

Overview

The Government has asked the Productivity Commission to carry out an inquiry into “new models of tertiary education”. The inquiry takes a whole-of-system perspective, considering how trends – especially in technology, tuition costs, skill demand, demography and internationalisation – may drive changes in business models and delivery models in the tertiary sector.

The terms of reference for the inquiry suggest that the tertiary education system has “considerable inertia”, with tertiary providers reluctant to be first movers or early adopters in shifting away from traditional models. At the outset of the inquiry, the Commission was mindful of the importance of this alleged problem. If providers in the tertiary education system are inflexible and slow to adapt to changing circumstances, then that carries with it considerable risks for New Zealand and missed opportunities for improvement. As this Overview explains, tertiary education does have considerable inertia, but this is an emergent property of the system rather than a characteristic of tertiary education providers.

New Zealand’s tertiary education system

Why does tertiary education matter?

Tertiary education improves the lives of students, and improves society. For students, education develops knowledge and skills that allow them to live an enriched life. It helps people to understand and navigate the world around them, as well as question and challenge the way things are. It creates access to opportunities, forges identity and culture, and frequently leads to lifelong benefits in terms of health, wealth, life satisfaction and civic participation.

There are public benefits too: a stronger civic society, the advancement of knowledge, the preservation of cultural heritage, and the development of a skilled workforce that can contribute to productivity and wellbeing.

Tertiary education is not an ordinary consumer good. It typically combines a number of separate services like teaching, assessment, and pastoral care. It can be difficult for a student to fully assess the quality of education provided, even after it has been delivered. Most importantly, a successful tertiary education requires considerable effort on the part of both students and teachers. In this sense, an education is “co-produced”. This has important implications for how the Commission has thought about the issues in tertiary education.

The current state of the tertiary education system

New Zealand’s tertiary education system has changed dramatically over the last 30 years. The system accommodated growing numbers of students through the last decades of the 20th century. The proportion of the adult population with formal post-school qualifications, and higher-level qualifications, has grown over time. Each New Zealand university is ranked in the top 3% in the world, vocational and industry training are well-regarded internationally, wānanga serve many people who would otherwise miss out on tertiary education, and the country has a diverse set of private training establishments, many of which are well-connected to employers and their local communities.

This inquiry considers how well-placed these providers are to continue to deliver successfully for New Zealand, given the risks and opportunities presented from ongoing changes in technology, demography, costs, internationalisation, and student and employer demand.

A good tertiary education system is one that meets the needs of all students, including those from diverse backgrounds and with diverse goals. This includes school leavers preparing for their adult lives and careers, young people needing a second chance after disengaging from education, older adults retraining to meet the needs of a changing labour market, and people of all ages who want to become more educated in areas of interest to them.

The Commission finds that the tertiary education system is not well-placed to respond to uncertain future trends and the demands of more diverse learners. The system is not good at trying and adopting new ways of delivering education, and does not have the features that will allow it to respond flexibly to the changing needs of New Zealand and New Zealanders. The system does a good job of supporting and protecting *providers* that are considered important, but it is not *student-centred*. Nor does it reach out, as much as it could, to extend the benefits of education to groups that have traditionally missed out on tertiary education.

This is largely due to the high degree of central control that stifles the ability of providers to innovate. Nobody set out to design a tertiary education system characterised by inertia. But over time central government has responded to fiscal pressure, political risks, and quality concerns by layering increasingly prescriptive funding rules and regulatory requirements on providers. These have the cumulative effect of tying the system down. As one submitter noted:

The New Zealand system is not innovative. The Government agencies are risk-averse and the funding systems penalise failure (which is needed sometimes for innovation) ... “the Government only controls the number of students, the amount of funding available, the level of fees and what you can teach. Everything else is up to you.” (Independent Tertiary Institutions, sub. 81, p. 20)

This report outlines a number of recommendations that would improve the tertiary education system’s ability to respond flexibly to future pressures or opportunities. Providers need more freedom, and incentives, to try new things. They should have greater autonomy and responsibility. Students can be more powerful in driving quality and innovation within the system.

But these recommendations can only go so far in addressing the major structural deficiencies identified in this report. The current system is set up to be too supply-driven, with providers more responsive to government than to students. This report presents an option to re-orient the system so that students are at the centre, recognising the importance of co-production between students and teachers in the successful delivery of education. The current tertiary funding system subsidises both providers and students through various means. The Commission is seeking feedback on a proposal to shift more of that subsidy towards students. Such a system would better match the diverse learning needs of students with new and innovative delivery models, and reduce inequities inherent in the current subsidy arrangements.

Where is the system innovative? What are the possibilities?

Teachers and providers innovate – but core business models have persisted

The Commission finds that, across the tertiary system, many teachers and groups of teachers are innovating, including integrating new technology into their teaching practice. Passionate professionals are trying new things. But there is a lack of system dynamism necessary for these approaches to scale up and transform education delivery.

Innovation is also happening at the provider level, but usually this delivers incremental improvements to existing ways of doing things. Providers refresh their course offerings, upgrade their Learning Management Systems, offer WiFi and invest in more flexible learning spaces. Examples of New Zealand tertiary providers with significantly new and different models of tertiary education are rare. Where they occur, they usually arise because:

- the government responds to a proposed model and specifically enables it, in the case of secondary-tertiary partnerships or the recognition of wānanga;
- there is dedicated government funding for a programme, for example the University of Otago’s Māori Health Workforce Development Unit, Massey University’s Te Rau Pauwai programme³, and ICT graduate schools;
- the model is outside the government-funded system, as in the case of the Enspiral Dev Academy.

³ The Otago and Massey initiatives are funded from Vote Health.

The Commission has seen examples in other countries of innovations that, rather than being incorporated into existing business models at the margins, have significantly reshaped how providers plan and undertake the delivery of education to students:

- providers striking out to deliver tertiary education online and through blended models that combine online and face-to-face delivery/provision to previously unserved groups of students;
- cutting-edge approaches to using administrative and other data to tailor learning support to individuals;
- the close integration of work and learning not just for vocational education, but also higher education; and
- “all you can eat” models of education where students pay by subscription and sit as many credits as they wish.

None of these models would supplant existing delivery models in New Zealand. But a well-functioning tertiary education system would offer more diversity and specialisation on the part of providers, and students would be able to choose from models like these alongside more traditional options.

Better matching is possible via new models

New models of tertiary education present an opportunity to increase the diversity of delivery approaches, educational methods and learning environments available to students. In turn, this increases the opportunities for individual students to find a match that suits their needs and aspirations.

Insights from the science of learning – combined with advances in information technology and alternative models of course design, implementation and evaluation – show how tertiary education can adapt to better match the needs of an increasingly diverse range of students. For example, some tertiary education providers are using their administrative data in a rich new way; “flipping” classrooms; embracing project-based learning; and finding new approaches to engaging students.

Different educational approaches and environments have different costs and benefits for different kinds of student. No single approach works best for everyone. Greater diversity and specialisation would promote excellence in tertiary education at the top end, as well as models that serve the needs of learners who require more support.

New models would also help the education system adapt to a changing society and world of work. For example, models at all levels of study that allowed students to combine education and work would improve the ability of the education system to meet the needs of employers. A wider range of models could help ensure the technical curriculum meets employers’ requirements, as well as encourage the development of transferable skills such as communication and teamwork.

Inertia is an emergent property of the system

The Commission finds considerable inertia in New Zealand tertiary education, but this is an emergent property of the system rather than an inherent feature of providers. In other words, this inertia is a product of the regulatory and funding system within which the providers operate. Though higher-ranked universities have a strong attachment to traditional ways of delivering education, many providers (across all subsectors) show an appetite for doing things differently. While the system serves some students well, it could be further improved by more innovation. In many respects, the system stymies or prohibits innovations, punishes risk-takers, and reinforces existing practices.

Government control is pervasive

The tertiary education system is controlled by a series of prescriptive regulatory and funding rules that dictate the nature, price, quality, volume and location of much delivery. These controls have extended over time as a result of various financial, quality and political risks. Together they constrain the ability of providers to innovate, drive homogeneity in provision, and limit the flexibility and responsiveness of the system as a whole.

Tuition subsidies allocated to tertiary providers come with tight specifications on the nature and volume of delivery, and these limit the ability of providers to develop new or innovative offerings. Government purchases a limited range of products: in most cases it will only subsidise study towards a full qualification, and the equivalent full-time student (EFTS) funding mechanism⁴ bundles teaching, assessment, credentialing and often pastoral care. Government also regulates the fees that providers can charge.

The total number of domestic student places in the tertiary system is capped, and the proportion of total government funding that shifts between providers year to year is very small. This means that high-performing providers have little scope to grow at the expense of poor performers.

Quality assurance in the tertiary system inhibits innovation. In the university subsector quality assurance is delegated to Universities New Zealand through its Academic Quality Agency and its Committee on University Academic Programmes (CUAP). These arrangements are characterised by slow timeframes for the approval of new degrees, and the focus is primarily on processes rather than student outcomes. The costly and protracted nature of NZQA's regulatory processes is also a barrier to innovation in the system. The system appropriately seeks to ensure minimum standards are met, but overall the system lacks a mechanism for rewarding quality or responsiveness to students.

Armstrong notes that in education, ideas of quality come to be defined by existing practice:

When an organization has been successful for a considerable length of time, the people in that organization come to believe that their value proposition defines quality in their field, and that the resources and processes used are necessary for the production of that quality... That is, the status quo of the entire business model comes to exemplify quality. (2014, p. 4)

So quality assurance processes can reinforce existing practices, rather than supporting new ones. Equating traditional models of delivery with quality also reinforces cultural resistance to change within providers.

Regulation does the opposite of what it does in other sectors

In most parts of the economy, government has an important role to play in controlling market power, limiting monopolistic behaviour, and preventing cartels. The reason for such regulation is to protect the public by facilitating new entrants, lowering prices, improving quality, and encouraging innovations to better serve existing and prospective customers.

In tertiary education, government regulates with the opposite effect: government regulations bestow market power, grant local monopolies, and require cartel structures. The results should not be surprising: significant barriers to new entrants, rising costs, and a lack of innovation in serving current or prospective students.

The result is the delivery of more “traditional” tertiary education

In recent years, students in New Zealand have become more likely to be engaged in a traditional conception of tertiary education. The average student is becoming younger and is more likely to be a school leaver. The share of full-year, full-time study is increasing. The share of intramural (on campus) study is also increasing. This is the result of:

- government steering via the Tertiary Education Strategy, which for some time prioritised delivering education to these groups;
- the focus of the performance management regime on completions, which tend to be higher through full-year, full-time, intramural study; and
- the rationing of access to education through the allocation of EFTS, which means that many providers can fill their quota by continuing their existing modes of delivery, and which offers no incentive for providers to try something new to reach unserved students.

⁴ An EFTS is the main unit purchased by the Tertiary Education Commission and delivered by tertiary providers via Investment Plans. It is defined by inputs, and commodifies the complex, co-produced good of tertiary education into a simple product that is purchased and supplied in a “market for EFTS”. A similar unit exists in industry training (the Standard Training Measure or STM) with similar problems.

A system that is educating fewer students over time...

Participation in tertiary education exploded in the 1980s and 1990s. Uncapped, the system expanded to serve the significant growing or latent demand for tertiary education, including from groups that had historically poor levels of participation. Significant quality problems occurred along the way, and the system was recapped in stages between 2003 and 2006.

In recent years government has funded fewer EFTS, particularly at lower levels of study, and students have been studying more intensively. As a result, participation rates in tertiary education have been steadily falling over the last decade, with more than 20% fewer domestic enrolments in provider-based tertiary education in 2015 than in 2005. Even so, the proportion of adults with higher-level qualifications is greater in New Zealand than in many other OECD countries – partly because of skilled migrants.

...and continues to serve some population groups poorly

Māori and Pasifika students have higher rates of participation in tertiary education than Pākehā overall, but this is exclusively because of their higher rates of participation in study at subdegree level. Even allowing for prior achievement at school, Māori students have lower rates of participation in study at degree level; and while Pasifika students with University Entrance are as likely to enter study at degree level as their Pākehā peers, they are much less likely to complete a degree.

Tertiary education subsidies are inequitable

Prior school achievement is the biggest predictor of a student's participation and success in tertiary education. And the tertiary education system amplifies the outcomes of the schooling system. This is because the government subsidy pays providers to deliver to students who are *in tertiary education*. The longer the course, the bigger the subsidy. This subsidy is increased by the interest-free student loan settings. Yet tertiary students, especially those with degrees that take longer, are likely to earn higher incomes because of their education.

Students are disempowered

The funding and regulation settings mean that students are presented with a relatively homogenous range of providers and offerings, with the exception of specialist courses like medicine. Students who can afford to may choose to study overseas, and this may be a growing trend. Most public providers serve regional markets delivering a wide range of programmes through a narrow range of delivery methods to a similar level of quality.

Providers often impose high switching costs on students and have incentives to do so. Students may change their mind about a field of study or provider, or want to change the qualification level they are studying towards. A student may be unhappy with the quality or type of education they are receiving or may just realise they have made a mistake. But the system does not support students to change their path or to have their credit or prior learning recognised. The way the government measures and rewards provider performance means providers have little incentive to help students change their course of study. In some cases a student transfer should be considered a success.

The tertiary education sector is exposed to uncertain trends

The economy and society of New Zealand have changed significantly, and some aspects of the tertiary education system have changed with them. People are making different study choices in response to increasing labour specialisation, the development of the service economy, and skills-biased technological change. The result is that an increasing number of New Zealanders are tertiary qualified in an increasing range of fields.

The demands on the tertiary education system will continue to change. Many people predict that ongoing technological change will reshape the economy, and require people to upskill and retrain more often. Yet many tertiary providers in New Zealand do not consider that technology will significantly change their core operating models in the future.

Past predictions about the future of tertiary education delivery have frequently proved incorrect. Massive open online courses (MOOCs) may never live up to their 2012 hype. But blended e-learning approaches and wholly online offerings are increasingly common in other countries, including from some of the world's highest-ranked tertiary education providers.

Change is inevitable, but predicting how future trends will influence tertiary education is hard. Under current settings, the system has little or no ability to respond spontaneously to such change. It falls to the government to accurately predict these trends so that it can adjust its purchasing correctly and ensure its rigid regulatory controls are appropriate for changing times. It is unlikely to be able to do either effectively.

A better approach would be to allow providers to pursue different strategies, differentiate themselves, and adopt a wider range of new models. This would make the system more flexible, responsive, and resilient in the face of external shocks.

Providers respond to government, not students

Co-production works best when (among other things) providers and consumers have shared objectives, and shared expectations of what is required of each of them in the co-production process. In a student-centred system, providers would be responsive to the needs and aspirations of students.

Under the current tertiary education system, government allocates subsidies to providers who then allocate places to students. This system requires students to understand and meet the needs of providers (rather than the other way around), and means that providers are responsive to government (rather than to students).

The cost of education to government, and in particular the significant uncontrolled costs that arise via the interest-free student loan scheme, has had the unintended consequence of creating a strong incentive to constrain the supply of tertiary education. Government's allocation of quotas to providers, and the way it measures and rewards performance through Performance-Linked Funding, give providers an incentive to cherry-pick the best students. These policies also weaken the incentives of providers to help students to become high achievers (rather than just pass courses).

Many submitters thought that New Zealanders will increasingly require mid-career retraining. The current system presents multiple barriers to this, including:

- funding and regulatory settings that encourage providers to focus on younger, full-time learners completing full qualifications;
- the design of the student support system; and
- rules that make recognition of prior learning difficult and costly to individuals.

Recommendations to get the regulatory balance right

Quality assurance needs to ensure minimum levels of acceptable quality, without choking innovations that might help providers serve students better. In some areas the regulatory porridge is too hot; in others it is too cold. The current system relies heavily on ex ante control of qualifications and courses, and lacks effective ex post monitoring of student outcomes. Better information on provider performance would come from measuring and reporting on the difference that providers make for students, taking into account the different initial skills and resources that students bring to their education – the “value-add” of providers for the diversity of students they work with.

Disruptive innovations that combine technology with new ways of delivering value are more likely to come from new entrants than established organisations. New entrants often begin by radically expanding the market for a product or service, and are frequently subject to criticism as offering an inferior product. But the beneficiaries are often people who were previously not accessing the product or service at all.

A more diverse system with new models of tertiary education requires a quality control regime that ensures that providers meet minimum quality standards, without the input controls that would only serve to reinforce existing models. Better ex post monitoring of service quality and student outcomes will be needed.

Competent institutions should self-accredit

The collective accreditation of programmes of study, through processes like CUAP, stifles innovation. It tends to define quality in terms of existing practices. It also gives providers veto power over each other's offerings, and the delay involved denies providers any market advantage from offering something new and distinctive.

In many other countries, including Australia, universities are individually accountable for the quality of their own programmes. Competent providers in New Zealand should be given self-accrediting status. Self-accrediting status should be open to providers (from any subsector) that demonstrate the capability to effectively manage their own quality assurance processes. NZQA should also simplify and speed up its programme approval processes for providers that do not have self-accrediting status.

Break open the EFTS

The EFTS model of subsidising tertiary education is a significant challenge to innovative learning models, and in particular online models, because the EFTS model entails measures of "learning hours" that can only be assured when everyone progresses through learning at the same pace. The EFTS is a barrier to education models that accelerate the delivery of learning, or that separate teaching, assessment and credentialing. The Government should alter the definition of an EFTS to allow alternatives to the input-based "learning hour" as a basis of calculation. Creating standardised units of learning to replace actual measures of delivery time would open up innovations that accelerate learning.

Allow the unbundling of research and teaching

The Education Act 1989 requires that research and teaching are closely inter-dependent at universities, and that degrees (delivered by any type of provider) are taught mainly by people engaged in teaching and research. Many good universities and good degrees from Australia, the United Kingdom and the United States would not meet this requirement. For example, Australia's top university for "skills development" and second for "overall quality of educational experience" is only research active in 5 of the 22 fields of study offered.

Some of the more innovative models of tertiary education delivery in other countries involve greater specialisation in teaching. These would not currently be possible in New Zealand. The legislative requirements to bundle teaching and research should be relaxed.

Many academics believe that there are strong complementarities between teaching and research, but the empirical evidence shows that this relationship is weak. Some universities believe that the bundling of research and teaching is value-creating, and that students want this. If this is so, then these providers will sensibly continue to operate in this way without a legislative requirement to do so. But other providers may disagree and pursue other approaches, and this will provide a wider range of choices for students.

Performance-Linked Funding should be discontinued

The Performance-Linked Funding scheme was designed to encourage providers to reach an "acceptable standard of educational performance". But Performance-Linked Funding provides weak incentives for good performance and an insufficient sanction for below-threshold performance. Providers that fail to meet an acceptable standard of performance should lose their licence to operate. Performance-Linked Funding should be discontinued.

Tertiary education institutions should have more autonomy and responsibility

One reason government maintains tight control over tertiary education institutions (TEIs) – public tertiary providers – is because government bears legal liability for their debts in the event of failure. So government has a reason to closely monitor the financial performance of TEIs, and, fearing the worst, it keeps close

control over how TEIs use and dispose of assets. This control inhibits the kind of innovation that might radically change a TEI's business model.

A TEI is required to produce a small surplus, but it also has an incentive to spend what it earns. If its surplus is too big, the TEI will find it hard to seek higher funding levels from the government. So it can have an incentive to accumulate assets like buildings, which can lock in particular models of delivering education and prevent capital being invested in new models.

Financially competent TEIs should own and control their assets and be liable for their debts.⁵ The exemption from paying local government rates should be removed. These recommendations provide TEIs with the capability and incentive to direct capital investments towards new models of education.

Allow new entrants

The government should reduce the barriers to new providers entering the market. Universities New Zealand submitted that there are three main threats to the New Zealand university system over the next 10 years.

- Providers offering internationally recognised brand degrees in New Zealand (likely) – A multi-campus/multi-channel university with an internationally recognised and valued name (like Harvard or MIT) sets up a campus in New Zealand and starts offering its programmes and qualifications in New Zealand. The learning experience and graduate quality is at the same level as that of those who graduate from the parent institution...
- An aggregator sets up shop in New Zealand (possible) – The aggregation model is that currently being explored by the main MOOCs providers. Under this model, the aggregator bundles up courses offered by other typically highly respected brand name providers, and limits its role to running assessment centres and awarding qualifications...
- A successful transformation model actually emerges (possible, but not in the near future) – A model emerges that satisfies the requirements of (a) conferring education and degrees that are credible to students and employers, (b) does not require the sunk capital infrastructure of the campus environment, and (c) does not require extensive subsidising. This model does not currently exist (other than the aggregator model listed above). (sub. 17, pp. 84–85)

While these may be threats to the market share of incumbent universities, the successful introduction of these models into the New Zealand tertiary education system could be a boon for students. It could offer students greater choice and access to new programmes and modes of delivery. The Ministry of Education should systematically identify and remove regulatory barriers to new entrants of suitable quality in the tertiary education system. A polytechnic should not need the Tertiary Education Commission's approval to operate outside its region.

Promote student access and mobility

Students should be able to mix and match courses from different providers more easily. Students should have clearer information from providers about how their learning will be recognised when they transfer between qualifications or providers. Because providers have all the power in credit transfer decisions, students should have a Student Ombudsman to stand behind them if necessary.

The Student Loan Scheme conflates a subsidy to tertiary education, with an income contingent loan designed to promote access. Around \$600 million of debt is written off by the government each year: about half is attributable to the lack of interest cost; the remainder is various forms of non-repayment or default. There are many places in the education system where this money could be better spent. At present, this cost discourages government from taking steps that would increase access to tertiary education. Government should charge interest on future loans at a rate that covers the cost of the Student Loan Scheme. This will provide flexibility necessary to expand access to tertiary education.

⁵ The arrangements for assessing the financial competence of TEIs are under review, but the government collects sufficient information to make such assessments.

Better prepare students

Concerns about how students transition into tertiary education are widespread, as are concerns about how well the compulsory education system prepares students for further learning and to take decisions about future study. Prospective students, inadequately prepared, are presented with a confusing array of official and unofficial information sources about what they should and could study.

The arrangement and delivery of career services in schools, and government provision of information to prospective tertiary students, is fragmented and does not prepare young people to make career and study decisions. The government should review the arrangements for career education in schools, to create a system that focuses on building career skills in young people rather than giving them information. It should also rationalise official sources of career and study information.

Government publishes a variety of information about the outcomes of the tertiary education system. It is improving this information so that students can make better judgements about individual providers and courses. But the outcome measures most often used by government – course and qualification completion rates, and graduate salaries and employment rates – are not reliably good indicators of a provider's performance in educating students, because they do not measure value-add.

The University Entrance standard is also an unhelpful signal. University Entrance does not reliably signify preparedness for higher-level study. It also implies that a young person who achieves University Entrance is best off attending a university, when this may not be the case. Some universities set higher standards, while others would like to enrol students that do not have University Entrance. University Entrance should be abolished.

Empower students

The changes described above would contribute to a more flexible and responsive tertiary education system. But the more fundamental causes of system inertia, and the barriers to a system that is truly fit for purpose in a fast-changing society and economy, are baked into the architecture of the system by the central allocation of places by government to providers. For example, regulatory barriers to new entrants can be lowered, but a new provider's ability to operate is substantially constrained without an allocation of EFTS from the government.

Neither the government's investment in tertiary education nor the collective investment of students flow to providers that are better at teaching, or are more innovative, or offer what students want. Existing providers – especially TEIs – can rely with reasonable safety on being reallocated a similar volume of EFTS year after year, as long as their performance does not fall below minimum standards. Providers who can meet their quota by attracting younger, full-time students to on-campus study have clear incentives to do so, because this traditional model is well-supported by the funding policy. Such providers have few or no incentives to innovate to meet latent demand. More significant reform of this model is required.

The current system is insufficiently responsive to students. Student access to tertiary education is centrally controlled, and choice is constrained. Government prescription, rather than student demand, is the main driver of what providers offer. The system makes it hard for students to package up learning from different providers, or switch providers or programmes of learning, because the funding and regulatory models do not take account of their preferences and aspirations.

The underlying themes of the tertiary funding system – that it favours the largest number of fulltime students enrolled for the longest period and by individual institutions; and that it is long on penalties for failure and short on incentives for collaboration or for thoughtful risk-taking – are both potentially inimical to what the ITP [institutes of technology and polytechnics] sector sees as appropriate responses to the changing global economy. (NZITP & Metro Group, sub. 42, p. 2)

Further, the dynamics in the system mean government will face pressure over time to re-tighten controls. The political economy leads towards over-specification and over-regulation, and constrains innovation.

The Commission is interested in the views of submitters on the merits of a Student Education Account. If the roughly \$2.8 billion that government spent on tertiary tuition and training in 2014/15 was instead distributed

to every resident who turned 16 that year, a young person could have access to \$45 000 to be spent on qualifying courses of study that they and their advisors judge are best suited to their future.

This would comfortably cover three years of study at a polytechnic (with around \$8 000 left over), or a three-year university degree in many fields of study. With an individual Student Education Account a student could also choose the timing of their investment, studying when they left school or later in life.

This option would transform our education system from one where providers are responsive to government, to one where they were responsive to the needs of students. A Student Education Account would improve access to education, rebalancing the current regressive funding arrangements and providing more options to those currently missing out. It would drive a system that was significantly more innovative: providers would be free to develop and offer just about any model that they think students will value, subject always to meeting minimum quality standards. This, in conjunction with the recommendation to allow providers to become self-accrediting, would greatly increase the chances of genuine innovation, and of the system adapting quickly to changes in student and employer demand.

A Student Education Account would require careful design. In particular, the transition from the existing funding system to one based on Student Education Accounts would be complex. This report elaborates on the concept. The Commission is not yet in a position to recommend such a change, but the report asks questions about the merits of this proposal.

A complete list of findings, recommendations and questions are in the draft report.

A more resilient system

What has served New Zealand well in the past is unlikely to meet future needs, given the significant influences and changes facing the tertiary education system. The future opportunities and threats in tertiary education are unpredictable. The tightly constrained system creates risks for students, government and society because it relies on government anticipating and responding to rapidly emerging, and potentially disruptive, trends.

The regulatory and funding arrangements for tertiary education are focused on protecting the interests of providers, rather than delivering effective outcomes for students or people outside the system who would benefit from a tertiary education. This situation needs to change.

Government should allow providers to innovate and pursue different strategies, with different delivery models, serving different groups of students. This would sustain and promote excellence in tertiary education, while ensuring the system as a whole serves a wider range of learners. Having a range of models for delivering tertiary education would greatly increase the system's flexibility and responsiveness to deliver the sort of education that New Zealand, and its students, need now and in the future.