

Submission

By



To the

Tertiary Education Commission

On the

Next Stages in Tertiary Education Reform

12 May 2006

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**NEXT STAGES IN TERTIARY EDUCATION REFORM
SUBMISSION BY BUSINESS NEW ZEALAND
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1. INTRODUCTION

- 1.1 Business New Zealand recognizes that the tertiary education sector has made, and will continue to make, a huge contribution to our growth as a country and as individuals.
- 1.2 We have consistently argued *that “increasing educational levels of the population is one way of raising productivity and increasing living standards over time”* and that tertiary education has a critical role to play in this development.¹
- 1.3 Employers have signaled in recent years that they believe the tertiary education sector was not performing adequately. The Business New Zealand election survey of 1,100 businesses of all sizes across the country revealed that the shortage of skilled people was the number one concern for employers.
- 1.4 The survey also revealed a low rate of employer satisfaction with the entire tertiary education sector.² This could not be entirely explained by the preponderance of low-value, low-relevance courses in the news at that time.
- 1.5 Business New Zealand welcomes the opportunity to comment on the Next Stages in Tertiary Education Reform. We believe the voice of business has to be heard during these reforms.
- 1.6 This submission is broken up into three parts each addressing one of the questions posed by the Government in the consultation documents. The three parts are broadly:

Part 2) Distinctive Contribution
Part 3) Planning and Funding
Part 4) Quality and Monitoring.

¹ “Productivity Perspectives”, Business New Zealand, December 2005

² “Election Survey 2005”, Business New Zealand, August 2005

2. SUMMARY OF RECOMMENDATIONS

2.1 Overall, Business New Zealand makes the following **recommendations** that:

- (a) Systematic business engagement is vital for all tertiary education institutions – not just Institutes of Technology and Polytechnics (ITPs) and Industry Training Organizations (ITOs);
- (b) A strong degree of competition (including competition between state owned institutions) is healthy and should be retained under the reforms;
- (c) Reform of the ITO sector beyond improving strategic management and greater support for literacy training should be considered only after further consultation;
- (d) The new regime should ensure that private providers of education are not unduly discriminated against in favor of public providers;
- (e) The Government proposals as they stand are overly fixated on institutions and the Government. The dialogue must include students and the employers and employers should enjoy some prominence in this process;
- (f) The assessment of relevance must be made with the direct input of business to minimize the risk of central planning and bureaucracy;
- (g) The current proposals have too much of a regional focus. The focus of planning should be at an industry/sector under some clearly defined national goals.
- (h) Multi year funding arrangements, while desirable, will require extensive performance tracking and stringent accountability measures.
- (i) Student choice should remain as the main driver of education provision. Popular courses considered critical to business should not be capped because of the planning and funding system.
- (j) The reforms provide the perfect opportunity to move towards a more equitable system by reducing the differential between academic and vocational funding and removing the cap on industry training numbers.
- (k) The move to a quality and monitoring system which focuses outcomes, student needs, stakeholder needs and relevance should be welcomed but it needs to be acknowledged that this will require a near total revamp of the system;

- (l) Employers are able to make a valuable contribution to the proposed outcome-driven focus and their input should have greater weight when assessing quality.

3. Distinctive Contributions

Issue: Distinctive contributions - how the roles and distinctive contributions of different types of tertiary education organizations could be better defined and how the different parts of the sector could work together in more complementary ways.

Business Engagement

- 3.1 When considering the future shape of the tertiary education sector, Business New Zealand considers it vital that systematic engagement with business is built into every part of the system.
 - 3.1.1 Currently, engagement with business varies from institution to institution. There are numerous examples of where business and tertiary institutions are very closely aligned. One prominent example would be the strong relationship between the Employers and Manufacturers Association (Northern) and the University of Auckland and there are many, many more.
 - 3.1.2 In some institutions, however, the relationships are much weaker. Research commissioned by the Ministry of Education concludes that *“stakeholders [including business] generally perceived providers as too busy and/or under-resourced to have intensive and positive contact with them... Providers perceived contact to be satisfactory.”*³
 - 3.1.3 The research concluded that engagement with business was often dependent on the individuals involved and *“could vary from one school to another within the same university”*. The report summarized the view of the commercial sector that *“it was in the areas of engagement that were not considered to be mainstream that there was scope for improved responses”*.⁴
 - 3.1.4 Business New Zealand would recommend a more systematic approach which recognized the status of business as a key stakeholder and customer of tertiary education. In return, business will have to live up to the responsibilities implicit in such a status.

³ “Walking in Step – Tertiary education providers and their stakeholders – a path to collaborative research”, Ministry of Education, 2006

⁴ “Engagement of key stakeholder groups with the tertiary education providers”, Ministry of Education, 2006

- 3.1.5 To that end, Business New Zealand would stress that all tertiary education organizations need to engage with business and industry – not just ITPs and ITOs. In the slides for the Wellington consultation meeting, the current thinking for the distinctive contribution of universities, PTEs and Wananga did not mention a link to business.⁵
- 3.1.6 We fear this may send the wrong message to a few in the tertiary education sector and Government agencies who are reluctant to see business as a key stakeholder. The majority of people who go through the tertiary sector will enter the workforce and hopefully make a strong contribution to economic transformation. Closer relationships between business and institutions will help this.
- 3.1.7 Business New Zealand has welcomed the Government's recent moves to reduce the number of low-value, low-relevance courses on offer and the efforts to encourage more co-operation in the tertiary education system. These reforms are a further opportunity to improve the sectors performance.

Recommendation: Systematic business engagement is vital for all tertiary education institutions – not just Institutes of Technology and Polytechnics (ITPs) and Industry Training Organizations (ITOs).

Determining distinctive contributions is difficult

- 3.2 There needs to be a frank recognition that determining the distinctive contribution of institutions in the tertiary sector is difficult. Business NZ would contend that the system should not be excessively puritan. The sector will not benefit from being forced into neat little boxes and some overlap and ambiguity can be tolerated.
- 3.2.1 These reforms are an implicit admission that the Profiles system has not worked as hoped. Rather than reducing duplication and improving the focus of institutions, the Profiles system to date has largely been a compliance exercise gathering information which hasn't been strategically used. The reformed system will have to do something different and something better.
- 3.2.2 A key first step will be to define some objective evaluative criteria for assessing relevance, value add, importance, priority, capacity and quality.

⁵ "Tertiary Education Reforms: The Next Steps", Presentation by Janice Shiner, 3 May 2006

Competition is not necessarily a bad thing

- 3.3 While the emphasis on ensuring that institutions are focused on their core business is correct, we would emphasize that competition is not necessarily a bad thing. Competition is most certainly not the same as duplication.
- 3.3.1 The new system must retain strong elements of competition. The new system should err on the side of caution so that the presumption is in favor of competition.
- 3.3.2 Business New Zealand firmly believes that a degree of competition between institutions (including between state-owned institutions) is a healthy process which drives improved performance and customer service. If elements of competition are retained, the incentives are better aligned towards encouraging efficiency and productivity in the sector.
- 3.3.3 A strong element of competition will be important as a more centrally planned system will not natural encourage productivity and efficiency.
- 3.3.4 We have previously argued that “a more strategic and connected approach would not remove competition from the sector. Instead, it would increase relevance, reduce duplication and overlap, and would be a move towards complementary learning pathways.”⁶

Recommendation: A strong degree of competition (including competition between state owned institutions) is healthy and should be retained under the reforms.

Any ITO reform should not be rushed

- 3.4 We are strongly supportive of the ITOs and the work they do with industry. The number of people in industry and trade training has grown strongly and quality standards have been maintained in general. Business New Zealand would support the ITO having the primary role in relation to industry training in their sector. Care must be taken that the new system does not impinge or unduly limit this leadership role.
- 3.4.1 While acknowledging there is variety across the ITO sector and the recent blurring of boundaries between ITOs and ITPs has caused tensions, we believe ITOs are, in general, strongly connected to their industries and highly responsive organisations.
- 3.4.2 We would support the growing focus on and support for improving literacy in ITO arranged training and would also support the greater development

⁶ “Skills Perspectives”, Business New Zealand, February 2006

of strategic management skills within ITOs to help ensure a strategic and integrated approach to training.

- 3.4.3 Beyond that, Business New Zealand would be wary about more ITO reform without further details and discussion. The official papers at this stage are light on the Government's thinking in relation to the ITO sector.

Recommendation: Reform of the ITO sector beyond improving strategic management and greater support for literacy training should be considered only after further consultation.

PTEs valued by employers

- 3.5 Business New Zealand would many of the same comments above in relation to the PTE sector. It seems clear that the focus of the published material and Government consultation to date has been the universities and ITPs. ITOs, PTEs and ACE are covered in far less detail. The official papers contain little detail on the Government's intentions in relation to these sub-sectors and any major changes would require further engagement.

- 3.5.1 The material available does make us wary about what the new system may mean for PTEs. The use of language such as the PTE sector will "complement" the public sector ⁷ rings alarm bells.
- 3.5.2 Private providers generally provide focused and relevant education and training. They earn their living by providing a quality output and business is generally highly satisfied with the level of service provided by PTEs. ⁸ We would oppose attempts to downgrade their status to simply covering any perceived gaps in the public system. This would marginalise a valued part of the tertiary education sector.
- 3.5.3 Indeed, we would support rolling back some of the current discrimination in the system and allow PTEs more chances to compete with public institutions for common funding pools. For employers, the primary concern is whether the education and training provided is fit for purpose rather than a fixation about ownership status.

Recommendation: The new regime should ensure that private providers of education are not unduly discriminated against in favor of public providers.

⁷ "Ensuring quality and relevance", Minister of Tertiary Education, Presentation to Stakeholders, 4 April 2006

⁸ "Employer Opinions on Education and Training", Waitakere, Rodney District and North Shore, 2004/05

4. Planning and Funding

Funding - How a system can be developed that enables the government to invest in tertiary education organizations based on plans agreed with the government. The new system would link funding more closely with Profiles. It would also see a move to multi-year funding to increase certainty for the government and organizations.

Proposals are inward looking

- 4.1 As correctly pointed out by Paul Winter, the Chief Executive of the Employers and Manufacturers Association (Central), at the Wellington consultation session the discussion documents are highly focused – indeed, over focused - on institutions and their relationship with government.

Need to focus more on the customers of tertiary education

- 4.2 Business New Zealand argues that the new system needs to focus far more on the customers of tertiary education – namely students and employers – as well as including a broader range of stakeholders. Tertiary education can significantly improve a person and their prospects but there are also strong elements of public good and the not unreasonable expectation that society will see some benefit from an educated and skilled population.
- 4.2.1 The narrow focus of the background papers was confirmed at the consultation meeting in Wellington where officials acknowledged there had been no thinking done about tertiary education which did not involve a Government contribution.
- 4.2.2 The reforms will have effects beyond Government-funded provision particularly in the quality assurance and monitoring field. This could potentially impact on some of the activities of Business New Zealand's regional associations and other providers such as NZIM and should be considered.

Employers deserve some prominence

- 4.3 That current limited perspective in the consultation documents needs to be significantly widened. Business New Zealand submits that employers deserve some prominence in these issues and should not be lumped in with the wider public for the purposes of engagement.

- 4.3.1 It is only employers who take the risk and invest their own money to employ people at the end of tertiary education. Without the employer choosing to employ people coming out of the tertiary education sector, the substantial community (taxpayer) investment in the public good portion of tertiary education is largely wasted. It is for this reason that employers deserve a special status.
- 4.3.2 Employers also deserve a special status because of the positive input they can have into the new planning process envisaged by the reforms.

Recommendation: The Government proposals as they stand are overly fixated on institutions and the Government. The dialogue must include students and the employers and employers should enjoy some prominence in this process.

Customer input better than bureaucracy

- 4.4 Business New Zealand believes that students and employers are the best placed to evaluate the quality and relevance of the system.
 - 4.4.1 Business is best able to predict future needs of an industry. Employers' prosperity largely depends on their ability to predict and adapt to a rapidly changing market environment.
 - 4.4.2 Business New Zealand submits that it is important that business has a direct input into the planning process.
 - 4.4.3 As the Government has correctly identified, there is a risk of centralisation of control and the Minister of Tertiary Education has flagged that it is likely the TEC will be "strengthened"⁹.
 - 4.4.4 Business New Zealand is adamant that increased bureaucracy will not improve educational outcomes. A deterministic system which uses a bureaucratic process to assess the relevance of tertiary education will be of little use and in fact will impose deadweight costs on the economy. However, we contend that more planning doesn't necessarily have to mean more bureaucracy – even though it frequently does.
 - 4.4.5 The opportunity presented by the reform process is to ensure that the discourse in the planning process is strategic in nature. If the information entering the process is strategic then it will demand a strategic level response from institutions and the Government.

⁹ "Ensuring quality and relevance", Minister of Tertiary Education, Presentation to Stakeholders, 4 April 2006

- 4.4.6 Industry is the best placed to contribute strategic information on skill needs and business needs. If it does so directly then the tendency towards bureaucracy can be reduced or avoided.
- 4.4.7 However, it is important to flag that the business input must be direct in nature. During the discussion of “investing in a plan” in Wellington, the head of TEC talked of a “*dialogue between the institution and the TEC based on business need.*”¹⁰ Such a dialogue would not, in the opinion of Business New Zealand, be a strategic one. It would be similar to the Assessment of Strategic Relevance exercise conducted recently where business relevance was assessed by officials.
- 4.4.8 Proxy assessment is not a desirable characteristic of the new funding system. Business input should be direct and embedded in the system. Better information will help ensure better outcomes.

Recommendation: The assessment of relevance must be made with the direct input of business to minimize the risk of central planning and bureaucracy.

Value of regional focus over-stated

- 4.5 Business New Zealand would also recommend less of a regional focus in the new funding framework. While regional issues have their place, the mobility of people, labour and skills means they are generally of limited use.
- 4.5.1 While the initial paperwork suggested that regional plans would be used in the new system, officials from TEC have subsequently signaled that was never the intention.
- 4.5.2 We still contend that the primary thinking should be done at an industry/sectoral level sitting under some clear national (and potentially international) imperatives. We contend that regional issues should be much further down the planning chain and of less prominence than the initial proposals seemed to envisage.

Recommendation: The current proposals have too much emphasis on a regional focus. The focus of planning should be at an industry/sector under some clearly defined national goals.

¹⁰ “Tertiary Education Reforms: The Next Steps”, Presentation by Janice Shiner, 3 May 2006

Multi-year funding arrangement must ensure accountability

4.6 We agree with the arguments that multi-year funding arrangements will provide more certainty for institutions and a measure of protection for the Government against cost blowouts. These are both desirable outcomes.

4.6.1 However, a multi-year funding arrangement will actually require better planning from institutions (and agencies) and the multi-year arrangement can not be treated as a blank cheque. There needs to be extensive performance tracking during the year and measures in place to ensure accountability early if targets are not being met. A degree of flexibility will also be required.

Recommendation: Multi year funding arrangements, while desirable, will require extensive performance tracking and stringent accountability measures.

Student Choice

4.7 The new funding system also needs to preserve student choice as the main driver of education provision. The Government has acknowledged this risk saying that *“actual demand for a course may exceed planned provision threatening access.”*¹¹

4.7.1 While that may not be an issue for courses of low or marginal business relevance, employers would hate to see courses considered critical to business capped because of the planning and funding system. If a course is relevant and a student wants to enroll, the system should allow them to do so.

Recommendation: Student choice should remain as the main driver of education provision. Popular courses considered critical to business should not be capped because of the planning and funding system.

More equitable system for vocational training

4.8 Finally in this section, Business New Zealand considers the next steps in tertiary education reform offer a perfect opportunity to move towards a more equitable footing between academic and vocational funding. We have long identified the need to reduce the inequality in funding rates between Student Component and Standard Training Measure funding streams.¹²

¹¹ “Ensuring quality and relevance”, Minister of Tertiary Education, Presentation to Stakeholders, 4 April 2006

¹² “Skills Perspectives”, Business New Zealand, February 2006

- 4.8.1 Similarly, a reform of the system would also provide the opportunity to address the anomaly where trade training is capped. Business New Zealand has argued *that “It does not make sense to limit the numbers of builders or plumbers that can be trained while allowing unlimited places in university arts courses.”*¹³

Recommendation: The reforms provide the perfect opportunity to move towards a more equitable system by reducing the differential between academic and vocational funding and removing the cap on industry training numbers.

¹³ “Skills Perspectives”, Business New Zealand, February 2006

5. Quality and Monitoring

Quality and Monitoring - how quality assurance and monitoring systems could be improved to focus more on outcomes and enable organizations to demonstrate how they are meeting specific student and stakeholder needs by delivering relevant education and training to high standards.

An outcome focus will require a major revamp

- 5.1 Business New Zealand agrees that quality assurance and monitoring systems do need to be improved in the sector. The mooted focus on outcomes, student needs, stakeholder needs and relevance is welcomed.
- 5.1.1 Such a focus will require a near total revamp of the current system which sees responsibilities fragmented across a number of Government agencies and educational bodies.
- 5.1.2 The results in recent years have not been encouraging with a number of prominent low-relevance, low-value course sapping stakeholder confidence and high levels of employer dissatisfaction with the overall skills of graduates from a range of institutions (most notably universities and ITPs).
- 5.1.3 This is recognized in the background paperwork. The Minister of Tertiary Education has stated *“Currently the quality system provides insufficient information to allow decision makers to be confident that their decisions are based on robust performance evidence.”*¹⁴

Recommendation: The move to a quality and monitoring system which focuses outcomes, student needs, stakeholder needs and relevance should be welcomed but it needs to be acknowledged that this will require a near total revamp of the system.

Employer contribution to outcome focus

- 5.2 Business New Zealand welcomed the new focus outcomes saying it would align the tertiary education sector with how most businesses worked.¹⁵ Inputs can be usefully measured but the ultimate yardstick is the outcome.

¹⁴ “Tertiary Education Reforms: The next steps”, Paper from the Minister of Tertiary Education to the Chair of the Cabinet Policy Committee

¹⁵ “Value and Relevance needed in Tertiary Sector”, Business New Zealand press release, 4 April 2006

- 5.2.1 The current quality and monitoring system has not had this focus. Inputs are traditionally much easier to measure than outputs in the education sector. Rather than measuring what matters, the current systems have often sent the signal that what is measured matters.
- 5.2.2 Employers are able to make a valuable contribution to the proposed outcome-driven focus. Employers see only the outcome – the person after they have been through the tertiary system – and have little or no knowledge (or interest) in the inputs inside the institution.
- 5.2.3 Business offers a unique and useful perspective. It can not be replicated by institutions or Government agencies.
- 5.2.4 Business New Zealand would argue strongly against the stated intention in the reforms that *“The assurance of quality will be based on rigorous internal review by providers that is tested and critiqued through external review by quality assurance bodies.”*¹⁶
- 5.2.5 This to us again demonstrates an inward focused, closed loop approach which focuses on institutions and Government to the exclusion of all else.
- 5.2.6 A true outcome focused system will require a greater diversity of information including some meaningful benchmarking domestically and against international best practice. Business New Zealand believes, for example, that a survey of employer satisfaction with graduates (quality) provides infinitely more value about the standard of education than a simple survey of graduate destinations (location).
- 5.2.7 The new system should give greater weight to industry feedback either through industry groups or employer surveys.

Recommendation: Employers are able to make a valuable contribution to the proposed outcome-driven focus and their input should have greater weight when assessing quality and relevance.

6. CONCLUSION

- 6.1 Business New Zealand believes that the key drivers of the reforms should be engagement, relevance, quality, value.
- 6.2 Business New Zealand welcomes the opportunity to make this submission. We would be eager to be involved in the on-going policy process as the details of the tertiary education reforms are developed.

¹⁶ “Tertiary Education Reforms: The next steps”, Paper from the Minister of Tertiary Education to the Chair of the Cabinet Policy Committee

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' and Manufacturers' Association (Northern), Employers' and Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body.

Together with its 60 member Affiliated Industries Group (AIG) which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). An increase in GDP of at least 4% per capita per year is required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.