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Speech Notes

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Ensuring quality and relevance – future directions for funding tertiary organisations. Speech to stakeholders

Legislative Council Chamber, Parliament Buildings

Today I am making some announcements regarding the future direction of tertiary education in New Zealand. These are vital next steps in developing a tertiary system that will better fulfil our needs in terms of national identity, economic transformation and support for families young and old. At the same time the system needs to provide better value for money for taxpayers and students. We want to engage fully with the sector to develop the details.

This government is committed to a quality tertiary education and training system that is relevant to the needs of New Zealand. Tertiary education organisations need to be better rewarded for quality rather than just for numbers of students.

The proposals I will outline today build on the reforms of 2000. These reforms created a new strategic direction for the tertiary education sector. A key part of these reforms was the establishment of the Tertiary Education Commission, and the development of charters and profiles for all tertiary education organisations.

In many respects we provide a quality tertiary education system. The ease with which our young graduates can obtain employment overseas is testament to that, even if that is a source of frequent national angst.

However, now is the time to take the next steps to ensure the sector produces more of the kinds of skilled graduates in the areas we need to drive the transformation of New Zealand into a high wage, knowledge-based economy, while also sustaining our social and cultural institutions and health.

The objectives of the changes are:

- A focus on government, regional and developmental priorities;
- Public confidence in the tertiary sector; and,
- Greater financial certainty for government and tertiary education organisations.

I believe that the key to achieving these objectives is to invest in tertiary education organisations based on plans agreed with government.

This approach will build on existing profiles that include information about what the organisation will deliver. It is likely to be rolled out progressively. The agreements will include information about what education will be provided, and performance commitments in relation to that. The key difference will be linking funding with the delivery of the plan. This will give the public more confidence in the value of taxpayer investment in tertiary education.

The agreements will be multi-year ones. This will give the government and the sector more certainty.

The next steps involve three key areas:

- Better differentiation of organisations, where the roles and distinctive contributions of different types of tertiary education organisations are better defined, and the different parts of the sector

work together in more complementary ways. We want organisations to stop operating in a fragmented way and therefore play to their strengths.

- Designing an alternative to the current, overly simplistic, Student Component funding system. We want to invest in institutions based on plans agreed with government. These will build on existing profiles, but funding will be closely linked to the profile so we can be assured our investment is channelled into the highest priority areas. We would also move to multi-year funding to increase certainty for the government and organisations.
- Developing an outcome focused quality assurance and monitoring system; enabling organisations to demonstrate how they meet specific student and stakeholder needs, and playing a robust role in ensuring quality teaching and learning.

I will now discuss these three areas in more depth. One of the effects of the reforms of the 1990s was that organisations pushed their boundaries without sufficient reference to each other or to the impact on the system as a whole. The understanding of the distinctive contributions of each part of the sector was at risk of being lost. While that flexibility brought a measure of innovation, it also led progressively (and unnecessarily, I would argue) to a loss of cohesion in the system, a loss of focus on core roles and (what really matters) on student outcomes.

We have made progress in rectifying the problems. Now it is my intention to place some clearer boundaries around what different types of organisations should be focusing on, and how they should be collaborating to provide more choice and better quality to students. This is an exercise in making the group of organisations operating in a region more accountable to that region for working together and providing a more seamless service.

Universities are research-led institutions, and are expected to provide a broad intellectual leadership within the community, as well as equipping people with skills that go beyond the vocational and foster critical thinking and innovation. Academic independence must be protected, not only to ensure that universities can act as the conscience and critic of society, but also to support the flexibility and innovation that comes with independence of thought. International benchmarking of universities is also important because it enables New Zealand universities to keep pace with international developments in higher education.

The three Wananga each have unique character and aspirations. They all have particular responsibility to provide a range of courses in a Maori medium, with a core commitment to te reo and ahuatanga Maori. Government is going to work with all three Wananga to explore the role of Wananga in the tertiary system and to build an effective partnership around quality delivery.

ITOs have a key role to play in identifying the skill needs of their industries and seeking to meet them. We need to build on this dynamic so it benefits the whole tertiary system.

PTEs, by contrast, are hard to characterise because they include every type of organisation from small community ones such as those supported by iwi, to large private training organisations. We need to consider how PTEs can contribute to a network of provision and how they can work more effectively with the rest of the sector to the benefits of students.

The issues of loss of focus are particularly acute for ITPs because they need to be responsive to shifts in skill needs that can be hard to predict. ITPs' traditional role has been to provide vocational and higher technical and professional skills and qualifications. More recently, they have moved into providing community and foundation courses on the one hand, and degree courses on the other.

That can put them in a position where it is difficult for them to simultaneously sustain their existing portfolio, respond to changing short to medium term skills needs, and make the needed investments in their facilities and staff.

The tight labour market has had an impact on the tertiary education system as a whole, but more particularly on the polytechnic sector as many of the students they would previously have recruited have found themselves jobs and not entered into fulltime study. This means the emerging generation of New Zealanders are more likely to look for vocational education on a part-time basis, or through an ITO, or as career change in mid life.

Many polytechnics have done their best to respond to this changing situation – for example, by offering more part-time provision. But we have also seen short-term fixes through seeking enrolments in low value, high volume courses.

The recent changes to certificate and diploma courses seek to put a stop to that. But I think it is important to see that the government is less interested in hand-slapping than in helping the tertiary sector to improve the quality and sophistication of its planning and its responsiveness to the needs of regional economies and local communities.

I want to turn now to how we might invest to support a plan. As I have said many times before, the current system relies too much on the short term decisions of individual students, and is not helping us develop the kind of strategically focused tertiary education system that we need. That is something I believe many in the sector appreciate.

I believe a system of formal multi-year resourcing agreements will give the government and the sector more certainty, and the public better value for money. There are many variables to be pinned down, and to do that it is important to identify what the system needs to achieve.

For the government's part, the system has to deliver two important things.

First, it must place an overall constraint on tertiary expenditure. I am not saying this merely because I am also the Minister of Finance. Lack of fiscal control hurts the tertiary sector, because it simply means that periodically there are expenditure blowouts. The only response available to the government is to wield the axe over something that can deliver immediate cost savings. Invariably what suffers is likely to be discretionary programmes, including new innovative initiatives that have yet to prove themselves.

Second, the government must be able to make informed high-level investment choices across the sector and know how that money is going to be spent. That means a system that gives the government an ability to make explicit investment decisions, and to ensure that funds are not diverted into other lower priority areas.

For tertiary organisations, the system needs to provide more certainty so organisations can plan ahead, and focus on delivering a portfolio of courses and qualifications that meet the needs of students and employers, regions and communities. A system that forces providers into an annual 'hand to mouth' approach to planning regime does a disservice to everyone. This is where profiles will, I believe, need to play a more prominent role.

The new funding system is likely to require a new, more sophisticated, formula. Such a formula may include elements relating to student achievement and participation, as well as elements related to the distinctive contributions and different costs faced by different types of organisation. While most funding is likely to be provided through such a formula, a small proportion would be held back to address unforeseen need, and to reward and support innovation.

We are not under any illusions that this kind of system does not have its own risks. There is the risk of increasing compliance costs, and we will be

consulting on how to simplify these, while at the same time increasing the accountability for the use of public funds.

There is also a risk that a system of plan-led funding may be perceived as a move towards centralised control of provision. This is not the intention. In fact, we would be moving to a system that requires organisations to reflect better the realities of New Zealand as a whole and the different skill and learning needs of regions and students.

There is a risk that funding according to an agreed plan may place pressure on access to courses where demand exceeds the number assumed in that plan. This is an issue that will be discussed as part of the consultation; but the government remains committed to the principle of open access.

Finally, there is a risk that the system may create an incentive for special pleading, institutions arguing, for example, that their cost structures are permanently higher than those of other organisations and require an additional premium. This risk will be mitigated by an improvement in the quality of management information across the sector, with the capacity for sensible cost benchmarking to be carried out.

The architecture of the new funding system remains at this point very open. There are many details to be sorted through and many choices to be made. I trust that the consultation process will provide an opportunity for robust debate and analysis of the options.

The new system must be underpinned by robust quality assurance and the disclosure of results. This brings me to the third area for consultation – that is quality and monitoring – and how this can be improved to become a tool the sector can use to demonstrate beyond question that it is delivering relevant education and training to consistently high standards.

Any new quality and monitoring system must enable organisations to demonstrate how they are:

- making sure they are meeting specific student and stakeholder needs, as outlined in their Profiles;
- playing a robust role in ensuring education and training is of quality; and,
- ensuring that continuous improvement is taking place.

We also need a quality and monitoring system that recognises the distinctive contributions of different types of provider, and allows these providers to get on with their jobs.

At the heart of the system must be an enhanced regime for gathering and analysing reliable and relevant information. As I said at the outset, the problem with our current system is that it identifies quality with the existence of a range of institutional systems and assets. It does not venture into the 'black box' and examine the nature of teaching and learning, and the outcomes of that.

I accept that these are harder concepts to grapple with and to measure; but they are the central indicators of quality. We need to find ways of improving and assuring the quality of teaching and learning, rather than simply examining unsatisfactory proxy indicators.

I believe a quality and monitoring system like this would foster accountability and transparency. It would also balance the need for greater accountability and transparency with the need to promote trust and avoid wasting time and money on unnecessary compliance.

Better information on tertiary education organisation performance will help improve decision-making at all levels – that is, amongst the organisations

themselves, as well as at a government, student and employer level. And at the highest level, the increase in accountability and transparency will engender public confidence in the tertiary education system.

Regarding the practical details of the consultation, officials have set up a range of opportunities over the next couple of months to enable that to happen. Officials will today provide you with the details of the consultation process, which will run until 12 May 2006. The timetable is such that I can go back to Cabinet in June 2006 with firm proposals. 2007 will be a year of working through the new approach with organisations. The final arrangements will roll out from 2008 beginning with the institutes of technology and polytechnics.

Thank you. I am now happy to take questions.