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Speech Notes

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Tertiary funding reforms – the next steps

Speech notes for address to ITP, ITO, Wananga sectors at Weltec Campus, Petone

It is a pleasure for me to be here today to address representatives from Institutes of Technology and Polytechnics (ITPs), Industry Training Organisations (ITOs) and Wananga as well as from staff and student bodies, and members of the employment, business and union sectors.

You all have an interest in skills development and building productivity and in ensuring that New Zealand creates a workforce that is technologically literate, flexible and innovative.

I would like to take this opportunity to update you on progress with the tertiary reforms, particularly in areas relevant for the ITP, ITO and wananga sectors. I will explain in broad terms how the new way of investing in tertiary education will enhance what the sector is able to deliver for students and other stakeholders, and describe the role of the Tertiary Education Commission in this important investment. Finally, I will outline some of the government's new funding to support progress in your sectors and enhance your ability to respond to the education and training needs of stakeholders.

But first, let me reflect on the tertiary reform path that we have travelled on to get us to this destination today.

When this government came into office in 1999, we knew that the 'bums on seats' system of funding made it difficult for the sector to stay current with the changing skills needs of a labour market, and the changing interests and ambitions of potential students.

Equipping students with the skills they need to launch or re-launch successful careers requires an investment model based on high quality information and analysis, an understanding of how people acquire skills, and excellent feedback loops with businesses, students and communities so as to foster a culture of continuous improvement.

The EFTS funding model encouraged a short-term revenue-maximisation focus and, if anything, discouraged longer term planning and investment in institutional capability.

In particular, it discouraged collaboration and encouraged institutions to play their cards very close to their chests rather than to think of themselves as part of a broader network.

The move to a system of Charters and Profiles was designed to shift the sector towards a longer term and more strategic focus; and it certainly achieved that to some degree. But as time went on it became obvious that we needed a more direct link between the planning mechanisms and the funding system.

It is just over a year ago today that I gave my first major speech on tertiary education in the Legislative Chamber at Parliament Buildings. What I announced then was the shift from funding based on enrolments to a new system based on agreed multi-year investment plans for tertiary organisations.

The aim of this new funding framework is to encourage and facilitate better decision making all round. That is:

- Students and their families making better decisions about their investment of time and financial resources in tertiary education;
- Institutions making better investment decisions about the courses they deliver, their contribution within the broader network of provision, and in building the capability they need to deliver those courses sustainably and to a high quality; and
- The government, through the Tertiary Education Commission, making better investment decisions about the whole of the tertiary portfolio, to ensure that, as a small nation, we make best use of our total resources.

Let me give you one hypothetical example of where the problem has been and how we will do better:

In this example, Ella is an eighteen-year-old school leaver with an interest in computer networking.

She thinks a career as a network engineer would be enjoyable. She can see exciting companies prospering in the sector, so a career has good prospects.

Today she has a lot of choice between both public and private training options.

But how can Ella know which course will equip her with the right skills?

She could end up investing her time -- and thousands of dollars -- and complete a course that potential employers don't value much.

Now imagine a rapidly growing company designing computer networks for New Zealand exporting companies -- We'll call it Innovate Corp.

Innovate has a full order book and more contracts on offer but it's struggling to find enough skilled network engineers.

Innovate Corp has to retrain most of the graduates it hires because they don't have the skills it needs.

Doesn't it make sense to bring the needs of Ella and Innovate Corp together?

The example is hypothetical, but it is replicated in dozens of industries, for hundreds of companies and thousands of students around New Zealand at the moment.

The reforms this government is making to tertiary education will put a priority on teaching for qualifications that improve our productivity and innovation.

The government will invest in qualifications that industry wants, and frankly, what the country needs.

When tertiary organisations draw up plans that meet the needs of their regions, they will consult companies like Innovate Corp to find out what its skills training needs are.

Innovate may even have a direct relationship with the tertiary organisation to ensure students have access to the latest technology as part of their training.

Ella knows that when she finishes her course she'll be equipped with exactly the skills companies like Innovate are looking for. Her investment will pay dividends.

The student will be better off; the business will be better off.

The tertiary organisation will be better placed too; it will no longer have to provide high volume, low value courses just to get by. Its revenue will be more stable and secure.

And the economy gets the benefits of more relevant skills and the resulting improvements in productivity.

The government has an important upfront role to play in this process by clearly expressing its priorities for tertiary education on a three yearly basis, via the Tertiary Education Strategy and Statement of Tertiary Education Priorities – commonly known as the TES/STEP document.

One of the first major changes in this new tertiary environment is the role of TEC and its relationship with tertiary education organisations (TEOs). Essentially, the TEC is moving from administering a funding system based largely on an enrolments formula to working in partnership with organisations as they develop investment plans focused on educational outcomes and how they can be achieved. Agreed plans will then be funded accordingly and the TEC will monitor against agreed outcomes.

Let me discuss these investment plans a little further, as they are an important part in the tertiary system. Investment plans will replace charters and profiles. They will bring together information about student demand, labour market conditions, what employers are saying about the skills they need, and the government's economic transformation agenda. This information will be applied strategically to the individual TEO, taking account of its current capability, asset base, financial situation and place within the overall network of provision. The plans will need to address risks and uncertainties, and identify how these will be managed.

The TEC's major focus in future will be to approve institutional plans, agree on funding packages to implement them, and then provide ongoing advice and assistance as those plans are implemented.

An initial step in this process has been release of the TEC's Investment Guidance document, which sets out in detail the strategic and operational shifts inherent in the reforms and new Investing in a Plan process.

This investment system provides tertiary institutions with much greater certainty than the EFTS system:

- It provides assured funding for up to three years on a rolling basis;
- It provides a process for managing fluctuations in enrolments and addressing other business risks;
- It recognises the need for TEOs to build capacity and develop institutional strength; and
- It repositions government as an active rather than a passive investor in TEOs.

That greater certainty is tied to greater responsibility. New Zealanders will look to tertiary institutions for:

- More systematic engagement with external stakeholders to ensure that funding will deliver improved skills and increased innovation;
- Active participation by TEOs in strengthening the network of provision through collaboration with other TEOs; and
- Cooperation with the TEC in areas such as contributing to high quality information flows around outcomes, analysis of need, quality, and network performance.

What needs to be stressed at the outset is that the success of the investment system depends upon TEOs and the TEC developing a mature relationship characterised by high trust, high accountability, and low compliance costs.

This is a system based on dialogue, and I think it is important to recognise the shift in culture that is needed. These reforms create a better set of tools for guiding investment in tertiary education; but we have a shared interest in making sure those tools are developed and refined, particularly in the first three years of the reforms.

Today I am announcing \$126.8 million in funding to support initiatives to enhance the capability of the ITP, ITO and wananga sectors.

First, to assist ITPs to increase collaboration and develop capability in areas such as distance learning, there will be a new allocation over the next two years of \$21 million of operating expenditure and \$55 million in new capital expenditure. This funding is earmarked for a range of purposes, with the overall aim of developing a high quality, sustainable network of provision.

Secondly, an additional \$35 million of capital will be available specifically to ITPs and Wananga over the next two years via the Quality Reinvestment Programme. As you are aware, this programme is in place to assist these organisations as they start to change their strategic direction. It also covers a range of activities aimed at boosting the quality of teaching and learning. The additional \$35 million will ensure there is more scope for investment in ITPs and Wananga at this crucial stage of the reforms.

Alongside these investments is a new injection of approximately \$16 million over four years, to support Industry Training Organisations to provide information and expertise to the rest of the tertiary sector in relation to skills needs, and to support ITOs to develop National Qualifications through which the wider tertiary sector can meet these needs.

ITOs and ITPs are working towards complementary objectives and it is important that their respective roles are clear and that there are good flows of information between them.

I appreciate that there are some issues relating to the potential for overlapping of provision, but I believe that we will work these issues through in the coming months.

We need to stay focused on the aim of creating well functioning networks of provision that are responsive both to specific industry training needs and the more general skills requirements of regional labour markets.

To understand these figures, it is important to see them in the context of recent history. ITP sector funding has attracted considerable attention in recent years, from both government and the general public. On the positive side, the Labour-led government has sought to invest in building up workforce skills. For example,

we are justifiably proud of our achievements in supporting training for industry through both the ITO and ITP sectors.

Our task from 2008 onwards is to demonstrate that it is an investment, which brings tangible returns to students, to their families and communities, to their future employers, and to our economy and society as a whole.

These new funding initiatives will play an important role in assisting the sector to make the transition to an investment mindset.

To conclude my remarks, I want to highlight two key messages I hope you will take on board as we move forward.

The first is that the new investment system will tailor funding packages to the individual circumstances of institutions. As a result, it makes little sense to focus on particular elements of funding packages to determine who might be regarded as 'winners' and 'losers'. There will certainly be important benchmarks to guide how funding is determined and ensure consistency; but there is little to be gained by nickel and dime exercises.

TEC's job is to work with each organisation on its funding requirements and to knit those into a functioning network. I am pleased to note that this activity is underway, with the release of the Investment Guidance and the workshops the TEC has been running throughout the country. What will follow next is the TEC Investment Managers sitting down with individual organisations, to begin development of the all important Investment Plans.

The second message is that we are looking at a significant reprioritisation of tertiary funding, and I do not want us to pretend otherwise. Changes will occur, and, while there will be a great deal of continuity, some of you will be doing things very differently in five years time. The point is that whether you retain your current focus or undergo significant change, it will be driven by an appreciation of what your regional economies and communities need, based on in-depth stakeholder engagement and careful research and analysis.

My announcement today is one in a series of tertiary reform updates I shall be making. I believe these changes represent a major opportunity for tertiary organisations to become engines for economic growth and social development in New Zealand. Instead of asking you to chase enrolments we are asking you to pursue better educational outcomes that set your students on a path towards stimulating careers and provide for your staff and management a stronger sense of purpose and involvement in the transformation of New Zealand.

Thank you.