

## The Third Revolution

A major series investigating how new forms of capital and constitution are set to reshape higher education in England

# The truth about Middlesex

LIKE PLENTY OF OTHERS, Middlesex University has set its tuition fees at £9,000 a year for all undergraduates from 2012. But the former polytechnic in north London is spending little on subsidising poor students. So the cost to new entrants will be an average of £8,602 after fee waivers and bursaries—the second highest figure in all England’s universities<sup>1</sup>.

That news has divided opinion. On one side are critics such as economist Tim Leunig from the London School of Economics and, in his capacity as chief economist at the thinktank CentreForum, author of the recent report *Universities Challenged*. He senses that students are being exploited. “In no shape or form is Middlesex one of the jewels in the British university system. *The Times* puts it in the bottom 10 universities by student satisfaction, it has the fourth lowest entry standards, and scores badly on staff-student ratios, graduation rates, graduate prospects and so on,” he wrote on the CentreForum blog<sup>2</sup>.

On the other side are those such as columnist Suzanne Moore, who in *The Guardian* defended the university as the bastion of radical, working-class emancipation she attended 30 years ago.

“We worked hard. We read everything in the original whether it was Freud or Lévi-Strauss. I was transfixed by scholars such as Claire Pajaczkowska, who wore Doc Martens but were bringing us poststructuralism straight off the press.”<sup>3</sup>

But how much does either side know about the Middlesex University of today? Despite Leunig’s assessment, on some measures Middlesex is already among the most efficient universities in the country—yet it is still struggling to make ends meet. And regardless of Moore’s fond memories, as the financial squeeze tightened last year, Middlesex disposed of its celebrated European philosophy unit—still full of talented radicals.

Middlesex has become a screen onto which observers project their own assumptions. But see it for what it is and you get a glimpse both of what universities have become in the past 20 years and how the govern-

## 1. Privatisation

by Andrew McGettigan

am@ResearchResearch.com

Series editor: William Cullerne Bown

ment’s legislation<sup>4</sup> may transform them in the coming decade. For Middlesex has already mortgaged itself to the hilt and is a good bet to become the first university in England to be privatised.

Middlesex describes itself as an “International university with roots in London” and has long been in the vanguard of attracting students from overseas. In 1995, it was the first UK university to open overseas recruitment offices. A year later, Michael Driscoll took over as vice-chancellor. By 2000, he had drawn up a strategy that aimed to capitalise on this early advantage, a decision that also involved rationalising its chain of north London sites into “fewer, better” campuses.

### An international university

Fifteen years after taking the helm, Driscoll is one of the longest serving vice-chancellors in the UK and the effects of the international strategy have become obvious. Middlesex is down to two London campuses and has an unusually high proportion of overseas students, paying fees of £10,400 per year.

The university has declined to discuss most of its affairs with us on the grounds that they are commercially sensitive. But a picture of its position can be built up by examining public statistics, its past financial statements and some internal documents that we have seen<sup>5</sup>.

These sources reveal that about 4,400 of its 22,000 students in London are from outside the EU. Last year, full-time students paying overseas fees contributed £29.6 million, roughly 17 per cent of the university’s total income—nearly double the average at English universities and 15 per cent up on the previous year

*Continued on page 3*

# The Third Revolution

One revolution is usually enough. But England's universities today are already dealing with two. And a third is on the way.

The one good thing about the student riots, high-pressure debates in Parliament and chaotic policy-making at the end of 2010 is that they brought home the scale of the change that MPs were voting on. All sides recognised that the replacement of universities' block grant for teaching with tuition fees, the rise in fees and the increase in student borrowing were momentous changes.

In the months since, fear of a second upheaval—the introduction of a competitive market for students—has transfixed universities. Universities have recognised the potentially huge impact of an expanded market and have rushed to plan for the new world.

## Spaghetti soup

Meanwhile, relatively unnoticed, a third revolution has been initiated by the White Paper and expanded on in a technical consultation published in August. It promises to redefine the constitutional foundations of higher education, changing what universities are, who owns them and who can offer degrees. This in turn opens the door to a flood of private money for universities. Brace yourself for a spaghetti soup of financial engineering. Privatisation. Securitisation (in two flavours). Monetisation. Financialisation. All are on the way and you will need to know the difference.

Perhaps if all our universities were well capitalised and confident of future income—or at least supported by a nurturing funding council—these changes would not matter so much. There would be little incentive for universities to change their constitutional status and strike transformative deals with suppliers of capital.

But the two administrative boundaries created by the government in the market create disruptive pressures. Crushed below the £7,500 threshold, many of England's universities have limited reserves, substantial borrowings, small operating margins and uncertain prospects. At the AAB+ cliff, the Higher Education Policy Institute has warned of an "arms race" as universities spend heavily to woo our best educated (and often richest) students.

Elite universities will be fine. But many others may have no choice but to embrace the third revolution. What could this mean for academia? Here are some of the more obvious possibilities.

A one-off flood of borrowing in the form of bonds as universities compete for students in a zero sum game.

Privatisation, the transformation of charities dedi-

cated to serving the public into private companies that put shareholders first.

The pledging to private investors of future fee income, with the need to maintain a AAA credit rating trumping everything else.

Degrees without universities—the end of a thousand years of history and the principle that a university is defined by a self-critical community of scholars.

By altering the fundamental objectives of universities, these changes may lead to impacts on students and society that we can only guess at. All told, the third revolution has the potential to transform higher education and its role in our country even more powerfully than the first two revolutions.

## Hidden fangs

University leaders are swamped with urgent demands. With recruitment for 2012 underway, their institutions are entering a period full of mystery and risk. And the White Paper published in June has spawned a series of consultations, each with potentially powerful consequences. Meanwhile, the political environment remains unstable.

In these circumstances, it is no surprise that the potentially profound but more distant consequences of the third revolution are being overlooked. Neither the White Paper nor the technical consultation lays out any concrete proposals or even describes the current legal framework and problems. And as the Cambridge historian Stefan Collini has written, "the blandest phrases hide the sharpest ideological fangs". Take, for example, this from the technical consultation:

"We need to balance the potential benefits against the concern that, as the assets of a university have been acquired over time, partly as a result of direct public funding, there is a wider social interest which may need to be protected."

Who would guess that this is the gateway to the privatisation of the post-1992 universities?

No doubt Universities UK, its lawyers, the government and HEFCE grasp the issues. But little substance is yet in the public realm. The prospect of radical legislation without informed debate is all too real.

The Third Revolution is a series of articles aimed at initiating this missing debate. It represents the biggest, most research-intensive investment in an editorial project that Research Fortnight has ever undertaken. We hope that you will write to us at [comment@researchresearch.com](mailto:comment@researchresearch.com) with your thoughts, and we hope to publish many of them in the weeks to come.

### *Middlesex from cover*

thanks to what its most recent financial statement calls “strong growth in south Asia”.

The university also receives income from thousands of students studying overseas in what it calls a pioneering international strategy with three strands. The most conventional of these has 7,300 students at more than 25 overseas partner institutions studying courses validated by Middlesex. The partner develops and delivers the programme, but Middlesex assures its quality and awards the final qualification. Around 100 degree courses, including some master’s, are run in this fashion and validation fees brought in £3.6m in 2009-10.

Then there are the ‘articulation agreements’ Middlesex has formed with around 80 overseas colleges. These allow students attending the partner institutions to transfer into Middlesex’s undergraduate degrees part way through. This allows students in, say, India to keep the cost of their British degree down by spending less time in the UK. The university does not disclose how many students are involved but it may be 10,000 or more.

Finally, there are two overseas campuses. Dubai, opened in 2005, charges \$12,603 a year (about £7,700). Mauritius, opened in 2010, charges £3,750<sup>7</sup>.

The Dubai campus was set up with a local partner, Edulink, a consultancy. The Mauritius campus is a

partnership with the Jagadguru Sri Shivarathreeswara (JSS) Mahavidyapeetha, a religious conglomerate that runs around 300 educational institutions in India. The size of the Mauritius campus is not known, even to many of the London staff, but Dubai has more than 1,000 students.

Middlesex has also put a lot of effort into preparations for a third site in Noida, a town about 15 miles southeast of Delhi.

Middlesex is not, then, the stereotypical post-1992 university, struggling along in the shadow of its more prestigious neighbours. It is an aggressively entrepreneurial operation focused on south Asia. The conventional wisdom is that overseas campuses are

trouble, and all the English universities put together have fewer than 10,000 students on such campuses. But where others have seen problems, Middlesex has seen opportunity. It won the Queens Award for Enterprise in 2003 and again this year for international trade.

But the expansion has come at a price. To finance it, Middlesex has either sold most of its prime assets or borrowed heavily against them. In recent years, the strain has begun to show.

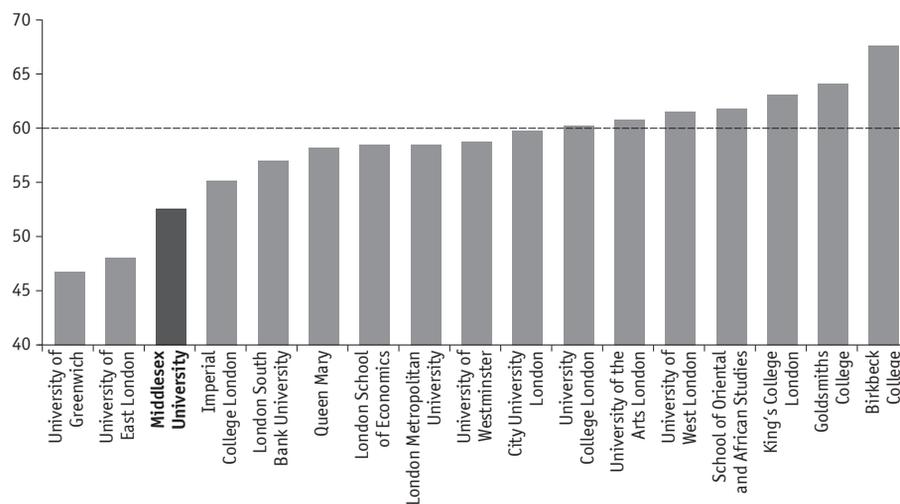
### **Finances under pressure**

Like a football club, a university’s main expense is its staff. Middlesex has already “rationalised” its staffing costs through outsourcing and efficiency drives. These now account for just 52 per cent of its income<sup>6</sup>, one of the lowest figures in higher education, where 60 per cent is not uncommon. Further savings are therefore difficult to make here.

Despite this, since 2006 the university’s operating

#### **Little room to manoeuvre**

Staffing costs as a percentage of expenditure in 2009-10



Source UCU HEI Financial Data 2009-10

surplus has, like most universities, been below the 3 per cent benchmark set by the Higher Education Funding Council for England.

On the capital side, part of the strategy begun in 2000 was a major re-engineering of Middlesex’s assets. The university has sold off most of its campuses—Enfield, Bounds Green, Tottenham and, most recently, Cat Hill. Meanwhile, it has invested £155m during the past nine years in capital development. The university would not confirm how much, if any, of this was spent on its overseas expansion.

Its two remaining campuses are Trent Park, a former stately home with attractive grounds, and Hendon, which is getting a hyper-modern art, design and media

building. The university therefore will have two of the things overseas students look for in a UK university—heritage and state-of-the-art facilities.

Some of the £155m has been borrowed against mortgages on the two London sites, which total close to £52m. A further £12m is included in the accounts as long-term credit on a leaseback scheme for student halls. On top of this, in 2009-10 Middlesex secured a loan facility of £55m with Lloyds bank to help pay for the new arts building. Of this loan, £19.5m was accessed in 2009-10. So in total, at the end of that year, Middlesex had £83.5m of long-term mortgages and loans.

Is that a lot? Both unions and the ratings agency Standard and Poor's use debt-to-income ratio to assess the creditworthiness of universities. Middlesex's ratio is 48 per cent in a sector where the average has remained around 20 per cent for the last decade.

In 2010-11, Middlesex was proposing to tap into the remaining £35.5m of its loan facility, which could take its long-term debt beyond £100m. By the standards of the sector therefore, Middlesex is already deep in the red and about to go deeper.

One probable sign of the strain this is causing is that the university has recently accepted higher interest charges in order to defer capital repayments. The annual accounts<sup>8</sup> for 2008-9 show two fixed-rate mortgages on the Trent Park campus, one for £8m at 5.645 per cent until 2035 and one for £4m at 5.125 per cent until 2030. The university has been paying only the interest on the mortgages, leaving capital repayments until a later date. But last year it consolidated the two into a new mortgage of £12m at a rate of 6.595 per cent. The higher interest rate will cost the university an additional £135,000 a year, but the new mortgage defers capital repayments further, terminating in 2037.

### Jewel in the crown

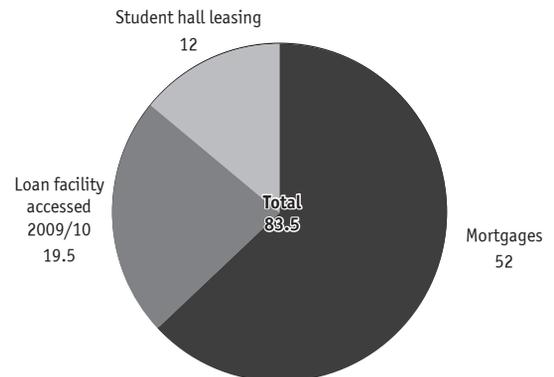
This combination of international focus and financial strain resulted in a curious transaction last year involving the Centre for Research in Modern European Philosophy<sup>9</sup>.

From a scholarly point of view, the centre had long been the jewel in the university's crown. In the 2001 Research Assessment Exercise, it won a grade 5 rating. In 2008, it was Middlesex's most successful unit with 65 per cent of the work submitted being ranked as either internationally excellent or world-leading, putting it joint 14th out of 42 UK philosophy departments and outscoring Sussex, Warwick, York and Durham.

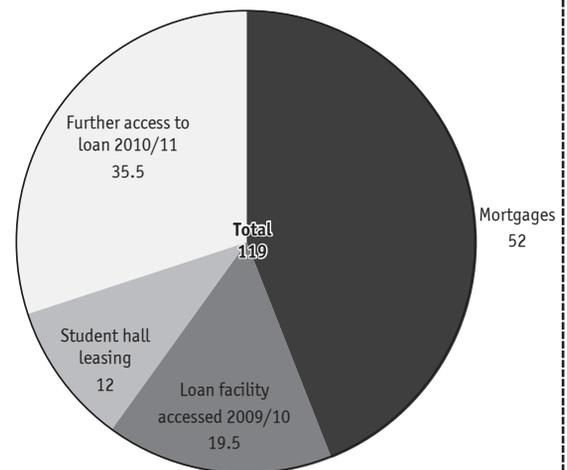
But last year Middlesex allowed all this hard-to-recruit talent, along with three master's courses and their students, to move to nearby Kingston University. Middlesex, however, is keeping—at least until the next assessment exercise in 2014—the annual allocation of research funds that the centre earned in 2008.

### Middlesex's increasing debt

Long-term creditors 2009-10 (£m)



Long-term creditors projected 2010-11 (£m)



Source Middlesex University Financial Statements 2009-10

In other words, HEFCE will continue to give Middlesex about £173,000 each year for research by a philosophy unit that the university no longer has. HEFCE says this arrangement is acceptable. Middlesex, then, has off-loaded some substantial staff costs while retaining the centre's research income. But this income will terminate after 2014. Thus the university has traded a long-term asset for short-term cash—a move that makes a kind of business sense, since it needs the money now and few Asian students have shown an appetite for radical philosophy.

The international strategy is so entrenched that one member of staff based in London says, "It's practically impossible to get any programmes validated here unless there is a provable overseas interest."

The big picture is clear: Middlesex has used the proceeds from the sale of its north London sites as collateral to finance an overseas expansion. Others have set out on the same path, but Middlesex has gone further than any

other university bar Nottingham, and on shallower foundations. The merits of this strategy can be debated; it certainly fulfils the frequent calls by ministers and leading officials over the years for institutions to diversify. But narrow operating margins, lack of reserves and large mortgages meant that come 2010 Middlesex was in no place to deal with unexpected bad news. Then the coalition arrived.

### Reacting to the revolution

The revolution in higher education embarked on by the coalition government since it entered office last May has clouded the future of all UK universities with uncertainty. Middlesex will ultimately lose £35m a year from its teaching grant and no one knows how many students will be willing to pay sharply increased fees in 2012. All universities are concerned. But for Middlesex, with narrow operating margins and a high debt-to-income ratio, the risks are heightened.

In addition, Middlesex is suffering from its decision, reflected in its investment in the showpiece arts block, to prioritise band C disciplines such as design. Other former polytechnics have focused on the humanities (band D disciplines such as philosophy). Band C courses are more expensive to run because they need specialist facilities, but under the old regime attracted more funding per student from HEFCE. However, from 2012-13, there will be no distinction—unlike science and engineering, HEFCE will provide no funds for either band. In short, its disciplinary mix means Middlesex has a higher cost base than many comparable institutions.

Nonetheless, if it can get to 2015, when all undergraduates will be on the new fee structure, an optimistic scenario for Middlesex reads something like this. It sticks to its plan to charge UK and EU students an average of over £8,644 in fees after waivers. The students grumble but continue to come. In this case, the net effect of the coalition's reforms will be greatly to the university's benefit.

For example, for 2011-12 Middlesex's combined income from HEFCE grant for approximately 9,000 full-time undergraduates studying band C and D subjects is modelled at £30.8 million<sup>10</sup>. At current levels, these students would also contribute £31m in tuition fees, making close to £62m in total income. By contrast, under the new regime at £8,644 a pop after fee waivers, the same number of students would yield close to £80m, a rise of £18m. Of this, Middlesex has committed £3m to outreach and retention initiatives. So the net gain is £15m, or 24 per cent.

In time, inflation and the market mechanisms being introduced by the government might depress these gains. Even so, such a one-off win in the first few years of the new regime could transform the university's finances. Is it any wonder that Driscoll, with his

institution enveloped in policy and market uncertainty, heavily in debt and aware of the 200,000 wannabe students who tried and failed to find a place at any university in 2010, has pitched fees at the very top of the allowed range? After 15 years of struggling to make his international strategy pay off, Driscoll is on the verge of being rescued by fees levied against some of the poorest domestic students.

But even if student numbers do hold up at the £9,000 price point, Driscoll still has to get Middlesex to the new world. Unfortunately, another coalition policy has already hit the core of the university's strategy and income. Ministers have changed the visa regime for overseas students, scrapping for many students the visa extension that allowed them to work in the UK for two years after graduation.

Terry Butland, a deputy VC at Middlesex, said in July that he expects a 50 per cent fall in students from India, costing the university £5m next year<sup>11</sup>. Lenders in India appear to be refusing to finance students to come to Middlesex because they no longer have the option of paying down their loans by working at London rates for a year or two after graduation.

### Redundancies

The combination of a large cut in guaranteed income, uncertainty over future fee income and increasing evidence of a slowdown in overseas students has triggered a series of urgent moves this year by the university to keep its finances on track.

Anticipating trouble, the university began the 2010-11 academic year seeking to raise an additional £10m from international and postgraduate student fees. But by March, Driscoll was emailing staff to say, "Our confidence in achieving this level of additional income has been dealt a severe blow by the government's approach to visas for foreign students. Government policy remains unclear on the criteria for student visas and on whether students will continue to be able to work in the UK for two years after graduating. This uncertainty is having a significant negative effect on overseas student demand, especially from south Asia."

Driscoll continued that Middlesex was setting its 2012-13 fees at the maximum to "avoid the need for drastic cost-cutting", to compensate for additional anticipated cuts in funding and to finance additional costs for the Hendon development. In total, the university needed to make savings of £9m in the coming year, 2011-12, to "remain in the same financial situation as before".

In May, Middlesex announced a voluntary redundancy programme and a spate of articles in the Indian press warned potential applicants to English universities of

'The one-off win in the first few years of the new regime could transform the university.'

weakened finances. "Indian students preparing to leave for Britain to enrol on courses from September may well check the status of their universities—major funding cuts have plunged many British universities in [sic] crisis with courses being abolished and lecturers rendered redundant," reported one story syndicated to *The Hindu* and other leading newspapers<sup>12</sup>.

By June, the picture was bleak. In another email to all staff, Driscoll said the attempt to raise additional money through overseas and postgraduate recruitment had not only failed, but that a decline in recruitment meant that an additional £1 million had to be found urgently. "It has become increasingly clear that the university faces real-term financial cuts spread over several years," he wrote. "Changes to the conditions for students to work in the UK after graduation, which makes this more difficult, have caused a sharp decline in student demand, especially from south Asia."

Now one of the least attractive cost-saving options, a compulsory redundancy scheme, is being implemented. Staff are balloting on a strike.

Finally, in July, three months before the first students were due to arrive, Middlesex's Indian partner JSS, pulled the plug on the new campus at Noida near Delhi<sup>13</sup>. There will be no Delhi tuition fees, no Delhi students transferring to London at £10,000 a year. The keystone of Driscoll's international strategy appears to have crumbled.

### Privatisation?

The squeeze on Middlesex's finances explains why it is reluctant to offer more generous financial assistance to students arriving in 2012-13, and hence in part explains why it has become the second most expensive university in England. That the Office for Fair Access in July agreed to such low spending on access also implies that Middlesex has convinced OFFA that it already does well at recruiting students from disadvantaged backgrounds.

Even before the current furore over its fees, Middlesex had pushed the financial and strategic limits of the conventional university for years. But because its investments have yet to pay off, its options for strengthening its finances in the immediate future are limited.

Additional large borrowings are likely to be difficult to obtain, owing both to a lack of security, as the London campuses are already heavily mortgaged, and a lack of operating surplus, which stubbornly remained below 3 per cent even before this year's turmoil.

Given its straitened circumstances, it would be natural for Middlesex to seek an injection of capital. As this is not going to come from the government, it can come only from the private

sector. But, like the majority of post-1992 universities, Middlesex is a higher education corporation as defined by the 1988 Education Reform Act<sup>14</sup>.

The Act places the ex-polytechnics more firmly within the public sector than older, chartered universities. One consequence is that post-1992 universities can do only what they have been explicitly enabled to do by the Act.

This means that Middlesex is debarred from certain forms of finance used by other universities in recent years. It cannot, for example, issue bonds to fund capital projects such as student accommodation.

Nor, as a higher education corporation, can Middlesex secure additional capital in the same way a private company would, by issuing shares. In short, to obtain new capital, Middlesex is likely to need to contemplate constitutional reform.

Can Middlesex, then, change itself into a private company—what is known as a company limited by share? Under the existing legislation, the answer is a theoretical 'maybe' but a practical 'no'. Here are the two steps that would need to be taken.

Step One is to convert into a company limited by guarantee. Middlesex persuades the government to establish a 'successor company' as provided for in the 1988 Act. This is an educational charity constituted as a company limited by guarantee. Its board is drawn from the university's board of governors. The government specifies which of the university's powers, assets and liabilities are to be incorporated in the new company.

Until recently, no higher education corporation had ever got even this far. But on 1 August 2011 David Willetts dissolved Leeds College of Music and transferred its assets, rights and liabilities to a new company established in April, Leeds College of Music Limited<sup>15</sup>. This successor company will become a subsidiary of Leeds City College, a further education corporation.

This done, Middlesex could, like other universities constituted as companies limited by guarantee such as the LSE and Greenwich, issue bonds to raise capital. However, it would not be able to sell shares to investors. To do that, it would need to go on to Step Two and become a private for-profit company. Here's a route by which Middlesex might be able to do it via a management buy out, but bear in mind: there is no case history in this obscure branch of the law; both HEFCE and the legal firms specialising in this area have declined to discuss the issues involved; and the technical consultation<sup>4</sup> on the White Paper is also silent on the matter.

In Step Two, a new private company (one limited by shares) is created. Some shares are owned by the existing managers of the university, possibly including both governors and senior staff. The private investors providing the capital for the buy out own the rest.

A contract is drawn up transferring assets and liabilities from the old company to the new one, in

'Middlesex has pushed at the financial and strategic limits of the conventional university for years.'

return—potentially—for a payment. From this point, the new company awards students their degrees. Whether existing employment and pensions legislation would oblige the university to also transfer staff is unclear. Now, Middlesex has become an entirely private university, run by its shareholders for profit. There would also be a rump company limited by guarantee that might need to be wound up.

That is the theory. But the fact is that only one higher education corporation has ever got as far as simply becoming a company limited by guarantee, let alone gone fully private.

One practical impediment to Step Two is the degree-awarding powers. At present, it is not clear whether the new for-profit company would have to reapply, possibly to the Privy Council, to reacquire this power.

### Theory and practice

More serious is the question of charitable protection for the assets of higher education corporations, provided by taxpayers and donors over the years. Middlesex's Trent Park campus, for example, was a bequest. Under the 1988 Act, the property of a higher education corporation must be held in trust and used only for exclusively educational and charitable purposes. If the university ceases to be an educational charity, then the property must be vested elsewhere in something that is.

"There would be an issue around the transfer of assets from the public entity to the for-profit entity," says David Palfreyman, director of the Oxford Centre for Higher Education Policy Studies and co-author of *The Law of Higher Education*<sup>16</sup>. "Leasing is one option. But if the public entity ceases to exist, such assets would in theory *cy pres* to the nearest appropriate charitable use—that is, have their ownership transferred and become the property of, say, a neighbouring university."

In Middlesex's case, the assets to be retained by the charity would include the campuses at Trent Park and Hendon. As these provide the security for the mortgages, it would also mean that the liability to repay the mortgages would have to stay with the charity. But now the charity faces the problem of convincing itself and the lenders that it will be able to pay off the mortgages.

The charity was already struggling financially; now it no longer has an income stream. So a probable condition of the transfer of operations to the for-profit company would be sufficient proceeds

to pay off the mortgages. Given the size of the university's debt, the cost of the initial transaction for Middlesex would be over £100m, probably enough to put off all but the most starry-eyed investors.

So the provisions of the 1988 Act seem to create an impenetrable barrier, making privatisation of post-1992 universities a de facto impossibility. Without the transfer of property, none of the re-constituting makes sense.

Following lobbying by Universities UK for additional flexibility, the White Paper explicitly recognises the objective of attracting private investment and intervenes at the two pinch points, conversion into a company and transfer of assets. Section 4.36 states:

"Our consultation on a new regulatory framework will explore whether to implement legislative change to make the process of changing legal status easier."

This offers the prospect of a simpler process for higher education corporations and others seeking to liberalise their constitution. For Middlesex, it could make conversion into a company limited by either guarantee or shares a practical proposition. The debate initiated by the White Paper is not

just about making privatisation easier, but making it possible.

The White Paper continues:

"We would ensure that, as the assets of a university have been acquired over time, partly as a result of direct public funding, the wider public interest will be protected in any such change of status."

This wording is weaker than the equivalent passages in the 1988 Act. Under the White Paper, it would seem possible to argue that selling—or gifting—the assets to private investors was saving Middlesex from ruin, and therefore in the public interest. Indeed, this was precisely the argument relied on by Willetts in the Leeds music case last month. His statutory instrument says, "KPMG advised that the merger with Leeds City College is the option most likely to ensure continued provision of higher education courses, and therefore current and future students, and is unlikely to affect further education provision." On these grounds, and unlike now, the assets could end up in private hands.

The technical consultation on the proposals published by the Department for Business, Innovation and Skills in August weakens the language on asset protection still further, seeking only to "balance the potential benefits" of changing status against any "wider social

### Global reach

Students registered at overseas campuses 2009-10

University College Birmingham	245
University of Chichester	55
Cranfield University	905
University of Exeter	65
University of Kent	335
Middlesex University	1,040
University of Nottingham	7,030
St George's Hospital Medical School	5
University College London	20
<b>Total England</b>	<b>9,695</b>

Source HESA 2011

'Are we prepared to see some areas become badly served if universities find other markets or fail?'

interest that may need to be protected". Whether such a wider social interest exists, in other words, is now up for debate.

In short, the White Paper opens up a route to privatisation for both universities and their assets via first a transmutation into a charitable company limited by guarantee and then the transfer of both operations and property to a private for-profit company.

Though the number tempted is likely to depend on the market and regulatory environment, privatisation is a possible course for many other universities.

A report produced by the law firm Eversheds in 2009 for Universities UK concluded, "We think that a number of higher education corporations may seek to convert to companies limited by guarantee or possibly companies limited by shares over the next few years."<sup>17</sup>

If the regulatory environment is right, there should be no shortage of private investors with the kind of capital required to enable the privatisation of major institutions such as Middlesex. In 2009, the US giant Apollo paid \$600m for the for-profit higher education provider BPP, which was granted the power to award degrees in 2007. Apollo is frequently mentioned in academic circles as a potential buyer of another troubled higher education corporation that could seek privatisation, London Metropolitan.

### Questions

It is possible to envisage Middlesex in 10 years time as a private company teaching mostly international students. But it is also striking how far down that path the existing regime has already taken it.

The 1988 Act explicitly established the new universities with a local focus. For example, there must be a

majority of local business people on their governing boards. But as far back as 2004, the Tottenham MP David Lammy was ringing warning bells after the university abandoned plans for a campus in his area.

"Middlesex was a past pioneer of widening participation—now it's planning to close down operations in the second poorest borough in London. I was fundamentally committed to the polytechnics and the very important role of modern universities in communities like mine," he told a newspaper<sup>18</sup>.

Since then the university's international revenues and focus have only increased. If nothing else, Middlesex is proof that diversity of mission has always been possible.

It can also be argued that the assets that Middlesex had in 1992 have already been largely privatised. The campuses are heavily mortgaged and the university has deferred repayment of the outstanding capital. Such obscured privatisation is one possible consequence of a trend, already well established in universities, of bringing in private capital to finance expansion.

So Middlesex raises two questions for the future of the UK's higher education system. How much does the local role of universities matter—are we prepared to see some areas become badly served if universities find other markets or fail? And are we prepared to see universities and their quasi-public assets privatised—with the loss of the public-service ideals and the democratic oversight that implies? The recent riots in London, overwhelmingly in areas such as Tottenham that have little or no higher education provision, cast a new light on these issues.

## Next in The Third Revolution Bonds

### References

1 [http://www.timeshighereducation.co.uk/Journals/THE/THE/7\\_July\\_2011/attachments/Access%20agreement%202012-13%20-%20tables.XLSX](http://www.timeshighereducation.co.uk/Journals/THE/THE/7_July_2011/attachments/Access%20agreement%202012-13%20-%20tables.XLSX)

2 <http://centreforumblog.wordpress.com/2011/07/12/university-fees-are-too-high-the-system-has-failed-tim-leunig/>

3 <http://www.guardian.co.uk/education/2011/jul/13/in-defence-middlesex-university>

4 <http://discuss.bis.gov.uk/hereform/>

5 Private communication

6 UCU data and private communication

7 <http://www.mdx.ac.uk/business/>

partners/international/international/index.aspx

8 <http://www.mdx.ac.uk/aboutus/Strategy/financial/index.aspx>

9 See also <http://www.afterall.org/online/the-matter-at-middlesex>

10 [http://www.hefce.ac.uk/pubs/hefce/2011/11\\_20/](http://www.hefce.ac.uk/pubs/hefce/2011/11_20/)

11 <http://www.timeshighereducation.co.uk/story.asp?storycode=417026?>

12 <http://www.hindu.com/edu/2011/05/30/stories/2011053050250300.htm>

13 Research Fortnight Today, <http://bit.ly/qyrRMG>

14 <http://www.legislation.gov.uk/ukpga/1988/40/section/128>

15 <http://www.legislation.gov.uk/uksi/2011/1677/contents/made>

16 Farrington & Palfreyman the Law of Higher Education (2006, OUP. Second edition due 2012)

17 <http://www.universitiesuk.ac.uk/Publications/Documents/PolicyCommentary2.pdf>

18 <http://www.guardian.co.uk/education/2004/may/11/highereducation.administration>