

# THE WONKHE BRIEFING

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## ISSUE THREE OF THE WONKHE BRIEFING

We're delighted to be sharing the third edition of the Wonkhe Briefing with you. It's written for people making the strategic decisions about the long-term future of higher education, away from the day-to-day hurly burly.

Each section aims to cut through the spin and provide an overview of the issues that really matter, rather than those fanned by hot air. It is produced with editorial independence, in good faith, and with the aim of being correct at the time of publication.

Unless otherwise stated all opinions remain those of the Wonkhe team and not KPMG.

Our judgement is based on reading all the news stories, all the research reports, and all the government documents that relate to higher education. If nothing else, this should save you the time of having to do the same.

Please share your copy with others, or let us know where to send more. We hope it's useful to you, and we welcome any feedback at [team@wonkhe.com](mailto:team@wonkhe.com).

# EDITOR'S NOTE

Universities continue to be front page news, with headlines on everything from free speech and pay, to pensions and fees. At Wonkhe we have the privilege of digesting and driving the news, helping an ever growing number of sector insiders stay informed about what really matters. The past year has been the most unrelenting yet. Having reflected on a tumultuous time for the sector, I've put together my thoughts on what's going on and how HE - at national and institutional levels, I hope you enjoy it.

While the commentary on the value of HE plays out in the papers, the policy work continues. Be it teaching excellence, or TEF (not the same things), or regulation, matters relating to the work of academic, technical professional staff continue to take up the wonk's time. HEFCE's successor organisations, OfS and UKRI, are now walking on their own. We assess their first steps, and look at the different paths being taken in the devolved nations. Our March 2018 conference on regulation "It's Alive!" provided valuable new insights about the new regulatory landscape, including reflections from Tim Aldrich at KPMG on "what education wonks can learn from health wonks".

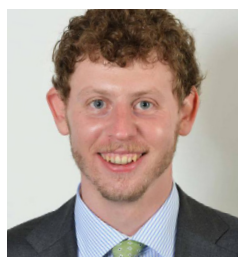
The long-awaited post-18 review of education and funding (to give it its fancy title) in England finally arrived in March, but doesn't look to be quite as "major" as first promised. Political and fiscal constraints, combined with the overbearing dominance of Brexit, suggest that the review won't be able to deliver major change. However, it is an opportunity to improve a system which

is creaking at the seams in places. We take a look at the review and the latest on sector finances.

Pay and pensions continue to dominate the headlines and even front pages; it's rarely a good look for the sector. Here we summarise the issues, the current state of play in the delicate negotiations, and what the future scenarios may be. On Wonkhe.com, KPMG's Marc Finer shared his thoughts on how universities could think about their borrowing strategies; we present a summary here.

At Wonkhe, things never stand still and we've been blown away by the response to The University Show podcast so far, you can find it by searching in your preferred podcast app. It adds a new dimension to the content we produce, allowing our community to hear directly from experts across the sector about key topics.

And the team at Wonkhe continues to grow, with Rachael Firth joining as COO, and Katie Ross as Operations Manager. Both will be key in the coming months as we gear up for the HE event of the year - Wonkfest18 on the 5th and 6th of November. We hope to see you there.



**Mark Leach**  
Editor, Wonkhe

As a firm with deep roots in the sector we are avid readers of the Wonkhe Daily and weekly briefings. It is clear that with the various sector challenges (and opportunities) at the moment, sensible debate is not only healthy but required.

We are pleased to be supporting The Wonkhe Briefing and hope the focused analysis is both thought provoking and insightful.

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# The Enemy Within - why the narrative about universities and students went so wrong

*The following is based on a lecture by Mark Leach, given at the University of Greenwich on 8 March 2018.*

Wonkhe, as you might expect, is full of unashamed policy wonks. Yes, we may take perverse pleasure in dull policy analysis. But we are also inspired by the people we meet across the sector that are all passionate about the power of education, committed to outstanding scholarship, driven to push forward the frontiers of knowledge.

So the headlines about universities over the last year have been tough to read. They reveal a sad truth: the higher education sector, for all its strengths, has lost its ability to tell a coherent story about itself. The sector and its leadership are now suffering a collective crisis of moral authority, a crisis of leadership, and a crisis of identity. That's because they are under attack from across the political spectrum.

On the one hand, there is a narrative pushed broadly by the left. This argues that academics and students are under constant assault from managers, ministers and market forces. That vice chancellors are complicit in turning universities from open, academic communities into cold-hearted corporations, driven by profit.

On the other, there is a narrative pushed broadly by the right. It claims that universities are elitist ivory towers. They are unaccountable, lack transparency and are out-of-touch. Universities are just another vested interest to be burst open by the free market. Vice chancellors represent all that is anti-competitive, protectionist and inefficient

in education. And we have seen these twist and morph into a consistent line of attack used by unlikely allies in both our own government and trade unions in HE.

The narrative goes that our institutions are run by arrogant, complacent, remote, metropolitan elites. These elites are fraudulent, charging students maximum fees for degrees of little worth to themselves or society. They use students as cash cows, yet leave them with massive debts that they will never pay off.

They are bent on turning degrees into a commodity to be bought and sold - a market which knows the price of everything but the value of nothing. They are, essentially, corrupt - filling their pockets with huge salaries, pensions, perks and expenses. And they then cover this up with opaque governance and management structures. Vice chancellors have become an "enemy within" - to blame for intergenerational unfairness and, in part, responsible for scarring our society for decades to come.



As the universities minister Sam Gyimah said recently that these attacks are “not a blip”. They are the new normal. And under that sort of pressure, it is no wonder vice chancellors fragmented over how to reach a collective deal on the USS pension scheme. So I have tried to get under the skin of why this is happening and how university leadership must respond.

First, I argue they have fallen into a trap of their own making - buying into 19th century idealism, and not adapting to political reality in the UK following the 2008 financial crash.

Second, I explore how the political right and left are now exploiting this for their own ends, including ripping up the consensus on expanding higher education.

And third, I set out how the sector must start to address these challenges - the self-reflection it needs to undertake, and the radical changes required.

## Narrative is all

Too often wonks forget the reality of politics today and that it is not about bureaucrats, technocrats and managers. Or carefully, evidenced, incremental reform. Or even perfectly crafted policy.

It is about power, legitimacy and survival and how to harness the public support to secure it. It is about creating the right enemies and dividing lines, with a narrative that the public will buy into. It is the art of the possible, the attainable and the next best - as Bismarck said. Short-term initiatives that can best be packaged and sold back to us.

It sounds cynical, sinister and grubby. But it's worth perhaps thinking just three years back to Ed Miliband's stint as Labour Party leader. He was derided as "Red Ed", with no credible political narrative to give or policy stories to tell. Yet his broader thinking on predatory capitalism or the squeezed middle, much-mocked at the time, are now accepted beliefs in Westminster.

And this shows the essential skill of politics: timing. Telling the right story, at the right point and in the right way. A story that makes sense of the world around us - our families, our homes, our workplaces and our communities. A story which connects emotionally to our passions, aspirations and ambitions, for good and for ill. And a story which joins the dots from our past, to our present and to the future.

People dismiss this too easily as spin. Persuading with stories, however, is one of the most powerful skills we have had as humans since the beginning of time. The technology and techniques of mass communications may have transformed the scale at which we can tell them. But the fundamentals do not change.



## A crisis of storytelling

You would think that universities would understand this instinctively. From antiquity to today, knowledge has been passed on by storytelling. Thesis, hypothesis and synthesis are, at their heart, a narrative device.

Research, teaching and scholarship are ultimately about making sense of the world around us. Yet despite overflowing with some of the cleverest scholars in the world, it remains a huge struggle for the sector to articulate universities' overall purpose, vision and mission. And this allows for the continual indulgence in existential angst.

What are we? What do we do? Who are we for? Universities fall back, invariably, on 18th and 19th century philosophy for guidance. That universities have a higher, moral, noble purpose - existing to build a liberal society and a better world. Universities are defenders of truth, knowledge and principle. The stewards of facts, logic and evidence. The protectors of liberalism and democracy.

This is the Kantian view of the university as the place where reason and thinking could be deployed freely. Or Humboldt seeing them as where nationality and statehood can be understood. Or John Henry Newman seeing scholarship as having a cleansing, spiritual purpose. Universities are apart from and above the rest of society. "A university training", Newman writes in the oft-quoted *Idea of a University* in 1852, "is the education which gives a man a clear conscious view of his own opinions and judgments, a truth in developing them, an eloquence in expressing them and a force in urging them".

Yet remarkably we still see even technocrats still subscribing Kant, Humboldt and Newman's vision at each major milestone in higher education in the last sixty years. Robbins, in making the case for a mass expansion of degrees set out four aims for higher education: "instruction in skills"; "advancement of learning"; and to "promote the general powers of the mind". But he also said it should aim for "the transmission of a common culture and common standards of citizenship".

Dearing recommended the first-ever tuition fee system in 1997 and talked about building a "learning society". Browne wrote in his 2010 review that his funding reforms would enable higher education to "create the knowledge, skills and values that underpin a civilised society". And even Michael Barber argued in last year's OfS consultation wrote that better market regulation, of all things, would protect: "The joy and value of knowledge pursued for its own sake; the pursuit of the good, the true and the beautiful; the fundamental importance of freedom of speech and vigorous disagreement based on mutual respect".

We risk creating a rod for own backs by continuing to describe higher education in such florid, highfalutin terms. We still frame universities as an unambiguous positive for individuals. And universities market degrees in terms of Victorian self-improvement - that education is about changing your life; building your character; equipping you to be a citizen and a better member of society.



But this has opened a dangerous mismatch between the ideals of the past and the commercial narrative of the last twenty years. Former universities minister David Willetts mounted a passionate defence of higher education in his book last year, *A University Education*. Yet even he, of all people, struggles to bridge the gap between the rhetoric we tell ourselves and describing the system he created, where words like "debt", "loans" and "fees" remain so pervasive, and so divisive. That's because Willetts' reforms mean we are now required to buy into the same story about higher education: it is all a lifelong financial investment.

It tells lecturers they must be motivated by boosting students' future earning power. And it tells students they need to be motivated by their own self-interest - constantly judging what they have gained. Degrees are no longer about giving scholars a "clear conscious view of their own opinions and judgments". They are now commercial products, paid for by loans, protected by consumer rights legislation.

In this narrative, vice chancellors are no longer stewards of knowledge. They are now chief executives tasked with maximising students as units of income, to meet the interests of multiple commercial stakeholders, the taxpayer and the consumer. Universities are no longer hierarchical, elitist institutions. Higher education today is a rich ecosystem of distinct ancient, civic, technical, modern, private and alternative institutions - all fighting to remain financially viable.

For David Watson, the late vice chancellor at Brighton, universities remain peculiar institutions which have a handful of shared interests. They exist in, what he called, "a sort of mutually-assured higher education enterprise which government and others would like to be more differentiated, by purpose and especially by price".

It's perhaps no surprise that having encouraged universities to compete with each other, when we then ask them to work together for mutual benefit - as we have seen under the auspices of the future of the USS pension scheme - universities reject the idea of the common good, and break away to protect their own self interest.

And perhaps this means publicly subsidised universities have lost the right to be judged against Kant or Newman. They must now be judged against contemporary business ethics, legislation and regulation - and above all, public opinion. As the government's post-18 education funding review chair, Philip Augar might argue, universities are no different to the banks, following the crash and subsequent "age of austerity".





## Mad as hell

The old narratives of higher education are increasingly threadbare. Our universities have not been insulated from the enormous political churn in the US, UK and Europe in the last ten years. We live in a world of enormous challenges. Yet tens of millions of citizens have lost faith in university-driven liberal, social democracy to provide the answers.

The 2008 crash exposed the fallacy that there was an unimpeachable third way between right and left. Social democrats have tried to excuse their failings as if this was a failure of public relations - not of political philosophy. The truth is the political mainstream forgot the basic tenet of politics: individuals, families and communities. And too often they took voters for granted, just ask David Cameron, Hillary Clinton, or even Theresa May.

In the absence of credible answers, there is a temptation to tear up the old political narratives and leap into the dark. That's why we see the demand across the West for leaders from outside the political establishment, who purport to understand people's day-to-day lives - their struggles, their fears and their identities.

Donald Trump instinctively got this in 2016. He offered a standard Republican policy manifesto: tax cuts, tighter immigration, welfare reform, anti-universal health care, pro-Bible and pro-guns. But as a master self-publicist, he knew how to pitch it. That people were right to be angry. The system is broken. That the country needed an outsider to rip it up. Clinton, the political insider, had no competing story. Trump and his band of political neophytes tapped into an understandable but dangerous public mood across the West. That the rest of the world is too difficult to understand, the problems too hard to deal with.

## The wrong side of the backlash

Universities have been caught on the wrong side of this populist backlash. Higher education is still overwhelmingly against Brexit. Yet many still do not recognise that it has become synonymous with a demand for change. And in the same way, the strikes over the last months are not simply about pensions. They reflect much broader anger about the sector's direction of travel.

Because the growth of higher education has been accelerated by exactly the geopolitical phenomena that have come under such attack across the West - globalisation, conglomeration, monopolisation, massification, digitisation, internationalisation, corporatisation, and the free movement of goods, finance, capital and above all: people.

Far from making society better, universities are seen to be the symptom of a failed political philosophy. And that's why the scandal of vice chancellors' remuneration has proved such a lightning rod for public criticism. For years, the vast majority of our leaders have been tone-deaf when handling legitimate questions about inflation-busting pay and pension packages.

The debate is more fundamental than whether Professor Bloggs is being paid too much or not for leading complex, international businesses. How senior remuneration is set reflects a university's own moral compass and corporate governance - its accountability and openness; its ethos, values and ethics; its commitment to fair pay and due reward.





And as we are seeing over the last twelve months, that if a university fails to be transparent over pay then they risk losing their right to represent, advocate and lobby for millions of students and staff. It seems vice chancellors are surprised to join the ranks of others scandals which dominate public discourse over the last few years. Bankers' bonuses. Google, Amazon and Starbucks' taxes. MPs expenses. Carillion. Grenfell. Energy firms. Social care. Phone-hacking. Hillsborough. Rotherham. Oxfam.

The message is clear - universities, after all, are not above scrutiny as Newman presumed. It is a recognition that we no longer want to live in gratitude to benevolent top-down hierarchies. Trump, UKIP, the far right in Germany, France, Netherlands, Italy and the Czech Republic got that - and yes even The Five Star Movement; Momentum; the SNP; and En Marche. We are all activists now.

## The return of left vs right

Bizarrely, in the midst of all the turmoil, there has been a return to the old left-right dichotomy. Jeremy Corbyn, John McDonnell and Jon Lansman were all fringe political figures for decades. We are now seeing political phrases not seen in domestic current affairs since the Cold War. Socialism. Nationalisation. Worker power. Price controls. Income policy. Taxing the rich. Full employment. Keynesianism. Unilateralism.

Corbyn and co never saw themselves as part of the Westminster establishment. They operated outside the Labour Party structure in the 1980s. And even today, despite winning the leadership, they act as insurgents against their own parliamentary party - to reject everything that even whiffs of being New Labour.

Momentum's rise is a recognition that established parties are no longer capable of building political consensus through the first-past-the-post system. Instead, they need to build a movement outside the strictures of traditional representative democracy. It resonates because it feels like we're destined for a long era of hung parliaments, small majorities, coalitions and minority governments.

The Tories have not won a major Commons majority since 1987. Indeed they have only won two small working majorities out of the last seven general elections - in 1992 and 2015. Thatcher may have broken the current Conservatives as a "natural" party of power, possibly forever. Yet aside from Blair's three unprecedented general election wins (now forever tainted by Iraq), Labour has won only one general election since 1945 with a majority larger than five seats - and that was under Harold Wilson 52 years ago.

And so big power vacuums have opened up in the political landscape. Brexit splits the country on age, class and geography. New Labour and now Liberal Democrats have been, and probably now gone. One Nation Conservatism as an intellectual anchor is over - the botched Big Society vision has had its last hurrah. Scotland and Wales are now virtually separate political entities. Northern Ireland is a political tinderbox, capable of watering down Brexit and bringing down the current government. Local government is decimated, and regional government is breaking away from the centre.



## The return of “the enemy within”

Despite all this, the Conservatives never took Corbyn seriously until the polls closed last summer. At first, they assumed his party would bring him down, as Kinnock had once killed off Militant. Then, they thought he would implode in the heat of a general election. They relied on painting him as a relic of the 1980s. That massive new borrowing and nationalisation would bust the economy. That Corbyn was a pacifist, exposing us to nuclear and conventional threats. That he was a Marxist, pro-IRA and pro-Soviet - anti-democratic, soft on terror and anti-British. He was, in other words, “the enemy within”.

And this line of attack had deeper roots. Back in 1984, Margaret Thatcher and the National Union of Miners’ leader Arthur Scargill were in a fight to the bitter end. At first, the government positioned the strike as miners against management, then working miners against striking miners. But the rhetoric changed after the so-called Battle of Orgreave, which Thatcher saw as tantamount to civil war. “The rule of law”, she said, “must prevail over the rule of the mob”. Then later that summer she told her backbenchers: “We had to fight the enemy without in the Falklands. We always have to be aware of the enemy within, which is much more difficult to fight and more dangerous to liberty.” And then that autumn she gave a speech on “Why Democracy Will Last” railing against the “hard left operating inside our system, conspiring to use union power and the apparatus of local government to break, defy and subvert the law.”

The language was deliberately divisive, and the challenge was clear. The public was being asked where it stood. You are either one of us or against us. You are for democracy or against it. You are for socialism or for the free market. There was no room for a third way.

## The “new barbarians”

A key part of Thatcher’s strategy was to position this ideological civil war as taking place not just in coalfields but across society - in every city, town and household. And one of the most important battles was for the hearts and minds of young people - in classrooms and on campuses. Thatcher, on paper at least, understood universities. She was famously a scientist, after all.

Later as Education Secretary in the early 1970s, she had envisaged a massive expansion in student numbers through closing grammar schools and investing in new comprehensives. She extended the Open University to young students and championed the University of Buckingham as the vanguard of a wave of new private providers. Even as Prime Minister, she presided over the biggest increase in student maintenance grants for a generation.

But it suited her government to portray universities as harbouring the “the enemy within”. The mass campus movements over the 1960s and 1970s had emboldened students and academics. And the ability to mobilise tens of thousands on to the streets was highly dangerous during the miners’ strike.

So ministers sought to delegitimise higher education, claiming that there was overt political indoctrination across the system. The National Union of Students was painted as a front of the far left. The public was told that Marxist teaching was endemic. And complacent university management was turning a blind eye to extremists in their midst.



The challenge to vice chancellors was clear. That they may argue universities have a moral purpose to shape society for the better. But in a civil war, between left and right, where did they stand? This was not, perhaps, any surprise.

The education secretary in 1984, Keith Joseph, had been on the frontline of this battle back in the mid-1970s. He provided the intellectual heart of Thatcherism - and in many ways, is still the foundation of much of modern-day Conservative thinking.

Just like the crisis of social democracy today, Joseph saw that the contract between elected government, business and society had come apart. For him, the post-war consensus on running mixed economy was a failure. There was no part of society in which the free market should not have a stake. Indeed, he even advocated the radical idea of parents paying university tuition fees to pay for an increase in the science budget.

He had taken this message on a tour of 150 university and polytechnic campuses in the mid-1970s. And into the eighties, Tory ministers continued to speak, debate and argue their case across the higher education sector.

This was not just about ideas. It was about the optics. They were jostled. They were shouted down. They were branded fascists and racists. Conservatives were even, on a few occasions, no-platformed. And in doing so, students and academics walked into the trap laid for them - allowing the government to paint them as being against democracy; against Britain; and against the public.

We can see this clearly in May 1986. Joseph wrote an extraordinary letter to the-then NUS president, later Labour education minister, Phil Woolas. In it he talks of students as “the new barbarians” who are “concerned to prevent the orderly and serious discussion of those views with which they themselves do not happen to agree.” He goes on: “I plead with you to remember that the denial of such discussion, is a denial of respect of individuals, an attitude morally equivalent to that taken by the fascist and racists whom you wish to oppose.” And we thought that Jo Johnson gave us a hard time...





## The new "new barbarians"

Why is this relevant now? Because it may be 2018, but it appears students and universities remain an "enemy within". The original letter to NUS was an early step towards the Education Act 1986's highly opaque requirement for universities to protect freedom of expression. And in the political-right's current narrative, the same legislation is still used as a stick to beat higher education with for failing to defend what it believes makes us all British. We see this in the confected outrage about no-platforming, safe spaces and Generation Snowflake. We see it in the confusion over compliance with Prevent - and allegations of left-wing antisemitism and Islamism on campus. We also see it in the faux-outcry over Jacob Rees-Mogg being jostled at UWE.

The truth is the political right is reeling from the huge swing to Labour last year among the under-45s. They cannot believe that attacks on Corbyn's socialism have fallen on deaf ears. And it means, even in an age of social media, our campuses are becoming ideological battlegrounds once again.

The far left has never forgiven NUS for sitting on the fence over the Browne Review and new £9,000 tuition fee system - fairly or unfairly turning their back on the thousands of students protesting across the country back in 2010. It means Momentum, not Labour, has now become the primary organising force on campuses.

On the other hand, Sam Gyimah has spotted a political opportunity. He is deliberately following in Keith Joseph's footsteps to take the Conservatives' broader message out on campus.

Writing last year, he argued confronting Corbynism directly required a return to face-to-face engagement and debate in universities. He said the left should not have an unopposed run at first and second-time voters. The right, he said, needed to sell a positive vision of capitalism and free markets in a post-2008, post-Brexit world: "The modern Conservative Party cannot have no-go areas. We must engage with humility, and communicate a clear vision".

It was Gyimah's job application for the Department for Education and a bid to become the now self-styled "Minister for Students". His so-called "Sam on Campus" political project is underway, run by his own Parliamentary Office and the approach is now being extended by Conservative Campaign HQ. The inference is that vice chancellors have allowed far-left-entryism and that the political right must now intervene.



## Who speaks for students?

It is all possibly part of a wider move against NUS from within No.10, ministers and the wider political right. Whether it's been coordinated or not, NUS have been put on the ropes. It may be the biggest democratically elected youth movement in the country - but it is not seen as the legitimate voice of students. It is NUS, ironically, which is now being no-platformed.

First, No.10 while positioning itself as acting on behalf of students deliberately blocked NUS or anyone associated with NUS from being on the Office for Students board. No.10 then vetoed NUS or any other student or graduate being on the independent post-18 review panel.

Second, Jo Johnson's response to NUS and a small number of students' unions boycotting the first year of TEF, was to downgrade the student voice in this year's exercise.

Third, the Home Office, DfE, HEFCE, the Charities Commission, and the police are all quietly increasing pressure on universities where students' unions are not deemed to back Prevent enthusiastically enough - despite being under no legal obligation to do so.

And fourth, the government has strengthened the Charity Commission's remit regulating students' unions - investigating their political activity and potential breaches of charity law. And the message is the real fault lies, not with naive students - but from what Michael Gove famously called "The Blob". The Republicans in the US created this concept, to describe what they saw as an amorphous, bloated education establishment opposing reform at every turn. It was painted as a mass of bureaucrats, unions and academics who eschew rigour for a left-wing, progressive agenda.



## Taking on “The Blob”

So if NUS is not speaking for students then who is? That’s where the political right is carefully inserting itself as a solution to intergenerational unfairness - not leaving it to the left. It’s interesting that the universities minister himself is calling on students to consider suing universities over lost contact time during the current strike. It may be “the age of the student” as he put it recently. That means taking action as a consumer in a market, not abolishing markets completely.

We see this in the government’s positioning on the post-18 education funding review. Theresa May has very little interest in the intricate policy detail at this point. This is all part of her political survival, to give her administration a purpose beyond Brexit. And, like Michael Gove, it means pitching herself as a guerrilla activist against universities’ leadership.

No.10 has deliberately steered away from defending the university establishment along traditional left-right lines - that Labour’s pledge to abolish tuition fees risked creating a £11 billion a year black hole, leading to job losses; pay cuts; course closures; and research scaled-back, leading to capped numbers and fewer disadvantaged students.

No, instead, the Prime Minister makes out she has only just found out about her own government’s policy. She acknowledges Labour’s arguments that the public is right to be angry that the market works against them, whether its housing, energy or education. And she says young people and their families are right not to trust vice chancellors’ assertions to offer value-for-money when students are left with such high debts.

That means the Conservatives are attempting to form an unlikely alliance with students to smash universities as a vested interest - through tighter regulation, greater accountability and consumer power. And the underlying message is that consumerism is a sign of students taking back control. Forget the 19th century idealism. Institutions can close if they don’t listen to customers. And this is a price worth paying to flush out universities that are seen to be undermining the economy.





## We need to stop sulking

I was told of a recent gathering of vice chancellors in the Athenaeum to lick their wounds, discuss the recent attacks on universities and how to respond to them. This is the way it has always been done. Crisis summits in private members clubs, over brandy and cigars.

But universities must stop the complaining about what is being done to the sector, instead asking what can be done for and by themselves? The post-18 funding review will have failed if it ends up simply shuffling money between colleges, universities, children's services and schools. We cannot just rob Peter to pay Paul in DfE's budget. That means universities need to be politically savvy. We need to be street-fighters. And like never before, we need to reset our purpose, vision and mission. To act as a sector, not a collection of warring factions.

We must also stop being fatalistic about the change being thrust upon us. We have to change what we do and how we act and only then can we change the bigger narrative we tell about ourselves and the story that others tell about us. There are ideas and solutions out there ready for the taking.

So, alongside this article, we are setting out what might be termed an agenda for change.

It's not perfect. It'll clash in places. It can't all happen at once or quickly. But it's a starting point for discussion, planning and action.

1. We must tackle senior pay and remuneration, making it more transparent and accountable. Universities must address the anger and frustration about this issue or we'll never be able to move on to dealing with anything else.
2. We must create genuinely democratic institutions. No more archaic, hierarchical structures where we don't need them. We should explore different governance models and barriers to innovating in this area should be broken down.
3. We need to explore how we end the current system of academic selection and moving to a comprehensive university system. Without radical reform, universities will be fated to entrench social stratification and class divides.
4. We must be unashamed social activists and social entrepreneurs, constantly focused on public impact. We must be led by values not commercial, self-interest. We need a campaign mentality to build and ally with our own communities - on everything from mental health to job insecurity, from violence-against-women to welfare reform. It also requires reimagining the civic university for the 21st century, so all universities are anchors in their regions - in industry; in education; in the public sector.

### For more on these ideas, see:

<http://wonkhe.com/blogs/an-agenda-of-change-to-move-us-on-from-the-enemy-within>



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# TEF3 - not quite teaching excellence

The third iteration of the Teaching Excellence and Student Outcomes Framework (still called “TEF”) has been running under different rules to TEF2. The rules of the game have changed in an iterative way - the weighting of the National Student Survey (NSS) has been halved - as well as taking on an agglomeration of various hot topics. This year’s exercise which, like last year, will result in provider-level judgements of Gold, Silver or Bronze, also now includes the “supplementary metric” of graduates’ salary data from LEO (the Longitudinal Education Outcome dataset) and a “grade inflation” metric. With those changes, it’s going to be hard to see direct comparability between the results of TEF2 and TEF3. With entry currently optional, TEF3 is also a smaller exercise than the previous year.

The inclusion of salary data, not benchmarked for region of study or domicile, has been particularly controversial, as has the inclusion of data on grade inflation. The primary complaint about grade inflation is the presumption of nefarious behaviour on the part of institutions (and for which there isn’t any robust evidence). Underlying this is the question about whether there is any meaningful comparability of academic standards between awards, at the same institution let alone between then.

Alongside the provider-level TEF, a pilot exercise has been running for the subject-level variant, still only focused

on the undergraduate experience. The Department for Education (DfE) pilot - chaired by the University of Exeter’s Provost, Janice Kay - offers two models, either “by exception” with submissions required where subject-level performance deviates from the overall provider-level data; or “bottom up” which compiles submissions across subject areas and aggregates to a whole-institution award. In addition to the pilot exercise, DfE ran a consultation on which version providers preferred.

## Costs or benefits

TEF remains a controversial exercise as it has evolved far beyond its original focus on benchmarked metrics offering some assessment of “added value”. The diminished emphasis on NSS and increased prominence of salary data risk moving the exercise further from students’ perceptions of teaching quality to an instrumental and narrow focus on earnings.

However, TEF isn’t going away any time soon. As the consultation on subject-level TEF demonstrated, the choice for providers is to help shape the version that would offer most to them, not whether they want to play the game at all. TEF participation will become compulsory for English providers and remain optional for the rest of the UK, though institutions may feel compelled to join in if there is a growing expectation from applicants to have the information.


Looking ahead, the statutory review (a result of an amendment to the HE and Research Act of 2017) of TEF will take place in 2018-19 and all institutions with 500+ students will be required to take part in TEF. Watch this space.





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# A new regulation nation



It's a time of transition for just about everyone working in higher education in the UK, with new funders, regulators and designated bodies popping up everywhere. In England, a dignified ceremony in the House of Lords signaled the end of HEFCE after twenty-six years overseeing the sector, to be usurped by the Office for Students (OfS), a signal of a change of emphasis away from funding and towards market regulation. However, for the first (transition) year, OfS will be regulating in very much the HEFCE style, as the new organisation sets up structures and processes of its own in the background. Early signs suggest a relaxing of requirements, as some of the the "light touch" language in the framework works its way into action.

But it's hardly been an easy start for OfS - the Toby Young debacle and the subsequent revelations of government interference in the student board appointments hardly give an independent air - and the preternaturally sure touch of the late and occasionally lamented HEFCE seems to be missing. The loss of the Office for Fair Access (OFFA) too is accompanied by new reporting requirements around fair access, but with cuts in the funding for such activities.

From OFFA to over Offa's Dyke - Welsh HE regulation looks to be entering a considered and thoughtful new era. The major recommendation from the Hazelkorn Review is a new post-compulsory regulator (to be named TERCW - the Tertiary Education and Research Commission) is currently being consulted on. Beneath it will sit Research and Innovation Wales (RIW), the "go to" place for strategy-related research and innovation activities.

In many ways RIW's Welsh research advocacy could be seen as a balance to the incorporation of Research England into UK Research and Innovation (UKRI). Research England is the lopped-off research and "third-stream" capabilities of HEFCE, so for the first time the two sides of the dual-support mechanism sit within one organisation, but separate from teaching and the student interest. UKRI as a whole has been skilled in saying relatively little so far, but researchers and research managers will rejoice at the work behind the scenes to streamline and standardise policies and processes across the seven research councils.

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## Healthy regulation: lessons from the outside

As the English HE sector faces up to the reality of a new regulatory architecture - with its fundamentally different relationship between universities and the state - there's an increasing appetite for drawing parallels with other sectors to see what lessons can be learned.



KPMG's Tim Aldrich has worked closely with the health sector, and followed closely Andrew Lansley's reforms from 2012. The coalition government's health white paper had the following aims:

- Putting patients and the public first;
- Focusing on improvement in quality and healthcare outcomes;
- Autonomy, accountability and democratic legitimacy;
- Cutting bureaucracy and improving efficiency.

All laudable aims. You could switch “patients” for “students” and “healthcare” for “education” and convince most people these refer to former universities minister Jo Johnson's reforms.

In a parallel with the creation of OfS, Monitor, previously the regulator of foundation trusts, was given a mandate to promote competition between providers as an economic regulator. The reality has turned out to be somewhat different. Financial pressures on healthcare providers have gradually pushed more of them into deficit over the last five years. Monitor (now NHS Improvement) has taken a keener interest in the financial affairs of the NHS trust and foundation trust hospitals it regulates. It has also increasingly downplayed its role as an economic regulator.

NHS Improvement's title speaks to its ambitions to be an agent for quality improvement, while continuing to set limits on temporary staff and consultancy spend.

While none of this is to pass judgement on these developments, it is all some way from the original goals set out by Lansley. This is where the lessons may lie for higher education:

1. Regulatory strategy can be trumped by politics, with the regulator being asked to respond to immediate crises.
2. An understanding of regulatory theory is not always extensive among the public, or even many policy professionals. This potentially makes it more challenging to bring people with you (especially when talking about choice, competition and markets).
3. The theory is that the “best” are left alone to “get on with it” autonomously. But if there are financial pressures or a scandal, the regulatory burden appears to increase across the board.

So what does all this mean? Is it inevitable that the OfS will go the way of Monitor and NHS Improvement? That all depends on the ability of the regulator to push back – act as a “buffer body”, if you will – if government asks that it responds to every headline. It also depends on how effectively OfS makes its case for how it works and why – and on the financial stability of the economy and the sector. The recently announced funding review will ask much of the OfS, whatever the outcome. There will be close eyes on OfS's first regulatory actions as these are likely to set the tone for subsequent activity and send messages to the HE sector about what to expect and how to respond.

*KPMG's expertise spans many sectors; to find out about how the team can help you in your approach to regulation, contact Justine Andrew ([justine.andrew@kpmg.co.uk](mailto:justine.andrew@kpmg.co.uk)).*



# Sector finances and the post-18 review

## Money in

The total income of higher education providers across the UK was £35.7 billion in the financial year to July 2017, with a £2.3 billion surplus of income over expenditure. Total income increased by 2.7% on the previous year, but falls in investment income (-3%) and funding body grants (-1.2%) contributed to an overall decline in surpluses across the sector.

The surplus recorded by England's providers fell by half a percentage point to 6.9%, and rose in Scotland to 5.4% (+1.4 percentage points). Welsh providers noted a collective deficit of 0.7% of total income - a marked fall on last year's 4.8% surplus. Institutions in Wales are acting in anticipation of a future uplift in funding and are, as such, running with short-term reduced surpluses or planned deficits rather than reducing costs, according to HEFCW. The planned increase in resource as a result of the Diamond review will come in 2018-19.

Income from tuition fees and education contracts contributed a greater amount to total income in the year ending July 2017 than in the previous year, while income from other sources did not change significantly.

## Money out?

The post-18 review of education and funding in England, first announced by Theresa May at her party's 2017 conference, is now under way - the six-week public consultation for the review closed in early May, and is currently being analysed by chair Philip Augar and his six-person independent panel. Augar's public appearances have focused

on reiterating the terms of reference with their four main objectives: access, value for money, choice and competition in post-18 education. Likely to feature heavily in discussion is the prospect of differential fees by subject area, an idea was floated at the review's launch by Theresa May and Damian Hinds. There will also be many arguments made for investment in further education, perhaps at the expense of HE.

Responses from the sector have been wide-ranging - both MillionPlus and University Alliance emphasises a flexible funding system in their responses to the review, while GuildHE called for the government to address student poverty and provide clarity for learners. Universities UK highlighted the need for greater transparency over the funding system, and UCU prioritised staff pay. The panel is to produce a report in Autumn, with a government response expected in "early 2019". While it may not herald a whole new funding system, every university in the land is planning for it to result in some reduction in funding.



# Pensions and pay

Industrial action at more than 60 institutions over proposed changes to the Universities Superannuation Scheme (USS) caused extensive disruption in the spring, with accompanying headlines. With fourteen days of action, and up to a million students affected, the challenge for universities has been rescheduling classes and ensuring that students haven't been disadvantaged.

Cue the lawyers! There are now several efforts to bring group civil suits on behalf of students affected by strikes, in the hope of financial compensation. While there's little expectation that these will succeed, the firms - and students - are testing the boundaries of the new consumer-centric settlement where customer demands take primacy. Urging the parties back to the negotiating table, minister Sam Gyimah said that students "deserve to receive the education that they are paying for."

Happily, the parties - Universities UK (UUK) representing the employers and the University and College Union (UCU) the employees - did get back to the table (with some help from the Advisory and Conciliation Service (ACAS) and agreed the formation of a "Joint Expert Panel" (JEP) to look again at the scheme's valuation, the origin of the dispute in which employers seek a solution to a deficit identified in the scheme's triennial valuation process.

## JEP pack

The joint UUK-UCU panel will be chaired by Joanne Segars OBE, currently the Chair of LGPS Central which pools the investments of nine large Midlands-based local authority pension funds. She'll be joined by three members nominated by each side.

Whether the JEP will be the magic bullet for a highly-emotive dispute remains to be seen. It's entirely possible that revisiting the valuation will show no improvement in the evaluation of the fund's health and its ability to meet the promises made to current and future pensioners. How employers then propose a deal which bridges that gap - and in a way which is acceptable to the Pensions Regulator - will then determine whether the dispute will be reignited. There's a worrying potential for the issue to rumble on, and things could get worse again before a resolution, not least as the dispute has brought to the fore dissatisfaction over marketisation and reform in universities.

This year's pay negotiations continues its usual pattern and the Universities and Colleges Employers Association (UCEA) made a pay offer of 2-2.8%, with bigger uplifts for staff on the lowest pay.



# It's not all about borrowing: redefining the way universities think about financing strategy

How universities finance their borrowing can be big news: there have been regular headlines about big sums raised on the bond markets or private placements. As the right approach for each institution might not be immediately obvious, KPMG's Marc Finer offers some advice on how to think about the decision.

## **1. Ask broad questions to preserve options**

If a particular strategic initiative gives rise to an implied funding requirement to deliver it, asking “what is the best way to fund this investment?” would be a far better a starting point than “could we fund this investment with debt?”

## **2. Benchmark decisions against clearly defined objectives, not influenced by pre-determined solutions**

Clear objectives drive the most appropriate solutions, aligned with business strategy. Specific financing routes or structures – loans, bonds, long or short-term debt, even borrowing generally – are not objectives; they are solutions, and bringing them into the conversation too soon risks the tail wagging the dog.

## **3. Consider both conventional and alternative objectives to avoid missed opportunity**

Conventional objectives include issues such as maximising affordability, reducing refinancing risk, maximising operational or capital structure flexibility during periods of transformation or ensuring relevant KPIs continue to be met.

Alternative objectives include issues such as transfer of risk, accessing third-party expertise, greater scale or pace in capital investment delivery, improving engagement with industry or other local stakeholders, navigating financial constraints such as lender or regulatory consents, navigating optical or cultural constraints such as perceptions among staff, students or the media, and safeguarding the university's estate and legacy.

Not every university will have the same objectives, priorities or constraints. Therefore, defining those objectives up front, and rigorous ongoing reference back to them as a university develops its financing strategy, should result in the most appropriate solution for the institution.





#### 4. Be realistic: focus on achievable plans, not aspirational visions

Good quality, deliverable financing transactions tend to result from plans which can withstand detailed scrutiny, and which are realistically achievable, with the flexibility to navigate an element of the unknown. In reality, not all universities or capital programmes

are easy to finance. Even liquid credit markets with HE sector appetite can be selective, the bond and private placement markets tend to be the preserve of top-tier institutions and, in uncertain times, even these institutions should take care over borrowing if there is no clear near-term use for the capital raised.

*This article is an excerpt from one KPMG's Marc Finer (marc.finer@kpmg.co.uk) wrote for Wonkhe.*

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