London Review of Education
Vol. 10, No. 3, November 2012, 247–260

Are national higher education policies adequate for the next decade?

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(*Received 28 June 2012; final version received 21 August 2012*)

The period since the election in May 2010 has seen a number of very far-reaching reforms enacted in the higher education system in the UK, and especially England. These have been driven in large measure by the economic situation, but also by the aim to introduce a more market-based approach into the sector. At the same time, the higher education system faces a number of long-term challenges, particularly in terms of how it can best contribute to much-needed regional and national economic growth. This article first summarises the reforms which have been put in place and some of the factors driving them; next goes on to set out the long-term challenges which the sector will need to address; and finally assesses whether the policy platform established through the government's reforms is likely to help or hinder the achievement of the sector's (and the country's) strategic aims.

Keywords: higher education policy; economic policy; public spending; student finance; science and research; immigration; regulation.

Introduction

The period since the general election in May 2010 has seen a number of far-reaching reforms to the higher education system in England. These have in large measure been occasioned by the severe fiscal constraints under which the coalition government has had to operate as a result of the financial crisis of 2008, but they have also come about as the result of the government's view both of the role that higher education should play in a modern knowledge economy and of how best to design a policy environment to maximise that role.

This article will set out the broad policy architecture, which the coalition government has put in place in relation to higher education, and will assess this against the long-term challenges which the sector faces. The assumption is that the government's primary focus over the next 10 years is to re-balance and grow the economy, and that the higher education system has a critical role to play in this. The article also concentrates predominantly on policy developments in England, rather than across the UK as a whole.

It is acknowledged that other perspectives could have been adopted – particularly in relation to the civic role that universities play, the public value they create or the other positive externalities they generate. However, the article focuses squarely on economic

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ISSN 1474-8460 print/ISSN 1474-8479 online

http://dx.doi.org/10.1080/14748460.2012.729882
http://www.tandfonline.com

contribution for the following reasons: first, economic recovery is by far the most dominant policy consideration for the current period (and foreseeable future), and all policy developments need to be assessed through that lens; second, the policy framework is set by government, the main role of which recently has been to make decisions about the allocation of scarce public resources. The leading consideration in making such decisions is the economic return on investment, and this provides the rationale for almost all of the policy reforms dealt with in this article. Finally, universities have an increasingly powerful contribution to make to developing the knowledge economy, which is recognised globally, and the policy analysis set out below explicitly recognises this shift in what might now be considered the primary role of the university system.

The first part of the article focuses on the development of the current policy framework for higher education, following the emergency budget in June 2010 and the spending review in 2010. The next part sets out some of the future economic challenges, which the higher education system will need to contribute to addressing, and the reasons why having a strong university sector is critical to the UK's future economic competitiveness. The final part will critically assess the government's policy framework against the future challenges, while some concluding remarks will identify areas where further work remains to be done.

It will be argued that the policy and funding reforms which the government has introduced over the past 2 years are broadly positive and provide a reasonable foundation for development against an exceptionally challenging set of economic circumstances: although it is immediately acknowledged that much at this stage remains uncertain in terms of outcomes, that a full assessment would not be possible until much more evidence becomes available, and that the current set of policies is not sustainable for the long term without further reform. The context for this initial analysis is the spending decisions which were made in 2010 immediately following the general election, when the sense was very much that of a fiscal crisis which had to be dealt with rapidly and decisively. The cuts to public spending made at that time were the most severe since the Second World War, but the settlement for universities afforded critical protection to weather the economic storm (acknowledging that the distributional effects of this settlement are not even across all universities, nor across all subject groups). This outcome is particularly notable when higher education funding is compared to the settlements received by other major areas of public service delivery.

In addition, it will be argued that while the precise balance of public and private contributions to the costs of higher education can be debated, the fundamental components of the system which have been in put in place are the right ones. These comprise an increased private funding contribution coupled with targeted investment of public funding where there might otherwise be market failure: for example, in support for research funding; support for strategically important or high-cost subject areas; subsidy of risk-sharing for students in relation to their loans; the extension of loan funding to part-time students; and the continuation of support for widening participation. Moreover, the orientations towards students being at the centre of the system, towards increased competition and towards greater openness and transparency all represent positive developments.

However, the current policies in relation to student funding in particular are not sustainable for the long term and will need to be reformed further in due course. While the changes were successful in removing the loan book from the government's balance sheet, the potential long-term costs associated with this are still likely to constrain the system overall to an unacceptable extent. When combined with the cost of providing maintenance support, this means that public funds will need to continue to be rationed or the size of the system (in terms of student numbers) limited. As will be argued later, the UK economy needs more, not fewer, graduates and provision needs to be well-funded in order to remain globally competitive. The squaring of this policy circle has not yet been achieved, and more innovative approaches will be required.

There also remain significant areas where the policy design is either less effective, incomplete or potentially damaging. The main issues to which this applies are: regulation of the system overall (where policy changes have not kept pace with changes to the funding structure) and immigration, where current government policy cuts directly across the potential for universities to contribute to export-led growth.

The current policy platform

On taking office in May 2010, the coalition government quickly made clear that its overriding priority was to reduce the deficit in public funding within a five-year period (from 2010 to 2015) (HM Government 2010; HM Treasury 2010a).

One of the principal reasons given for this at the time was the potential risk to the UK's credit-rating. The downgrading of the UK's credit-rating from its AAA status would have significantly increased the government's cost of borrowing, and the risk of this happening provided one of the main justifications for prioritising deficit reduction over all other policy considerations.

The design of the deficit reduction plan was itself also highly significant in terms of creating the environment in which subsequent funding and policy decisions were made. The reduction was to be achieved principally through cuts in spending, rather than increases in tax (HM Government 2010; HM Treasury 2010b). The emergency budget in June 2010 set out plans to close a fiscal gap of £112.6BN, to be achieved through a combination of tax increases (£29.8BN, or 27%) and spending cuts (£82.8BN, or 73%) (Crawford 2010).

Thus, by far the greatest burden in achieving the government's deficit reduction plans would fall on public spending. This led to a funding settlement in the spending review of 2010 which was described by the Institute of Fiscal Studies as the tightest squeeze on public spending since the Second World War (Crawford 2010). The scale of the cuts can be seen in Chart 1, which put the coalition government's plans in the context of public spending settlements delivered by governments over the previous 60 years.

As a result of this spending review, departmental expenditure limits (DELs)[1] were cut on average by 11.7% over the period from 2011/2012 to 2014/2015. However, the cuts were not distributed evenly across departments – funding for the Department of Health and for overseas aid was ring-fenced, leading to greater-than-average cuts in other government departments.

The Department of Business, Industry and Skills (responsible for universities) fared particularly badly, having its DEL reduced by 29%. This was the third-largest cut of any of the major spending departments, and this fact more than any other drove subsequent policy and funding decisions in relation to the higher education system in England.

Against this background, the government made a number of critical decisions in relation to higher education funding and policy. These can be summarised as follows:

- *To protect funding for science and research*, by ring-fencing this funding for the period up to 2014/2015 and maintaining it level in cash terms at £4.2BN. As will be discussed later, this was a critically important decision which represented a significant positive development for the university sector and for the UK's economic growth.
- *To transfer the burden of costs for undergraduate education from a grant-based to a substantially loan-based system*. Henceforth, universities would be permitted to set fees for full-time undergraduate students of between £6000 and £9000. The terms of repay-

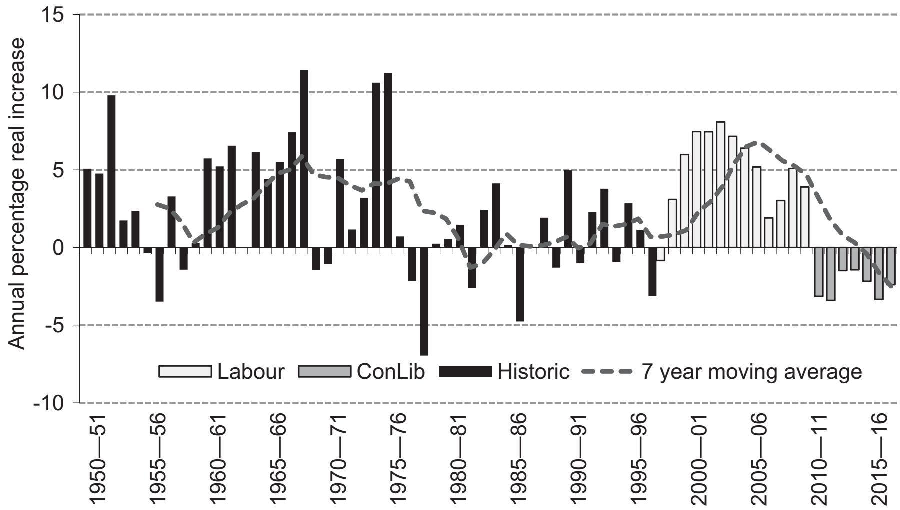

Chart 1. Public spending plans, 1950–2015.
Source: Institute for Fiscal Studies. Reproduced by Permission of the Institute for Fiscal Studies.

ment for graduates were amended to maintain insurance against the risks of low initial earnings (through raising the threshold at which payments commenced from £15,000 to £21,000); against low lifetime earnings (through writing off all debts after 30 years – albeit an increase of 5 years on the current system) and against income shocks experienced mid-career. The costs of borrowing for the government were tempered through the introduction of a real rate of interest on the loan, with a progressive taper. The transfer to loan funding was achieved through substantially cutting the teaching grant at the same time as bringing in the changes described above. This meant that, overall, the quantum of money flowing to the sector for undergraduate teaching was likely to remain broadly the same (or even increase slightly) over the period of the spending review, but its composition and distribution would be different. Thus, by financial year 2014/2015, it is estimated that loan funding will account for 75% of the total amount of funding for undergraduate teaching, up from around 35% in FY 2011/2012. The residual grant funding left to support teaching (around £2BN in steady state) would be used for the strategic purchase of activities where there might otherwise be market failure: namely, support for high-cost subjects; support for strategically important and vulnerable subjects; and support for critical policy goals such as widening participation.

- *To deregulate the market in undergraduate education, and open the system up to new providers*. The White Paper on higher education published in 2011 (BIS 2011a) set out plans to introduce more market-like features into higher education, through, for example, reducing the barriers to entry to the system for new providers, increasing competition between existing providers and reducing the information asymmetries between students and higher education institutions (HEIs). In addition, subsequent policy decisions have been taken to introduce greater competition in the recruitment of students without risking an increase in overall costs through introducing new capacity. These measures include: allowing unconstrained recruitment by HEIs of students with A-level grades of AAB or higher (or their equivalents) and removing 20,000 student places from institutions and auctioning them to HEIs with a net annual fee of £7500 or lower.

In taking these measures, the government accepted some, but not all, of the proposals made by Lord Browne's review of higher education funding, which reported in October 2010 (Browne Review 2010). While the government rejected proposals to allow institutions to set uncapped fees, and to consolidate the regulatory organisations into a single body, the overall thrust of the report was accepted (BIS 2011b).

The government also made a number of policy decisions away from higher education which nevertheless had a direct impact on universities. The most significant of these include:

- *Reducing net migration*: the government is committed to reducing net migration (immigration minus emigration) from current levels of around 250,000 to the 'tens of thousands' by 2015. The largest single category which counts in the net migration figures is international students (representing 40% of total immigration in period up to June 2011, for example). Thus, implementing the policy on net migration has a direct effect on the recruitment of international students to the UK – one which, as will be discussed later, could have very serious negative consequences.
- *Health education and training*: while the health service budget overall was ring-fenced (and within that, the Multi-Professional Education and Training budget of £4.8BN for education and training was also ring-fenced), changes have been implemented to the structures through which education is delivered. These changes involve the abolition of the Strategic Health Authorities, to be replaced by Local Education and Training Boards, overseen by a national body (Health Education England). Universities are key partners in this system, and the structural changes will influence both their operation and their funding. The uncertainty over this area of funding could affect universities in a number of ways: first, there will be greater competition amongst providers to secure education and training provision, particularly in relation to continuing personal and professional development, and some universities may lose out; second, the security of the ring-fence may in future be called into question, and thus, the overall amount of funding itself jeopardised.
- *Initial teacher training*: the Government's policy outlined in the Department of Education strategy in 2011 is clearly focussed on increasing the role of schools in the delivery of initial teacher training (ITT), in particular through the Schools Direct programme. A policy which encourages greater school involvement in ITT, building upon the strong partnerships that already exist with HEIs, is to be welcomed. However, there is concern that the proposed model relegates higher education to a validation role for school-led provision, and this is neither attractive nor sustainable for higher education providers who are committed to educating teachers and supporting school improvement over the long term.
- *Regional economic policy*: changes to regional economic policy which impact on universities include significantly cutting funding for public services; reducing the funding for local governments; and abolishing the Regional Development Agencies. These changes all affect the ways in which funding flows into the regions, and the nature and structure of the partnerships which universities have developed in this area. In turn, these policy decisions influence the extent to which universities can contribute effectively to regional economic growth and innovation – both of which are critical factors in rebalancing the UK economy.

Universities in England are therefore currently operating in an environment of significant contextual disruption, one in which the policy framework has shifted around them. This has been driven in large measure by the priority given to reducing the deficit, but also by an increasing tendency towards deregulation and marketisation of the system as a whole.

Future challenges

In order to assess the adequacy of the current policy framework for higher education, it is first necessary to set out some of the challenges the system will need to help meet. These centre on the fact that over the past decade higher education has assumed increased importance as a policy tool in relation to the emerging international significance of the knowledge economy and human capital development (Mulgan 2009).

Having a strong university system is critical to the UK's future economic growth and competitiveness. A report by the National Endowment for Science, Technology and the Arts (NESTA) set out four scenarios for future growth and identified two of these in particular as being the most promising in terms of economic potential ('high-tech flourishing' and 'innovation across the economy') (Shanmugalingam, Puttick, and Westlake 2010). In each of these cases, the importance of the knowledge economy is emphasised. A subsequent report by NESTA ('Vital Growth') highlighted the importance of integrating universities into the innovation and business ecosystem in order to drive high-growth economic recovery (Westlake, Marston, and Bravo Biosca 2011).

The university system is a significant asset in terms of attracting foreign direct investment to the UK. In a global survey of businesses, three of the top four factors which were influential in determining where multi-national companies located their enterprises related to the university sector (BIS 2009). In addition, having a strong talent pool of research and development staff was cited as the top factor in R&D site selection in developed economies (BIS 2009).

The UK is currently a global leader in terms of research performance – especially so given its relative size when measured against international comparators. In 2010, the UK was second only to the US in terms of its share of world citations and performed better than the US when this share was calculated per unit of spend on Gross Expenditure on Research and Development (GERD) (UUK 2011). And while the UK spends a smaller proportion of its Gross Domestic Product on GERD than its main international competitors, a far higher proportion of this spend goes to higher education institutions (26.5% in the UK compared to 17.6% in Germany, which is the next closest country on this measure).

In addition, the university sector has the potential to contribute strongly to export-led growth – the key plank of the government's economic policy. In 2009, it was estimated that the total direct economic benefit generated by universities from the global knowledge economy was around £7.8BN. This figure has the potential to increase to around £17BN by 2025, through a combination of fees from international students, off-campus expenditure, growth in trans-national education (UK universities educating international students in their home countries) and research-related activity.

However, other countries are mobilising their resources very rapidly. While the UK's research performance is highly impressive, it lags behind key competitor countries such as the US, Germany and Japan in terms of the proportion of Gross Domestic Product (GDP) invested in research and development. The UK also trails other countries in the race to produce a highly skilled workforce. By 2020, China will have more graduates than the US and EU combined (10.5 million, compared to 7.2 million). The US, Canada, Japan, Korea, Finland, Australia and New Zealand all have a higher proportion of their 25–43 year olds with a higher education qualification than the UK. And other countries have grown this proportion more rapidly than the UK over the previous decade – in particular Korea, Japan and Australia (UUK 2011).

There is also a strong need to rebalance the economy geographically within the UK. Universities are major contributors to their regional economies, where the current economic climate and recent policy changes have created significant challenges. The abolition of the Regional Development Agencies removed an important source of funding and support for universities in delivering their regional missions and has (for example) led to around £1BN of European Regional Development Funds remaining unallocated (Schmuecker and Cook 2012). Universities are major employers in their regions and play a key role in upskilling the local population and in attracting foreign investment.

The UK economy still remains heavily balanced towards the South East, and the impact of the recent public funding cuts will hit the North of England particularly hard, where there has been a greater reliance on public funding to drive economic growth and job creation. For example, unemployment levels in the North East and North West regions have consistently tracked higher than the national average rate (Cook 2011) – a situation which is likely to get worse as a result of the recent cuts in public funding.

The disparities in regional economic performance and in skill levels mean that the UK as a whole is not performing to its full economic potential. Universities have a major role to play in correcting this imbalance. They are particularly significant in terms of boosting skills in regions that lag behind the overall national position – for example, the North East and North West regions retained 79 and 73% of their graduates, respectively (compared to 46% in the South East) (Schmuecker and Cook 2012), which is an important factor in contributing to overall skills growth.

In order to meet the twin challenges of increased global competition and regional economic rebalancing, the UK needs to increase the throughput of graduates in the system. Recent analysis has shown that the occupations with the highest potential for future growth are those which require higher-level skills. For example, three of the four occupations with a growing share of the UK workforce require substantial numbers of graduates to support them (UUK 2011).

Taken together, the three occupations with the greatest growth potential are predicted to add around 2.2 million jobs to the economy by 2017, and all of them are graduate-based. Similarly, innovative and high-growth companies which depend on high-level graduate skills have added 54% of all new jobs created between 2002 and 2005, although they comprise only 6% of all companies. Given this growth potential and the positive impact that graduates have on the economy, one of the main policy challenges for the future is to ensure that the system as a whole can maintain or increase capacity while managing costs effectively.

Meeting this, particular policy challenge is very difficult, which leads to the final policy test presented by the current circumstances. The condition of the public finances is likely to remain poor for some time to come – possibly for a further decade. At the same time, the current recession is both deeper and more protracted than other recessions and has led to a permanent loss of productive capacity from the economy, as shown by Chart 2.

The effect of this on higher education is twofold. First, it makes it all the more important that there is investment in the sector in order to drive growth and increase productive capacity. Second, it means that public funding will be constrained for some time to come, and there will be continue to fierce competition for the allocation of resources for public services.

In summary, the policy challenges which the higher education sector will be required to help meet over the next decade principally involve rebalancing the UK economy: both

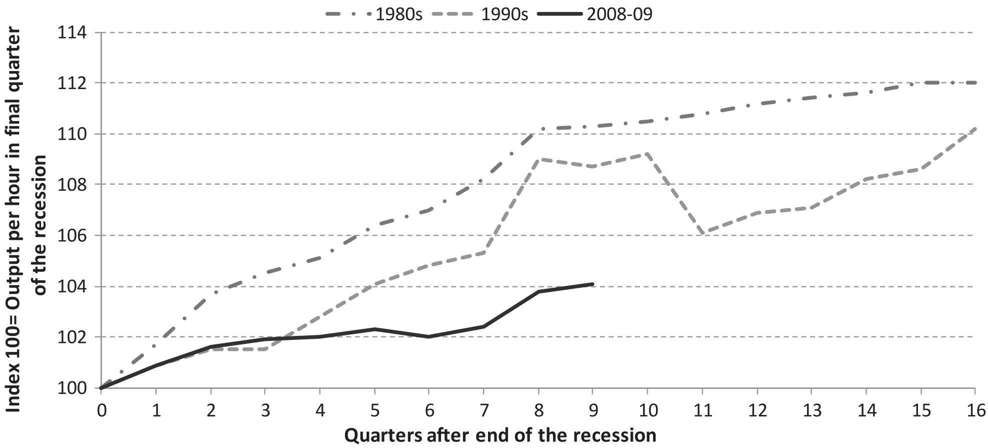

Chart 2. Growth in output per hour after the end of recession.
Source: Office of National Statistics, Office of Budget Responsibility. Reproduced by permission of the Office of Budget Responsibility.

globally, towards an export-led model and regionally, towards a geographic rebalancing of skills growth, innovation and investment. Within this, the priorities are to ensure that the strength and health of the research base are maintained, and that there are sufficient graduates within the system to meet the UK's future economic demand. The extent to which the current policy framework will help the sector meet these challenges will be assessed in the next section.

Assessment

In what follows, the current policy framework is tested across four major domains: teaching funding; research and innovation; regulation and immigration. Overall, the assessment is positive – particularly in the light of the current fiscal and economic climate, and the context for decision-making and policy design given by the spending review in 2010 (from which the policy changes cannot be divorced). However, this assessment is not even across all policy domains.

Teaching funding

It is predicted that the reforms to funding for undergraduate education in England will increase overall income to the sector for teaching by around 10% by 2014/2015. This is in spite of a very significant reduction in the funding council grant for teaching which will take place simultaneously over this period. This represents a significant positive position for universities, particularly so when this outcome is compared to that for other areas of public service delivery. The proceeds of this growth, however, will not be evenly distributed across institutions, and thus, while the aggregate picture may look positive, this does not necessarily mean that the same is true for each individual HEI.

Through the reforms, the principle of the individual beneficiary contributing more towards the cost of higher education is further embedded. While the precise balance of contribution between public and private sources of funding will remain the subject of debate, the overall components which have been put in place are the right ones: that is, that the private individual contributes more, while the government becomes the strategic purchaser of areas of activity where otherwise there might be market failure. The system which has been designed has effective protections for students from low-income backgrounds, and the government bears all of the downside risk of the loan for the student and the graduate. The repayment system which has been designed is progressive and fairer than other options which were being considered at the time. The extension of the loan system to part-time students was also a positive development.

Furthermore, the reforms encourage increased responsiveness towards students on the part of universities and are likely to give a stronger voice to students in terms of governance and decision-making in universities through the need to see a visible return on their investment in terms of improved services and facilities. This in turn will lead to greater competition between universities, with the accompanying imperative to innovate and to ensure that their services are efficient and are effectively shaped towards successive generations of students.

At the time of writing, applications for places for full-time undergraduate study were down by around 10% compared to the equivalent point in the previous year (source: UCAS). Within this, applications for places from mature students were down by around 11%, while those from 18-year-old students in England (the largest single group) were down by around 4% (2% of which can be accounted for by demographic change). At this point, there does not appear to be any significant variation by socio-economic group: indeed, applications from students in the higher socio-economic groups were down by marginally more than those in the lower groups. Assuming a similar acceptance rate in 2012/2013 as in 2011/2012, these figures would translate into a reduction in new entrants of around 50,000. While never desirable, this is far from some of the more catastrophic outcomes which were being predicted, especially when balanced against recent historic highs in terms of numbers of applications and new entrants to universities.

However, there are serious concerns about the future sustainability of the current student finance system. The government is currently subsidising all the risks associated with the income-contingent loan system, as well as operating a demand-led system of maintenance support. While current costs appear to be manageable within the terms of the existing short-term constraints, small changes to particular assumptions would change this (for example; under-estimating the net fee charged; or under-estimating the number of students who will be eligible for maintenance support).

The main concerns with the current system can be summarised as follows:

- *Loan outlay and build-up*: While the changes to the student finance system mean that it is accounted for in a way that impacts much less on the public finances than previously, two aspects are still significant. First, the government still needs to have the cash available to fund the loan outlay each year (the Public Sector Net Cash Requirement). Second, there is a long-term liability building up in terms of the loan figure on the government's balance sheet. This is estimated to reach around £100BN in steady state and is very likely to present difficulties in terms of future funding (through, for example, increased debt servicing charges).
- *Resource Account and Budgeting (RAB) charge*: The RAB charge can be thought of as the net present value of the amount of loan funding which will need to be written off in future. Current estimates put this figure at around 32–33% of the total amount of loan funding, which means that for every pound lent by government, it only expects to receive around 67 pence back. The resulting loss is currently subsidised 100% by government. The RAB charge will in future comprise a larger component of the BIS

DEL than it does at present, but calculating it is uncertain. The size of the RAB charge depends on such factors as graduate repayment behaviour, future labour market conditions and the future macro-economic environment – all of which affect the ability of future graduates to repay their loans. These are all areas of policy which carry greater risk and uncertainty, and the potential impact on future higher education budgets could be significant.

- *Student number controls*: Cost pressures mean that overall numbers of publicly funded students in the system need to be constrained, to allow BIS to remain within its DEL agreement with the Treasury for the life of the current spending period (i.e. up to 2014/2015). This has the twofold effect of constraining many institutions in terms of the volume of students they can recruit, and inhibiting the growth in the system which is required for the UK to remain economically competitive.

Research funding

The decision to protect funding for science and research through the ring-fence for the life of the current spending period was the right one and will ensure that the UK's university research base is in a position to contribute effectively to economic growth over the next decade. It was necessary to protect research funding in this way not just for the reason that R&D (and by extension the UK's university sector) is fundamentally important for future economic competitiveness, but also because the government needs to remain the primary purchaser of research activity and equipment. Reducing funding can lead to rapid loss of capacity in the research base from which it takes a long time to recover, and the time horizons for investment and decision-making are very long.

Unlike funding for teaching, there is no substitute funding available for science and research should this part of the budget be cut. In the case of R&D, public investment is effective in leveraging in private investment, not crowding it out, and thus ring-fencing this area of spending represents the right order of priority in terms of decision-making about the allocation of public resources (Smith 2011).

Nevertheless, the fact that the ring-fence was provided only in cash terms for the period up to 2014/2015 still means a real-terms reduction in funding. This is at a time when, as noted above, international comparator countries are increasing their R&D investment. It must be hoped that the UK research base has been able to remain in a strong and robust position as a result of this policy decision when the economy begins to emerge from recession, but the ring-fenced funding stream gives the best chance of this being the case.

It was also the right decision to maintain the dual support system for research funding. This has proved to be highly effective for the UK in terms of maintaining its global research standing and is also effective in supporting other critically important streams of money (most notably from the major medical research charities). While the levels of concentration of research funding across HEIs are creeping up as a result of government policy, they have still not reached pre-2008 levels (this being the time of the most recent Research Assessment Exercise), which is a recognition of the broadly-based health of the UK's university research system overall.

Regulation

While the assessment of the reforms to teaching and research funding is positive overall, the picture in relation to regulation is more mixed. This is because the work of designing a regulatory structure for the higher education system which can complement the market-based funding reforms is only partially completed. The government set out its intentions in two documents: the white paper 'Students at the Heart of the System' and the technical consultation on regulation (BIS 2011a, 2011c). Taken together, these documents set out proposals which would seek to deregulate the sector, empower students as consumers of the system and lower the barriers to entry to the market for new providers.

The overall intentions to introduce a lighter-touch regulatory structure and to strengthen the position of the main beneficiaries of the system (i.e. students) are positive. However, some important aspects of the reforms remain incomplete. These include:

- *Protecting public funding*: in the current system, certain categories of provider of higher education are eligible to receive public funding support without being subject to the same regulatory conditions as the majority of the sector. This means that money can leak out of the system without sufficient safeguards being in place, and closing this particular loop remains the highest priority in terms of regulatory reform.
- *Reputation management*: closely related to this is the issue of reputation management. It is important that in a more loosely structured regulatory environment, all providers of higher education are subject to the same regulation, so that first, there is adequate accountability for the use of public funding and second, all users of the system can have confidence in the quality of the education they are receiving. This latter point extends to ensuring that the global standing and reputation of the UK higher education system are maintained into the future.
- *Regulatory architecture*: the market-based funding reforms require a modified regulatory architecture to be put in place, one which requires a different role for the Funding Council in particular. This is necessary in order to provide the safeguards referred to above and represents another area where work is still required. This is also likely to have an impact on the form and function of the other agencies in the sector which are collectively responsible for assurance and regulation. In this respect, the term 'regulatory architecture' refers to the combined set of statutory and sector-led agencies which collectively govern and regulate the higher education system. These include: the Funding Councils, the Quality Assurance Agency, the Office of Fair Access, the Office of the Independent Adjudicator and the Higher Education Statistics Agency. Other organisations which have an immediate role or interest in this area include the Student Loans Company and the University and Colleges Admissions Service. The relationship of all these agencies and services to one another will need to be re-examined and potentially re-drawn in the new environment.
- *Increased short-term regulatory burden*: while the overall intention to reduce regulation is positive, in the short-term, the requirements to maintain tight control of costs and to manage the transition to the new system are likely to generate increased regulation. It will be important to ensure that this situation does not persist into the future and thus does not become a perverse consequence of the current reforms.

While the short-term changes need to be managed effectively, there are wider benefits potentially available for the sector through taking a more broadly based view of regulation. Chief amongst these are the opportunities afforded by open data and increasing the transparency of information in the sector. Improving the openness and transparency of operational data would complement the market-based funding reforms by enhancing the decision-making power of students, improving the accuracy and security of data, and providing a far richer picture of the overall university offering and experience. There are other potential benefits to be realised through linking data on higher education to that in other parts of the public sector – for example, connecting to data held by Her Majesty's Revenue and Customs (HMRC) which could be used to target financial aid more effectively. The rewards on offer for the sector of actively pursuing an agenda of open data are significant.

Immigration

Immigration is the one area where the assessment of the current policy framework is less favourable. In order to achieve its aim of reducing net migration to the 'tens of thousands' (see above), the government introduced a series of reforms to Tier 4 of the points-based system (which relates to student immigration). Changes were also introduced to Tiers 1, 2 and 5, which principally affect staff, and while global staff mobility is a very important issue, the main focus of concern is on students.

The reforms to Tier 4 sought to limit student migration by implementing tighter conditions on the awarding of highly trusted sponsor (HTS) status, restricting the degree of movement of students, limiting the facility for international students to work following their studies and raising the overall barrier to entry (for example, by raising the English language requirement) (UKBA 2010). The awarding of HTS status is especially significant for universities, since this both permits the continued recruitment of international students (through acting as a form of 'kite-mark' of quality and responsible recruitment practice) and positively promotes the reputation of individual institutions and of the UK university system as a whole internationally.

In addition, the government has adopted a very strict stance towards compliance of the regulations, which has increased both the impact and the consequences of the policy changes. The impact on universities of possible non-compliance are very severe: for example, if an institution were for whatever reason to lose its HTS status, then one possible outcome is that its international students would be required to leave the country within 60 days, with potentially catastrophic effects on revenue and reputation (although some may also be able to find places at alternative institutions).

For academic, political, cultural and economic reasons, it is essential that the UK remains open to international students. The US has not yet recovered its market share of international students since imposing tight visa controls following 9/11. Current trends and increases in levels of skills and education mean that the global market in tertiary education will increase over the course of this century (Goldin, Cameron, and Balarajan 2011), and educational attainment is closely linked to the tendency to migrate. Global enrolments in higher education have increased from 69 million in 1990 to 114 million in 2004. Over the same period, the number of young adults from sub-Saharan Africa studying abroad increased by 78%, and higher education enrolment in countries outside Europe and North America increased by 90%.

By making it more difficult for international students to enter the UK, the government risks losing its share of this very important global market. This would have significant negative consequences for the UK's position in the global knowledge economy and would inhibit the opportunities for the higher education sector to contribute to export-led growth.

A more open policy would involve removing students from the government's policy target for reducing net migration – a position already adopted in a number of the UK's comparator countries (Cavanagh and Glennie 2012). This would simultaneously afford the government a greater chance of meeting its targets, while not damaging this critically important element of the UK economy.

Conclusion

The government has sought to establish a policy framework for higher education against a background of severe fiscal constraint. The context for much of the policy design was set by the spending review of 2010, and the extent to which policy is being driven by the need to control the overall costs of the system cannot be over-stated. Assessment of the policy framework cannot therefore be separated from appreciation of the economic environment.

Within this context, the reforms to teaching and research funding (particularly the protection of the latter) are mainly positive as far as they go, as is the move towards deregulating the sector. A looser and more lightly regulated system should encourage the kind of innovation and diversity in the system which is essential for its continued strength and success. Thus, while there are significant challenges to be negotiated in the short term and further reforms needed in the long term, the current policy platform should put the university sector in a strong position to compete regionally, nationally and globally. Nevertheless, there remains a great deal of unfinished business.

Note

1. These are effectively the cash grants given to the major government spending departments each year.

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