

Inquiry led, New Models
New Zealand Productivity Commission
WELLINGTON

By email info@productivity.govt.nz

28 November 2016

Dear Sir / Madam

RE: DRAFT LETTER IN RESPONSE TO NEW MODELS OF TERTIARY EDUCATION DRAFT REPORT

BusinessNZ welcomes the opportunity to comment on the "*New Models of Tertiary Education Draft Report*" (the 'report').

BusinessNZ previously took the opportunity to submit on the NZ Productivity Commission's *Issues Paper*, outlining both our overarching thoughts and observations about tertiary education in New Zealand, as well as giving examples of some innovative practices.

Our approach in responding to the report has been to focus on the outcomes for learners across their careers and the outcomes for business, industry, and the economy. We consider there is a need to balance individual choices with the demands of the economy. As the Commission has noted the funding and regulatory system is not conducive to innovation, nor is there scope for leadership and governance for innovation and new models.

GENERAL COMMENT

In our view the report is one of the best reviews of tertiary education for some time. Many of its finding and recommendations are commendable and should remain in the final report.

We support the Commission's main finding that our tertiary education system is not well-positioned to respond flexibly to uncertain future trends, nor does it meet the demands of diverse learners; it is not student centred, it is risk averse, and it is not good at innovation when it comes to its operational delivery model.

While we support the Commission's argument for the adoption of a more market-based model of tertiary education with a strong emphasis on informed student choice, improved quality, a greater focus on outcomes (rather than inputs), funding that follows the learner, enabling transitions and transfer, and life-long learning, we are concerned the report hasn't adequately dealt with the issue of market failure.

Any move to a more market-driven (rather than centrally-controlled) system demands very robust quality assurance mechanisms and a good level of information to ensure informed decision-making. The NZ tertiary experience of the 1990s and early 2000s (and more recently the experience of the VET sector in Australia) highlights the importance of strong quality mechanisms to weed out unacceptable and unethical practices in order to protect students and taxpayers from waste and fraud. We would be interested in the Commission's view of the robustness (or otherwise) of Self-Assessment and External Evaluation and Review mechanisms.

While the Commission recommends school-based careers education should be reformed so school students can develop the skills and knowledge to make effective decisions about their study options, pathways and careers, it would also be helpful to identify the key functions of and approaches to effective labour market information and career information, advice and guidance. Scotland may provide a path forward here.

The Commission argues tertiary education needs to provide learning opportunities throughout their working life to young people and adults looking to change career, retrain or upskill. As the Student Education Account concept has been dismissed, to meet changing needs and circumstances it will be important to strengthen the focus on the role of learning at work and on learning options.

The final report would be strengthened by including a discussion on options to measure the quality of learning outcomes (e.g. tertiary graduates able to keep on acquiring new knowledge and skills to meet changing circumstances – what graduates should know and be able to do, regardless of qualification and or qualification level).

We support efforts to enhance student mobility and transfers between education organisations across traditional boundaries and a greater role for Recognition of Prior Learning, Limited Credit Programmes and Short Courses.

COMMENTS ON ASPECTS OF THE REPORT

The role of tertiary education in the innovation eco-system

An issue we think the Commission could explore further in its final report is the role of tertiary education, particularly universities, in the innovation eco-system.

OECD innovation statistics show there is room to strengthen collaboration on innovation between business, industry and public research providers, including universities. Low collaboration on innovation with public research providers means industries are not fully accessing the research talent available in NZ.

It would be useful if the Commission could suggest options to support efficient collaboration in innovation or suggest ways to improve funding alignment between universities and industry and ways to overcome the information asymmetries around research that could be commercialised and the research talent available in NZ.

We acknowledge that business and industry need to better identify and communicate their business problems and opportunities to public research providers, and the ongoing role for blue sky research.

Labour market information, insights and data

A key role for government is to provide independent and credible labour market information, insights, and data that agencies, tertiary education organisations and departments, and learners can use to inform decision making and trade-offs. There is also a coordination of information role, especially in regard to labour market information on skills shortages and information gaps at the international, national, regional, industry and occupation level. Mismatches between tertiary supply and workforce demands need to be monitored as failure to address the supply of skills can risk business productivity and contribute to suboptimal resource allocation.

Alignment to industry needs

A key factor to consider is the alignment between tertiary learning and the needs of the workforce and the economy. The latter two might or might not be aligned to student study choices and flows. What is particularly important, especially in the vocational area, is that the provision of tertiary education is linked to the needs of industry – this includes quality, relevance, and quantity. Equally important is the ability of tertiary graduates to be skilled enough to participate in learning and upskilling to meet their changing needs and circumstances.

In our view the report places a great deal of emphasis on informed decision-making and uncapped demand to offset skill shortages (i.e. the shortage of people who can do the job). In our response to the *Issues Paper* we noted the information asymmetries and how these lead to mismatches between what people choose to learn and what the economy and or industry needs. This has resulted in skill shortages and demand for labour and skills from the international market place.

The scope and scale of skill shortages can vary strongly. The final report could discuss the role of tertiary education in offsetting skill shortages, and the role of government and education organisations working more closely with industry on identifying critical and or lasting skills gaps and shortages and then align the allocation of training to address these critical mismatches. We recognise the problems of detailed workforce planning.

Appropriateness of targets

BusinessNZ is concerned that targets, for example, qualification completion rates or the Better Public Service targets, have become ends in themselves. While completion rates have improved, there is little evidence of improved learning outcomes from enhanced tertiary teaching and learning practices. The targets also appear to be isolated from insights into labour market needs and skills utilisation more generally. We are also concerned that the use of targets might undermine quality. Furthermore, the use of qualification targets gets in the way of micro credentialing, especially the ability of tertiary education to support learning and building up credentials in work. We seek comments in the final report on the appropriateness of using targets in tertiary education.

Options to recognise and reward quality teaching and learning outcomes

While the Commission has recommended an end to Performance Linked Funding in its current form, it would be useful if it could focus on some of the innovative approaches taken by tertiary education organisations themselves to maintain and improve the quality of teaching and learning outcomes. We hold the view that the recognition of and a reward for quality teaching and learning have a part to play in relation to the new models of tertiary education. It is not unreasonable for tertiary education organisations to provide evidence of improving teaching performance, taking into account their priorities and circumstances.

A stronger focus on learning especially life-long learning is required in the final report

The current report is strongly focused on the tertiary education system and tertiary education organisations. We would like to see a stronger focus on learning and specifically lifelong learning in the final report. It is not enough to focus on the needs of young people. Being able to upskill and learn throughout a career is important and should be given more prominence, together with the critical success factors that realise this important objective.

The report slips into the comfortable model and associated assumptions that qualifications are important (and they do have a role), learning is linear and occurs in the first third of a person's lifetime. We must not lose sight of the critical importance of graduates from tertiary education being successfully prepared to go on acquiring new skills and knowledge to meet their changing needs and circumstances. The OECD's work on ways to assess tertiary learning and the quality of that learning might shed light on a possible way forward. The experience of some States in the United States of America may also assist in this regard.

Increasing participation and achievement of priority learners in tertiary education

The OECD's PIAAC data sets out a clear and compelling story around the issue of low-skilled people not accessing tertiary education to acquire the skills necessary to

fully participate in learning that meets their changing needs and circumstances. Even today with the TEC's Adult Literacy and Numeracy Assessment tool, pre and post student assessment data, there is no clear picture of what learning works best, for which learners, in what context, or even how much learning or gain might be reasonably expected. There is an urgent need to focus on the kinds of new models of learning that would be attractive to people with low skills and no or very limited education and in what context. Currently the operating assumption is these learners will just sign up to standard offerings. The PIAAC data affirms earlier research that time and timing are significant issues for accessing training. Doing nothing compounds the growing gap between those with the skills to acquire new knowledge and skills across their life-time in response to changing needs and circumstances, and those that do not. The Workplace Literacy Fund, specifically the Employer-Led Fund, may shed some light on a model that works and can be scaled up. The last point is the often priority learners are thought of in the aggregate, rather having specific needs. Accessing to services like increased pastoral care, mentoring, whanau mentoring, transport etc have shown to make a difference yet resourcing for the support services that make a real difference to priority learners is inadequate and ad hoc. It is a shame to know what services make a real difference and not be in a position to adequately support successful learning.

Greater industry involvement and input is needed in new models of tertiary education

The new models of tertiary education require greater industry involvement and input – both in terms of design and delivery – to help inform planning for education and training provision both in terms of numbers, levels, and new types of skill and/or knowledge requirements. The problem is that industry involvement is much talked about but seldom practised.

The vast bulk of labour market information is based on economic and/or occupational modelling not on any direct feedback or input from employers about future intentions or need. Many also claim that the work is too fast moving. As we noted in our submission on the Issues Paper Service IQ, the ITO for the Services Sector and the Auckland Construction Sector Alliance offer a potential pathway forward. Employers need confidence that tertiary education is taking a coordinated approach to addressing genuine and lasting labour and skill shortages (or oversupply). Industry and employer involvement and input are essential.

It would be useful if the final report were to set out the Commission's view on the key elements of the relatively successful models referred to, identifying any preconditions for success. Greater attention paid to the factors contributing to successful tertiary education collaboration – how to approach this – would improve the final report. One option for revisiting the EFTS and or STM would be to introduce a weighting for effective connection and collaboration with industry and employers and for learning and training to offset genuine skill shortages.

Learning at work

It is commendable that the Commission has included a stronger focus on workplace learning and industry training in the report than was the case with the issues paper. Employers collectively are the largest providers of education and training in NZ and there is scope for new models to build enhanced learning into work and support better on-the-job learning.

Focusing on the workplace as the place of learning can improve on-the-job learning and skills utilisation and promote more innovation and potentially higher levels of productivity. We are concerned that the report does not go far enough in recognising learning at work in new models of tertiary education.

The input of industry into tertiary education and the role of learning at work need to be much stronger than currently. This extends to identifying successful approaches and models used in workplaces – the largest providers of education and training in NZ – to enhance learning at work.

Altering the definition of the EFTS to focus on learning

We agree there is potential for innovation by altering the definition of the EFTS and allowing for payment on evidence of learning. The paper *Cracking the Credit Hour* provides a path forward here, including innovation through experimentation:

- Paying to assess learning that occurs outside the classroom towards a credential
- Paying after learning outcomes have been demonstrated
- Paying for learning towards a credential acquired outside traditional organisational structures and boundaries.

The other option is to pay for the direct assessment of learning. The United States has been experimenting with this approach and it would be useful if the Commission evaluated the effectiveness of the approach and the various tools used. Guidance on implementation considerations and transition to an alternative EFTS would also be a welcome addition to the final report.

Student demand and market failure

An important issue that is downplayed in the report is whether student demand aligns with industry demand. High quality information is an important factor in the effective operation of a market-based system. The effectiveness of this approach relies on student choices dictating the flows.

Tertiary education agile and responsive to student demand and need can be readily endorsed. The challenge is the relevance, quality and quantity of that learning to the economy's needs and workforce demands. Employers must have confidence tertiary education is taking a coordinated approach to addressing genuine labour market need and skill shortages, and to this end, employer and industry input is important.

The draft report places considerable emphasis on informed decision-making and uncapped demand to offset skill shortages (i.e. the shortage of people who can do the job). But there is very limited discussion on options to address market failure, including offsetting skills shortages. We suggest t the final report includes a discussion on ways of addressing market failure, including options to better monitor mismatches between tertiary education supply and workforce demands

While there are a number of occupations on the long-term skill shortage list, it is difficult rather than easy for employers and industry to prove a global shortage and to have occupations in short supply added to and or retained on the list. To become an Accredited Employer for Immigration purposes employers have to provide a whole suite of information, including what they are doing to train local talent.

It is frustrating that this administrative data is not used to inform tertiary education decision-making in terms of volumes. Although the Ministry of Social Development issues labour market reports to employers confirming skill shortages for particular occupations, again, the reports and administrative data are not used to inform tertiary education decision-making in terms of volumes or offerings.

Not only do we need to utilise the labour market and workforce administrative data collected and/or produced by government agencies, there is also a need to have a process or mechanism that clearly sets out how the labour and skills shortages will be addressed. We would welcome the Commission's view on how best to leverage labour market information and workforce administrative data more generally.

All new regulations in tertiary education should be subject to good regulatory practice

We believe that government agencies and regulators in the tertiary education system should be required to follow good regulatory practices. The Commission has done an excellent job highlighting how we have ended up with a tertiary education system essentially locked down and making risk taking and innovation improbable. Given the high level of regulatory delegation, weak transparency in regulatory decision-making and siloed regulatory functions, there is often little oversight or review of either intended or unintended consequences.

We believe that all new regulation in tertiary education should be subject to good regulatory practices. Such an approach would provide a higher level of transparency in regulatory decision making and should lead to fewer unintended consequences, reduced compliance costs and achieve better policy outcomes.

Skilled migration

NZ's skilled migration programme is important to NZ's long term economic and social development. We challenge the Commission's view that the ability to go to the international labour market and successfully attract and retain talent is easy for businesses and industry and acts as a disincentive to engage with tertiary providers.

The complexity of engaging with providers and the system acts as the disincentive, as well as difficulties with the one- size-fits-all approach and low agility.

Immigration options offset skill shortages and complement education and training opportunities. Being able to go to the international marketplace for skills may be more efficient than for our tertiary education system to provide them. Most employers prefer to recruit locally or nationally. But as the Commission notes, workers in NZ are poorly matched with their positions (based on their qualifications, what they studied, and their literacy) and the growth of some sectors and occupations has been so significant the tertiary sector hasn't been able to respond.

The report should include the need for government migration programmes to continue to support NZ's labour force, with skilled migration supporting and complementing domestic labour market growth and development.

CONCLUSION

BusinessNZ considers a student demand-based system for tertiary education is potentially a more effective mechanism for meeting industry's skill requirements. However, there is a need to be specific about the preconditions for creating a successful market place (i.e. good information and guidance to support key actors' decision-making) and to have in place robust quality assurance mechanisms that are maintained.

There is an ongoing need to focus on learning outcomes, to have better labour market insights, and to closely monitor the alignment of student demand with industry need and the impact on skill shortages. We also believe there should be greater recognition of the role tertiary education plays in the innovation eco-system.

Thank you for the opportunity to comment. We also appreciate the extension to submit.

We look forward to further discussions and the release of the final report in early 2017. We would be very happy to discuss any aspects of the points or recommendations in this letter with the commissioners or the inquiry team.

Yours sincerely,



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