

# Summary of questions

## Chapter 9 – Outcomes of the system

**Q9.1**

What evidence is there about the impact of New Zealand tertiary education on participants' or graduates' wellbeing, separate from their labour market outcomes?

## Chapter 10 – Trends

**Q10.1**

Are the operating costs of tertiary providers per EFTS increasing in real terms? If so, what factors are driving this trend?

## Chapter 12 – A system that supports new models

**Q12.1**

What are the important design features for a self-accreditation system?

**Q12.2**

What measures might encourage providers to enter into articulation agreements to provide pathways for students to study across providers?

**Q12.3**

What measures could lead to a faster transfer of (nominally) Crown assets into TEI title, without incentivising TEIs to retain assets they do not need?

**Q12.4**

How can government deregulate fees, to encourage providers to differentiate more on the nature and quality of their offerings, while still adequately protecting the interests of students? Is this achievable within a system where government centrally allocates a capped number of subsidised places?

**Q12.5**

What barriers do providers face in establishing largely autonomous subsidiaries that pursue innovation and new models?

**Q12.6**

What do you think of the Student Education Account proposal as outlined in this draft report? What would you do to improve it?

**Q12.7**

What are the implications of the Student Education Account proposal for students? For providers? For industry training?

**Q12.8**

What are the implications of the Student Education Account proposal for innovation and the emergence of new models of tertiary education?

**Q12.9**

Are there alternative models that could shift the tertiary education system from being provider-centric to being genuinely student-centric?

# Findings and recommendations

The full set of findings and recommendations from the report are below.

## Chapter 3 – Student characteristics and choices

### Findings

**F3.1**

Students choose tertiary study for a wide range of reasons. Improving career prospects and pursuing personal interests are key reasons. Students are acutely concerned with whether their investment in tertiary education will lead to well-remunerated employment.

**F3.2**

Māori and Pasifika have relatively high rates of participation in tertiary education, but the high participation rates are entirely at subdegree-level study.

**F12.13**

The tertiary education system is increasingly oriented towards full-time study, towards younger students (under 25 years) and away from extra-mural study.

**F12.14**

Decisions about entering tertiary education and the influences on prospective students are complex. The arrangement and delivery of careers services including in schools, and government provision of information to prospective tertiary students, is fragmented and operating poorly.

## Chapter 4 – Employers, industry training and the labour market

### Findings

**F4.1**

Compared with other OECD countries, workers in New Zealand are poorly matched with their positions (based on their qualifications, what they studied, and their literacy). The impact of these mismatches has not been analysed in a New Zealand-specific context; however, international studies show higher levels of mismatch are correlated with negative consequences, including lower labour productivity.

**F4.2**

Career guidance, information about the returns to different tertiary education programmes, opportunities to upskill and retrain, development of transferable skills, and an education system that is responsive to employer demand are all important in improving matching between graduates and employment.

**F4.3**

Employers can have input into the tertiary education system through a range of formal and informal avenues. The incentive for employers to engage with tertiary providers may be muted by the relative ease of access to skilled migrants while tertiary providers lack incentives to respond to employer input in a meaningful way, as the majority of their funding comes from government

**F4.4**

Government has established numerous initiatives that seek to improve coordination and links between the tertiary education sector and employers. The need for such initiatives is symptomatic of a system that often fails to respond to employer needs.

**F4.5**

Tertiary education qualifications that equip graduates with transferable skills are desirable in that they retain their relevance in a changing job market. Several providers noted they are focusing on developing transferable skills; however, in some cases, these skills are poorly integrated into assessment processes.

**F4.6**

Funding for industry training is predominantly restricted to provision at levels 1 to 4 on the NZQF. This limits the ability of the industry training subsector to respond to demand for higher-level training, and inhibits the adoption of new models such as degree apprenticeships.

**F4.7**

The government funding rate for apprenticeships differs markedly, depending on whether apprenticeships are administered by an ITO or an ITP. The rationale for this difference is unclear.

**F4.8**

Current funding and regulatory settings for tertiary education that focus on younger, full-time learners completing full qualifications, the design of the student support system, and funding rules that make recognition of prior learning difficult, all present barriers to mid-career retraining.

## Chapter 5 – Government’s many roles

### Findings

**F5.1**

The Tertiary Education Strategy contains some worthy priorities, but indicators are frequently vague and monitoring against the strategy is sporadic. It is not clear that the strategy is an effective tool for driving outcomes.

**F5.2**

Government typically recovers just 60 cents per dollar lent through the Student Loan Scheme – due in large part to the use of a zero nominal interest rate. This fiscal cost, along with the cost of other student support payments, creates a strong incentive for government to control student numbers and provider fees.

**F5.3**

Funding determinations, set by the Ministry of Education, include tight specifications regarding how funding is allocated, and what providers can deliver.

**F5.4**

The fiscal effect of Performance-Linked Funding is frequently overstated. Between 2013 and 2015, less than 0.2% of SAC 3+ funding was withheld under Performance-Linked Funding. However, Performance-Linked Funding does appear to have strong behavioural effects that may be detrimental to innovation and the development of new models.

**F5.5**

Tertiary providers apply for government funding through an investment plan process whereby they forecast their volume and mix of provision. TEC’s approval criteria for investment plans restricts the ability of ITPs to deliver outside their own region, and the confirmation of funding allocations is often granted very late in the year – giving providers little time to plan and prepare.

**F5.6**

A very small share of funding allocated through the investment plan process shifts between tertiary providers, resulting in a very stable funding environment with little reward for successful innovation or high performance.

**F5.7**

Caps on the enrolment of domestic students means tertiary providers are allocated a certain number of EFTS for whom they must deliver a certain mix of programmes at specified levels on the NZQF. As a consequence, TEOs are locked into a predetermined pattern of delivery with limited options to adjust delivery in response to changes in student demand.

**F5.8**

Fee regulation inhibits differentiation in educational offerings within the system.

**F5.9**

New providers must complete a multi-faceted set of entry requirements before being eligible to deliver qualifications on the NZQF or apply for TEC funding.

**F5.10**

NZQA processes are time-consuming, costly and a barrier to innovation in the development and delivery of programmes. Tertiary providers have no choice in what quality assurances NZQA undertakes and charges them for.

**F5.11**

There is scope for NZQA to adopt a more risk-based approach to external evaluation and review, and for reviews to concentrate more on providers' value-add and student outcomes.

**F5.12**

The New Zealand Vice-Chancellors Committee's CUAP process is not conducive to innovation in the university subsector.

**F5.13**

Audits conducted by AQA focus on process rather than the quality of delivery or outcomes achieved. This is a missed opportunity to identify improvements that matter most for students.

**F5.14**

Government's comprehensive financial guarantee for TEIs' creditors and council members compels it to undertake financial monitoring of TEIs. However, government is not in the best position to fulfil this role as it has neither the most current or comprehensive information, nor is it best placed to intervene if financial issues emerge.

**F5.15**

Government has a multitude of initiatives to provide information about careers and tertiary education to students and businesses. Responsibility for these initiatives are spread across four government agencies.

## Chapter 6 – Providers of tertiary education

### Findings

**F6.1**

Universities have significant incentives to invest in research to maximise their PBRF revenue, and they are responding to these. Universities have no similarly strong external incentives to invest in teaching.

**F6.2**

Tertiary education sector staff hold a widespread, though not universal, view that "red tape" and excessive management increase costs and reduce their ability to do good and enjoyable work, without any compensating gains in the quality of that work.

## Chapter 7 – Tertiary education markets

### Findings

**F7.1**

An EFTS is the main unit purchased by TEC and delivered by tertiary providers via Investment Plans. It is defined by inputs, and commodifies the complex, co-produced good of tertiary education into a simple product that is purchased and supplied in a (highly constrained) “market for EFTS”.

**F7.2**

Government constrains the market for EFTS. Government purchases a limited range of products, sets quotas for each provider, and controls price. EFTS prices are not sensitive to important drivers of costs such as economies of scale, differences in student characteristics, and differences in location and mode of delivery.

## Chapter 8 – Implications of tertiary system settings

### Findings

**F8.1**

TEIs perform a delicate balancing act between crying poor and at the same time demonstrating efficiency and innovative activity. This arises because observable success in reducing costs could undermine their lobbying attempts to maintain or increase price and quantity.

**F8.2**

The incentives facing TEIs encourage them to over-invest in reputation and other sunk assets, and to take on more debt than might otherwise be prudent. In (partial) response, government directly regulates the amount of debt that TEIs can take on.

**F8.3**

The EFTS pricing system, in combination with economies of scale and financial regulation (including fee regulation), means that larger TEIs will accumulate assets faster than smaller ones, and TEIs with higher fees can increase them by more than TEIs with lower fees. Over time, the big get bigger, and the rich get richer.

**F8.4**

The government devotes significant resources to quality control. Yet it directs few of those at ensuring that students receive quality teaching.

**F8.5**

The funding and regulatory system does not meaningfully distinguish between a provider who is just “satisfactory” and a provider who is “exceptional” at developing students’ knowledge, skills and capabilities in a way that prepares them for success in their ongoing lives. No robust information is currently available to help prospective students make this distinction either.

**F8.6**

Student choices have little if any impact on provider revenue, as long as providers can fill their allocated EFTS quotas. Student choices may lead to a reallocation of revenue within providers.

**F8.7**

The EFTS quota system leads to the over-subscription of some courses and providers while others are under-subscribed, with supply unable to readjust to demand. Instead, demand has to adjust to supply – and some students are inevitably left with their second (or lower order) preferences. This means less efficient matching of students to tertiary education.

**F8.8** The New Zealand system offers students a choice between relatively homogenous providers. Such a system risks mediocrity and discriminates against some students.

**F8.9** The funding and quality assurance systems do not reflect stated government commitments to improving educational outcomes for disadvantaged student groups, including Māori and Pasifika.

**F8.10** Providers have the requisite market power – and clear financial and reputational incentives – to set high switching costs for students.

**F8.11** The tertiary education system is poorly suited for lifelong learning.

**F8.12** The entry barriers, exit disincentives and quota mechanisms in the tertiary education system mean minimal reallocation of student places. This greatly reduces opportunities for improved system-level productivity and quality.

**F8.13** The market power of providers gives them weak incentives to control costs. Spending more money does not, of itself, necessarily result in better outcomes for students.

**F8.14** Government needs every public provider to make a surplus, and it sets EFTS prices at a level that enables this. This means that the highest-cost public provider (that does not have other substantial sources of revenue) will effectively set EFTS prices.

**F8.15** Some degree of cross-subsidisation in tertiary education is normal and necessary. Where it is transparent and well-understood, it can be a valuable tool. But it can be problematic where it undermines funders' intentions, puts competitors on an uneven playing field, or is absent where the government's funding approach assumes it is present.

**F8.16** Features of the system combine to limit innovation and reduce responsiveness to student demand. Competition – where it exists in the system – is not on the dimensions of cost-reducing or education-enhancing innovation. Nor is it on responsiveness to student demand.

**F8.17** There is “considerable inertia” in the New Zealand tertiary education system. This inertia is an emergent property of the system, rather than a characteristic of providers.

## Chapter 9 – Outcomes of the system

### Findings

**F9.1** Course and qualification completion rates as currently published by government are not a reliably good indicator of a provider's performance in educating students, because they do not measure value-add.

**F9.2** Whatever happens educationally between age 15 and young adulthood in New Zealand does not reduce variation in skill levels across the population, or improve the skills ranking of younger New Zealanders compared to other OECD countries.

**F9.3**

The tertiary education system underperforms for Māori and Pasifika students. They experience persistently worse tertiary education outcomes than other students.

## Chapter 10 – Trends

### Findings

**F10.1**

University tuition fees have increased significantly in real terms over the past ten years. Average tuition fees in the ITP and wānanga subsectors have fallen.

**F10.2**

At the aggregate level, tuition fees and government tuition subsidies per EFTS have increased faster than the rate of inflation over the past 15 years.

## Chapter 11 – Innovative activity

### Findings

**F11.1**

The internal culture and management capability of a tertiary education provider is a major influence on its ability and wish to innovate.

**F11.2**

Providers in New Zealand tend to adopt sustaining innovations that improve the value of their existing way of delivering education. Often, this means technology is grafted on to old ways of doing things.

**F11.3**

Regulatory settings do not allow innovative new models of tertiary education to emerge from existing government-funded providers. New models either arise outside of the government-funded system, or are enabled by legislative change on a case-by-case basis.

**F11.4**

Some frontline educators adopt technology to aid their teaching in innovative ways, but there is little institutional capability to scale this activity.

## Chapter 12 – A system that supports new models

### Findings

**F12.1**

The tertiary education system allocates more resources to those who spend more time in education, especially at higher levels. These people also gain the largest private rewards from their education. The system therefore extends and exacerbates the inequality that emerges in the schooling system, rather than ameliorating it.

**F12.2**

Regulation should recognise that different people can reasonably hold different views about what constitutes “good quality” tertiary education. Regulation should focus on enforcing minimum standards.

**F12.3**

A regulatory system that enables innovation and diversity also increases the risk of poor-quality provision. Opening the system to greater flexibility and innovation needs to be accompanied by carefully designed and effectively implemented regulatory processes.

**F12.4**

The current regulatory system has the wrong mix and wrong type of ex ante controls and ex post monitoring. The system is ill-suited to an environment in which new models can emerge. Such an environment requires fewer input controls and better ex post monitoring of service quality and student outcomes.

**F12.5**

Wage levels send important signals to prospective students about what type of tertiary education will be rewarding to them and to employers. Government and providers can distort these signals.

**F12.6**

Market regulation typically includes measures to inform and protect consumers, limit the accumulation of market power, control over-pricing and sanction the abuse of market power. Yet in tertiary education, government regulations grant local monopolies and create cartel structures.

**F12.7**

Some land and buildings used by TEIs are in Crown title, which lessens their ability to repurpose such assets to support new models. The process to transfer the assets into TEI title is slow and creates incentives for TEIs to retain assets they may no longer need.

**F12.8**

Uniform student fees are a significant constraint on innovation. It would be desirable if providers could set their own fees, to enable them to differentiate more on the nature and quality of their offerings – but only if students' interests were adequately protected.

**F12.9**

The inquiry's recommendations, if adopted, will improve the system, and its openness to new models. However, they are insufficient to address the system's major structural deficiencies identified by the inquiry.

**F12.10**

The current tertiary education system is provider-centric from the students' perspective; and government-centric from the providers' perspective.

**F12.11**

Either the student or the provider can be the direct recipient of a subsidy. The two mechanisms have different implications. A funding arrangement that subsidises students directly to purchase education from licensed providers offers potential advantages over the current arrangement. Student choices, more so than those of government and providers, would drive system behaviour. This would encourage providers to innovate.

One such arrangement is a Student Education Account (SEA). An SEA model would remove the highly regressive nature of the current system. It is likely to encourage participation in tertiary education, and therefore offers wider access to the benefits that education brings. An SEA model could be revenue-neutral for government.

**F12.12**

Improvements to performance information and quality regulation become even more important under a student subsidy model such as the proposed Student Education Account.

## Recommendations

**R12.1**

Regulatory and purchasing functions in tertiary education appear to be a poor match to government agencies. In implementing this inquiry's recommendations, government should take the opportunity to design agency forms that provide clarity of function and reduce conflicts of role.

**R12.2**

NZQA and providers should use ex post tools that assess the actual quality of the tertiary education experience. Such tools can ensure compliance with minimum standards and verify promises made by providers.

**R12.3**

The Ministry of Education should design a new quality control regime for tertiary education that encourages innovation, takes a risk-based approach, and enforces minimum standards of quality.

**R12.4**

The Ministry of Education and the Tertiary Education Commission should prioritise analysis of the value-add of tertiary education, including at provider level and by ITO. It should identify what kinds of study, at what providers, result in the best outcomes for different groups of students – including comparisons between provider-based and ITO-arranged training. It should publish this information for use by students, parents, providers, ITOs and purchasing agencies.

**R12.5**

The Tertiary Education Commission should change the way it measures completions so that provider performance is not penalised if a student transfers to continue learning at a different provider or moves into work.

**R12.6**

Students should be able to mix and match courses from different providers. The funding and regulatory system should not penalise providers for participating in such arrangements.

**R12.7**

Government should discontinue Performance-Linked Funding.

**R12.8**

NZQA should be responsible for defining minimum performance thresholds and monitoring provider performance against those standards. Providers that fail to meet minimum performance thresholds should lose their licence to operate. The thresholds should be clear and any changes publicised well in advance.

**R12.9**

The Ministry of Education should reform its approach to school-based career education so that school students, from an early age, develop the skills and knowledge to make effective decisions about their study options and career pathways.

**R12.10**

Government should consolidate and improve the array of official information sources about study and career options aimed at prospective (and current) tertiary students.

**R12.11**

All providers should be able to apply to NZQA for self-accrediting status. Self-accreditation would cover processes such as programme approval and accreditation, qualification monitoring, and evaluation and review.

**R12.12** Government should repeal the statutory provisions relating to the Vice-Chancellors Committee in the Education Act 1989. Cross-institution collaboration on course development and quality control for self-accrediting providers should be voluntary and subject to the normal provisions of the Commerce Act 1986.

**R12.13** NZQA should review their programme approval processes, with a view to reducing timeframes and removing any unnecessary requirements. It should set a target for the median timeframe for approvals.

**R12.14** NZQA should update its policies to permit providers to change the location of delivery without prior approval, where those changes do not materially alter the programme from the perspective of students.

**R12.15** NZQA should amend its guidelines for approval of degree-level programmes to clarify when and why they require a panel review. Panels should be the minimum size and skills composition necessary for quality control.

**R12.16** Providers should develop or adopt frameworks of standards for tertiary teaching, suitable for New Zealand's tertiary system, for assessing and rewarding the capability and performance of tertiary teachers.

**R12.17** Government should relax its statutory requirements for research-led teaching of degrees.

**R12.18** Government should establish a student ombudsman service within NZQA to promote credit transfer, and with the power to arbitrate disputes between transferring students and their destination provider.

**R12.19** The Ministry of Education and the Treasury should review the current regulatory arrangements, with a view to separating government's fiscal exposure to tertiary education institutions from its responsibility to protect the interests of students.

**R12.20** To improve their ability to innovate, tertiary education institutions (TEIs) should own and control their assets, and be fully responsible for their own debts. Government should seek to amend the Education Act 1989 to allow it to identify financially competent TEIs and treat them accordingly. This includes:

- removing the requirement for such TEIs to seek approval to acquire or dispose of assets, or to borrow money; and
- removing government's guarantee of the creditors of such TEIs.

**R12.21** Tertiary education institutions (TEIs) should contribute directly to their local communities by paying rates. This would remove a distortion that leads to inefficient asset use by the TEIs and inefficient land use.

**R12.22**

Government should:

- extend funding eligibility to students who do not intend to pursue qualifications;
- remove specifications that set a lower and upper limit on fundable course duration; and
- remove limits on the use of industry training funding on training at levels 5 and above on the NZQF.

**R12.23**

Government should abolish University Entrance, leaving all universities free to set their own entry requirements.

**R12.24**

Educational delivery by institutes of technology and polytechnics anywhere in New Zealand should not require the approval of the Tertiary Education Commission.

**R12.25**

The Ministry of Education should systematically identify and remove regulatory barriers to new entrants in the tertiary education system, subject to quality standards.

**R12.26**

Any provider should be able to apply to NZQA to use the terms “university”, “polytechnic”, “institute of technology” and “college of education”. NZQA should grant or reject such applications based on the provider’s characteristics and on whether students or the public are likely to be misled about the provider’s nature or quality.

**R12.27**

Any tertiary education institution should be able to apply to NZQA to change subsector (eg, from ITP to university or university to ITP).

**R12.28**

Government should approve for New Zealand those providers and courses approved in jurisdictions with which NZQA has mutual recognition agreements, or in other jurisdictions where the New Zealand government is satisfied with the quality assurance arrangements.

**R12.29**

Government should reform the Student Loan Scheme to be an income-contingent loan scheme that ensures that people are not excluded from tertiary education purely because they cannot borrow against future earnings to fund their education. Future Student Loan Scheme borrowers should be charged interest at a rate that covers government’s costs in running the scheme.

**R12.30**

The Government should alter the definition of an equivalent full-time student (EFTS) to allow alternatives to the input-based “learning hour” as a basis of calculation.

**R12.31**

The Ministry of Education should review the funding rates applicable to New Zealand and Managed Apprenticeships, with a view to equalising them.

**R12.32**

Every student should receive an invoice from their provider for government-subsidised education. This should explicitly show the full price of education, and the Government’s contribution alongside the fee payable.

**R12.33**

The Tertiary Education Commission should, in consultation with providers, set – and stick to – a reasonable deadline by which they will confirm funding allocations.