

Higher Education Policy Institute (HEPI)

House of Commons Seminar: 12th January 2011

Higher Education in an Age of Austerity

Bahram Bekhradnia (Chair):

Ladies and Gentlemen, welcome to this sixth series of House of Commons seminars that HEPI has organised, this time through the kind good offices of Lord Howarth, who has sponsored our use of the Commons facilities; and with grateful thanks to John Wiley and i-graduate

This is extraordinary, probably our best subscribed seminar we've had so far, so much so that it's more of a conference than a seminar, no doubt because of the immediacy and urgency of the issues under discussion, but also I've no doubt at all because of the distinction of our speakers. Sir Alan Langlands, the Chief Executive of HEFCE and Sir David Watson, Principal of Green Templeton College, both with illustrious previous histories, of course.

I will say nothing by way of introduction to this topic, only that it has many dimensions. That risks of course an inchoate discussion, but that risk is balanced, I have no doubt, by the prospect of a rich and wide-ranging discussion.

So let us first hear from Sir Alan Langlands.

Sir Alan Langlands:

Well thank you very much Bahram. Good morning everyone. Happy New Year to those of you whom I haven't seen. I came this morning not quite expecting such an informed audience. Not only do I know 90% of the audience, I think I probably know all your prejudices as well, so that might help in the questions. I'm also very pleased to have breakfast. I'm going to spend most of the rest of my day across the way at BIS and, of course, as an arm's length body I'm no longer eligible for coffee and certainly not lunch, so it was good to get off to a bright start this morning.

So I am pleased to be here. These are torrid times of course, but hugely interesting times. Higher education has certainly been in the news, record press cuts most mornings and even over the Christmas holiday, so this has been a very topical issue since the election. Inevitably, I am going to plunge into more detail than David but, before I do that, let's just get our bearings by recognising that since last summer, essentially since the election, there have been five key events all bearing on the future and the future development of higher education in England. My apologies to those of you who are visiting from Scotland and Wales. I will talk about England, but can always be tempted to talk about the devolved administrations as well.

The first event, of course, long forgotten maybe by some, but not by us, was the Budget last summer in June 2010, which resulted in a reduction in higher education spending of £82m. It doesn't sound very much, but coming on top of nearly £320m of cuts visited on us mainly by the previous Government in the period April 2009 to

May 2010, it was a significant issue and significant in relation to what I'm about to say about 2011/12.

The second big issue was the publication of John Browne's report on higher education and Student Finance which sought to do exactly what he was asked to do, which was to think about re-balancing responsibility for funding higher education between the state and graduates and their families.

The third event of course was, I think, the most significant of all – the comprehensive spending review, which confirmed a £3bn reduction in publicly funded grant for higher education between now and 2015 and, in a sense, set in motion all that has followed.

And what did follow, my fourth item, was the Government statement on 3rd November 2010 which confirmed: the graduate contribution threshold of £6,000 and an upper limit of £9,000, a commitment that we hope will ensure that universities charging more than £6,000 will have to spend at least some of the additional income on widening participation and promoting fair access, something that's easy to say but very difficult to achieve in practice; a new £150m national scholarship programme, details of which are currently being worked out; a system of loans and grants to meet the up front cost of tuition fees, and to provide help with student living costs.

The fifth issue, of course, just before the Christmas holidays was the publication of HEFCE's grant letter which has further cuts in funding for higher education for 2011/12 and in broad cash terms that's a 4.2% cut in teaching funding, a 1.3% cut in research funding and a 54% reduction in capital funding through the spending review period. We have a four year settlement to 2015 for research, but only certainty on teaching funding for 2011/12 with indicative figures for 2012/13.

These are the five big issues. The final piece of the jigsaw, of course, will be the publication of the Government's White Paper, we assume at some point in the next two or three months – and some would argue slightly putting the cart before the horse, or behind the horse, whichever way you want to have it a bit of reverse engineering – setting out the policy platform on which this new funding settlement will ultimately be based and followed through in the sector.

So, in essence, the challenge is to cope with all of this, to cope with significant reductions in funding in 2011/12, whilst preparing for the implementation of what are radically new funding arrangements from 2012 onwards. And all the while, of course, whilst doing this we have to remember why we're really here; we have to remember that our real task through this period is to try and maintain excellence in learning and teaching, to ensure that our research continues to be internationally competitive, to think hard about issues of social mobility, widening participation, fair access, on a wider basis to secure the interest of students and, certainly at this time in our economic history, to be playing our part in growth and economic development. Higher education can mount a strong argument that it performs well against these overarching objectives, but performing well and continuing to perform well whilst dealing with these short-term reductions and this longer term prospect of change is the challenge we all face.

Our task at HEFCE, going forward, is to work with Government to ensure the effective implementation of these new arrangements, to work with the sector and, in doing so, to try and avoid unnecessary disruption or turbulence; if you like, to maintain our commitment to the longer term sustainability of the sector, and increasingly to work with a range of other bodies. I think one of the interesting things about the current policy landscape is that there's no single organisation that can tackle this change at least (at a national level) in isolation, so we're already in quite detailed discussions with the Student Loans Company about the synchronisation of the funding changes, the rundown of public funding, grants through HEFCE and the ramp up of the loan funding that ultimately will be channelled through the Student Loans Company. We are also in detailed discussion with OFFA about the link between access agreements and fee levels. And, of course, we are continuing work on public information on a whole range of quality issues with QAA.

So headline words like 'securing the student interest' at the moment means working through and implementing some really quite difficult policies, but doing it in a joined up way, not just within BIS but across a number of these bodies that I've mentioned and, of course, you could add others to that list – QAA, UCAS, HESA and so forth.

Trying to reduce this to something that is manageable has been a preoccupation in HEFCE in the run up to Christmas. We think there are seven transition issues that we're going to be focused on in the next few months:

- The first is getting resource allocation right for 2011/12. Not going into too much detail post a grant letter, I think that's likely to take the form of across the board reductions for 2011/12 and across the board reductions that will have to be brought forward to deal with the disjunction of financial and academic years – in other words there will be a hit in the last four months of 2010/11. But we all have to think of ways of handling that to give us as much stability as we can in the run up to the key preparatory year, as I see it, of 2011/12 and the run in to the new funding settlement in August 2012.
- Teaching funding policy – or what's left of teaching funding policy – post 2012 is my second issue and I'll say a little more about this in a second or two
- Widening participation and access are still very strongly there – a big feature of the grant letter but having to be played out now in a very different environment
- An emphasis on supporting the Government's objective of student choice through providing high quality and more public information about universities and colleges
- And research and HEIF is my fifth issue. Whilst all this is going on, we are reworking the RAE and thinking about the REF in 2014 – more of that coming at Easter and then in the summer – we're well advanced with that work. And we are also having to think about how best to use the higher education Innovation Fund in the new world – I think a higher education Innovation Fund that will be less about developing the infrastructure for knowledge exchange and more about supporting good performance where it exists.

- My sixth item is really at the core of what HEFCE does which is to constantly worry about sector and institutional sustainability. We are very heartened by what we see of 2009/10 financial results. It is obvious that universities and colleges across the land have been preparing what lies ahead and doing so in a very sensible and straightforward way. So I think overall, though that's not to say there aren't some exceptions, the sector is in very good shape, with strong balance sheets, and good levels of cash in the system and therefore I hope able to cope with the 2011/12 adjustments – not quite without breaking stride, but certainly without too much disruption ahead of August 2012.
- Slightly self-indulgent from my point of view, or from the point of view of HEFCE, but of course we have to be thinking about our own position and how that is going to change over time. We – and indeed everyone who speaks about higher education and I'm sure it will feature, as it always does, in the White Paper – are 100% committed to university autonomy, to ensuring better regulation, but somehow this whole show is going to have to be orchestrated. Some people call that 'managing the market', but some body, or a number of bodies working together in an orchestrated way, are going to have to ensure that we can hold the ring in these new arrangements.

Now, unfortunately I can't go through all seven of these issues in detail, but rest assured that the detail is there. Perhaps the most interesting one just to tempt you with is the whole question of teaching funding policy post 2012 because, it seems to me, this is at the heart of the change and it's one of the issues which people here know has yet to be fully resolved. The issue is how to achieve an effective means of restraining the new public expenditure, ie pressure on the loan book and the cost of student support, whilst creating some sort of dynamism in the system that supports ministers' ideas about student choice. In the short term that dilemma is going to be at the heart of this change, but make no mistake, it doesn't matter whether the money is being channelled through HEFCE or via the Student Loans Company, there will be a cash limit on this activity and that means discipline around student numbers. So how do you have dynamism when you have to have student number controls? How do we move away from the current, rather mechanistic, institutionally based student number controls to something a bit more enlightened that puts dynamism into the system?

These things are very easy to say, very difficult to deliver in practice and it is very difficult to sit, as people do around this part of the world, and think these things through in the abstract – second-guessing if you like the behavioural changes that will take place in the student body and also in institutions.

So developing a method for allocating student numbers is going to be important. I hate the phrase that's emerging around the remaining HEFCE funding in documents which refer to 'residual funding'. I don't see it that way, as you might expect. We see it as funding, important funding, to protect high cost subjects, to make interventions where we and the sector and the wider community see vulnerability in different subjects and different disciplines. We will also have to find a way, if there's going to be failure in this new world, of affording the public liabilities associated with institutional failure or just partial or temporary institutional failure, and we're going to have to continue to provide financial incentives for higher education institutions to

focus on access and widening participation, and on retention – the whole life cycle of student experience from pre-entry to employment.

So these are big issues. But even these issues don't cover the kind of landscape that you all operate in. For example, very little attention has been paid in the Browne Review or in subsequent discussion to the post-graduate economy; very little understanding has developed so far on the likely effects of all these changes on the overseas market, and from an institutional point of view you're going to have to look at all of this in the round.

So I think it's probably best, having thrown a few rocks in the pool, to come to some sort of close, but let me do that by just saying two or three things. There's a lot in higher education worth fighting for. One of my great regrets is that the contribution that we make to the economy, to society, to the wider cultural development of the country, hasn't really featured in the discourse so far – it's somehow been subordinated to this rather mechanistic, technical discussion that's been going on – and, let's not forget, that's why we're here. Secondly, the financial cuts that we've experienced so far and the new policy of putting much more of the money in the hands of the students intended to achieve choice, quality and effectiveness is a bold move, but one that requires a lot of detailed work between the Government and the sector. Thirdly, I hope that we will move to a position in the next two or three months where we have some more solid policy ground on which to base progress, and that will be the stuff of the White Paper.

Thank you very much.

Professor Sir David Watson:

Good morning. I'd like to offer a slightly different perspective to Alan's. I hope it will be complementary in some ways. I want to begin by reflecting on an eternal triangle. The engagement between Higher Education researchers, Higher Education practitioners and policy makers, can often seem like a dialogue of the deaf, and this is where my triangle comes in. At their best, the researchers can bring a strong, historical sensibility, understanding of the wider role of universities and colleges and novel insights. At their worst they – I should perhaps say 'we' – can be defensive, apologetic, self-serving and repetitive. At their best, the practitioners - teachers, researchers, managers, staff of all types - will want to create, validate and use evidence about their practice. At their worst, they simply want to be left alone. At their best, the politicians will bring a sense of urgency, will bring resources and will bring democratic validation to the Higher Education enterprise. At their worst, they too can be self-serving, also impatient, simplistic and manipulative.

There are several problems here. There is the problem of sequence when policy choices seem to be made in advance of research led investigation of the field. There is the problem of premature closure when policy options are apparently chosen without full consideration of the alternatives. There is the problem of over-simplification when judgments about a policy choice are presented in aggressively certain terms. There is the problem of co-ordination when policies pursued by different arms of the same Government, either within a department or, more seriously in relation to Higher Education, across several Government departments, can confuse and inhibit each other. There is the problem, of course, of selective attention. But perhaps most important, there is the problem of corporate memory – when a policy

fails to be assessed against the history of the last time it was tried. The UK is particularly bad at the last one of these. I could give you lots of examples: foundation degrees launched without any consideration of the experience in the 1970s of the DipHE; ELQs applied without reflecting on the backlash to the mainstreaming of adult and continuing education in the 1990s; we've had an endless stream of supply side STEM initiatives, all of which fail for very similar reasons; and finally there's the cherry picking of big national reports – Browne, Dearing and Robbins.

There's a historical pattern here, and it happens the same way every time. The report is published, the Government of the day accepts it, and there then ensues a period of Whitehall machinations which, a little bit like "allace and gromit's world of invention," turns it into something else. So we now have Browne without a levy, but with a cap. We now have what I would call an additional, unfunded, scholarship added to the scholarship proposals. We have silence at the moment (and Alan has alluded to this) on how the tariff constraints on entry to the system as a whole might be replaced by some other mechanism to determine the size of the system. And for many institutional heads, we've got silence on the kind of information that is really necessary in order to be able to make responsible decisions about prices including, for example, where that residual funding is actually going to sit.

I've called this talk 'Ten Questions for Cassandra'. This is where Cassandra comes in. I've suggested several times that the relevant ministry, now BIS of course, should hire Cassandra, should put her in an elegant office overlooking the atrium in Sanctuary Buildings, and every time ministers and civil servants have a good idea they should go in and ask, "Cassandra, what happened last time we tried this?"

So, what would she make of the present situation? I'm a historian and one of the most important conclusions I've reached is that in many respects we have been here before. Looking around the room, I suspect that many of us here, perhaps most of us, had a key phase of our professional formation in Higher Education during the long downturn from the early 1970s to the mid 1980s. At that stage there was never any money and yet we managed to do some remarkable things. But unlike Cassandra, I don't do futurology very much or very well. I'm with Glenn Hoddle who, as England Manager, said, "I don't make predictions and I never will." And right now we are in a rather strange period of public discourse. It's a little bit like Albania in 1967 when Enver Hoxha said in his address to the people, "This year will be harder than last year. It will, however, be easier than next year."

So what is going to happen? I don't know. But I would like to suggest a way of approaching the issue. Most of the uncertainties now can be presented, in the spirit of Robert Frost, as a fork in the road. You all know the wonderful poem 'Two roads diverged in a yellow wood, and I took the one less travelled by, and that has made all the difference.' In October 2008 I first set out ten examples of two roads in a wood as they might affect Higher Education and the Higher Education system. We now know a little bit more about the roads chosen by the UK system and by other systems around the world, so if I could quickly rehearse with you what has happened to those ten questions.

The first question is about the student market. I asked in 2008, "Will it become more or less instrumental in terms of choice of courses and subjects? Will the requirements of the job market loom larger or less so? Will students want to accelerate or, as has

happened in the past – it certainly happened in the 1970s across continental Europe – delay their entry or their re-entry into the job market? What will be the effect of the huge growth in student personal debt? Will those who are able to choose want to continue to travel for their Higher Education, or stay closer to home?” I said, “Will students become or, in some cases, remain a political force?”

Well, 14 months on perhaps one of the answers is a little counter-intuitive. All around the world we are seeing the revival of liberal values in under-graduate Higher Education and the shift of professional formation and vocational study more generally to the second cycle, and to this we have to add the global revival of student activism – not just the mobilisation against increased costs that we’ve seen in California and in the UK, but also a curious combination across continental Europe of a rejection of reform, including many of the Bologna reforms, and attacks on corruption. And to those now have to be added the phenomenon of an established student estate in many countries of the Middle East, Africa, the Subcontinent and Asia. So there is a question mark, a fork, about the student market.

The second question is about public investment. If there is a revival of Keynesian pump priming in developed economies, will universities benefit? If they don’t benefit directly, will they do so indirectly, for example through capital and infrastructure projects or through their contribution to other public services?

Well, England is clearly out of step here. It has rejected Keynes and, in doing so, will almost certainly drag the devolved territories along with it. We saw in the last few days the expenditure plans for Northern Ireland in exactly the same mould. And we have some other ticking bombs. For example, across the UK what will happen when the PFI scheme melts down? But, as Alan has reminded us in a lecture recently in Oxford, we have to be ready when a future Government returns, as it certainly will, to invest in Higher Education. As Alan said in Oxford, we must not accept that the decision to reduce public investment in Higher Education is fixed for all time. Most other developed nations are investing in Higher Education, science and research to drive economic growth and recovery.

My third fork is about university business interaction. Will industries invest in training and development through the slump, or not? Similarly, what will happen to commercial R&D? Is it more or less likely to be shared with universities in these circumstances?

And here there are some other oddities emerging. What is it about the 21st Century discovery of university-like businesses by people like Gary Hamel at the London Business School? We also have to deal with the phenomenon in our economy now of hoarding labour. Both of these features are two-edged swords. The former, university-like businesses, represents a serious irony. As universities act more like 19th Century mill owners, sophisticated, knowledge-intensive companies are acting more like 20th Century universities. If you look, Hamel’s cases include WG Gore, Linux, the whole open source movement in software, for example. The latter, hoarding labour, is an obvious spur to CPD and the like, but it’s making much worse the stacking up of unemployed and underemployed graduates in our society.

My fourth fork is about governance. Are we likely to see increased or reduced autonomy, not least in a context where university stewardship through risk-spreading,

which has been a traditional university approach, has actually turned out to be rather sensible?

In the UK we have remarkable levels of institutional autonomy. We are much freer to set our own destiny than many equivalent institutions around the world, but we are also hooked on earmarked or special funding. We may have to reverse the pathology which has been central to university strategy in the UK for some time, that the most important thing we want to do becomes the last call on our disposable institutional funds because we think it should be an initiative, and I think we are probably past initiatives at this stage.

Connected with this, fifthly, is the sector likely to see more or less Government intervention?

I suspect that in many systems around the world the temptation is now to declare temporarily 'finished business' on Higher Education reform. Robert Reich, Clinton's Secretary of Labor, used to have three trays on his desk – In, Out and Too Hard. And for Governments strapped for cash, and possibly with weak or no overall control, issues like further reform and further tinkering may simply be 'Too Hard'. But this is not true of the UK where the coalition Government is apparently hell-bent on digging deeper. The current proposals for fees and for institutional grants will do nothing in the short term to cut the expenditure deficit. At the same time they'll dramatically increase long term debt for both the student, whether or not he or she graduates, and for future Governments, and the vote on 9th December, as I hinted earlier, with its anticipated array of last minute concessions, simply makes that hole deeper. Meanwhile, on the political side, look at the rest of the world. If you think this is just a theoretical issue, consider the current struggles in Iran for control of the Islamic Azad University.

My sixth fork is about the for-profit private competition for universities. Will these companies accelerate to undercut the establishment or will they decelerate because entry, regulation and maintenance costs are so high?

Well, the evidence so far is mixed. The much vaunted US for-profit market is wobbling seriously under accusations of corruption, poor value and short-termism and there, as in the UK – and some other reports, for example, from the Observatory for Borderless Higher Education, have underlined this – the most secure way forward seems to be through public-private partnerships and hybridity.

The seventh fork is about staff. Will Higher Education continue to be a public sector haven for professionals with the relatively safe pay and conditions including vestigial pensions? Will international mobility increase or decrease? Will competition for senior posts, including the Vice Chancellor pool, be boosted by corporate refugees? Will international brain circulation slow down? How many redundancies will there, in fact, be? How many institutions, just like private corporations, are using the current conditions to achieve deck-clearing that they have put off for some years?

My eighth fork is about national ambitions for Higher Education. Will the race to world classness heat up or slow down as the costs look more daunting and as other priorities for Higher Education institutions loom large?

Will, for example, the statistically illiterate world class league tables to which many institutions, as well as many Governments, have tied their banners turn out to be a temporary madness? They are very much a phenomenon of the first decade of this Century. Will, for example, the Chinese drive for institutions with world class status be undermined by the evidence about endemic scientific fraud and dishonesty?

Fork number nine is a sort of reciprocal of the eighth. Will international co-operation, which is distinctly on the rise in research terms, if not on teaching and systems development, increase or decrease? As students have to stay at home for economic reasons, will there be a re-focusing of first and second world effort away from a race to suck in international students and towards more traditional modes of development assistance for developing systems?

I should also enter a caution here about cultural specificity. In a study which is now in press called "The Engaged University," I and a number of other authors have pointed out how very different these issues look from the perspective of the Global South and the Global East.

My tenth and final fork captures all of these options. Will the sector draw in its horns, seek to ride out the difficulties and tend to close down, or will it take advantage of some of the elements of opportunity which I have just described, as opposed to threat, and open up?

I mentioned Keynes: a prophet no longer acknowledged in his own land. Writing in the immediate aftermath of the 2008 crash, Paul Krugman reminded us of Keynes's basic principle, which was about the power of ideas. I quote, "The true scarcity in Keynes's world and ours was therefore not of resources or even of virtue, but of understanding." And as we face the current age of austerity, our goal in Higher Education should surely be to contribute more of the solution than of the problem. This is where researchers and practitioners, as well as possibly Cassandra, come in.

Thank you very much for listening.