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**Private Tertiary Education in New Zealand: Evolution  
and Context**

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## **PRIVATE TERTIARY EDUCATION: A NEW ZEALAND PERSPECTIVE**

Thank you for the opportunity to address the New Zealand Association of Private Education Providers (NZAPEP) Conference 2005. I should say at the outset how much I have always valued my association with NZAPEP, which dates back some 12 years.

It is good to see the continuing development of the relationship with the Australian Council for Private Education and Training (ACPET). It is also good to see the continuing relationship between NZAPEP and other parts of the private tertiary education sector and the growing relationship between NZAPEP and the private sectors at different levels of education in New Zealand. Such linkages are hugely important given that so many of the issues facing the private education sector are common across countries and across levels of education. As the saying goes - You must learn from the mistakes of others. You can't live long enough to make them all yourself.

Today, I want to provide a broad overview of the evolution of the tertiary education sector and tertiary education policy in New Zealand since the early 1990s. I will briefly review the evolution of government policy in this area and document the development of the sector. I will conclude by placing the New Zealand experience in a broader context.

Prior to the *Learning for Life* reforms of the late 1980s, New Zealand had what could be described as a 'traditional' tertiary education sector, which was characterised by a clear demarcation between universities and other providers, 'free' tertiary education, low levels of tertiary participation, students receiving full living allowances and a small private sector.

The *Learning for Life* reforms significantly altered the complexion of the New Zealand tertiary sector. These reforms included the introduction of tuition fees at Tertiary Education Institutions (TEIs), greater self-management for TEIs, the 'unification' of the tertiary sector, the introduction of the student loan scheme and a policy focus on lifting participation in tertiary education.

A number of regulatory and funding changes were introduced that provided a much more level playing field for private training establishments (PTEs). These included the above-mentioned introduction of tuition fees, changes to eligibility for student support and regulatory and funding changes that saw private providers treated in a similar manner to TEs. These reforms allowed and indeed encouraged the expansion of private tertiary education in New Zealand.

The PTE sector in New Zealand has significantly expanded since the late 1980s and doubtless these reforms have played a role in fostering that growth:

- the number of registered PTEs grew rapidly until the mid-1990s and has remained at around 800 since then (not all of this reflected the entry of new providers as many existing providers simply became registered);
- the number of formally enrolled domestic students in PTEs grew from around 28,000 in 1997 to over 70,000 in 2003;
- the number of funded Equivalent Full Time Students (EFTS) in PTEs, rose to 25,000 in 2002. but has since fallen back to around 20,000 in 2003;
- Government funding of PTEs grew from around \$2 million in 1992 to over \$160 million in 2002. In 2003 it stood at around \$120 million.

Although estimates vary, PTEs account for approximately 15 percent of tertiary education enrolments in New Zealand.

Although PTEs come in a range of 'for-profit' and not-for-profit' organisational forms, much of the growth in the 1990s has been among limited liability companies (LLCs). Between 1995 and 2001, the proportion of PTEs that were LLCs grew from 46 percent to 64 percent.

The 1990s was a period of great optimism and growth for the PTE sector, characterised by a strongly supportive policy environment. Alas, the 'noughties' have not been nearly as positive for the PTE sector, although

we have not seen a 'great leap backward' to the situation that existed prior to the 1990s.

However, since 2000, PTEs have been subject to a number of adverse policy changes that have chipped away at their ability to compete with public tertiary education institutions (TEIs). These have included imposition of a moratorium on funding of new PTEs and new qualifications from existing PTEs, the capping of EFTS subsidies to PTEs, a 9.5 percent reduction in the per-student subsidy to PTEs and controls on tuition fees.

In addition, there has been a worrying lurch back toward centralisation in funding decisions. In contrast to the demand driven funding system that was put in place in the late 1990s, funding of PTEs is now based on bureaucrats' abstract assessment of the 'strategic relevance' of courses and other factors, rather than student demand. 'People power' is being supplanted by bureaucrat decree. Funding only flows if the PTE can 'justify' it on the grounds that the training is somehow aligned with the country's national goals, whatever that means.

The burden of red tape and government intrusion into the operation of PTEs is growing. For example, PTEs must now provide the bureaucracy with evidence to prove their financial viability if they wish to qualify for government funding. Of greatest concern is the re-regulation of tuition fees, which will affect private tertiary education providers more than public ones. Funding seems to attract additional regulation. In this context, it is useful to recall Davy Crockett's point that a government big enough to give you everything you want, is big enough to take away everything you have.

PTEs are increasingly being seen as providers of last resort, whose role is merely to fill in 'gaps' in public provision – whether geographic or programme-based – rather than as an equal player in the sector. Here too the playing field is tilted. As part of the process of determining the 'strategic relevance' of courses, PTEs must make the case to the bureaucracy that there is a need for their service if there is an existing public provider in an area. The same is not true of TEIs, which seem to have a prior right to exist, whether they are delivering what the market wants or not.

The government has also moved to rein in public tertiary institutions contracting out delivery to private providers. This, despite that fact that such public private partnerships are exactly in line with the government's desire for more sector collaboration.

Government does not only provide a tilted playing field for public institutions at the top of the cliff. It also does so at the bottom. Successive governments have provided financial assistance of one sort or another to more than half a dozen polytechnics since the mid 1990s – to the tune of more than \$100 million. In many cases institutions have had to be propped up more than once. This tradition of bailing out polytechnics continues. Early last month the government provided a \$9 million 'loan' to rescue a financially troubled polytechnic in Wellington.

When two private institutions went bankrupt in 2003 – Carich and Modern Age, some commentators were quick to criticise the private sector. The government responded by passing legislation that allows it to require PTEs to pick up the tab for losses caused by registered PTEs that go broke. According to the Minister of Education, this was to ensure that “the cost of any future failure of private education providers will ... be borne by the sector, not by the taxpayer...” It is a shame that the government has not responded to these financial crises with similar howls of outrage and passed legislation to ensure that the costs of future polytechnic failures are not borne by taxpayers.

The anti-private sector flavour of the post-1999 policy agenda in New Zealand is not confined to the tertiary education sector. It can also be found in the early childhood education, where the Minister of Education referred to commercial childcare centres as 'Kentucky Fried Childcare' and the schools sector where the government has capped subsidies to independent schools.

One can only hope that the government's recent decision to extend its early childhood education '20 free hours' policy to commercial childcare centres represents at least the beginnings of a government 'Road to Damascus' conversion in respect of the private sector, and not just a 'panicked U turn', as Bill English has labelled it.

While recent policy trends have not been good to the private sector, I do not want to leave you with the impression that all is doom and gloom. Far from it. Indeed, it is my belief that the private sector will continue to play an important role in the tertiary education sector in New Zealand. There are several reasons for this.

First, the policy framework in New Zealand remains favourable to the private sector, despite recent setbacks. Although subsidies have been capped, government financial support for the sector remains well above the levels of the early 1990s. In addition – and perhaps more importantly – other policy factors such as access to loans and allowances for students at PTEs, tuition fees at TEIs and independent accreditation remain in place. As Julie Moss of ACPET pointed out in her talk yesterday, the overall policy framework for private tertiary education is more evolved in New Zealand than in Australia.

In addition, the funding framework for PTEs has been relatively stable compared to that for independent schools, a sector which has seen some significant swings in policy. School choice policies in New Zealand have had more ups and downs than Labour and National Party poll numbers over the past month! In the case of private school funding, subsidies were increased in the mid-1970s, abolished in the mid to late 1980s, reintroduced in the early 1990s and capped in 2000.

Second, PTEs are meeting the needs of students and business. As Business New Zealand argued in its submission on the Tertiary Education Commission's *Distinctive Contributions* report, PTEs "have a strong role to play in delivering the vocational education and training needs of industry and businesses on a just-in-time basis". Both Maori and Pasifika students are well represented among the PTE student body. Ministry of Education data from 1999 show that nearly half of all first-year students at PTEs had been on a benefit prior to enrolling in tertiary education (versus 18 percent for TEIs). A recent Massey University study found that 93 percent of employers in Rodney District believed that the education and training delivered by PTEs was effective and relevant. This compared with 29 percent for polytechnics and 25 percent for universities.

The private sector can only flourish if it delivers what people want. And – unlike public institutions – it will disappear if it does not.

Third, the PTE sector is maturing. This is reflected in data showing that the length of the NZQA audit cycle for PTEs has been increasing in recent years, the introduction of NZAEP's Quality Commission Scheme and the establishment of organisations such as Independent Tertiary Institutions.

Fourth, and perhaps most importantly, we should recognise that the growth of the private sector in education is not just a New Zealand phenomenon. It is a global phenomenon that is being driven by economic and social forces that go well beyond New Zealand's borders. These include a much more diverse student body (age, ethnicity, family circumstances), the inability of the public sector to meet the skill demands of a modern workforce in some countries, the advent of lifelong learning, labour market changes, technological innovation, economic transformation and the increasing recognition of the value of skills.

Private tertiary education is well established in many countries, including the United States, Japan, Korea and the Philippines. It is also growing in a number of regions – in particular, Asia, South America and the former Eastern Europe. For example:

- a 2003 study found significant growth in both the number of private business schools and enrolments in Eastern Europe. Between 1990 and 2000, enrolments in private Polish and Romanian business schools rose from zero to almost 300,000 and 53,000 respectively;
- a mid-1990s UNESCO report characterised the increase in the number of non-governmental institutions in Arab countries as “the most significant development in Arab higher-education systems in the 1990s.”

Recent data show that the size of the private tertiary education sector varies considerably by country, but is significant in a number of countries: 25 percent in Argentina, 71 percent in Brazil, 39 percent in Malaysia, 26

percent in Mongolia, 23 percent in the United States and 41 percent in Venezuela, to highlight just a few.

Private universities are now taking hold in Germany, with the entry of international, tuition-funded institutions offering Anglo-style degrees to German students. The advent of a student loan scheme for full fee-paying higher education is driving an increase in enrolments at private tertiary institutions in Australia, according to a recent article in *The Age*. Between 1999 and 2005, the number of full-time students enrolled in private higher education jumped from 20,000 to more than 50,000. This has lifted the proportion of tertiary students in the private sector from 3.5 percent to 7.5 percent of all full-time tertiary students.

Recent years have seen the emergence of for-profit education providers in both developed and developing countries. These institutions come in a variety of organisational forms. They can be sole proprietorships, franchises or national/international chains. Some are publicly held companies listed on the sharemarket, while others are privately held companies.

In the United States, the for-profit higher education sector is estimated to be a \$15.4 billion industry and accounts for some 8 percent of the 20 million students enrolled at the 6,000 colleges eligible for student aid. Among degree-granting institutions, for-profit companies serve approximately 2.5 percent of the market.

The largest for-profit provider in the United States is the University of Phoenix (UoP), which is owned by Apollo Group. It delivers vocationally based tertiary education to over 200,000 students through the 'traditional' (bricks and mortar) and online modes. It has 239 campuses and offshoots located in the United States, as well as China and India. The institution targets working adults seeking to upgrade their skills, rather than recent graduates. Two other for-profit tertiary education providers – Corinthian Colleges and Career Education have 70,000 and 100,000 students respectively (up from 17,000 and 22,500 respectively in 1999). Growth in the for-profit tertiary education sector has been fuelled by the rapid expansion in online education.

Finally, private tertiary education is not just a 1990s phenomenon or a new kid on the block. It has a long history in New Zealand. Dave Guerin of Education Directions is currently documenting the history of private tertiary education in New Zealand, with the support of the Education Forum. His early work shows that private tertiary education dates back at least to the 1880s and that some institutions were eligible to receive government subsidies as far back as the mid 1890s, when the Manual and Technical Elementary Instruction Act 1895 was passed.

To conclude, private tertiary education is expanding and is around to stay. The dichotomy between public and private education – at any level – is a false one. Nonetheless, policy Luddites will continue to decry private participation in education and the existence of ‘for-profit’ educational institutions, despite the private sector’s long history and the positive contribution it can make to the country’s educational, social and economic goals. Nothing will be allowed to triumph over opponents’ industrial age anti-private ideologies. Their ‘public sector only’ mentality is the policy equivalent of resurrecting black and white television in an HDTV world.

You should not let this get in the way of your good work. For many New Zealanders – often the most disadvantaged – PTEs represent a bridge to a better future. They represent hope and opportunity.

It is time to take the politics out of education – to get past the ‘four legs good, two legs bad’ mindset that drives private sector detractors. To paraphrase Winston Churchill, we should not see private enterprise – in education or elsewhere – as a predatory tiger to be shot or as a cow to be milked. Rather we should see it as a healthy horse, pulling a sturdy wagon.