

# Speech: Jo Johnson: speech to UUK annual conference

Thank you for inviting me to join you again at the Universities UK (UUK) annual conference – I am particularly glad to have a chance to visit Brunel University, here in my brother's wonderful Uxbridge constituency.

Much has happened in the world of UK Higher Education since I spoke at last year's conference.

A General Election, of course, and I note that Uxbridge, like some other university seats, now has a rather smaller Conservative majority.

Sorry about that.

But happier milestones too, in the higher education reforms that we launched following the election before last, in 2015:

- The Higher Education and Research Bill completed its journey through Parliament, passing into law on the last day before Parliament dissolved.
- We published the first Teaching Excellence Framework, highlighting the quality of teaching and graduate outcomes throughout the system.
- We announced in the Autumn Statement an additional £4.7bn funding for science, the biggest increase in public R&D funding since 1979
- We charged the Migration Advisory Committee with the task of undertaking a very welcome review of the economic impact of international students
- And we have great leadership in place for the two bodies that will drive our reforms, the Office for Students (OfS) and UK Research and Innovation, in SMB/ND & SJK/SMW

In all of these undertakings, I am profoundly grateful for the support, advice and cooperation I have received from UUK and its members.

The election may now be two months ago, but Higher Education remains in the political spotlight.

As Alistair Jarvis recently observed in his first speech as your new chief executive, UK universities are under intense scrutiny.

Student finance, of course, played a prominent role in the General Election campaign.

Since then, the question of whether universities are providing students with a fair deal has become ever more pressing. We all see it in the media; I hear it from constituents and parliamentary colleagues, and you I am sure hear it from your students.

Today, I would like to examine these criticisms and ideas, and discuss with you what you as sector leaders need to do to ensure it sustains public

support.

## **Two critiques of Higher Education**

Recent criticisms of higher education in the UK fall into two distinct camps: we might call them the Statists and the Pessimists.

The Statists direct their criticism at student finance. They argue that the most important thing we can do is to abolish tuition fees. As I said in my recent speech to Reform in July, this belief is not just wrong; it is 180 degrees out. By sharing the costs of HE between students and taxpayers and consequently putting ourselves in a position in which we could remove student number controls, we have in fact started to transform access.

There is more to do to bridge a still yawning participation gap and we always keep the system under review to ensure it remains fair and effective, but young people from the most disadvantaged areas were 43 per cent more likely to go to university in 2016 than they were in 2009 and 52 per cent more likely to attend highly selective universities.

Make no mistake: if fees were abolished, we would soon see the reintroduction of student number controls. And the return of rationing demand for 'free' higher education would see the poorest and most disadvantaged would miss out.

Life chances would be irreparably damaged, social mobility thrown into reverse.

We've also seen before what full public funding means for our universities when they have to compete against other public spending priorities in annual budgeting rounds: dramatic fall in per student funding of the kind we saw in the UK in the decades before fees – when per-student resource fell by over 40 per cent.

This would lead to the humbling of currently world-class institutions, and widespread closures of departments and even whole universities.

And we've seen what this means for taxpayers, including those who have not had the chance to go to university, who have to pay in full for the cost of degrees that will increase the income of what, under a reimposed student numbers cap, will be an increasingly privileged cohort of students.

That is the Statist proposition – bad for social mobility, bad for university funding, bad for taxpayers.

The second group of critics, the Pessimists, have an altogether bleaker view of Higher Education.

They argue that university is inappropriate for many students, that student numbers should be significantly reduced and that students should pursue other types of post-18 education.

The pessimists' desire to improve alternatives to university is laudable:

indeed, it is a core goal of this government's education policy.

- That's why we have instituted the Apprenticeship Levy, which will raise £2.8 bn to fund 3 million apprentices over a five year period
- And it is why we are pushing ahead with an ambitious post-16 Skills Plan that will bring in the new T-level qualifications.

Post-18 education is not a zero-sum game, where to improve further education we must restrict and ration higher education to a privileged few; the Government's aim is that both must be excellent, and that students should have reliable information to allow them to make the choice that is right for them.

But the Pessimists' broader charge against Higher Education is weak.

The pursuit of knowledge is the hallmark of a civilized society and for many people a sufficient end for the higher education system in and of itself.

That said, we must accept that the transition from an elite to a mass system of higher education brings with it an expectation of a strong economic return too.

We must be vigilant for signs of diminishing returns from the expansion of the sector.

This government has no target for the proportion of young people it wants to see entering higher education – rather it wants the size of the sector determined by the needs of learners and the demands of employers for graduates with the skills acquired through higher education.

Indeed, as we invest in and improve other forms of post-18 education and training, we may well see that the percentage of 18 year olds choosing to go to university falls. This outcome should not in itself trouble us.

But it is true that we are today approaching the 50 per cent proportion of 18-30 year olds targeted by Labour 15 years ago and it is a good moment to pause to assess the evidence.

Overall, it is clear that the contribution higher education makes to individual lives and society today remains formidable and far-reaching and that limiting access to these benefits to a narrow elite would deprive thousands of young people routes into fulfilling careers.

Graduates on average have better paid jobs. They are more likely to be a source of innovation and growth. And they have both greater promotion prospects and a lower risk of unemployment.

The benefits to the individual of university study go beyond the financial. Graduates also enjoy better health, longer life expectancy, and higher levels of civic participation.

Some pessimists argue that the benefits graduates receive from higher education are being eroded as the sector has expanded. We monitor this

exceptionally carefully.

In fact, even as the sector has grown and more young people have entered higher education, the direct wage benefits have endured. Graduates on average still enjoy a large wage premium, worth some £170,000 additional earnings over a lifetime for a man, and £250,000 for a woman.

Other pessimists accept the evidence that graduates enjoy higher average wages, but argue that these benefits have little to do with what students learn at university.

A university degree, they claim, acts as an expensive badge to show employers which young people are most likely to succeed, rather than providing training that improves graduates' ability to do their jobs. (In the language of economists, they argue that the value of a university degree consists mainly of signalling.) The implication is that society as a whole would be just as productive with much less higher education and could spend money better elsewhere.

A range of evidence suggests the pessimists are wrong, and that economies with more university graduates enjoy higher rates of economic growth overall.

A recent LSE study examining 15,000 universities across 78 countries found that doubling the number of universities per capita increased GDP by over 4 per cent, with a significant part of the effect coming from the benefits of having more educated graduates in the workforce.

A study from the National Institute of Economic and Social Research showed that 20 per cent of UK economic growth over a two-decade period came from graduate skills accumulation, and that a 1 per cent increase in the share of the workforce with a degree raises long-run productivity growth by between 0.2 per cent and 0.5 per cent.

These productivity uplifts are a sign that university degrees provide a real economic benefit, not just a prestigious credential.

A third argument I hear from pessimists is that because our productivity as a country has stagnated even as numbers in higher education have increased, higher education cannot be economically useful; this is not infrequently cited as a knockout argument to justify the reimposition of student number controls.

The logical flaw in this argument is I hope clear: it ignores the myriad factors impacting national productivity and fails to make any assessment of how we would perform as an economy with fewer graduates.

If we took this argument seriously, we would cease investing in roads, rail and any form of infrastructure, or indeed in any other bit of our education system, on the grounds there has been no uplift in our productivity coinciding with it.

## **A patently absurd proposition.**

The idea that higher education provides real and significant benefits is consistent with what we hear from employers across the country: that the economy of the future will continue to require graduates, and lots of them.

The steady rise in the level of formal qualifications held by those in employment does not simply reflect qualification inflation caused by large increases in the supply of graduates, as Pessimists maintain.

It is happening as a result of more fundamental changes in the occupational structure of the UK as a knowledge economy. Some 1.8 million new jobs will be created between 2014 and 2024, and 70% of them will be in the occupations most likely to employ graduates

What is more, international comparisons confirm we are on the right track.

Only 42 per cent of young people in the UK are expected to graduate from university in their lifetime, according to the OECD, which is lower than the average of 45 per cent, and significantly lower than Japan at 58 per cent, the US at 53 per cent and New Zealand at 58 per cent.

The idea that cutting numbers of people with higher levels of education is the route to a more competitive economy simply does not stand up to scrutiny.

## **A Realist take on HE: accountability & value for money**

But if we take one thing away from the critics of the sector, it should be that now is no time for complacency. For the avoidance of any doubt, I am staunchly and unswervingly on your side.

But it's my duty to tell you that legitimacy is at risk of draining away from a university system that may be excellent for a clear majority but nonetheless delivers poor or questionable outcomes for a significant minority.

I am deeply concerned that for a second year, the Higher Education Policy Institute Student Survey has shown more students in England (37 per cent) believing they have received poor value than good value (32 per cent).

This risk to the sector from poor value for money was disguised when fees were absorbed in general taxation but is now a clear danger at a time when each and every student and graduate is aware of the cost of fees and of repaying loans.

Universities must be honest with themselves about what they are offering and more willing to make the reforms necessary for its future success.

We must address the weaknesses wherever they are in the system. Dame Minouche Shafik, the new Director of the LSE, was right when she observed that "too

many of the messages coming out of universities sound self-serving.”

This means taking urgent steps to ensure that a higher proportion of students feel their time and money was well invested.

If universities offer patchy teaching that does not seem to justify students' fees or degrees courses that end up with significant numbers of graduates in non-graduate jobs, those critics who mistakenly call for big reductions in student numbers will feel the wind in their sails.

To rise to this challenge, universities must embrace accountability to their students and to the taxpayer, and show that they are providing excellent value for money.

## **Our HE reforms hold unis to account for outcomes & value for money**

Holding universities to account for performance and value for money has been the key objective of the HE reforms we set out in the 2016 White Paper and enacted in this year's Higher Education & Research Act – and it continues to guide our work as we launch the Office for Students and consult on the new regulatory framework.

I note that the recent report from UK 2020 that raised concerns about the university system was positive about HERA, but worried that its reforms would be watered down as they were implemented.

I'd like to take this opportunity to assure the authors – and the HE sector, and most importantly students – that no watering down will take place. An Order has been laid in Parliament bringing the OfS into existence three months ahead of schedule.

We will shortly be consulting on the new regulatory framework that will enable us to implement the Higher Education and Research Act in full.

With this in mind, I would like to discuss five particular measures we must take to make sure we are delivering all we can for students and for taxpayers.

## **The next phase of the TEF**

The Teaching Excellence Framework (TEF) is an increasingly essential means of holding universities to account for the teaching and outcomes they deliver for students. That is why it is so central to our reforms.

The TEF is already transforming learning and teaching across the HE sector, with, for example, Imperial's vice-provost for education describing it as a 'godsend' for teaching in our system.

I'm pleased UUK's comprehensive survey of providers found that:

- 73% believe that TEF will raise the profile of teaching and learning in universities.
- 81% have undertaken additional investment in teaching, with almost half saying the TEF had influenced their decision to do so.

And there is general confidence that the overall process was fair.

I would like again to place on record my thanks to TEF Panel Chair, Chris Husbands, all the HEFCE staff involved, all the assessors and especially the student representatives, whose valuable role on TEF panels will continue.

Today, we are publishing a [policy paper](#) setting out the principal changes we are making as a result of the [lessons learned](#) exercise. We will be publishing the full document, alongside the updated TEF Specification, later this month.

We are making no changes to the overall approach, but we will be making a small number of refinements to ensure that excellence is fully recognised for all types of provider and student. These include:

- Firstly, halving the weighting of the NSS metrics. The NSS remains an extremely valuable source of information, but the new weighting will give it a more proportionate place in the assessment.
- Secondly, adapting the assessment procedure for providers with large numbers of part-time students so that we recognize excellent in part-time provision appropriately.
- And thirdly, although benchmarking will remain at the heart of TEF assessment, we will be explicitly indicating where providers have very high or very low absolute values, and allowing this to inform initial hypotheses where there are no flags.

We are also introducing a number of important new supplementary metrics.

These include:

- A new measure designed to tackle grade inflation.
- A new measure designed to take account of student labour market outcomes based on the powerful LEO datasets.

Alongside this, as I announced in July, we will be moving ahead with the subject pilots, including the piloting of a new metric on weighted contact hours. As I've said before, the purpose of these pilots is not to test whether to proceed to subject assessment, but to determine how best to do so.

Together, these changes demonstrate that we are willing to listen to suggestions from the sector about genuine improvements, but at the same time we will not step back from robustly holding universities to account for the outcomes they deliver.

# Grade Inflation

I mentioned that a new supplementary metric of the TEF would relate to grade inflation. I would like to focus on this important problem.

A degree is one of the most important investments most graduates will make in their lifetimes.

They rightly want hard work at university to be recognised and for their degree to be a currency that carries prestige and holds its value. At the same time, businesses need a degree classification system that will help them identify the best applicants for their firms.

There has been a significant increase in the proportion of people receiving firsts and 2:1 degrees over the past five years that cannot be explained by rising levels of attainment.

Grade inflation is tearing through English Higher Education.

On the face of it, the facts are shocking.

On average across the sector, there has been a threefold increase in the percentage of firsts since the mid-1990s.

In the last five years alone, HESA figures show the proportion of students who gained a first class degree has increased by over 40 per cent, with almost a quarter of students now securing the top grade, up from 17 per cent in 2011/12.

With a huge and fast-expanding 2.1 class, almost three-quarter of students now secure a first or upper second, compared to 66 per cent in 2011/12 and fewer than half in the mid-1990s.

This is a general phenomenon, but some institutions are seeing a more rapid degree inflation than others.

Over the summer, we read reports that several institutions had seen the proportion of their students securing top honours more than double between 2010/11 and 2015/16.

Meanwhile, five institutions have seen the proportion of top honours rise by at least 20 percentage points over the last five years, while 40 have seen at least a 10-point hike. Just seven institutions have lowered the proportion of firsts.

The Higher Education Academy has found that nearly half of institutions had changed their degree algorithms to “ensure that their students were not disadvantaged compared to those in other institutions”.

I made similar observations over two years ago, in my first speech to UUK, and I am disappointed that the sector seems to have made so little progress in tackling this urgent and continuing problem.



I understand that the incentives on individual providers to award more 2:1s and firsts are strong. That the proportion of 'good degrees' counts towards performance in league tables is a good example.

And I am aware that many employers use the 2:1/2:2 border as a cut-off, which also significantly increases the pressure on providers to minimise the numbers of 2:2s and below that they award. The OfS will work with the sector to deliver a solution.

Unchecked, grade inflation will undermine the reputation of the entire UK HE sector, creating a dangerous impression of slipping standards, undermining the efforts of those who work hard for their qualifications and poorly serving the needs of employers.

Grade inflation can fuel disengagement on both sides – if students know that 80-90 per cent will get a 2:1 or first from a high-reputation provider, there is less incentive to work hard – and less incentive by the provider to focus on teaching.

The challenge then is clear: we need to stop grade inflation.

I promised in July 2015 that the TEF would evolve to include incentives for the sector to tackle degree inflation and ensure that hard-won qualifications hold their value. And this is what will now happen.

As a first step, the forthcoming Regulatory Framework consultation will propose that the OfS will analyse and routinely publish annual data on the number of degrees awarded at different classifications – at the sector and provider level, and the changes that occur over time – and the OfS will challenge providers to explain data that suggests that students' degree classifications are being inflated.

This approach will, as I have said, be replicated in the Teaching Excellence Framework, which will include a new grade inflation metric that will recognize providers who are genuinely tackling grade inflation, and hold to account those who are not.

The TEF will therefore provide a counterweight to traditional ranking systems, some of which inadvertently encourage grade inflation by giving universities credit simply for the number of high-class degrees they award.

But it cannot fall to the OfS to solve the issue of grade inflation on its own – the sector itself has a clear responsibility to take ownership of this issue, and for driving forward developments to ensure that the interests of their students are, and remain, well protected.

At the very heart of this issue is a lack of sector-recognised minimum standards for all classifications of degrees. Although I have been clear that it is not for the OfS to attempt to develop new minimum standards for all classifications of degrees, I am equally clear that the sector itself has a responsibility to grip this issue.

So I am today calling on you to take swift action to define and agree sector

recognised standards for all classifications of degrees – my challenge to the sector is to start that work now, and to reach sector wide agreement over the next 12 months.

## **Student Contracts**

I have long believed that students deserve clear and accurate information about their course – including methods of assessment, expected workload, and contact hours – and information about how their fees will be spent.

We believe that universities can – and should – do more to make themselves accountable to students through the systematic use of the kind of student contracts already used in various forms by a number of institutions.

Guidance from the Competition and Markets Authority already sets out what information universities should provide in order to comply with consumer law. But it is only patchily observed across the system.

I want the OfS to play a central role in pressing institutions to comply with consumer law consistently across the sector. The aim is to embed in the system student contracts that are clear, quantifiable and fair.

We will therefore consult on making it a condition of joining the register of higher education providers that institutions clearly set out in this way how they will provide their courses so that there is full compliance with consumer law.

## **Accelerated Degrees**

Providing excellent value for money also involves offering the right mode of study for every student.

Accelerated courses are a means of giving students the opportunity to study for a qualification over a shorter period of time by increasing the intensity of study. They compress equivalent content into at least one year less than a standard degree course, but lead to the same or equivalent higher education qualification.

Evidence suggests that accelerated degrees particularly appeal to those students who have not been attracted by the prospect of three years of higher education. They include mature students – for example, those wanting to re-train – and those simply keen for a more rapid route into the workplace.

Responses to our 2016 call for evidence on accelerated degree courses indicated high interest from HE providers: 73 per cent reported seeing a demand for such degrees from students or employers.

But only a small handful of providers currently offer accelerated degrees, across a too narrow range of subjects. This must change – and we will help the sector to deliver a wider range of high quality two-year degree programmes.

Providers responding to our call for evidence indicated current in-year tuition fee caps are a significant barrier to growth, as those wishing to offer accelerated courses can only charge two 'standard' years of fees for three years' worth of tuition.

The Higher Education and Research Act 2017 includes powers to set the annual tuition fee cap – for accelerated courses only – at a higher level than their standard equivalent. This should incentivise more providers to offer accelerated courses, increasing choice for students.

Our intention is that the overall cost to students of accelerated courses will still be less than an equivalent standard course. Students on accelerated courses will incur living costs for fewer years, and HEI providers will charge the same or less in tuition fees. I will shortly be launching a consultation on the best way to set and implement the new fee cap. We hope these changes will encourage many universities to launch high quality accelerated degree programmes, leading in turn to greater choice for students and better value.

## **VC Pay**

Value for money is not just a function of the quality of education offered; it also requires universities to be good stewards of their resources.

No one in the room will be unaware of the prominence of the recent public debate over levels of vice-chancellor pay.

It is of course true that many of our universities are large and complex organisations, requiring highly skilled individuals to run them effectively. Some will be competing for managerial talent in a global market.

But it is important to remember that universities are generally still charities with a not for profit public service mission and that, when it comes to VC remuneration, finding the right benchmarks is essential.

I have heard in recent days one prominent VC noting she was paid less than footballers or bankers. If university managers want those kinds of wages, they are simply in the wrong business.

It's not obvious that the remuneration of chief executives in the private sector is a useful guide either. This is not just because corporate governance arrangements have conspicuously failed to deliver proportionality in pay in the private sector but because the risk profiles are so different.

While universities do operate in a competitive market, they are unlike most businesses in their dependence on Government for funding.

No FTSE-350 business enjoys the certainty that the higher education system benefits from in knowing that it has an uncapped flow of new customers coming to it each and every year, bearing £9,000 vouchers from the Government.

So that's why, although universities rightly enjoy autonomy, Government has a

legitimate interest in questions around institutional efficiency, both in our role as stewards of the higher education system and as its most significant single funder.

I do not want to read about VC pay in the newspapers any more than you do.

These headlines raise fears that students' fees are not being used efficiently and that governance processes, including but not limited to remuneration committees, are not working effectively.

This is why I have repeatedly urged the sector, through guidance to the regulator, to show restraint in levels of senior pay.

We need demonstrable action now to protect value for money for students and taxpayers in the future, to ensure that vice chancellor pay levels are fair and justified, and that governance arrangements around remuneration are up to date.

To this end, I am asking the Office for Students (OfS) to:

- Introduce a new ongoing condition of registration requiring the governing bodies of [Approved and Approved (fee cap)] providers to publish the number of staff paid more than £100,000 per year and to provide a clear justification of the salaries of those paid more than £150,000 per annum.
- Use its powers, which include monetary penalties, to take action if providers fail to meet these requirements.
- Issue new guidance to help Higher Education providers meet these requirements.
- Compile and publish data on the levels of HE senior staff remuneration beyond what is required under the registration condition, with a particular focus on protected characteristics such as gender and ethnicity
- Use its power to investigate further the governance of an institution through assessments of management effectiveness, economy and efficiency where there are substantiated concerns.

I am also today calling on the sector to work through the Committee of University Chairs to develop and introduce their own Remuneration Code.

This should encourage greater independence of remuneration committees, the publication of the pay ratio of top to median staff pay, and explanations of top pay increases that are greater than increases in average pay.

In addition to this new Remuneration Code, leadership and restraint is key to public confidence. I am delighted to see that an example has been set in this respect by the OfS itself.

Without any suggestion on my part, and setting an example for the sector, the new Chief Executive of the OfS, Nicola Dandridge, and Chair, Sir Michael Barber, have chosen voluntarily to cut their own annual salary by 18 and 10 per cent, respectively, which equates to a combined reduction of more than £40,000.

This kind of leadership will be crucial to the credibility of the HE sector, and to our shared commitment to accountability and value for money.

## **Conclusion**

To conclude, the university sector is under considerable public scrutiny.

Some critics focus on student finance, calling for the abolition of fees and a return to 100 per cent state funding; a route that no matter how well intentioned would, by bring about the reintroduction of number controls, be a huge backward step for access, to say nothing of its vast cost to the taxpayer and corrosive effect on the sustainability of university finances.

Others call explicitly for severe restrictions on student numbers, in the pessimistic belief that higher education provides little benefit for many students.

We can with confidence rebut these arguments, pointing to the significant benefits that graduates receive from their education, benefits which are not just financial but social and intellectual, and which accrue not just to students themselves but to the economy as a whole.

But even while we reject the arguments of the statist and the pessimists, we should welcome the scrutiny and embrace accountability.

This scrutiny is not going to go away.

The Higher Education and Research Act sets an entirely new regulatory framework for the HE sector, and marks the start of a new era.

We have the opportunity to build on the achievements of the last 25 years and create a high-quality, diverse, innovative, inclusive and sustainably funded HE system for the next generation.

It will be a system that embraces accountability and can confidently stand up to the most acute scrutiny. It could be the envy of the world.

It is vital that we address the concerns I have raised if we are to grasp that prize, so essential for the future of Britain.