



HOUSE OF LORDS

Industry and Regulators Committee

Corrected oral evidence: The Office for Students

Tuesday 21 March 2023

11.40 am

Watch the meeting

Members present: Baroness Taylor of Bolton (The Chair); Lord Agnew of Oulton; Lord Burns; Viscount Chandos; Lord Clement-Jones; Lord Cromwell; Lord Leong; Baroness McGregor-Smith; Lord Reay.

Evidence Session No. 4

Heard in Public

Questions 39 - 47

Witnesses

[I](#): Professor Dame Nancy Rothwell, President and Vice-Chancellor, University of Manchester; Professor Neal Juster, Vice-Chancellor, University of Lincoln.

Examination of witnesses

Professor Dame Nancy Rothwell and Professor Neal Juster.

Q39 The Chair: Good morning. This is the third hearing of the Industry and Regulators Committee. We are looking at the Office For Students, and we have two more witnesses this morning. Professor Neal Juster is with us in the room, and Professor Dame Nancy Rothwell, president and vice-chancellor of the University of Manchester, is online. I did not mention, Professor Juster, that you were vice-chancellor of the University of Lincoln, but no doubt that will come out in our discussions.

Can we start, as we started with other witnesses, by getting an idea of what you think the role of the OfS is, or should be, what it thinks it is, how you receive it, and whether it has been changing? Could you give an introduction on how you feel about the establishment of the OfS and how it is working? It is probably easier to start in the room.

Professor Neal Juster: Yes, that is fine. A little bit of my background is that I have been in the English higher education system for about 18 months, so I was not here when the OfS started up. I was working in Scotland as a deputy vice-chancellor, so my length of time in understanding how the OfS has developed may be slightly shorter than for some of the other people you will be talking to.

The Chair: The comparison may be as well.

Professor Neal Juster: Yes, maybe. I hope so. In my view, the OfS is doing a number of things. It has the relatively straightforward job of making a register of who is actually a higher education provider; making sure that it protects the autonomy of the universities in the sector; making sure that the sector gives value for money; making sure that there is equality of opportunity across the sector; and something that maybe has not developed as much, which is competition in the interest of employers and students. I do not think there have been many new entrants to the higher education register over the past few years. When the Bill was set up, it was expected that there might be a few more private providers in the system, but I do not think that has really happened. The sort of things that were set up in the Act remain, and as a relatively new actor in the system, moving from a funder to a regulator and the whole system understanding how that change is happening, it is keeping to that brief.

Professor Dame Nancy Rothwell: Good morning, everybody, and thank you for inviting me. I should say first that I, and I believe all the vice-chancellors I am aware of, recognise and value the importance of a regulator in the system. We want a strong and effective regulator. To me, the OfS has two core roles. There are many others, and Neal has alluded to several of them. One is, most importantly, protecting our students and ensuring that they get a quality experience, and, of course, that they get value for money. There is also an issue about value for money for the wider funding of universities, much of which is still paid by the taxpayer.

The question that we are here today to answer, from my understanding at least, is whether the OfS is discharging those responsibilities in a proportionate, risk-based way, or if there are ways in which we could collectively improve that regulation for the benefit of students, for the benefit of institutions such as my own, and for the benefit of the wider public.

The Chair: Do you think its remit is clear enough?

Professor Dame Nancy Rothwell: Its remit is clear. Its primary responsibility to students is absolutely right and absolutely clear. There have been some changes over time in the way that is discharged, and, as others may have told you, there is certainly a sense from those of us in the sector that the regulatory burden has increased very significantly.

The Chair: Do you think it is proportionate? We have heard people say that, actually, it is trying to micromanage too much, rather than acknowledging that universities have their own system for looking at some of the issues that are involved. Do you think there is too much micromanagement?

Professor Dame Nancy Rothwell: There is certainly a huge number of data requests, often at short notice. To give an example, we pay fees to the OfS, quite rightly, of almost £200,000 a year. Our estimate, and this will be similar for similar institutions, is that it costs us about another £1 million a year in the number of staff who have to respond, sometimes at short notice. Some of the requests are absolutely correct and we absolutely should be providing the data, but often we have to re-provide the data in a different format from the one that we have had to use for other regulators.

The Chair: Do you have anything to add, Neal?

Professor Neal Juster: I agree that the number of data requests we get at short notice where that data already exists in the system and has been submitted elsewhere is quite high. Probably about 0.1% of the money I get from the public sector goes on regulation—in the cash I pay the OfS to be the regulator—but, as Nancy said, it is probably four or five times that for the number of staff I need to have to ensure that the regulation is actually met. How much of that regulation needs to happen anyway and how much it is an extra burden is difficult to say, but my feeling of moving into this sector from another one is that the burden of regulation is a lot higher.

Lord Cromwell: We have heard from other people about the large amounts of data required, often at short notice. Why is so much data being required, and why at short notice?

Professor Neal Juster: I do not know why.

Lord Cromwell: You are not given a reason.

Professor Neal Juster: We may well come on to some of these questions later. What are the interventions the Office for Students is putting on universities, and are they appropriate and proportionate? To reaffirm what Nancy said, the sector absolutely needs to be regulated; it is spending a lot of public money, and students need to know that they will get good value for that money and that they will get a course that suits them. Regulation absolutely needs to happen. The question is how much of that regulation should happen, what the response time should be and how many people we should have on standby to be able to take the data off our systems. No university has the same data system as any other, so it is not like pushing a button to answer the question. We are always having to get bespoke data out of the system.

The Chair: Do you think that is a particular burden for smaller institutions?

Professor Neal Juster: Absolutely. My turnover is about £220 million. I do not know what Nancy's is. It is probably three or four times that. The sector is absolutely huge in scope, from £1 billion turnover at one end to less than £10 million at the other end. If you have the same regulations and the same rules, it is actually soaking up an awful lot more of your back office that could be spent servicing students. It is more for the smaller institutions proportionally.

Lord Burns: Regarding Lord Cromwell's question about why it is at short notice, what are the kinds of things that have been asked for at short notice rather than in some pre-set format and regular reporting requirement?

Professor Neal Juster: I do not have a particular example. Nancy may have one.

Professor Dame Nancy Rothwell: I could give some examples. Consultations are often at relatively short notice. TEF was 800 pages that we had to digest and respond to in just a few months. There are examples of the OfS requiring additional financial reporting for some institutions with five days' notice for less than £1. The question is why. That is a really important question. There are many instances where we know exactly why the OfS requires data. It is absolutely right that it should know how many of our students continue and how many of them go on to get good jobs, and that we are meeting our access and participation, but in some cases we do not know why, and that is something that could be helpful to both the OfS and the sector.

We are about to enter into something called data futures, which will require us to retain all student data for five years. That is a massive undertaking, and we estimate that for the Russell group it will cost between £250,000 and £1 million per institution. We are not clear why it is. If there was a very good reason, it would make it easier for us to feel that we should embrace it with enthusiasm, but in some cases we do not know why, and we do not always know what happens to the vast amounts of data that we submit.

The Chair: There are things there we might want to pursue, including the dialogue, or lack of it, between institutions and the OfS. Lord Leong, do you want to start taking us forward?

Q40 **Lord Leong:** Thank you, Chair. Perhaps we can follow on from that. To what extent is the OfS work determined by government? Is the guidance given by government too prescriptive and narrow? What role does the OfS play in relation to government and the HE sector?

Professor Neal Juster: The obvious data point for that would be the letter of guidance that is usually sent on an annual basis, unless there is something mid-year that needs to be sorted, from the Secretary of State to the chair of the Office for Students, and that lays out some government policies and agendas. Whether that is clearly reflected in other messaging that we are getting from the DfE and others, I do not know. At the moment, apprenticeships are high on the agenda of the Secretary of State and the Higher Education Minister.

Clearly, there is the TEF process, the teaching excellence framework, that we are going through now. I think the letter last year had things about skills, levelling up, access and participation, anti-Semitism and freedom of speech. The letter was about five pages. Towards the end of the letter, you could argue that some of the things that were being asked for were things that any good organisation should be caring about such as freedom of speech and anti-Semitism. Whether that has to be in a letter of guidance from the Secretary of State, I do not know.

The system I came from also had an annual letter to the funding council saying, "This is how we want you to spend the money over the next year to ensure that the sector as a whole is delivering for the country". I do not necessarily see that from the Secretary of State's letter that I saw last year. There were a number of elements in it, but I am not sure how that wraps up into an overall strategy of what the higher education sector delivers for the UK as a whole or, in this case, England.

Professor Dame Nancy Rothwell: I will not repeat what Neal has said. There is, of course, the annual letter, and that is very transparent. I assume that what is behind the question is whether there is further intervention in the intervening period, and, obviously, it is difficult for us to answer that because we are not part of the OfS. I noted that Nicola Dandridge, the former chief executive, indicated that there was significant intervention from government in the intervening period. It is very hard for us to judge exactly what that is. Some of it will be necessary as events unfold, or something unpredictable happens, but beyond that it is difficult for us to say.

Lord Leong: Is it frustrating that every time you get a new Secretary of State different priorities are imposed on you guys?

Professor Dame Nancy Rothwell: We have had a few recently.

Professor Neal Juster: Yes, because if policies change in the short term, our long-term planning goes to pot. Three or four years ago,

degree apprenticeships in universities were not seen as a huge thing. Now, they are definitely seen as a huge thing, and that comes with not just the OfS regulation but us being compliant with Ofsted and the QAA. We could argue whether the funding is appropriate or not. We could argue whether the employers feel that it is appropriate. That is now seen, particularly in the sort of university I am in, as an important thing from the Secretary of State.

Lord Leong: The guidance coming from the OfS or the Government seems very much one way, does it not? There seems to be a lack of dialogue between the providers and the OfS. If there was more regular communication between the two parties, you would know what that data collection was all about.

Professor Neal Juster: You have said something that I absolutely agree with. There is lack of dialogue. Since I have been in the system, no one from the OfS has actually talked to me about the role of the OfS. I do not have a named contact in the OfS. I have some examples of where we have tried to contact the OfS for answers and got nothing.

I am at a very different university from the one that Nancy runs. We are very important to the region that we are in. I am not saying that Nancy's is not, but that is absolutely why we are there. No one in the OfS really understands the constraints I am under in trying to recruit the right students, to give them a quality education, to make sure that they have graduate employability skills, and to upskill the whole region. I have never had that dialogue with the OfS about how its regulations impact my ability to do that in an efficient way.

Lord Leong: Professor Rothwell, what is your experience?

Professor Dame Nancy Rothwell: We are a very large institution by comparison, with a turnover of £1.2 billion and nearly 45,000 students, but I reiterate Neal's comments: we have no named contact and we have had no visits. We did at the outset. Indeed, Nicola Dandridge and Michael Barber quite frequently visited, but we have had none since.

On behalf of the Russell group, we are trying to reach out to the OfS, and, indeed, the chief executive came to a meeting of the Russell group at which I stated that the aim of the meeting was not simply to go through things we had concerns about, but to establish a means of working together more collectively and collaboratively for the benefit of OfS, for the benefit of our students and for the benefit of universities, so I am hopeful that that will follow at some point.

Q41 **Lord Leong:** Can we assume that currently there is no clarity from the OfS as to what it wants from you, or can we also assume that the OfS is now so big that it does not really know what it is doing?

Professor Neal Juster: There is clarity in certain elements of what it does, particularly the B conditions. You can argue why those B conditions are there in terms of how many of our students progress for different characteristics, how many get good degrees and how many go on to

employability. That is quite clear and I sort of understand why the OfS does that, but I do not really get clarity of how it sees I fit into a sector that is vitally important to UK plc.

Professor Dame Nancy Rothwell: I agree with that. Many of the requirements of the OfS are very clear. It is not just about what is required and the amount, but about the format. To give you a specific example, the University of Manchester is what is known as a public interest entity because we have a bond, so we have quite rigorous financial reporting to financial authorities, yet we have to redo everything for the OfS in a completely different format. If it was able to accept some of our data in the format that it is in, appreciating that that might need some adaptation, it would make life an awful lot easier and would save, certainly universities, a lot of money.

Lord Leong: One of the main objectives in setting up the OfS was to encourage new participants to the sector. We have not really seen an avalanche of new providers. Do you know any reason why not?

Professor Neal Juster: The barriers to entry are quite high, but I cannot quite understand how you make those barriers low while also placing huge regulations on the people currently in the system. I can see why there is frustration in certain circles that there have not been new entrants. If the institutions are to provide quality education to students and they are spending the money wisely, there are a number of rules they have to adhere to. They have to make sure that their degrees are properly structured. That does not mean they cannot be innovative in the way that they run them, or the way that we run them. If you let new entrants into the system without that hurdle to get over, why do we who are currently in the system have that same hurdle? The sector would benefit from having new entrants and it would give us a lot of competition, but you have to make sure it is a level playing field when they join.

Professor Dame Nancy Rothwell: I entirely agree with what Neal says, and I will not go over it again. We have to ask how attractive it is to be a new provider. I spoke to an individual who was interested in starting a new university, and once we had talked through the financial model of universities, the regulations and all the other things we had to do, he decided not to do it. It is not a particularly attractive proposition.

Lord Cromwell: You mentioned dialogue several times and that you are not hearing and you are not getting visits. It is a two-way street. Have you been pressing and pushing back, or are you worried about kicking the hornet's nest and what that might unleash? Is the OfS overstretched? Is that why it is not coming to see you?

Professor Neal Juster: I cannot answer the last bit about whether it is overstretched because I do not know the internal workings of the OfS. Absolutely, before we engage with the OfS, we wonder whether we are going to kick the hornet's nest; there are examples around the sector

where a question was raised and then a nasty letter came back and said, "You are not meeting regulations".

Let me go back to a specific example. Nancy raised the issue of having to keep student data for five years, and that includes keeping their assessed work. Last April, we asked, "How do you expect us to look after the work of practical art-based students? Some of these things are huge. They are huge installations. Do you want us to have a warehouse to put all this stuff in so you have it for five years? Is a video enough?" We got no answer. In May we asked again. In June we asked again. In July the OfS came back and said, "We're still thinking about it", and we have not heard anything since last July. That is a concrete example of trying to have a dialogue.

Nancy quoted a figure—I do not know whether it is right, but I am not doubting it—of up to £1 million per university to be able to store all of that stuff for five years for a reason that we do not know. In five years' time, someone might want to see one of the wonderful performing art installations that was put on by one of our students.

Lord Cromwell: Nancy was frowning at me when I said, "You are not pushing back enough". Go on.

Professor Dame Nancy Rothwell: Let me speak here on behalf of the Russell group. We have done a great deal to try to engage with the Office for Students over many months. We have raised a lot of concerns. It was as a result of not feeling we were making the progress that we hoped for that we wrote to the House of Commons Education Select Committee. Then, as I said, we had a meeting with the chief executive. We hope there will be a planned meeting with the chief executive and the chair of OfS, but that is across the Russell group. We have not had the levels of engagement with the OfS that we had in the past, and certainly nothing like the regular meetings we used to have with HEFCE, some of which were challenging. I appreciate that HEFCE was a supporter and a funder of the system, but it was also a regulator.

Q42 **Baroness McGregor-Smith:** Moving on very slightly, how does the OfS evaluate whether higher education provides value for money? Do you think that it can do that objectively, or do you think that when it starts to talk about value for money it reflects either current economic priorities or political priorities?

Professor Neal Juster: I am sure value for money is always interpreted in terms of what is going on in the immediate environment. I am not sure how you determine value for money in a system like higher education. You can look at my account and see how I am spending the money I am getting, and you could argue that I was spending it in the wrong place. I hope you would not, but you could do that. There are regular surveys asking students, "Was your course value for money?", and that has gone up over the last couple of years, but what are they comparing it to? They may hear about things from friends at another university. They may have colleagues in the university who feel their experience is different from the

one they are getting and therefore have an opinion about whether their value for money is more or less. I guess the long-term value for money is whether it has enhanced their lifetime skills, the way they live, where they can move to and who they work with.

Of course, there is never a controlled environment as to what would happen if they did not go into higher education. Even if there was, it would take 20 or 30 years before you worked out whether it was value for money, and by the time that feedback loop happened there would probably have been another three or four vice-chancellors at my university.

I do not really know what that question means and how you can compare whether students are getting the value for money. Are students getting value for money because they are getting a loan of £9,250 that they will have to pay back? Are the Government getting value for money? Are they seeing that the amount of money going into the sector is creating the right sort of graduates for them? It is a very difficult question to answer.

Professor Dame Nancy Rothwell: The OfS has used quite a number of measures. They are not always direct measures. It looks at the National Student Survey on satisfaction. It looks at the numbers of students who continue—who do not drop out. It looks at graduate employment. It looks at the financial data. They are not direct measures. There are sector measures, such as that a graduate in the UK earns on average so much more than a non-graduate. There are measures such as how many go on to senior positions and so on.

One thing I want to raise, because I know it has come up before, is transparency in the sector. It was suggested that we are not transparent about how our money is spent, and I dispute that. Every year we, and most universities I am aware of, publish on our website how our student fee is spent. It is broken down into sections as to how much goes on academic staff, how much goes on support, et cetera. We try to be very transparent about how the money is spent.

In value for money, we have to remember that the fee is the same as it was 10 years ago. If it was deemed value for money then, it must be better value for money now, although perhaps not in the eyes of the students who have to pay it back and are facing very serious cost of living pressures. If you look at it from the perspective of universities, it has obviously become better value for money.

Baroness McGregor-Smith: The OfS is funded by fees from all the providers. Do you think that it accounts well for the money it spends? Do you feel it is transparent enough with what it does, and do you think it is value for money?

Professor Neal Juster: I am not saying that the data does not exist, but I have not seen data about how the funding of the OfS delivers value for money for me. The fees I pay are about 0.1% of the public money that I get. It is quite a large number by itself. This year, the OfS has

asked for a big increase in that fee, which is rather larger than any increase of income I will get across the university, so I am not sure what I get back for the percentage that I pay in the regulating fee.

A consultation has just come out. When the OfS wants to come and investigate whether we have done something wrong, we will have to pay for the investigation team to come in and investigate that, and it will not necessarily give us the criteria for what it is coming to see and why it is coming to see us. My answer is that I do not think I am getting value for money, but I do not have any evidence to show that.

Professor Dame Nancy Rothwell: Here, international comparators may be useful, and the committee may want to look at them. There are a number of vice-chancellors in the UK higher education sector who have come from Australia, where the regulatory body is a fraction of the size of the OfS. It may not be as good. I do not have the data to judge it. I am certainly not clear about how the OfS spends its money. It might be my fault that I have not looked into it enough, but I think most vice-chancellors would share the concern that they do not immediately understand how the money is spent. Of course, it will expand. A 13% increase is proposed this year.

The Chair: Thank you. That is interesting.

Q43 **Lord Burns:** I would like to hear your views on how the OfS engages with students and the extent of student input to the work of the OfS. Obviously, the word "students" is set out in the name of the organisation, but does it engage any better with students than it seems to engage with you as institutions?

Professor Neal Juster: The answer is no. Clearly, the students engage with us in our governance procedures. In the latest TEF, the students' union put in a submission. Some of the evidence might be that, if you feel that the OfS is engaging with students, the language it uses in its consultations is not student-friendly, so I am not really sure what it expects to get back from students.

In fact, I was at an event last night talking to some students and, knowing that I was coming here today, I asked them about their engagement with the OfS. They did not really know what the OfS was. Those who knew about it certainly had not engaged with it. I do not know whether I picked the wrong sample, but they were members of our student union executive body, so they probably should be a relatively engaged set of students.

Professor Dame Nancy Rothwell: It is interesting. I too met our student union body yesterday and asked the same question. It feeds into the consultations such as the TEF, as Neal mentioned, and other consultations. I do not think it has direct engagement. There is a student panel and a student representative on the governing body of the OfS, which is interesting because, like all universities, every three years an independent review of our governance is undertaken by an independent

body that makes recommendations, and a very clear recommendation to us was that it was not appropriate to have a single student on our governing body because they often have difficulty speaking out. There needed to be two students. Increasing the number of student representatives on the governing body would be a good move for the OfS.

Lord Burns: One of the questions that has been on my mind as I listen to these sessions is: what are the things that the OfS is doing that it should not be doing, and what are the things that it is not doing that it should be doing? On the first, the thing that seems to come out loud and clear is the issue of data and the lack of consultation about requests. Maybe one of the things it is not doing is engaging collaboratively with you. Do you see that as a major issue?

Professor Neal Juster: I do. It is a regulator, so it should, I guess, have some sort of policing function, but that does not mean that it cannot engage with us to explain why it is doing things, what its plans are, and even give me some informed advice about the things that it feels I am doing well and the things where it feels I should perhaps put in a bit more concentration. I do not have any of that debate, whereas in the sector I came from I did that on more than an annual basis. I talked to someone who knew what my data looked like, where I was going, how I spent the money, where I was not quite aligning with government priorities and where I was doing a good job. I disagreed with them sometimes, but at least I had the debate.

Here, all I get is a set of paperwork that one of my team puts together for me to sign to go back, and occasionally I have to input to that as well. The thing the OfS could absolutely do more of is engage with the sector about how it sees the sector performing and why it is imposing some of the regulation criteria that it does.

Professor Dame Nancy Rothwell: I want to stress that we do not want to see no regulation. We want good regulation, appropriate regulation and risk-based regulation, and that would benefit enormously from standing back and looking at what the OfS requires at the moment, what its purpose is and what its value is, engaging with the sector, and us telling it where there are areas that we have concerns about in our own sector, because we have concerns, of course. Further dialogue would be extremely helpful. I use the example with the OfS that we are also regulated by what is now DSIT over research funding. It is our funder and our regulator. It comes and audits if there is a concern, but we know who to pick up the phone to. We do not at the OfS.

Lord Burns: You mentioned the issue about keeping records for five years. Was there a consultation about that? Was there a formal paper set out that said what it was proposing and what your reactions to it would be, and how much it would cost you?

Professor Neal Juster: I believe so, but it was probably before I arrived in the sector, so Nancy might be better placed to answer.

Professor Dame Nancy Rothwell: Yes, and there was pushback as to what the purpose was. It is a massive undertaking. Data storage is a huge issue. It is not just data storage, but then accessing that data if it is required. The set-up costs are very high, but how often will we be asked to go back for student X three years ago? There was significant pushback on it.

Q44 **Viscount Chandos:** We have already asked you whether you feel that the OfS is overstretched. I would like to build on that and ask whether you think its resources and expertise are sufficient. In that context, how would you see the QAA's decision not to continue as the designated quality body? Does that exacerbate any problem there may be?

Professor Neal Juster: Starting with the QAA, it is unfortunate that that spat happened. I do not know the full details as to why, but we know what the outcome is at the moment. As of the end of this month, the quality assurance function will go back to the OfS. I would argue very strongly that it should come back out again, whether to a reformed QAA or another body. I do not know what that would be, but it is important that the quality system is separate from the regulator. I would argue that that separation should happen again as soon as possible.

On expertise, it is very difficult for me to answer that question because I have not engaged with the OfS, so I do not know who is sitting behind the door and can give me the information. What I can say is that it is regulating an awfully large range of activities, such as how we deal with harassment and sexual misconduct, freedom of speech, our finances, and our student experience. You need someone in that system, or number of people in that system, who can cover that breadth. Without us having that dialogue, we are not building up trust that the people, irrespective of what it says on their CV, have the expertise to give us the right advice and the right regulation.

Professor Dame Nancy Rothwell: It is an important question, but I would phrase it differently, if I may. Does the OfS have sufficient resource? It is very large and there are an awful lot of people, the OfS has more staff than were in HEFCE and more staff than are in other regulatory bodies. The question is whether the activities of the OfS the right ones are, and the expertise is right for what it needs to deliver, and that question has not really been answered.

We were all very disappointed to see the QAA lost. I feel that a quality assurance agency should be at arm's length; I hope that the DQB will not remain within the OfS and that it is a temporary measure. I understand it had to step in and provide some cover, but that is an expertise it does not have.

Viscount Chandos: On that issue, if I think about regulators in other sectors, it seems to me that in many cases they combine the regulatory function with quality assessment. Is it HE in particular and the nature of the activity that makes you feel that it should be separate?

Professor Dame Nancy Rothwell: No, I actually think that as a general principle for any sector it is valuable to have an arm's-length separation. I am not sure that the higher education sector is particularly special. It is good practice to try to separate functions so that one is not influenced by the other.

Professor Neal Juster: I have nothing to add to that.

Q45 **Lord Cromwell:** I appreciate that an emerging theme is that you do not quite know who the OfS is, what it does or what its purpose is in many ways, so I will ask both of you a "should" question, if I may. We are talking about financial risk and sustainability now. What should the role of the OfS be in looking at individual institutions, and sectorally, which is a different discipline, in regard to the risks that are coming and the sustainability of them longer term?

Professor Neal Juster: It certainly should be looking at whether individual institutions are at risk of failing. It will be a political decision as to what happens if a university was to fail. It may be a regionally based decision if it is important to the region. The most important thing is that there will be thousands of students, if a university ceases trading, who still have their courses to finish. Of course, we have student protection plans for what we would do at that point.

I am not sure how the sector would cope if a large university with 40,000 students could not teach the next day because it could not pay its staff. There is the theory and then there is the practice. The OfS has to be on top of the financial sustainability of each institution. Of course, it is one of our conditions of registration, and we submit not just our accounts but where our forecasts are going, and the forecast will depend on a number of assumptions. It would be good to have a conversation with the OfS as to what those assumptions are, why we have made them and what the upsides and downsides of those assumptions might be.

The OfS also needs to look at the sector-wide issues. I am sure you are aware that the fee of £9,250 has stayed the same for a number of years and is now probably worth between 60% and 65% of what it was when the £9,000 was instituted. That has put huge pressure on the system. There is a lot of cross-funding from other activities to try to ensure that the quality in the classroom stays the same as it was 10 years ago. It is a difficult job, particularly in a relatively medium-sized university like mine.

Professor Dame Nancy Rothwell: It may be too harsh to say that the OfS is not doing what it should be doing. I think it is doing what it should be doing. It is a regulatory body, and that is absolutely right. The question many of us have is whether it is doing it in a proportionate and risk-based way, and whether it is the most effective way of regulating the sector and providing assurances to students, to government and to the public. That is more under question. We as Russell group universities are told that we are low risk, although I am not sure I entirely agree with that, yet the regulatory burden on us is just as great as on almost any other institution. It is a question of proportionality and appropriateness in

the way the OfS discharges its very important responsibilities. That is a question we would have.

- Q46 **Lord Cromwell:** Do you feel that its oversight is sufficient to actually spot problems early enough and deal with them? I am not sure from our previous conversations whether you will be able to give me a view on that, but I will ask it anyway. My supplementary, after which I will stop, is this. Do you think some universities have a feeling that they are too big to fail and that the Government would step in if necessary to bail them out?

Professor Dame Nancy Rothwell: As a big university, maybe I should answer that.

Lord Cromwell: Please go ahead.

Professor Dame Nancy Rothwell: No, I do not. I am the accountable officer, and I assume we will be standing on our own two feet. Having said that, of course there are many arguments why government would not and should not want universities to fail. In many areas of the country, they are the biggest employer by a long margin. Where we saw universities come close to failure many years ago, local MPs stepped in very quickly. I do not think any university is complacent. I do not think any of us feel any burden of responsibility lifted by the idea that the Government would just come in and help us.

As to whether the OfS can see things coming, I think so and I hope so because it looks at forward financial projections and it looks at our financial accounts in some detail. It could probably get more of an insight by sending a team to visit us and hearing directly what the problems are for a university here or a university there, and they will be slightly different in each case. Obviously, there is the pressure of erosion, not just of the fee, but for universities like mine research is only funded at about 70% of the total costs by government and charities, so we have to find that gap in costs, and the gap is getting bigger. The OfS should be aware and should be able to see something coming, and perhaps a little more interaction might help with that.

Professor Neal Juster: There is interaction before something might fail, but that is one area where you want the OfS to be a bit opaque; if my university is about to have severe financial problems, I do not want everybody else in the sector to know about it, not just because of me personally but because of what it will do for my student demand. We do not know, but there are rumours in the sector that there have been a number of universities that have been close to the edge and the OfS has stepped in and done something to make sure that they stay. I hope that has happened. It is one area where I would prefer the OfS to be relatively opaque, or at least not to advertise the fact that it has sent a team of accountants into a certain university.

Lord Cromwell: It is about dialogue; it is just not telling everyone else.

Professor Neal Juster: Yes. There should be dialogue with me—

Lord Cromwell: Yes, exactly.

Professor Neal Juster: —well before the stage of its having concerns, and what I can do about it.

Lord Cromwell: Indeed. Thank you both.

The Chair: Do you think universities that might have difficulties would actually have sufficient confidence to approach the OfS and say, “Look, we’re a bit worried about where things are going, and it’s early days, but can you guide us and give us assistance? What do you think?” Do you think universities would have the confidence to do that, or would they be worried that it would come down on them like a ton of bricks?

Professor Neal Juster: I cannot talk about universities because I am not them, but I can talk about me, and I would be nervous about doing that too early. I might wait too long before I engaged because I would be afraid of what might happen to me if I went too early. We have seen from the outside whole senior teams, or the whole governing body and the vice-chancellor, disappearing overnight. Some of that has been because of improprieties, but some of it may well have been because there were some financial things going on. I would think very hard before I went to the OfS, but there would be a stage when I had no other option but to go to the OfS, and it would be better for the system that I went early.

The Chair: Nancy, do you want to add anything?

Professor Dame Nancy Rothwell: I understand the dilemma, but we probably would go to the OfS. Can I bring in a further point? Our governing bodies, which oversee in great detail all our performance, financial and otherwise, and oversee all our risks, would almost certainly require that I did. Even if I were reluctant to do so, we probably would, but probably not in the same way that we would have done with HEFCE. Maybe that is a good thing. Maybe it is a bad thing. I do not know. We would certainly have alerted HEFCE early on to warning signs. We alerted government during Covid that there was an expected loss of international students globally, which would have been devastating, and, to be fair, the Government acted very quickly and put in place a fund. In the event, the international students stayed. They either stayed when they were here or learned online, so it was not needed.

Q47 **Lord Agnew of Oulton:** I am interested in the different business models of universities. Nancy, you said that there would be a demonstration of better value for money today because 10 years on the fee has hardly changed, but we need to look under the bonnet to see whether levels of indebtedness have increased and whether there has been any cutting of corners in the quality of education provided over the last 10 years, such as contact hours. Putting aside the issue of too many foreign students, because that creates another set of problems, can you give me any insight into the best business models? I have struggled to get from our witnesses so far a sense of what good business models look like in universities.

Professor Dame Nancy Rothwell: There is no single answer to what a good business model looks like. My university would be very different from Neal's, for example. A very significant part of our income goes to support research, and that comes from government, charities, businesses and other funders. As I said, a gap in that funding has to be made up.

The basic business model of a large proportion of incomes coming from students is the majority across the sector, and that, of course, has been eroded. Over that time, quite rightly, we have all attempted to make efficiencies, to be more effective in our processes and to look at some things we do that perhaps were not of prime importance to our core mission. Equally, many universities are now probably close to the edge of where they can make those savings without, as you suggest, a reduction in quality, because you get to a point where you simply cannot deliver the same thing for significantly less money.

Lord Agnew of Oulton: Do you think it is an irrelevant comparison that the secondary system educates children with £6,500 per pupil for a longer academic year, more hours per week and smaller class sizes?

Professor Dame Nancy Rothwell: It is not irrelevant, but it is certainly very different because students, certainly at my university, are taught by leading scholars, massive amounts of equipment need to be maintained, there are huge numbers of practical classes, a vast library, dedicated mental support and a whole array of other things. It is a very different system. Much of our teaching is research-led, and therefore there is competition between universities to get the best staff. They are not the same.

Lord Agnew of Oulton: Do you think it is right that a humanities undergraduate is essentially subsidising an engineering or science graduate through some of the transfer to the things you have just mentioned?

Professor Dame Nancy Rothwell: First, I do not really think that happens any longer because the cost of a humanities degree is pretty close to £9,250. Universities cross-subsidise all the time, and I would not be in favour of differential fees for different subjects. You go down a minefield doing that. Where do you classify a music student? What is a business student? What about a student of languages where there are very significant costs? We work on cross-subsidies all the time in every different way, cross-subsidising from many different sources.

Lord Agnew of Oulton: Do you think that is clear to someone who is essentially a child when he or she applies to a university to take a certain course?

Professor Dame Nancy Rothwell: Yes, we all publish the teaching and the contact hours that they will receive. You could be right that we could be more transparent about it. Of course, an engineering student or a physics student has an excessive number of practical classes. Humanities students rely much more on the library, which is a big cost to most

universities. You could say that there is cross-subsidy in one department; between studies in music, for example, and studies in French. There is a big cost to music—practice rooms, equipment, et cetera. It happens all the time.

The Chair: Neal, do you want to add anything?

Professor Neal Juster: No, Nancy has probably covered it all. The comparison with schools gives some sort of benchmark, but the big difference is the staff and the buildings you are providing and the facilities that wrap around that and who pays for them. In certain schools, some of the money comes from outside the pupil funding. I have to get it all from my students. As Nancy says, universities are about being research-led. You are probably paying more for your staff, if they are world-class academics, than you would pay for a teacher, and that adds to costs. At the moment, we know that £9,250 does not cut it on just about all our courses.

The Chair: Thank you very much for an interesting session. Nancy, I know you have to leave to go to your—

Professor Dame Nancy Rothwell: I do not actually have to go.

The Chair: I think you have a governors meeting. We know that should always take priority.

Thank you both very much for your evidence and for coming in today and joining us. We are early days in this inquiry, but the evidence that you have given us has been helpful, so thank you both very much indeed.

Professor Dame Nancy Rothwell: Thank you for your interest and your time.

The Chair: Thank you.