



History of tertiary education reforms in New Zealand

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Abstract

This note was prepared as a background resource for the Productivity Commission's *New models of tertiary education* inquiry. It briefly describes successive reforms to the New Zealand tertiary education system over the last 28 years. It identifies the main motivations for reforms, how the reforms played out in practice, and how policy makers made adjustments in response. The note draws out some lessons that are likely to remain current into the future.

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Key points

- The fourth Labour Government launched far-reaching reforms of tertiary education in the late 1980s as part of a wider economic and public service reform agenda. The main drivers of reform were:
 - a perception that tertiary education providers were unresponsive to the needs of a rapidly changing economy. In particular, economic restructuring had led to high unemployment and an evident need for retraining and better initial education. The government's main response was labour market training programmes, which it implemented at scale outside the education system (through the ACCESS system).
 - a perception that demand for skills was growing, that wider participation in tertiary education was required (particularly for disadvantaged groups), and that skill requirements were likely to evolve over an individual's working life. The phrase "learning for life" encapsulated the intention of the reform.
- The main reform elements were:
 - increased autonomy for tertiary providers to design and mount programmes and attract learners;
 - recognition of learning in, and lowering of barriers to, moving across different parts of the system; and
 - funding a large expansion in participation through a combination of increased government funding, much higher tuition fees, and a student loan scheme with income contingent repayments.
- During the 1990s debates centred on how to make a more competitive system with autonomous providers work well. Issues considered included:
 - the best mix of private and public funding;
 - governance arrangements and regulation to increase the responsiveness of providers to social and economic demand;
 - pricing and funding arrangements that increased the influence of students in shaping provider choices and behaviour; and
 - whether and to what extent, qualifications recognised in different parts of the system would be constructed on the same base. Universities and the Ministry of Education (in respect of senior school qualifications) successfully resisted the New Zealand Qualifications Authority's attempts to construct all recognised qualifications from "unit standards".
- In 1999, funding became entirely demand driven. Quality assurance was weak, and information on value-added lacking. The new Government was reluctant to control demand by reducing subsidies and allowing providers to increase fees. The result was a very large increase in participation in programmes that were of doubtful value.
- From the 2000s, successive governments introduced measures to "steer" the system, administered by a new agency, the Tertiary Education Commission. Funding, while still reflecting patterns of demand, was capped. Over time, there was a significant shift of new funding towards universities. Fees were regulated and allowed to move only slowly; subsidies continued to reflect the costs of teaching through long-established service models; the student loan scheme was amended so that the effective government subsidy was greatly

increased. Arguably these features mean that providers have few incentives to look for new service models. Providers may face barriers to implementing new models and it may be difficult for new providers to enter the system at scale.

- A goal to widen participation in tertiary education has been achieved; but disadvantaged groups such as Māori and Pasifika are strongly under-represented at higher levels of study and in some fields.
- Measuring and disseminating information on value-added in tertiary education is in its infancy in New Zealand. A more devolved system with fewer constraints to innovation may require better information on programme and provider-specific value-added than is currently available. It may also need pricing arrangements that better reflect the costs and benefits of different offerings.

1 Context

This research note was prepared as a background resource for the Productivity Commission's *New models of tertiary education* inquiry (Box 1). This note does not represent the views of the Commission.

Box 1 **Inquiry into new models of tertiary education**

In November 2015 the Government asked the Productivity Commission to investigate how trends in technology, internationalisation, population, tuition costs and demand for skills may drive changes in models of tertiary education.

The inquiry follows on from the 2014 Innovations in Tertiary Education Delivery Summit, which considered emerging models of tertiary education provision and discussed challenges to shifting away from traditional models. The inquiry will consider how New Zealand's institutional and policy settings help or hinder the adoption of new models of tertiary education, as well as looking broadly across what new models there are or what might emerge.

The final report to Government is due on 28 February 2017.

The terms of reference and other information about the inquiry can be found at www.productivity.govt.nz/inquiry-content/tertiary-education.

"Tertiary education" is defined broadly in New Zealand, covering all post-school education and training (Box 2).

This note briefly describes successive reforms to the New Zealand tertiary education system over the last 28 years. It identifies the main motivations for reforms, how the reforms played out in practice, and how policy makers made adjustments in response. The note draws out some lessons that are likely to remain current into the future.

One issue not explicitly covered is the internationalisation of tertiary education, including the place of New Zealand providers in the international marketplace, the importance of international students for generating economies of scale in provision, and the implications that this will have for adoption in New Zealand of "new models" of tertiary education.

Box 2 **What does "tertiary education" cover?**

This note uses a very broad definition of tertiary education that covers all post-school education and training. This reflects the approach that successive New Zealand governments and their advisors have followed throughout the reform period (eg, Hawke, 1988; Minister of Education, 1989; MoE, 1994; TEAC, 2001a).

The intention of the reforms was, and remains, to create and maintain a government-supported learning environment that facilitates learners moving through a wide range of learning opportunities. Policies provided for recognition of learning across different parts of the system and aimed to reduce sharp distinctions between different types of and different providers of education and training.

A broad definition of tertiary education characterises a distinctive New Zealand approach (Goedegebuure et al., 2008).

Table 1 lists the acronyms used in this research note.

Table 1 Acronyms

Acronym	Definition
CoRE	Centre of Research Excellence
EFTS	Equivalent Full-time Student
ITOs	Industry Training Organisations
ITPs	Institutes of Technology and Polytechnics
MoE	Ministry of Education
MSD	Ministry of Social Development
NCEA	National Certificate of Educational Achievement
NZQA	New Zealand Qualifications Authority
NZVCC	New Zealand Vice Chancellors Committee
PBRF	Performance Based Research Fund
PTEs	Private Training Establishments
TCCSG	Tertiary Capital Charge Steering Group
TEAC	Tertiary Education Advisory Commission
TEC	Tertiary Education Commission
TEIs	Tertiary Education Institutions (ie, universities, ITPs and wānanga)
TEOs	Tertiary Education Organisations (ie, ITOs, TEIs, PTEs and other providers)
UGC	University Grants Committee (abolished in 1989)

2 The course of tertiary education reforms: 1987 – 2015

Table 2 sets out a chronology of the main tertiary education reforms in New Zealand since the late 1980s. The reforms cover changes in funding arrangements and administration across the post-compulsory education and training sector, including the development of a unified qualifications framework.

Table 2 Chronology of main tertiary education reforms in New Zealand

1970 – 1989	<p>Before the reforms</p> <ul style="list-style-type: none"> • The universities were regulated through the University Grants Committee (UGC). The UGC managed the system's accountability to government and allocated government funding to universities under a 5-yearly system, using the equivalent full-time student (EFTS) as a funding metric. • While university funding was received as a bulk fund, the government controlled major capital investments. • The management of the institutes of technology, polytechnics and colleges of education was closely controlled by the Department of Education. • Tuition fees were low and much of the fee was paid through the student support system.
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- A tertiary grants system supported students' living costs.
- The qualifications system was fragmented, with separate systems for university, post-secondary vocational, secondary school and apprenticeships.
- From the mid-1980s, two large scale labour market training programmes (ACCESS and MACCESS) were administered through the Department of Labour and Department of Maori Affairs respectively and purchased from providers by competitive tender.

1989 – 1990

The first major shift – the 1st round of reforms

- The Education Act 1989 was enacted – setting the statutory framework for all tertiary education. The UGC and the Department of Education were abolished. The Ministry of Education and New Zealand Qualifications Authority (NZQA) were created.
- The Education and Training Support Agency (later Skill New Zealand) was established to administer labour market and industry training arrangements.
- All tertiary education institutions (TEIs) were given autonomy. Councils had a governance role, with chief executives responsible for management.
- Funding was delivered to all TEIs as a bulk fund, using EFTS as the metric, with the amount of funding dependent on the number of EFTS in different funding categories. The principle of equal funding for similar courses underpinned the funding system. TEIs had control over their capital spending.
- Quality assurance responsibilities were split between the NZQA and the New Zealand Vice-Chancellors' Committee (NZVCC)
- Awarding of non-university degrees was permitted.
- The standard tertiary fee was created.
- The tertiary grants scheme was replaced by student allowances – with targeting based on parental income for those under 20 years.
- TEIs were free to enrol international students on a full-cost-recovery basis.

1991 – 1992

The first major shift – the 2nd round of reforms:

- The standard tertiary fee was abolished, with TEIs given the freedom to set their own fees, including the right to set fees with differences between levels of study and/or fields of study.
- Some limited funding was made available for private training establishments (PTEs).
- Targeting of student allowances was extended to the age of 25 years.
- The Student Loan Scheme was created.
- A moving cap on the number of EFTS places that could be funded was set.
- A unified qualifications framework was established by NZQA.
- The Industry Training Act 1992 was enacted – replacing the Technicians Training Act 1967 and the Apprenticeship Act 1983 and reforming and extending vocational training linked to the qualifications framework to a wider range of industries and occupations.

1993 – 1998

Over this time, additional spending was put into funding more student places. There was also a series of funding rate cuts. Fees rose in consequence.

The Ministerial Consultative Group was set up to examine tertiary education resourcing – and in particular, the issue of the balance of the public and private contributions to the costs of tertiary education. The Government decided to adopt a recommendation to move to paying 75% of tuition fees, with students, funded through student loans, paying the remainder.

1997– 1998

The government undertook a review of tertiary education, issuing green and white papers to put forward proposals aimed at strengthening a competitive, demand-driven model. While many of the reforms proposed in these papers were never enacted, some of the changes were implemented – for instance, improved monitoring and improved information systems.

1999	<p>The first major shift – the 3rd round of reforms</p> <ul style="list-style-type: none"> • The moving cap was lifted – funding in the TEIs became demand driven. • At qualification levels 3 and above, the funding of PTEs was put on a level footing with TEI tuition funding.
2000 – 2001	<p>The second major shift – the 1st round of reforms</p> <p>The Tertiary Education Advisory Commission (TEAC) was established to map out a new direction for tertiary education.</p> <p>TEAC proposed:</p> <ul style="list-style-type: none"> • the creation of a tertiary education commission – a new government agency to allocate government funding; • the creation of a tertiary education strategy and statement of tertiary education priorities to ensure better alignment of tertiary education with national priorities; • a system of charters and profiles to help the commission influence the direction of tertiary education organisations and to improve alignment with the strategy; and • the separation of research funding from funding for teaching and learning.
2000 – 2001	<p>The government introduced fee stabilisation, providing extra funding to tertiary education providers in exchange for an undertaking to hold fees. Fee stabilisation remained in place for three years.</p> <p>The government also moved to write off the interest of student loans for those in study.</p> <p>Modern Apprenticeships were introduced to increase participation of 16-19 year olds in apprenticeships.</p>
2002	<p>Limits were placed on funding for private tertiary education providers.</p> <p>The first Centres of Research Excellence (COREs) were established.</p>
2002 – 2005	<p>Amendments to the Education Act 1989 gave effect to many of the TEAC proposals, including the creation of the Tertiary Education Commission (TEC). TEC incorporated and extended functions previously held by the Ministry of Education and by Skill New Zealand. The legislation also provided for the Performance-Based Research Fund (PBRF) and for fee stabilisation/controls.</p> <p>The Tertiary Education Strategy 2002/07 was published.</p> <p>Government Statements of Tertiary Education Priorities were published in 2002, 2003 and 2005.</p> <p>The PBRF was phased in.</p> <p>The fees freeze was replaced by a system that allowed fees to rise subject to limits.</p> <p>Limits were placed on growth in some areas of tertiary education provided by public tertiary education institutions.</p> <p>Government announced the intention to remove interest on student loan scheme borrowers for those who remain in New Zealand.</p>
2006 – 2008	<p>The second major shift – the 2nd round of reforms</p> <p>Governance and planning systems were simplified:</p> <ul style="list-style-type: none"> • The requirement on government to publish a Statement of Tertiary Education Priorities was removed • The requirement for charters and profiles was abolished, to be replaced by institutional investment plans, negotiated between providers and the TEC, that set out performance targets and that became the basis of funding allocations. <p>Demand-driven funding was removed, replaced by funding and EFTS targets that would be subject to a 3% tolerance band, meaning that institutions were expected to reach at least 97% of the allocated total but were expected to keep enrolments to no more than 103%.</p>

2009 – 2010	<p>The second major shift – the 3rd round of reforms</p> <p>The funding system and fee stabilisation mechanism were simplified.</p> <p>Changes were made to the governance model in polytechnics, reducing the size of councils and ensuring that at least half the members were appointed by the Minister for Tertiary Education.</p> <p>Limits were placed on access to student loans (for instance an academic performance test) aimed at focusing loans on those more likely to succeed in and gain value from tertiary education and at reducing the cost of the loan scheme.</p> <p>Provider performance data published and up to 5% of funding to be dependent on meeting performance thresholds.</p> <p>The intention to publish employment outcomes data at provider level was signalled.</p> <p>A range of secondary/tertiary transitions programmes – the Youth Guarantee – was created.</p>
2011 – 2015	<p>Industry training reviewed and the Industry Training Act 1992 was amended to simplify the role of ITOs, and open them to competition for arranging training. Modern Apprenticeships were incorporated into general apprenticeships.</p> <p>The Youth Service, administered by the Ministry of Social Development (MSD), commenced – targeted at teenagers not in employment, education and training.</p> <p>Direct administration of funding for some labour market training was moved from TEC to MSD (as a result of MSD reprioritising expenditure as part of its investment approach). TEC had previously purchased training on behalf of MSD.</p> <p>Changes were made to the governance model in wānanga and universities, reducing councils to between 8 and 12 members, with Ministerial appointment of 3 or 4 of these members.</p>

Source: Smyth, 2012; Author.

2.1 The first major shift: late 1980s to 1999 – Learning for life

The fourth Labour Government (1984 – 1990) came into power determined to make sweeping changes across government administration, including social policy.

Education was caught up in the general thrust (and excitement) of a questioning of all conventions and a determination to focus public policy on efficiency and equity. Every element of the policy was questioned, but abstention from reform was impossible. (Hawke, 2002, p. 3)

In its first term the Government sought advice on education arrangements from several working groups, without reaching firm conclusions (see eg, Ad Hoc Cabinet Committee on Training and Employment, 1987; Shallcrass, 1987; New Zealand Universities Review Committee, 1987; Probine & Fargher, 1987). The Treasury devoted a volume of its 1987 briefing for incoming Ministers to a first principles analysis and argument for education reform (New Zealand Treasury, 1987a). In its second term, the Government moved quickly to consolidate directions for reform by tasking the specially appointed chairs of Cabinet sub-committees to personally make firm recommendations after considering a range of views. Professor Gary Hawke brought together proposals for reforms to post compulsory education and training (Hawke, 1988, 2002, 2008).

Arguments for change

While aspects of proposed reforms were sometimes highly contested, there was relatively broad agreement about the need for change.

- New Zealand's participation rates in post-compulsory education and training, though rising, were relatively low internationally, and too low to match the needs of a rapidly changing economy. In particular, economic restructuring from 1984 was associated with a sharp rise in unemployment particularly for low skilled workers in previously protected parts of the economy. These

developments reinforced the need for more and better initial skill training and for retraining during the course of working life (Labour Market Analysis Unit, 1989).¹

- Post-compulsory education and training arrangements were fragmented across different education sectors, causing confusion and often “dead ends” for learners, who found what they had learnt in one part of the system was not recognised or valued elsewhere (Labour Market Analysis Unit, 1989). Policy advice was “uncoordinated” and there was “lack of equity amongst institutions”, a lack of coherent information across the system, and a complexity of rules and regulation. The system was slow to respond to “changing technological requirements” (Minister of Education, 1989, pp. 9-10).
- Students from lower socio-economic groups were substantially under-represented in post compulsory education and training. The system was insufficiently sensitive to the needs of ethnic groups (particularly Māori and Pasifika) and of women.
- The administration of government tertiary education institutions was inefficient, with too much centralised control and not enough autonomy – particularly for technical institutes and colleges of education. Incentives to manage resources effectively were weak (Minister of Education, 1989). Inflexibility in the 5-yearly funding system for universities was also a problem. Over the 1980s, the universities were forced to limit enrolments in over-subscribed courses (such as accountancy) and were unable to transfer resources from under-subscribed ones. It was difficult to negotiate additional funding to meet annual changes in demand (Roger Smyth, pers. comm., 7 December 2015).
- Accountability was weak in many areas, particularly research (Minister of Education, 1989).

The Government of the day also accepted the view that central decision making was vulnerable “to pressure group politics with a subsequent lack of focus on the central purposes of education and training” (Minister of Education, 1989, p. 10). Treasury, for its part, continued to emphasise the need for clearer price signals from labour market demand, and from the actual cost of particular education and training provision, so improving the efficiency of employer, student and education provider choices (eg, New Zealand Treasury, 1987b). Making providers more dependent on student choices for their income would strengthen their accountability to consumers rather than to government (New Zealand Treasury, 1987b).

A further widely, though not universally, accepted rationale for reform of funding arrangements was the need for greater private contributions to meet the costs of tertiary education (Hawke, 1988). This reflected a general desire to greatly expand participation in a period when government faced severe fiscal constraints. Most participants in the debate also accepted that there were significant private benefits to post compulsory education and training – though how “social benefits” should be conceived was open to debate (Hawke, 1988). Government considered both student and employer contributions, and the means to cushion the potential effect of higher student contributions on participation. Treasury argued for targeting of tuition subsidies to students through vouchers – pointing to capture of resources by advantaged groups in the existing arrangements (New Zealand Treasury, 1987a).

Broad directions of reform

The broad directions of reform (announced in Minister of Education, 1989) have proved durable over the last 25 years (despite contest around details, shifts in the balance between competing considerations and implementation failures). This is not the same as saying that the original purpose for change was entirely achieved.

- Tertiary education institutions (TEIs) would be funded in bulk, the quantum reflecting the number of equivalent full time students (EFTS) they taught, and the costs of tuition in different programmes.

¹ Note Hawke (2002, p. 4) “... the government department which was most critical of the education system was the Department of Labour, and ideological debate was less important than experience with unemployed school-leavers.”

- TEIs would be governed by their own councils and have substantial autonomy to decide how to use the resources at their disposal, guided by a charter and other documents approved by the Minister of Education. They would be accountable for the use of public funds through monitoring and audit in relation to the stated objectives of their charters and corporate plans.²
- Students would be required to pay fees, eventually amounting to around 25% of tuition costs. A loans scheme would be established to fund students for these and other course-related and living costs. (The Government investigated the willingness of private financial institutions to offer student loans, but eventually settled for a Government financed scheme, with income contingent repayments to be made through the tax administration).
- A single qualifications framework would be established encompassing almost all publicly funded post compulsory education and training, including universities, polytechnics, industry training, the senior secondary school and labour market training. Sharp distinctions between academic and vocational learning would be abandoned (Hawke, 2008).
- Participation of under-represented ethnic and socio-economic groups would be encouraged through creating more flexible education pathways, recognising prior learning, incentivising providers to enrol such groups (for instance through setting out aspirations and specifying objectives in accountability documents), as well as expanding provision in areas that were easier for educationally disadvantaged groups to access (such as labour market and “second chance” education and industry training).

Policy contests: 1989 – 1999

While the broad directions of reform were widely accepted, both policy detail and system parameters were often contested.

An important debate concerned the appropriate balance of private and public funding for tertiary education. In 1993, the Government asked a consultative group to advise on this issue. The group reported with split recommendations in May 1994 (Ministerial Consultative Group, 1994). One group of members recommended that students eventually be required to meet 50% of their tuition costs; another recommended 25%, while a third, representing students, recommended near full funding by government. The Government eventually decided to move towards students funding 25% of their tuition costs.

Around the same time, the Tertiary Capital Charge Steering Group (TCCSG) proposed reforming the governance of TEIs. The proposals would make councils smaller, placing greater weight on the skills required for effective governance, and having a relatively greater proportion of ministerial appointed council members. The proposals were strongly debated, and, in the end not implemented at the time (TCCSG, 1994a; Evans & Quigley, 1996; Boston, 1997). The TCCSG also looked at strengthening incentives for TEIs to use their capital efficiently by requiring them to pay a capital charge. This foundered on the question of the ownership of universities (TCCSG, 1994b; Boston, 1997).

The qualifications framework was another area where controversy emerged as NZQA implemented the broad vision of the 1989 reforms. Hawke (1988) had envisaged a federal system, in which qualifications for different parts of the system (ie, school, vocational and academic) would be managed by separate bodies under the umbrella of a national qualifications authority. In practice, the NZQA was given a more prominent role across the system. It worked hard to remove distinctions, in part by attempting to create a modular system based on “unit standards” across all qualifications (Hawke, 2002). The idea was that students could select the modules that best suited them, and choose offerings flexibly from different providers. This approach was strongly resisted by the universities (concerned to maintain their distinctive character and international standing), and by the Ministry of Education. The Ministry was

² Monitoring and review against plans would be the responsibility of the Ministry of Education. Quality assurance in respect of nationally recognised qualifications would be the responsibility of the new qualifications authority. The Auditor-General would also conduct periodic reviews on how the institutions had used public funds to achieve the objectives in their charters. The Government envisaged that a Review and Audit Agency (later the Education Review Office (ERO)) would have responsibility for reporting on how successful tertiary institutions were in promoting the participation of under-represented and disadvantaged groups. ERO’s responsibilities in the tertiary sector were abolished in 1993.

responsible for the secondary school curriculum and believed that this was not amenable to being assessed in terms of unit standards (Strathdee, 2010).

A new coalition government, from 1997, undertook a review of tertiary education to consider how to make a competitive funding system more effective (McLaughlin, 2003). The review looked, amongst other issues, at how a government might manage costs if EFTS were uncapped and fees allowed to rise. The student loan system added to the complexity. If tuition fees were allowed to rise as a way of managing demand, then expensing of student loans would increase the cost to government. In 1998 the Government decided to remove the EFTS cap; while maintaining an overall tertiary funding envelope decided annually (implying that changes in demand would be managed by a combination of changes in the level of government subsidies and changes in the overall budget for tertiary education, while leaving the parameters of the student loan scheme unchanged) (Green, 2005).

The review also considered the related question of whether to treat public and private education providers differently for funding purposes (Green, 2005). In the event, in 1998, the Government decided to fund EFTS in private providers on the same basis as in public providers for qualifications above level 3.

[The Government's white paper also indicated some areas where improvements were needed ... including more and better information for students, providers, and government, improved accountability, governance for institutions, quality assurance and audit, and some changes in research funding. (McLaughlin, 2003, p. 24)

Only some of these proposals were implemented before the 1999 election and change of government. During the election campaign, the government and opposition put forward alternative visions for tertiary education: one based on a competitive, market-led approach and the other on a more cooperative and collaborative system (McLaughlin, 2003). The cost of tertiary education and student debt were prominent issues in the election campaign (Green, 2005).

2.2 The second major shift: 2000 onwards

The new Labour-led government moved rapidly to set up a short-life Tertiary Education Advisory Commission (TEAC) to provide advice on the strategic direction for tertiary education. The Government asked TEAC to advise on the contribution that could be made by each form of tertiary education; how to increase collaboration and cooperation across tertiary education, and to strengthen links with the economy and community; and on basic principles to guide the Government's financial support for tertiary education (Boston, 2002).

A firmer hold on the steering wheel as costs blow out: 2000 – 2008

On the advice of TEAC, the Government established a new funding body – the Tertiary Education Commission (TEC). TEC incorporated and expanded functions previously carried out by the Ministry of Education and Skill New Zealand. TEC was charged with managing the tertiary education sector, allocating funding and monitoring how institutions were meeting targets set in institution-specific "profiles". At the same time, the Government created a tertiary education strategy and a statement of priorities, which together would help shape funding allocations (Smyth, 2012).

The creation of the tertiary education strategy and the requirement for charters and profiles were not intended to reduce institutional autonomy. The intention was to define broad directions that would 'steer' the system and allowing self-government within those parameters. In effect, in return for government funding, institutions were expected to deliver on government expectations. (p. 11)

The Government also used special-purpose funds "to encourage providers to align their work more closely with government's goals" (Smyth, 2012, p. 11).³ But funding for tuition remained demand driven. Funding for private training establishments (PTEs) was capped in 2003.⁴ The Government began

³ A strategic development component focused on objects such as supporting the participation of Māori and Pasifika students; engagement with the private sector and business links; innovation development; and e-learning collaboration (Goedegebuure et al., 2008).

⁴ Overall funding for PTEs nevertheless continued to grow throughout the period 2004 to 2013 (MoE, 2015).

investigating how it could better incentivise institutional performance through funding arrangements. Overall, steering through an initial combination of profiles and funding decisions had disappointing results – resulting more in presentational rather than real changes in what institutions did. In addition, the new funds entailed high transaction costs and “encouraged institutions to focus much of their energy on seeking funding” (Smyth, 2012, p. 12).

Despite its concerns about the previous Government’s policies, the new Government had initially left the number of funded EFTS uncapped. At the same time, given its election manifesto, it had been understandably reluctant to allow tuition fees to rise as a means to control demand through a reduced level of subsidies for EFTSs. A combination of uncapped EFTS, frozen fees and new approaches to zero-fee courses in polytechnics and wānanga led to a large blow-out in sub-degree level EFTS (Green, 2005). This reinforced the Government’s determination to introduce a greater element of central control into how public funds for tertiary education were being allocated.

In the next phase from 2006, TEC replaced a focus on charters and profiles with one on “investment plans”. Demand-driven funding was abandoned, though moving funding caps reflected demand. Institutions were allowed a plus or minus 3% tolerance on their EFTS caps – too low and they would lose funding in the next year. They received no funding for enrolments above the cap (Goedegebuure et al., 2008). Over the next seven years, the new approach led to a substantial shift of new funding towards universities and away from lower level programmes in polytechnics and wānanga (MoE, 2015).

TEC began to shift quality assurance arrangements outside the universities from an emphasis on “compliance with minimum standards” to one seeking “continuous improvement” (Smyth, 2012, pp. 12-13). A combination of self and external review was used, focused on things like learner achievement, the value of outcomes, the effectiveness of teaching, learning support and the match between programmes and needs.

Hawke (1988) had recommended separate funding for research, but instead research funding had been added as an element to EFTS funding for TEIs expected to combine research with teaching. The Hawke (and TEAC) recommendation was now pursued through the establishment of a Performance-Based Research Fund (PBRF) and Centres for Research Excellence (CoREs). The CoREs, which were based in particular institutions but drew participants from others, “compensated for the lack of critical mass in a small country with a widely distributed population by creating research networks” (Smyth, 2012, p. 11). These changes led to a distinct lift in New Zealand universities’ share of the world’s indexed research publications and citations (Smyth, 2012).

Over this period, the Government responded to expressed concern about the affordability of tertiary education. It extended the student allowance provisions, and eventually made student loans interest free so long as the borrower remained in New Zealand. With a change to new financial reporting standards, this meant that around 45% of student loans were now treated as a current expense – significantly increasing the effective level of public funding for tertiary education (Smyth, 2012).⁵ TEIs now argued that too much of public funding for tertiary education was being channelled through students, thereby limiting the scope to increase direct funding for institutions (Smyth, 2012).

Trimming the sails: 2009 – 2015

Although there was a further change of government in 2008, the broad settings for tertiary education and policy were largely retained.

After two decades of major changes in direction, it is tempting to see the current changes [in 2012] as fine-tuning, rather than directional. There have been major reviews of aspects of the system ... but these moves occur within the context of an existing framework. (Smyth, 2012, p. 13)

TEC, reflecting intentions first announced in 2003, has developed and published provider-level educational performance indicators. By 2012 TEC was using them to determine a 5% performance

⁵ Prior to the changes, in 2005 loans were expensed at 11.4 cents in the dollar (Smyth, 2012).

element in funding (Smyth, 2012). Performance is measured against course and qualification completion rates, student retention, and progression of students to a higher level of study after completing a qualification. Each TEO is rated against all TEOs grouped in the same qualification level (TEC, 2015a).

The Government changed the governance of polytechnics in 2009, moving to smaller councils with half their members being appointed by the Minister based on governance expertise and strategic experience. TEC assessed the change as having improved the effectiveness of councils (at least in the initial stages) (TEC, 2015b). Similar changes for universities and wānanga were enacted in February 2015 providing that councils must have between 8 and 12 members, with three or four appointed by the Minister (Education Act, 1989, s171). The changes must be in place by 30 June 2016 (TEC, 2015b).

Other changes included:

- Simplifying the mechanisms to control student fees.
- Placing more limits on eligibility for student loans to help control the costs.
- Removing a range of supplementary funds for TEIs that had been put in place by the previous government.
- A move to direct purchasing at the margins (eg, level 1 and 2 competitive tendering to reveal price; graduate IT courses; trade training for Māori and Pasifika).
- Steering more funding into areas such as degree-level engineering to increase the numbers graduating in those disciplines; and investigating mechanisms to improve links between TEIs and employers in areas like computer science and information technology.

The Government initiated a review of industry training arrangements in 2011. The review resulted in relatively minor policy adjustments including:

- incorporating the previous government's Modern Apprenticeships scheme into apprenticeships generally, and increasing per student funding for apprenticeships;
- removing the leadership role of Industry Training Organisations (ITOs) in identifying training needs in their industries, which the previous government had provided for in legislation;
- encouraging consolidation of ITOs into a smaller number of larger bodies; and
- exposing ITOs to the possibility of competition in arranging government-supported industry training in their industries (Minister of Tertiary Education, Skills and Employment, 2013).

Parallel to the review of industry training, NZQA led a targeted review of qualifications to simplify and consolidate a proliferation of qualifications below degree level. The review aimed to reduce the number of such qualifications from around 4 600 to around 1 250 (Minister of Tertiary Education Skills and Employment, 2013).

Under the umbrella of the Youth Guarantee, the Government has consolidated and added to a number of sometimes long-standing programmes that aim to provide for alternative vocational learning pathways for students aged 16 to 19 years (Youth Guarantee, 2015). These include:

- two years of fee free learning in tertiary institutions (polytechnics, PTEs and wānanga) for eligible students and eligible programmes of learning;
- additional roll-driven operational funding for schools to enable their senior students to explore vocational pathways (ie, Secondary Tertiary Alignment Resource);
- TEC (from within a capped fund) resourcing secondary schools to enable students to engage in structured work-based learning (ie, Gateway). Funding is based on applications from schools who wish to participate;

- secondary-tertiary programmes that support partnerships between schools;
- Ministry of Education resources (ie, Achievement Retention Transition) to help schools identify and work with students who are at risk of not achieving a level 2 NCEA qualification;
- Trade Academies that may be located in secondary schools, tertiary institutions (such as the Manukau Institute of Technology) or be free-standing.

Complementing the Youth Guarantee, the Government established the Youth Service in 2013, administered by the Ministry of Social Development (MSD) through contracted providers. This replaces previous more patchy initiatives and aims to engage 16 to 19 year olds not in employment, education and training (NEET) and assist and encourage them to undertake further learning towards recognised qualifications. In its initial years the service has been remarkably successful in engaging additional NEET clients and assisting them to undertake successful study (NZPC, 2015).

Around the same time, MSD, as part of its investment approach, resumed direct administration of funds previously used by TEC to purchase foundation labour market skills training programmes.

3 Tertiary education reform themes

The “big ideas” for education policy remain those of the 1980s. (Hawke, 2008, p. 4)

Common and inter-related themes, sometimes contested, have persisted across the almost thirty years of tertiary education reform. Occasionally broad principles (such as the justification for private funding) were debated; but more often the argument was about how best to achieve agreed directions for change. Hawke wryly notes about the development of the qualifications framework, a more general feature of the reforms:

It was easy to get agreement in principle that the education system should be concerned with recognising achievement and not with operating barriers so as to choose an elite minority, but that agreement was often reconsidered as its implications became clear. Enthusiasm for reform diminished as it became clear that there was no place in the new system for what had been sources of satisfaction and income. (Hawke, 2002, p. 11)

This section looks at how some of the dominant ideas of the 1989 reforms played out over the next 25 years.

3.1 Widening participation

Widening participation in post compulsory education and training (PCET) – particularly, but not only, for under-represented groups – was a fundamental and enduring objective of reform.

This was and is motivated by:

- a desire for greater equity in economic outcomes for Māori, Pasifika and people from low socio-economic backgrounds. Increased participation in PCET was seen as a route to achieve this.⁶
- a recognition that there was an increasing demand internationally and in New Zealand for skills in the labour market and conversely that people with low skills had poor employment prospects. This perception was particularly strong in New Zealand in the 1980s as economic restructuring left many of the low-skilled out of work.
- A recognition that technological and other drivers of change in the labour market were likely to persist into the foreseeable future – the purpose of tertiary education was shifting from preparation of an elite for professional and managerial roles, and training for recognised trades; to preparation of all for learning across their working lives.

⁶ In the early years of reform, policy makers also focused on women’s under-representation in PCET at that time.

The main levers for increasing participation have been a combination of:

- Development of a unified qualifications framework that values a much wider range of learning, and allows multiple and flexible learning pathways. This now spans senior secondary school, labour market and industry training as well as more traditional learning in universities and polytechnics.
- Providing government funding for a much wider range of learning linked to the qualifications framework.
- Additional targeted support such as fully-subsidised tuition in “second-chance” education and living allowances for students from low-income backgrounds.
- A wider range of “second chance” learning opportunities across school and tertiary. These include those described under the “Youth Guarantee” above, and precursors that go back to the beginning of the reform period; and labour market training programmes now funded by MSD and by TEC.
- A greater focus on raising the prior achievement of under-represented groups at school to improve their chances in tertiary education.

Success in increasing participation of under-represented groups has been mixed. These groups were caught up in the tide of a general expansion in participation across the 1990s and early 2000s – sometimes spectacularly so (Green, 2005).⁷ Yet Māori and Pasifika remain strongly under-represented at higher levels of learning and in particular subject areas. Their achievement at senior secondary school has improved strongly, but they still lag behind other groups. Māori and Pasifika are a growing proportion of the working age population. The various motivations for attention to improving their outcomes relative to the rest of the population will persist into the future. In addition, issues of affordability of tertiary education are likely to become more prominent as discussed below.

While a unified qualifications framework has been established and has wide support, this has involved considerable pragmatic compromise around the original vision (Hawke, 2002; Strathdee, 2010). Questions around the role of qualifications in signalling learners’ capabilities and aptitudes for employers are likely to persist (Hawke, 2008). Whether and to what extent certification of learning achievement could or should be unbundled from teaching is another issue discussed below.

3.2 Funding – fiscal sustainability and affordability for consumers

In the early years of reform, governments were facing severe fiscal constraints. If participation was to continue to expand, it would be necessary to rely to a greater degree on private funding.

The right balance between public and private funding

The right balance between public and private funding has been a major issue throughout the reform period, as it bears both on fiscal sustainability and on affordability. As discussed later, it also bears on incentives faced by employers, students and education providers to make good choices about the content, quality and timing of learning. As a result, choices about the relative size of public and private funding will also influence decisions about how far to rely on market mechanisms or on central “steering” to shape education services.

Policy advisors sometimes turned to a “first principles” analysis to shape the debate and looked for evidence on the relative public and private benefits of tertiary education (New Zealand Treasury 1987b; Ministerial Consultative Group, 1994).

Yet, as Hawke (1988) noted,

[i]t is easy to agree that the balance of funding should follow the balance of private and public benefits, but this has quite different implications depending on whether the latter has the economic sense of ‘nonappropriable’ or a wider meaning of ‘social’ which provide individual

⁷ More generally, the number of students participating in tertiary education more than doubled between 1985 and 2001 (McLaughlin, 2003). New Zealand was following trends in participation evident in many other OECD countries.

incomes while assisting public policy or community trends (e.g. the availability of skills to facilitate economic adjustment. (p. 28)

Hawke and every government since the reforms started have explicitly or implicitly followed a broader interpretation of "social benefits". This involved a shift towards more private funding, but not to anywhere near the extent that would have been justified by a narrow definition of social benefits (as for instance advanced in Option B of the Todd Report (Ministerial Consultative Group, 1994)). Successive governments have all, in the end, taken a pragmatic approach to setting the balance between public and private spending that takes account of:

- fiscal sustainability, tempered by a desire to see a large increase in participation, particularly in the early years of reform;
- affordability for students and their families and potential effects on participation (and thus, in conjunction with funding, governments also considered fee setting and student loan financial assistance policies); and
- the electoral sustainability of any policy mix (particularly given the increasing proportion of the population participating in tertiary education and periodic bouts of concern about the burden of student debt).

Yet the current balance between public and private funding remains vulnerable to future challenge. Hawke (2008, p. 14) argued that "lifelong education for all is more likely to entrench social classification than change it."⁸ He elsewhere concluded:

[a]s society becomes more diversified, the difficult task of allocating costs [of education to private and public sources of funding] cannot be evaded... Lifelong education sounds attractive, but it means that private benefits of education are likely to grow relative to genuine public benefits; we must expect debates about public and private funding to intensify for some time yet. (2002, p. 20)

Distributional effects of financing and funding policies

Recognition that better-off households were then benefiting disproportionately from public funding for tertiary education was one of the motivations for reform and a shift to greater reliance on private funding. It was also used as an argument for targeting of public subsidies (eg, New Zealand Treasury, 1987b) as well as student support. To some extent, concerns about the distributional effects of funding policies were assuaged by large increases in participation in the two decades since 1988.⁹

The distributional effects of tertiary education policies have not featured strongly in subsequent decisions about funding, fees and the parameters of the loan scheme. Generally, in the 2000s, there was some winding back of the extent to which the original reforms relied on an increase in private funding. The effective tertiary tuition subsidy now stands at around 82% (Roger Smyth, pers. comm., 8 December 2015); it had fallen below 70% in the late 1990s.¹⁰

Increasing real expenditures per student

The rising real cost of inputs (particularly staff) is going to put increasing pressure on current service models and funding arrangements (though this may be tempered by an easing of demand driven by demographic trends).¹¹ *The Economist* (2014) noted:

Higher education suffers from Baumol's disease – the tendency of costs to soar in labour-intensive sectors with stagnant productivity. Whereas the prices of cars, computers and much

⁸ There is abundant evidence that the better educated receive more additional education than others over the course of their working life.

⁹ Some commentators remained concerned about wastage due to unnecessary "churn" in the tax and spending system. They argued that many middle-income households were paying relatively high taxes while enjoying the benefits of heavily subsidised tertiary education. The share of overall education expenditures received by households in the bottom half of the income distribution increased from 49% in 1988 to 54% in subsequent periods between 1997 up to 2009 (Aziz et al., 2012). These changes were driven by increases in participation, but tempered by the fact that parents of tertiary students are often in their peak earning years.

¹⁰ These figures take into account the expensing of student loans.

¹¹ Staff costs were 59% of costs in universities, 54% in ITPs and 41% in wānanga over the period 1997 to 2004 (Goedegebuure et al., 2008).

else have fallen dramatically, universities, protected by public-sector funding and the premium employers place on degrees, have been able to charge ever more for the same service. For two decades the cost of going to college in America has risen by 1.6 percentage points more than inflation every year.

Goedegebuure et al., (2008, p. 42) reported “expenditure per EFTS in New Zealand increased on average by 10.6% in public institutions from 1997 to 2004...” It is not completely clear, however, whether this data refers to increases in nominal or real expenditure, and whether it covers both public and private expenditure. Between 2004 and 2013, overall funding for EFTS increased by 14% in real terms, while numbers of EFTS increased by only 1.7% (MoE, 2015). Over this period, tuition fees were not falling in real terms. So real private and public expenditure per EFTS certainly increased over this period. But at least part of this increase is explained by a deliberate shift of funding from lower-cost programmes judged to have low value to higher-cost programmes.

Further investigation of changes in real per student expenditures in tertiary education over time, controlling for shifts in the mix of programmes funded, would be useful.¹²

Recruiting staff in an international labour market

Tertiary education providers, especially universities, recruit staff in an international labour market. They compete both with international tertiary providers and with other employers of people with the knowledge and skills they require. Universities in particular sometimes argue that inadequate government funding means that they cannot recruit the staff they need to maintain teaching quality and the institution’s international reputation. This raises questions such as:

- Where do academic staff salaries fit on the domestic distribution of incomes and has this been changing over time? If there has been a change in their place on the distribution, does this imply a corresponding change in their place on the distribution of skills? How will this play out in the future?
- If it is difficult for New Zealand institutions to compete for staff internationally, does this have implications for the role that they can play in the international market for students?

3.3 More responsive providers

Making tertiary education providers more responsive to economic and social demands was, and remains, another motivation for reform. As policy adjustments are made for other reasons (for instance on the balance of private funding to address affordability) the best available policies to improve responsiveness will change.

Employers continue to challenge the relevance of tertiary education outputs to their needs (Hawke, 2008; McKinsey, 2012). Skill requirements in the labour market will continue to evolve, at least in part driven by technological and demographic changes (NZPC, 2014). There is room to continue refining what qualifications tell employers about the skills and aptitudes of potential employees and to adjust teaching to better fit (Hawke, 2008).

A search for ways to improve the responsiveness of tertiary providers will be ongoing.

Finding the right balance between centralised prescription and autonomy

Judgments and policy shift around the right balance between centralised prescription and autonomy in what tertiary education organisations provide to whom and how they do it. The 1980s reforms led to a large increase in autonomy, particularly for polytechnics and colleges of education. Other things being equal, greater autonomy gives providers more room to respond to external demands; but if the incentives on providers to be responsive are weak or distorted, then governments may feel the need to step up with more prescription to give effect to their priorities.

¹² A related issue is the role that full-fee international students play in helping providers realise economies of scale in provision. Risks for financially weak providers will rise over the next period as domestic student numbers fall, and economies of scale unwind.

Funding and financing arrangements can constrain innovation

Improving efficiency (in the production of services and in the allocation of resources to the most valuable services) has been an implicit goal of the tertiary reforms. Yet the reforms have not generally led publicly-funded providers to adopt significantly different service models that might have emerged, if institutions had better incentives to improve their performance over time, and fewer constraints. Changing technological possibilities, for instance, have not had a large effect on teaching methods (lectures, tutorials, labs, marking and feedback, most of it delivered in person or in writing).¹³ New Zealand publicly-funded tertiary providers have mostly responded to policy settings by seeking economies within their existing approach, rather than looking for radically new approaches to delivering their services.

Over the first decade of the reforms, providers were perhaps focused on establishing their place in an evolving market for tertiary services using existing service models, as they learnt the new “rules of the game”. This was a period in which, for instance, stronger polytechnics aspired to university status and universities started advertising to establish their brands.

The lifting of funding caps in 1999 did inspire a burst of innovation. New providers entered the market and some existing providers greatly expanded their operations. Some providers attracted new clients using new models that depended on scale and very low marginal costs for additional students (Green, 2005).

Fiscal pressures and questions about the value, relevance and sometimes probity of the new approaches led to greater central control over what was funded, fee setting and which students would receive support through loans. Duration and other constraints have now been placed on eligibility for loans to limit costs.

Centralised mechanisms entailed higher monitoring, reporting and compliance costs than more devolved approaches. More importantly, greater centralisation reduced opportunities for providers to introduce new models of service delivery, and weakened the incentives for them to do so. It also limited the opportunities for new providers to enter the market. Some commentators therefore believe that introduction of more central “steering” over the last fifteen years has led to too much prescription from the centre (Goedegebuure et al., 2008).

The loan system adds further constraints on the funding system. Loans are now expensed at 40 cents in the dollar. So higher fees effectively raise the level of government subsidies.

The government adjusts tuition subsidies for selected programmes when budgets allow, by benchmarking costs among current providers.

This mix of policies means that providers have little room for, or incentive to move to, new approaches to delivering services, with different cost structures and for different client groups.

The role of competition in improving responsiveness

Debate continues around the role of competition in incentivising public tertiary education providers to be responsive to economic and social demands. This often centres on whether private tertiary education providers should be allowed to enter the market on the same footing as public ones in terms of funding. It also revolves around whether decision makers – students, employers and education providers – face the true costs of their choices affecting skills formation. In particular, this involves judgments about the right mix of private and public funding (as discussed above) and whether public funding flows directly to institutions or through students. Anecdotal evidence suggest that there was a significant shift in the relationship between TEIs and students after 1989 as a result of students having to meet more of the cost privately, and administrative changes that gave students more choice of provider (Roger Smyth, pers. comm. 7 December 2015).

¹³ Though technology has made information much more accessible to students (through the internet and electronic library resources for instance) and has likely sometimes facilitated larger classes for teaching (through use of videoed lectures for instance).

Information and pricing in a devolved system

A devolved system relies on decision makers (for instance students) having good information on the quality and effectiveness of provision. Yet systematic measurement of quality (in the sense of value-added, or even in terms of outputs) has been attempted only recently. Current work, led by the Ministry of Education and TEC, on measuring and publishing information on the quality and effectiveness of tertiary education providers has the potential to support effective decision making in a more devolved system.

A devolved system, particularly one that has uncapped EFTS (as was introduced in 1999), also requires prices that reflect the costs and benefits of courses. This will help guide students to take courses with good returns and avoid those with low value.

Governance of tertiary education institutions

Features of the internal organisation and culture of tertiary providers might also limit their responsiveness to external demands (institutional inertia).

Hawke, for instance, commented:

My biggest mistake in 1988 was to overestimate the capability of university management... We need more thinking about how universities really operate as networks which generate among their products, student learning. We will not progress while the dominant thinking remains packaging qualifications into production units that require less staff time while the staff still operates like an antiquated technology museum... tertiary education institutions should facilitate progress through knowledge and understanding, not frustrate it through inertia and privilege. (2008, pp. 9–10)

There has been a strong debate around the governance of TEIs because this is something that governments can change without intervening unduly in the internal workings of institutions. Contested governance arrangements reflect different paradigms about the purpose of TEIs (especially universities) (Evans & Quigley, 1996; Boston, 1997).¹⁴

Unbundling funding for teaching, research and certification

Policy advisors have periodically looked at the efficiency of funding arrangements for research in TEIs. This led to unbundling of funding for teaching and research in the 2000s – an approach that Hawke (1988) had recommended. The *Learning for life* decisions to add funding for research to EFTS funding for degree awarding institutions reflected a view that teaching and research were co-produced (Minister of Education, 1989). This approach also had the advantage of simplicity and low administrative costs. Governments later judged that this had led to insufficient focus on research and insufficient resources devoted to research.

Unbundling certification and teaching has also been mooted (McKinsey, 2012) though not specifically in the New Zealand context.¹⁵ If certification and teaching were unbundled, it would, perhaps allow a stronger element of performance-based funding for teaching as discussed above. Any advantage in moving in this direction would need to be balanced against economies of scope in combining teaching and certification.

3.4 Quality assurance

Both centralised and devolved systems of tertiary education need quality assurance. In a devolved system, quality assurance provides information to guide student choices. In a more centralised system, information on quality may be used to guide funding decisions. Either way, information on quality incentivises providers to improve their performance.

¹⁴ An opposition move to reverse the legislative changes to TEI governance was narrowly defeated in Parliament in December 2015 (New Zealand Parliament, 2015).

¹⁵ The NZQA permits recognition of prior learning as a means to gain credits towards some qualifications based on unit standards (NZQA, 2015). This is a limited example of unbundling of certification and teaching.

Internationally as well as in New Zealand tertiary education institutions are recognizing that they need more direct evidence of the quality of their teaching and the student learning they generate. (Hawke, 2008, p. 11)

Hawke (2008) pointed out that the tertiary forms were intended to fund student learning based on numbers subject to a quality constraint. However, less progress had been made on defining the quality constraint than had been expected, with a resulting view that the focus was on participation or “bums on seats” (p. 13).

According to Hawke (p. 12) “it cannot be said that [over the reform period] quality assurance loomed large in their [education institutions’] management of their central activities of research teaching & learning”. Hawke pointed to obvious gaps in managing quality assessment through processes of appointment and promotion. Universities focused on their success in getting graduates into “the most prestigious graduate schools overseas”. Hawke argued that, especially with a large expansion in participation, the success of top students was not a good proxy for success for students as a whole.

Hawke noted that recent moves to improve quality assurance in teaching and learning have been initiated by government rather than the educational sector. He argued that while student numbers are likely to re-emerge as a major element driving funding allocations, disappointment around this should “not prejudice the very desirable improvements in quality assurance that are being developed” (2008, p. 13).

3.5 The quality and role of monitoring, funding and accountability bodies

The *Learning for life* reforms started from the premise that the Ministry of Education would have a direct relationship with relatively autonomous tertiary education providers for funding and monitoring purposes. The reforms dispensed with intermediary bodies such as the former UGC (Minister of Education, 1989). This arrangement persisted for more than a decade.

Yet the relationship between tertiary providers and the government of the day was turbulent over this first decade. Discontent often focused on policy positions emerging from the Ministry of Education and the ad hoc advisory groups that it served (Roger Smyth, pers. comm., 7 December 2015). Established providers were increasingly dissatisfied with the perceived emphasis on expanding participation at the expense of quality. Providers tended to see falling subsidy levels and staff-student ratios as a proxy for quality.

In 2000, the incoming Labour-led government moved quickly to establish TEAC. Prominent in the terms of reference was a desire to see more collaboration and less wasteful duplication in the system (Codd, 2002). TEAC’s second report set out its recommendations for stronger system steering. In its fourth report, on funding, TEAC expressed the view that “a tertiary education system left to the dictates of the market would not deliver desirable outcomes” and was not delivering desired improvements in quality (TEAC, 2001b, pp. 1-2, cited in Codd, 2002). TEAC recommended that a new central agency, TEC, be responsible for co-ordination, funding, and regulatory control of the whole tertiary education sector.

The new government gave TEC responsibility for allocating funding and monitoring provider performance, amongst other roles. TEC took a more “hands on” approach to these responsibilities, which were specified in more detail than previously in legislation.¹⁶ Since TEC’s inception, successive governments have refined the legislation guiding TEC’s funding and monitoring roles.

In conception, funding arrangements in the act now provide considerable scope, (through the Tertiary Education Strategy and ministerial design of funding mechanisms to be implemented by TEC), to steer funding towards particular groups and types of providers. In practice, the large bulk of funding follows fluctuations in student demand, usually on the basis of TEC approving annual plans submitted by

¹⁶ TEC also took over the role of Skill New Zealand in respect of industry and labour market training. Skill New Zealand had administered an extensive system of competitive contracting for provision of training. This was a much more “hands on” role than the Ministry of Education had used for TEs.

eligible providers. TEC is responsible for monitoring provider performance against outcomes specified in the plans.

The Education Act 1989 (s159AD) assigns the quality assurance role in relation to qualifications to NZQA and, for universities, to NZVCC.¹⁷

4 Lessons for the tertiary education inquiry

The history of the tertiary education reforms in New Zealand has the following broad lessons, which could inform the Productivity Commission's tertiary education inquiry:

- The reforms started with the premise that giving providers more autonomy would assist them to be more responsive to social and economic demands. Yet the reforms gave insufficient attention to information, pricing and quality assurance mechanisms that would enable a devolved system to work well. As a result, governments have resumed more control of allocating funding and setting fees and subsidies. Together with a fiscally more expensive student loans scheme, these developments have greatly reduced the room for providers to adopt new service models, or for new innovative providers to enter the market.
- The reforms have been very successful in widening participation in tertiary education, within a fiscal constraint. Yet, while participation of disadvantaged groups such as Māori and Pasifika has increased strongly over the last 25 years, they are still significantly under-represented at higher levels and in particular fields of study. The inquiry should consider how new approaches might reduce this under-representation.
- Finding good, timely measures of value-added in tertiary education is only in its infancy in New Zealand. The lack of this information is one reason why policy makers have fallen back on a more centralised system, rather than relying on devolved decision making. Better information on value-added will help the system move towards the most effective service models.
- The inquiry needs to take a "whole of system" approach to understanding how tertiary education could evolve over time. Policy choices on some dimensions (such as subsidy levels, or the parameters of the student loan scheme) affect what is viable on other dimensions (such as giving providers the freedom and incentives to innovate).

¹⁷ The NZQA role includes registration of PTEs and other tertiary education providers, programme approval (outside of the universities) and accreditation of providers and monitoring and audit. In practice, the NZQA and the NZVCC delegate some of these roles to Quality Assurance Boards. NZQA maintains a Register of Quality Assured Qualifications.

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