



HOUSE OF LORDS

Industry and Regulators Committee

Corrected oral evidence: The Office for Students

Tuesday 28 March 2023

11.45 am

Watch the meeting

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

Evidence Session No. 6

Heard in Public

Questions 54 - 60

Witnesses

[I](#): Rachel Hewitt, Chief Executive, MillionPlus, the Association for Modern Universities; Alex Proudfoot, Chief Executive, Independent Higher Education.

Examination of witnesses

Rachel Hewitt and Alex Proudfoot.

Q54 The Chair: Good morning. Welcome to our inquiry into the Office for Students. This is the Industry and Regulators Committee. We are taking evidence this morning from Rachel Hewitt, chief executive of MillionPlus, and Alexander Proudfoot, chief executive of Independent HE. You will be aware that we have been taking evidence and talking about this to several people.

Can we start by getting your perspective on the Office for Students, whether its remit is clear, whether there has been mission creep, how things have developed, and how you see it operating at the moment or over the past few years? Who would like to start?

Rachel Hewitt: I am happy to go first. Thank you for the invitation to be here today. From my perspective and that of my members, the remit of the Office for Students is clear and the framework that is laid out seems appropriate. It is fair to say that our members are very supportive of the need for good regulation in the sector. The reputation of the higher education sector as being of good quality and well regulated is very important.

Some of the challenges are perhaps in the implementation of the framework and probably in the growing expansion of that in recent months, and going forward with changing roles in terms of the designated quality body, free speech and those sorts of parameters. It feels as if the framework and role of the OfS are growing and nothing is being taken off the table, and that adds to the perception of regulatory burden at the moment.

Alex Proudfoot: I preface my comments with the statement that I represent institutions and organisations that have delivered higher education often for decades, although many of them are newer, but were all operating outside the previous publicly funded system of higher education under HEFCE in England. For them, the advent of the OfS and the policies set forward in the Higher Education and Research Act was a hugely important and significant moment. It ushered in—it is a bit of a hackneyed phrase these days—a level playing field, a single system by which they could access the same benefits and platform as far more well-known, larger higher education institutions.

It is fair to say that, outside the Government, we were probably the biggest supporters of the legislation, and we remain strong supporters. If you look closely at the Act, it feels as if the OfS has been given a bit of a laundry list of duties. But that laundry list was underpinned originally by a coherent, clear and, in my view, compelling vision for the sector—a sector that was competitive, was open to new ideas and new entrants, and aimed primarily to widen student choice, recognising that every student is different, the challenges they face and their ambitions are different, and particularly recognising that technological change and

economic change will mean that the way in which students learn and need to access education in future will change.

The legislation, thanks in no small part to the forensic scrutiny it received in this place, is fundamentally sound. Some problems have started to creep in more in the design of the regulatory framework and the way in which that was implemented by the OfS and continues to be implemented. I will leave it there for now.

The Chair: We will take up some of those points later.

Q55 **Baroness Bowles of Berkhamsted:** Yes, we will move straight on to them. To what extent is the work of the OfS determined by government? Is the guidance from government too prescriptive? We have heard of the vast number of letters that have descended at various times. What is the relationship there? There is talk that there has been mission creep at times. How much is the mission creep due to a superabundance of letters from the Government's side and how much is due to the interpretation of the OfS?

Alex Proudfoot: I would probably argue that direction from government can be a good thing if it is strategic direction, coherent and long term. Problems have arisen when there has been a more ad hoc, piecemeal approach, as previous witnesses have mentioned, similar to adorning a Christmas tree with extra baubles. That is an issue particularly where there has been a significant turnover of Ministers, as in the past few years.

Rachel Hewitt: I agree. We might have had seven Secretaries of State since the OfS was set up, and obviously that will lead to quite a lot of change in government guidance and where that is coming from. It is also fair to say that we have been in a very turbulent time since the OfS was first set up, as a result of the pandemic and now the cost of living crisis, which is having a particularly significant impact on some of the students at the member institutions we represent.

Alex is right: that long-term vision has been more challenging. In some cases, it is probably fair to say that the guidance has perhaps been overprescriptive. I am thinking of some of the work done on quality and standards. Looking back at some of the letters, rather than just guidance on the types of things that the Government were looking for, they go into the types of institutions that they would expect to see focused on and in that kind of level of detail, which perhaps feels a bit more instructive than guidance. There are cases where things have gone perhaps slightly too far down that line.

Alex Proudfoot: Higher education is a sector of great significance at a national level, a local level and, obviously, a personal level for those who are studying, so it is entirely appropriate that the Government of the day have influence in how that sector is managed and how it develops. Certainly, it is appropriate from the point of view of acting as representatives of the people, the citizens of the country. The temptation

for different Ministers to have personal political hobby horses is where it becomes problematic.

Baroness Bowles of Berkhamsted: Do you think a new Minister has to clear the air and make clear where they are? If they did not send a letter, would people be wondering whether it is the same as before or different?

Alex Proudfoot: Yes, that is fair.

Baroness Bowles of Berkhamsted: A new Minister inevitably means a new communication to make it clear whether there is change or a difference in emphasis.

Rachel Hewitt: Yes, that is fair. It is the same way in which we would work with Ministers in wanting to get a steer of the direction of travel. Certainly, when there is a change in Minister, that makes sense.

Baroness Bowles of Berkhamsted: Churn in the position creates a churn in the letters. Since the Office for Students was invented, there has been a change from there being an expected expansion of providers and continued growth into pulling away from that and more questions about whether everybody will want to go to university, or at least it will not expand at the rate that it has before. Has there been clarity about how that should be dealt with, or is it just left to circumstance?

Alex Proudfoot: This is probably the area where there is the biggest gap in strategic direction, coherence and a vision for the sector. I reflect on the fact that just yesterday UCAS released the first tranche of a series of excellent essays setting out the challenges and opportunities relating to its projection that by 2030 it will be managing 1 million applications for higher education from around 700,000 or so at the moment, a massive increase driven partly by demographics, partly by higher participation and partly by demand from international students.

For me, the biggest challenge of our time for the sector is how we meet that demand and how we expand our capacity to deliver higher education in lots of different ways. It will not all be a traditional university degree programme. The more we expand the participation in higher education, the more we get different types of students who have different time commitments, different responsibilities, different passions and different ways of learning. That is really exciting.

I do not feel the Government or the OfS have grappled with that challenge, which is massive. Not only will there need to be new providers but existing providers will need to expand, and there will need to be more support for ways of accessing higher education, which is not entirely the OfS's responsibility; it partly lies in the funding system as well.

Rachel Hewitt: I think that is right. One thing that needs to be dealt with when offering different types of provision is the issue of regulation. The current model of regulation would not necessarily work that neatly with the lifelong learning entitlement piece. There are challenges around regulation in relation to degree apprenticeships, although that is partly

because that is spread across different bodies. Moving forward, regulation that supports those different types of provisions to support those additional learners coming into the system will be needed to tackle the challenges of the future in higher education.

Baroness Bowles of Berkhamsted: Is it too difficult for a new entrant to get in? What if the new entrant is doing things in a very different way? Now we are doing more hybrid and more remote. How much emphasis is put on a campus and university experience as a different one rather than something that you just happily do from home?

Alex Proudfoot: This is a crucial piece of Jo Johnson's vision for the Act that has not borne necessary fruit. It is too difficult, but I would not say that "difficult" is necessarily the right word. It is not transparent enough and it is too slow. It is very hard for people who are looking to invest in the higher education sector in England, whether they be UK companies, UK investors or overseas investors. As well as having over 70 member institutions, we support brand-new providers with our Launchpad scheme to help them enter the sector. We are at the sharp end of this.

There are complaints about student visas. I will not get into those too much because it is not so much the OfS's responsibility. There are certainly complaints about the responsiveness, efficiency and transparency of the OfS process. If you are a new provider, you want to find out whether you are eligible for OfS registration and for the benefits that confers. Many of you have been in business in the past. If you had a new customer inquire about products or a service, what do you think would be a reasonable time to respond to that inquiry—24 hours, 48 hours, maybe 72 hours if you are pushed? We have institutions that have been waiting for six months for an acknowledgement of their inquiry, whether for eligibility or for moving from one part of the register to another. That level of efficiency is not really good enough.

Baroness Bowles of Berkhamsted: How long do you think it should take for a new institution or a new entrant to set up? At the moment, it is the same timescale as a degree takes—two and a half years. What should it be? Should it be six months or a year?

Alex Proudfoot: Somewhere around the year point would probably be reasonable. If the provider has everything in order—a good business plan, high-quality staff in place, the right governance structures, and ideally some track record of delivering education elsewhere—the system should support it to enter and not look for ways to trip it up.

Rachel Hewitt: The providers that I represent are largely more established rather than new entrants to the sector, but I see some of those challenges. We have a range of different sizes of institutions, and the smaller institutions struggle with some of the regulatory burdens, so I can see that that would be particularly challenging for a new entrant coming in.

Baroness Bowles of Berkhamsted: It is kind of discriminatory because

you have to be of such a size to be able to cope with all the regulations. In the last session, we heard of it taking 10 people to deal with the regulations. Would that be the same in a smaller institution? Because there are so many regulations, would you still need 10?

Rachel Hewitt: It depends. At some institutions only a couple of people are involved. When there is a significant amount of change—there was change in the teaching excellence framework at the same time as change in access and participation plans—in some of my institutions the same person is responsible for dealing with all those different parts, so it can be more challenging. Obviously, there are fewer resources to put at it if you are a smaller institution.

Baroness Bowles of Berkhamsted: Should there be better co-ordination around change to make sure that it does not all happen at the same time?

Rachel Hewitt: Yes, I think so. That is some of the feedback that we have passed back before and I think has been taken on to some degree.

Lord Leong: Chair, can I just ask a question on new providers? Say I want to start a college tomorrow. I register the name. It is not a degree-awarding body. I do some kind of partnership with the University of Luton, for example, to offer whatever course it does. I employ part-time lecturers. I hire classrooms. Can I not do that? Do I need OfS approval?

Alex Proudfoot: This is quite an important issue. The projections around the OfS register were that perhaps more than 600 providers would be on it by now. As it turns out, just over 400 are. This is partly because we do not have the balance of the benefits and the burden of costs of regulation quite right. Your reference to partnerships is absolutely correct. The predominant way in which new providers enter the sector at the moment is, and always has been, working in partnership with an established institution—normally a university. That allows them access to be able to teach degree courses and other higher education qualifications. If they offer it under subcontract with a university, they can access funding for their students. Predominantly, most institutions offer it under a validation model that requires them to get independent regulation.

Lord Leong: The question I asked is: can I start a college without becoming a member of the OfS?

Alex Proudfoot: Yes, you can.

Lord Leong: There is nothing preventing me starting a new college tomorrow and recruiting students.

Alex Proudfoot: There is no licence to operate in this country. We would have been potentially in support of that in additional legislation, but the Government decided against it. Initially, the idea was to have a basic category of registration with the OfS that could have mopped up some of these other institutions, but that was decided against. If you find a partnership with a university, you can start a college tomorrow. However,

that is in itself pretty difficult. It is one of the areas of the sector and of regulation that has not received the attention it needs.

To find a validator and to find a university to work with, you would normally have to know someone. It is all very much about your own network. It is very ad hoc. There is no register of validators. There is no transparency around the process or the costs to get validation. It is one of the areas that Jo Johnson identified as very important for the new provision agenda to work. The OfS was given a job to do that, but it has not done that job.

Q56 Lord Leong: Can I ask my question now? Thank you, Chair. Good morning. We welcome your views on value for money. How does the OfS evaluate value for money and are its procedures quite objective, or is it more pressured by political or economic priorities? How does the value-for-money side of it impact current providers?

Rachel Hewitt: Measuring value for money is complex. At the moment, the way we do that is through proxies. One example is the National Student Survey and asking students for their views on whether they are getting a good experience from their higher education provider.

One is by looking at the outcomes. There has been a big focus on outcomes, because I guess it is difficult as a student to decide at what point you can best evaluate whether you are getting value for money—whether that is during your experience or after. In terms of outcomes there has been a big focus on whether students are in a graduate-level career 15 months after or whether they are staying through the whole of their course. They can operate as proxies for value for money. We probably would be best off if we had a wider range of proxies that we used for value for money that represent a broad range of students. Lots of my member institutions represent students who are not traditionally that well represented in higher education such as mature students, those with caring responsibilities and those from more disadvantaged backgrounds.

One beneficial measure would be if we could have some way of tracking where students feel they are at the point at which they enter and where they are by the end of their experience. Lots of our member institutions have quite a transformative impact on students, but perhaps that is not seen if you just look at raw outcomes such as what types of jobs people are getting after their studies. We have some proxies that sort of work for value for money, but we would probably benefit from having a broader range.

Alex Proudfoot: There is no getting away from the fact that the OfS worships at the altar of the gods of data. Data is how it does everything—how it measures value for money and quality. A data-driven approach presents a real challenge for small providers in a number of ways. Partly, it is about capability. Just to buy in to the kind of sophisticated student record system that is available in the sector to fulfil the data requirements costs about £250,000. For an institution that has fewer

than 500 students, as many of my members do, it is extremely expensive and fairly prohibitive.

The second point on data is that if you reduce data too much and salami-slice it into the granularity that the OfS is keen to employ, you end up looking at tiny datasets. Certainly in the access and participation space, our members have percentage targets that represent less than one student. How do you get half a student more from a certain background into your course? It is difficult.

A real Bible of this data worship has come in over the last year, and it is the B3 condition, which you have probably heard about. It is student outcomes. The most important element is that students need to complete their course and then progress to managerial or professional employment. That relies entirely on the data showing you what you need it to show you, and at the moment it does not. It relies on what are called SOC codes that the ONS comes up with.

To give you an example of a slightly difficult situation, one of our members is Norland College. It trains the world's best nannies, including those for the Royal Family. The vast majority of its graduates, almost 99%, get the exact job they want to get, but because the SOC code for nannies at the moment classes them as unskilled, they look as if they are failing to the OfS and to the world that looks at this data. For me, that is unacceptable. If it is fulfilling its mission and giving the students what they want from their education, they should be rewarded, not investigated and penalised.

Lord Leong: Thank you. Both of you run professional organisations. Are all your members currently members of the OfS?

Rachel Hewitt: Yes.

Lord Leong: All of them. Alex, what percentage of your members are members of the OfS?

Alex Proudfoot: I can follow up with data. It is over half, but less than 75%.

Lord Leong: The OfS is funded by subscription fees from its members. We have heard that it asked for a 13% rise in membership fees. Do you think it is value for money?

Rachel Hewitt: We probably do not have the information on the reflections on whether the OfS provides value for money. I think it used to produce an annual report that looked at value for money, but I do not think that has been produced for a couple of years now. Part of the challenge is that universities are being expected to do more with less. There has been a real-terms fees cut for a significant number of years now. From 2024-25, the £9,250 fee will be worth only £6,600 in 2012-13 prices. Universities are having to cut down their activity to respond to that.

At the same time, the OfS's remit is expanding. It is not just the cost for institutions in paying those fees to the OfS. Presumably there will be a 13% increase in their activity in response to the regulation around that, and that has significant costs for institutions. The money that they spend in having to respond to regulation can pull them away from doing other really important things. It is difficult to say at the moment, particularly with a significant increase in the current environment, that that represents value for money.

Alex Proudfoot: The way in which I look at value for money at the moment, through the perspective of our members, is this. Is achieving OfS registration, and the costs involved, in balance with the benefits you get access to? We have evidence, unfortunately, of providers choosing not to go into the OfS because they do not think it is worth the burden and the cost. We also have examples of members that have withdrawn from the OfS having tried it. They did not like it very much, did not see it as worth while and withdrew.

That is generally not an option for universities because of the way in which the regulation is structured, but smaller providers can operate independently if they choose to and they have a partner that allows them to do so. It is a real risk area that regulation is not seen as value for money and, therefore, we will see a proliferation of unregulated provision, which will not be in anyone's interest.

Lord Leong: Thank you.

Q57 **Lord Gilbert of Panteg:** I have a couple of questions about stakeholder engagement and relationships. Does the OfS get the balance right between taking on the views of policymakers, providers and students, particularly on the real things that it does such as designing this regulatory framework? I am thinking about students in particular. We have heard how it engages with students. Does it make a real difference, or does it pay lip service to the views of students in the substantial decisions it makes about the way it operates?

Rachel Hewitt: To take the point about students first, we would probably like to see more representation of a broader range of students in the OfS's work with them. I know there is some mix in the representation on the student panel. In the types of institutions that I represent, students coming from non-traditional backgrounds often have different needs from students coming through other means. It is really important that those are reflected in the work of the OfS. That is done to some degree, but there is definitely more that could be done around that.

Alex Proudfoot: On the student point, I absolutely echo what Rachel just said about the different kinds of students it takes soundings from. There has never been a student from the independent sector on the student panel. We have a student board member—we are the only representative body in the sector to have one—and she was recently appointed to the TEF panel, which was really good progress and a good

move. I am not sure to what extent the student panel drives priorities. We have not been involved with it.

Overall, the OfS's engagement with the sector is improving. In the early years, there was a combination of being incredibly busy and perhaps feeling a little fragile as a new regulator given a challenging task to do. As it grows in confidence and experience, it has the opportunity. It is showing signs of engaging more in a better way.

Rachel Hewitt: To add to that, there are good examples of engagement with the sector. In some of the work done recently on access and participation, there seem to be opportunities for dialogue with the OfS. That does not mean that it will necessarily agree with our position, but it is a listening exercise, it feels as if those views are taken on board and there is opportunity at various points to feed in. That is probably at the better end of the examples.

The worst end of the examples is where there are consultations with very quick turnaround times and where it does not feel as if the views that are fed back are necessarily represented, or responded to, in what is done next. That causes frustration, because we as mission groups and individual universities will make sure that they respond fully to those activities and want to feel that those views are being picked up on.

Lord Gilbert of Panteg: You are painting a slightly more positive picture than the witnesses we had before you from Universities UK and the University Alliance, who painted a picture of almost distrust and certainly anxiety about some aspects of the relationship between the OfS and the institutions. How do you characterise the relationship that you have as bodies and that your member institutions have with the OfS?

Rachel Hewitt: That relationship breaks down where there is sometimes a feeling that universities are almost acting as bad actors and not acting in the interests of their students. All our members would say that the interests of their students are their top priority, as they are in the role of the OfS. Where there is no opportunity to transparently share information, particularly if the OfS is picking up concerns, it can sometimes feel as if those are not fully communicated, and universities are asked to respond very rapidly to what turn out to be quite small issues that perhaps an earlier conversation could have put to one side. There are examples where there is a certain level of tension there. As I say, our members do not have any issue with robust challenge, but the mistrust is where it causes problems. I hope there are opportunities moving forward for a more collaborative way of working.

Alex Proudfoot: We are strongly supportive of regulation, and the majority of our members are. It has to be regulation that understands what is being regulated. We would like to see a more positive approach. I mentioned the challenge of meeting the demand of 1 million applicants. We should be encouraging growth and not necessarily scrutinising everything in minute detail and monitoring it so closely that you discourage growth and innovation. That is a risk at the moment.

I have one point on consultations. Loads of incredibly important issues have been consulted on. In the first few years, you expect more things to be under development and more consultations to happen. I mentioned the B3 condition, which was consulted on about a year ago. If you wanted to engage with that fully and put in a considered response, the amount of information you needed to digest was 1,000 pages long. I admit that I have not read all 1,000 pages; I have staff who have. That is a real issue in terms of transparency and engagement with the sector.

Rachel Hewitt: The way that the regulation operates does not necessarily always recognise the full diversity of the higher education providers. We have a very diverse sector and that is one of the benefits, but sometimes it can feel a little as if regulation is done in a one-size-fits-all way, and that can cause some tension as well.

Q58 **Lord Burns:** I would like to ask about the implications of the decision by the Quality Assurance Agency for Higher Education not to continue as the designated quality body. I have two questions. Does the OfS have the resources and the skills to handle the problem that it now finds it has? Is there a concern that the OfS taking on the designated quality body role could leave quality control and course content at the mercy of a body that is subject to significant political influence?

Rachel Hewitt: To take the second part first, the international reputation of our UK HE system—it is often seen as UK-wide, and this will now leave England operating in a different way from the devolved nations, which is challenging as well—is put at risk by the move away from the QAA operating as a designated quality body. It risks looking as if the OfS is the body that not only sets the standards but assesses whether those standards are being met. The loss of independent oversight is certainly challenging, as much as anything else to do with political interference. We have been very concerned about that.

I suppose our concern is that there is no long-term alternative. There is lots of talk about the short-term nature of the OfS taking on this role, but it does not appear that another body could take it on if it is not the QAA at the moment.

The practical point about whether the OfS has the resources to do this is partly for the OfS to answer, but it is a wholly new function that is being taken on for an unknown timescale alongside other developments such as its work on free speech.

Alex has talked about some of the hold-ups on registration. There are other aspects where we have heard of my members having to wait a particularly long time for responses to things such as student protection plans. It does not feel like an environment where taking on such an important role will be easy at the moment, and anything detrimental happening to that has real risks for the sector that should not be underestimated.

Alex Proudfoot: There are practical issues and what you might call philosophical issues. On the practical issues, our members are very pragmatic and they care very much about the efficiency question; they want to know that they will get the quality reviews they need and go through the processes they need to advance their institution. We are four days away from the OfS in theory taking responsibility for quality and standards. As far as I know, there are no details about how it is actually going to do that, which is worrying but, unfortunately, not surprising.

On the philosophical point, I draw a distinction between quality and standards. Unlike some of your previous witnesses, I would not argue that what happens in the quality of provision is not the OfS's business. The quality of provision is very much its business and very much in the Government's interest and the public's interest. It already regulates quality in different ways. The role of the DQB was somewhat nuanced. It is very much a different case with standards. It is entirely inappropriate for a regulator to assess providers' standards.

It is worth reflecting on the fact that in this country we have a gold standard to offer a UK degree. It is recognised worldwide. A UK degree means something. The value it has attained is not from government diktat. However wonderful the bureaucracy, the bureaucracy does not make people value a UK degree; it is the practice, history and excellence of UK institutions over hundreds of years in the past and currently that have given that value. It is entirely appropriate that a sector-owned, co-regulatory quality body looks at those standards and assesses that value.

Lord Burns: I take your point about the requirement for an independent body that is different from the regulator, but do you have any suspicion that the Office for Students would like to take this over on a permanent basis? Would it find life easier that way?

Rachel Hewitt: It is difficult to say. I guess there may be an interest in it doing that. There may also be challenges around what that actually looks like in practice, which we may start to see from next week onwards, so it is difficult to say.

Alex Proudfoot: I am not sure it wants to do it. I do not believe it is part of some grand Machiavellian plan. It may well find itself bumped into that situation because, if it is not possible to make a relationship work with the QAA, there is no other body waiting in the wings to perform the function of the QAA better than the QAA was capable of doing. The problem is in the role of the DQB and in the relationship between the two organisations.

Q59 **Lord Clement-Jones:** Hello. I am going to come on to the question of the role the OfS should play in overseeing financial sustainability, but first can you talk about where you see the financial risks in higher education, and in particular whether you see those risks that you will describe applying to particular providers, or whether you think it is a cross-sectoral issue? Alex, your view on that would be particularly important.

Alex Proudfoot: Thank you. Our members face slightly different financial risks from larger universities. One of the biggest risks that our members tell us about all the time is around cash flow, and that is to do with the student loan system and the fact that the profiling of the payments for the student loan system essentially means that half the money for a student's annual provision gets paid at the end of the course. If an institution were to ask its staff to accept a payment schedule for salaries so that half comes at the end of the year, it might not get very far. The running costs of an institution are real and are day to day.

Smaller institutions that do not have vast reserves built up over centuries or do not necessarily have lots of other income streams have to engage in commercial borrowing and all the added costs and instability that puts on them. The financial risks for small providers are different. At the moment, we want to see a pro-growth agenda because growth allows institutions to access economies of scale that are not available to small providers, and that is where we see most of the risk.

Lord Clement-Jones: Would you say additional or different? You heard about some of the other risks that institutions in HE have.

Alex Proudfoot: It is a bit different. Smaller institutions and independent providers can be more agile and can pivot to what the market is telling them is in need, and they have shown that. Certainly, the pandemic was a huge challenge for all institutions, but particularly for institutions that relied on a very practical mode of learning, because you could not do that online, as well as institutions that had a large proportion of their income and their course provision in short courses, which many of our members do. People were not willing to come and learn for short periods of time during the pandemic, whereas in longer degree courses people were committed and they carried on online if necessary. Actually, we were surprised that very few institutions went bust during the pandemic. One or two were forced to merge with other institutions and there was a bit of consolidation, but primarily they were resilient and agile.

Rachel Hewitt: I guess many of the financial challenges for our members would be similar to the rest of the sector in the sense that income comes from teaching home students, which the evidence suggests is operating at a loss now; research, which operates at a loss; and teaching international students.

Many of my members are growing their international student body. A large part of their mission is taking on students from more disadvantaged backgrounds. They are often quite locally focused. They take on quite a large number of students from the local area, who then go through higher education there and go out to work in the local economy. It is really important for the missions of levelling up and things like that. That causes challenges because there are not necessarily other significant streams of income as there might be for other types of providers. That has been a challenge in recent years.

There are additional challenges that have come up in the past year or so, which is partly to do with the cost of living crisis and the impact that is having on students. It is impacting a significant number of students at our institutions, and they are taking significant action to respond to that in supporting students, but, of course, that comes at a cost.

Similarly, there are rising energy costs at big institutions. Our members are of different sizes, but the bigger institutions in particular are facing significant energy costs, and of course there are the costs related to any changes in pay that come as an outcome of strikes. There has been an ongoing issue in the real-terms cut in fees for a number of years. Now there are some additional issues coming in on top, and that is causing particular problems.

Lord Clement-Jones: Thank you. The follow-up is about the OfS. Do you think its approach to the question of financial sustainability is clear? Is its oversight sufficient to spot potential risks early on and take action accordingly? If you think that there is a different way it could do it, what role do you think it should play in overseeing financial sustainability? I will start with Alex again.

Alex Proudfoot: The role we would like to see the OfS play in terms of financial sustainability is essentially to support institutions to make themselves sustainable through growth, diversification and bringing new courses to market in response to student and employer demand. I just do not think the OfS has a pro-growth mindset at all at the moment. It has a monitoring mindset. It has an intervention mindset. It has a "What are you doing wrong?" mindset. Unfortunately, it sometimes has a "Computer says no" mindset in that it has set the rules and those rules are inflexible and cannot be changed, but, actually, it is capable of changing them.

When it comes to financial sustainability, it is a huge change from the past for our members. There is much more visibility and transparency, and that is good. The OfS should spend more time thinking about setting the conditions for success for institutions. I am worried that it may be a little flat-footed in that respect, particularly with the LLE coming down the track. In theory, the OfS will be responsible for the LLE for regulation of quality and standards. I do not see any sense that it is grappling with issues in the depth that is required of it. To go back to the B3 condition, none of the current ways in which it measures quality and outcomes will work for LLE, so what is it doing about it? I would like to know.

Lord Clement-Jones: You are the very alternative providers that the Act originally was designed to encourage.

Alex Proudfoot: Our members already offer short courses and modular learning. Quite a lot of them offer stackable qualifications. You can take one module at a time. We are ready for that and we are delighted. In a similar way, our members offer what you might call higher technical qualifications, but the policy the Government have set around HTQs is so bureaucratic that our members have not wanted to engage with it. There is a challenge for policymakers and for the OfS in that respect.

Rachel Hewitt: I agree with the point about the need for the OfS to support diversification. In general, our members are very keen to be involved in the LLE side of things and more diversity of provision. Sometimes, the way that regulation operates can slightly stifle that, and we will need to look at that going forward.

One way in which the OfS responds to issues of financial sustainability is probably the appropriate role in that we do not see a lot about it. It is private conversations that go on with institutions where necessary, which seems appropriate both to protect the institutions and to protect students and staff at those institutions. We do not seem to see institutions getting into unmanageable financial situations, so that is probably working quite well behind the scenes in a way that is not publicly seen as much.

The Chair: Lord Agnew, let us come to your key question.

Q60 **Lord Agnew of Oulton:** Yes, thank you very much. We have nearly run out of time, so I will ask for brief answers, but I would like you to follow up in writing, please, because I think these are important. This is about the different business models—plural—of this sector. Maybe, Alex, because you have a rather wider church in your membership, you can show us some of the more innovative ways that higher education is managing itself financially.

I am very worried by the current sort of statist approach of three-year courses, often with very few contact hours. Why are they not compressing them to two years? That would slice a third off the living costs for kids, on Rachel's point. Why are they hanging around on these campuses for three years when they could do the course in two?

I am also worried that the system is perversely encouraging universities to have a lot of cheap courses for £9,000 that it can then use to cross-subsidise more expensive and probably more useful ones. I would like to hear your views very quickly, please.

Alex Proudfoot: It really is quite a different world for our members from that of most universities. Most of them are specialist institutions, often operating within one discipline or one industry. They cannot cross-subsidise, by and large. Many of them do offer accelerated courses. The vast majority of accelerated degrees at the moment are happening in independent providers. As I mentioned already, they also offer short professional courses. They are generally industry or profession-focused, and their students are very keen to learn what they can and get a foothold in the industry. This means that in some cases students leave before the end of their course. They feel as if they have learned what they needed to get that first step in the industry and they strike out on their own, which does not go down well with data either. They are very different business models.

One other example is that, on the international side of things, our members often have consultancy contracts rather than traditional transnational education. They have an expertise that is recognised around the world, and they work with companies to help to sell those.

Rachel Hewitt: Our members also have diversity in their offering for students. They are often focused on combining the academic and vocational worlds. They are some of the leaders in things such as degree apprenticeships. One of my members has as many students in the workplace as on campus studying at the same time. They are often very focused on links with business, and particularly local businesses. They also play a significant role in training public sector workers such as teachers and nurses. They have close relationships with their local schools and colleges, and are often focused on producing research with real-world impact. In the current environment, some of those things do not necessarily advantage them. In some ways, the system is set up to advantage the more traditional paths, and there could be more progress on supporting institutions that are trying to offer that broader range of diversity in offering for students and different ways of working with local business and those sorts of things.

Lord Agnew of Oulton: Can you write to us with your suggestions on how that might happen? I believe the system needs to be shaken up and have innovation brought into it. The point that our Chair raises to us privately is that there is a much more complex landscape out there than we probably realise, with people dipping in for short courses later in their lives and retraining, which is fundamental, frankly, to our whole economy. We do not have the time for that now, but I would like to hear your thoughts, please.

Rachel Hewitt: Absolutely.

Lord Agnew of Oulton: Thank you very much.

The Chair: Thank you for the evidence that you have given. Feel free to come back and write to us to elaborate or to pick up points that you think you did not have time to cover this morning. Thank you both very much.