

Submission

by

Business|NZ

to the

**Honourable Steve Maharey, Associate
Minister of Education (Tertiary)**

on

Shaping the Funding Framework
(Fourth Report of the Tertiary Education Advisory Commission)

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Shaping the Funding Framework

1. Introduction

- 1.1. This submission is made on behalf of Business New Zealand, incorporating regional employers' and manufacturers' organisations. The regional organisations consist of the Employers' and Manufacturers' Association (Northern), the Employers' and Manufacturers' Association (Central), Canterbury Manufacturers' Association, Canterbury Employers Chambers of Commerce, and the Otago-Southland Employers' Association. Business New Zealand represents business and employer interests in all matters affecting the business and employment sectors.
- 1.2. One of Business New Zealand's key goals is to see the implementation of policies that would see New Zealand retain a first world national income and to regain a place in the top ten of the OECD in per capita GDP terms. This is a goal that is shared by the Government. It is widely acknowledged that consistent, sustainable growth in real GDP per capita of well in excess of 4% per annum (and probably closer to 7-8%) would be required to achieve this goal. Continued growth of around 2% (our long-run average) would only continue New Zealand's relative decline.
- 1.3. The effective use of the \$1.5 billion dollars expended on post-compulsory education and training is a critical part of achieving these objectives. Achieving consistently high growth rates will require significant improvements in productivity. Improving the skill levels of the existing workforce, and those entering it, is likely to be the most critical factor in this. This submission is made in this light.

2. Summary of recommendations

2.1. Business New Zealand recommends that:

- a) The allocation of resources in post-compulsory education and training be guided by the principle of greatest net benefit, at the individual, enterprise, industry and national levels;
- b) Quality of information and stakeholder participation are fundamental elements in ensuring good quality allocation of resources in post-compulsory education and training;
- c) A single integrated and transparent funding system be developed for all post-compulsory education and training funding;
- d) An incentive-based priority index should be used in a limited number of areas where clear net benefit can be identified. Such priorities should be linked to wider industry strategies;
- e) The cap on funding for industry and foundation education and training should be progressively lifted and eventually removed;
- f) Funding for tuition and research should be separated;
- g) The overriding criteria for the allocation of research funding should be the quality and relevance of the research output of the provider. The net benefit of the investment over time should be an important consideration. Criteria should focus on the quality of research output, as opposed to the quality of researchers, and greater weight should be given to external funds from the private sector.
- h) Eligibility to access research funds should not be limited to providers with a specific number of researchers. Rather, any provider, or group of providers and their partners, that are able to demonstrate high quality, focused, relevant and sustainable research output should be eligible for funding.

- i) There be greater differentiation and flexibility in the requirements for undergraduate degree programmes, as recommended by TEAC;
- j) Access to undergraduate degree programmes remain 'open' to those aged 20 and over;
- k) The Government reconsider the value of its current policy of a interest-free period for students in receipt of student loans while they are studying, in comparison to more targeted alternatives, such as increased student allowances or scholarships;
- l) Public and private providers be treated equally in the allocation of funding, and that both be required to meet high quality standards. Where the Government wishes to ensure the supply of a particular programme, it should purchase this directly, rather than limit provision in this area to a select number of public providers; and
- m) There should be ongoing and publicly reported evaluation of the success or otherwise of any changes or initiatives. Such evaluation should incorporate a significant element of stakeholder participation.

3. Key Points

General principle

- 3.1. The funding of tertiary education should be guided by the general principle that those programmes and activities which generate the greatest net benefit to the nation, in particular to promoting economic development, should be the priority for expenditure. Without improvements in economic development, other educational, social and environmental goals cannot be achieved.
- 3.2. Business New Zealand acknowledges that assessing the net benefit of an educational programme or activity is not a simple matter. Nevertheless, identification of net benefit is the most robust basis upon which to allocate resources. This is relevant at the individual, enterprise, industry and national levels.

- 3.3. The identification of net benefit at the national level is likely to be even more difficult than at individual or local levels. Business New Zealand therefore supports TEAC's conclusion that the majority of funding should be allocated on the basis of local decision-making by providers, learners and employers. Where there is to be centralised allocation of funding, this should be based upon robust analysis of cost and benefit, based on high quality information and stakeholder participation.

Information and stakeholder participation

- 3.4. Quality of information and stakeholder participation should be key aspects of the allocation of funding for post-compulsory education and training. Both are essential to determining net benefit – at the individual, enterprise, industry or national level.
- 3.5. A major priority for the Government and the Tertiary Education Commission should be the promotion of improved quality of information for learners, employers and industry, and greater participation by stakeholders in local processes such as charter and profile development. These will be the key means by which improvements in the quality of expenditure in post-compulsory education and training can be achieved. Improved quality assurance and better information about the outcomes of post-compulsory study are key areas for improvement.
- 3.6. Where there is clear justification based on analysis of net benefit for centralised funding incentives, these should be based on high quality information and stakeholder input into decision making. The Tertiary Education Commission, if it is to be effective in contributing to the development of robust industries and enterprises, will need to develop strong relationships with key sector groups. It will also be essential the information about decisions and processes are transparent and understandable by stakeholders outside the tertiary education system.

Single Funding System

- 3.7. Business New Zealand supports the creation of a transparent and integrated funding system for all post-compulsory education and training provision. It is essential that the relationship between the various aspects of post-compulsory education and training are clear and do not create unnecessary barriers.
- 3.8. For the first time, such a system would enable rational comparisons to be made between programmes in terms of their net benefit to individuals, enterprises, industries and the nation. This would assist high-level allocative decision making between different areas of expenditure. It would enable the correction, over time, of historical anomalies such as the relatively low levels of funding for industry or work-based education and training, despite their demonstrated high benefit to cost ratio.

Priority index

- 3.9. Business New Zealand supports, in principle, the implementation of a priority index of the kind recommended by TEAC. Business New Zealand favours such an incentive based approach, promoting learning in priority areas, as opposed to restricting access areas deemed to be 'oversupplied'. Such an index should, however, be used sparingly, and only where clear net benefit has been identified.
- 3.10. Furthermore, such an index is likely to be most successful when linked to a broader strategy for a particular industry. Initiatives to encourage greater levels of skill development in particular areas are unlikely to be successful without a broader strategy which addresses underlying reasons for skill shortages in the industry concerned.

Lifting the cap on industry and foundation education funding

- 3.11. Business New Zealand strongly supports the lifting and eventual removal of the cap on funding levels for industry and foundation education.

- 3.12. Foundation education, including improving basic levels of literacy and numeracy, are critical to improving the skill level of the population and workforce. They literally provide the foundation to improved productivity and social well being. They should therefore be a very high priority for expenditure.
- 3.13. Industry or work-based training is of equal importance. Raising the skill levels of those already in the work-force, and developing those who enter it in the future is essential to sustained productivity and growth gains. Industry or work-based training is also one of the most cost-effective forms of post-compulsory education and training – learning which leads to the same qualification can often be more efficiently delivered with at least a component of work-place learning. Provided that public subsidies for industry training are focused on supporting industry-wide and generic training, linked to portable national standards (with employers funding firm-specific training), then there are strong arguments for improving the balance of expenditure between pre- and post-employment education and training.

Separating research and tuition funding

- 3.14. Business New Zealand supports the proposal to separate funding for research by tertiary providers and funding for tuition. Such a separation would promote focus and excellence in the research output of tertiary providers. It would enable greater specialization in research, and allow providers to specialize in research, focus on learning support, or continue to combine the two. It would therefore promote greater diversity as well as concentration of effort.

Criteria for access to research funding

- 3.15. Business New Zealand recommends that the overriding criteria for the allocation of research funding to tertiary providers should be the quality and relevance to the nation and community of the research output of the provider. Another important element should be the net benefit of the investment over

time, although there needs to be recognition of the long-term nature of the return on investments in research.

- 3.16. TEAC has recommended three criteria for the allocation of research funding. These include the quality of researchers at a provider, the level of funding obtained by a provider from external sources, and the number of post-graduate students enrolled with the institution.
- 3.17. Business New Zealand recommends that the quality and relevance of research output, as oppose to the quality of *researchers* be the focus of any assessment of research quality. It is the quality of research output which must be of quality and relevance over time, not simply the input of researchers.
- 3.18. Business New Zealand supports the use of funding from external sources as a proxy for relevance – but greater value should be placed on external funds from the private sector as opposed to those from the public sector. New Zealand has a relatively low level of private sector investment in research and development, and this should be encouraged by measures such as this.
- 3.19. Finally, Business New Zealand supports an element of the funding being linked to numbers of post-graduate students, as the quality of the research environment offered by a provider will affect its enrolments.

Size of research establishment

- 3.20. Business New Zealand does not support TEAC's recommendation that eligibility for access to funding for research by tertiary providers should be limited to organizations or networks with 50 or more active researchers. While such a requirement might seem to encourage concentration of research effort, it does not guarantee it. A provider could easily have a staff of 50 full-time researchers each working on a separate research programme.
- 3.21. Such a limit is likely to stifle innovation and developments by new providers and research units. It is also likely to restrict applied research activity by polytechnics, private providers and their industry partners. It can easily be

argued that a much smaller research team, of say 5 full-time researchers, might constitute a self-sustaining unit.

- 3.22. Business New Zealand therefore recommends that any provider, or group of providers and partners, that are able to demonstrate high quality, focused, relevant and sustainable research output be eligible to access research funding.

Changes to requirements for undergraduate degrees

- 3.23. Business New Zealand supports TEAC's proposal for greater flexibility in the regulations concerning undergraduate degree programmes. Current requirements that all degrees, including undergraduate degrees, be 'taught mainly by people engaged in research' are presumably intended to ensure that degree programmes are taught by people at the leading edge of their subject. It is questionable, however, whether it is necessary for all undergraduate programmes to be taught by leading edge researchers. The key is the quality of the programme, and ensuring that those teaching these programmes are in touch with leading edge research, not necessarily that they are engaged in such research themselves.
- 3.24. As noted earlier, Business New Zealand supports greater concentration of research effort, and a greater focus on research excellence. Achieving this will be difficult if all undergraduate programmes have to be 'taught mainly by people engaged in research'.
- 3.25. Business New Zealand therefore supports the proposed requirement for undergraduate degree programmes that they be taught by people who have a 'comprehensive and current knowledge of their discipline and the skills to communicate that knowledge'. This would not prevent some providers from choosing to continue to offer programmes 'taught mainly by those engaged in research', and such a requirement would continue for post-graduate programmes.

Restricting access to undergraduate degrees

- 3.26. Business New Zealand does not support TEAC's proposal to restrict access to undergraduate degrees by those aged over 20. At present those under 20 are required to meet school-qualifications' based entry requirements for degrees, but those over twenty are simply required to meet entry requirements for particular programmes as established by each provider. Business New Zealand would prefer that there were no nation-wide school-based entry requirements for undergraduate degrees. Rather, entry to particular programmes should be determined by providers for each programme. Quality should be assured in relation to each programme, rather than using blanket nation-wide entry requirements for the increasingly diverse range of degree programmes.
- 3.27. The current 'open-entry' provision for over-20 year olds has enabled many people without good school qualifications to return to study at a later stage in their lives. Removing this provision would severely limit access to degree-level education for those seeking to return to study. In the light of the need to continuously improve the skill levels and productivity of the existing and future workforce, such an approach is nonsensical.
- 3.28. If, as appears to be the case, TEAC's recommendation is motivated by a desire to 'ration' access to degree programmes, it is doomed to fail. The demand for degree-level education has risen steadily over the last decade. The likely result of imposing a restricted entry policy would simply be large numbers of people undertaking 'bridging programmes' simply to obtain the necessary entry requirements – irrespective of whether their life experience was sufficient for them to benefit from degree education (as is often the case). It is very likely that this proposal would in fact result in greater rather than reduced expenditure.

Changes to student loans

- 3.29. Business New Zealand supports TEAC's recommendations for a reconsideration of expenditure on providing an interest-free period on student loans for students while they are studying.

- 3.30. Business New Zealand's principal concern with current policy is not with any incentives for students to engage in arbitrage, but rather with policy's tendency to encourage of greater levels of borrowing, and with the opportunity cost of current policy.
- 3.31. New Zealanders, as the Governor of the Reserve Bank has identified, are already a nation of borrowers rather than savers. Debt levels in the general population are as much a concern as student debt levels. It is likely that addressing the issue of student debt will require a broad-based approach, which addresses issues of saving as much as the technical arrangements of the scheme.
- 3.32. Nevertheless, Business New Zealand recommends that the Government review the value of current interest write-off policy, compared to alternatives such as more targeted assistance through the student allowances system, or scholarships for students requiring assistance. For example, such assistance might recognise the particular difficulties facing families with large numbers of children. Such targeted interventions are likely have a greater equity impact than a blanket interest write-off.

Discrimination against private providers

- 3.33. Business New Zealand does not support the proposal in TEAC's recommendation 28, to enable discrimination against private providers of post-compulsory education and training. Quality private providers play an important part in the overall system, and are often highly responsive to individual and industry needs. They are often more responsive to stakeholder needs than larger and more established public providers.
- 3.34. The sole determinants in the allocation of post-compulsory education and training funding should be net benefit, quality and relevance. If a private provider is providing a programme of high benefit, relevance and quality, it should be funded – irrespective of whether it is competing with a public provider.

- 3.35. If the Government is concerned to ensure supply in a limited number of strategically important areas, it should specifically fund for such supply, and continuously review the need for such supplemental funding. The alternative approach of limiting provision in such areas to a select number of public providers will only hamper innovation and effectiveness in what are ostensibly strategically vital areas.
- 3.36. It would appear that most concerns with respect to private provision relate to quality. Business New Zealand is concerned about low quality, low net benefit expenditure wherever it occurs. Further strengthening of quality assurance mechanisms for both public and private providers are the best way to address any concerns about 'undesirable' provision. Promoting greater stakeholder participation in processes such as chartering and profiling will also increase the relevance and value of post-compulsory education and training.

Evaluation

- 3.37. Evaluation of the success or otherwise of the changes proposed by TEAC is essential. A key test will be whether or not these changes bring about improvements in the overall growth rate of the New Zealand economy. Significant indicators will be improvements in productivity, increased skill levels in the workforce, reductions in poor literacy, and improved uptake and use of research and development.
- 3.38. Assessing the impact and effect of individual initiatives and programmes will require the use of both indicators and the participation of stakeholders in the evaluation process. Stakeholder participation in evaluation is as essential as their participation in processes of resource allocation.

4. Conclusion

- 4.1. Business New Zealand supports many of the recommendations made by the Tertiary Education Advisory Commission with respect to the funding of post-compulsory education and training. It is essential, however, that resource allocation is guided by the clear principle of net benefit, and that this is underpinned by quality information and stakeholder participation. Furthermore, the focus should be on encouraging and facilitating quality decision making at the individual, enterprise, and industry levels – national steering should be used in a limited number of strategically important and clearly identified cases. Evaluation of these changes over time, particularly focusing on their effectiveness in improving national growth rates, will be critical.