Increasing involvement of private finance in the higher education sector will have important consequences for academic institutions in the UK

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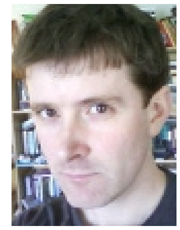
Changes in higher education policy are altering the way academic institutions are functioning in Britain. **Andrew McGettigan** *takes a look at the implications of new funding mechanisms for higher education and writes that new methods of debt issuance will increase the financial fragility of academic institutions. Furthermore, due to the increase in students accessing loans, governments will soon be forced to find new policy options to maintain the new market in undergraduate study.*



My book, *The Great University Gamble,* was originally conceived in Autumn 2011 as a primer to the Higher Education Bill planned for the following year in the UK. Back then I had envisaged that such legislation would have been technical, obscure and presented as a tidying up exercise. As with the 2011 Health and Social Care Act, there would have been a need for a short, simple book that would set obscure passages of legalese into their proper context.

The December 2010 vote to increase the maximum tuition fee to £9000 per year was really only the prelude to some major sectoral changes. In particular, the subsequent White Paper, *Students at the Heart of the System*, and its accompanying ‘technical consultation’, had sketched two significant reforms: granting the power to award degrees to bodies that do no teaching – clearly pointing to Pearson / Edexcel – and allowing universities the freedom to adopt a corporate form of their choosing to better attract private funding.

The latter change might have entailed creating a simple route for universities to shed their charitable status without the need for parliamentary or Privy Council oversight. The government still favours this option: a recent education export strategy document reads “[t]he governance structures and obligations of charities, or of bodies of similarly ancient pedigree established by Royal Charter or equivalent instruments, were not designed to grow rapidly, or to run a network across the world.”

Such moves would be difficult to undo and have never been presented openly to the public, having been tacitly incorporated into the plan to ‘diversify the supply side’ of undergraduate provision.

In early 2012, it became clear that there would be no legislation in this parliament, something that could be viewed as a delayed outcome of the 2010 protests. Instead, David Willetts, Minister for Universities and Science, acknowledged that his department – Business, Innovation and Skills (BIS) – would instead have to be ‘ingenious’ and pursue its agenda through non-legislative means.

Great University Gamble was then reconceived as a general guide to current higher education policy, how the new market terrain was circumscribed by the undergraduate funding regime, and what this would mean for the new corporate and financial strategies pursued by individual institutions.

It is deliberately light on theory but it does offer an articulated concept of ‘privatisation’, one that is appropriate for a sector, like English higher education, where institutions are already legally private entities. Seven processes are analysed through the book.

Firstly, it tracks the change in corporate form, which can encompass the sale of state-owned assets and the replacement of a charitable status with a for-profit company status. Secondly, it turns to marketization, or external privatisation, where ‘alternative providers’ are encouraged to enter the regulated system previously underpinned by direct public funding; and internal privatisation, with a change in the balance of income sources. We then look at the process of commodification and the repositioning of higher education as a private good, explicitly, a financial investment where the return is to be seen in the form of higher earnings for graduates.

Regulatory independence, increased centralisation and outsourcing of higher education are tackled, as well as the question of increasing involvement of private finance in the sector, whether through joint ventures or even buyouts, as was seen with the sale of College of Law to Montagu Private Equity. With regard to this last point, chapters are dedicated to joint ventures; group structures designed to arbitrage regulatory frameworks, and the recent return to public bond issues by universities. The general argument is that what is in store is much more radical than is generally assumed. Money is moving around the sector in a different way and that will lead to a rapid outmoding of our habitual thinking about universities.

At an institutional level, governance arrangements came into their current form under very different conditions of public funding with roots in local and civic missions. This is where most of my concerns lie. Governors as charitable trustees are charged with prudent approaches to financial sustainability, but we are in the midst of an upsurge of institutional borrowing, which goes beyond the necessary renewal of infrastructure. New positions in domestic and international markets are being sought. These may be achieved at the expense of relations with staff, owing to declining real salaries and outsourcing initiatives, with the annual costs of servicing borrowing eating into surpluses and reserves. Moreover a significant proportion of debts are non-amortising (bonds and interest-only mortgages) with the consequence of growing financial fragility. Many institutions are now in the 'speculative' position on Hyman Minsky's schema; they are able to pay the interest or annual costs, but the principal will need to be refinanced when it falls due.

Additionally, since December 2012 there have been two or three developments which make some of the original analysis and supposition less speculative than it was at the time of writing.

Firstly, growth in the private, alternative sector has been even more rapid than I predicted. Numbers of students accessing loans and grants to study through these operators had reached 39,000 in September 2013, an astonishing increase from 5,000 in 2010. With these students are now able to access over £16000 per year in financial support, public outlay went over £300million that year, and official figures now point towards £900million in 2014/15.

Much of this expansion has been seen in sub-degree qualifications – enrolments on Edexcel's HNC and HND courses grew six-fold last year – and so we should be sceptical of the government's decision to use the estimates of average loan repayment associated with university graduates. This should be of concern to the sector, as spiralling expenditure on these students has placed additional budgetary pressure on BIS leading to the cuts outlined in the latest grant letter to the Higher Education Funding Council for England.

This leads us to the second point. At the end of 2012, the official estimate of the loss on the student loan scheme was 32 per cent. That is, in net present value terms, for every £1 lent by the government, 68p would be paid back over the long lifetimes of the loans. Today, a little over 12 months later, the loss is officially stated at 45 per cent, following revisions to the assumptions underpinning official repayment models. When you are issuing over £10billion in new loans each year, as now, then each percentage point 'uptick' is over £100million of additional annual expenditure: only the equivalent of £5.5billion in repayments is now anticipated. This has led many to conclude that the current regime is unsustainable (although Treasury changes to the accounting and budgeting conventions for student loans do indicate an ongoing long-term commitment).

So my take on 'financialisation' in this setting asks the question "what policy options are available for governments seeking to maintain the new market in undergraduate study?" Competition from alternative providers depends on institutional grants being replaced by higher fees backed by student loans, which are in turn backed by the public funds. First, governments can always change the terms on which loans are offered, even for existing borrowers. Alternatively, they can construct new policy on the back of the data generated by loan repayments. For example, we could see the same courses at different institutions assessed on how far they do boost graduate earnings and employment prospects. Finally, the government could try to sell the loans to the private sector in order to 'de-risk' the public balance sheet.

It is this third option which has gained most attention since the Treasury's Autumn Statement, but a mix of all three is expected. Radical overhaul is unlikely, given the continuing self-imposed fiscal restraints adopted by the main political parties. Loans, and the borrowing needed to finance them, could dominate higher education policy in the medium term. A likely outcome of the strain is the collapse of the unitary funding principle in place since 1993. A key challenge will be the appearance of new kinds of financial engineering likely to transform the academic relations between students, lecturers and institutions.

Note: This article gives the views of the authors, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting. Photo credit: _MG_7581

About the author

Andrew McGettigan writes on philosophy, education and the arts. He runs the blog, Critical Education, which offers coverage of financial matters in higher education.