

Submission by



to the

Ministry of Education

on the

2024 Review of Vocational Education

REVIEW OF VOCATIONAL EDUCATION – SUBMISSION BY BUSINESSNZ¹

EXECUTIVE SUMMARY OF RECOMMENDATIONS

- BusinessNZ agrees that urgent change is needed to the centralised vocational model to drive better outcomes for business and learners, and ensure long term positive economic and social outcomes from the Government investment in skills and training.

1. INTRODUCTION AND RECOMMENDATIONS

- 1.1 BusinessNZ welcomes the opportunity to make a submission to the Ministry of Education on the Review of Vocational Education. This paper has been circulated to major companies, regional employer associations and industry associations for feedback.
- 1.2 BusinessNZ welcomes the Government intent to refocus vocational education on meeting the needs of industry and learners.
- 1.3 The consultation paper lacks relevant information to fully inform stakeholders of the risks and benefits of the different models. Issues regarding financial viability of the sector are highlighted, however detailed information about funding changes is not included. Meeting the needs of industry is stated as an aim, however quality assurance settings that should ensure consistency in standards and provide employers with confidence in qualifications and competencies is not discussed. Polytechnics are proposed to be able to operate with autonomy, however criteria for being able to operate with autonomy or enter into the proposed federation model is not outlined other than in terms of financial viability. While the 'what' and 'when' options have been provided, the 'why' and 'how' is absent.

It is recommended that the following considerations be factored into decision making:

- **The vocational education system as described in the paper does not reflect the ways businesses invest in skill development.** The success of the sector extends beyond meeting government targets for enrolments and financial viability. Relevant skill development responsive to industry demand, occupational licencing settings, the pipeline and transitions from education and employment to vocational education, alignment to social development and immigration (workforce supply) policies, certainty of policy settings and ensuring ease of transaction for industry and learners will impact the success of a further series of reforms.
- **Previous reforms have been unsuccessful, and New Zealand now lags behind international standards for vocational education.** The sector has been in constant flux of structural reform, while the system incentivises high volume, low cost delivery. Lack of recognition and clarity of the functions, roles and outcomes within the system; cumbersome change programmes and a lack of adaptation and anticipation of different ways of working and skill needs has created lethargy in the system. Having access to a well-skilled workforce is a key competitive advantage for New Zealand businesses.
- **Change to the system requires leadership, clear measures of success and effective implementation.** Education strategies over many years have cited achievement and outcome objectives, however across the system, there is evidence of declining educational standards. The Regulatory Impact Statement fails to provide a clear problem definition, or confidence in the options presented. BusinessNZ suggests that the system be driven by a clear vision of the criticality of a skilled workforce to drive economic productivity for New Zealand, and opportunity and prosperity for individuals. Clear accountability and value measures should be applied to the \$900 million annual government spend.

Of the options presented in the consultation paper, BusinessNZ recommends:

Proposal 1 – Institutes of Technology and Polytechnics

- **Institutes of Technology and Polytechnics are reconstituted to focus on providing regional access to high quality vocational education, and support specialist areas nationally.** BusinessNZ agrees that a financial sustainable, effective and efficient polytechnic model

¹¹ Background information on BusinessNZ is attached as Appendix One.

is necessary to support regional opportunity and economic development. A key aspect of the ITP's however is the physical footprint, which, as noted in the consultation paper is under-utilised and inefficient. The capital assets are a key aspect of driving greater cost efficiency, however for ITP's to be more connected to community and industry, the utilisation should be more focussed on facilitating educational opportunities than institutional ownership. It would be expected that a key test of the ability of an ITP to be reestablished would be to have a comprehensive long-term capital asset management plan, and that funding incentivises ITP's to have fit-for-purpose and right sized facilities for the delivery of skills training in the region. This could include having financially viable arrangements in place to 'sweat the assets' and meet regional need. For example, underutilised ITP assets could be used for vocationally focussed charter schools; support a partnership approach to delivery where the ITP has the required equipment or place but not the necessary expertise or staffing, and actively phasing out and disposing of unnecessary plant and assets. For ITP's to be an anchor for the region and community, the ethos of vocational training will need to shift to being open to meeting community and industrial needs of 'right time, right place, right way' and a relentless focus on technical skill excellence.

- **A federation model is established to gain efficiencies across the sector, however an 'all in or all out' approach is not necessary.** BusinessNZ agrees that a federation model could be appropriate to drive efficiencies, however it carries significant risk if executed as proposed in the document. Key risks include lack of community buy-in, a decline of direct teaching and learning experiences in the region in favour of online learning; replicating the lethargy of Te Pūkenga via layers of unnecessary management; unclear decision making points; and bundling financially unviable institutions together that may further weaken the balance sheet of the collective. There are some back-office functions that would be suitable for all ITP's to utilise and also to increase the purchasing power of the sector, however these opportunities should be extended to all ITP's as a business decision to save costs, rather than as a compulsion due to the Crown not being able to establish institutions that are not a going concern. There could be advantages as well for learners, with shared systems supporting greater ease of transferability of learning. While a full federation model has not been tried in New Zealand, previous iterations of 'the Metro' polytechnic grouping and the Tertiary Accord of New Zealand (TANZ) have been trialled previously with minimal contest from local stakeholders as things like a shared payroll system, if executed well, has little impact on key stakeholders other than freeing up resources to deliver skills and training. It is suggested all of the work done on business cases and relevant information on shared services developed at Te Pūkenga is made public to help inform discussions.

Proposal 2 – Work-based learning

- **More detailed design work is needed on industry training options to ensure services and products are fit for purpose and meet a range of industry needs.** BusinessNZ agrees that industry training and standard settings needs to work 'hand in glove' with industry. There are a range of business views on the two options presented in the paper, and further design work with industry to develop an Option C is necessary to explore options and impacts of the models. It is important that employer choice of training provider is maintained, and that the standard setting function is more responsive to business need and results in consistency of learning outcomes.
- **Government functions (funding, quality assurance, regulatory compliance) need to be urgently reviewed.** BusinessNZ does not support NZQA being given standard setting function, as a key failure of the system currently is the robustness of the quality assurance system, evidenced by the variation of graduate competencies. Industry training is highly valued by employers as it develops the enterprise skills necessary for employment such as working as part of a team, reliability, real world experience and industry exposure as well as technical skills. There is a disconnect however between the level of compliance, and the functions of, NZQA, TEC, MBIE and the Ministry of Education, and the consistency of the competencies of graduates holding the same qualification delivered in different modes. There is little acknowledgement of the excellent training and investment by employers that supports the industry training system.
- **Workforce planning should be considered at the firm, industry and national level.** There have been some positive developments from the Workforce Development Councils, noting the creation of the workforce development platform provides useful analysis of skill shortages across industries. However, centralised workforce planning, particularly in industries with persistent skill shortages, have failed to have appropriate mechanisms to similarly plan for investment and the skills pipeline necessary. Additional factors such as learner choice; point of the economic cycle; cost, access and scalability of provision; worker mobility; immigration settings and ease of transaction with the education sector all impact on the ability to execute a workforce plan.

Proposal 3 – Funding

- **Funding should incentivise technical skills excellence, improvement to productivity and skill utilisation in the economy; and employment outcomes and labour mobility for individuals.** Continuing to incentivise high volume, low cost provision for institutional viability will continue to focus vocational education providers on government settings rather than meeting the needs of industry and learners. The proposal in the paper to reinstate previous funding rates does not examine whether the funding drives the right type of behaviour, is sufficient to meet the costs of delivery or represents value for money for individuals, industry and government. There are significant fiscal risks of further reforms, both in the short term of an uncosted, multi-year change programme, and of long-term economic drag due to the skills supply not meeting the skill demands of business.
- **Incentivising online learning over real world industry experience runs the risk of further degrading vocational education.** Online learning has undergone significant development over recent years, however incentivising online learning over practical experience carries significant risk to the future of skill development. While it provides ease of access, vocational education in areas like traditional trades requires the physical interaction of learning how to use tools to be competent and safe on the job, and oversight of how a learner is applying skills to determine competency. Further, as a method of establishing financial viability, there needs to be a realistic sense check on how competitive New Zealand ITP's are in a globally competitive online learning market, and whether returning to mode of delivery funding channels recognises optimised blended learning modes for educational outcomes over revenue generation for institutions.
- **Industry training funding should not be returned to former rates.** Industry training has long been the poor cousin of the vocational system, under former settings being used to cross-subsidise the standard-setting function, or under current settings with work based learning profitability being used to subsidise the entire Te Pūkenga model. There has been a pervasive perception that industry training cost should be more fully met by the employer as it results in productivity and profit increases for the firm. In reality – employers invest heavily in training, however the majority does not appear to be delivered in the formal system. As evidenced by the 2024 Future of Work report (available on the MBIE website), most firms and employees are satisfied with the training opportunities presented, and there is high uptake of workplace training. The decision by employers to utilise other means of training than NZQA recognised qualifications will reduce industry training to being primarily compliance driven rather than productivity enhancing, and increase the likelihood of employers choosing uncredentialised and more responsive education service providers either within New Zealand or overseas. At a time of increasing cost and reduced profitability, putting more cost and compliance on firms will further degrade business buy-in to industry training when firms carry the risk and cost of taking on unskilled or underskilled employees.

2. BACKGROUND

- 2.1. A skilled workforce is critical to economic development and productivity. The ability of the vocational system to adapt quickly to new technologies, diverse learner needs and work organisation will be critical to New Zealand remaining globally competitive. The system is dynamic and driven by a number of factors, including regulatory compliance, productivity enhancement, occupational licencing, traditions of training and value of qualifications as a fair representation of skills and competencies to firms.
- 2.2. There is no single business view of 'the best system'. Different industries and challenges; skill needs of corporates and small businesses and differing capabilities for training; a myriad of regional and national partnership arrangements and ease of transaction; ways of integrating training into career development and promotion, and satisfaction with the current providers and system are mixed across the business community. Business satisfaction with the skill system is not systematically measured to inform policy making. In countries with leading vocational systems with high levels of employer engagement, company satisfaction is a key metric of success.
- 2.3. Compared to other OECD countries, New Zealand has a high proportion of the workforce with level 4 and higher qualifications, low unemployment, high level of skills mismatch and low productivity. Vocational skills are in high demand, comprising the largest segment of work visas issued in the last

year. Apprenticeships and industry training are the most effective active labour market programmes to invest in.

- 2.4 Vocational education has undergone constant change in recent years. A new approach is needed to centre the system on the practical skills that businesses need, ensure consistency and value of qualification outcomes, and ongoing career progression and labour mobility for individuals.

3. CONSULTATION QUESTIONS

- 3.1 This section provides comment on the consultation questions, noting that there is insufficient information in the document to fully inform stakeholders of the risks and benefits of the proposed approaches.

3.2 *Proposal 1 – Creating a health ITP network that responds to regional needs*

- 3.2.1 *Do you agree with the consultation document's statements on the importance of ITPs? Why or why not?*

BusinessNZ agrees that access to regional vocational education is important, however the framing of importance in the consultation document refers to 'the rightful place' of ITP's as anchor institutions to drive regional economic development. The detailed ITP section outlines a range of functions (page 7, paragraph 3), without clarity on whether polytechnics are performing these functions currently and what outcomes are being achieved. The assertion and aspiration of what ITP's can do, particularly within the context of the financial challenges, and in the absence of the context of vocational training delivered via other channels such as social development (e.g Mana in Mahi) or other government funding channels does not give a clear picture of the role and effectiveness of ITP's within the broader skill system. Regional ITP's have an important role in providing educational opportunities and pathways to employment, and there is potential for the sector to be drivers of skills and economic development, however not all ITP's deliver all of the functions outlined in the consultation document, and funding incentivised toward volume in areas with small populations will always create challenges of economies of scale and profitability, particularly given the high fixed overhead costs in ITP's. ITP's should be incentivised to respond to, and monitored, for acting as skill pipelines and hubs for industry and community. Declining enrolments, financial issues, varying levels of business confidence in individual institutions and the cumulation of twenty years of viability and quality issues all indicate fundamental problems in the way ITP's have executed their mandated functions within the tertiary system and broader systemic issues that the consultation paper does not articulate.

- 3.2.2 *What do you consider to be the main benefits and risks of reconfiguring the ITP sector?*

The main benefit of reconfiguring the ITP system is for the institutions to be enabled to be more responsive to industry and learner need, encourage innovation and strengthened industry and regional partnerships, and improve confidence and trust from firms in the skills and competencies of ITP graduates. There are numerous risks associated with reconfiguring the sector, including (but not limited to), the sector being more focussed on change processes and government settings than the core function of meeting the needs of industry and learners; lack of clarity of functions, roles, responsibilities and measures of success for the ITP sector; change fatigue of the workforce contributing to further declining service delivery; compounding financial deficits creating significant financial risk to government of an uncosted change programme; economic drag of compounding skill shortages and mismatches; a single point of failure of the federation model, similar to Te Pūkenga, but without the contributing profitability of successful ITP's or work-based learning to cross-subsidise loss making divisions; lack of confidence of business and learners on a clear pathway to institutions offering relevant skills; and inward focus resulting in the failure of ITP's to recognise and respond to rapidly changing skill demands.

- 3.2.3 *Do you support creating a federation model for some ITPs? Why or why not?*

BusinessNZ supports the concept of greater efficiency and effectiveness of the vocational education system, the principles of responsible public spending with suitable accountabilities and regional autonomy to improve responsiveness to business and learner needs. The challenges of reconfiguring vocational education are in line with broader public sector reforms – namely health and water management that face similar issues and characteristics of

criticality to economic and social development; regional features and focus; and differing levels of capability and financial viability across individual organisations. The federation model poses the risks outlined in the previous question, however the framing of the federation model within the consultation document suggests a system more driven on leveraging the strong balance sheet of the Open Polytechnic and online learning as a default solution for regions that struggle with economies of scale under the current funding system, and the potential for a centralised model for under-performing ITP's rather than articulating the benefits of cost savings from shared back-office services; enabling greater co-operation between institutions to deliver relevant education products and services or improve transferability of learning across the vocational sector.

3.2.4. *What are the minimum programmes and roles that need to be delivered by the new ITP sector for your region?*

A successful ITP sector will be closely linked and able to adapt to the needs of a broad range of business needs. For major companies with a national presence, ease of transaction and consistency of training quality and outcomes is important. For regions heavily dependent on particular industries, ITP's should be enabled to pursue technical excellence and specialisation, and able to deliver where needed. Employer feedback loops are necessary for the monitoring system to inform whether ITP's are fulfilling the mandate of meeting regional need and providing a valued skills pipeline for business, and employment prospects for learners, rather than encouraging ITP's to be 'all things to all people'. While a baseline of provision is necessary – every town in New Zealand needs a pipeline of core essential workers skills such as builders, healthcare professionals and hospitality workers, learner choice will always influence enrolments and therefore the viability of courses at ITP's, particularly when there is strong competition in a region.

3.2.5 *What are the critical factors needed (including functions and governance arrangements) to best support a federal model?*

BusinessNZ favours a skill based governance structure over a representative governance structure. Given the scale of issues in the ITP sector, any federated model will require strong governance and management capability, clear decision making responsibilities and delegations, and constructive working relationships aligned to the pursuit of excellence in vocational education to be successful.

3.3 **Proposal 2 – Establishing an industry-led system for standards-setting and industry training**

3.3.1 *Which option do you prefer overall? Why?*

BusinessNZ does not consider either option is fit for purpose and recommends an Option C is developed with industry. BusinessNZ agrees that standard setting needs to be industry-led, with strong feedback loops. Option A presents an expedient option, as for all intents and purposes, the old ITO organisations still exist, either as divisions of Te Pūkenga or as stand alone organisations or PTE's. However, BusinessNZ does not support a monopoly being given to these organisations for on-job training, as this is likely to reduce innovation, the ability for firms to ensure the training services provided are appropriate for their business and ways of working, or support more blended learning models that build in on-job learning and industry experience. Option A is essentially a return to the old model, which also had features of inconsistency in service delivery levels; some industries feeling poorly served by their ITO's; niche and small industries being excluded from the system; and a sentiment from some employers that 'they did all the work and the ITO collected all the money'. The standard setting and quality assurance settings did not result in consistent graduate outcomes via different modes (disparities with different ITP graduate competencies has been well canvassed in previous reviews). High performing ITO's however provided great examples of the system working well, often using the profits to subsidise important but unfunded activities, including school engagement and transitions, capability building with small businesses, industry promotion and recruitment, additional literacy and numeracy support, additional tuition sessions, additional pastoral care and support and ensuring employers were satisfied with the services provided. ITO's would need a clear mandate to drive skills and training excellence as a productivity driver for the economy and be enabled to respond to business needs. Corporate firms will require different services to small businesses, and aligning the

training system to businesses, rather than forcing businesses to purchase education products and services that may not be fit for purpose.

Option B is not industry led, and BusinessNZ does not agree that government is best placed to organise industry coverage. It is unclear what a 'new type of organisation' may be in regards to separating the work based learning divisions, or what levers the organisations would have to support innovation in the system. It is likely that the organisations would run into similar issues as the Workforce Development Councils of lack of clarity or duplication of NZQA functions.

3.3.2 *What are the main features and functions that Industry Training Boards (Option A) need to be successful?*

The main features for the success of any vocational model will be ensuring the system incorporates the features of high performing vocational education systems, these are:

- a broad education that enables learners to apply cognitive and enterprise skills in an authentic industry setting and that prepares them to further develop their skills over their working lives.
- The standards and credentials should be widely recognised and valued by industry and exemplify the leading edge of global industries contextualised to local conditions.
- Knowledgeable and experienced instructors provide learning and practice opportunities on relevant equipment.
- Investment is aligned to economic need and there are appropriate incentives to enhance the attractiveness of being a training firm, or pursuing vocational training.

A review of the government roles and responsibilities is also necessary to arrange funding incentives, compliance, accountability, monitoring and interventions in a sensible and efficient way.

Strong leadership, management and governance will be necessary to plan and deliver a change programme quickly across the system while minimising disruption and maximising opportunities to establish strong and innovative industry/education partnerships.

3.3.3 *Under Option A, how important is it that ITBs and non-ITBs be able to arrange industry training? Why?*

It is important that employers have choice to engage in training in the right way, at the right time and in the right place. BusinessNZ does not support monopoly control and considers that all providers need to be accountable for whether training is meeting the needs of business, and providing a positive return on investment for the learner, business and government. Monitoring mechanisms will need to ensure there are strong and direct feedback loops on firm satisfaction with the products and services provided.

3.3.4 *What are the main features and functions that industry standards setters (Option B) need to be successful?*

Industry standard setters need to be intrinsically linked to industry. The organisations, qualifications and standards need to have the confidence of industry and ultimately this is assessed by the ability of the individual to apply skills in a work-based setting, regardless of whether the person graduates from an ITP or undertakes work-based training. Although New Zealand's qualifications framework is well recognised internationally and aligns to international standards, employers frequently cite the need to retrain ITP graduates on the job, and there is variable feedback from employers that set higher standards for the skills necessary in their workplace than the formal qualification.

Under the current (Workforce Development Council) and previous (ITO) standard setting models, there have been challenges. Unclear responsibilities between NZQA and WDC's; a change programme to the qualifications framework undertaken at a late stage of the RoVE resulting in misalignment and the failure to complete the 'harmonisation of qualification' project at Te Pūkenga highlights an overly complex system with providers and government agencies working in silos of each other rather than as a system.

Under the previous ITO model, there was a proliferation of qualifications on the framework, and the 'Targeted Review of Qualifications' was undertaken to remove redundant qualifications. The qualification design enabled some qualifications to be undertaken only in the workplace, with little coherence across the pathways that learners may take through school, an ITP and employment. While previous reviews have focussed on the quantum of qualifications, there needs to be a more fundamental review of government functions to ensure that the standard setting function is anchored on what industry needs and has suitable flexibility rather than NZQA compliance, and there is active management of the qualifications to ensure standards and qualifications have a clear alignment to the skill needs of industry and the employment opportunities available.

There is a need for standard setters to be pragmatic given the duplication of skills across a range of different industries but within different context, the wealth of international standards available that can be contextualised to the New Zealand workforce, and the need to clearly engage and respond to industry needs.

Vocational qualifications are anchored in applied and practical skills, and BusinessNZ encourages standard setters to consider the best ways to ensure that the ability to operate in a workplace environment is a key graduate outcome. This may include reconsidering the quality assurance and moderation practices to ensure that learners are obtaining the relevant experiences by skilled instructors and on relevant equipment to be work-ready and capable, requiring more capstone and industry endorsed assessments and requiring suitable work experience as a competency requirement.

Standard setting bodies will need to be clear on the connections between skill standards, unit standards and achievement standards to ensure portability and recognition of learning and support effective transitions. This will also require better information available on the standards and making it easy for employers to find relevant and current information about qualifications.

3.3.5 *Are there key features of the Workforce Development Councils that need to be retained in the new system?*

The workforce information platform (workforceskills.nz) is useful, and it is suggested there is an ongoing function of keeping this updated, and building it with various data sources as a useful information source.

Some smaller industries have noted the ability to get buy-in from WDC's for qualifications when the industry size has been a barrier previously. BusinessNZ considers that for those industries seeking credentials and qualifications, there should be a point of contact to work collaboratively to this objective where there is a clear skill component not available elsewhere, and occupations in the labour market requiring this skill.

Some industries have found value in the sector reference groups, and noted the WDC has worked through the specified qualification work programme. Industry representatives have noted positive engagement via meetings with the WDC.

BusinessNZ considers there should still be channels to government to inform demand for training and therefore investment decisions, however the ability of WDC's to direct funding appears to have been limited in practice.

The voice of industry is industry and employer associations that have a far broader mandate as membership organisations to represent and advocate on a range of issues that will improve industry settings. Similarly, skill leadership should be driven by firms seeking productivity improvements via a well-skilled workforce.

3.3.6 *Are there key features of how the previous Industry Training Organisations worked that should be re-introduced in the new system?*

ITO's that had a close relationship with industry and tailored service offerings to meet the needs of industry were successful under the previous model. Although there was a lack of consistency across the sector, ITO's undertook a number of additional funded and unfunded activities, such as industry promotion, school transition programmes, job placements, additional tuition, literacy and numeracy support, capability building for training and business

planning and pastoral care and support. It will be necessary for new organisations to be enabled to meet the needs of industry and business and be nimble in their approach.

3.3.7 *What are the possible benefits and risks of having a short moratorium on new industry training providers while the new system is set up?*

BusinessNZ does not agree with a moratorium on industry training providers. Reconstituting only the previous organisations will also bring back the problems involved in the old system. Greater innovation is needed in the system to meet the changing needs of industry, and putting in place protectionist models as a cost saving measure is not necessary to set constraints on a new system before it is established. It is not clear that any initial mapping of the system has been completed to understand the current industry training providers that may be interested in delivering, or what process and criteria government agencies will apply to test the endorsement of industry for different providers to inform funding decisions. BusinessNZ welcomes further discussions to ensure that industry support can be thoroughly tested with key stakeholders rather than designed in isolation.

3.4 **Proposal 3 – A funding system that supports a stronger vocational education sector**

3.4.1 *To what extent do you support the proposed funding shifts for 2026?*

BusinessNZ considers a more fulsome review of funding mechanisms is necessary to drive skill development relevant to business and learner needs.

The 'Current Funding System' section of the consultation paper is not an accurate representation of the consequences of the Unified Funding System. While noting the increased profitability of work-based learning and deficits of the ITP's, the system is still fundamentally based on volume measures. Work based learning has seen significant increases in recent years, driven by incentives for employers such as Apprenticeship Boost and Mana in Mahi and severe skill shortages driven by a lack of immigration. ITP's have experienced a trend of declining enrolments for a number of years, and as noted earlier in the consultation paper, have been experiencing sustainability issues for twenty years. BusinessNZ agrees that a centralised model for vocational education was not successful and Te Pūkenga failed to realise the possible cost-savings and potential efficiencies. However, basing further funding decisions on trying to balance profitability of the sector, rather than ensuring institutions are successful because they are delivering education products and services that business and learners value, will drive a work programme based on incorrect fundamental assumptions. The system will need to be responsive to economic cycles, and in the current environment, unemployment is increasing and there would be opportunities for ITP's to attract students and prepare the skills pipeline for the economic upswing and labour market pressures created by the aging workforce and high outbound migration. The continuing decline of ITP enrolments points more to the inertia in the system to adapt and be nimble, rather than expecting the government, business and learners to continue to pay for an unsustainable and bloated system. The profitability of workbased learning under the UFS has been retained by the polytechnics as it sits within the single balance sheet and presumably will be utilised to subsidise the change programme, rather than investing in the Industry Boards or other entities. The industry training part of the system has not been able to reinvest these profits into work based learning over recent years as the Workforce Development Councils are 100% government funded, and Te Pūkenga has utilised these profits to reduce its institutional deficit.

The UFS and centralisation model was poorly implemented, and there is little accountability for the strategic component (which Te Pūkenga received the bulk of outside the contestable process), or evidence that the priority learner component has driven improved participation or achievement. The Te Pūkenga 2023 Annual Report highlighted negligible movement in the measures overall (<1% movement from 2022 to 2023), although education and employment results are better measured over longer periods of time.

BusinessNZ does not support a return of industry training rates to previous levels – this fails to recognise high inflation over recent years, and will limit the ability of organisations to respond to the different needs of business and learners.

3.4.2 *What benefits and risks need to be taken into account in these changes?*

There are significant risks of further reforms, although BusinessNZ agrees it is needed. For businesses, there is significant risk of disruption, and perpetuating the failures of the system not responding to industry need. Further disruption to the skills pipeline will increase pressure on immigration to secure the skills needed for economic recovery and growth. If the system is not centred on developing relevant skills that industry need, a lack of confidence in the system will encourage employers to invest in education products and services that meets the need but may not result in qualifications, and increase the likelihood of firms choosing to use off-shore providers that can deliver skills training that is more effective, quicker to deliver and more cost-effective. Firms turning away from the New Zealand system will result in poorer employment outcomes for ITP graduates, and less uptake in Apprenticeships and industry training, further compounding the financial issues of the sector.

There is significant fiscal risk to the government, both in the short term of a cost blow-out given a further change programme is uncosted, and long term if poor skill development creates economic drag and does not contribute to lifting productivity rates.

There is a risk for all stakeholders that the sector will spend more time focussed on itself, and unmotivated due to change fatigue that opportunities to improve the system are missed.

There is significant risk regarding the ability to execute a change programme well given the current state of the system is an indicator that the last set of reforms failed to roadmap a clear change programme, and effective monitoring and interventions were not in place.

Learners in the system face significant risk of declining service standards, and the long term impacts of taking out student debt for courses without the return on investment of employment outcomes.

3.4.3 *How should standards-setting be funded to ensure a viable and high-quality system?*

BusinessNZ agrees the standard setting function should be funded, however the cost of standard setting will not be standard if it is to be responsive to need, and the cost of this function could be reduced by removing unnecessary compliance costs from the system, and organisations being given the mandate to incorporate industry endorsed training as well as formal qualifications. BusinessNZ suggests the standard setting functions is funded from the the removal of the strategic component rather than the workbased learning rates. BusinessNZ recommends incorporating a review of government compliance settings to remove regulatory cost should be undertaken by the Ministry of Regulation to clarify the roles, responsibilities and decision-making points across standard setting organisations and NZQA.

A letter of expectations set by the Minister should include clear guidance for organisations to run open processes and provide transparency over the planned work programme for the development of standard setting and qualifications.

A key issue for business is the responsive of the sector to changing skill need, with it often taking years to get qualifications developed and programmes established through the existing system. The system will need to be far more responsive, including amending existing qualifications and standards when needed; qualifications and standards being exited when no longer meeting the need of industry; and potentially providing a broader range of products and services such as micro-credentials, recognition of current competency and recognition of prior learning assessments.

Funding should recognise the needs of the entire workforce. There will likely be significant change costs associated with further reforms, however BusinessNZ considers government investment is best targeted towards high quality training and delivery and any further change programme must be delivered as efficiently as possible. If a co-operative federation model is progressed with the ITP's or high quality providers with strong industry support are available, standard setting organisations could be incentivised to work with the leading providers and employers to develop resources, assessment materials and a roll-out programme for new

education products and services to get products and services to market far quicker. There also needs to be a clear understanding of whether new products and services will be funded by the Tertiary Education Commission. This would reduce transaction costs, and provide confidence and policy clarity to encourage developing products and services with clear industry demand.

3.4.4 *How should the funding system best recognise and incentivise the role that ITPs play in engaging with industry, supporting regional development and/or attracting more international students to regions?*

The funding system should incentivise ITP's to face learners and industry, and have clear accountability, expectations and monitoring in place to ensure the system is enabled to meet the needs of learners and industry rather than being focussed on government settings. Measures of success should be reoriented towards employment outcomes, with the Te Pūkenga 2023 report noting a 63% employment rate of ITP learners, compared with 85% for work-based training. The European Union employment rate for vocational education is 81%.

Focussing the system on developing technically excellent skills will achieve all of the aspirations above – enabling ITP's to build specialisation and strengths in relevant industry areas for their regions will help meet the workforce needs and support regional development. Being globally leading in areas of specialty will provide a point of difference for international student attraction. Ensuring that employment outcomes are a key focus and are measured will require stronger industry relationships from ITP's to support the transition of graduates to employment and further training.

BusinessNZ recommends a new international education strategy is developed, which incorporates a focus on international skills for business. This would include considering the role of providers in recognition of international qualifications, the alignment of immigration and education settings to strengthen the skills pipeline in New Zealand in addition to the revenue and student experience aspects.

3.4.5 *What role should non-volume-based funding play and how should this be allocated?*

The full picture of the financial state and forecasts for the cost of change have not been provided, however basing funding solely on volume at the institutional level will drive incentives for high-volume, low-cost provision rather than good quality skill development. The funding system encourages providers to extend the length of learning time to maximise funding, meaning the qualifications may be 'padded' to maximise the credit value and funding stream. Competent learners able to accelerate their learning are unable to do so to ensure that credits achieved are phased in line with holding the enrolment to maximise funding streams. Institutions have proven unable to drive efficiencies within their organisations at the scale needed to be financially sustainable and it is unclear how willing the sector is to take hard decisions and adopt new business models to gain the necessary efficiencies and live within their means.

There will be significant cost pressures across the sector on items that are necessary for core business – IT systems, capital assets and dealing with deferred maintenance, additional literacy and numeracy support to manage the large cohort leaving school without these skills and pastoral care and support needs. BusinessNZ suggests the full finances and business cases are opened up to utilise the work done to date on any benefits and costs of things like shared systems, and if a federation approach is adopted, consideration given to how ITP's may opt-in for cost saving aspects, even if they are operating as fully autonomous organisations.

BusinessNZ suggests there is an outcome component built into the system, aiming for 80% employment, potentially with an additional top-up for those most at risk of long-term unemployment. The employment information should be public and feed into the careers system to strengthen labour market signalling

BusinessNZ considers there is opportunity to more directly partner and co-fund with major industries to support a whole workforce development approach, improve the feedback loop and minimise transaction costs. The employer-led literacy and numeracy fund has been underperforming and difficult for firms to navigate and access since being transferred back to

the TEC to administer, despite this serving those most at risk of long-term poor labour market outcomes. Strategic partnerships with industry that enable firms with capability and capacity to become leading training organisations should be empowered to have long term workforce development plans supported for implementation.

BusinessNZ considers there is merit in considering how the 'city deals' and 'social investment' type approach may look for funding and monitoring the vocational education system. The disestablishment of the centralised vocational model is similar to the challenges currently in health and water management. Education is a long-term game, with five year periods more appropriate phasing for monitoring outcomes, and with a broad range of competing priorities and stakeholders. Funding of education more broadly should incentivise greater co-operation between schools and tertiary providers, education and industry, and recognise those regions that implement local solutions well, particularly in terms of minimising other social costs of unemployment, by having sufficient investment to continue to innovate and adapt to changing industry and community demands.

4. ADDITIONAL COMMENTS

- 4.1 As noted above, the consultation document contains insufficient information to fully inform stakeholders of the risks and benefits, or any plan for the detailed design phase of further change. Given the current state of the sector, government will need to work closely with industry to ensure there is co-design of the new system and rebuild business confidence in the sector.

The BusinessNZ Network is New Zealand’s largest business organisation, representing:

- Business groups [EMA](#), [Business Central](#), [Canterbury Employers’ Chamber of Commerce](#), and [Business South](#)
- [BusinessNZ](#) policy and advocacy services
- [Major Companies Group](#) of New Zealand’s largest businesses
- [Gold Group](#) of medium-sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

The BusinessNZ Network 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.

The BusinessNZ Network contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and Business at OECD ([BIAC](#)).

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