UNIVERSITY OF MELBOURNE

CENTRE FOR THE STUDY OF HIGHER EDUCATION

WHAT FUTURE FOR UK HIGHER EDUCATION?

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Doomed, doomed, we're all doomed! Private Fraser, Dad's Army

1. Last year the main representative body for UK higher education, Universities UK, published the results of an exercise aimed at forecasting the size and shape of the sector in 20 years' time (UniversitiesUK, 2008a and b). I want to supplement that analysis by working to a shorter timescale – five to ten years – and by tackling an issue that UUK, perhaps understandably, found it difficult to really get into, namely not only the future **size** but also the future **shape** of the sector.

2. My overall argument is:

   1. "Market-based" policies have undoubtedly made UK higher education more efficient, more responsive and more internationally competitive;
   2. But there are also longstanding structural weaknesses, chiefly a lack of equity in the distribution of resources, including prestige, which further marketisation (Williams, 1995) will exacerbate;
   3. Together, marketisation and these longstanding weaknesses, in an exceptionally difficult public expenditure climate, could lead to a radical restructuring of the sector, a process from which few institutions will be exempt.

3. Before coming to my main argument, one or two points of clarification. I am incidentally referring to England but the general thrust of what I have to say applies equally well to the rest of the Kingdom.

Market-based policies

4. First, by "market-based policies" I mean policies that attempt to organise higher education on market lines, with the following main features:

   1. More open market entry for providers;
   2. More funding of teaching going via the student in the form of fees, and less in the form of grants to institutions;
   3. Competition on fees (and/or bursaries), which bear some relationship to teaching costs;

4. Students, or their families, having to meet all or some of the costs of tuition from their own pockets;

5. Students and others making choices between providers based on information about the quality and accessibility of the institutions, subjects and courses on offer.

5. Second, I am assuming that it continues to be both meaningful and desirable – in my view, essential – to speak of a system or a sector. As Professor Sir David Watson has said:

At some stage, and for some important purposes, every institution is going to rely on the strength and reputation of the system as a whole (Watson, 2006: 15).

This is certainly true internationally, but it is also true domestically.

6. Third, I am also assuming that, as in society generally, some inequality in resources and prestige is inevitable, but that too much inequality is not only unjust but also socially and economically dysfunctional. If anyone here doubts this, may I refer them to Richard Wilkinson's work (Wilkinson, 2005; Wilkinson and Pickett, 2009) in which the negative consequences of increased inequality for nearly every aspect of civil society are set out in convincing (and absorbing) detail.

7. Finally, I am assuming that there will be no change in the increasing emphasis which students and governments are placing on the economic role and purposes of higher education, at the expense, very often, of the traditional liberal notion of higher education as the intellectual development of the individual. I expect this indeed to be the main theme of the Government White Paper which we are promised, or threatened with, this summer.

The current position

8. Let us start with the current position. UK universities and colleges are currently undergoing a boom: those of you who are old enough may remember Prime Minister Harold Macmillan's famous saying "you've never had it so good". Applications and enrolments are at record levels, the introduction of variable fees in 2006 having apparently done little to depress demand. The long decline in the public unit of funding has begun to be reversed, and English institutions are now in the third year of the "additional" revenue from variable fees.

9. Enrolments of overseas students continue to increase, with the UK holding its position as the second most attractive destination for internationally mobile students after the US. Public research funding continues to increase annually at a level well above the GDP deflator (the Government's measure of inflation for public expenditure purposes) whilst income from industry and commerce continues to increase. Universities are beginning to reinvest, with

record levels of borrowing. Staff are enjoying significant, one could even say remarkable, pay increases to go with their final salary, inflation proofed pensions, not that this has prevented their union from putting in for a pay rise well above inflation for 2009. According to the Chair of the Universities and Colleges Employers Association, national pay for all staff has increased by more than 15 per cent since 2006 with 8 per cent in the last year alone (Wakeham, 2009).

10. Although they may not appreciate it, students are also enjoying one of the most benign of the market-orientated funding regimes. Although fees have increased, they are still well below actual cost. No fees need to be paid "up front". Loans for tuition and maintenance are subsidised. Some grant support is available for households with income of up to £50,020 (twice the median salary) and there are also institutional bursaries. Loans are only repayable when graduates reach the £15,000 threshold and repayments are not scaled to income above that level. As my friend Peter Wilby wrote of the original fees package:

> *This is the sound of the suburbs saying thanks for the cash* (Wilby, 1998)

11. Indeed, as I wrote last year in *The Guardian* (Brown, R., 2008), it is the very size of the public subsidy for students which is the principal obstacle to raising the fee cap: when it happens, the review of the fee cap will be as much about the costs of student support as it will be about the level of funding of institutions. Finally, although recent graduates will be entering a very difficult labour market, they will continue to enjoy lifetime financial advantages, as well as more secure employment and better job quality, as compared with non-graduates (McMahon, 2009).

The future

12. However, this is a boom that will not last. To begin with, we know that after 2010/11 there will be a significant decline in the numbers of 18- to 21- year olds on which most universities depend for the great bulk of their full-time students. The actual impact will depend on regional and local trends and also on what happens on migration, and especially immigration from the EU (Scotland will be worse affected than England). The 18-20 year old population will not start to recover until 2020. There may in the meantime be some compensating increases in the numbers of both mature and young part-time students, but these do not offer the same stability of income as full-timers; they also require a wider (and more expensive) range of learning models.

13. Educational attainments at 18 appear to have levelled off: in England there has been no increase in the proportion of 17-year olds with two Level 3 qualifications since 2002. So there is very unlikely to be any early resumption of increases in participation levels: under -

30 year old participation levels have been virtually static for the past ten years. Nor, in spite of the Government's emphasis on widening participation, is the social class composition of the student body likely to change very much: widening participation has still to be seriously tackled in the UK (Brown, R., 2007); it certainly will not improve if we are entering a period of consolidation. The Government's raising of the age at which people leave education or training may help, but this will not come fully into force (in England) until 2014, and its effect is as yet uncertain. There may be an increase in the numbers of home postgraduate students although no one yet knows what the impact of variable fees for undergraduate courses, and the consequential levels of debt, will be on this market. On the one hand, increasing numbers may be attracted by the additional "leverage" of a postgraduate qualification, especially in a recession. On the other, if they have any spare cash they may prefer to use it to pay off their loans.

14. Overseas student numbers will continue to grow but at more modest rates. Studying in the UK is expensive even with the recent softening of the pound. Competition is intensifying, especially at the postgraduate level, with a number of European universities mounting courses taught in English which are unarguably Bologna-compatible. The great majority of our overseas students come from a small number of countries (China, India, Hong Kong, Malaysia, Nigeria). Some of these countries are now becoming more self-sufficient. Malaysia is seeking to become a regional higher education "hub". India is planning a huge investment in its universities. China is now the fifth largest **im**porter of students (behind the US, Britain, France and Germany) and the aim is to attract half a million such students by 2020, which is just below current US levels (Hvistendahl, 2008). (Interestingly, the third largest supplier of students to China is the US). According to another recent report (Gill, 2008), the US itself has ambitious plans to increase its share of international student recruitment, feeling that countries like Britain, Australia and Canada have so far exploited the English language more effectively in this respect. Partnerships with overseas institutions will continue to grow though without necessarily becoming more profitable.

15. All this depends on our maintaining our international reputation for quality. I know I am not alone in worrying about the impact of two decades of marketisation on quality, with concerns about the readiness of many overseas students for degree level study here prominent amongst those that led to the unprecedented grilling of the QAA Chief Executive by the House of Commons Select Committee last summer, and the current comprehensive inquiry into Students and Universities. I am sorry to say that I see no sign that the sector, or the Government, has really grasped what is happening here, any more than that the Government

has got to the bottom of what needs to be done to change behaviour in the City (I speak as an erstwhile City regulator).

16. Overseas students are of course vital for our institutional finances: without them the sector would literally be bankrupt. Whilst the financial position of most universities is better than it was, the annual net surplus is still below the 3 to 5% of turnover which is seen as the necessary minimum (Newman, 2008c). Moreover, revenue performance, and wealth, are very unevenly spread, as of course is research income. Endowments will expand but are unlikely, if ever, to approach the American scale, and again these will be very unevenly spread between institutions (as in America). The current administration in England is pushing employers to contribute more to the costs of teaching. There will certainly be an increase in employer funded provision but all past experience suggests that it is most unlikely to amount to a significant proportion of the total (it could also depress the unit of funding).

17. At the same time, the concentration of research funding (and the funding of research students) will continue. Both research and teaching will of course be affected by the credit crunch. In his recent letter to the Funding Council, the then Secretary of State referred to the need for “efficiency savings” of £400 million across his department by 2010/11, most of them from the universities. The letter said nothing about the position beyond 2011, but given the expected rate of growth in public spending between 2011 and 2014 – 0.7 percent – as well as the other claims on the taxpayer (health, social security etc), it is hard to imagine that these will be the last, or even the worst, cuts, especially if (as we almost certainly will) we have an administration after 2010 that wishes to limit tax increases. In the meantime, the Funding Council has cut back on the additional funded numbers of students for next year; this is on top of the earlier, and controversial, withdrawal of support for students on equivalent or lower level courses.

18. The Secretary of State’s letter also spoke of using public spending to “shape the sector more effectively...for example to ensure that universities are incentivised to maintain and grow the courses and programmes which are most in demand by employers and provide the best prospects for students”. He asked the Funding Council to consider whether a greater proportion of funding should become “contestable” to promote “innovative developments”. At the same time the Conservatives are known to be considering vouchers, whereby all of the public contribution to the cost of teaching comes through the student (Newman, 2008a). Does any of this sound familiar?

19. Clearly, therefore, there will be even greater institutional competition for income, public or private. But in contrast to the increasing concentration of research funds (which

industry funding follows to some extent), funding for teaching will become ever more widely dispersed. As well as the new, new universities (formed when the Government changed the criteria for university title in 2004), we now have four private institutions with degree awarding powers (Ashridge, BPP Learning, the College of Law and the University of Buckingham). We also have the prospect of at least one further education colllege gaining Foundation Degree Awarding powers in the near future, together with discusson of a new national "skills university", where students would do a two- year Level 3 course followed by a two- year Level 4 one (Newman, 2008b). There is also the Government's plan for 20 new higher education centres in areas not directly provided with HE at present (the "New University Challenge"). Although the Shadow (and likely future) Secretary of State is reported to be lukewarm about degree awarding FE colleges (Lee, 2009), he is known to be enthusiastic about increasing competition for universities generally. It is even possible that there will be real price competition on fees within the present price cap as universities struggle for income (Newman, 2009).

20. Whilst the present funding regime may seem generous, students are leaving universities with debts upwards of £20,000. Estimates of the lifetime earnings advantage of graduates over A level school leavers have been reduced from the £400,000 or so quoted by Ministers while the variable fees legislation was being introduced in 2003/04 to £160,000 (Price Waterhouse Coopers, 2006); there have been more recent estimates as low as £100, 000 (Attwood, 2008b). Moreover, these private returns vary considerably by subject studied, institution attended, degree class obtained, and social background. *The Guardian* reported last year that a third of the students who had graduated after 1998 had still to begin repaying their loans (Curtis, 2008).

21. There have been lots of press reports about the difficulties which recent or soon to be graduates are or will be facing in gaining suitable employment, and about Government responses such as encouraging employers to offer internships (Curtis, 2009; Woolcock,2009). There is no sign yet that these difficulties have affected student demand. What is clear, however, is that increasing numbers of students are beginning to take costs into account in deciding what and where to study (Gill, 2009), and will be studying at or closer to home. This in turn means that location will become an increasingly important competitive factor for institutions, which the increasing costs of travel will reinforce. It also has unhelpful financial implications for those universities with large amounts of moderate quality residential accommodation that will not be needed in future (Royal Institute of British Architects, 2009).

22. At the same time, it is very hard to see what can be done to reduce costs or raise productivity, at least without damaging quality. Some costs, such as energy costs, are only partly in the institutions' control. Others, such as pension contributions, are politically difficult to deal with (Attwood, 2008a). Students are complaining about group size, access to tutors, quality of feedback, etc. Our student/ staff ratios are already amongst the highest in the OECD. As in other comparable systems, an increasing proportion of the academic workforce is employed part-time and/or on fixed term contracts. Whilst a greater proportion of teaching, assessment and administration will be delivered electronically, there are unlikely to be any significant cost savings. I see little chance of a radical change in the higher education "production function" (and even less sign of any appetite for it). And even if there were to be a pedagogic revolution through advances in ICT, why would universities be better able to exploit it than commercial providers (PA Consulting Group, 2008)?

23. Finally, institutions will continue to be subject to pressures from government and employers to be more efficient and "relevant", and from students to provide a better learning and social experience for "their" money. As a result, there is most unlikely to be any abatement of the volume of regulation, indeed the House of Commons inquiry and the promised White Paper on Higher Education are both expected to lead to a strengthening of the external quality regime, something already prefigured in the Quality Assurance Agency's response to the concerns raised in the media and before the Select Committee (Quality Assurance Agency, 2009; Alderman and Brown, 2009).

24. Finally, we should not forget that although the revenue position of UK universities and colleges has improved since the early 2000s, there remains a huge backlog of investment in infrastructure, especially for teaching. This reflects the resourcing squeeze under successive Conservative governments in the 80s and 90s, which the incoming Labour administration did not immediately unwind. As has already been said, institutions have begun to redress this but there is still a very long way to go (JM Consulting, 2008).

25. So what, against this somewhat gloomy background, will be the future shape of the sector? What might the UUK study have concluded?

Drivers of change

26. In his presentation to the Conference that accompanied the two UUK reports, the principal author, Nigel Brown (no relation although I have worked with him for many years) identified three principal drivers of change over the next 20 years:

> *1. Funding for individuals and institutions-economic conditions and competition for public and private (individual and employer) funds*
> *2. Increased competition from providers outside the UK higher education sector-overseas universities, FE colleges, private providers with capital to invest*
> *3. Changing labour market demands as the nature of employment changes, brokered perhaps through increased employer engagement* (Brown, N., 2008)

27. Of these, I should like to highlight what seems to me to be **the** central issue, namely, the degree of marketisation that takes place. We are already some way down the marketisation route. In my view, the future structure (and health) of the sector will depend very largely on whether and how far we proceed further down this road. But before we begin to speculate about the future, let us just do a brief recap on how far we have already come.

The marketisation of UK higher education

1981 Introduction of full cost fees for overseas students

1986 The first Research Assessment Exercise (RAE), introducing a "quasi- market" for research

1989 The incorporation of the polytechnics, leading inevitably to the abolition of the binary line and a single funding and regulatory regime three years later

1990 Introduction of student loans. Increase in the level of tuition fees and reduction in the proportion of funding council grants to institutions (fees still fully covered by the government)

1998 Introduction of "top-up" fees

2004 Liberalisation of the criteria for university title

2006 Introduction of variable fees and partial reintroduction of maintenance grants.

2007 Liberalisation of the criteria for Foundation Degree awarding powers

(There has also over this period been a gradual introduction of performance indicators and a gradual expansion of the information for students).

28. The next stage in this process will be the review of the present variable fee cap which the Government is statutorily required to undertake this year. Given that my concern is mainly about the future shape of the sector, I want to comment on the possible consequences of a decision to abolish the cap altogether or, what is more probable at some point, to increase

the level of the cap. I am incidentally assuming that the present student support regime will either continue or, what is much more likely, become less generous. In the latter event, of course, the “real”cost of tuition to the student increases by more than the increase in the level of the fee.

29. Now economic theory would tell you that in these circumstances institutions’ charges will begin to vary quite significantly, and that this will represent the best use of the available resources, public and private. The best and/or most efficient institutions will be able to increase their prices up to £5,000 or £7,000 (the Russell Group is working on £8,000 though individual Vice Chancellors would like £11,000 or more). The weaker and/or less efficient will be able only to charge £3,000 or £4,000, at least until they have raised their quality and/or their efficiency to the desired level. Armed with comprehensive, reliable and impartial information about the quality of the programmes and awards available by subject at each institution, the theory suggests, students will choose the best course and institution for them. At the same time, institutions will have the strongest possible incentives to increase their quality and/or efficiency. Students will enjoy the best possible educational experience. The resources – public and private – that society invests in higher education will be used in the best possible way.

30. Now undoubtedly there are some people - some politicians, some Ministerial advisers, possibly some civil servants, even possibly some Vice-Chancellors- who actually believe this. Unfortunately, it is complete nonsense. If we want evidence to this effect we need look no further than across the pond to the United States. Of course, there are some important differences between British and American higher education. In particular, America has a significant private sector of higher education – by “private” I mean here chiefly private “not for profit” institutions – which is funded by a huge flow of private income - from families, companies, foundations and private individuals – which has no parallel elsewhere. America is also a far more capitalistic society. Nonetheless there are sufficient points of resemblance to make the US experience instructive, and anyway it has been the aim of successive governments, consciously or not, to move our system in the American direction (Department for Education and Science, 1989).

The consequences of price competition

31. Well, based mainly on what has happened in America, we can predict that the consequences of genuine price competition between institutions will include:

1. greater stratification of institutions and social groups;
2. reduced institutional diversity;

3. greater internal differentiation within institutions (of activities, structures and personnel, not least between those people and activities that can earn money externally and those that cannot);

4.(ironically) poorer value for money.

32. There will also be greater risks to quality and the potential undermining of the relationship of trust that should exist between universities and society, and which is essential if universities are to continue to discharge effectively their traditional core functions of advancing and disseminating knowledge in an effective and fair fashion, not to mention continuing to justify the subsidies they receive for teaching and research. As this presentation is concerned primarily with changes in the shape and structure of the UK system, I shall be dealing only with the first of these consequences: for the rest, you will have to wait for my book (Brown, R., in preparation). Before coming to that, though, let me just say briefly why the economic theory of markets is so wrong in relation to higher education. (Those of you who are familiar with Simon Marginson's formidable body of work on this subject will of course be familiar with this).

33. The main difficulty in applying market theory to higher education is that comprehensive, accurate and impartial information about the relative quality of programmes and awards at different institutions is impossible to obtain. To quote the distinguished American economist of higher education Gordon Winston:

> *People investing in human capital through a purchase of higher education don't know what they're buying – and wouldn't and can't know what they have bought until it is far too late to do anything about it* (Winston, 1999:15).

34. Higher education is sometimes called an "experience good" – a good, the quality of which the consumer is only able to assess as he or she consumes it. Restaurant meals, theatrical performances and holidays would be examples. Experience goods are usually contrasted with "search goods", the quality of which can be assessed by the customer before it is purchased. In fact, higher education is what Weimer and Vining (1992: 75-6) call a "post experience good", the effects of which may not appear for many years, and may not even be traceable to a particular educational or social experience.

35. What happens therefore is that prestige – often supplemented by marketing and conspicuous expenditure on things like sports facilities, libraries and residences – becomes a substitute for educational quality in the minds of consumers: students, parents, employers, other funders. This then meshes in with and reinforces the pressures for prestige that are

already present within the academy (Brewer, Gates and Goldman, 2002; Calhoun, 2006). To quote myself:

The pathologies of the market reinforce the pathologies of the academy (Brown, in preparation)

36. Given the informational difficulties with student education, it is performance in research that becomes the key to institutional prestige, as virtually every published league table demonstrates. To quote another seasoned American commentator, Bill Massy:

Research became the coin of the realm, the best way to get one's ticket punched for institutions and professors alike (2003:19).

37. Finally, there is the very close association between prestige and wealth. Some years ago, David Watson and Rachel Bowden pointed to the very high correlation (better than 0.9) between an institution's wealth (as denoted by gross income per FTE student) and its position in the Times League Table (Watson and Bowden, 2002). This correlation has continued. Huge disparities in institutional wealth remain. A recent estimate is that in 2004/5, after allowing for subject mix, the resources per student available to the best funded institution (Imperial College) were several times those available to the least well funded (University of Wales, Newport) (Brown, N. and Ramsden, unpublished).

38. Still another American commentator (Roger Geiger) argues that it is institutional wealth that is the key to winning private resources:

A crucial fact about the segmented, hierarchical American market is that it mobilises resources from special interests that would never be awarded collectively to the industry. Alumni, individuals, corporations and foundations contribute to colleges and universities principally to enhance their particular quality or effectiveness… these revenues, including the income from past gifts preserved as endowments, serve to create and accentuate the qualitative differences that distinguish differential products (Geiger, 2004:180).

39. As a number of commentators have pointed out, it is the amount of donative wealth (income from endowments and gifts) that is the real dividing line in American higher education.

40. What has happened in America, and what will almost certainly happen in Britain if the cap is lifted or abolished, is that there is an increasing gulf between different institutions. Since social class is closely associated with the institution attended, raising the cap will

increase still further the gap between the best and least well resourced institutions and those who attend them.

41. The best overall summary of the position comes from yet another American commentator, Professor David Dill:

> *Because the new competitive market is characterised by inadequate and inappropriate information, an ambiguous conception - "academic prestige" - comes to represent academic quality in the public mind, which can lead to a price-quality association that undermines productive efficiency. The distorting influence of prestige in both the US and UK markets means that the educational costs for elite universities provide a "price umbrella" to the rest of the system and present spending targets of less elite institutions that wish to compete by raising their prices (Massy, 2004). Competitive markets thereby encourage an academic "arms race" for prestige amongst all institutions, which rapidly increases the cost of higher education and devalues the improvement of student learning. As noted in both the US and UK, an unregulated academic market can lead to a situation in which no university constituency – students, faculty members or administrators – has a compelling incentive to assure academic standards.* ***This is a recipe for a classic and significant market failure in which the rising social costs of higher education are not matched by equivalent social benefits*** *(Teixeira et al, 2004)* (Dill 2007:67) (my emphasis).

42. Before I conclude by predicting what all this will mean for Britain, let me emphasise that whether or not the fee cap is raised as a result of the review, it **will** eventually be raised, perhaps only for certain, so called, "world class" universities : like the incorporation of the polytechnics leading tothe abolitn of the binary line, the introduction of a significant fee in 1998 lead inevitably to increases in the fee level: in the language of the theory of policymaking, it is what David Easton (1965) called a "breeder" demand. In any case, other aspects of marketisation – especially the combination of an increasing concentration of research funding and increasing competition for teaching funding - will take us in the same direction, if more slowly.

The future shape of the sector

43. So what will all this mean for the future shape of the sector?

44. The immediate response is likely to be an increase in inter-institutional collaboration in order to strengthen market position and/or make better use of resources. This will take a number of forms:

1. Local collaboration with other higher (and sometimes further) education institutions within the UK system;

2. Collaboration with institutions overseas;

3. Collaboration with partners from outside the sector (UniversitiesUK, 2008b).

45. The first is already starting to happen in research. However it isn't easy to achieve, especially in teaching. Older universities will be reluctant to collaborate with newer ones for fear of losing prestige. Newer universities may not want to collaborate with competitors. The second is also already happening: one estimate is that there are some 200,000 students studying outside the European Community on courses leading to British qualifications (reference). The third is also starting though the challenges of profitability, management, control and culture should not be underestimated.

46. Whilst increased collaboration is clearly going to happen, I anticipate more radical changes. My prediction is that, if present policies continue, by 2015 the great majority of our higher education institutions will belong to one of the following groups:

1. Brand name universities;

2. Convenience providers;

3. All purpose institutions;

4. High quality specialist providers.

47. There will also be some restructuring of the curriculum.

Restructuring of institutions

48. The first group of institutions will consist of a small number of "brand name", selecting universities able to charge premium fees for virtually any course, and capable of attracting a significant proportion of the ablest students and staff through a reputation, whether or not deserved, for teaching and research "excellence". Most of the dwindling numbers of people who still favour an academic career will be educated here. Together with the hold that such institutions have on the government and media, this means incidentally that our system, whether it remains a "mass" one or becomes a "universal" one with over 50 per cent participation (Trow, 1974), will continue to be characterised by inappropriate, "elite" values. These institutions will also be comparatively successful at raising funds from alumni, philanthropic foundations and business. It is status and prestige which is the key competitive driver for these institutions.

49. At the other end of the market, there will be significant numbers of "convenience" providers offering "no frills" courses when, where and how they are desired, particularly to older students and students in work. Accessibility, flexibility, responsiveness and customer

service are the key drivers here. The staff will be employed on a similar basis to FE lecturers now i.e. heavy teaching loads and no time allowances for research. These providers will mainly cover applied areas such as business and IT but could extend to professions like teaching and nursing. Staff have little say over the curriculum to be taught or the methods of student assessment. The nucleus of this group will be new private providers (King, 2008), possibly controlled from abroad, together with some of the larger FE colleges.

50. Between these groups, there will be a band of economically marginal "all purpose", multi-campus institutions, mostly based in the conurbations, offering residential higher education to those who still want and can afford it. They will have some part- time students. Staff will be conducting research but this will be mostly of an applied nature, often linked to the local or regional economy. This group will include a small number of new "mixed economy" colleges spanning the current FE/HE boundary. For some courses these institutions will be "selectors", but for most they will be "recruiters. Finally, there will continue to be a small number of expensive specialist institutions able to command premium fees for their quality, real or perceived. The London School of Economics, the London Business School, the Royal College of Art are already in this category. Other specialist institutions will disappear, as indeed they have been doing steadily over the past twenty years.

51. Which group an existing university or college will belong to will depend on a number of factors:

1. Its status and reputation, which correlates broadly with the length of time it has been offering its own awards;
2. Its location. South and east is more populous and prosperous than north and west. Low prestige institutions that are located away from major population centres will be vulnerable, but so will such institutions in urban areas where there are many competitors;
3. The proportion of its core activities (teaching, research, knowledge transfer) which are or could be in "buoyant" areas (mode, level, subject);
4. The diversity of its funding sources and especially the flow of private income it is able to attract;
5. Its attractiveness to overseas investors or funders;
6. The scope it has for reducing costs without reducing actual or perceived quality;
7. Its underlying wealth, which takes us back to 1 (UniversitiesUK, 2008b).

52. The great majority of existing institutions will be in the third, “all purpose” group. Except in specific “niche” areas, they will be unable to compete on quality or reputation with the first group of “brand name” places. They will therefore be unable generally to charge premium prices. At the same time they will be unable to compete on price or service with the second group of “convenience” providers. These “all purpose” institutions will be formed through mergers or other forms of rationalisation, especially in London and other parts of the country where institutions are thick on the ground (Fazackerly and Chant, 2009).

53. Whether these institutions will be covered by a single regulatory regime is a moot point. The RAE has already been redundant these past twelve years or more, with ever more marginal gains in quality and efficiency. By 2015 the QAA may have evolved into an agency which accredits separate self-regulatory associations for each of the groups. But just to be sure, the Government may have created its own quality inspectors, who will be giving most of their attention to the innovators/ cost cutters in the convenience and all purpose groups. The fact that most institutions, but especially the all purpose institutions, will be working more closely with partners inside and outside the sector (UUK, 2008b) will only add to the complexity and cost.

Restructuring of the curriculum

54. In parallel with this institutional reconfiguration there will be a restructuring of the curriculum. Institutions with a reasonably wide range of course offerings that receive a significant level of subsidy are able, through cross-subsidy, to balance programmes that are more or less attractive to students. But the more an institution is subject to the vagaries of student demand (as, in principle, are all institutions where funding is related to enrolments), the more it will be forced into “popular” courses, and the less it is able to preserve provision “for its own sake”. The market participation of private “for profit” providers, which tend to “cherry pick” the more profitable areas of the curriculum, exacerbates this. Comprehensive “not for profit” institutions are then less able to protect their more vulnerable courses. The result, paradoxically, is a reduction in the choices available to students. This has already happened in subjects like physics, chemistry, classics and modern languages. We can expect it to accelerate if entry barriers are lifted and /or competition becomes fiercer.

Risks

55. What could change this somewhat dystopian picture? I can only identify the following:

1. Public expenditure cuts turn out to be less draconian, aided by the fact that if student numbers are falling, the overall claim on public expenditure will automatically be

less. However it is at least as likely that Treasury will pocket the savings, so that there is no benefit in terms of the unit of resource;

2. UK institutions expand their share of the international market and/or their returns in that market. This also seems unlikely.

3. Universities increase their private funding through tuition (if the cap is raised for enough institutions) and/or services to business. But will the private sector be willing to pay? Both families and businesses currently have record levels of debt.

4. Universities succeed in cutting their production costs. The main cost is of course staff. In principle, savings could be made if technology could be substituted for staff. However experience so far is that whilst the greater use of technology can improve quality, or at least quality of service, it doesn't reduce costs and it does of course require up front investment. It seems more likely that we shall follow the US route and have an ever increasing proportion of teaching done by part-time and/or temporary staff ("adjunct faculty").

5. Efficiency increases through institutional rationalisation. Rationalisation will certainly happen. Mergers can produce benefits but the literature suggests that the main savings come from the disposal of surplus assets, and that the benefits of any economies of scale are offset by the additional costs of the more elaborate structures needed to manage them (Ramsden, 2001).

Conclusion

56. It is time to offer a summing up:

1. UK higher education is coming to the end of a long boom, during which it has begun to redress some of the damage that was done to it in the 1980s and 90s;

2. This boom will be brought to an end by a combination of demographic change, increasing international competition, severe public (and private) expenditure constraints, and an unwillingness or inability to align costs with income;

3. This will reinforce existing tendencies to stratification and fragmentation. These will be exacerbated by greater competition for students and income as a result either of lower entry barriers for providers or an increase in the level of the fee cap (enabling real price competition in the undergraduate market for the first time), or both;

4. Unless I am wrong about these major drivers, the system will divide into groups much more sharply differentiated by resourcing, reputation and location, just as the English school system now is;

5. This will have disastrous consequences, both domestically and internationally, for the health, cohesion and reputation of UK higher education.

57. In the circumstances, I can only finish by quoting another member of Dad's Army: *Don't panic!* (Corporal Jones).

58. Thank you for listening to me.

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