



Tertiary Education Commission
Te Amorangi Mātauranga Matua

Operational Framework:
Guidelines to support selected funding rules
and conditions

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1 Purpose of the Operating Guidelines

Operating guidelines provide a framework for the management of a particular fund. They are designed to ensure that the fund is managed consistently, effectively and efficiently and that processes meet the accountability and reporting requirements of relevant legislation and guidance provided by the Office of the Auditor General.

These operating guidelines cover:

- the objectives of the Industry Training Fund;
- Government's objectives for industry training;
- relevant legislation;
- the Industry Training Register;
- funding of the industry training system;
- the principles-based exception regime for retaining systematic flexibility; and
- details of the way in which the funding rules and conditions will be implemented, with examples.

The guidelines provide a framework for industry training organisations (ITOs) to understand the new funding regimes and predict funding impacts and mitigate where they are able. These guidelines also enable the Tertiary Education Commission (TEC) to make fair and consistent funding decisions.

1.1 Government's objectives for Industry Training

The Government's objectives for tertiary education include raising the skills and knowledge of the current workforce to increase the productivity of individuals. ITOs have an important role to play by providing, for example, opportunities for employees to complete nationally recognised programmes, and creating effective pathways towards advanced trade qualifications at level four and above.

In May 2009 Cabinet agreed on the following mechanisms to achieve these objectives [CAB Min (09) 15/13]:

- incentives to ensure that tertiary education primarily responds to demand from students and employers;
- improve quality assurance measures, and back-end accountability; and
- stronger links between funding and past performance.

Because of these objectives, the TEC has created operational frameworks that incentivise ITOs to monitor and support trainees, enable trainees to achieve and ensure sensible investment of Government funds.

1.2 Legislation

Education Act 1989

The Education Act 1989 establishes the TEC and confers powers and responsibilities. Section 159O requires the TEC to develop the details of the implementation of the

Minister for Tertiary Education's determination of the design of funding mechanisms. The same section requires the TEC to implement the funding mechanisms.

Section 159YC imposes a funding condition on organisations that receive funding under the Education Act to supply to the TEC, from time to time and in a manner specified by the TEC, financial, statistical or other information.

Section 159YC(2)(b) states that the TEC may approve funding subject to conditions, provided the conditions are those which the TEC considers necessary to ensure that the specified outcomes in a plan that relates to tertiary education programmes for which funding is being given are being or will be achieved.

Industry Training Act 1992

The Industry Training Act 1992 (the Act) grants the TEC the functions of administering and disbursing public money appropriated by Parliament for the purpose of industry training (section 13(c)), and to ensure that there are in place, and monitor and ensure the effectiveness of, systems to maintain at a satisfactory level the quality and effectiveness of industry training (section 13(e)).

2 The Industry Training Fund

The Industry Training Fund (ITF) subsidises formal, structured employment-based training (both on-job and off-job) linked to National Qualifications, predominantly at Levels 1-4 on the National Qualifications Framework. Training is arranged (but not provided) by ITOs recognised under the Act. The TEC funds ITOs to fulfil statutory functions specified in the Act. Industries (employers and employees) are expected to contribute, both financially and in kind, to industry training.

The parameters of the fund are set out in the Minister for Tertiary Education's determination of the design of the funding mechanism, available on the TEC's website.

The ITF is a capped fund established by the Government to provide a subsidy for workplace training. Employers, employees and ITOs are responsible for agreeing co-funding and delivery arrangements to allow training to take place.

3 Overview of the funding rules and conditions

3.1 Background

In order to ensure that the money appropriated for industry training is being used effectively, the TEC is developing new operational funding rules and conditions to ensure that ITOs understand the obligations placed on them as recipients of public funding. Changes to the operational funding rules and conditions provide an opportunity for ITOs and the TEC to work together to significantly improve value for money for Government from its investment in industry training and enhance the quality of training.

3.2 Industry Training Register

In order to enable ITOs to accurately gather and monitor information on individual trainees and the performance of the ITO as a whole, information about each individual

trainee enrolment or training event will be supplied to the TEC through the Industry Training Register. This Register will enable each ITO's trainee management system to communicate with the New Zealand Qualifications Authority's and the TEC's systems to track up-to-date information about trainee enrolment and achievement.

Using this technology the TEC will be able to feed back that information to ITOs to enable them to manage their own trainee achievement and run their own calculations, for certainty of funding.

Quarter four 2010 is the final submission and processing round using the current system and any data from 1 January 2011 will need to be reported to the TEC via the Industry Training Register.

It is anticipated that programme registration functionality in the Register will be available for trainee management system submissions in early 2011. Training agreement and enrolment information for all trainees active as at 1 January 2011 will then be able to be transferred to the Register during the first quarter of 2011.

3.3 Funding rules and conditions

While the suite of funding rules and conditions will be reviewed over time to ensure that the funding rules and conditions are fulfilling their purposes, three major changes will take effect from 1 January 2011. These changes will affect the industry training system to enable better monitoring and feedback of information to ITOs.

Evidence of credit achievement

The TEC's criteria for a valid training agreement include the requirement that the agreement:

is intended to lead or relate to the achievement per annum of at least 20 National Qualification Framework credits.

This criterion is intended to support Cabinet's intention that trainees will complete National Qualifications or equivalent programmes¹. However, previous operational policy settings have not provided for a direct link between the performance of trainees and the funding ITOs receive. This may reduce the incentives for ITOs to monitor the progress that trainees make, because identifying inactive trainees has the effect of reducing the funding that ITOs receive.

The TEC is introducing funding rules that would deem trainees to be eligible for funding only where they have some evidence of credit achievement. This will be calculated using both individual trainees showing evidence of credit achievement in the previous calendar year, and an average of all trainees in the past two years (with the threshold being that the ITO can show evidence of credit achievement for 80 percent or more of these trainees).

70 credit maximum

To provide stronger incentives for ITOs to ensure a reasonable alignment between the funding claimed per trainee and the level of credit achievement that may be attained by a trainee, the TEC is introducing a funding rule that limits the total funding able to be claimed for any industry trainee to 70 credits, from 1 January 2011.

¹ refer Cabinet Minute ETE (95) 37 – 16 May 1995.

Actual versus nominal programme durations

The current operational funding rules do not incentivise ITOs to actively monitor the average duration of enrolment by trainees, because it could result in a reduction in the funding they can claim.

To provide incentives for ITOs to better monitor the progress of trainees, the TEC is introducing funding rules that will automatically trigger the recovery of funding where a material difference of one month or more in actual and nominal durations exists.

3.4 Recovery of funding

ITOs will be provided with information at regular intervals to enable ITOs to measure performance to ensure they are on track to meet these funding rules and conditions.

If there is any funding to be recovered, this will be calculated at the end of the calendar year, against the STMs claimed by the ITO as part of the Investment Plan.

4 Standard Training Measures (STMs)

STMs are the measure for calculating funding for industry training. An STM is the amount of funding allocated for the amount of training that is required for a trainee to achieve 120 register credits (or its equivalent) in an approved structured training programme.

4.1 STM calculation formula

The formula for calculating an STM payment is:

STM volume x STM funding rate = STM payment

The current STM funding rate is \$2919 per STM.

The STM volume is calculated as follows:

$$\text{STMs delivered} = \frac{\text{Number of trainees} \times \text{Number of enrolled credits for the year}}{120}$$

The number of enrolled credits for the year will reflect the total credits for the programme divided by the number of years expected (either the nominal or actual) for completion of the programme.

4.2 Example

- A 180 credit programme is delivered over four years.
- This will result in $180/4 = 45$ credits per year.
- 300 trainees enrol in this programme.

$$\text{STMs delivered in 1 year} = \frac{300 \times 45}{120} = 112.5 \text{ STMs}$$

Total funding for the year is:

Funding for the year = 112.5 STMs x \$2919 = \$328,387.50

5 Principles-based exceptions regime

For these new funding rules and conditions, a principle-based exceptions regime will be able to be applied to ensure that there is no undue reduction in flexibility in the system. This regime would take account of a number of considerations when considering exemptions, including:

- the need to ensure accountability for public funding;
- alignment to Tertiary Education Strategy priorities;
- average level of credit achievement by trainees in the relevant programme(s);
- average level of credit achievement by trainees across the ITO sector;
- value for money;
- reasonableness of any proposed arrangement; and
- the context of the industry or industries within the *gazetted* coverage of the relevant ITO.

Normally, any exemptions will need to be agreed to in advance by the TEC, preferably negotiated as part of the Investment Plan. However, certain exemptions will be able to be made at other times of the year.

The TEC will provide ITOs with the option of obtaining peer feedback on any proposal for an exemption. The selection of the peer for this feedback will be made through mutual agreement. TEC will manage the process of obtaining of this feedback.

The final decision on any proposal will be a matter for the TEC.

The TEC will publish the outcome of any proposal for an exception on its website.

There may be a number of different reasons why an ITO wishes to use the principles-based exemptions regime. The TEC will take a holistic approach to assessing instances where implementing the principles-based exemptions regime may be warranted. The particular situation presented by an ITO will be viewed in the context of the ITO's overall strategies and training objectives. Some examples of instances where this may be applicable are discussed below.

As the merits of each exemption will be assessed on a case-by-case basis, ITOs should be mindful of the fact that not every requested exemption will meet the above considerations.

5.1 Possible examples

- In relation to the minimum level of credit achievement per year, this exceptions regime would allow the TEC to agree to fund arrangements where credits are normally assessed at intervals greater than two years, the ITO's credit achievement and completion rates are higher than the sector average, and the ITO can demonstrate that it has robust monitoring arrangements in place.
- In relation the funding limit of 70 credits per trainee per year, this exceptions regime would allow the TEC to agree to fund arrangements for individuals or groups of trainees that enrol in, for example, two programmes and achieve credits at an higher than average rate. The TEC may request evidence such as trainee capability or training plans that take account of the increased workload. The TEC would also consider the level of the programmes proposed to be undertaken by the trainee(s) when considering a request for an exemption.
- In relation to the requirement to align actual and nominal durations, this exceptions regime would allow the TEC to agree to fund programmes at a higher rate than 70 credits per annum where trainees have consistently achieved credits at a higher than average rate.

6 Evidence of credit achievement by trainees

6.1 Funding rules/conditions

Eligibility

ITOs must provide to the TEC quarterly statistical reports, including evidence of credit achievement of all trainees.

From 1 January 2011, evidence of credit achievement may be provided through the Industry Training Register. Once full functionality of the Register is achieved (and ITOs are advised of this fact by the TEC), all reporting must be provided through the Register.

The Industry Training Fund is only available to fund active trainees who achieved credits (in the preceding calendar year) in a programme approved by the TEC.

Where evidence of credit achievement for less than eighty percent of all trainees enrolled with an ITO in the preceding two years has been provided to the TEC, the TEC will recover funding associated with trainees with no evidence of credit achievement in the preceding calendar year.

6.2 Implementation Details

Trainees must meet the enrolment criteria for Industry Training (please see Rules ITO001 and ITO002) and be currently employed in the industry for which the ITO has *gazetted* coverage.

Trainees must have a valid trainee agreement. The TEC's criteria for a valid training agreement include the requirement that the agreement is intended to lead or relate to the achievement per annum of at least 20 National Qualification Framework credits.

Where a trainee signs a training agreement with an agreed start date that falls in the future, the trainee becomes active from the actual start date.

Trainees can remain eligible to continue training even when they are between employers, in order to have continuity of training when the trainee gains new employment. This grace period was originally for a period of up to six weeks, and was extended to a period of up to 12 weeks to account for the economic climate.

Please note that this period returns to six weeks as of 1 January 2011.

Trainees will therefore be ineligible for Industry Training Funding if they have been out of employment for six weeks or more.

A principles-based exceptions regime applies to this rule/condition to ensure that there is flexibility in the system. Normally, any exceptions would be agreed to in advance by the TEC.

“Calendar year calculation” and “two year calculation”

Evidence of credit achievement for individual trainees relates to trainees enrolled in any specific year. For example, a trainee who was employed, enrolled and actively training from 1 January 2011 until 30 December 2011 would be considered as a trainee in the 2011 year. Evidence of credit achievement would therefore need to exist for that trainee in the 2011 year. This is the “calendar year calculation”.

Where there is insufficient credit achievement of trainees in the calendar year calculation, the TEC will also calculate the percentage of trainees who have evidence of credit achievement in the past *two years*. This calculation recognises the competency-based nature of on-job training. This is the “two year calculation”.

As part of the transition arrangement for this rule, the TEC will not count trainees who are enrolled in the last month of the two year calculation period for the purposes of determining funding for the 2011 calendar year. This is to recognise the limited likelihood that these trainees will be able to demonstrate evidence of credit achievement.

The types of trainee who can be included in these two calculations are tabled below:

Example of calculations as at 31 December 2011

Example of trainee enrolment	Included in calendar year calculation	Included in two year calculation
1 January 2010 – 30 June 2010	NO	YES
1 January 2010 – 30 June 2011	YES	YES
1 January 2011 – 31 December 2011	YES	YES
1 December 2011 – 31 December 2011	YES	YES

6.3 Operational framework

Calendar year calculation

In the last example in the table above, a trainee was enrolled from 1 December 2011 until 31 December 2011. Assuming that the ITO cannot show evidence of credit achievement for this trainee, this trainee would not meet the requirement to have evidence of credit achievement as per the calendar year calculation. However, the total amount that would be sought to be recovered would be one month of funding, as that is the length of time the trainee who did not have evidence of credit achievement was enrolled. This amount would therefore be a small proportion of the total amount of the STM funding received by the ITO.

The likelihood of credit achievement is expected to increase with a trainee's increasing duration in a training programme. However, this also means that the longer a trainee is enrolled without credit achievement, the more funding the TEC will seek to recover should no evidence of credit achievement be able to be produced.

Two year calculation

To take account of the nature of on-job training, such as training where assessment may not be planned for the first 12 months, the TEC has also allowed for a two-year average, where if 80 percent or more of trainees enrolled with the ITO over the previous two years can show evidence of credit achievement, the TEC will not seek to recover funding.

This 80 percent is a threshold: falling below this threshold results in recovery of funding. Where the ITO has *less* than 80 percent of trainees with evidence of credit achievement, the TEC will look to the calendar year calculation to determine the correct amount to recover.

6.4 Funding recovery

The recovery of funding only relates to the calendar year. Even though the calculation includes data based on the previous two years, this exercise will be undertaken yearly, in relation to the previous year's funding, based on the previous year's credit achievement by enrolled trainees. Therefore, in the table presented above, all examples of trainees enrolled between 1 January 2010 and 31 December 2011 are included in the two year calculation.

6.5 Example

On 1 March 2011, ITO X enrolls 10 trainees in the 'National Certificate in Industry Training', which is 60 credits with a nominal duration of 12 months. This is the only programme offered by ITO X and the only current trainees in this programme enrolled during 2011. In 2010, ITO X enrolled ten trainees in the programme but all of these trainees exited the programme in 2011.

This information is reported to the TEC (via the Industry Training Register). The TEC uses this information for a variety of purposes including monitoring the extent to which trainees are achieving credits.

At the end of August 2011, ITO X reviews this report:

Report for ITO X as at 31 August 2011

Trainees currently enrolled (year to date)

As at 31 August 2011: 8

Shows that eight trainees are enrolled as at 31 August 2011

With no credit achievement (in 2011): 4

Shows that half of these trainees have not yet achieved credits so far this year

With credit achievement (in 2011): 4

Shows that half of these trainees have achieved credits so far this year

Proportion with credit achievement: 50%

Shows the proportion of current trainees with evidence of credit achievement

4 divided by 8

Trainees enrolled at any point in 2011 (year to date)

In 2011 calendar year: 10

With no credit achievement: 6

With credit achievement: 4

Proportion with credit achievement: 40%

Total number of trainees, indicates that two have withdrawn or completed so far this year
Total enrolled 10 – current enrolment 8 = 2
Shows that 6 of these 10 trainees have not achieved any credits in 2011
Shows that 4 of these 10 trainees had achieved credits in 2011
Shows the proportion with evidence of credit achievement in 2011
4 divided by 10

Trainees enrolled in 2010 or 2011 (year to date)

In 2011 calendar year: 10

In 2010 calendar year: 10

With no credit achievement: 8

With credit achievement: 12

Proportion with credit achievement: 60%

Total number of trainees, indicates that two have withdrawn or completed so far this year
Shows that 10 trainees were enrolled at some point in 2011
Shows that 8 of these 20 trainees had not achieved any credits in 2010 and 2011 (so far)
Shows that 12 of these 20 trainees had achieved credits in 2010 and 2011 (so far)
Shows the proportion with evidence of credit achievement in 2010 and 2011
12 divided by 20

WARNING: Credit achievement rate over two years is less than 80%

Warning that ITO is in breach of funding eligibility requirement

Funding at risk (2011)

STMs associated with trainees with zero credits (YTD): 2.25

Based on eight trainees enrolled for six months in 2011, and two enrolled for three months
8 x 60 credits /120 = 4
4 / 12 months in a year x 6 months enrolled = 2 STMs
PLUS
2 x 60 credits /120 = 1
1 / 12 months in a year x 3 months enrolled = 0.25 STM
TOTAL = 2.25 STMs

STM funding attracted to date: \$6,567.75

Based on STMs multiplied by \$2,919
2.25 x \$2919 = \$6,567.75

ITO X may be able to address this issue of credit achievement. If, on assessment, ITO X can increase trainee achievement and/or cease claiming funding for trainees that are no longer active, ITO X may be able to increase the proportion of trainees enrolled in 2010 or 2011 that have some evidence of credit achievement, and therefore reach the 80 percent threshold.

If ITO X takes no action and no further credits are achieved by trainees, the proportion of trainees enrolled in 2010 or 2011 that have some evidence of credit achievement will remain at 60 percent.

As this is below the TEC's threshold for funding eligibility, the TEC will calculate what funding was attracted by trainees who did not have evidence of credit achievement in

the 2011 calendar year. These trainees are deemed to be ineligible for funding purposes and do not count toward the STM delivery for ITO X.

Therefore, if no action is taken and no further credits are achieved by trainees, the STM funding for those trainees who did not achieve credits will be calculated as follows:

Funding at risk (2011)

STMs associated with trainees with zero credits year end: 2.25

Based on eight trainees enrolled for ten months in 2011 (as they were all enrolled on 1 March 2011), and two enrolled for three months:

8 trainees x 60 credits /120 = 4

4 / 12 months in a year x 10 months enrolled = 3.33 STMs, PLUS

2 x 60 credits /120 = 1

1 / 12 months in a year x 3 months enrolled = 0.25 STM

TOTAL = 3.58 STMs

STM funding for these trainee for 2011: \$10,450

(Based on STMs multiplied by \$2,919 = **3.58 x \$2919**)

Based on these calculations, ITO x will be required to repay \$10,450 in STM funding associated with trainees in 2011 who have no evidence of credit achievement.

7 Funding maximum of 70 credits per trainee per year

7.1 Funding rule/condition

An industry trainee can attract industry trainee funding for a maximum of 70 credits in any one year. If a trainee is enrolled for less than a full year, the limit is 5.833 credits per month.

7.2 Implementation Details

The introduction of the above funding rule/condition is not a limit on the number of credits that a trainee may enrol in; the limit applies to the extent to which the Government funds the training. This would provide appropriate flexibility to ITOs, trainees and their employers to develop suitable training arrangements while at the same time ensuring value for money from the Government's investment.

This funding limit applies per trainee; from 2012, where a trainee is enrolled with more than one ITO the 70 credit limit still applies, and the funded credits will be apportioned accordingly.

7.3 Operational framework

As ITOs will not currently have a mechanism for determining where a trainee may be enrolled across more than one ITO, it is recommended that ITOs update their training agreements to gather this information from trainees. This information will also be able to be fed back into the ITOs' trainee management systems once the Industry Training Register forms a central point for processing this information.

As part of the transition arrangement for this rule, the TEC will only apply this rule at the level of each individual ITO for 2011. This means that for 2011 the TEC will monitor the enrolment of trainees but not pro-rata this funding where trainees are

enrolled in more than one ITO. The TEC will review in 2011 the possible impact of fully implementing this rule for 2012.

Programmes will not be given TEC approval for funding purposes where the programme is more than 70 credits per year (please see the operational framework guidelines “Approval of Programmes for Funding Purposes” for more information). Therefore, this will relate to trainees who are enrolled in programmes approved prior to the introduction of that rule, or to trainees who are enrolled in more than one programme.

7.4 Funding recovery

The TEC will calculate at the end of each calendar year whether ITOs have made any funding claims for a given trainee in excess of the equivalent of 70 credits per annum, (or the equivalent on a monthly basis during the year). This calculation will be used to limit the quantum of funding that may be claimed for a given trainee.

This calculation will be applied to all enrolments by a given trainee. This means that if a trainee is enrolled at multiple ITOs, the quantum of funding will be limited to the equivalent of 70 credits across all those ITOs on a pro-rata basis.

Below are two examples of the amounts of funding that will be recovered from an ITO where a trainee enrolls in multiple programmes. These examples use the calculation for STMs (as described in Part 4 above), where each STM is calculated on credit load divided by 120 credits, and funded at \$2919 per STM.

7.5 Example A

ITO X does not seek approval in advance from the TEC to claim funding for more than 70 credits for any trainees.

ITO X enrolls ten trainees in two programmes on 1 January 2011. Each programme is 50 credits with a nominal duration of 12 months.

These two programmes combined involve enrolment in 100 credits per annum per trainee.

Programme 1 of 50 credits over 12 months	50 credits	
Programme 2 of 50 credits over 12 months	50 credits	
	—————	
TOTAL	100 credits	per trainee per year

By following this enrolment practice, the ITO is seeking to claim up to 0.83 STMs in 2011 for each trainee (assuming every trainee is continuously enrolled).

STMs claimed =	$\frac{1 \text{ trainee} \times 100 \text{ credits per year}}{120}$	= 0.83 STM
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Therefore, the funding consumed by each trainee is 0.83 of an STM:

$$\text{Funding for the year} = 0.83 \text{ STMs} \times \$2919 = \$2,432.50$$

For the ten trainees in the example, the total funding sought is \$24,325.

$$\text{STMs claimed} = \frac{10 \text{ trainees} \times 100 \text{ credits per year}}{120} = 8.33 \text{ STMs}$$

$$\text{Funding for the year} = 8.33 \text{ STMs} \times \$2919 = \$24,325$$

The enrolment information for these 10 trainees is provided to the TEC on 1 January 2011, through the ITO's trainee management system.

The application of the funding cap of 70 credits per trainee per year limits the funding that can be claimed for any given trainee to \$1,702.75.

$$\text{STMs claimed} = \frac{1 \text{ trainee} \times 70 \text{ credits per year}}{120} = 0.58 \text{ STMs}$$

$$\text{Funding maximum per trainee per year} = 0.58 \text{ STMs} \times \$2919 = \$1702.75$$

For our group of ten trainees, the total funding claim is therefore limited to:

$$\text{Funding maximum per trainee per year of } \$1702.75 \times 10 \text{ trainees} = \$17,027.50$$

The difference between funding sought and funding able to be paid is:

$$\$24,325 \text{ sought} - \$17,027.50 \text{ maximum} = \$7,292.50 \text{ difference}$$

7.6 Example B

This example is provided for monitoring purposes only.

In this example, the ten trainees are enrolled with two ITOs concurrently. Neither ITO has sought TEC approval in advance for this arrangement. However, each ITO is aware that the trainees have signed up to both ITOs.

On 1 January 2011 ITO X enrolls ten trainees in a programme that is 50 credits with a nominal duration of 12 months.

On 1 January 2011 ITO Y enrolls the same ten trainees in another programme, of 60 credits with a nominal duration of 12 months.

These two programmes involve enrolment in 110 credits per annum per trainee:

Programme 1 of 50 credits over 12 months	50 credits	
Programme 2 of 60 credits over 12 months	60 credits	
	<hr/>	
TOTAL	110 credits	per trainee per year

ITO X consumes 45.45 percent of the overall credit total and ITO Y consumes 54.55 percent.

By following this enrolment practice, the two ITOs are seeking to claim collectively 0.917 of an STM per trainee in 2011 (assuming the trainees are continuously enrolled):

$$\text{STMs claimed} = \frac{1 \text{ trainee} \times 110 \text{ credits per year}}{120} = 0.917 \text{ STM}$$

Therefore, the funding sought for each trainee is:

$$\text{Funding for the year} = 0.917 \text{ STMs} \times \$2919 = \$2,676.70$$

For the ten trainees in our example, the total funding sought is \$26,767.

$$\text{STMs claimed} = \frac{10 \text{ trainees} \times 110 \text{ credits per year}}{120} = 9.17 \text{ STMs}$$

$$\text{Funding for the year} = 9.17 \text{ STMs} \times \$2919 = \$26,767$$

The ten trainees start these programmes on 1 January 2011. The ITOs provide enrolment information to the TEC using their trainee management systems. These programme enrolments are paid to the ITOs.

ITO X received 45.45% of this total funding	\$12,165.60
ITO Y received 54.55% of this total funding	\$14,601.40
TOTAL	<u>\$26,767.00</u>

The application of the funding cap of 70 credits per trainee per year limits the funding that can be claimed for any given trainee:

STMs claimed =	$\frac{1 \text{ trainee} \times 70 \text{ credits per year}}{120}$	= 0.58 STMs
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Funding maximum per trainee per year = 0.58 STMs x \$2919 = \$1702.75
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For our group of ten trainees, the total funding claim is therefore limited to:

Funding maximum per trainee per year of \$1702.75 x 10 trainees = \$17,027.50
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The difference between funding sought and funding able to be paid is:

\$26,767 sought - \$17,027.50 maximum = \$9,739.50 difference
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ITO X repays 45.45% of this difference	\$4,426.60
ITO Y repays 54.55% of this difference	\$5,312.90
TOTAL	<u>\$9,739.50</u>

7.7 Example C

ITO X has sought approval in advance from the TEC to claim funding for more than 70 credits for a group of 10 trainees, as these trainees have had high levels of credit achievement and programme completion in the past. On the basis of the principles-based exemptions regime, the TEC has approved to fund the full credit load of these high-achieving trainees.

ITO X enrolls these ten trainees in two level 4 programmes on 1 January 2011. Programme 1 is 100 credits with a nominal duration of 2 years, and Programme 2 is 60 credits over 18 months:

<p>Programme 1: $\frac{100 \text{ credits}}{\text{over 24 months}} = 4.16 \text{ credits per month}$</p> <p>$4.16 \text{ credits per month} \times 12 \text{ months per year} = 50 \text{ credits per year}$</p> <p>Programme 2: $\frac{60 \text{ credits}}{\text{over 18 months}} = 3.33 \text{ credits per month}$</p> <p>$3.33 \text{ credits per month} \times 12 \text{ months per year} = 40 \text{ credits per year}$</p> <p>$50 \text{ credits per year} + 40 \text{ credits per year} = 90 \text{ credits per trainee per year}$</p>
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<p>STMs claimed = $\frac{1 \text{ trainee} \times 90 \text{ credits per year}}{120} = 0.75 \text{ STM}$</p>

Therefore, the funding consumed by each trainee is 0.75 of an STM:

<p>Funding for the year = $0.75 \text{ STMs} \times \\$2919 = \\$2,189.25$</p>
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For the ten trainees in the example, the total funding sought is \$21,892.50

<p>STMs claimed = $\frac{10 \text{ trainees} \times 90 \text{ credits per year}}{120} = 7.5 \text{ STMs}$</p>

<p>Funding for the year = $7.5 \text{ STMs} \times \\$2919 = \\$21,892.50$</p>
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The enrolment information for these 10 trainees is provided to the TEC on 1 January 2011, through the ITO's trainee management system.

The application of the funding cap of 70 credits per trainee per year limits the funding that can be claimed for any given trainee to \$1,702.75.

<p>STMs claimed = $\frac{1 \text{ trainee} \times 70 \text{ credits per year}}{120} = 0.58 \text{ STMs}$</p>
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However, because the TEC approved this exemption from this funding rule, no funding for these trainees in these two programmes will seek to be recovered based on the 70 credit funding limit.

8 Alignment of actual and nominal programme durations

8.1 Funding rule/condition

In applying for approval of an industry training programme from the TEC for funding purposes, an ITO must state the duration of that programme, being the number of months the average trainee will take to complete that programme.

Where the actual duration of the programme is one month or longer than the stated duration stated by the ITO, the TEC will use the actual duration for funding purposes².

8.2 Implementation Details

“Nominal duration” is the length of time an ITO has estimated that an average trainee will be enrolled in a programme. In developing their programmes ITOs set an estimate of the *average* length of time, “nominal duration” that a trainee will be enrolled in the programme. This duration is nominated in the application to the TEC for approval of the programme for funding purposes³.

“Actual duration” is the actual length of time on average, that trainees remain enrolled in that programme. As this is calculated as an average, some trainees will take less time, and some will take more.

In order to ensure accountability for public funding, ITOs need to actively monitor the *actual average* duration of enrolment by trainees, and adjust the nominal duration of programmes where evidence suggests that these durations differ.

8.3 Operational framework

There is no limit on the minimum or maximum length of time that a trainee may take to complete an industry training programme. Therefore, there has been no limit to the funding that an individual trainee may attract. In order to provide incentives for ITOs to better monitor the progress of trainees, the TEC will automatically recover funding where there is a difference of one month or more between the actual and nominal durations.

This calculation applies irrespective of the number of trainees enrolled in the programme. Where a smaller number of trainees enrol in a programme, each individual trainee’s duration will have more bearing on the calculation; however, there is more scope to improve the situation by supporting that individual trainee. Similarly, while a large number of trainees enrolled in the programme may even out the average across all trainees, the quantum of funding that the TEC will seek to recover where there is misalignment of durations will be greater.

² Imposed under section 159YC(2)(a) of the Education Act 1989.

³ Please see the operational framework guidelines “Approval of Programmes for Funding Purposes” for more detail about programme approval and nominal durations.

A principles-based exceptions regime applies to this rule to ensure that there is flexibility in the system. Normally, any exceptions must be agreed to in advance by the TEC.

Using information gathered by the Industry Training Register, the TEC will provide information back to each ITO on a regular basis about the length of time trainees have been enrolled in the ITO's programmes. ITOs will also be able to track this information themselves using their trainee management system.

At the end of each calendar year, any difference between the actual and the nominal duration will be communicated to the ITO and any funding to be recovered will be calculated.

8.4 Funding recovery

The TEC would calculate at the end of each calendar year the average length of time that trainees have been enrolled in a given programme. This actual duration will be compared to the nominal duration. Where the actual duration (calculated in months, rounded down to the nearest whole number) is longer than the nominal duration by one month or more, the rate at which STMs may be claimed for that programme will be retrospectively adjusted on an annual basis.

As funding will be recovered where there is a difference of more than one month between the actual and nominal durations of a programme, ITOs should review the nominal durations of all their programmes on an ongoing basis so that they accurately reflect the progress that trainees make.

Industry training is not undertaken in cohorts; there is no enrolment period at the beginning of each year for industry trainees as there is in other forms of tertiary education. Therefore, the calculation for assessing the actual duration of trainee enrolment is based on an average of all trainees enrolled in that programme, since 2002 (no accurate data is able to be access before that year).

$\text{Average duration} = \frac{\text{Total number of months that all trainees have been enrolled in the programme since 2002}}{\text{Number of trainees that have been enrolled at any point since 2002}}$
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As each individual enrolment event is tracked in the Industry Training Register against an individual National Student Index number, the total length of enrolment in a programme by each trainee is counted. Therefore, there is no benefit to the ITO or the individual trainee to withdraw from the programme and immediately re-enrol.

ITOs will have the option during 2011 of placing trainees 'on hold' so that they are no longer counted either for funding purposes, or for the purpose of calculating the actual average duration (subject to the full implementation of the ITR).

8.5 Example

ITO X seeks funding approval for the 'National Certificate in Industry Training, of 60 credits, and proposes a nominal duration of 12 months. This is based on the judgement

of ITO staff about the length of time on average trainees will take to complete this programme.

The TEC agrees to fund this programme on the basis of the nominal duration. This means that each trainee can attract up to 0.5 STM (or \$1459.50) in any given calendar year (assuming they are continuously enrolled).

$\text{STMs delivered} = \frac{1 \text{ trainee} \times 60 \text{ credits per year}}{120} = 0.5 \text{ STM}$
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$\text{Funding for the year} = 0.5 \text{ STMs} \times \$2919 = \$1,459.50$

One hundred trainees start this programme on 1 January 2011. ITOs provide this enrolment information to the TEC (via the Industry Training Register). The TEC uses this information for a variety of purposes including calculating the average duration of enrolment by trainees.

As at 31 March 2011

After three months all trainees are still enrolled. ITO X views the TEC's report and it shows:

Report for ITO X as at 31 March 2011

<p><i>Qualification information</i> "National Certificate in Industry Training", 60 credits Nominal duration for funding purposes: 12 months</p>	<p>Based on funding application Based on funding application</p>
<p><i>Funding claimed (2011)</i> STMs claimed to date: 12.5</p>	<p>Based on current STM calculation 100 trainees x 60 credits /120 = 50 50 STMs in 2011, quarter year = 12.5</p>
<p>STM funding attracted to date: \$36,487.50</p>	<p>Based on STMs multiplied by \$2,919 12.5 x \$2919 = \$36,487.50</p>
<p><i>Funding performance</i> Average duration of enrolment: 3 months Revised STM claim: N/A Revised funding: N/A</p>	<p>Based on average length of time trainees have been enrolled Average duration is less than nominal duration so no revision Average duration is less than nominal duration so no revision</p>

As at 30 June 2012

ITO X next reviews the TEC's report after 18 months.

During that time:

- 20 trainees completed the programme;
- 20 trainees exited their training after 12 months without completing; and
- 60 trainees are still enrolled.

The duration of enrolment for each trainee contributes to the calculation of the average duration.

- The 20 trainees that completed were each enrolled for four months (20 x 4 = 80)
- The 20 trainees that exited after 12 months (20 x 12 = 240)
- The 60 trainees that are still enrolled (60 x 18 = 1,080).

In total, trainees have been enrolled in the 'National Certificate in Industry Training' for 1400 months (80 + 240 + 1080).

The average duration of trainee enrolment is calculated by dividing the total number of months (1400) by the number of trainees enrolled at any point (100). This gives an average duration of enrolment of 14 months.

$\text{Average duration} = \frac{\text{Total number of months} = 1400}{\text{Number of trainees} \quad 100} = 14 \text{ months}$
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Report for ITO X as at 30 June 2012

Qualification information

National Certificate in Industry Training, 60 credits
Nominal duration for funding purposes: 12 months

Based on funding application
Based on funding application

Funding claimed (2012)

STMs claimed YTD: 15

Based on sixty trainees enrolled in 60 credits for six months in 2012
60 trainees x 60 credits / 120 = 30
30 STMs in 2012, half year = 15

STM funding attracted YTD: \$43,785

Based on STMs multiplied by \$2,919
15 STMs x \$2919 = \$43,785

Funding performance

Average duration of enrolment: 14 months

Based on average length of time trainees have been enrolled
Revised based on average duration
60 credits / 14 months = 4.2 credits per month

Revised STM claim: 12.6

4.2 credits x 60 trainees still enrolled /120 = 2.1 STMs per month
2.1 x 6 months in current year = 12.6
Revised based on average duration

Revised funding: \$36,779.40

This report tells ITO X that the funding it receives for this programme for the 2012 calendar year is projected to be less than expects:

Funding difference to date for the 2012 year = \$43,785 - \$36,779.40 = \$7,005.60

ITO X may be able to take action to ensure alignment between the actual and nominal duration for funding purposes, by supporting trainees or reviewing training plans.

If ITO X takes action now based on the information provided by the TEC, it may be able to minimise the difference between the actual and nominal duration by the end of the calendar year (when the funding wash-up occurs).

ITO X could make changes to the nominal duration for the relevant programme so that the funding paid for enrolments in the programme reflect the process that trainees make.

If ITO X takes no action and the trainees in question continue to be enrolled, the difference between the actual and nominal duration will continue to increase. The TEC will then recalculate the funding for the 2012 year based on the actual average duration of enrolment. Where the difference is one month or more this will result in lower funding for the programme. The calculation would be shown to the ITO as follows:

Report for ITO X as at 31 December 2012

Qualification information

National Certificate in Industry Training, 60 credits
Nominal duration for funding purposes: 12 months

Based on funding application
Based on funding application

Funding claimed (2012 year)

STMs claimed: 30

Based on sixty trainees enrolled in 60 credits for six months in 2012
60 trainees x 60 credits / 120 = 30

STM funding attracted: \$87,570

Based on STMs multiplied by \$2,919
30 STMs x \$2919 = \$87,570

Funding performance

Average duration of enrolment: 14 months

Based on average length of time trainees have been enrolled
Revised based on average duration
60 credits / 14 months = 4.2 credits per month
4.2 credits x 60 trainees still enrolled /120 = 2.1 STMs per month
2.1 x 12 months in current year = 25.2

Revised STM claim: 25.2

Revised funding: \$73,558.80

Revised based on average duration

This report tells ITO X that the funding it receives for this programme for the 2012 calendar year is projected to be less than expects:

Funding difference for the 2012 year = \$87,570- \$73,558.80 = \$14,011.20

NB: No funding will be recovered in relation to the 2011 year (ie ITO X received a higher rate of funding in that year than the (current) average duration of enrolment indicated).

Should ITOs find that the nominal duration of a certain programme has been over-estimated, and trainees are on average completing the programme in a shorter period of time, ITOs can create a new version of the programme with an amended duration, and enter a new application for approval of the programme for funding purposes.

9 Contact the TEC

If you have any questions or queries about the information contained in this guideline, please contact the TEC via email at industrytrainingprogrammes@tec.govt.nz .

For discussions about where the principles based exceptions regime may apply, please contact your TEC Investment Manager.