

PRESS RELEASE

24th April 2009



Government must confront failing universities, says report

The government must confront the possibility that a university could go under, or that private providers be allowed to step in to take over all or part of a failing institution, according to a new report by think tank Policy Exchange.

'Sink or Swim? Facing up to failing universities' argues that given that the Higher Education Funding Council for England will distribute just under £8 billion of public money to 131 institutions in 2009-10, the current 'no-fail culture' must be scrutinised.

There have been 27 university mergers since 1997, but there is little or no information available about them and there has been no political discussion about dealing with failing institutions.

Outside London the economic and social impact of a major university going under would be so great that a merger – carefully planned and with a clear institutional mission – would almost certainly be the preferred option.

Yet within the capital, where there are an astonishing 42 higher education institutions competing for students, there should be a realisation that a university could close, if that is shown to be the best use of public money, the best way of ensuring standards in higher education, and assuming that students can be satisfactorily located elsewhere.

The government should also consider allowing private providers to take over all or part of a failing institution, especially where no other suitable university partner is keen to step in.

Currently private providers cannot receive funding from HEFCE, but the government could overcome this problem by offering a contract to a private provider to deliver particular education services.

Anna Fazackerley, Head of the Education Unit at Policy Exchange said:

“The deeply-embedded culture of shoring up struggling institutions as fast and as quietly as possible means that universities are unable to learn lessons from failure in other institutions.

“Any move to close a London university in the future would obviously be a very serious matter, and a number of issues would need to be carefully resolved, not least ensuring that the interests of existing and future students are protected.”

ENDS

Notes to Editors

1. Outside London many universities are the largest or second largest employer in their locality, thus the economic impact of a key institution going under in the provinces would be extremely detrimental. Similarly, the loss of student provision in these areas could have very serious social consequences. Consequently, the report argues that outside the capital mergers and partnerships should be explored wherever possible when a university faces possible bankruptcy.
2. However, in London the environment is very different, and all of the senior university figures we spoke to agreed that the loss of an institution in the capital is far from unthinkable. The merger of London Guildhall University and the University of North London to form London Metropolitan University in 2002 was driven partly by a realisation that there were too many similar institutions competing for students in the same space. This remains a problem.
3. In July 2008 HEFCE cut London Metropolitan's grant for 2008-09 by £15 million, following the discovery that it had made incorrect student data returns. The funding council is currently trying to claw back £36.5 million in grant money for the years 2005-6 to 2007-08.
4. Private providers might not be suitable or willing candidates to take over an entire university, but they could have a useful part to play if an institution is broken up into smaller parts. One private company told us that they would look to move into vocational subjects such as business, law and technology. In the US there is also quite significant private provision in health and education courses.
5. The number of plausible candidates for any merger is often very limited. Allowing private companies to bid may provide better value for money for the taxpayer. Moreover, private education providers have much greater access to capital, not to mention significant expertise and potentially more efficient management systems where poor management has been at the route of an institution's problems.

Report Recommendations

- The government should consider allowing private providers to take over all or part of an institution in the case of failure. Currently private providers cannot receive funding from HEFCE. The government could overcome this problem by offering a contract to a provider to deliver particular education services. This could be an acquisition or the private provider could effectively rent the university under a Private Finance Initiative agreement.
- The government must clarify exactly what powers HEFCE has to intervene in the case of failure. We suggest that HEFCE should have a definite remit to suspend a university's grant and remove the management team if there is evidence of serious mismanagement.
- The somewhat casual system of five-yearly one-day light touch checks by the funding council is insufficient. The government should initiate a debate about the best way forward. Options could include mission groups such as Million Plus or The Russell Group undertaking an annual audit of their institutions, or the funding council amending their institutional risk criteria to allow for a larger number of universities with potentially weak finances and management to be audited regularly.
- At a time when the sector is facing considerable change, and with some institutions demonstrating an inability to clearly define their strategic mission, HEFCE should take steps to improve its network of regional advisers to offer better advice and guidance to institutions.

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