



New Models of Tertiary Education: Issues and opportunities

This paper describes the issues that the Tertiary Education Commission (TEC) believes the Productivity Commission (PC) should consider covering in its Inquiry into New Models of Tertiary Education.

The system is good, but needs to change to make the most of opportunities and to avert looming challenges

Our tertiary education system is performing well. It compares favourably with other systems in similar jurisdictions. And recent discussions with our international counterparts reinforce this message. Performance data from tertiary education organisations (TEOs) also suggest we are heading in the right direction. Across all sub-sectors, we've seen improvements in education performance indicators (EPIs). So it is important to recognise and continue to support the parts of the tertiary education system that are working well. That said, there are significant challenges and opportunities that we face now and into the future that we need to address and prepare for.

Big changes are on the horizon.

Over the next decade, the tertiary delivery environment will become increasingly internationally competitive and technology-enabled. Disruptive change could come quickly – for example, if a viable MOOC (massive open online course) business model emerges and spreads. At the same time, the system will need to cater to the needs of an increasingly diverse group of learners: Because tertiary education is becoming an entry requirement for larger parts of the labour market; and because New Zealand is becoming more diverse.

At the employment end of the education pipeline, technological change and increasing automation will mean workers need different skills. Technology also allows development of new models of education delivery so that education will be integrated much more seamlessly into everyday life. People in or out of the workforce will need the capacity for lifelong learning and the means to access the tertiary education system to up-skill or re-skill.

The tertiary system needs to adapt now to meet our challenges and to make the most of opportunities.

To sustain quality and protect public value in this environment, we believe that many TEOs – especially tertiary education institutes (TEIs) – will need to significantly change their current behaviour and business models. This means that many will need to take risks (e.g. trial very different modes of delivery, invest in new technology, or reach out to new types of learners) and make hard choices (e.g. partner or merge with other providers, disestablish faculties, sell buildings).

Change needs to start now, because demographic and economic forces are already having an impact on TEOs. We're seeing a drop-off in the number of students at school, together with changes in economic

conditions that mean more young people choose to go directly from school to work. Tertiary enrolments are already reducing, particularly for those parts of the sector that are focused on a younger cohort, and this is forecast to continue – especially at universities and institutes of technology and polytechnics (ITPs).

Given the certain upfront costs and uncertain future benefits, councils will need strong incentives to take risks and make hard decisions in order to deliver the tertiary education that New Zealand really needs. The TEC needs the right levers to incentivise councils to consider these trends and respond strategically.

We are developing an Investment Approach to help ensure the sector is prepared for these challenges with the levers we have available (i.e. investment, influence and information). Some of the key changes we believe the system needs to make and we are working towards, include:

- The system needs to put a greater focus on outcomes, relevance and innovation; and we need the settings and incentives to achieve this.
- Providers need to move away from their historical focus on growth and towards developing sustainable business models.
- Providers need to work with employers to better align supply and demand, and explore new models for engaging them in the development and utilisation of skills.
- Learners should be put at the centre, with the information and opportunities to steer the system through informed choices.

To understand how to develop the system architecture and new models of education for a future-proofed system, we suggest the inquiry investigate the following issues.

The TEC believes that the Inquiry into New Models of Tertiary Education should consider the following issues.

Developing viable solutions to these issues will require looking across the whole tertiary system and beyond, including discussions with other agencies (e.g. MoE, MBIE, MSD, TPK and MPIA) and organisations (businesses, industry bodies, iwi and community groups) with a stake in learner success. We also need to look at overseas jurisdictions, to learn from, copy and improve.

The Terms of Reference (ToR) for the PC's inquiry provide a broad, forward-looking scope. It focuses on *how* the tertiary system delivers education provision, rather than *what* the system delivers. Within this scope we think the PC should consider the following questions.

What future trends, pressures and opportunities will drive change in the tertiary education system (drawing on international evidence)?

The pace of technological change is accelerating, automating tasks in blue- and white-collar jobs alike, disrupting business models, breaking down international boundaries and revolutionising the way education is delivered and consumed.

This leads to shifts in *demand* for education driven by changes in the ways students learn and the types of people entering education (e.g. tech savvy generation, ubiquity of knowledge, upskilling, changing skill requirements). It will lead to changes in the *supply* of education and the capability of the system, provided by technology and changing delivery models (unbundling, supply chain thinking etc.). In saying this, we note that the system is currently very supply-side driven, and that consideration is being given to "powering up the demand side".

Given these trends, what changes does the system need to make to deliver on economic and social outcomes?

There is an increasing expectation that TEOs should make a greater contribution to New Zealand's economic and social outcomes. This will mean putting a greater focus on delivering skills for the future, while remaining *responsive* to shifts in demand from learners, employers and the social sectors. This will require greater engagement between TEOs, schools, industry and community. We are already seeing instances where the system isn't as responsive as we would like, for example:

- Agricultural education is struggling to address current and future industry needs: Learner supply isn't meeting employer demand, some providers face financial viability issues, and signals aren't reaching prospective learners to train in areas needed for a more innovative and internationally competitive sector.
- Fast moving areas like ICT where providers are being left behind, using old technology and delivering skills which are not necessarily fit-for-purpose.

In a globalised world, TEOs will face international competition for the best learners as well as opportunities for new markets, and the system and individual TEOs will need to be more efficient to compete (e.g. through innovation and greater collaboration to reduce costs and increase effectiveness). TEOs will be under increasing pressure to carve out specialised niches of excellence to compete with the world's best. They will need to be *innovative and agile* enough to take advantage of new education technologies and business models. This may mean the "unbundling" of education delivery - with different components of the educational experience delivered by different players with specific expertise.

What are the barriers to, and opportunities for, greater innovation, change and responsiveness?

We need to fully understand the barriers to innovation and the changes required to address them. Key areas of focus could include:

- System: There is a lack of clear role differentiation between subsectors and TEOs, who often compete where collaboration is required.
- Providers: Financial viability, a culture that restricts innovation and change, reputation (research, rankings, etc.), teaching practices, institutional systems and cultures that are tutor- rather than learner-centric, propensity to invest in bricks and mortar, and business models that rely on EFTS growth.
- Government: Policy settings and funding incentives (a greater focus on rewarding outcomes and ensuring the system and providers have the flexibility to take risks and innovate), competing incentives (how should we think about the interplay between the education and training system, the science and innovation system and the labour market?).
- Labour market: How can government build the capability of firms to act as a critical part of the education and training system – developing and utilising skills more effectively?

How do we overcome these barriers and take advantage of opportunities to create a more dynamic, responsive system?

Government needs to facilitate innovation without compromising accountability. This will require changes in the way we fund and monitor delivery. For example, we may want to consider competency-based alternatives to the current credit hour and EFTS-based funding allocation mechanism, or differentiating the way we deal with TEOs by rewarding performance with trust.

TEOs, businesses, sector bodies, community groups will also need to be willing and able to engage and partner with the education system, and technology may provide the connectivity required to facilitate this.

How do we ensure that the system benefits everybody?

The system needs to do more to attract and support Māori and Pasifika learners to succeed on par with other learners.

We need to identify how the system can make a bigger difference for under-represented groups, including new and innovative ways in which TEOs and system settings can work to better support them to succeed. Learners most at risk often have complex needs that extend beyond the education system (as identified by the Productivity Commission in its *More Effective Social Services Report*) – addressing these needs requires a cross-government effort to deliver a coordinated package of support.



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