

## Consultation papers: overview

### Purpose

- 1 The purpose of this paper is to provide an overview to the release of the following operational policy consultation papers:
  - Relating performance to the recognition of ITOs; and
  - Reinvestment of Industry Training Fund under spend: rewarding past performance; and
  - Framework for prioritising additional ITF investment.

### Background

- 2 The consultation papers noted above have been prepared as part of the consultation on the operational policy relating to industry training. These three papers are part of a wider suite of papers. For more information on the overall consultation process please refer to the TEC website.<sup>1</sup>
- 3 This overview paper has been prepared to provide some additional context to the three papers noted above. This is because there is some overlap between the various matters that the TEC may wish to take into account when considering the performance of ITOs.

### Performance issues

- 4 During 2009, the ITO Investment Group has been analysing the data supplied by ITOs to identify opportunities to improve the value for money obtained from the TEC's investment.
- 5 This analysis has indicated a number of performance issues. These include (but are not limited to):
  - a high variation between ITOs in the:
    - rates of completion within expected duration between ITOs (ranging from 90% to 5%);
    - the proportion of trainees from underrepresented groups in the relevant industries participating in, and completing, industry training qualifications;<sup>2</sup>
    - the rate of industry cash contribution to the costs of industry training by ITO (from 7.4% to 71.8%);
  - a significant number of trainees (23,484 or 17%) still engaged in training more than one year after their expected completion date, including:

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<sup>1</sup> The relevant link is <http://www.tec.govt.nz/templates/standard.aspx?id=5918>

<sup>2</sup> For example, participation rates for Māori trainees compared to their representation in the relevant industries vary from 0% to 50%. Similarly the completion rates for Māori trainees vary from 10% to greater than 80%.

- 30% of 23,484 trainees that are still engaged in training more than three years after their 'expected' completion date;
  - a similar proportion (representing 7,397 trainees) who have not achieved any credits towards their qualifications;
  - a decline in the overall rate of industry cash contribution (from 29.7% in 2003 to 26.3% in 2008); and
  - an increase in the overall level of reserves held by ITOs (from \$46.8 million in 2003 to \$93.5 million in 2008).
- 6 This analysis suggests that there are considerable opportunities to increase the value for money obtained from the current policy and operational policy settings.
- 7 This paper provides an overview to the mechanisms available to influence the performance of ITOs. These mechanisms are the licensing of ITOs (through the recognition process), the funding of ITOs (through investment decisions) and reputational impacts on ITOs (through making performance information publicly available).

### Licensing of ITOs

- 8 ITOs are recognised and re-recognised under the Industry Training Act 1992 (the Act). The role of the TEC is to compile the information required to assist the Minister for Tertiary Education (the Minister) in the decision-making process. The information requirements for making this decision are primarily evidence-based.
- 9 Under the Act, the Minister must be satisfied of an organisation's ability to meet the mandatory requirements of section 6 of the Act and must have regard to the considerations outlined in section 7.
- 10 Under the Act, when an organisation applies for recognition or re-recognition as an ITO, the Minister may:
- grant the ITO full recognition under section 5 of the Act (this recognition expires 5 years after it is granted (s9(1)) - there is no lesser period provided for);
  - grant the ITO provisional recognition (s8) (from 1 day to three years)<sup>3</sup>; or
  - decline to recognise an ITO if not satisfied that it should be recognised under section 5 or 8 of the Act.<sup>4</sup>
- 11 The Minister may also issue a notice under section 9 of the Act that could lead to the cancellation of an organisation's recognition as an ITO. This can occur if he or she considers that the organisation's performance is inadequate because it is not meeting one or more of the mandatory requirements under section 6 of the Act.
- 12 The process of recognition of ITOs establishes a performance threshold for ITOs that is distinct from the TEC's decision to fund an ITO. It also provides a

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<sup>3</sup> The Minister may grant an ITO provisional recognition where he or she is satisfied that by taking certain actions the organisation will be able to meet all the requirements of sections 6 and 7 of the Act and considers that it is appropriate that in the meantime the TEC should be able to fund the organisation.

<sup>4</sup> The Minister may also grant an ITO full recognition under Section 5 of the Act for some industries, and provisional recognition under section 8 of the Act for other industries.

mechanism to measure the performance of ITOs in a manner appropriate to their role in the tertiary education system (as envisaged by the Act).

- 13 Recommendations made to the Minister by the TEC in relation to applications from organisations seeking recognition as an ITO are judgement-based. However, there may be merit in establishing indicators of performance that would strengthen the evidence base of the TEC's recommendations to the Minister.
- 14 These indicators may also provide additional benefits such as:
  - providing greater certainty to ITOs that are performing well;
  - signalling to incumbent ITOs where there are performance issues;
  - signalling opportunities for new ITOs; and/or
  - signalling a degree of contestability in the coverage held by ITOs.
- 15 The consultation paper 'Relating performance to the recognition of ITOs' (attached as Appendix 1) explores possible proxies for performance that are relevant to recognition.
- 16 The paper identifies additional sources of evidence in relation to specific sections of the Act. These linkages should be treated as a guide only and should not imply that the source of evidence is limited only to the relevant section of the Act.
- 17 A separate consultation paper is planned that will examine the *process* of recognition, including the mechanism by which greater contestability would be enabled.
- 18 There is some overlap between the proxies for performance that may be used for recognition purposes and those used for funding purposes (discussed below).

## **Investment decisions**

- 19 This section of the paper discusses a mechanism for reallocating funding through the Industry Training Fund that is influenced by performance, and the development of a framework for the prioritisation of proposals for additional investment which takes account of performance considerations.

### Performance-influenced allocation

- 20 In May 2009, the TEC Board of Commissioners (the Board) agreed to allocate unused Standard Training Measures (STMs) by placing greater (than in the past) weight on performance in purchasing additional STMs in the following year.
- 21 The Board agreed that, for 2009 and out-years, ITO wash-ups resulting from unused STMs will be re-allocated to ITOs based on the following performance grounds:
  - retention rates of trainees;
  - the rate of completions by ITOs generally, and particularly those ITOs that perform below the average for the sector;

- participation and achievement by Māori, Pacific and female trainees; and
  - the level of industry cash contribution, particularly for those ITOs that perform below the average for the sector;
- 22 The wash-up on performance grounds will also act as a signal to the ITO sector that, in the future, the TEC intends to place much greater weight on performance outcomes when allocating Industry Training Fund. This will provide time for ITOs to consider how they will improve performance, as measured by the criteria above.
- 23 This mechanism represents a first step to the implementation of a more performance-based approach to allocating Industry Training funding over time. This approach aligns to the draft Tertiary Education Strategy which calls for the linking of funding more closely to performance. In this context, the approach agreed by the Board enables a performance-influenced allocation of volume of provision to ITOs.
- 24 The consultation paper 'Reinvestment of industry training fund under spend: reward past performance' explores possible mechanisms for calculating performance to give effect to the approach agreed by the Board. This consultation paper places the development of performance indicators in the context of wider TEC work to formalise how the educational performance of TEOs is measured.

#### Prioritising additional investment

- 25 As well as allocating unused STMs using the mechanism described above, this funding can also be reinvested in response to proposals from ITOs at the discretion of the Board. A recent example is the *Essential Skills* initiative in support of the Rugby World Cup 2011.
- 26 There may be merit in developing more explicit criteria that would inform analysis of such proposals in accordance with the gazetted decision-making criteria, and guide ITOs when considering whether to seek additional investment. This framework seeks to explore:
- what is the best way to assess the performance of an ITO (for example, in terms of past performance)?;
  - what is the best way to assess whether the rationale for a proposed investment is compelling (for example, in terms of alignment to the Tertiary Education Strategy)?;
  - what is the best way to assess the viability of organisations (for example, in terms of the total assets of an ITO)?; and
  - what should guide the appropriate level of investment (for example, bearing in mind other investment by the TEC, and reserves held by ITOs, or other potential sources of funding)?
- 27 When prioritising additional investment, the TEC may be guided by the past performance of ITOs. In making investment choices between two organisations that are broadly comparable in other respects, the TEC is likely to place considerable weight on the past performance of those organisations, and/or the extent to which the initiative reflects a critical response to the organisation's current performance.

- 28 This may mean that the TEC would tend to invest in organisation(s) that have higher than average performance. It may also mean that any investment would be directly linked to the results expected to be achieved. For example, additional funding could be tied to completion rates of at least 70%, with underperformance leading to a reduced allocation in future years.
- 29 The linking of funding to past performance in this way may also provide an effective measure of the level of industry commitment to training, and a more efficient means of matching provision by ITOs and their performance, that is that employers provide opportunities for trainees to complete qualifications.
- 30 The consultation paper 'Framework for prioritising additional ITF investment' explores possible measures that may be taken into account.

### **Making performance information publicly available**

- 31 As part of the consultation on industry training operational policy, consultation has recently concluded on a paper dealing with making the performance information of ITOs publicly available. This framework of available performance information is intended to:
  - provide transparent and useful performance information to all users of the industry training system;
  - improve ITO performance and demonstrate accountability for public expenditure in a high trust and high quality tertiary funding environment; and
  - help promote a more refined and responsive industry training system that will increase outcomes for learners through achievement of relevant qualifications, meet employer needs, and build on workforce productivity.
- 32 The TEC is currently reviewing feedback from the sector and will separately be working with the Industry Training Federation to undertake specific consultation with the audience for ITO performance information.