12 Taking stock and looking ahead

Part I of this report describes New Zealand’s tertiary education system, and Part II examines its outcomes and prospects. Part III makes recommendations to increase the system’s flexibility to innovate and try new models.

- This chapter summarises why New Zealand needs a tertiary education system that supports new models, and notes the challenges of intervening in a complex system.
- Chapter 13 recommends changes to how information is used in the tertiary education system.
- Chapter 14 recommends changes to regulatory arrangements.
- Chapter 15 recommends changes to purchasing arrangements.
- Chapter 16 recommends changes to tertiary education agency roles. It concludes with a discussion of the collective implications of all the Commission’s recommended changes.

12.1 New models are important to manage risk and increase access

Governments, seeking to increase access to tertiary education for the productivity of their economies and for the wellbeing of their citizens, have faced trade-offs between maximising access, maintaining quality, and controlling costs (Chapter 1). In New Zealand over the last two decades, successive governments have grown and then rationed participation in tertiary education, in an attempt to balance access goals against rising fiscal costs.

Innovation – both of the sustaining and disruptive kind – in the delivery of tertiary education has the potential to enable increased access, quality and affordability of tertiary education, all at the same time. The Commission has seen examples in other countries of innovations that have significantly reshaped how providers deliver education to students (Chapter 11).

New delivery approaches, educational methods and learning environments could allow the tertiary education system to meet the needs of a wider diversity of students, including students who need to upskill or retrain in a dynamic labour market, and those who would like to participate but who are not currently catered for. New models also present an opportunity to improve outcomes for Māori and Pasifika, who are presently under-served by the system and who comprise a growing share of New Zealand’s population.

A failure of the tertiary education system to adapt and embrace new models could present a significant risk to New Zealand. Not only would New Zealand fail to capitalise on the opportunities afforded by new models to expand access to good quality education to meet the needs of a diverse range of learners, it may find itself unable to “roll with the punches” of a changing and dynamic environment. New Zealanders live in a world in which:

- the skills, knowledge, and outcomes that individuals hope to obtain through a tertiary education continue to evolve;
- competition for international students, and potentially offshore competition for New Zealand’s domestic students, is likely to intensify; and
- many believe that the rate of change in the labour market and society will accelerate, driven by exponential technological progress.

However, it is also a world in which no one can accurately predict how and when changes will occur. This places a premium on system settings that allow flexibility and adaptability so that providers and students can respond to their changing circumstances.

Yet the inquiry finds that New Zealand’s system is tightly constrained, and is not well placed to take advantage of the opportunities afforded by new models of tertiary education. Instead it has found that the
inertia referred to in the inquiry’s terms of reference is an emergent property of the system (Chapter 8). As a result, the system is vulnerable to threats presented by external changes and trends that could, if the system were more adaptive, represent opportunities for New Zealand.

12.2 A tertiary education system that needs to change

Tight government control constrains innovation

Chapters 5, 6, 7 and 8 describe a tightly controlled tertiary education system with both desirable and undesirable properties. Some properties are particularly undesirable from the perspective of innovation and differentiation:

- Government controls quality by licensing providers; this confers market power on incumbents. Government also controls the quality of courses through the New Zealand Qualifications Authority and gives statutory power to the Committee on University Academic Programmes (CUAP) for the approval of university programmes. The Commission has heard that these processes can make it difficult to introduce new programmes or delivery approaches. Incumbents define “quality” in a way that reinforces their position in the tertiary education system.

- Government subsidises the cost of tertiary education, providing most of the subsidy to the provider rather than the student. A subsidy, by its nature, increases demand. If demand exceeds what government can afford to pay, then government rations supply. For most funds it does so by rationing in the market for EFTS, prioritising the protection of existing allocations to incumbent providers, creating barriers to new entry. This has the effect of reinforcing the status quo (in terms of product quality, product form and market structure).

- The Student Loan Scheme (the Scheme) conflates access to finance (which could be fiscally neutral to government) with a subsidy arising from its interest-free nature. Because of the subsidy inherent in the interest write-off, any increase in the number of EFTS increases the total cost of the Scheme to government. This adds to government’s need to ration supply (in a way that a fiscally neutral scheme, focused solely on ensuring access to finance, would not).

- Government is fiscally and politically liable for poor tertiary education institution (TEI) performance. It designs its subsidies in ways that protect its interests – quotas and market entry restrictions. Government also has a political interest in maintaining existing levels of regional provision, regardless of demand. It faces incentives to use its control over EFTS allocations to reduce the political and fiscal risks of TEI failure, rather than to allow supply to match student demand. Government’s interest in the viability of providers can conflict with its role as a subsidiser of education and its quality assurance role.

Chapter 11 shows sufficient examples of innovative projects to give the impression of a flexible system open to new models. However, this impression is misleading.

- Providers are very responsive to incentives from government, but most incentives are to maintain the status quo (with only small shifts in emphasis between different groups of students, or fields of study).

- Innovation happens chiefly where there is a meaningful prospect of a net reward through improved revenue or reputation. The current system provides few such prospects.

- Much of what is occurring is “sustaining innovation“ – that is, improvements to providers’ existing business models. The current system works against differentiation of business models. Disruptive innovation is more likely to come from new entrants; but the system has high entry barriers.

- Existing providers – especially TEIs – have relative certainty over their revenue streams and quota allocations. This reduces the imperative to innovate and the rewards on offer from successful innovation.

- Rather than enabling successful bottom-up innovations to spread through the system, government designs “innovative” programmes and then procure them directly from providers, typically through

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6 An emergent property is a characteristic of a system that arises from the interaction of participants rather than from planning or design.
complex and prescriptive contracts. Such contracts lock in the programme design, rather than allowing adaptation in the light of experience or reflecting providers’ different circumstances. The flow of information from implementation into the next round of programme design is slow and unreliable.

- Provider-generated proposals for substantially new models of tertiary education require multiple government approvals. These can involve statutory instruments (eg, funding mechanisms under s 159L of the Education Act 1989), amendments to legislation (eg, for the Manukau Institute of Technology Tertiary High School) and revised government purchasing decisions.

**The system does not allocate resources equitably**

It is common for governments to describe tertiary education as a means of combating income inequality and promoting social mobility. New Zealand’s Tertiary Education Strategy 2014–2019 states that tertiary education has a role in supporting “all New Zealanders from all backgrounds to live in a prosperous, safe, and equal society” (Ministry of Education & Ministry of Business, Innovation and Employment, 2014, p. 7). However, various features of the New Zealand system mean that overall the system exacerbates rather than ameliorates initial inequalities.

- The system rations access to tertiary education. Providers have incentives to select those who start out with more financial and other resources (including prior educational achievement) over those who do not (Chapter 8).
- Through tuition subsidies and subsidised student loans, government spends more on those students who stay longer in the system (eg, those studying to postgraduate level, or undertaking long courses such as medicine). These same students, once graduated, generally receive higher incomes. Overall, government spends most on those who gain the most from tertiary education (Chapter 3).
- Full-year full-time study delivered on campus to school leavers increasingly dominates delivery at higher levels of study; and the pathways from lower to higher levels of study are seldom clear (Chapter 3). This serves those already advantaged.

Student allowances and equity funding are features of the New Zealand system that attempt to ameliorate inequality. However, government spending on these is small by comparison with Student Achievement Component (SAC) funding (which is per student, per year of study) or the subsidy implicit in the Student Loan Scheme.

Government targets additional subsidies at particular groups via specific programmes. Examples include the University of Otago’s Māori Health Workforce Development Unit, and Māori and Pasifika Trades Training programmes (Chapter 11). Students in these programmes receive additional support. But such programmes are the exception, not the rule.

**Data on system performance is lacking; but the system clearly does not perform strongly for everyone**

On the evidence available, the tertiary education system serves many students well. However, as Chapter 9 explains, to make meaningful judgements about whether the system delivers good outcomes for students and for New Zealand, the right information needs to be collected and reported – and at present it is not.

- Current output and outcome measures most often used by government – course and qualification completion rates, graduate salaries and employment rates – are not reliably good indicators of provider or system performance, because they are not adjusted to take into account differences in student intake.
- The Commission has not found good information about how the system is performing for students from low-income families, students with disabilities, and students who cannot access campus-based learning.

It is however clear that, despite valuable improvements in recent years, the tertiary education system still underperforms for Māori and Pasifika students (Chapter 9).
12.3 What should government do?

The tertiary education system is inherently complex

The tertiary education system involves very large numbers of autonomous and semi-autonomous agents making iterative and interactive decisions, often independently of one another. This complexity represents a challenge for government interventions. As biologist Lewis Thomas observed:

> You cannot meddle with one part of a complex system from the outside without the almost certain risk of setting off disastrous events that you hadn’t counted on in other, remote parts. If you want to fix something you are first obliged to understand the whole system. (Thomas 1974; cited in Mansell, 2006, p. 78).

One consequence of this complexity is that government, by making changes to solve problems in one area of the tertiary education system, has sometimes created problems in other areas, inviting or requiring further changes (Chapter 1; Chapter 8). Even well-intentioned and well-designed changes can give rise to unpredictable side effects.

> The history of the New Zealand university sector shows that any significant change to role requirements, policy drivers, or funding incentives will drive significant changes to university outputs over time, but nearly always with unintended consequences and trade-offs. (UNZ, sub. 17, p. 21)

Moreover, any loosening of particular constraints within a complex set of arrangements is likely to be transient. Previous experience leads providers and government agencies to believe that government will act quickly to re-tighten them once side effects become apparent. Furthermore, minor changes at the margins are likely to be overwhelmed by the inertia of the system (OECD, 2016f).

Despite the challenges of system change, the Commission believes that change is essential to respond to the diverse and evolving needs of New Zealanders, and national and international trends in tertiary education and the wider environment.

The Commission’s recommendations

The Commission’s recommendations in the following four chapters are designed to move to a system that will support new models to emerge and deliver the maximum benefit – for individual students and for New Zealand as a whole.

It would be possible for government to implement some recommendations and not others. However the recommendations are best implemented as a package. This is because there is a need to intervene in multiple ways at multiple points in a complex system to avoid the system reverting to its previous centre.

Some of the Commission’s recommendations propose that new approaches be trialled or piloted, in an experimental spirit, to test their feasibility and impact. This is in recognition that it is impossible to predict how a complex system will respond to new interventions and opportunities. The recommendations – in line with the inquiry’s terms of reference – propose that government explore new models of policy, funding and regulation, just as government is asking providers to explore new models of delivery.