


2-1-2023

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Recommended Citation

Jack, Andrew (2023) "UK Universities Face their Toughest Test," *International Journal for Business Education*: Vol. 164: No. 1, Article 2.

Available at: <https://ir.library.illinoisstate.edu/ijbe/vol164/iss1/2>

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**COMMERCIAL EDUCATION SOCIETY OF
AUSTRALIA
PERIODIC DISCUSSION PAPER No.2***

**FEBRUARY
2019**

Extracts from

UK UNIVERSITIES FACE THEIR TOUGHEST TEST¹

Andrew Jack

Global Education Editor, The Financial Times

Financial Pressures

The School of Oriental and African Studies seemed a symbol of stability when it celebrated its centenary in 2016 by taking over and renovating the University of London's imposing Senate House building in central London. It was a bold move to lure the best students. But just three years later its future has become much shakier, with its undergraduate intake down 40 per cent and a £7m operating deficit. "The competition is brutal," says Professor Stephen Hopgood, Soas's international pro-director. "We are small and specialist, and if undergraduate fees are cut, it's going to be very hard for an institution of our size to survive. It's never been as tough as this."

This view is echoed by many of his peers across the UK universities sector who are feeling squeezed by a mixture of domestic pressures, intensifying international competition and a growing debate about the value of higher education for the growing proportion of the population studying at university at a time of escalating costs. Few countries beyond the US match the extent to which English higher education has been turned into a business over the past two decades. But universities have been trapped on one side by government controls and deregulation and on the other by rising costs and rapid expansion in institutions.

In the UK, the numbers in higher education have ballooned since the introduction of student loans in the 1990s and government encouragement to expand higher education to reach 50 per cent of school leavers — about 500,000 undergraduates a year. There has been an explosion in the number of institutions, now totalling more than 450; the construction of debt-financed new buildings and campuses; and the provision of an ever wider range of courses.

Now the cracks are beginning to show. Last November, for example, the New College of the Humanities in London — a private institution yet to be fully accredited as a university — was acquired by Northeastern of the US. In December, Manchester Metropolitan handed over its Crewe campus to the educational arm of Apollo, the Indian healthcare group. In conjunction with the University of Buckingham, Apollo will offer medical training on the site. "This is a very acute moment for British universities," says Sir Anthony Seldon, Buckingham's vice-chancellor. "So many pressures

* These papers are for internal discussion within CESA - on topics related to the Mission and Vision of CESA.

¹ Jack, Andrew, 2019. "UK Universities Face their Toughest Test". The Financial Times, February 5.

are coming together after a period of relatively untrammelled growth and approbation. They have over-expanded, and there will be a slimming down.”

A group of vice-chancellors from the Russell Group of leading research-based universities warned recently that a no-deal Brexit would be “an academic, cultural and scientific setback from which it would take decades to recover”. Even a softer version of Brexit is likely to reduce the volume of EU students, assuming that their university fees rise from the current level, which is equal to those of their British counterparts, to the two- or three-fold higher tariff for other overseas undergraduates.

Aside from the cost, one reason has been tight immigration controls in the UK that severely restrict the ability of foreign students to remain and work after graduating. Universities in Canada and Australia, by contrast, offer far more favourable visa terms and have been actively promoting their courses abroad. Meanwhile, some of the largest traditional feeder countries of students, led by China, are investing substantially to offer more attractive degrees at home.

The flexibility for British universities to generate additional income is limited. The government fixes the terms of student loans, meaning universities have little scope to increase fees. Instead, the decision to remove caps on class sizes in 2015 triggered an inter-university battle to expand intakes.

The result has been ever more aggressive marketing to students. There have been incentives for applicants from book vouchers to iPads; investment in more appealing facilities; a sharp rise in unconditional offers not linked to school exam results; and “grade inflation”, with a significant jump — from 16 per cent to 27 per cent since 2010 — in the award of first-class degrees.

That has allowed more applicants to “trade up” to larger and more prestigious institutions. But it is undermining demand for the courses at lower-ranked rivals, and risks diluting both the quality of teaching and the level of pastoral support many need. Peter John, vice-chancellor of the University of West London, which has many students from minority backgrounds, cautions. “They [the higher ranked institutions] don’t realise what they will have to do for individuals without the cultural and social capital in supporting them and dealing with mental health issues.”

FT Solutions Network

With the US and UK questioning the value of post-school education, what changes could universities, legislators and others make so the system better serves students — and employers? Andrew Jack will respond periodically during the day. James Kirkup, head of the Social Market Foundation, a UK think-tank, worries that longstanding criticism is intensifying that universities — which overwhelmingly opposed Brexit — favour the middle classes. “I can easily see the forces of “anti-experts” being trained on the sector unless it more clearly demonstrates the benefits of a degree are matched to the contributions of who enjoys it,” he says.

Discussion is switching to giving greater priority to alternative forms of educational provision. The UK’s Institute for Fiscal Studies late last year showed that — after adjusting for higher previous attainment and richer families — the average man who attended university only earned 6 per cent more aged 29 than those who did not. The gains were higher for women, at 26 per cent. While the longer-term returns may prove to be higher, and universities provide far broader benefits than simply higher wages, the IFS research suggests that there is a wide variation in the quality of degrees and the outcomes they provide for students. Anne Spackman, chief executive of Career Ready, a charity that links employers with schools, says: “About 17 per cent of UK undergraduates live at home while doing their degree. They study at local universities often with poor graduate outcomes.

This isn't 'the best days of their lives' experience which so many older commentators have in their heads."

Rather than diverting existing students from academic towards vocational courses, Kirsti Lord, deputy head of the Association of Colleges, representing institutions offering technical and professional education, says there needs to be a greater focus on better training for the other half of 18-year olds who do not currently attend university. "There is a huge amount of snobbery around academic qualifications and the perception that they are better," she says. "We need to think about the other 50 per cent — how we make sure there are really good alternative pathways."

Matthew Fell, chief UK policy director at the CBI, the employers' organisation, also urges a more nuanced approach. "Our economy is changing, with higher skills in demand more than ever. It is essential that our education system keeps up and offers young people a whole range of routes into careers."

While many welcome a shift in the government's approach to vocational training and apprenticeships, there is likely to be pain ahead for universities. The sector reported a collective deficit of £1bn in 2017 and Sir Michael Barber, chairman of the Office for Students, the government-backed regulator, warned late last year that there would be no "bailouts": institutions could be shut down or required to merge.

That may most significantly hurt lower ranked universities, but it will also squeeze some of their more prestigious rivals. "The government talks about diversity in a post-Brexit world but when you are small and specialist, you don't have the economies of scale in an increasingly competitive sector," says Prof Hopgood at Soas. "We have always been pretty close to break-even. Small changes will make a massive difference."

US: 'unsustainable' cost increases face scrutiny

With US student debt now reaching \$1.5tn and a growing debate over the quality and cost of the education provided, there are parallels as well as contrasts with universities in the UK. Tuition and living costs at prestigious institutions such as Harvard have spiralled to more than \$70,000 a year. Meanwhile, a lack of controls on loans or fees and fierce competition for students — many attracted by the construction of expensive new facilities — has sparked price rises at many smaller and for-profit colleges too. "The cost increase is totally unsustainable," says Rebecca Winthrop, director of the Center for Universal Education at the Brookings Institution, a think-tank in Washington. "People are really getting into debt. But the more money that is available, the more institutions will charge."

Support from endowments and rich benefactors at Ivy League schools means that they are able to offer substantial aid to discount or even waive fees and improve access for a diverse pool of applicants. But President Donald Trump's aggressive attitude to immigration is beginning to squeeze income from non-US students.

State universities have suffered more than the Ivy League, raising fees as they struggle with fewer resources and a squeeze on financial support from state legislatures cutting budgets. There has also been criticism of the price and quality offered by for-profit universities, with efforts by the previous Obama administration to impose tougher regulation. Moody's, the credit rating agency, warned in December of a "negative" outlook for US higher education, predicting that a growing number of small colleges would close.