The UK deficit: How Britain's universities are managing deep budget cuts

SPEAKING NOTES
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Introduction

Many thanks for inviting me to speak at the Quality Network for Universities' Meeting. Apologies for not "really" being with you, I hope this virtual adventure meets your expectations. What I would like to do is discuss with you the major reform proposals in the UK and their impacts on the universities and the higher education system. I will focus largely on England, for there are important differences in the policies for Wales, Scotland, Northern Ireland and England, particularly when it comes to fees policies. Before I really start, please understand my particular look at the changes taking place in higher education in the UK. I consider myself as part of the system and in that sense "potential victim" of the reforms, but I largely reflect on the developments as a higher education analyst, having looked at reforms and system dynamics in many countries, my home country the Netherlands, but also Germany, Denmark, Central and Eastern Europe (Slovenia, Czech Republic, Estonia). My disciplinary background is educational studies, public administration, currently in a school of management. I have spent almost fifteen years at the Center for Higher Education Policy Studies (CHEPS) at the University of Twente, the Netherlands, and moved to the International Centre for Higher Education Management (ICHEM), University of Bath, UK in 2005.

The structure of the presentation is as follows. I will first set out the main reform proposals and policies, followed by a couple of general reflections. Then I will zoom in on what the responses are. Subsequently, I will disappoint you by explaining that it is actually not that easy at all to tell/predict what really will happen. I will close down the presentation with discussing a number of possible solutions/strategies for universities to deal with the current challenges.

Shock to the system

The 2010 Browne report *Securing a sustainable future for higher education* (Independent review, October 2010) and the *Comprehensive Spending Review* shortly released after (November 2010) were a shock to the higher education system in the UK. Although what has become known as the "cap release" (UK slang for allowing the universities to go beyond the current maximum fee level for home students) was not a surprise to many in the system, some were unpleasantly surprised by the sharp increase of fees. And, many liberal-democratic voters were yet very disappointed by the U-turn made by the LibDems: they promised no fee increases before the elections, but changed their minds after the elections. The significant additional cutbacks for teaching were not expected either.

The key shock elements – in financial terms – are:

- opportunity for universities to increase their fees for domestic students
- significant budget cuts of the teaching grant, impact particularly on educational provisions in arts and humanities, social sciences after 2012.
- total cutback: £2.9billion over the government period = 40% cutback on higher education (this is excluding research).

In some more detail:

- Fees: From 2012/13 on there will be variable fees up to £ 6,000, exceptionally up to £ 9,000 if conditions regarding widening participation and fair access are met (sanctions possible from Office for Fair Access).
- To put this in context: fees were introduced in 1998 after the 1997 Dearing report, at the operational level this implied a £ 1,000 means-tested fee. This was changed in 2004, the fee levels increased to maximum £3,000, no variation for low SES, but students from poorer backgrounds could be compensated in their maintenance grant. The current maximum fee is £3,290.
- Loans and maintenance grants: no up-front costs, also not for part-time students. Means-tested maintenance grant. Additional scheme for bright potentials from poor backgrounds.

- Repayment: once they earn a certain income (above £ 21,000), 9% of income to be repaid. Progressive real interest rates on loan repayments. Debt written off after 30 years.
- The Browne report recommended prioritising certain disciplines (STEM: Science, Technology, Engineering, Mathematics) versus others (arts, humanities and social sciences). In the grant letter to HEFCE (December 2010), the government is not explicit yet on this issue and leaves it to the funding council how to distribute the budget.
- Research: at first sight, it looks like it is minor reductions, overall 3%, but bearing in mind inflation it could be 12% over spending period (University of Bath, 2011).

Important to note that cutbacks are profound, amounting to probably 30% of total higher education and research budget, but there are similar size cutbacks in other European countries. Latvian higher education was experiencing a cutback of almost 50% in 2009, and there are serious cutbacks as well in countries being hit most severely by the economic crisis: Spain, Ireland and Greece. Scandinavian countries seem to be able to withstand the economic challenges. In some countries there were even operational struggles to pay staff. A colleague of mine, rector at a Lithuanian university, had to call upon his staff to accept not to be paid for two weeks (accompanied by the invitation to continue their work during those two weeks): they accepted …

Preliminary reflections on the plans

Doom and gloom, but also some positive elements:
- Browne report also discussed more and better information for students, how to realise this is not fully explained
- Loans and grant system also for part-time students
- Minimum salary for payback will be raised from £15,000 to £21,000.

But here are some striking elements of the proposals:
- Shifting all the problems largely to one stakeholder: students
- Explanation: Window of opportunity – path dependency: a review of the £ 3,000 maximum fee was already announced shortly after the introduction in 2004. The review and the new cabinet's reform plan more or less coincided. New government, bearing in mind it is a vulnerable coalition, was likely to face less criticism if it were to follow the "independent" review.

- Apparently, other solutions – tax increase – not considered. Logical, given the political signature of the current government (liberal), but in light of higher education – even in the UK – turning into mass higher education, it may have been discussed, but as far as I know not pursued.
- Another issue to bear in mind: not that many opportunities for government to bring about changes with short-term effect: universities are relatively autonomous institutions, generally there is a hands-off approach which allows government to create "only" financial conditions (but see HEFCE guidelines, QAA guidelines, etc.). Paradoxically, these financial constraints driven by market mechanisms will likely have a huge impact on many of the universities, and likely more forcefully than in less market-oriented systems in continental Europe.
- But, returning to the issue of more investments to higher education, a worrying signal is that – apparently – there is not sufficient support in society for further financial injections in higher education. Worrying, given the stress on knowledge economy and the important role universities play in this economy. There is considerable evidence of economic value of higher education in various respects (foreign students, regional surplus value – e.g. calculations for East Midlands, for every £1m, £1.13 extra value for the region and another £.0.27 for the country, UCU report 2010). On the other hand, the divided views within the Universities UK, not coming up with alternatives and seemingly more inclined to take the loss (in fear of even larger budget cuts) than to fight it, may not have been very helpful in the political process.

What is happening (or what do people think is going to happen)

There are not that many clear signs of what is happening or going to happen on the short term. The announcements are relatively recent, currently there is much internal strategising and thinking taking place within the UK/English universities. These are some of the expectations, some getting some attention in the media:

Short term:
- **Departments and programmes closing down**, "special" positions not being re-advertised.
- **Lower future participation rates** in higher education: (1) 2.5% increase in applicants (December 2010 statistics) compared to year before, is an indicator of students being sensitive to change in fees:

among the 2.5% many that want to avoid being confronted with the higher fees in 2012. (2) Polls point out that – as critics expect – certain student groups would be scared off by higher fees, certainly those from a more vulnerable financial background (Ipsos Mori, 2010). Despite the value of this type of research, we must bear in mind that these are predictions. It is good to look at some research carried out on the impact of changes in fee/loans/maintenance grants in the past. Institute of Fiscal Studies and e.g. researchers at the Institute of Education (Vignoles et al., 2008). Their research projects give us considerable insights in "real" behaviour of students. Overall, these studies do report considerable differences in access to higher education by background, but also point out that (a) most of the differences are already "created" at secondary schools; (b) increasing contributions of students do not necessarily scare off students from vulnerable backgrounds: i.e. the existing gap(s) do not become larger.

Longer term:

- **Universities closing down** (UCU report, December 2010): UCU asked a couple of researchers to do a financial analysis. They used a limited set of indicators, open to criticism, but the signalling function of the report is important: 4 universities would be at very high risk, 23 high risk, 22 high medium risk. In all, one-third would risk closure. Importantly: particularly smaller institutions, non-research intensive (read former polytechnics and colleges) and high share arts and humanities institutions will be victims. In other words, the cutbacks would not only affect a large share of institutions, but the impact would also be very uneven.
- **Home students choosing to study abroad**. There are a few indications that this plays a role, e.g. more Welsh students stayed in Wales after fees were introduced for England. But, UK students are not known for their foreign language skills, so impact would be limited? On the other hand: more and more continental European universities are offering their courses in English. Also, the Bachelor-Master structure being implemented in Europe now on a large scale – generally – fits better with UK structure.
- **UK less attractive to foreign students.** This is likely a much more important factor. Research on motives of foreign (non-EU) students coming to the UK points out that these students came, until recently, to the UK for the prestige of the universities, and because of the economic climate. The economic climate is definitely less rosy than a few years back and it does not require rocket science to predict that this will impact funding for

universities and consequently their status (often derived from rankings). Also, repeating an earlier point: continental Europe and US higher education institutions, international branch campuses and home universities become real competitors.

- **Private providers on the rise.** Until recently, only the University of Buckingham. A few years back BPP acquired degree-granting powers (change in legislation allowed for "easier" acceptance), ifs School of Finance followed, and possibly a few others. Part of this trend is triggered by changes in the legislation (around 2005), allowing chartered institutions to apply for degree-granting powers. BPP is now taken over by Apollo Group. Not unlikely that other big global private players might consider "buying" a reasonable public provider …. The government announced that it they will not bail out universities that go bust. Research (Fielden et al., 2010) pointed out that private providers are on the rise in the UK, but will have differential effect in terms of competition (due to complex legislative contexts and differential markets).

Why it actually is all unclear what is going to happen

- **Finance: the government's budget**: Comprehensive Spending Review is based on number of assumptions, that – as always – may not be valid. Higher Education Policy Institute (HEPI, 2010) a higher education think-tank pointed at the possibility that institutions would increase their fees substantially, with huge consequences for the government budget (more/higher loans, that may not be repaid leading to a greater loss for the government). Another element is the fact that EU students can apply for loans/grants. What if most of these students return to their home country and do not earn more than the £ 21,000 minimum income? A considerable loss for the UK government …
- **Institutions' fee choices**: The expectation of HEPI is based on experiences in the past: most institutions introduced the maximum £3,000 fee in 2004 (or close to that maximum). In other words: no real market, but group-think and group behaviour, some call it cartel, but there is no evidence of such agreements. The argumentation of many universities – also those that seemingly do not offer quality for price – seems to be: if we set lower fees, the consumer will think we offer less value …. As a consequence, no real price differences between universities.
- **Vulnerability of UK higher education**: Higher education institutions in the UK may act as a group, but higher education is

not a SYSTEM in UK (Douglass, 2005). At most it a set of loosely-coupled subgroups that (pretend to) operate under the same flag (Russell Group, Group 1994, Million+). Lack of unity – and the diversity of higher education institutions – does not help (has not helped) UK higher education institutions to collectively act in a convincing way. It is unclear how this will evolve in the coming years: more divisions or more agreement?

- **Flexibility:** Higher education systems show remarkable flexibility in times of crises. When fees were introduced in Austria, there was a considerable dip in the enrolments in the first year of fees, but shortly after it was business as usual. UK also saw a "spike" just before introduction of fees in 1998, but also after that a "return to normal". And in 2004 (after the increase to £ 3,000 fee), there was an increase in applications and enrolments …. More generally: UK higher education under Thatcher, Central and Eastern European higher education systems in transition have shown impressive resilience. And, despite the possibility that domestic and international students increasingly start to vote with their feet: with booming economies in South and East Asia (read: advantageous exchange rates), students may still be willing to pay the price for a UK education and then to return to their home countries.
- **The workforce**: What will be the response of those that remained largely silent until now: the academics themselves? Of course, we see many laments in the newspapers, but no concrete actions yet. But, it may well be that many academics will vote with their feet and look for sunnier places, and in many of these sunnier places, language will not be a barrier (so much) any more. Research on the academic profession has consistently confirmed that the discipline comes first, not the institution. If the prestige/status of their institution/department decreases, it may be tempting to look (and go) elsewhere.
- **Complexity**: Beware the complexity of this all: many things hang together (sometimes in mysterious ways), particularly the complex portfolio of arrangements for students that has many incentives and disincentives. Taking the various elements of the reforms together it could either be a dangerous cocktail or maybe the waves interfere and ripples disappear?

Solutions for universities

- **Cheeseslicer**: how much slicing can you do?

- **Closing departments**: but the problem seems more deeply rooted, getting rid of some underperforming departments will probably not do the trick.
- **Mergers**: some indications that strategic mergers are sound (Manchester case, see Harman & Harman, 2008), but what if you involuntarily have to merge two weak performing institutions each with limited future prospects, and low morale (see also Ireland's forced mergers, see also Locke, 2007 on culture, leadership and mergers).
- **Just working harder** …Tight (2010) reports that academics work about 55 hours on average, but not that much increase in past decade. But, increase has particularly been visible in time spent on administration.
- **Leaner support structures**: quite some attention to claims that universities can be much more efficient if they were to use business processes (ERP, information systems, etc.).
- **Concentration of research**: yes, maybe, but research (Adams & Gurney, 2009) indicates that research is already highly concentrated.
- **Fundraising** (alumni, but also more generic). On the rise in the UK, with some good results, but not leading to very high shares of income (apart from the high-prestige institutions). Problems, see University of Alberta case: fundraising in Saudi Arabia, females on the Alberta team excluded from discussions.

Solutions for government

My personal view is that the UK government has gone too far in marketisation of the sector and has insufficiently taken into account what has happened in the sector, actually leaning towards a disinterest in that sector. Acknowledging that higher education is a hybrid private/public "business", policies have tilted too much towards the terminology of the market, consumers and producers. I think higher education is simply too important to steer from a distance using market mechanisms. Coordination and steering is needed to turn higher education in the UK into a system.

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