



Submission on the Productivity Commission's draft report, *New Models of Tertiary Education*

This submission provides feedback on the Productivity Commission's recommendations in its draft report. TEC agrees that the tertiary education system is overly complex and supports the overall direction of the Inquiry. TEC also proposes areas for further consideration.

The final report should focus on how to deliver better outcomes for learners and for New Zealand

The Productivity Commission's Inquiry is a significant review of the tertiary education system in New Zealand. The draft report characterises the tertiary education system as a "Gordian Knot", where accumulated policy and regulation have produced a complicated system that does not always encourage, and in some cases stifles, innovation. The TEC views the system as performing well for many learners, but sees opportunities to create a more flexible, more learner-centred tertiary education system that better focuses on priority learners and lifelong learning. TEC shares the Productivity Commission's view that the system is overly constrained, and that some of the complexities of the system may act as barriers to innovation. Resolving complexities in our funding system and better focusing it towards learners' outcomes will be key to developing a high-performing, sustainable tertiary education system.

The TEC Board is developing and implementing a strategy to ensure that TEC is performing well and supporting a strong tertiary education system. This submission reflects our strategy. Our strategy is focused on four key levers: using funding to meet demand, investing for outcomes, supporting flexible pathways from education to employment, and strengthening transitions from compulsory to tertiary education. We encourage the Productivity Commission to further consider how the funding system can be strengthened to help us use these levers most effectively.

Technology changes, increasing internationalisation and demographic changes are altering the shape of our economy and our education system. New Zealand's TEOs need strong incentives to prioritise education for learners most at risk and for learners who need to maintain and increase their employability. Some of the changes that the Productivity Commission is recommending would help to create these incentives, including prioritising value-add analysis and altering the definition of an equivalent full-time student (EFTS). However, the recommendations as they are currently drafted are not enough to address some priority issues. We believe that the time to change our system is now – large-scale technological changes are coming rapidly, and there is real need to ensure New Zealand is ready.

The Inquiry's final recommendations should address four key priority areas

The TEC's submission to the Inquiry's *Issues Paper* identified four areas that we recommended the Productivity Commission prioritise for its Inquiry:

- Priority 1: Placing learners at the centre of the system
- Priority 2: Reducing barriers to innovation and flexibility
- Priority 3: Bringing education and work closer together
- Priority 4: Achieving parity for Māori and Pasifika.

We find that the draft report makes a number of recommendations to address Priorities 1 and 2. TEC sees value in many of these, but encourages the Productivity Commission to adjust some of them for the final report.

Priorities 3 and 4 also feature in the draft report. However, with only a couple of exceptions, the Productivity Commission's findings in these areas do not translate into specific recommendations for change. We believe that the Final Report should include specific recommendations for improvements in these areas.

Prioritising these areas would help focus the report on the end point – delivering better outcomes for learners and for New Zealand – rather than on the means of achieving this end point – innovation. The Terms of Reference for this Inquiry identifies that the tertiary education system needs stronger incentives for innovation. But, in fact, it is the positive outcomes of innovation that are sought, not innovation itself. There are many pockets of excellence within the system that could be scaled up to help achieve better outcomes without requiring substantial innovation. The TEC believes that framing the final report in terms of delivering better outcomes for learners and New Zealand, rather than achieving more innovation, will strengthen the case for change.

Priority 1: Placing learners at the centre of the system

A significant focus of the report is placing learners at the centre of the system. TEC believes that system settings should put the needs of learners first, and TEC supports the recommendations that would help to achieve this.

Improving the quality and visibility of information about tertiary education to learners is an important way to intensify the effects of learner choice on TEOs and the system.

The report recommends that Government **consolidate and improve information about study and career options**. TEC is already working to address this by leading the Information for Learners and Rate my Qualification initiatives. From 2017, this work will enhance learners' abilities to compare qualifications and to understand which study options are best for them. TEC is involving learners in the development of these initiatives to help ensure the information they will provide is useful for learners' decision-making. TEC is also working through a process to merge with Careers New Zealand. Through this, we will work to ensure that careers advice continues to give learners the information they need to make informed study and career choices.

The report recommends that MoE and TEC prioritise the analysis and publication of the **value-add** of tertiary education. TEC supports this recommendation and believes it would help to incentivise TEOs to focus on quality teaching and student support, and to reach out to all learners. This would also allow us to recognise the different roles that various parts of the system serve in helping learners who have different needs and aspirations. Value-add analysis could be difficult to undertake, but we believe the effort would be worthwhile.

The draft report recognises that people learn and gain skills in different ways. Not all learners want or need to pursue all elements of a qualification from a single provider. The report finds that the current Education Performance Indicators (EPIs), along with other policy settings, disincentivise TEOs from allowing **credit transfers** from other TEOs. The report recommends that these penalties be removed from the funding and regulatory systems. TEC has already revised EPIs to shift to a cohort methodology, which better measures learner outcomes. Next year, we will start work on ways to recognise through EPIs when learners transfer to other providers or to employment.

However, TEC suggests that the Productivity Commission consider whether this recommendation goes far enough. TEC is not convinced that removing barriers or penalties for credit transfer would be enough to truly put learners at the centre of the system. We suggest that the Productivity Commission consider whether the funding and regulatory regimes should actively incentivise TEOs to support credit transfer in order for TEOs to recognise its value and engage in it. TEC is exploring the possibility of tagging additional funding to specific articulation agreements that we want to encourage. But to achieve significant behaviour changes, the funding system would have to stop encouraging TEOs to get learners to repeat previous study. Establishing a **student ombudsman** (whose rulings would be binding) to promote credit transfer will certainly give students more market power, but TEC believes that explicit incentives on TEOs may be needed to bring about sustained change.

Learner analytics provide an innovative way to put learners at the centre of the system once they are already engaged in tertiary education. The report itself highlights the emerging use of learner analytics in some overseas institutions, with compelling stories about improved outcomes. There is great promise for learner analytics to help New Zealand's TEOs better tailor their provision to their students. The TEC suggests that the Productivity Commission consider what it might take to nudge TEOs to take up learner analytics. While it would be possible for Government to require their usage, this may not achieve the best result.

Priority 2: Reducing barriers to innovation and flexibility

The draft report identifies a number of barriers to innovation and flexibility and posits a variety of ways to lift these barriers. In our response to the *Issues Paper*, we identified three key barriers that we encouraged the Productivity Commission to consider.

Barrier 1: Providers need security to take risks and plan ahead

We noted that the frequency with which TEC assesses TEOs' Investment Plans and approves funding may be a barrier to innovation. Current legislative settings only allow us to **approve Plans and funding for up to three years**. Being able to approve Plans and funding for longer periods of time may allow some providers the flexibility and financial security to commit to the long-term development of innovative models of delivery. We encourage the Commission to explore this more thoroughly in the final report and to consider a recommendation for legislative change that would allow TEC to approve Plans and funding for more than three years.

As part of this additional work, the TEC also suggests that the Productivity Commission provides advice on how the Plan process could have a more strategic focus, and how Plans themselves could be more dynamic mechanisms. Plans need to enable flexibility and calculated risk-taking, and both providers and Government need to see flexibility and calculated risk-taking as beneficial and desirable activities.

Barrier 2: Bundled funding makes it difficult to unbundle provision

Our submission to the *Issues Paper* identified a prominent overseas innovation: the **"unbundling" of funding** for different aspects of tertiary education. Under such a funding system, learning, assessment, accreditation and pastoral care, for example, could be delivered and funded separately to enable TEOs to specialise and to encourage competition. While the draft report addresses "unbundling" as an innovation in funding, it does not make any specific recommendations regarding this. TEC encourages the Productivity Commission to consider recommendations for the final report that could enable the "unbundling" of EFTS. This could include, among other things, separate funding for providers who **assess and recognise prior learning**, and separate funding for the **delivery of pastoral care** to learners who need more support to achieve a tertiary education qualification.

The draft report recommends **altering the definition of an EFTS** to allow alternatives to the existing time-based method of quantifying learning. TEC believes this would be an important step to making the funding system more flexible and to incentivising innovative models of delivery. Depending on how EFTS are calculated, this could help to focus TEOs on learner achievement and distance travelled, rather than on hours spent learning. This could also help facilitate "unbundling" of provision. There could be some significant costs in changing the EFTS calculations, including for government and TEO IT systems. TEC encourages the Productivity Commission to undertake further work on this for the final report and to consider recommending an alternative method for calculating EFTS. The Productivity Commission could examine, for example, trials in the USA, commissioned by the Department of Education, regarding alternative ways of calculating credit value.

The Productivity Commission finds that tertiary education in New Zealand is increasingly homogenous and that delivery is increasingly offered via traditional delivery methods – i.e. via on-campus, classroom-based, full-time learning. In fact, New Zealand has significant variety in its TEOs, and this is an important feature of our system. However, there are some regulatory settings that encourage homogeneity among universities and in degree-level provision, including the requirement that **degrees be taught mainly by people engaged in research**. As the draft report notes, key comparator countries do not have similar requirements (while still maintaining strong tertiary education systems). "Unbundling" teaching and research could allow our degree-granting TEOs more opportunity to innovate in their delivery models and to tailor their qualifications to their learners' needs.

Barrier 3: Quality assurance and funding systems can inhibit responsiveness

The draft report makes a number of recommendations intended to improve New Zealand's quality assurance regimes. TEC believes that these recommendations, if implemented carefully, could help increase the responsiveness of the quality assurance system and better support innovative delivery models. However, while less regulation could enable TEOs to more easily develop innovative programmes, it will be important to **balance increased flexibility with clear accountability mechanisms**. Offering self-accreditation to high-performing providers would be a positive signal of Government's confidence in their ability to self-manage and would support them to innovate. However, strong accountability tools would be needed to ensure that they continue to perform well. Changes would have to be designed to avoid a system whereby TEOs can offer qualifications that are of little or no value to learners. Whether quality assurance is managed centrally or through self-accreditation, it is important that TEC has confidence in the quality of the provision we fund.

The draft report also identifies some other barriers to innovation

The report recommends that TEC remove the **requirement for ITPs to seek approval to deliver outside their home region**. The TEC implemented this requirement to stop widespread duplication of generic provision. It also helps to ensure that ITPs focus their delivery on their home regions so that all regions of New Zealand have tertiary education providers. Removing this requirement could allow direct competition between ITPs, which could result in increased choices for students. However, it could also result in ITPs focusing on delivery in main centres at the expense of their regional provision. Also, it is possible that we could see the re-emergence of the widespread duplication of generic provision this requirement was designed to quell. TEC sees pros and cons to this requirement and would have to do further analysis to determine whether to support this recommendation.

Another recommendation directed at TEC stems from a concern that funding decisions are not communicated to TEOs with enough time to allow them to plan adequately for change. The recommendation urges **TEC to set – and stick to – a more reasonable deadline for confirming funding allocations**. TEC supports this recommendation in principle, but in practice, TEC can only achieve marginal change without other supporting change. TEC already uses indicative allocations as a way to give providers a sense of likely funding before amounts can be confirmed. It may be possible to make more use of this, but this has risks, and it cannot be done with all of our funds.

The main driver of TEC's timeframes is the timing of Budget decisions. Budget decisions that affect Vote Tertiary Education are not made until May of the same year that Investment Plans are to be submitted and funding allocations agreed. TEOs need time after Budget announcements to finalise their Plans accordingly. TEC needs time to run competitive processes, assess Plans, and prepare advice to support decision-making. This leaves little room for timeframes to be adjusted without presupposing Budget decisions.

For TEC to make funding allocations earlier, Budget decisions could be made in May one-and-a-half years prior to coming into effect – for example, Budget 2016 for implementation from January 2018, rather than Budget 2016 for implementation from January 2017. But, this has several downsides, including that it effectively delays the implementation of government policy. We suggest that the Productivity Commission explore this issue further and make an altered or additional recommendation in its final report.

Priority 3: Bringing education and work closer together

TEC's submission to the *Issues Paper* noted that the mutual benefits of TEO-employer engagement and work-integrated learning are well established. We pointed out overseas trends of incorporating workplace internships into undergraduate programmes and identified that some TEOs are involving industry in curriculum development.

The draft report recommends that **limits on the use of industry training funding** at levels 5 and above be removed. This could eliminate a barrier for industry involvement at higher levels of study. We currently allow ITOs to deliver up to 10% of their provision at levels 5 and above, but ITOs have only been using around half of this quota for five years, which suggests that removing this limit would not affect their behaviour.

Beyond this, none of the report's recommendations explicitly incentivise stronger connections between education and employment. TEC suggests that the Productivity Commission consider making recommendations that would **direct TEO funding towards collaborative programmes**, such as the co-operative education programmes offered by Canadian universities like the University of Waterloo, which the report features. In order

for such collaborative programmes to work, though, TEOs may need to be incentivised to view them as part of their mission, not just as extras or add-ons.

Our submission to the *Issues Paper* identified that it is possible that large-scale automation will result in significant numbers of people needing to refresh or improve their skills. Many of these people will seek to gain particular, discrete skills that maintain or increase their employability, rather than lengthy qualifications. The Productivity Commission's recommendations to **remove limits on fundable course duration** and to **extend funding to learners who do not intend to pursue qualifications** could help to support New Zealanders to stay competitive in their jobs. However, these restrictions act as proxies for education that individuals should fund privately because they can have lower transferable public benefit than full qualifications.

Implementing these recommendations would require developing new ways to identify education with enough public benefit to warrant public subsidies. We already do this to some extent with **Employer-led Workplace Literacy and Numeracy** training, which focuses on achieving skills for employees that maintain and increase employability, without requiring qualification achievement. In addition, there is a productivity gain for employers. In this case, improved literacy and numeracy is understood as a valuable outcome in its own right, and also as enabling further education, improved employment outcomes, and increased productivity. The Productivity Commission may wish to make recommendations as to how similar models could be identified to show where funding for skills development (that does not lead to a qualification) could be directed.

One way to strengthen links between employers and TEOs is to **offer specific funding to incentivise employers to contribute to the cost of education**. For internships as part of qualifications (co-operative education programmes), this could involve subsidies to employers who hire students as interns. This could help embed internships into degrees more quickly. For employees looking to upskill, funding to incentivise collaboration could involve Government matching employer contributions to the costs of study. This could help support employees who could benefit from more upskilling after receiving literacy and numeracy training. TEC suggests that the Commission explore further how to incentivise more financial contributions to education from employers.

Beyond these specific changes, the Productivity Commission may wish to focus more of the final report on **lifelong learning** and on interrogating how the tertiary education system can produce graduates who not only have the skills that employers want, but also have the skills to continue to learn and develop over the course of their working lives. In a world where technological change can make some skills and knowledge obsolete within a matter of years, New Zealanders need a continuing ability to learn. TEOs that maintain close ties with employers will be better placed to deliver relevant retraining and upskilling.

Priority 4: Achieving parity for Māori and Pasifika

Achievement rates for Māori and Pasifika learners have been improving, and they continue to improve. Government, TEOs, iwi and communities have some good programmes in place to boost Māori and Pasifika achievement. But, the improvement is not yet occurring at a fast enough rate for Māori and Pasifika learners to achieve **parity** of participation and achievement with other learners in the near future. Improving the relative education achievement of Māori and Pasifika will be critical to responding to their career, cultural and language aspirations and needs. As the proportion of Māori and Pasifika in the national population increases, improving education achievement for Māori and Pasifika will also be increasingly important to raising overall achievement rates and supporting a strong economy.

Some of the recommendations in the draft report could result in improvements for Māori and Pasifika learners. Prioritising analysis of value-add, unbundling funding, and other changes could help providers innovate to better support Māori and Pasifika learners. However, TEC believes that the Productivity Commission needs to **make specific recommendations to help improve the tertiary education system's performance for Māori and Pasifika**.

As we indicated in our submission to the *Issues Paper*, there is a growing body of evidence about "what works" for Māori and Pasifika learners in the tertiary education system. Government, TEOs, iwi and communities have some initiatives in place that are getting good results for Māori and Pasifika learners, but more needs to be done to ensure that Māori and Pasifika learners achieve and sustain parity with other learners. The Productivity Commission may consider identifying which initiatives, including which Government policies, have achieved success for Māori and Pasifika learners in order to recommend what to keep and what to change.

The report identifies some overseas examples of good practice for supporting higher-risk learners, and we know there are TEOs with successful programmes in place here in New Zealand. But, the report only provides selective information about these programmes. The report does not explore these programmes in depth and does not make any recommendations for funding, incentives or regulatory options, or for future work. The Productivity Commission could undertake work to determine whether innovative programmes like those at Georgia State University could be adapted to New Zealand.

Further, the report's assessment of **equity funding** is scant. There is no clear finding from the brief assessment in section 7.3, nor is there any recommendation regarding whether equity funding is the right policy lever to achieve good outcomes for learners or regarding its policy design and implementation. The report does not identify equity policies and funding in other countries. The Productivity Commission could do further work to identify whether alternatives to the current equity funding – including funding provided directly to Māori and Pasifika learners or other incentives or regulatory options – could better support their achievement in tertiary education. TEC believes that all aspects of the tertiary education system should be integrated to support Māori and Pasifika.

The draft report also makes some recommendations beyond these priorities

The recommendations regarding TEIs– **controlling assets and paying rates** – would have different levels of impact on TEIs, depending on their financial situation. The Productivity Commission may wish to assess the potential impacts of these recommendations by quantifying their benefits and risks to TEIs, Government and learners. With regards to **being responsible for debts**, all borrowing consent letters issued by the Secretary of Education under section 192 of the Education Act 1989 include a standard clause indicating that TEIs are responsible for the approved borrowing. Government only guarantees a TEI's debts in the event that it is disestablished.

The final report could benefit from some more detail

The Productivity Commission has done a substantial amount of research and analysis. However, the final report could benefit from more detail, particularly to aid the implementation of its recommendations.

TEC suggests that the Productivity Commission consider the **implementation pathways** that the Government could take to adopt the final report's recommendations. Currently, some of the recommendations could be straightforward to implement. But, many are complex and would require significant analysis and change management to implement. Practical pathways could make some of the recommendations more achievable.

Additionally, TEC suggests that the Productivity Commission consider whether **partial implementation or conditional recommendations** might be useful for the final report. The Productivity Commission could signal, for example, a stopping point along the way if the risks of full implementation of a particular recommendation are deemed too high. Or, the Productivity Commission could group options for implementing recommendations together – if “this” then “that”. It could also be useful if the **interdependencies and impacts between recommendations could be mapped**. This could give a sense of packages of recommendations and the scale of change that different recommendations could achieve.

Finally, the Productivity Commission may wish to include **more international evidence or comparisons** to show alternatives to the status quo or to illustrate where New Zealand is an outlier. This could, for example, be helpful in identifying alternatives or improvements to equity funding, or in illustrating the impacts (both positive and negative) of removing barriers in the system to new entrants.



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