

Office of the Minister for Tertiary Education, Skills and Employment

Chair, Cabinet Economic Growth and Infrastructure Committee

Government's response to the Productivity Commission inquiry into *New models of tertiary education*

Proposal

- 1 I propose to release a Government response to the Productivity Commission (the Commission) inquiry into *New models of tertiary education*. This response will position Government's action on the Commission's recommendations within the context of a broader work programme to lift performance and innovation across tertiary education.

Executive Summary

- 2 A strong tertiary education system is essential: it supports New Zealanders to succeed in life, and New Zealand's wider economic growth and prosperity.
- 3 New Zealand already has a high-performing tertiary education system. It supports students to gain strong foundation skills and develop their skills and knowledge for work and over a lifetime. It delivers strong benefits through world-class education and research, and our international education sector.
- 4 I am seeking your agreement to release, in July, a public response to the Productivity Commission's report into *New models of tertiary education*. The Commission's report identified some real opportunities to make improvements across the tertiary education system to support innovation, responsiveness, and better outcomes for New Zealand.
- 5 I want to ensure that our system operates as efficiently and effectively as possible, with even better outcomes for students. I also want to ensure that the tertiary education system is prepared for the rapidly changing world of work in a global and digital world. We need to reduce the time to market for new skill development and ensure that training is responsive to the needs of industry. This requires innovation – for example in the use of qualifications and funding arrangements – while maintaining a rigorous approach to quality.
- 6 I propose to frame the Government's response to the Commission's report as part of a broader work programme. This will set a clear vision and direction for tertiary education. I do not propose to deliver all of the Commission's 49 recommendations. Instead, the Government response will focus on actions to deliver a strong, effective tertiary education system, now and in the future, and identify how the Commission's recommendations will – or will not – be considered as part of that ongoing programme of work.

- 7 I plan to progress work in four key areas to foster innovation and improvement across our tertiary education system. These will be used to frame the Government response document, and are:
- 7.1 **creating a more student-centred system**, in which informed, engaged students are able to access the education best suited to them, including through strong systems to support student mobility and having the right mix of qualifications and faster, more cost-effective learning options for those who want them
 - 7.2 **meeting the needs of industry and employers through relevant, responsive, and supportive teaching environments**, enabled by settings that encourage high-quality research and/or industry-informed teaching
 - 7.3 **improving performance across the system** continuously to deliver better outcomes from current programmes, including by driving robust outcomes both domestically and across the international education sector
 - 7.4 **enabling and encouraging innovative new models and providers**, so there is greater experimentation with approaches and more competition, including from new providers.
- 8 We will see some immediate benefits from the work, but many of the issues identified by the Commission require more substantial thought, including in relation to how to effectively design, deliver, and stage change in a way that will deliver for the sector. And there's already a lot happening across the portfolio that will contribute to the broader outcomes I am working to achieve – including work to streamline our secondary-tertiary interface, to support work-integrated and lifelong learning, and to support and deliver better information for students. Careful prioritisation and sequencing can maximise impact, ensure opportunities for input and ownership by sector stakeholders, and manage risks and potential unintended consequences.
- 9 Given the scale of work proposed, I want to be able to send a clear signal to the tertiary education sector through this Government response. This signal will be reinforced by the initiatives that I will progress over the coming year, including the development and publication of a new Tertiary Education Strategy by the end of 2018.

Background

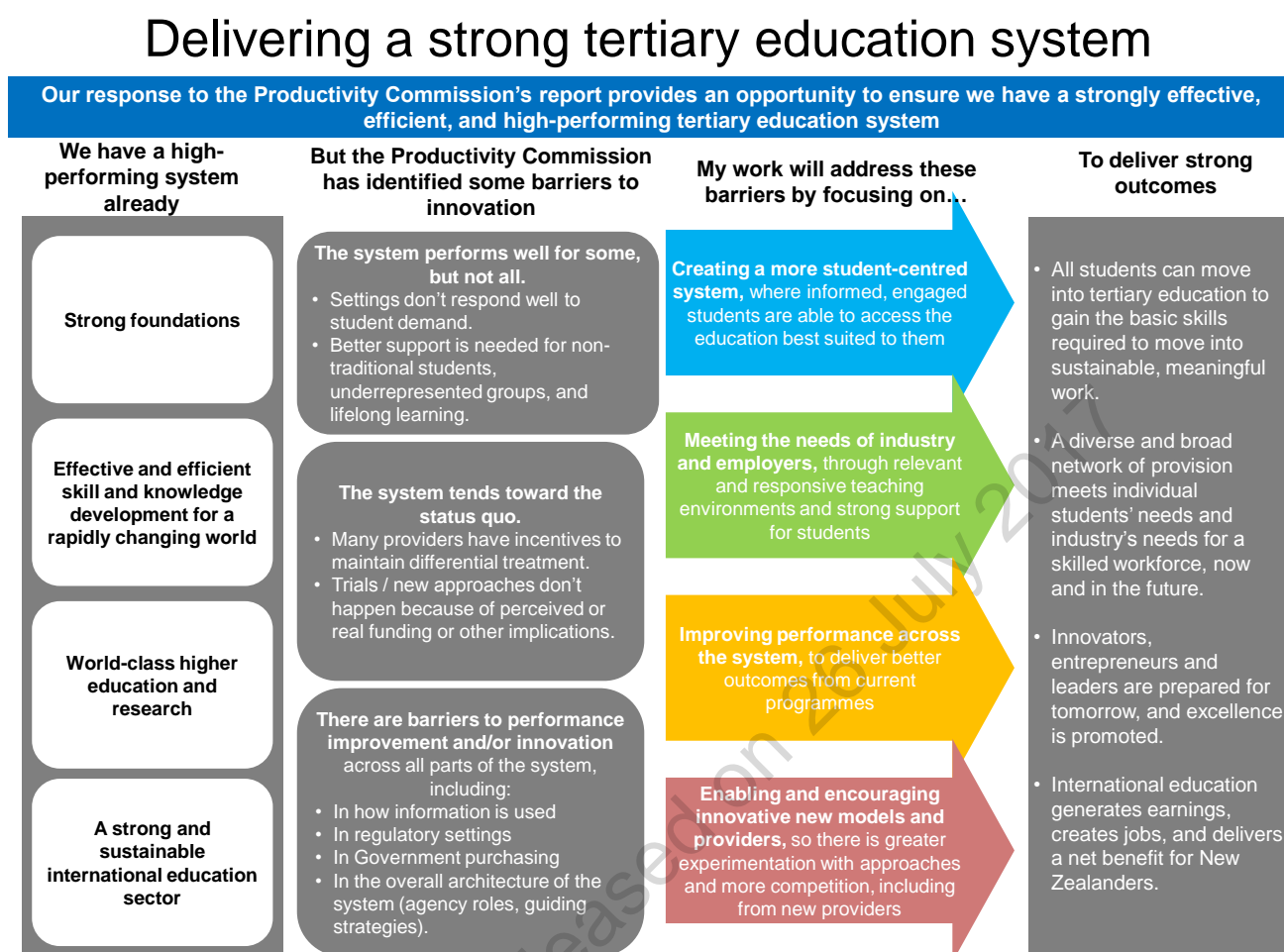
- 10 We asked the Productivity Commission to look for opportunities to increase innovation in our tertiary education system. The Commission's terms of reference reflected the need for tertiary education to keep pace with major trends: students' and employers' changing needs, technology and business models, and globalisation. The inquiry followed from sector-led initiatives and sector-wide discussions, including the Innovations in Tertiary Education Summit of 2014.
- 11 The Commission engaged widely with tertiary education, its users, employers, and international expertise. It received over 150 submissions on an issues paper in February 2016 and a draft report in September 2016.
- 12 The Commission's final report was tabled in Parliament and publicly released in March 2017. It describes a tightly constrained tertiary education system, with government settings limiting the extent to which innovation occurs and is taken up across the sector.

- 13 The key issues the Commission identified were:
- 13.1 The system performs well for some, but not all. Settings don't respond well to student demand, and don't sufficiently support participation of non-traditional students or underrepresented groups, or lifelong learning.
- 13.2 The system tends toward the status quo. There is limited innovation, partly as a result of government settings, including incentives, and partly as a result of provider capability and culture.
- 14 The report sets out a total of 49 recommendations, ranging from changes to student loan interest to revising quality assurance, funding, and regulatory settings. These recommendations are set out in Appendix 1 of the attached draft response document.
- 15 There is widespread support for the Commission's high-level description of the state of the sector. However, sector actors have different views about the potential solutions to the problems outlined, and a number are concerned about the strongly market-driven approach set out through the Commission's recommendations.
- 16 In addition, industry bodies advocated for greater industry involvement in tertiary education, in line with their interest in ensuring that the tertiary education system meets employer needs.
- 17 The Minister of Finance and I issued a joint press release welcoming the publication of the final report. In this press release we indicated our intention to carefully consider the recommendations over the coming months, and to keep an open mind on all recommendations with the exception of changes to student loan interest.

Comment

- 18 The Productivity Commission's inquiry, and this Government's response to it, represents a real and substantial opportunity to ensure that New Zealand's tertiary education system is high-quality, effective, efficient, and delivers good outcomes for New Zealanders.
- 19 I don't agree with everything in the report, or all of the Commission's recommendations. But I agree that change is needed to ensure New Zealand has the flexible, responsive, and innovative tertiary education it needs to position our country and our people well for the future. In making these changes, we need to safeguard the quality and distinctiveness of tertiary education in New Zealand, and our international reputation. But we cannot let our current achievements blind us to the work we still need to do.
- 20 As Government, we have wider interests in tertiary education than the Productivity Commission's focus on innovation. We want wide access; quality qualifications that support New Zealand's development, provide the skills and research our industry needs, and enable New Zealanders' skills and institutions to be recognised internationally; and protections for both student and taxpayer investment.
- 21 Our response to the Productivity Commission's report is an opportunity to signal our approach to tertiary education – as set out in Figure 1 below.

Figure 1: Work to deliver a strong tertiary education system



- 22 The Commission's recommendations provide a platform for the next step of our work to improve tertiary education. This means building on the past nine years' improvements in performance and efficiency, and the more recent focus on outward-facing and engaged tertiary education provision. The next step is to move to a more responsive tertiary education that meets the changing needs of students and their employers, and enables skill development throughout careers.
- 23 This will require change at multiple levels, including policy settings, government agencies' operational rules and practices, and the culture and business models of tertiary education organisations.

Building more innovative and responsive tertiary education

- 24 My vision is for a high-performing tertiary education system with four key areas of focus, which are mutually supporting, and interrelate and build off each other:
- 24.1 **Strong foundations:** We must support the 7,000 young people who leave school each year without formal qualifications, as well as the significant number of adult New Zealanders who still lack the essential foundation skills they need to learn and succeed in the modern economy. We have developed a range of programmes to support and inspire these New Zealanders. The challenge now is to look across what is provided to identify what works – and what doesn't – so

that we can move funding to the most effective programmes and target well to benefit those who most need help.

- 24.2 **Effective and efficient skill and knowledge development for a rapidly changing world:** Skill and knowledge development covers certificate- to degree-level provision, and includes work-based industry training as well as provider-based academic, professional or vocational study. It focuses on employment outcomes, and on enabling people to upskill or retrain mid-career, as well as those studying toward their first tertiary qualification (which means a flexible rather than one-size-fits-all approach to funding and delivery). It includes the non-cognitive skills valued in the workplace – for example, teamwork, communication, openness to experience and conscientiousness. The challenge is to introduce more flexibility and innovation into the system, while maintaining robust systems that ensure good outcomes from the very substantial public and private investment.
- 24.3 **World-class higher education and research:** Preparing the innovators, entrepreneurs and leaders for tomorrow, promoting excellence and extending our top achievers, and connecting research and teaching. This focus area also delivers pure and applied research and knowledge and skills transfer that contributes to higher productivity and provides solutions to many of the challenges we face. This area of focus occurs in high-performing parts of each of our higher education providers: while the university sector is core to this focus, other providers, including degree-level vocational or professional training providers, also contribute. The challenge is to build on New Zealand's world-class reputation in a world where the bar keeps lifting every year.
- 24.4 **A strong and sustainable international education sector:** As New Zealand's fourth largest export industry, international education generated \$4.5 billion in export earnings in 2016 and directly contributed to more than 33,000 jobs. International education can deliver net economic, cultural and social benefits to New Zealand – for example, through export education earnings, helping New Zealanders develop the cultural competencies needed for an increasingly mobile and connected world, and through building stronger international business and trade connections. The challenge is to allow for the sustainable growth of the industry by ensuring we have the right systems and settings in place across the sector.

- 25 I consider that the Productivity Commission's report most closely links to the second of these areas of focus: effective and efficient skill and knowledge development for a rapidly changing world. As such, most of the work that I am proposing to progress will be particularly directed at this outcome, although it will have benefits across the system.

How we can better support this innovative, responsive system

- 26 I appreciate the Commission's analysis and broadly agree with much of their diagnosis of issues in the tertiary education system. Delivering the outcomes, and greater innovation, needed across our tertiary education system will require some substantial changes.
- 27 Government needs to make its own judgements about what changes are needed. I do not consider that all of the 49 recommendations identified by the Commission should be adopted. To deliver the best outcomes, Government must instead seriously consider the

Commission's proposals in the light of feedback from the sector and industry, and Government's wider role in tertiary education.

- 28 I have considered the recommendations and identified four key areas of work to improve tertiary education in the coming years. These four areas of work build from the Commission's recommendations but reflect a broader perspective of what is needed to deliver my vision of a high-performing tertiary education system.
- 29 The four areas of work are:
- 29.1 **Creating a more student-centred system**, that improves student outcomes through information, broad access, and flexible settings that support participation and achievement. Particular areas of focus will be to better support student mobility, and to ensure we have the right mix of qualifications and learning options for all students and over a lifetime – including faster and more cost-effective learning options than existing qualifications for those who want them.
 - 29.2 **Meeting the needs of industry and employers through relevant, responsive and supportive learning environments**, including how to support providers to lift teaching quality, improve their support for students, and respond to demand. This work will look into the role and purpose of research-led teaching, incentives to support responsive, high-quality teaching, and the role of employers in tertiary education delivery. For example, new initiatives to support teaching excellence are underway in the United Kingdom and Australia, and we will keep track of developments as we progress this work.
 - 29.3 **Improving performance across the system**, to support better outcomes from the current programmes delivered across the sector. This will take the tertiary sector's ongoing focus on performance improvement further, to identify potential changes to settings that can drive good behaviour and reduce distortions or barriers to improvement. This will be important to drive robust outcomes both domestically and across the international education sector.
 - 29.4 **Enabling and encouraging innovative new models and providers**, so that there is greater experimentation with new models of delivery, and to make it easier for new approaches and/or providers to enter the tertiary education system and compete with incumbents.
- 30 My plan for work in these areas is outlined in the attached Government response document. The new work program particularly focuses on how changes to the tertiary education system can support efficient and effective skill development. However, I expect that improvements will, over time, lift the overall performance of the system in all areas – as illustrated in Figure 1 above.
- 31 This work programme will operate alongside existing priorities already being progressed through the Tertiary Education, Skills and Employment portfolio. For example, I am strongly focused on improving transition pathways from school to tertiary, including for those who have disengaged from education. Government also has ongoing priorities in relation to improving information for students.
- 32 Taken together, the work I plan to progress across the portfolio represents a relentless and ongoing focus on improving the flexibility, responsiveness, innovation, and overall performance of the tertiary education system. The scale of the work is substantial, and to

manage it well I will need to make some important decisions about staging and prioritisation across the work programme as it progresses.

A Government response to the Commission's report

- 33 I propose to use my work programme to frame the Government's response to the Commission's report. This enables Government to deliver a response that sets out our vision for tertiary education, now and in the future, while also providing certainty to the sector in relation to which recommendations we intend to progress further.
- 34 A draft government response document is attached. This document sets out my key areas of work to improve tertiary education in the coming years and relates these to the Commission's recommendations. It identifies:
- 34.1 **Actions already underway:** The Government is already working in areas that will respond to the issues identified by the Commission (for example, work on improving information for students). There are opportunities to step up or push forward with this work to get greater impact.
 - 34.2 **What we are doing next:** The new work we are expecting to be delivered over the next 12 months to respond to some of the issues identified (for example, looking into how to introduce a "safe harbour" from performance measurement to enable providers to run experimental courses).
 - 34.3 **What we will be focusing on in coming months / years:** The issues we agree require further consideration, but where a solution or implementation will take time to work through (for example, more effective dispute resolution mechanisms for students and thinking about more flexible processes for quality assurance and provider accreditation).
 - 34.4 **What recommendations we will not be progressing:** This will largely include work where the priority may be lower or the potential impact of changes is unclear, and those areas where we disagree with the Commission's recommendation (for example, introducing interest or Consumer Price Index-based adjustment to student loan balances).
- 35 The Commission's inquiry was focused on how the tertiary education system could better support new models of tertiary education. My proposed work programme seeks to address the broader issues and drivers facing the tertiary education system. This means that the work I have proposed:
- 35.1 has a stronger focus on the connections between employers, industry, and providers, reflecting the importance of industry and its role in setting the expectations for what tertiary education does and should deliver
 - 35.2 goes further into the changes needed to support strong transitions between school and tertiary education, including through work to identify which of our range of interventions are most effective, and to target funding effectively in line with these findings

- 35.3 is mindful of recent challenges to the quality and reputation of New Zealand tertiary education, and focuses on ensuring students can be confident in the quality of their educational investment
- 35.4 increases the net benefit of international education for New Zealand through supporting the sector to develop innovative products and services that capture new trends and opportunities for delivery.
- 36 I have chosen to respond to the Commission's report in this way because addressing the breadth of the recommendations will require ongoing effort across government. The Commission has provided a 'menu of options', not a system prescription. While some decisions can be made now, others will require substantial further thought, and engagement with the sector.
- 37 As the Productivity Commission acknowledged in its report, in complex adaptive systems such as the tertiary education system, change is difficult and interventions risk generating unforeseen effects. Government's work in response to the Commission's report therefore needs to be carefully prioritised and sequenced to maximise its impact, ensure opportunities for input and ownership by sector stakeholders, and manage risks and potential unintended consequences.
- 38 I have focused on providing an early, and more open, response document than is generally delivered in response to the Productivity Commission's reports. This will give the sector a greater opportunity to engage with the work and Government's thinking about the recommendations before final decisions are made. This includes through the consultation process for a new Tertiary Education Strategy.

I will reflect the work through a new Tertiary Education Strategy

- 39 The Productivity Commission recommended substantial changes to the shape and nature of the Tertiary Education Strategy (TES) so that the next TES can be a clearer, more directive document. Under the Education Act 1989, the Minister responsible for tertiary education must, from time to time, issue a TES to set out the Government's long-term strategic direction and current and medium-term priorities for tertiary education.
- 40 The current TES is due to expire in 2019. I want a new TES to reflect the broader changes needed across the system, and to support improved outcomes through its design and shape.
- 41 I will develop a new TES in 2018. This will give me the opportunity to ensure that the new TES reflects the policy directions reached from my planned work programme – and incorporates sector feedback on these directions into its shape and positioning. I would expect the new TES to be in place by late 2018, to inform the Tertiary Education Commission's guidance to tertiary education organisations in relation to their 2019 investment planning round.

Consultation

- 42 To reflect agencies' shared interests and complementary roles in the education and skills space, the Ministry of Education and the Ministry of Business, Innovation and Employment are jointly leading work across government to develop the response to the Productivity Commission report, including to support the development of this advice. They are coordinating with partner agencies including the Tertiary Education

Commission, the New Zealand Qualifications Authority, Education New Zealand, and the Treasury.

43 The Ministry of Social Development, the Ministry for Women, Te Puni Kokiri, the Ministry for Pacific Peoples, the State Services Commission, the Department of Internal Affairs, and Inland Revenue were consulted on this paper. The Department of Prime Minister and Cabinet was informed.

44 I propose to engage with representatives from the tertiary education sector as I progress my programme of work for tertiary education.

Financial Implications

45 There are no direct financial implications from this paper. However, initiatives to increase flexibility and space for innovation may increase costs. These costs will be considered before any proposed initiatives are approved.

Human Rights

46 There are no human rights implications from this paper.

Legislative Implications

47 There are no immediate legislative implications from this paper. Any potential legislative changes to deliver reform to the tertiary education sector would be signalled independently as a result of the work proposed through this paper.

Gender Implications

48 There are no gender implications from this paper.

Disability Perspective

49 This paper will not adversely impact on people with disabilities. There is potential for work to improve the responsiveness of tertiary education and how it meets the needs of students to improve outcomes for people with disabilities in the future.

Publicity

50 I propose to announce the release of the Government's response to the Productivity Commission's report through a speech and press release later this month. The full response document will be made available electronically through the websites of the Treasury, the Ministry of Education and the Ministry of Business, Innovation and Employment.

Recommendations

The Minister for Tertiary Education, Skills and Employment recommends that the Committee:

1 note his proposed plan for work to improve tertiary education in four key areas:

1.1 creating a more student-centred system

- 1.2 meeting the needs of industry and employers through relevant, responsive, and supportive teaching environments
 - 1.3 improving performance across the system
 - 1.4 enabling and encouraging innovative new models and providers
- 2 agree that the Minister for Tertiary Education, Skills and Employment will issue a Government response to the Productivity Commission's inquiry into *New models of tertiary education* in July
- 3 agree that the Government response will be a high-level response that sets out the broad areas of agreement and disagreement, and signals the further work that Government will undertake in coming years to strengthen the tertiary education system, in line with the draft response document attached.

Authorised for lodgement

Hon Paul Goldsmith

Minister for Tertiary Education, Skills and Employment