

## **Productivity Commission**

Draft report on New Models of Tertiary Education  
25 November 2016 (Final)

## **Submission from Quality Tertiary Institutions (QTI)**

Quality Tertiary Institutions (QTI): Nga Wananga Kounga - formally Independent Tertiary Institutions (ITI): Nga Wananga Motuhake) - welcomes the opportunity to make a submission regarding the Productivity Commission's Draft report on New Models of Tertiary Education.

QTI is a recognised industry peak body representing 12 large, high quality Private Training Establishments (PTEs). Our members offer a wide range of courses from foundation education to certificate to degree to postgraduate level across New Zealand to over 10,000 students annually.

QTI members have been consulted in the preparation of this submission.

## **Submission Details**

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## **Questions /**

In this section, QTI has decided to comment on selected questions only.

### **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?**

There is comparatively little evidence (beyond anecdotal) because wellbeing is not valued by Government and therefore rarely captured. Major decisions, particularly funding decisions, are based largely on educational results, financial performance and employment outcomes. The Government focus has been strongly on the obvious and tangible results of education, which are predominantly economic in nature. Social outcomes (which covers wellbeing) is often mentioned but, being harder to measure, is not used in the same way.

The trend toward focusing on labour market outcomes is accelerating. New policies such as reporting on the Employment Outcomes of Tertiary Education (EOTC) and Rate My Qualification (RMQ) have an exclusive focus on work and the economy. This is not surprising for EOTC (given the policy's name and intent), but Rate My Qualification also has a similarly narrow focus.

QTI is involved in the Working Group developing Rate My Qualification. The questionnaire (still in draft form) covers employment outcomes in some detail – including asking for job titles and recent employers. In the key section called “Rate My Qualification” the questions relate only to:

- Preparation for work
- Contribution to career progress
- Improvement to career prospects
- Improvement to earning potential
- The qualification's value for money

The closest to questions about well-being would be “Overall, how satisfied are you with your qualification” or ticking a box saying the qualification was completed for “personal interest”. This approach does not collect useful data on wellbeing.

QTI member The Learning Connexion (TLC) does have a strong focus on student well-being, measuring it during study and long after completion. It is a very different approach and it may be worth the Productivity Commission engaging with TLC founder and managing director Jonathan Milne ([j.milne@tlc.ac.nz](mailto:j.milne@tlc.ac.nz)).

QTI member New Zealand Management Academies (NZMA) also has a strong focus in this area and has completed some economic modelling on the impact of beneficiaries studying at a tertiary level and gaining employment. This was based on two years of actual student data. A larger research piece is currently being undertaken by NZMA that includes five years of student and employment data with an extended focus on student perception and well-being pre and post study. The NZMA contact is Mark Worsop ([Mark.Worsop@acgedu.com](mailto:Mark.Worsop@acgedu.com)).

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

The operating costs for tertiary providers per EFTS are increasing in real terms for most providers. The key drivers include, but are not limited to:

- Funding rates are not inflation adjusted. Even in a low inflation environment this adds up over time.
- Compliance costs (both time and money) are increasing, not decreasing. There are more Government agencies asking for more paperwork (even if it is done on-line). The number of QTI members with staff dedicated solely to compliance work has increased dramatically in the last five years.
- The costs of pastoral care for domestic students are increasing for quality providers as they take on students who need more direct support than, say, the average university student.
- Greater competition for outstanding staff is seeing an increase in staffing costs, particularly at a senior level.
- In international education, more is having to be spent to attract students to New Zealand (increased competition from other countries) and then bring them to quality providers (not the ones offering exceptionally low fees – and exceptionally low quality).
- International agent fees are also creeping up.
- The private education sector (only) is being hammered by increasing rents, particularly in Auckland. There is no funding consideration given to this. Public providers tend to own their buildings.
- The private education sector (only) is being hammered by increasing rates, particularly in Auckland. There is no funding consideration given to this. Public providers do not pay rates.

- Fee increases are kept artificially low (now 2% a year). This limits providers' ability to invest in improvements which could reduce costs through efficiency. Instead, the focus is often on doing what has always done in order to get funding for the next year.

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

QTI members were somewhat interested in the idea of self-accreditation, but wanted more detail and a robust assessment of the potential risks. One member (IPU NZ) noted they enjoyed the certainty that central approval gave to international students and foreign markets. Others noted there were quality risks in self-accreditation and that mitigating these risks would be costly (audits and regular re-accreditation). It was argued this was the situation in Australia.

If a system is to be implemented, QTI would suggest the following design features:

- As previously noted by the Productivity Commission, the key is that "self-accrediting status should be open to providers (from any subsector) that demonstrate the capability to effectively manage their own quality assurance processes."
- QTI places great emphasis on "any subsector" in that statement. Private providers who meet the standards (whatever they are) should have equal (not equitable) access to self-accreditation.
- A key design decision would be whether self-accreditation is compulsory for qualifying providers, opt-in or opt-out. This would depend on if there would still be a central accreditation process available.
- The self-accreditation process cannot be captured by any subsector or subsectors or it will lose credibility.
- There will need to be evidence that self-accredited qualifications will be internationally recognised and not affect New Zealand's educational reputation.

This would be a major change to the tertiary education system.

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

Articulation agreements make excellent sense and should be far more common. The two main barriers are:

- Funding – the funding system directly encourages providers to hold onto students for as long as possible.
- Recognition – the system often rewards the provider who delivers the final qualification far more than the other providers who got the learner to that point

The system needs to recognise the progress of the student (where they started, where they got to and how they got there) as well as the final outcome.

For example, one QTI members works primarily with learners who have not previously succeeded in the education system with a large percentage on social welfare benefits at the start of study. At the end of the qualification, approximately 80% move into employment – their stated goal. In 2016, NZMA (the provider in question) has already placed over 2,000 students into a variety of employment opportunities. The graduates do not have degrees, but they have jobs. The value of how far New Zealand Management Academies (NZMA) is able to "move" these students, many of whom have been stuck in the welfare system for years, is of huge value but perhaps under-estimated by current policy settings.

We note with approval that the draft report recommended that the Ministry of Education and TEC should prioritise analysis of the value-add of tertiary education (with comparisons between TEOs/types of study) and publish the data. QTI has discussed this issue before and is strongly supportive.

**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?**

At the moment, the Annual Maximum Fee Movement (AMFM) sets the maximum level of increase (currently 2% - down from 4% in recent years). Providers tend to apply for the maximum in all instances – particularly as the limit has ratcheted down. On top of that, there is the ability for providers to apply for an exemption to increase up to double the limit in exceptional circumstances. These are very, very rarely given.

QTI believes there should be more flexibility, including the possibility of greater increases based on the nature and quality of their offerings, but also an end to constant small increases when the nature and quality have not changed. Our initial suggestion is along these lines:

- The Minister sets the Government's general expectations relating to fee increases for the year
- Providers are able to apply for up to an 8% fee increase
- The Minister's statement of expectations indicates to providers that they will have to make a very strong case for any increases in excess of that figure
- TEC and/or the Ministry of Education will more actively assess applications so they are judged on merit
- TEC and/or the Ministry of Education can (and should) reduce the proposed fee increases if the case does not stand up

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

Compliance costs are a huge barrier. Separate External Evaluation and Reviews and reporting requirements, for example, is driving more investment in support staff to focus on these areas. For PTEs, having autonomous subsidiaries is not feasible as the current environment requires economies of scale. This comment was made by the largest PTE provider so the situation is even worse for smaller institutions.

**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?**

QTI does not believe that the Student Education Account proposal has a viable future. This is not necessarily due to a lack of merit (though members had reservations about a number of aspects), but due to our assessment of the political and public mood towards what has been (incorrectly) dubbed "voucher education".

We do not see this political and public mood improving – in fact, any change is like to be more hostile. Based on this assessment, QTI does not intend to contribute to this debate in this submission. The Productivity Commission will undoubtedly receive a large number of lengthy and passionate submissions on this issue from other parties.

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

Refer to the answer to Q12.6 above.

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

Refer to the answer to Q12.6 above.

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

A long-standing policy of QTI is that “funding should follow the student more closely.” One potential way of doing this is what we have called the EFTS market model. This would give providers an incentive to declare early that there would be a shortfall in the number of EFTS they will deliver that year. That is basically the current situation but there is an important change.

Instead of these unused EFTS going back into TEC for a lengthy reallocation process (often not completed in time so the provision is lost for the year), the provider could transfer their unused EFTS to another provider they know and trust. There would be some TEC oversight of course (it is public money) but it would be quicker, more transparent and encourage greater co-operation within the sector.

QTI members working in similar fields were quick to see the value of this policy which would obviously require more development.

### **Findings**

In this section, QTI has decided to comment on selected findings only.

#### **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.**

As noted in our previous submission, QTI believes prospective students have more than enough information to make informed choices – far more than any other generation of learners. This will be particularly true once the Key Information Set, Rate My Qualification and Employment Outcomes of Tertiary Education policies come into full force next year. A tremendous amount of information will be required to be displayed on all qualification webpages.

The key issues are:

- Very few of learners use the information already available
- When the new policies come into effect next year there is a distinct danger of information overload
- The context of the information is important but hard to explain in the strict formats the Government is requiring
- Many providers have significant concerns about the accuracy and quality of the data being collected. If the basic data is wrong, then it does not matter how it is displayed

#### **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.**

This is driven by demand and historical success rates. Older students, part-time study and/or extra-mural study have a negative impact on qualification completions, along with other key performance indicators. Government agencies place great weight on qualification completion rates for allocation decisions, funding allocations and contestable funding.

#### **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.**

For a long time, QTI has been concerned with the low quality of careers advice and careers services, particularly in schools. Careers advice is often assigned limited resources and the advisers changed

frequently. This results in a shortfall of professionalism and quality. PTEs are particularly impacted because we are the sector that most teachers know the least about.

There is a sense that careers advice pushes students towards what the advisors know – university for academic study and ITPs for vocational training. The (admittedly) complicated and diverse PTE sector is too difficult for many.

We welcome that the Government has in this year's Budget admitted there is a serious issue here. However, QTI remains unconvinced that the solution is to merge Careers Service into TEC. It does not seem to fit because TEC is a funding agency and as such it has no mandate - far less expertise - in careers advice. We are not hopeful of success.

**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.**

This is an accurate statement but, again, it is a compulsory schooling sector issue. We will always have LLN needs at the tertiary level, but the level of literacy and numeracy issues in New Zealand is well below OECD averages. A complete 'focus' at the tertiary level is an "ambulance at the bottom of the cliff approach." The origin of the issue in the schooling sector needs to be the focus.

**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.**

One of our few criticisms of the initial Productivity Commission report was a seeming lack of input from business in discussions regarding employment. It was unusual to see commentary from the Tertiary Education Union (TEU) on these issues rather than BusinessNZ (the largest employers' organisation). QTI notes that the Productivity Commission has engaged with BusinessNZ and hopefully they are making a submission on the draft report. We would like to see more of their expertise in the final report.

**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.**

QTI believes that education needs both tangible (hard) skills and social (soft or transferable) skills in different mixes for different roles. We have long advocated the importance of so-called soft skills such as work readiness, teamwork, confidence, interaction and creativity.

Several recent Government documents have started referring more prominently to soft skills which is promising, but this is not reflected in the TES, funding decisions or Budget initiatives. The TES in particular is seen as strongly economically focused and the Minister's statements reflect this.

One of the reasons that soft skills are poorly integrated into assessment processes is that they are poorly integrated into funding processes. It is sad but true that too much in education is about "following the money".

Soft or transferable skills are harder to measure and there is a lack of robust research demonstrating their direct value. QTI will be writing to Ako Aotearoa suggesting that in 2017 they commission a significant research report on precisely this issue in order to provide data to support the value of transferable skills. When the Government starts to value soft skills more, so will providers. Employers have always valued them.

**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.**

QTI has no comment on this issue beyond confirming that the funding differential has always been hard to justify even for those involved in the sector.

**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.**

QTI he statement is a fair reflection of the environment and regulatory settings.

**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.**

The current indicators have directed focus on the number of outcomes rather than driving quality. The view of most in the sector is that this has had a negative impact on the quality of graduate outcomes for providers that have not invested heavily in additional resource to support student education and training. This situation is more prevalent with lower socio-economic groups where significant levels of support in and out of the classroom are required to increase the number of quality 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.**

Similar to Q12.6, QTI does not believe that the proposal to return interest to Student Loans has a viable future. We believe there is economic merit in the policy, and interest-free loans are constraining growth and reinvestment within the sector. However, our assessment is that there is a strong political and public mood in favour of retaining interest free loans. We do not see the political and public mood changing on this issue.

Based on this assessment, QTI does not intend to contribute to this debate in this submission. The Productivity Commission will undoubtedly receive a large number of lengthy and passionate submissions on this issue from other parties.

**F5.3 - Funding determinations, set by the Ministry of Education, include tight specifications regarding how funding is allocated, and what providers can deliver.**

This is correct and the actual TEC funding process adds additional tight specifications. In a press release, QTI Co-Chair Tommy Honey noted “we feel the report did not go far enough to address concerns regarding the vice-like settings on funding caps, set allocations and tight fee regulations. These were key issues in the QTI submission.”

**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.**

QTI has long believed the Performance-Linked Funding system in its present form should be discontinued.

However, we support a proper performance funding model where, in addition to poor performance being punished, exceptional performance can be rewarded. There has to be a carrot as well as a stick. This is probably one of our most used policy metaphors along with the dreaded (but accurate) “policy vice”.

**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.**

The Commission’s recommendation that the TEC should set, and stick to, a reasonable funding allocation deadline is welcomed by QTI. TEC (rightly) holds providers to account for meeting a large number of deadlines. They should model the behaviour they require from the sector. Again this year TEC has pushed back their approval deadlines, including reserving the right to issue some approvals on 24 December 2016. This is exactly what they promised would not happen this time.

**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.**

For shifting funding allocations, see the answer to Q12.9.

For rewarding high performance, see the answer to F5.4.

**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.**

As noted in our interactions with the Productivity Commission, we describe this as the “policy vice”. Loosening this vice would have a dramatic impact on the tertiary education sector. How this could be done should be prominent and definitive in the final report as we have not been able to break it from the inside.

**F5.8 - Fee regulation inhibits differentiation in educational offerings within the system.**

See the proposed system in the answer to Q12.4.

**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.**

An issue that has come to recent prominence in the international education debate is the growth of “phoenix organisations.” These are providers or companies which have seemingly closed after poor behaviour and/or poor results, but simply come back as a nominally different organisation with a slightly different leadership team. NZQA should keep a close eye on this phenomenon as we know it happens, mainly in Auckland.

**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.**

Delays and costs at NZQA is a significant part of the policy vice. The Commission recommends NZQA should reduce the timeframe for programme approval, and remove unnecessary requirements. QTI welcomes this because we believe it is vital to encourage innovation and responsiveness, in a timely



and affordable manner. We believe that the Commission has found that real-life examples from QTI members (and others) did not mesh up with the picture painted by NZQA officials. However, we are also aware that you could not possibly comment on this belief.

The high cost of quality assurance measures (\$150 +GST an hour) is attributed to the requirement that NZQA cover all costs involved. QTI is unconvinced that the numbers add up. We would suggest the Productivity Commission recommend that Treasury independently review the figures in this area. The fact that the rate has not changed for several years suggests it is set too high. The major accounting firms should not be used for this review as most are commercially involved with NZQA and/or TEC.

**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.**

In addition to the review of costing proposed in answer to F5.10 above, one QTI member noted:

*"The current EER process is too subjective and full of idealisms, particularly with regard to parity of achievement based on ethnicity and cultural awareness, with no context or consideration of socio-economic impacts on educational performance.*

*For example, one provider had a negative experience in a recent EER. The issue was that despite one ethnicity representing approximately 8% of the total student cohort and having evidence of individual issues that impacted educational performance, a negative view from NZQA was presented. The criticism was based on parity of achievement which had no relationship to the quality of educational performance or self-assessment activity. In another EER with different evaluators and the same provider situation, this same situation was highlighted as a real strength."*

**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.**

This is a big call but one that may be required for meaningful change to happen. Only when ITPs (and possibly small universities) can fail will they truly have to respond to student demand.

On this issue, QTI welcome the formal acknowledgement that there is an effective Government financial guarantee for TEIs. This has always been the case but the issue has often been deliberately fudged. One of the main differences between public and private providers is that we can fail as an institution and they cannot. Decisions have consequences. Changing this situation involves a challenging debate but one we really need to have if we want a truly market driven and student focussed systems.

**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.**

See the answer to F12.14.

**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.**

The Productivity Commission is reminded that non-universities are involved in the PBRF, though to a much smaller degree. However, this need not always be the case. Specialist providers such as PTEs have the potential to contribute world-leading research in their fields. We support greater diversity in the work of the PBRF and where the funding goes.

**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.**

QTI is surprised the Commission found any tertiary education sector staff who did not agree with that statement, at least for their institution if not personally.

**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.**

This finding correctly identifies the “policy vice” and its chilling effect on the sector in terms of responsiveness and innovation. It echoes some of the main points of QTI’s submission and we welcome the Productivity Commission’s validation of our concerns.

**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.**

This is a frank and honest observation. A QTI member noted:

*“It is a frank and honest observation but is also an important part of the system. There is, and should always be, a place for small, highly specialised training providers who are going to struggle with increasing costs... The balance is making sure that tertiary funding does not become an environment of tendering the lowest possible price for delivery, which will ultimately impact quality. Rather, specialised providers should be recognised for what they provide and be funded appropriately and have the ability to charge fees that ensure financial sustainability. Basic supply and demand forces will determine success.”*

**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.**

This is a frank and honest observation.

**F8.4 - The government devotes significant resources to quality control. Yet it directs few of those at ensuring that students receive quality teaching.**

As outlined in the Productivity Commission report on page 2, the structural deficiencies in the tertiary education system incentive providers to be more responsive to the Government than students.

The proposed Rate My Qualification (RMQ) tool is being branded as a student satisfaction survey. However, there are no questions on teaching, and the ability to comment on teaching in a general answer has been removed. In fact, the entire general answer has been removed – it is all selecting from pre-set options currently. This is not yet final but unlikely to change.

**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.**

As noted in the answer to F5.4, QTI supports a proper performance funding model where, in addition to poor performance being punished, exceptional performance can be rewarded. There has to be a carrot as well as a stick. Providers would be able to use the fact that they received additional funding for performance as a signal to prospective students that they are an “exceptional” institution.

**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.**

QTI has no comment on this issue.

**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.**

See the proposed EFTS market in answer to Q12.9.

It is a serious issue when students have to go to their second (or worse) choice provider because the system is so inflexible. A senior manager at a QTI member says one of the worst parts of her job is “each year having to direct students to our rivals down the street because we are already full. I know we would provide a better education here if we got the chance.”

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

It should be noted that the PTE is not “relatively homogenous”, either with other subsectors or within our own subsector. It is the most diverse part of the tertiary education system.

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

Many QTI members believe the Equity Funding currently provided is not sufficient to provide the necessary support to providers working with non-traditional or underrepresented groups in tertiary education. The fact that all providers are rated and compared based on the same EPI's is evidence of the lack of understanding in this area. It should be noted that PTEs were completely excluded from Equity Funding for many years though that situation has been remedied.

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

Several QTI members observed during discussions on this submission that even the term “lifelong learning” seems to have “gone out of fashion.”

**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.**

The statement is more valid for public institutions. Within the PTE sector, there are massive incentives to control costs to meet financial viability requirements, and to ensure there is an ability to reinvest, work through difficult economic periods, and (hopefully) grow.

**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.**

Budget 2016 contained provisions to completely equalise funding rates between public and private providers. This move was welcome but also means PTEs will be increasingly impacted by this process.

**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.**

QTI would note that TEC should have all the necessary information available when considering and approving an investment plan and tuition fees within STEO.

**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.**

In many parts of the tertiary education sector “competition” is a dirty word. QTI believes a healthy degree of competition can improve responsiveness and stimulate innovation.

**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.**

This is one of the key findings in the draft report as most of the recommendations flow from this central argument. In the QTI press release of September 2016, QTI Co-Chair Tommy Honey replies:

*“The key Productivity Commission recommendations are based on three arguments - that the system is overly constrained (and we believe it is), that this is due largely to funding issues (and again QTI agrees), and that removing the brakes on the funding system will result in a more dynamic system (which we also accept).”*

**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.**

Many QTI members share concerns about the fundamental accuracy of Educational Performance Indicators (EPI) data and the possibility of providers “gaming” the system.

In the answer to Q12.2, QTI noted “with approval that draft report recommended that the Ministry of Education and TEC should prioritise analysis of the value-add of tertiary education (with comparisons between TEOs/types of study) and publish the data. QTI has discussed this issue before and is strongly supportive.”

**F9.3 - The tertiary education system underperforms for Maori and Pasifika students. They experience persistently worse tertiary education outcomes than other students.**

It should be noted that PTEs have (comparatively) high success rates for Maori and Pasifika students – but can always do better.

**F10.1 - University tuition fees have increased significantly in real terms over the past ten years. Average tuition fees in the ITP and wananga subsectors have fallen.**

It is unclear why data PTE tuition fee levels was “unavailable”. The Government collects information in order to help set fees for new qualifications, and to monitor fee increases.

One QTI member noted:

*“We believe the ITP and Wananga fee changes reflect greater competition and the higher quality of provision from PTE’s within the sector. From our perspective, this has had a negative impact on quality in some instances. Interestingly, the PTE sector has continued to grow, often with much higher tuition fee levels for similar programmes. This a clear example of the impact of relevance, profile, and stakeholder advocacy can have on any provider’s success.”*

**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.**

Technology is not, in itself, innovation. However, it is often seen as such.

**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.**

This is another key finding. Systems that are restrictive, pervasive and risk-averse do not allow, far less encourage, new models of tertiary education. This kind of innovation requires a level of risk, and the occasional failure. At the moment, the punishment for failure far outweighs the potential reward for innovation.

For example, NZQA is currently reviewing their Rules for Off-Shore Delivery (which potentially could include numerous new models) at least in part because uptake has been much lower than expected. NZQA say this is because of the complexity of foreign markets, but the sector points to the Rules which add compliance and limit flexibility.

**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.**

One QTI member noted:

*“Private rewards from education are subjective and dependent on what the student wants to achieve. A student that has attended a private school, enjoyed significant support from family etc, is likely to seek a longer time in education and receive more reward and greater support from the tertiary education system.*

*However, a student that has not completed secondary school, has not had strong role models in their life, and has various social issues to overcome, sees achievement even at a lower level that results in employment as being a huge success. The economic and social impact of these successes cannot be overlooked and in some cases may have wider and more positive impacts than students achieving at a higher level. For example, consider the multiplier effects on employment, health, the services sector, savings, and the intergenerational impact on education.”*

**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.**

PTEs know, more than anybody, that there is no “one-size-fits-all” solution. As long as minimum standards are enforced, providers should have more flexibility to meet student and employer needs in their own manner.

**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.**

Getting the balance right and then maintaining it is crucial here. As the report notes, regulations and restrictions tend to be added over time in response to problems and issues (real and perceived). It will be an on-going battle and the Productivity Commission may wish to recommend a regular regulatory review mechanism in the Final Report.

**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.**

There are several projects underway to provide more data on wage levels. Concerns remain about accuracy, timeliness and context.

**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.**

Some feathers have undoubtedly been ruffled by the references to “local monopolies” and “cartel structures.” That ruffling is not a bad thing – it is a good thing.

**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.**

One QTI member strongly agreed saying:

*“Why should we be constrained from operating in a fair and market forces driven market? If quality is maintained and outcomes are strong, then all providers should be able to set fees and whatever level they desire.”*

**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.**

Presumably, the Final Report will contain further recommendations to address the tertiary education system’s major structural deficiencies identified by the inquiry. Otherwise it is largely tinkering with the current failing system. Tinkering can improve a situation, but mainly at the edges.

**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.**

The QTI position on Student Education Accounts was set out in the answer to Q12.6.

**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.**

The QTI position on Student Education Accounts was set out in the answer to Q12.6.

## **Recommendations**

In this section, QTI has decided to comment on selected recommendations only.

**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.**

QTI supports this recommendation.

**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.**

QTI supports this recommendation – assuming there is context with the level of outcome, value add and student demographic.

**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.**

NZQA has a lead role in quality assurance and would need to be factored into any work from this recommendation. It is not clear the Ministry can “enforce” 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.**

As noted in the answer to Q12.2, QTI strongly supports this recommendation.

**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.**

QTI supports this recommendation. This is a meritorious idea if indeed the system is to be focused on the student, not the providers. A student in this situation is either still studying (presumably at a more suitable institution) or in work (a positive outcome). Penalising the provider is punitive as there was no “failure” from the student's perspective. QTI provided a number of real-life examples to the Commission during their inquiry.

**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.**

While laudable, this is much more difficult to achieve than it sounds.

**R12.7 - Government should discontinue Performance-Linked Funding.**

As noted in the answer to F5.4, QTI has long believed the Performance-Linked Funding system in its present form should be discontinued. However, we support a proper performance funding model where, in addition to poor performance being punished, exceptional performance can be rewarded. There has to be a carrot as well as a stick

**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.**

There seems to be overlap between R12.3 and R12.8. This includes two organisations setting minimum standards, and two organisations enforcing them. The intended structure should be clarified in the final report.

**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.**

QTI supports this recommendation. The Final Report should acknowledge and analyse the new role that TEC will have as the host of Careers Service following their impending merger.

**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.**

While sensible, QTI outlined our concerns about official information sources in the answer to F3.1. It should be noted that the Government is rapidly expanding the number of official information sources, not consolidating them.

**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.**

As set in the answer to 12.1 QTI members were somewhat interested in the idea of self-accreditation, but wanted more detail and a robust assessment of the potential risks.

**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.**

QTI has no comment on this issue.

**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.**

As outlined in the answer to F5.10, QTI strongly supports this recommendation.

**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.**

QTI supports this recommendation.



**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.**

QTI supports further consideration of this issue, recognising the imperative to keep the quality of degree-level programmes high.

**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.**

QTI support this recommendation provided it is, and remains, voluntary.

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

There was support for this measure in some instances. One QTI member noted:

*"The introduction of a 'vocational' degree programme that provides opportunities for students to gain trades related degrees that are skills based, rather than research led, is important to improve pathways to higher education and increase the skill levels of New Zealanders."*

**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.**

QTI is not yet convinced that this solution will be practical. The problem certainly exists but past attempts to address it have met with limited success. This would be an expensive policy to administer, and likely to grow quickly.

**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.**

QTI supports this recommendation.

**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

QTI supports this recommendation.

**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.**

QTI strongly supports this recommendation.

**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;**
- **remove limits on the use of industry training funding on training at levels 5 and above on the NZQF**

QTI has no comment on this issue.

**R12.23 - Government should abolish University Entrance, leaving all universities free to set their own entry requirements.**

The reference to universities only fails to recognise that other providers deliver similar degree level education. Indeed, the Government was in the process of changing the name of University Entrance to Degree Level Entrance as part of their regular review (QTI is part of it). They have subsequently backed down. In the Commission's defence, the review and the proposed name change were developed after the draft report was published.

In any case, whatever final recommendation follows this proposal should treat all degree granting institutions equally. It should be based on level – not ownership.

**R12.24 - Educational delivery by institutes of technology and polytechnics anywhere in New Zealand should not require the approval of the Tertiary Education Commission.**

QTI has no comment on this issue.

**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.**

NZQA has a significant role with new entrants and their role will need to be clarified.

**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.**

QTI supports the recommendation but expects virtually all applications to be declined – particularly in relation to "university". While PTEs have had the theoretical ability to apply for permission to use the term, none have ever got close. We do not expect that situation to change. A more liberal naming regime may be of use to a limited number of providers.

**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).**

QTI supports the recommendation but, as in R12.26, do not see it likely to be successfully invoked, certainly for ITP to university.

**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.**

This recommendation needs further development as international recognition of qualifications is a highly complex issue.

**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.**

As set out in the answer to Q12.6, QTI does not intend to contribute to the Student Loans debate in this submission.

**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.**

QTI is broadly supportive of this proposal, pending further detail.

**R12.31 - The Ministry of Education should review the funding rates applicable to New Zealand and Managed Apprenticeships, with a view to equalising them.**

QTI has no comment on this issue.

**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.**

This may shortly not be necessary. That information will be provided to students before enrolment as part of the Key Information Set/Graduate Outcomes work. It will require that the student fees and Government contribution are prominently displayed on every qualification's website.

**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.**

QTI supports this recommendation very, very, very strongly.

## **Other matters for consideration**

QTI would like to congratulate the Productivity Commission for providing a fair and balanced depiction of the private tertiary sector (for example pp.144, 147-148 which debunked the myth that all PTEs are for profit.) QTI believes this is a more accurate description of our diverse PTE sector. The accusations of "profit making" and "shareholders" do not apply across the board. Unlike some Government documents, the draft report provided a well-informed and accurate view of our sector.

We found the consultation process and engagement with the Commission to be excellent. QTI is proud to have been referenced a more than respectable 25 times, including our submission providing the first direct quotation in the entire 400+ page report. It gives confidence that our views, which we spent considerable time developing with our members, were taken seriously and had an impact on the report.

Finally, QTI would like to think our "Policy Vice" metaphor in some way inspired the Productivity Commission's "Gordian Knot" device. We would like to commend the Commission for a rare Classical Reference in a Government report.

Regards

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