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## **SUBMISSION ON NEW MODELS OF TERTIARY EDUCATION**

To: Productivity Commission

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## About DairyNZ

Thank you once again for providing DairyNZ with a short extension in which to file its submission on the draft *New Models of Tertiary Education* report.

DairyNZ is the industry good organisation representing New Zealand's dairy farmers. Funded by a levy on milk solids and through government investment, our purpose is to secure and enhance the profitability, sustainability and competitiveness of New Zealand dairy farmers and their local communities.

## General Comments

DairyNZ welcomes the release of this draft paper, and commends the Productivity Commission for adopting a whole-of-system approach, and outlining the challenges that New Zealand faces in positioning the tertiary education sector to respond to the rapidly changing needs and expectations of learners. We also support the Commission's analysis regarding the need to:

- Create stronger incentives for new providers to enter the tertiary education sector in order to generate competition, innovation and deliver better outcomes and values for the students, employers and taxpayers who underwrite the system;
- Prioritise analysis of the value-add of tertiary education, including at provider level and by Industry Training Organisations;
- Update the existing regulatory architecture to level the playing field between providers, increase options and opportunities for students, and improve quality standard; and
- Develop an ambitious reform agenda that appropriately balances the need to stimulate innovation with the need to safeguard the public interest by maintaining the quality and sustainability of the tertiary education system.

DairyNZ also welcomes the report's comprehensive analysis on the role of and future growth potential of industry training providers. We are pleased that our previous recommendations regarding the need for more effective engagement between employers and education providers resonated with the Commission and other submitters.

## Key Discussion Questions

In view of the advanced nature of the draft report, this submission focuses on the final suite of questions framed by the Commission for stakeholder discussion. To assist the Commission, DairyNZ has only responded to those questions that are within its direct knowledge and expertise.

### **Q9.1: What evidence is there about the impact of NZ tertiary education on participants or graduates' wellbeing, separate from their labour market outcomes?**

This is not a well-developed field of research in New Zealand. The only report that we are aware of that specifically examines this issue is the 2007 report published by the Ministry of



Social Development entitled *How Does Investment in Tertiary Education Improve outcomes for New Zealanders?*<sup>1</sup> This report indicated that the benefits of tertiary education are not limited to monetary gains, with evidence suggesting that New Zealanders who obtain tertiary qualifications achieve better health and lifestyle outcomes.

Looking more broadly,

- In the United Kingdom, the Department for Business, Skills and Innovation published a 2013 report entitled *What we do and don't know about the wider benefits of Higher Education*<sup>2</sup> (as part of the broader Higher Education and Regional Transformation) which reviews the current literature examining the impact of tertiary education on: citizenship, civic engagement, incidence of crime, health, and well-being. The report noted the challenges of reaching evidence-based conclusions on the impacts of tertiary education given the paucity of existing data sets. The highly-dispersed level and nature of the benefits attributed to tertiary education also made it difficult to establish causation. Despite these challenges, the report acknowledged there was considerable evidence that higher education makes a positive difference to the lives of those who participate in it, and to society at large.
- In Australia, the Grattan Institute published a 2012 *Non-Financial Benefits of Higher Education*<sup>3</sup> which observed a small correlation between education and life satisfaction as measured through the General Social Survey

These international papers could perform the building blocks of a more comprehensive New Zealand research program.

#### **Q10.1 Are the operating costs of tertiary providers per EFTS increasing in real terms? If so, what factors are driving this trend?**

Our partnerships with tertiary providers have provided us with some valuable insights into their operating costs albeit not the detailed knowledge that providers themselves have. What we do know make us think that course costs, and the value that courses deliver, deserve more consideration.

Over the past two years we have seen a series of tertiary providers servicing our sector experience financial difficulty. The circumstances surrounding Lincoln/Telford, Taratahi, Aoraki (now Ara), Agribusiness Training and, most recently, Agriculture New Zealand are all different. However, we suspect that an underlying cause for their troubles has been a cost-price squeeze.

As TEC has pulled back from funding low-level courses, providers have lost the ability to cross-subsidise higher-level, but more expensive, courses. This may be a more important cause of financial pressure on providers than operating cost inflation. DairyNZ does not advocate a return to funding low cost – low value training but we would like to see adequate funding flow to training that does offer high value.

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<sup>1</sup> <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/journals-and-magazines/social-policy-journal/spj31/31-how-does-investment-in-tertiary-education-improve-outcomes-pages195-217.html#Nonmonetaryoutcomesoftertiaryeducation8>

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/251011/bis-13-1244-things-we-know-and-dont-know-about-the-wider-benefits-of-higher-education.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251011/bis-13-1244-things-we-know-and-dont-know-about-the-wider-benefits-of-higher-education.pdf)

<sup>3</sup> [http://grattan.edu.au/wp-content/uploads/2014/04/164\\_graduate\\_winners\\_non-financial\\_benefits.pdf](http://grattan.edu.au/wp-content/uploads/2014/04/164_graduate_winners_non-financial_benefits.pdf)



DairyNZ therefore supports recommendation R12.4 to *prioritise analysis of the value-add of tertiary education, including at provider level and by ITO*. We see this as a good starting point to address issues of course underfunding and provider viability.

We believe that course funding should be based on a formula that considers:

- **Value of training** - Every course should be evaluated against the impact it has for students, employers, industry and the country. Tools to do this exist now, at least for labour market outcomes, and the resulting insights will inform much better investment decisions.
- **Student demand for training relative to the value delivered** - High value training does not always translate into learner demand. In the primary sector, for example, our research shows farm management training offers very high returns to all stakeholders but we struggle to get farmers to enrol in courses. Funding levels could act to balance this by, for example, providing for investment in promotion or allowing providers to charge lower fees for high value courses.
- **Cost of delivery** - Cost should remain an important part of the funding formula to avoid over-paying for delivery regardless of the value-added.

#### Q12.1 What are the important design features for a self-accreditation system?

The Commission will be aware that international experience indicates that opinion is converging on the key facets of self-accreditation systems in the tertiary education sector. Our understanding of the systems operating in Australia, Hong Kong, Malaysia, and the UK, suggests there is consensus regarding the need to examine:

- Provider standing, including its ownership, corporate structure, and record of accomplishment;
- Corporate and academic governance arrangements;
- Financial viability and safeguards;
- Academic quality and integrity;
- Management systems and human resources;
- Student support and learning resources; and
- Student retention, completion, and recruitment levels.

However, there appears to be debate regarding the most effective means of evaluating these competencies and capabilities in practice<sup>4</sup>. Certainly, in the UK and Australia there is strong drive to deliver self-accreditation systems that adopt a risk-based and proportionate approach, fostering student choice, quality enhancement, and value for money. In addition, there is a focus on ensuring that accreditation systems do not act as a barrier to the emergence of innovative pedagogical approaches. This reflects concern that accreditation

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<sup>4</sup> As evidenced by the UK Government's recent White Paper *Success as a knowledge economy: teaching excellence, social mobility and student choice*, and the Australian government's recent review of the Tertiary Education & Quality Standards Agency Act 2011



systems inadvertently create process rigidities over time which stymie the adoption of new courses and delivery approaches.

DairyNZ notes, in relation to the specific questions the Commission has posed regarding: (i) the optimal length of time that self-accreditation should last, and (ii) how the self-accreditation system is monitored, the model operated by the Australian Tertiary Education Quality and Standards Agency (TEQSA) provides a useful starting point. As the Commission will be aware, the period of self-accrediting authority is usually aligned with the provider's registration period. This period cannot exceed seven years. TEQSA undertakes a range of compliance and quality assessments as part of its quality assurance and enhancement responsibilities, to ensure the provider is meeting its required Threshold Standards. TEQSA's approach is underpinned by three key regulatory principles that emphasise the need to take a risk-based, proportionate, and necessary approach.

### **Q12.2 What measures might encourage providers to enter into articulation agreements to provide pathways for students to study across providers?**

Our research and practical experience suggests the key factors inhibiting the development of articulation agreements can be grouped as follows:

- Challenging funding environments that foster institutional competition rather than collaboration;
- Concerns regarding academic rigour, curriculum alignment, and institutional capacity;
- Inadequate advice and support systems for students both pre and post transfer;
- Current policy frameworks (e.g. the measurement of completion rates as outlined in the Commission's Report) which struggle to accommodate the concept of multiple learning pathways;
- Absence of robust evaluation data demonstrating the net benefits that accrue (either directly or indirectly) from articulation; and
- The student's socio-economic circumstances (e.g. family and work commitments, geographical location, and absence of financial support) which inhibit their ability to transfer courses and/or providers.

Many of the challenges outlined are attributable to information asymmetries. We therefore endorse the Commission's analysis regarding the importance of students' access to high-quality and timely information from providers regarding how their prior learning will be recognised when they transfer between qualifications or providers. We also agree that the proposal to establish a Student Ombudsman warrants further investigation.

### **Q12.4 How can government de-regulate 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 the government centrally allocates a capped number of subsidised places?**

As noted in our response to question 10.1 above, DairyNZ considers the possibility of using variable student fees to stimulate demand for high-value, low-demand courses should be investigated.

### Q12.5 What barriers do providers face in establishing largely autonomous subsidiaries that pursue innovation and new models?

DairyNZ's supports the Commission's analysis that the most common barriers to innovation in the tertiary education sector are:

- Current policy and regulatory settings which provide strong incentives for “inertia”,
- Cautious, incumbent providers who, in the absence of strong competition, have low risk appetites.

We therefore recognise there is some conceptual attraction in the Commission's proposal that providers should establish “skunk works” charged with the task of exploring new service delivery models and associated technologies independent of the goals, values, and operating culture of its parent organisation. We appreciate there is a significant body of literature examining the benefits of the skunk works model, particularly in relation to harnessing the potential of disruptive technologies, and injecting new start-up thinking into an established business.

However, the literature also suggests “skunk works” can be difficult to implement in practice because of the need to completely “shield” the new venture from the managerial culture of its parent. These new ventures therefore require an active defence strategy, which has the potential to consume significant resources and relationship capital. The other associated challenge is that the quantity/quality of the resources which the parent releases to support the endowment of its new venture inevitably reflect the parent organisation's strategic prioritisation choices. To this extent, the parent organisation's DNA still has a significant impact on the shape and scope of the new venture. Consequently, there continues to be vigorous debate as to whether investments in “skunk works” produce higher rates of return than, for example, purchasing an equity stake in a successful new market entrant.

### 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?

As the Commission notes in its report, it has provided an **outline** of a potential Student Education Account (SEA) proposal rather than a fully-evolved model. Consequently, it is difficult to provide a definitive response on the likely costs and benefits of this proposal at this stage.

DairyNZ notes the concept of introducing personal budgets or accounts has been steadily gaining in traction in the health and social services fields, both nationally and internationally, since the 1990's. Although it is difficult to generalise, there appear to be two prevalent delivery models namely:

- An “open” model where cash payments are allocated with minimal process and accounting strings attached, or
- A “budgeted or planned” model where more restrictions are placed on the beneficiary and service purchases are audited more carefully.

Of the two models, the “budgeted” model is more prevalent because it is considered to provide a more comprehensive approach in terms of balancing the need to delivery personalised services while maintaining some accountability in relation to the public funds.



The Commission appears to prefer the “budgeted” model approach, and we agree that this proposal warrants further analysis. We also agree that the Commission has correctly identified the suite of detailed design choices that the government would need to explore before adopting this proposal. However, the Commission may need to expand this list given the limited range of evaluation data on the impact that mechanisms, such as the SEA, have on education and personal wellbeing outcomes.

DairyNZ’s other key recommendation is that the final report should include careful investigation of possible implementation pathways and associated timelines. Although the Commission’s comment that implementation will be “complicated” is correct, the SEA proposal is unlikely to gain political or community traction without additional analysis indicating whether this proposal is capable of feasible implementation. We also note that other jurisdictions (most notably the UK and USA) have tested the cost/benefits of personalised budget approaches in the education sector using a series of pilot programmes. This is an approach that would work well in the New Zealand context.

### **Q12.7 What are the implications of the Student Education Account proposal for students? For providers? For industry training?**

We think the immediate implications are likely to be as follows:

#### **For students**

- Students will most likely enjoy a broader range of education options which can be tailored to meet educational needs and career aspirations throughout their lives. In theory, they will also enjoy higher-levels of decision-making autonomy.

#### ***However,***

- The actual degree of choice that students enjoy will be limited in practice by: (i) the adequacy of their SEA budget, (ii) the authorisation processes (if any) for their spending plans and (iii) the availability of providers and courses. The expanded market the Commission intends to create will take time to develop and mature, and it is important to carefully manage expectations about the nature of the changes that could be developed in the short to medium term;
- The introduction of greater choice is likely to raise many difficult questions in practice. DairyNZ considers that most students will need to access some form of specialist support and/or brokerage services to help them make informed decisions regarding:
  - their lifetime learning needs,
  - how to assess the value propositions of competing courses, providers, and post-study outcomes, and
  - how to make successful transitions between courses and providers at various stages throughout their lives.

For the SEA proposal to be successful, it is essential that students base their choices on a range of factors including quality and price.

- There is also likely to be community concern that personal budgets have the potential to exacerbate existing inequalities. This stems from the assumption that students from higher socio-economic groups will derive the most benefits from the SEA approach



because their generally higher levels of education and strong social networks equip them to make more discerning choices.

### **For providers**

- The SEA model will require existing providers to change their existing philosophical approaches away from professionally-driven to student-centred models of provision. Providers will be challenged to develop new strategies to:
  - Align their course offerings with the preferences of an increasing discerning student body, especially when it comes to how, what, when and where they learn;
  - Establish lifetime learning relationships with students;
  - Manage the revenue uncertainty that inevitably stems from having a more mobile and flexible student population;
  - Harness new information technologies to minimise infrastructure costs; and
  - More accurately match course offerings with labour market demands.
- The SEA proposal will also require significant changes to business processes, particularly internal quality assurance, student support and planning activities (both pre and post enrolment), and marketing and communication. There is also likely to be a strong focus on developing new tools to maximise student retention including new systems tracking student risk factors (i.e. academic, behavioural and financial changes) together with faster and more intensive responses for at risk students.

### ***However,***

- Rapid expansion in the number of providers could create systemic risks, and precipitate the withdrawal of courses and result in several providers exiting the sector. The Commission should expand its current analysis on the range of measures that should be implemented, as part of the SEA proposal to ensure that students can continue to achieve their academic outcomes if their chosen provider is unable to fully deliver their course.

### **For industry training**

The SEA proposal is likely to:

- Stimulate more student demand and with it, more opportunities to develop blended-learning strategies that increase learner flexibility and help students make successful transitions between academic and technical opportunities;
- Strengthen incentives for the creation of new industry partnerships to provide broader, deeper, and tailored learning opportunities in an increasingly competitive market, and
- Encourage students to enter vocational training at an earlier age, and potentially at more regular phases throughout their working lives in response to employer demands for employees to re-train and/or up-skill.

### **However**

- The SEA model would need to be accompanied by the other support measures noted in DairyNZ's previous submission, namely:
  - Removing specifications that set a lower and upper limit on fundable course duration;
  - Removing limits on the use of industry training funding on training at levels 5 and above on the NZQF, and
  - Reviewing the funding rates applicable to New Zealand and Managed Apprenticeships, with a view to equalising them.
- In relation to the industry training in the dairy sector, the SEA proposal in its current form is unlikely to reduce the significant challenges that new providers wishing to enter the market will face. The substantial capital costs associated with farm and equipment purchases. Indeed, the SEA proposal could make financing more difficult to secure because it will be difficult to forecast enrolment numbers with any degree of certainty.

### **Q12.8 What are the implications of the Student Education Account proposal for innovation and the emergence of new models of tertiary education?**

As noted above, the full implications of the SEA proposal are difficult to assess because the Commission's report contains an outline, rather than a complete operational model.

There is an emerging body of international literature, evaluating the outcomes of "budgeted" delivery models particularly in the health services sector, which suggests that these models deliver positive outcomes in terms of user satisfaction and feelings of wellbeing. There is limited data however regarding the impact on the cost of service delivery, innovation activity, and productivity more broadly.

### **Q12.9 Are there alternative models that could shift the tertiary education system from being provider-centric to being genuinely student-centric?**

As previously mentioned, the UK Government's recent White Paper which was released in May 2016 outlines some alternate options on:

- The creation of a single regulatory system for all tertiary education providers irrespective of incumbency or corporate form. This proposal has the following key components:
  - The consolidation of existing regulatory bodies into a new Office for Students (OfS) to operate on behalf of students and taxpayers to support a competitive environment, and promote choice, quality, and value for money. The government's intention is to shift from a top-down funding agency approach to a new market regulator model that is clearly focussed on student choice;
  - The introduction of a new proportionate, risk-based approach (which will be operated by the OfS) to determine the regulatory requirements for all higher education providers in relation to all matters i.e. quality assurance (including the development of a Teaching Excellence Framework), widening participation, data, and information requirements. More significantly, providers will be given the opportunity to choose



which operating model they wish to adopt, and the level of government funding support they receive, and

- Other key features of the proposed regulatory system include:
  - Changes in degree awarding powers, accelerating the timeframes in which providers who meet required quality standards can award degrees, and
  - Removing the current restrictions on the use of the term “university”.

While not necessarily endorsing all of the White Paper’s recommendations, DairyNZ considers that it provides an important opportunity for the Commission to benchmark its current thinking and recalibrate its ambition levels.

## **Submission Ends**