Tertiary Education Funding – Overview of Recent Reform

Executive Summary

- The New Zealand tertiary education system has been the subject of major reform recently, resulting in a strategy for tertiary education. This background note examines the context for the reform and explores the role of the Tertiary Education Commission (TEC).

- The reforms have established the Tertiary Education Commission (TEC), a new Crown Agency, responsible for administering almost all post-school tertiary education funding. TEC is also responsible for ensuring the tertiary education strategy reforms are implemented.

- These reforms also include an overhaul of the funding system, and signal a shift away from a market demand driven system to a mix of regulation and competition based funding.

- TEC has been provided with a number of tools to enable them to tie funding decisions to the desired changes, such as Charters and Profiles, and the Assessment of Strategic Relevance (ASR). The strategy provides the macro level framework for change, and a separate document, the Statement of Tertiary Education Priorities (STEP), published by the government periodically, the specific priorities.
Introduction

The New Zealand tertiary education system has recently been the subject of major reform, resulting in a formal strategy for all post-school education. The Education (Tertiary Reform) Amendment Act, 2002, the legislative underpinning of the new strategy, creates the Tertiary Education Commission (TEC), which includes an amalgamation of the Resourcing Division of the Ministry of Education and Skill New Zealand.

TEC was established on 1 January 2003, and is now the sole body responsible for administering all post-compulsory education funding. In 2001/02 the government budget for tertiary education was $3.3 billion, which is 1% of GDP and 5% of Government spending.\(^1\)

New Zealand is currently unique in that no other country has clustered its community, vocational and academic education together in quite this way.\(^2\) Through the tertiary reforms and the departure from market to a mixed-model of tertiary education funding, containing both regulated (Charters and Profiles) and competitive elements (the Performance Based Research Fund, or PBRF), the government has removed the boundaries between academic and non-academic type post-school education, and has shifted the position of publicly funded tertiary education from one of an individual right to that of a tool for national economic growth.\(^3\)

Scope of the Sector

The TEC inherits a very wide and diverse sector to manage. Each of these segments has their own pressures, issues and peculiarities, and until now, reflecting this diversity, each segment has been governed separately.

According to Ministry of Education figures for 2001, the tertiary education sector encompasses 8 Universities, 20 Polytechnics, 4 Colleges of Education, 3 Wānanga, over 500 registered Private Training Establishments (PTEs), 46 Industry Training Organisations (ITOs), 9 Government Training Establishments (GTEs) an 17 Other Tertiary Education Providers (OTEPs).

Government policy throughout the 1990s was based on raising participation and increasing the equity of access.\(^4\) These policies were successful in that, by 2001, New Zealand had the highest rate of participation in degree level education in the Organisation for Economic Co-operation and Development (OECD).\(^5\) In its report into the state of the sector for 2001, the Ministry estimated that New Zealand had over 288,000 tertiary students at any one time (tertiary defined as post-school), equating to 393,000 over the course of a calendar year. This includes approximately 220,000 enrolments in community education programmes at schools, 95,000 industry trainees and modern apprentices and over 35,000 participating in targeted training programmes.\(^6\)

As well as the Government contribution to tuition funding for TEIs and PTEs, TEC has also inherited a raft of other funds and initiatives, including those previously administered by Skill New Zealand: Training Opportunities, Youth

---


\(^3\) This argument, and further discussion around this dichotomy can be found in Boston, J. 1990. *The Funding of Tertiary Education* in Middleton, S., Codd, J. & Jones, A., 1990. *New Zealand Education Policy Today*. Allen and Unwin, Wellington.


\(^6\) ibid.
Training, Skill Enhancement, and English for Migrants, along with Industry Training, Modern Apprenticeships, Gateway and the Workplace Literacy Fund.

TEC now administers Adult Community Education (ACE) and Adult Literacy funding, Adult ESOL (English for Speakers of Other Languages), along with several new funding initiatives, including the Performance Based Research Funding (PBRF), the Partnership for Excellence initiative and other capability development funds and the Strategic Priorities Fund for PTEs.

Background

Throughout the 1990s, government policy had identified that a key priority for the tertiary education sector was growth in the number of enrolments. A 1997 green paper explained that the government would support high levels of participation, especially by school leavers and those considered to be educationally disadvantaged, to ensure that the future needs of the country were met.\(^7\) The growth in enrolments illustrated the increased interest in higher education by society generally, both overseas and in this country.

Enrolments rose by 17% in the period 1997 to 2002,\(^8\) and these rates may have been higher, but for disincentives inherent to the funding system that limited participation, such as the capped number of places and the increased student contribution to fees,\(^9\) introduced to place limits on the growth in enrolments to avoid over-expenditure of the budget.

**Figure 1: Formal Enrolments in Tertiary Education, July 1965-2001**\(^{10}\)


Since the 1980s, the majority of post-school funding has been primarily administered through the Ministry of Education’s block Equivalent Fulltime Student (EFTS) system, which involves payment of a base or flat fee, based on the forecast and actual number of enrolments, providing incentive to institutions to maximise their enrolments.

The funding formula reflects the fact that during this period, the funding philosophy was market based, whereby the consumers, (student demand for higher education), determined the types and numbers of courses offered by the institutions. The competition government between the institutions was encouraged, as it provided income and was seen as the main driver for quality.

Non EFTS based tertiary funding, such as funding for vocational education, targeted training programmes and industry training, was generally administered by Skill New Zealand (originally named ETSA, Education and Training Support Agency, an offshoot of the Department of Labour), with each strand of provision being treated in a variety of ways. For example, Training Opportunities and Youth Training were paid for in quite a different way to the EFTS programmes, whereby payment was retrospective for services provided.

The 1999 election brought about a change in government, and with it, education policy direction. The new Labour-coalition government emulated many of the reforms of Tony Blair’s British administration. Tony Blair’s famous speech in which he announced the fundamental direction of economic policy as,

“…education, education, education”

explicitly defined British education policy as intrinsic to their economic policy. Under this philosophy a process of regulation of education became justifiable in that the stakes for the economy were high. This philosophy of improving education as the means to improving the economic well-being of the country, was also based on the belief that the education system, left to itself, was incapable of recognising economic imperatives.

New Zealand’s new education policy makers followed this direction, adopting the same stance and the ideology of the knowledge society, arguing, like the still reasonably new British government, that the continued globalisation of markets demanded that innovation, ideas, skills and creativity were the new tools for national success and prosperity.

Just what is a Knowledge Society? Associate Minister of Education (Tertiary Education) Steve Maharey explained:

“Knowledge is the key to our future development. It is by harnessing knowledge that we will increase our capacity to compete economically in competitive global markets. It is by harnessing knowledge that we will also be able to improve well-being. This is the knowledge society.”

Given this standpoint, and the forecast growth in tertiary education (figure 2), the government began work to maximise the return for the education investment.

---

11 For Speech archive, see www.number-10.gov.uk/output/page5.asp accessed July 2003
The work began in 1999, with the formation of an advisory committee on tertiary education, TEAC, to provide a framework for what the Minister saw as,

“...the urgent problems facing tertiary education at the present time”\(^{16}\).

TEAC produced an initial report, a discussion document, *Shaping a Shared Vision*. This document set the frame for their future work through an analysis of the present arrangements. Their analysis identified a number of issues that they saw as needing to be addressed, including:

- an excessively competitive ethos,
- funding arrangements which drove competition and discouraged co-operation,
- fragmentation within the system,
- lack of good performance data,
- isolation, distance and geography.\(^{17}\)

TEAC conducted consultation on this first discussion document, and then released a further three reports, which contained their recommendations for change, entitled;

- *Shaping the System*;
- *Shaping the Strategy*; and,
- *Shaping the Funding Framework*.

\(^{13}\) ibid.


TEAC then disbanded, and an interim body, the Transition Tertiary Education Commission (TTEC), headed by Dr. Andrew West (who was the then Chief Executive of NZQA), took up the work of implementing the recommendations that met the Minister’s and stakeholders’ approval.

Through TTEC, the Minister followed up TEAC’s work with a report, the Draft Tertiary Education Strategy (December 2001), and further submissions. By May 2002, the Minister had released the Tertiary Education Strategy 2002 – 2007, which was the culmination of the advice and consultation to date, and set out the final shape that the reforms were to take.

The Tertiary Education Strategy sets out the role of TEC. It presents the Government’s vision and framework for reform, presenting six main strategies (below) as the key drivers of an enhanced education system, and linking these to the anticipated economic transformation.

The Strategy describes the role of TEC as the proactive “steerer” of the tertiary system, by virtue of its role as implementer of the policies. It sets the TEC a number of goals to achieve, such as:

- connecting with the various component parts of the sector,
- linking the sector with industry, enterprise and the community,
- reducing competition within the sector and increasing collaboration between the various providers,
- aligning tertiary providers’ structures and activities with the new national goals.

The strategy provides the macro level framework for change, and a separate document, the Statement of Tertiary Education Priorities (STEP), published by the government periodically, provides the specific priorities.

TEC is provided with a number of tools in order to effect change, and these primarily enable them to influence changes by linking desired outputs to funding decisions. These tools are Charters and Profiles and the Assessment of Strategic Relevance (ASR).

Through the strategy TEC is responsible for ensuring that the sector works together in a cooperative and collaborative way, and will work to rationalise post-school provision regionally, between different types of providers. Its goal is to link the diverse types of provision together as progressive pathways for students and learners, rather than as competing options.

The six main strategies:

1. Strengthen system capability and quality
2. Te rautaki mātauranga Māori – Contribute to the achievement of Māori development aspirations
3. Raise foundation skills so that all people can participate in our knowledge society
4. Develop the generic and specialist skills New Zealanders need for our knowledge society
5. Educate for Pacific peoples’ development and success
6. Strengthen research, knowledge creation and knowledge uptake

---

17 ibid.
The key changes identified in the Tertiary Education Strategy 2002/07:

1. Greater alignment with national goals
2. Stronger linkages with business and other external stakeholders
3. Effective partnership arrangements with Māori communities
4. Increased responsiveness to the needs of, and wider access for, learners
5. More future-focussed strategies
6. Improved global linkages
7. Greater collaboration and rationalisation within the system
8. Increased quality, performance, effectiveness, efficiency and transparency
9. A culture of optimism and creativity

Figure 3: The new New Zealand Tertiary Education System

---

19 ibid.
Overseas Comparisons

New Zealand and other overseas governments follow international education developments, by adopting appropriate models with contextually appropriate modifications and using other jurisdiction examples as benchmarks to measure success. One example of this is the Modern Apprenticeships programme, which followed the British revivification of apprenticeships for young people.

Similarly, New Zealand is not alone in developing a national strategy for tertiary education: South Africa, France, and Britain have all recently released strategic plans for the reform of higher education systems that they hope will deliver greater economic returns for their higher education investment\(^{21}\). This follows a social democratic paradigm shift, recognised in the international higher education management literature, towards new forms of higher education governance that emphasise maximising return on investment over maximising welfare\(^{22}\).

New Zealand is unique, however, in that no other country has clustered its community, vocational and academic education funding together into one centralised body\(^ {23}\). As such, there can be no doubt that this is an experiment, and will be a used as a benchmark for international comparison.

In England, higher education (university and polytechnic) funding is administered separately to post-school and vocational education funding, by the Higher Education Funding Council for England (HEFCE\(^ {24}\)) and the Learning and Skills Councils (LSCs\(^ {25}\)) respectively. In the United States of America, the Department of Education allocates funding to institutions through the advice of their various function offices, such as the Office for Vocational and Adult Education (OVAE)\(^ {26}\) and the Office for Post Secondary Education (OPE)\(^ {27}\).

In Australia, the Australian National Training Authority (ANTA\(^ {28}\)) administers the national programs and the Commonwealth funding of the national Vocational Education and Training (VET) system. The VET has traditionally been seen as post-secondary, non-university education and training, focusing on apprenticeships, and is very similar in shape to the pre-reform New Zealand system under the aegis of Skill New Zealand. The dissimilarity lies with the Training and Further Education institutions (TAFEs), the equivalent of Polytechnics, that still fall under the purview of ANTA: the New Zealand Polytechnics are primarily EFTS funded, having moved away from the industry training and targeted training funding, previously administered by Skill New Zealand.

In other respects, Australian VET reforms have closely mirrored recent developments in New Zealand, for example in terms of enabling linkages with

---


\(^{24}\) [www.HEFCE.ac.uk](http://www.HEFCE.ac.uk) accessed July 2003

\(^{25}\) [www.lsc.gov.uk](http://www.lsc.gov.uk) accessed July 2003


other types of post-school learning (referred to in the lexicon of both administrations as “pathwaying”). The Gateway programme, for example, introduced as a pilot programme by Skill New Zealand in 2001, and soon to be operating in all decile 1-5 schools, now has an equivalent in Australian secondary schools. The new VET system also offers pathwaying to university study, operates a system of hierarchical levels of qualifications in most industries and has expanded to encompass high growth, new economy industries. ANTA’s National Strategy for VET to 2010 envisions a system compelled by market forces, particularly influenced by industry need.29

Australian universities receive block funding from the Commonwealth Government. Recent funding reforms have set a policy of further deregulation and encouragement of competition, but mainly between the Australian universities and the overseas international institutions30. In a recent communication to the University sector, the Commonwealth Minister of Education, Brendon Nelson, stated that Australia,

"… can no longer expect its universities to compete with the world’s best, discharge responsibilities to regional communities and offer quality educational and research services in the ‘one size fits all’ funding and regulatory straightjacket"31,

reflecting the preoccupation the Australian policy makers have with attracting income through attracting overseas students. The reforms have sought to further the reputation of Australia’s universities overseas as world class, to ensuring that the overseas students, and the income, continue to flow in.

As well as this, the emphasis of the Commonwealth’s reforms package has been to ensure increasing income for higher education institutions. It has removed the barriers to improving participation by reducing the financial burdens on students, and increasing institutions’ income through recognition for subject specialisation. The Australians have opened the market for private providers further in order to allow greater access for disadvantaged groups, including indigenous peoples. A component of TEC’s role is to reduce competition between institutions and encourage institutions to adopt a policy of subject specialisation. Some have viewed this as a move to limit the activities of the private providers in New Zealand, who are viewed as taking business away from the publicly owned institutions32.

Another comparability - the Commonwealth Government’s reforms stipulate that it will control the types of courses funded, like TEC, by negotiating with higher education institutions to deliver a specified number of Commonwealth supported places in particular course disciplines.

TEC will do this by assessing the “strategic relevance” of the provision, when considering Charters and Profiles. The NZ providers will have to prove the relevance of their courses and institutional direction if they want to access the funding.

As can be seen, it is sometimes hard to distinguish any fundamental ideological difference between the agendas of the Australian and New Zealand governments in reforming higher education funding. Perhaps the

32 The Association of Polytechnics in New Zealand (APNZ), for example, have expressed the view that public funding should not be used to fund capital works for private providers – see Media Statement, APNZ, 2002, The Budget Delivers Good News for the Polytechnic Sector. www.apnz.ac.nz/media-releases/The%20budget%20delivers%20good%20news%20for%20polytechnics.pdf, viewed August 2003.
difference between the two sets of reforms can be better illustrated through examination of the communications of them to the sector, by the respective governments. Both governments are trying to encourage institutional specialisation and greater collaboration between the diverse parts of the sector.

The Australian reform package published materials communicate this through stating that Universities want to collaborate, but feel they have been restricted from doing so, due to the heavy regulation of the funding framework and excessive reporting requirements. The Australian Government has promised that the reforms will make it easier for the universities to do what they want, that is, to collaborate and specialise, through a deregulated funding framework, and by the removal of heavily centralised Commonwealth bureaucratic arrangements.

In New Zealand, institutions have been told that they will be required to collaborate with each other, and provide evidence of this in their Charter, in order to access the funding framework. It is interesting that, as one government stimulates growth in the sector by freeing up and deregulating, the other wishes to do the very same thing by doing the opposite.

Charters and Profiles

Charters and Profiles are the most visible tools with which TEC are to steer the system. Every institution that accesses public funding for tertiary education will be required to have both a Charter and a Profile that fit the strategic priorities of the Government, as set out in the STEP.

Broadly, Charters are high-level strategic planning documents that will direct or reflect each organisation’s alignment with the strategy.

Recently released guidelines state that Charters should describe an institution’s:

- mission;
- special character;
- contribution to New Zealand’s identity and economic, social and cultural development;
- contribution to the tertiary education system as a whole;
- approach to collaboration and cooperation with other tertiary organisations;
- alignment with the Treaty of Waitangi; the needs of Pacific peoples; the educational needs of learners;
- development and support of a staff profile that reflects its mission;
- governance and management structure and principles;
- and, the wider consultation undertaken in preparation of the Charter.

Profiles will describe in much greater detail how the high-level goals in an organisation’s Charter will be implemented. They will contain information about specific education and training activities, policies and performance targets of providers and ITOs.

Providers are required to negotiate Profiles with the TEC annually, and they can be thought of as a contract management system in the sense that

---

historical performance against Profile indicators and measures will eventually become one of the factors to influence continued funding decisions by TEC. Profiles will be the instrument to ensure that providers meet statutory accountability requirements for the use of public funds. This distinct shift towards accountability and monitoring of performance comes in the recognition by TEAC that the EFTS funding system has relatively weak accountability measures\(^{35}\), merely requiring institutions to attain a 50% course completion rate.\(^{36}\)

- All Tertiary Education Institutions (TEIs), ITOs and the 15 largest PTEs wishing to access public funding in 2004, are required to have submitted a Charter and an "interim" Profile by 30 September 2004.
- All providers (approximately 700 of them) must produce a Charter by 30 September 2003.
- All providers will have to produce Profiles to access 2005 funding\(^{37}\).

The timeframe for preparing these key documents is short. TEC released the guidelines for Charters in the first week of July 2003, and some providers are still unclear about TEC’s expectations of them. With the deadline fast approaching, the Minister has announced that institutions should,

"...concentrate on the first five sections of their Charters and tidy up the remaining seven sections later"\(^{38}\).

Performance Based Research Fund (PBRF)

In line with the Government’s decisions on TEAC’s recommendations, TEC is currently developing a new system for funding institutions for research, to be introduced progressively from 2004. As its title suggests, the Performance Based Research Fund (PBRF) applies a more stringent model to the distribution of funding for research.

Previously research funding was spread according to the number of enrolments – the research component of EFTS funding provided a flat rate “top up” based on the number of enrolments. Institutions were not assessed in terms of research quality in order to access funding for research. Submissions to TEAC identified research funding through the EFTS system as highly problematic in that it did not adequately support nor encourage the conduct of research at Universities\(^{39}\), with funds allocated for research often used to subsidise teaching.

The PBRF reassessment closely follows the British Research Assessment Exercise (RAE) conducted from the late 1980s, the outcome of which was to allocate funding on the basis of an assessment of institutional research quality\(^{40}\).

New Zealand’s research funding model now has three component elements or weightings, that:

- reward and encourage the quality of researchers (60% of the weighting)
- reflect research degree completions (25%)
- reflect external research income (15%)


\(^{39}\) Submissions can be viewed at [www.teac.govt.nz](http://www.teac.govt.nz) (accessed July 2003)

Each institution wishing to access public funding for research is required to provide an evidence-based portfolio on the work of its researchers. Each institution then places its staff into one of four categories, or ranks. The PBRF Peer Review panels, a team of international experts, flown in specially, assess the evidence portfolios (including any evidence called for) and confirm the provisional quality category determined by the organisation, or reclassify the staff member into a new category. An institution is then given an overall categorisation, based on the overall quality of its staff. Once an institution has been assessed, the level of funding is assigned on this basis. The categories are hierarchical, and inevitably, the greater share of funding is linked to the higher ratings, as high ratings equate to a better quality of research. Each funding round determines the level of funding for the next three years.

The Minister says he expects the fund will have a great deal of impact, noting it has already introduced a requirement to perform. Prior to this, the money had gone to the institutions according to student numbers. It was intended to fund research, but, "whether it happened and how good it was, no-one knew."  

Some have argued that institutions, particularly polytechnics, could lose money and status under the PBRF, as it has been designed to reward university measures of research excellence, and discussions are underway to possibly differentiate polytechnic research. Others have criticised the additional costs involved in the new process, and the increased bureaucracy and time requirement.

Critics of the new system say that business has won the battleground and the government is turning universities into promoters of government policy and business aims:

"It's a huge attack on academic freedom. The nation is the funder, not the government, that's the crucial difference."

Canterbury University education lecturer Diane Pearce specialises in education policy research and is one of several commentators who have noted the negative consequences in Britain of a similar accountability regime. She has commented that, as a consequence of performance based research funding, most British universities have increased their research quality scores. This still leaves only the top few attracting the bulk of research funding while the others sit on good grades, unrewarded.

One of the key changes identified by TEAC was the need to integrate funding into a single cohesive system, as the current system had been seen as responsible for the fragmentation of the sector. Consequently, TEC is responsible for developing and administering the new funding system, christened the Integrated Funding Framework.

The challenge for TEC will be to develop a framework that will not only be able to cope with the wide variety of types of provision it has inherited, from workplace, on-the-job type training and apprenticeships, part-time adult and

---

43 Michael Grimshaw, Canterbury University Religious studies lecturer, ibid.
44 ibid.
community education, to formal academic university learning, but also solve the myriad of issues that the EFTS system has been blamed for.

Submissions to the TEAC reports identified a number of issues around the EFTS funding system, some supporting it, the majority pointing out that the system had major failings that required attention.

Most institutions were concerned that the level of funding did not match their actual costs of providing programmes, arguing that it should be made compatible with overseas benchmarks and linked to inflation. Another issue was the retrospective payment regime that required providers to forecast their expected number of students, inserting a layer of complexity and uncertainty into institutional financial management.

Differential base-rate funding between types of provider was seen as unfair by those who did not benefit from them (invariably the PTEs, who receive a lower rate of funding per student that the universities). Perhaps of the most concern to the policy makers, was that the EFTS system exposed university disciplines and related scholarly and intellectual resources to the vagaries of student popularity judgements. Courses in law and commerce were over subscribed, other disciplines such as geology, were threatened with extinction45.

The Ministry of Education report, *Excellence, Relevance and Access*, sets out the expectations and terms of reference for developing the framework (see figure 3 below). The report is low on detail about what the framework will look like, and omits any reference to the cost or time required to complete such a project, but promises that it will be in operation by 2004.

---

The TEAC report consultation process invited submissions on all four TEAC reports, and there were many submissions, from the many diverse parts of the sector. What is clear, however, as highlighted in these submissions and evidenced through the general media stories emerging around the reforms, is that TEC faces a number of challenges.

For any new system to work it must have buy-in from its constituents, and there are many examples of submissions to TEAC that disagreed with the integration proposals. They believe that one size does not fit all, and that the establishment of a one-stop-shop for all tertiary funding needs is reductive, to the disadvantage of the smaller, less well known, but equally vital portions of the sector in terms of social benefit, as the most salient, the Universities.

From a different stand point, but advocating the same outcome, the Vice Chancellors’ Committee (NZVCC) for example, argued that Skill New Zealand should remain as a separate operating identity, but from the standpoint of preventing the TEC from getting bogged down with what they saw as the special needs of some parts of the sector, such as with Adult and Community Education.
Many other points of difference have been aired. Some are critical of the integrated function and strategic direction steering role of the TEC, others around specific issues, such as:

- the requirement to produce Charter and Profiles to access funding may require providers to significantly improve their administration and management systems, with little or no additional reward for this in terms of funding,
- the continuing competition for finite resources between the TEIs and the private providers,
- the future role of PTEs in the new system, given the PTE funding cap and the Strategic Priorities Fund,
- will the PBRF effectively reduce funding for all but the very rich institutions, and will smaller institutions be disadvantaged?
- the possibility of TEC becoming unpopular with some or all parts of the sector because of its umbrella role of implementing the majority of government tertiary policy – for example the concern of students that fees will rise as a consequence of the new Fee Maxima\(^{50}\) policy, and speaking out against TEC as a consequence.

Some of these issues, although Government policy, reflect the sector’s concerns that the TEC will not be responsive to their individual needs. Minister Maharey has recently attempted to allay concerns that the Tertiary Education Commission would be overly bureaucratic in its dealings with the tertiary sector,

> “What the government is looking for from TEC is firm but unobtrusive steerage of the whole system towards relevance, excellence, access, capability and collaboration” \(^{51}\).

What cannot be in question is that, with so many different customers, it may be a challenge pleasing them all.

Suggestions for further reading / links

http://www.TEAC.govt.nz
http://www.TEC.govt.nz


Paul Mahoney, Research Analyst
Social Policy Team
Parliamentary Library
For more information contact Paul (ext.9019)

---

50 Discussion of Sector issues can be found in the *New Zealand Education Review*.