 2012, it was announced that Four Seasons would be bought by the private equity giant Terra Firma for around £825 million, financed by around £300 million of new equity and £500 million in new debt. Five hundred care homes, 30,000 staff and 20,000 elderly residents transfer into Terra Firma's control.[57]

Now increasingly, private equity funds are becoming interested in the investment possibilities of the education sector.

What would be the effect of private equity growth in post-secondary education?

UCU is opposed to the privatisation of post-secondary education in general but the union has four particularly serious concerns about the growing interest from private equity firms, based on experience in other sectors and in the US education system:

1. Downward pressure on quality through attacks on staff pay, pensions and working conditions and pressure to achieve fast growth and higher revenue.

2. Threat to learners through the creation of unstable business models.

3. A firesale of public assets through the sale of land, buildings and academic reputation to generate cash for the private equity owners.

4. The growth of a trade in reputation which will damage the standing

of our colleges and universities as a whole.

Downward pressure on quality As we've seen elsewhere in the private and public sectors, private equity ownership has led to sharp downward pressure on staff pay, terms and conditions and jobs. This inevitably has a negative effect on quality. As well as the general points made earlier about private equity's search for high dividends within a short timescale, we have examples of private equity takeovers of colleges in the USA.

US private equity firms have pursued a strategy of acquiring 'platforms' for expansion, either through buying up accredited not-for-profit colleges and turning them into online providers, or by buying and rapidly expanding existing for-profit providers.

In 2006, the for-profit provider Education Management Corporation was acquired in a leveraged buyout by a consortium of private equity firms including Goldman Sachs Capital Partners, Providence Equity and Leeds Equity.[58] Private equity ownership helped the company achieve rapid growth. Education Management Corporation's enrollment numbers doubled, from about 80,000 to nearly 160,000, it became the second largest for-profit higher education company in the country, and its revenues tripled to around $2.8 billion. The vast bulk of this growth in enrolment was achieved by the expansion of online provision.[59]

But growth came at a cost. A series of press stories have exposed some of the practices used at Education Management Corporation (EDMC) following the private equity takeover. These included the creation of a hot-housing working atmosphere for recruitment staff in search of ever more enrolments. According to the Post report: ***'employees recounted a distinct culture shift once the company went private under Goldman Sachs and the other private equity investors, as day-to-day operations warped from a commitment to students and their success into an environment laser-focused on hitting mandated enrollment targets. New recruits were viewed simply as a conduit for federal student assistance dollars, the employees said, and pressure mounted from management to enroll anyone at any cost.'***

At the same time, the quality of the education on offer at EDMC's schools has deteriorated. The rate at which students of EDMC's schools defaulted on their loans within two years of completing their courses almost doubled between 2008 and 2009.[60]

In February this year, Education Management announced a new program of buying back shares, a tactic typically used to boost the company's cash for the private equity owners. By February 2012, they had spent $291 million on this buyback. At the same time, the company laid off between 3 and 4000 staff to cut costs in the teeth of falling enrolments. As one commentator noted, ***'this has Goldman Sachs written all over it.'***[61]

Bridgepoint Education's story is an even starker warning about the dangers to quality of private equity fuelled growth. In 2004, Bridgepoint was a small online provider until its CEO, Andrew Clark, teamed up with Ryan Craig, a partner at Warburg Pincus Private Equity to provide the capital for its massive expansion.

Using Warburg funds, Bridgepoint bought a small struggling accredited religious college and renamed it Ashford University. In 2004, Ashford recruited just over 300 students per year. By 2010, it recruited 77,000 to its online courses. Yet in the process, Bridgepoint's performance and the quality of its education became a public scandal. In 2010, Senator Tom Harkin from the US Congress Health, Education, Labor and Pensions Committee released a report into Bridgepoint which exposed its record. Bridgepoint was making massive profits from tapping into federal subsidies in the form of loans to poorer students, while its drop-out rate soared to 84%.

As Senator Harkin put it: ***'These dismal outcomes are deeply disturbing to me—and should be deeply disturbing to American taxpayers. But, remarkably, the withdrawal of nearly two-thirds of its students in less than two years doesn't seem to trouble Bridgepoint's executives in the least. Instead, they are basking in the applause of Wall Street for growing the company's student enrollment and increasing profits from $81 million in 2009 to $216 million in 2010. In the world of for-profit higher education, spectacular business success is possible despite an equally spectacular record of student failure.'***[62]

Harkin continued: ***'Data reviewed by this Committee paints a picture of a company—and perhaps an industry—that is premised on aggressively recruiting largely low-income, disadvantaged students...collecting their federal grants and loans even as the vast majority of students drop out...and lavishly rewarding executives and shareholders with mostly taxpayer dollars...From a strictly business***

perspective, this is a highly successful model. But, I must say, from an educational perspective—and, frankly, from an ethical perspective—it is a deeply disturbing model.'[63]

Threat to learners The risks to company sustainability posed by private equity-fuelled growth in the private training market were clearly demonstrated back in 2008 with the collapse of the private training firm Carter and Carter. Carter and Carter's growth was enabled by the acquisition of a 46% stake by Bridgepoint Capital in 2001. Bridgepoint used Carter and Carter as a platform for consolidating the highly fragmented private training market, buying up EMTEC, ASSA, Retail Motor Industry Training, Constant Browning Edmonds, Fern Group, Quantica Training, NTP and IMS. Carter and Carter was listed on the stock exchange in 2005. Two years later the company collapsed with debts of £130 million and 25,000 learners on its books.

The company's fall was prompted by revelations of poor management and the falsification of learner records in the pursuit of LSC funding. Both could be seen as results of the pressure placed on the company by its City owners. As was noted at the time, ***'Carter & Carter is basically the product of a string of acquisitions of training companies. The acceleration of growth in the past couple of years was too hard for management to keep up with.'*** Bridgepoint Capital were reputed to have made around £35 million on exiting the company.[64]

A firesale of public assets UCU is also concerned about the threat posed by private equity to public assets. There is huge inherent value locked up in the assets of the education sector in the form of goodwill and the land and property upon which they are situated. While they are legally independent of the state, colleges and universities have assets in the form of property that is held by them from the state, built up out of public investment over years. They are also dependent on public funding and subsidies for their existence. If that public subsidy was removed, they would cease to exist.

The public has a large interest embedded in our colleges and universities, manifested in the investment made by past and present generations of taxpayers. The encouragement of joint ventures with or buyouts

by private equity firms raises the spectre of public assets and funding being used to generate shareholder profit. The government is aware that this could be problematic. In its consultation document on the regulatory reforms in the White Paper on higher education, the Depart-ment for Business, Innovation and Skills said that the benefits of encouraging private investment needed to be balanced against the concern that: ***'as the assets of a university have been acquired over time, partly as a result of direct public funding, there is a wider societal interest which may need to be protected in any change of status'.***[65]

This is not as impressive as it sounds. As things stand it seems that the wider societal interest might amount to the payment of a cash sum to the Treasury. As the Cabinet Office guidance on dissolving charitable bodies in receipt of public grants states: ***'As a matter of general policy, when a non-Exchequer body disposes of assets (either tangible or intangible) which were wholly or partly funded by grants or grants-in-aid, the proceeds or an appropriate portion of them should be paid to the Exchequer.'*** In UCU's view this is a woefully inadequate defence of the public interest.[66]

There is also a serious risk that not even this attenuated interpretation of the public interest will be properly defended. In 2008, for example, the Committee of Public Accounts judged that the taxpayer had been effectively ripped off, possibly to the tune of tens of millions of pounds by the government's failure to protect the public interest in the sale of one third of the privatised defence company Qinetiq to the Carlyle Group.[67]

Trading in reputation UCU has a major concern about the development of a trade in the reputation of UK higher ducation. We can get some sense of the relative value placed on degree awarding powers by private investors by looking at the recent sale of the online for-profit provider Resource Development International (RDI) in August 2011.

RDI is a small but growing higher education company providing online courses, validated by a range of university partners. The company was bought by a US for-profit company named Capella as a platform for expansion into the UK HE market. Capella paid £9.3 million for RDI. At the time of the sale RDI was in the midst of applying for degree-awarding powers. Capella agreed to pay another £4 million to RDI if the application

was successful. So if it is successful in its application, RDI will pay almost half the sale price again.[68] Undoubtedly the degree awarding powers held by College of Law will have accounted for a large part of the £200 million paid by Montagu Private Equity.

As we've seen, degree awarding powers are not technically tradable assets. They are granted to a particular body by the Privy Council on the advice of the Quality Assurance Agency. Yet the sales of College of Law, BPP and RDI raise the question of whether the regulatory apparatus currently in place is adequate to deal with a sector whose bodies are being encouraged to place themselves at the disposal of the private sector and its rapidly changing ownership structures.

Both BPP and College of Law have now been acquired by large for-profit companies without any consequence for the degree awarding powers. When BPP was bought by Apollo, it was reported that the QAA's position was that BPP's degree awarding powers were unaffected as long as BPP ***'continues to operate as the entity which has been granted degree-awarding powers, and within the terms of the criteria relating to those powers.'***

UCU's view is that this is desperately vague, leaving the huge power to award degrees increasingly vulnerable to acquisition and trading. As Roger Brown and Geoffrey Alderman have pointed out, the formal responsibility for the degree awarding powers within any institution lies with the council or board of governors of any institution. Changes of ownership which may involve substantial changes in corporate direction and control currently have no consequences within this framework. The Quality Assurance Agency has itself raised concerns about this. Its director of reviews Stephen Jackson was quoted recently saying: ***'The concern is that new owners might have plans for an entity which might go beyond those originally envisaged when it was given degree-awarding powers.'***[69]

Interestingly, this regulatory problem is not so marked in the USA, where the lighter-touch regulatory framework does at least include the suspension of accreditation for institutions changing hands, while a new review is conducted. Unless this happens, UCU is concerned that we will see private equity firms acquiring and trading on the quality and reputation of our universities. Combined with the threats posed to the quality of

Recommendations

UCU is opposed to the promotion of a for-profit private higher education sector in general, but it is clear from the US example that private equity ownership poses a threat even to a more marketised system.

UCU's view is that that the government must take urgent action to safeguard learners, to protect public assets and to maintain the reputation of UK higher education.

The first measure the government can take is very simple. **The government must instruct HEFCE and the Quality Assurance Agency to institute an immediate review of degree awarding powers and access to subsidies upon any change of ownership by any provider.** In doing this, it would be following the recommendations of the BIS Select Committee, which said that ***'any change of ownership of a higher education provider with a university title or degree-awarding powers should trigger a QAA review to ensure that the institution continues to meet the standards expected of it.'***[71]

Secondly, the government needs to ensure the protection of public assets and funding. This is more complicated, but it could be done by the application of an asset lock. In higher education, this could be achieved by slightly expanding the funding council and lead regulating body, HEFCE's, duties.

HEFCE currently has a duty to ensure that ***'universities in receipt of public funds provide value for money and are responsible in the use of these funds'***. HEFCE also act as the principal regulator for those universities and colleges that are exempt charities, advising the Charity Commission where appropriate'.

The government's White Paper defines HEFCE's new role as containing a ***'duty to ensure not only the proper use of HEFCE's own funding but also that of publicly-backed student loans'.*** It also retains the role of principal regulator of HEIs that are exempt charities.

HEFCE should be given a new explicit duty to ensure that assets accumulated over time through public investment and subsidy are retained for the purposes of advancing the public benefit in education and cannot be disposed of, including disposing of them in part or granting an interest in them, without the approval of the regulator.

This would not stop institutions being able to issue loan bonds, but they could not alienate or sell their assets without the regulator agreeing and

the regulator would have the duty to ensure that they were not used in any way that would conflict with the public benefit in education.

This is already in place in the NHS, for example, where the assets of Foundation Hospitals are similarly locked. NHS foundation trusts ***'may not dispose of any protected property without the approval of the regulator'***, including ***'disposing of part of it or granting an interest in it'.***[72]

In further education, this would be more difficult as the government has only just legislated to loosen the regulatory apparatus in which the requirement to lock in assets could be embedded. To reverse this would require new legislation to return to the Skills Funding Agency a duty similar to that outlined above.

UCU would recommend that future legislation should give the Skills Funding Agency a similar duty to that recommended for HEFCE. In the meantime, the government should issue guidance to college principals stating that it expects college assets to be held in not-for-profit company forms.

In the meantime, however, under the new act, Further Education corporations are obliged to undertake a full public consultation before dissolving themselves and to take account of the results. It would be possible for stakeholders to request that any change in legal status writes in an asset lock, similar to that above or to those that are available to protect the assets of social enterprises, industrial and provident societies and community benefit societies. UCU will campaign in every way possible to defend public assets and maintain the public good.

Further, it is also important to mitigate more generally against the increased risk to reputation, quality and assets that would ensure from the setting up of a for-profit venture, especially with a private equity fund.

UCU recommends that any provider which sets up a for-profit subsidiary or joint venture, or which changes its corporate form should be subjected to an enhanced quality assurance review, either by the QAA or Ofsted to offset the increased risk posed by their corporate form.

Summary of recommendations

The government must instruct HEFCE and the Quality Assurance Agency to institute an immediate review of degree awarding powers and access to subsidies upon any change of ownership by any provider. ■ HEFCE should be given a new explicit duty to ensure that assets accumulated over time through public investment and subsidy are retained for the purposes of advancing the public benefit in education and cannot be disposed of, including disposing of them in part or granting an interest in them, without the approval of the regulator. ■ UCU would recommend that future legislation should give the Skills Funding Agency a similar duty to that recommended for HEFCE. In the meantime, the government should issue guidance to college principals stating that it expects college assets to be held in not-for-profit company forms. ■ UCU recommends that any provider which sets up a for-profit subsidiary or joint venture, or which changes its corporate form should be subjected to an enhanced quality assurance review, either by the QAA or Ofsted to offset the increased risk posed by their corporate form.

Appendix 1
Private equity companies with an interest in post-secondary education

Bridgepoint Capital

Bridgepoint Capital is a UK-based private equity firm started 25 years ago as an arm of Natwest Bank and specialising in healthcare. Notoriously, Alan Milburn went on to advise them after his time as health secretary for the Labour government. They own or have owned private companies specializing in providing elderly care homes, healthcare agency staff and healthcare infrastructure and equipment.

Bridgepoint moved into the education market in 2001 with the acquisition of a 46% stake in Carter and Carter, which they used as a platform for consolidating the private training market, buying up EMTEC, ASSA, Retail Motor Industry Training, Constant Browning Edmonds, Fern Group, Quantica Training, NTP and IMS. Carter and Carter was listed on the stock exchange in 2005 and two years later, collapsed with debts of £130 million and 25,000 learners on its books.

The company's collapse was prompted by revelations of poor management and the falsification of learner records in the pursuit of LSC funding. Both could be seen as results of the pressure placed on the company by its City owners. As was noted at the time, 'Carter & Carter is basically the product of a string of acquisitions of training companies. The acceleration of growth in the past couple of years was too hard for management to keep up with.'[73]

Bridgepoint also bought Protocol Associates, a firm specializing in supplying agency staff to schools and colleges, in 2000. It then used Protocol to acquire a number of other training firms, including ELS, IPS, Tektra, Harmser and others, subsuming them into Protocol to form what it claimed was the biggest private training provider in the UK. In 2007, Bridgepoint sold one arm of this company, Protocol Skills, to Close Brothers, another Private equity firm, for £46 million. In 2011, it sold its supply teacher arm, Protocol Education, to Teaching Personnel, a private training provider owned by Graphite Capital, yet another private equity firm, for an undisclosed sum. Bridgepoint retains Protocol National, which supplied FE colleges with agency lecturers.[74]

Carlyle Group

The Carlyle Group is one of the world's largest and best known private equity firms, particularly given revelations about their political links to both

the US Republican party and the British Conservative party and the extent of their investments in the US defence industry. Both George Bush Senior and John Major have been employed by Carlyle and their investors have included, famously, the Bin Laden family.[75]

Carlyle dwarfs many other funds. It has 84 active and distinct funds, targeted at particular markets. In 2010, it completed the most deals and spent the most money of any private-equity firm. It is one of the world's two largest private-equity firms, with $150 billion under management—neck-and-neck with the Blackstone Group. It is expected to list itself on the stock exchange as a plc in the next year or two.[76]

In October 2007, Carlyle Group moved into the US education market by forming a $1 billion joint venture with the Apollo Group Inc, the company that owns the massive University of Phoenix. The joint venture, named Apollo Global, was 19.9% owned by Carlyle and was set up to 'make a range of investments in the international education services sector. Apollo Global will target investments and partnerships primarily in countries outside the US with attractive demographic and economic growth characteristics.'[77]

In August 2009, Apollo Global acquired the British for-profit provider BPP Holdings and its associated companies for £368 million.[78] BPP has its own degree awarding powers and Apollo Global is looking to grow BPP's business fast in the UK.

Apollo Global's CEO was quoted saying: 'We are excited to welcome BPP to Apollo Global and look forward to joining together to provide enhanced educational advancement and career development opportunities to professionals in the UK and throughout Europe. BPP provides us with an ideal platform from which we can expand our European presence.'[79]

CBPE Capital

Close Brothers Private Equity Capital is a spin off from the Close Brothers merchant bank. It specializes in supporting management buyouts in 'mid-market companies' in a range of sectors including support services, transport, consumer goods, healthcare and pharmaceuticals and leisure.[80]

In 2007, CBPE bought Protocol Skills from Bridgepoint Capital and in 2011 renamed it First4Skills.

Goldman Sachs

Goldman Sachs is one of the most notorious companies in the world of investment banking. In 2006, one of its private equity spin-off companies, Goldman Sachs Capital Partners V, teamed up with two other private equity firms, including Providence Equity (see below) to acquire the giant US for-profit company Education Management Corporation (EDMC) in a transaction valued at $3.4 billion. Goldman's stake was then 30% but has since risen to 41% and together the three firms control 80% of Education Management Corporation. The deal was financed by a combination of equity contributed by the firms and debt financing provided by Credit Suisse, Goldman Sachs, Merrill Lynch and Bank of America.[81]

Representatives of all three PE firms joined the company's board, and while EDMC was already a massive provider at the point of its acquisition, the private equity takeover and the massive new debt it entailed was used to finance a major expansion of online provision and saw the importation of controversial and allegedly illegal student recruitment tactics in the quest for rapid growth in student enrolments. This eventually resulted in a federal government lawsuit alleging fraud to the tune of $11 billion.[82]

In February this year, EDMC announced a new program of buying back shares, designed to boost the share price. By February 2012, they had spent $291 million on this buyback. At the same time, the company laid off 3,000-4,000 staff. As one commentator noted, 'this has Goldman Sachs written all over it'.[83]

LDC

LDC is the private equity arm of the Lloyds Banking Group. In 2010, there was speculation that it would spin off entirely from Lloyds and become independent, though in the end this did not happen. Instead LDC has become a dominant force in the mid-market, buying out smaller firms. It has also taken a big share of the private training market in adult learning contracts. In January 2010, LDC bought JHP and funded its astonishing growth to becoming one of the biggest private training companies in the sector.[84] The following year, it completed a buyout of Learndirect and its parent company UfI from the University for Industry Charitable Trust for £40 million.[85] As a result of these acquisitions, the two biggest recipients of SFA allocations are both owned by the same private equity firm.

Montagu Private Equity

Montagu is a European private equity investor, formerly the private equity arm of HSBC bank, which sold it to a management buyout in 2003. HSBC retains a 20% share. Its portfolio is not concentrated on any particular areas, embracing waste management, transport, private healthcare, consumer credit, insurance and property management firms. David Hall has analysed Montagu as an example of the short-term ownership orientation of many private equity funds: ***'Out of 34 investments made by Montagu PE in service sector companies, only 6 remain owned by Montagu. The longest lasting company has been owned by Montagu PE for 9 years since 1997; but 8 out of 13 companies bought since then have already been sold on.'***[86]

In March 2012 it was revealed that Montagu PE was poised to buy the College of Law, currently a private sector company limited by guarantee, a chartered institution and charitable body with its own degree awarding powers. In that sense it is a strong proxy for the way in which private equity will look to enter the pre-92 university market. The model currently being discussed would see the company transfer its assets to a subsidiary company, which can then be spun off to the new owner with the sale of the proceeds going into a charitable trust to be used for charitable purposes. The sale price is currently rumoured to be around £150 million.[87]

Palamon Capital Partners Ltd

Palamon Capital Partners is a European mid-market private equity firm specializing in buyouts and managing more than £1 billion in funds on behalf of its investors. Its portfolio is typical of many private equity firms in being extremely diverse, often including little more than one acquisition in any particular market. They hold companies in the leisure industry, business services, healthcare and media and communications. Their portfolio indicates that typically, they look to sell on a company within seven years of acquisition.

In 2007, Palamon bought a majority stake in Cambridge Education Group, a for-profit company specializing in educating international students from GCSE through to foundation level for degree programmes. CEG's management team retained a minority equity stake and Palamon brought in some of their own team to manage CEG's growth. One of their

targets was the growing market in foundation level education for degree programmes. In the firm's press release, Andrew Hawkins, a partner at Palamon, commented: ***'We are delighted to have concluded this investment. The sector, which we have been studying for almost a year, has tremendous growth potential given the strong appetite worldwide for UK university education and the demand from universities for non-EU students. CEG is in prime position to take advantage of this very buoyant environment. We are also fortunate to have secured the services of a top-flight management team to pursue consolidation opportunities in a highly fragmented market thereby building on the successful base which the founders have laid.'***[88]

In 2008, Palamon and CEG launched a subsidiary to push forward a series of partnerships with UK universities to recruit and teach international students called FoundationCampus. FoundationCampus has established partnerships with UCLAN, Coventry, London South Bank Sunderland Universities and in 2010, it announced a new partnership with six University of London institutions, including Birkbeck, Queen Mary, IOE, Royal Holloway, Royal Veterinary College and Goldsmiths.[89]

Providence Equity

Providence Equity is a large US private equity fund with a growing education portfolio, which calls itself: 'the leading global private equity firm specializing in equity investments in media, entertainment, communications and information services companies around the world. The principals of Providence manage funds with over $22 billion in equity commitments and have invested in more than 100 companies operating in over 20 countries since the firm's inception in 1989.'

Significant existing and prior investments include Altegrity, Archipelago Learning, AutoTrader.com, Bresnan Broadband Holdings, Casema, Com Hem, Digiturk, Edline, Education Management Corporation, eircom, Hulu, Idea Cellular, Kabel Deutschland, NexTag, Ono, PanAmSat, ProSiebenSat.1, Recoletos, TDC, Univision, VoiceStream Wireless, Warner Music Group, Western Wireless and Yankees Entertainment and Sports Network. Providence is headquartered in Providence, RI (USA) and has offices in New York, London, Los Angeles, Hong Kong and New Delhi.[90]

Providence Equity has moved into the education market with the

acquisition of Blackboard and a major stake (with Goldman Sachs) in Education Management Corporation, the second largest for-profit education company in the USA, which is currently being sued for £11bn for fraud by the US government. In 2010, Providence Equity acquired Study Group International from another private equity firm, Castle Harlan Asset Management Partners (CHAMP), for $570 million.[91]

Study Group international is a private education company, specializing in providing English language courses at various levels for international students. SGI was set up by Andrew Colin, now owner of INTO. They describe themselves as: 'global leaders in international education, providing the highest quality educational opportunities for students from over 120 countries.'

Study Group has more than 55,000 students at 38 campuses in the United States, the United Kingdom, Australia and New Zealand, and a market-leading network of alliances with internationally focused universities in these markets, with 70 university and college partnerships in the US, 12 in the UK and seven in Australia and New Zealand. Its standalone schools include Bellerbys College in the UK, Taylors College in Australia and New Zealand, the Australian College of Physical Education, the Australian Institute of Applied Science, and Martin College in Australia. In addition, Study Group owns and operates 19 year-round Embassy CES language schools.[92]

Sovereign Capital

Sovereign Capital specialize in buyouts of services companies, particularly in education and healthcare. Sovereign is now a major provider of domiciliary care and fostering services through its buyout of small agencies and fostering firms. According to UNISON, Sovereign Capital achieved a growth in value of around 100% after buying Tracscare for £26m in 2004 and then another four care businesses for £20m and selling the enlarged group for £200m. It owns City & County Healthcare who are currently undertaking a programme of acquisitions of other businesses in the domiciliary care sector.

They have also moved into the education market with acquisitions of Greenwich School of Management and Brighton Institute of Music.

Sovereign are well connected politically. In August 2010, John Nash, a

partner at Sovereign Capital, was appointed by George Osborne as part of a 'red team' of experts to 'think the unthinkable' about ways to reduce public spending. In September 2010, Michael Gove appointed Nash as a non-executive board member at the Department of Education. Sovereign Capital also sponsor the Pimlico Academy.[93]

In March 2011, it was revealed that Greenwich School of Management and Brighton Institute were the two top recipients of public subsidies in the form of student loans for courses designated by the Secretary of State for support. Greenwich School of Management receive £4,873,000 in 2010, while Brighton Institute received £ 4,504,000 in the same year.[94] Sovereign Capital's two investments are doing very well out of the support they are receiving from David Willetts.

Warburg Pincus

Warburg Pincus LLC is one of the largest private equity firms in the world. It specializes in all stages of a company's life cycle from founding startups, early-stage financings, growth equity investments, and developing companies to restructurings, recapitalizations, and management buyouts of mature businesses. The firm also invests in change in control leveraged buyout transactions, divisional spin-outs of non-core corporate assets, minority private investments in public companies, and special situations transactions with a focus on acquisition of undervalued companies. It typically invests in financial services; healthcare; biopharmaceuticals; media, information and communication technology, and telecommunications; energy; consumer and industrials; and real estate sectors. Unlike many companies, Warburg Pincus is used to taking minority stakes in companies.

In 2004, Warburg Pincus acquired a 65% stake in Bridgepoint Education, a new US for-profit higher education company founded by former executives of the University of Phoenix who used Warburg Pincus's funds to buy a struggling but accredited religious school which they marketed as 'Ashford University', providing distance learning courses. In 2010, Bridgepoint Education was investigated by the US Senate for its appalling drop-out rates and the heavy debts it placed on students who were then unable to find employment.

Senator Tom Harkin, leading the Senate subcommittee hearings said

of Bridgepoint: ***'Data reviewed by this Committee paints a picture of a company–and perhaps an industry–that is premised on aggressively recruiting largely low-income, disadvantaged students…collecting their federal grants and loans even as the vast majority of students drop out…and lavishly rewarding executives and shareholders with mostly taxpayer dollars. From a strictly business perspective, this is a highly successful model. But, I must say, from an educational perspective–and, frankly, from an ethical perspective–it is a deeply disturbing model.'***[95]

Following new regulations that forced for-profit companies to tighten up their admissions procedures, Bridgepoint's enrolments growth has dropped. In July 2011, Warburg Pincus, looking for a seven year exit on their investments, put their entire stake up for sale, prompting a plunge in the price of shares for other stockholders.

In December 2011, it was revealed that David Willetts had met with representatives of a range of private equity companies with an interest in higher education, including from Warburg Pincus.[96]

University Ventures

University Ventures is a new private equity fund set up by US private equity investor Ryan Craig, with the aim of establishing partnerships with universities to develop new online learning courses provision. Craig was formerly a partner at Warburg Pincus, responsible for education investments. Craig was one of the founding directors to Bridgepoint Education in the US. Craig was responsible for the investment side of the deal that bought out the two struggling colleges that formed the initial platform for the rolling out of online learning to tens of thousands of students via Bridgepoint. He remains a director of Bridgepoint but has now formed a new private equity fund, University Ventures, with a wholly-owned sub-sidiary company called HE Online Ltd. The main investors behind University Ventures are the private equity investment arm of the Ontario Teachers' Pension fund, the German media giant Bertelsmann and the partners themselves, including Ryan Craig. On the board of HE Online are former executives of both Bridgepoint and the University of Phoenix.[97] At the time of publication, HE Online is known to be in discussions with the University of Aberdeen and the University of Leicester.

Appendix 2

Private equity-backed companies and LSC and SFA contracts 2005-8 and 2011-12

Sources: 'Allocation data for providers funded by the LSC for the academic years 2005/06 to 2008/09' and 'Skills Funding Agency Allocations 2011/12'. Both datasets are available here: *http://skillsfundingagency.bis.gov.uk/providers/programmes*.

Provider	Sum of 2005/06 allocations	Ownership
Protocol Skills Ltd	£23,870,863	Close Brothers PE
Carter & Carter Apprentice Learning Ltd	£22,282,000	Bridgepoint Capital
Retail Motor Industry Training Ltd	£21,026,752	Bridgepoint Capital
Sheffield Trainers Ltd	£5,469,244	Sovereign
Total	**£72,648,859**	

Provider	Sum of 2006/07 allocations	Ownership
Carter & Carter Group plc	£50,291,664	Bridgepoint Capital
Protocol Skills Ltd	£29,805,902	Close Brothers PE
Sheffield Trainers Ltd	£8,551,563	Sovereign Capital
Constant Browning Edmonds Ltd	£8,318,961	Bridgepoint Capital
Construction Learning World Ltd	£3,984,130	Melorio
Quantica Ltd	£3,372,540	Bridgepoint Capital
Interactive Training Management Ltd	£580,999	Bridgepoint
Total	**£104,905,759**	

Provider	Sum of 2007/08 allocations	Ownership
Carter & Carter Group plc	47637790	Bridgepoint Capital
Protocol Skills Ltd	£33,370,837	Close Brothers PE
Zenos Ltd	£12,971,803	Melorio
Sheffield Trainers Ltd	£11,829,210	Sovereign Capital
Constant Browning Edmonds Ltd	£7,064,026	Bridgepoint Capital
Paragon Education & Skills Ltd	£6,865,689	Sovereign Capital
Construction Learning World Ltd	£6,079,647	Melorio
Triangle Traing Ltd	£5,174,973	Sovereign Capital
Quantica Ltd	£4,338,493	Bridgepoint Capital
Sencia Ltd	£1,650,000	Sovereign Capital
Carter & Carter Employability and Skills Ltd	£135,968	Bridgepoint Capital
Total	**£137,118,436**	

Provider	Sum of 2011/12 allocations	Ownership
UFI Ltd	£130,334,005	LDC
Zenos Ltd	£46,647,644	Melorio
JHP Group Ltd	£41,540,502	LDC
Lifetime Training Group Ltd	£24,270,288	Sovereign Capital
ESG (Skills) Ltd	£20,210,339	Sovereign Capital
First4Skills Ltd	£19,537,302	Close Brothers PE
Construction Learning World Ltd	£17,103,383	Melorio
Paragon Education & Skills Ltd	£11,231,663	Sovereign Capital
Platinum Employment Advice & Training Ltd	£47,657	Sovereign Capital
Total	**£310,922,783**	

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Printed and published by
University and College Union,
Carlow Street, London NW1 7LH
September 2012