

Reinvestment of industry training fund under spend: rewarding past performance

Operational Policy Consultation Paper

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Reinvestment of industry training fund under spend:rewarding past performance	Operational Policy Consultation Paper	Open for consultation Contact: Industrytrainingprogrammes@tec.govt.nz

Purpose

1. This paper:
 - proposes a mechanism through which the performance of Industry Training Organisations (ITOs) influences the investment of funding arising from ITO under-delivery; and
 - seeks feedback from the sector on a possible mechanism for this.

Aims

2. In undertaking this consultation, the TEC will be guided by the following aims:
 - *Minimising transaction and compliance costs:* the operational policy framework should take account of administrative and compliance costs, and where possible seek to reduce these.
 - *Maximising transparency and accountability:* the recipients of Government funding should be accountable for the results they generate, and related information should be available to interested parties.
 - *Minimising any perverse incentives:* the operational policy framework should be designed in such a way as to minimise and mitigate any perverse incentives.
 - *Maximising value for money:* the operational policy framework should ensure a strong focus on results and avoid arrangements that would lead to the funding of activities by government that would otherwise be funded by other parties.
 - *Providing an appropriate degree of dynamism for ITOs based on performance:* the operational policy framework should provide suitable incentives for ITOs to manage and improve their own performance.
 - *Providing for consistent treatment of other forms of industry training:* the operational policy framework should take account of other forms of industry training and contribute, where possible, to a common approach.

Principles

3. The consultation on the operational policy governing industry training will be based on the following principles and considerations:
 - upholding the aims of the consultation process (outlined above);
 - learning from the implementation of the industry training system over the past 17 years;
 - drawing on relevant experience and expertise across the tertiary education sector;
 - exposing proposed changes to scrutiny;
 - providing sufficient information on the general approach that the TEC intends to take in relation to the matters discussed; and
 - avoiding costly or time-consuming changes unless there are good reasons for believing they will bring significant improvements over time.

Scope

4. This paper has been prepared as part of the TEC's wider consultation on industry training operational policy. This paper seeks feedback from the sector on the development of operational policy relating to the allocation (and related formulae) of the industry training fund (ITF) under spend.
5. This paper is limited to the mechanism agreed by the TEC for this purpose in May 2009, however any mechanism may have wider application (discussed below). The paper does not consider the publishing of the performance information which has been previously consulted on.
6. This paper should be considered in conjunction with the other separate consultation papers dealing with the relationship between performance and the recognition of ITOs, and the proposed framework for prioritising additional investment through the ITF.

Government's objectives

7. The Government's objectives for tertiary education include raising the skills and knowledge of the current workforce to increase the productivity of individuals, and to underpin the ability of firms to innovate and adapt to competitive challenges. ITOs have an important role to play by providing, for example, opportunities for employees to complete nationally recognised qualifications, and creating effective pathways towards advanced trade qualifications at level four and above.
8. Cabinet also agreed in May this year to re-balance the tertiary education system by shifting away from the current emphasis on central steering and front-end planning and moving towards greater responsiveness to market signals [CAB Min (09) 15/13].
9. Cabinet agreed on the following mechanisms to achieve these shifts:
 - 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.
10. The government has made clear its intention that there should be less compliance for the tertiary education sector but increased accountability. Government wants assurance that the industry training system will provide quality results and evidence that learner and employer demand is met.
11. The government has signalled through the draft 2010-2015 Tertiary Education Strategy (TES) that it wants to see improvements in the performance of the tertiary education system. These improvements are to be achieved through greater responsiveness to both the demands of students and industry, and in making better use of scarce resources. The government has indicated in the draft TES that it wants to link funding more closely to performance, and for information on the educational performance of TEOs including ITOs to be made publicly available. This will require us to formalise how we measure TEOs' educational performance.

Operational considerations

12. In the medium term, it is recognised that the funding system should be based on a broad range of measures of performance. For example these may include the medium-term impacts of tertiary education (such as entry to the labour market and medium-term earnings), and improvement in students' literacy, language and numeracy between the start and end of their qualification.
13. To address the more immediate need to measure performance a set of performance indicators have been developed that are intended to align with the Government's objectives, as well as in the short term giving effect to the decision to the TEC Board of Commissioners (the Board) in May 2009 to introduce a performance-influenced allocation of volume for ITOs.
14. The proposed performance indicators (or grounds), which are described in more detail later in this document, represent a smaller and simpler set of educational performance indicators than is currently used by the TEC. We expect that the indicators will be used for more than one purpose. Eventually these could be determining aspects of funding, public reporting, or inclusion as key performance indicators in plans. While the work on the funding models has not been completed, it is expected that the indicators will:
 - enable the identification of areas of low and high performance in the provision of tertiary education;
 - provide information that can be applied in the allocation of funding; and
 - enable the demonstration of value for money in the tertiary sector regarding the outputs of tertiary education.
15. The development of these indicators is part of a larger programme of work that includes the publishing of performance information, how performance information is to be used in funding models and the supply of information for the benchmarking of ITOs. The performance indicators proposed in this paper are intended to take account of the role of ITOs and particular obligations placed on ITOs, and the TEC's role in the licensing (recognition) of ITOs and the particular performance considerations relevant to that process.
16. Feedback is sought on the performance indicators. Specifically feedback is sought on:
 - i. opportunities to improve definitions;
 - ii. areas requiring further clarity from the TEC, for example in the stated business rules; and
 - iii. TEO practices that may affect data quality or lead to potential unintended consequences from the use of the indicators.
17. Clearly defining educational performance indicators is part of a larger information work programme at the TEC. This programme will improve the quality, accuracy and availability of centrally collected tertiary education performance information within the TEC and for TEOs including ITOs during 2010.

Background

18. Previously, unused STMs were reallocated to all ITOs that had exceeded the contracted volume of STMs agreed with the TEC on a pro rata basis as a price-based reward. There was no requirement to achieve additional STMs with this funding.
19. The Board agreed in May 2009 to reinvest unused STMs through a mechanism which puts greater weight on other performance measures (ie in addition to the volume of training arranged).
20. This mechanism requires that the reinvestment of unused STMs will be influenced by 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, and particularly those ITOs that perform below the average for the sector.

Proposed mechanism

21. The proposed mechanism places considerable weight on the completion of National Qualifications and Supplementary Credit Programmes.¹ The aggregated performance of each ITO as measured by these completions is then adjusted based on the following considerations:
 - actual credit achievement compared to expected credit achievement;
 - the extent to which the actual duration of trainee enrolment reflects the nominal duration for the relevant programme;
 - the extent to which the rate of completions is above or below the ITO average;
 - the proportion of industry trainees who undertaken further formal tertiary education at a higher level at any other TEO within 12 months of completing a qualification;
 - the participation by groups that are underrepresented in industry training as a whole compared to their participation in the industries covered by the relevant ITO;
 - the rate of Industry Cash Contribution; and
 - the extent to which the rate of Industry Cash Contribution is above or below the ITO average.
22. The product of this formula would then used to derive an indicative level of investment for each ITO based on their relative performance. The considerations noted above would have the effect of establishing thresholds of performance below which ITOs are not eligible to receive additional STM investment from the

¹ Limited Credit Programmes have been excluded in light of the limited evidence of progression of trainees from these programmes to National Qualifications.

TEC, ie where the performance of an ITO is markedly lower than the sector average.

23. The mechanism outlined in appendix one does not propose weightings for the proposed performance grounds. There may be merit in applying weightings taking account of the various priorities outlined in the draft TES, for example, a performance ground that is more likely to recognise achievement by young people may warrant a higher weighting, or specific weightings could be attributed to trainees who meet this criteria.
24. In making investment decisions, the TEC will have regard to the gazetted decision-making criteria for investment plans (some relevant considerations for ITOs are considered as part of a separate consultation paper). Subject to these considerations, and the capacity of the relevant ITO to deliver the additional STMs for which it has been contracted, additional investment in the relevant ITO may be warranted.
25. Respondents are asked to consider the material in the appendix, the robustness of the proposed mechanism to recognise and reward ITOs based on their past performance, and whether the various performance grounds should be weighted to a greater or lesser extent.
26. Feedback on the possible implementation options presented in the appendix is also welcomed. Feedback is also invited on any additional implementation options.

Consultation Feedback

27. This paper has been prepared as part of the consultation relating to the operational policy for industry training.
28. The TEC invites feedback from the tertiary education sector on the options presented in this paper and on any other relevant matters. Please use the separate Feedback Template to submit responses.
29. The TEC invites and welcomes any comments from the tertiary education sector. Individuals as well as organisations are welcome to provide feedback on the direction and options outlined in the paper and on how these can be further developed.
30. All feedback relating to this Consultation paper should be responded to using the feedback templates provided on the TEC website. Please only send a response using the feedback templates provided. Send any feedback to industrytrainingprogrammes@tec.govt.nz. All feedback should include the subject line **"ITO operational policy – feedback"** and be submitted no later than 5pm, 29 January 2009.

Appendix one

Performance grounds	Measured by	How could this be calculated?	Example
<p>Rate of completions by ITOs</p>	<p>The number of completions of industry training programmes.</p>	<p><u>Calculation</u> The sum of each completion event multiplied by the number of credits associated with the programme</p> <p>The figure for each trainee is then aggregated for each ITO.</p> <p><u>Business rules</u> Limited to completions associated with National Certificates and Supplementary Credit Programmes.</p> <p>Trainee completions over three years (in this case 2007, 2008 and 2009) as at 31 December 2009 would be eligible to be counted.</p> <p>A valid completion would be defined as the reporting of the exit indicator (code C) in relation to the programme enrolled in during the reference period (2007-2009).</p> <p><u>Possible implementation</u> Additional weightings taking account of the level of the programme², and for trainees from underrepresented groups.</p> <p>The performance of each ITO is determined by its relative contribution to the total figure.</p> <p>Where an ITO's average rate of completions is higher or lower than the average (by dividing the number of completions by the number of enrolments), a positive or negative percentage weighting would be applied.</p>	<p>ITO A has two trainees. Both complete programmes that require the completion of 120 credits.</p> <p>Trainees X and Y contribute a value of 120 each (1 multiplied by 120). This results in a total score of 240.</p> <p>ITO B has three trainees. Each completes a programme that requires the completion of 60 credits.</p> <p>Trainees D, E and F contribute a value of 60 each (1 multiplied by 60). This results in a total score of 180.</p>

² For example, a higher weighting for programmes at level 4 or above.

Performance grounds	Measured by	How could this be calculated?	Example
<p>Rate of completions by ITOs</p>	<p>The credits achieved by industry trainees compared to expected credits achievement (expressed as a percentage).</p> <p>This measure provides a nuanced view of the completion of credits by each trainee.</p>	<p><u>Calculation</u> The sum of credits achieved by all trainees divided by the credits that all trainees are enrolled in (determined by the STMs consumed) expressed as a percentage.</p> <p><u>Business rules</u> Trainee credit achievement over three years (in this case 2007, 2008 and 2009) would be eligible to be counted.</p> <p><u>Possible implementation</u> A percentage weighting applied to the overall calculation of performance that varies the total 'score' for each ITO based on this measure.</p> <p>Where an ITO's average rate of credit achievement is higher or lower than the average, a positive or negative percentage weighting would be applied.</p> <p>A percentage weighting applied to the overall calculation of performance that applies a penalty to ITOs where there is a difference between the actual and nominal duration of industry training programmes.</p> <p>For each month that the actual duration of all industry training programmes (as measured by the cumulative period of enrolment by trainees) is longer than the average nominal duration for all industry training programmes, a percentage reduction is applied.</p>	<p>ITO A has two trainees. Both are enrolled in programmes that would involve the 'enrolment' in 20 credits per annum.</p> <p>Trainee X achieves 20 credits and trainee Y achieves 5 credits. The cumulative credit achievement of these trainees is 25, the expected credit achievement is 40.</p> <p>This results in a credit achievement rate of 62.5%.</p> <p>If the average credit achievement rate for the ITO sector is 50%, then this percentage weighting is increased by, for example, 2% for each 1% differential. In this case, the completion rate of 62.5% would be multiplied by 125%.</p> <p>This would result in a percentage weighting of 78.1%</p> <p>ITO A has an industry training programme with a nominal duration of 12 months. Trainees on average are enrolled in this programme for 13 months.</p> <p>The percentage weighting of 78.1% is reduced based on the difference in duration (for example by 10% for each month) resulting in a percentage weighting of 70.3%</p>

Performance grounds	Measured by	How could this be calculated?	Example
<p>Retention rate of trainees</p>	<p>The proportion of industry trainees who undertake further formal tertiary education at a higher level at any other TEO within 12 months of completing a qualification.</p>	<p><u>Calculation</u> Total number of enrolments in a subsequent qualification at a higher qualification level within the following calendar year (year n+1) of the completion divided by the total number of completed qualifications in year n.</p>	<p>Trainee A and B complete a Limited Credit Programme in 2007. Trainee A goes on to enrol in a higher level qualification at an ITP in 2008.</p> <p>This results in a percentage weighting of 50%.</p>

Performance grounds	Measured by	How could this be calculated?	Example
<p>Participation and achievement by Māori, Pacific, and female trainees.</p>	<p>The proportion of Maori, Pacific, and female trainees compared to their representation in the industry.</p>	<p><u>Calculation</u> A percentage weighting derived from the rate of penetration of the ITO into the workforce for its industries.</p> <p><u>Business rules</u> The reference year for this measure is 2009.</p> <p><u>Possible implementation</u> While the achievement of such trainees is directly measured through the other performance grounds, there may be merit in applying additional weightings in line with TES priorities.</p>	<p>ITO A has ten Pacific trainees. This represents 20% of its total trainees. Pacific peoples comprise 25% of all employees in the industries covered by the ITO.</p> <p>The percentage weighting for ITO A is therefore 80% (20 divided by 25).</p>

Performance grounds	Measured by	How could this be calculated?	Example
<p>Level of industry cash contribution</p>	<p>The rate of industry cash contribution, and the performance of each ITO relative to the average for the sector.</p>	<p><u>Calculation</u> The volume of Industry Cash Contribution divided by the total funding through the <i>Industry Training Fund</i> only.</p> <p>The average rate of industry cash contribution is calculated by deriving an average for all ITOs.</p> <p><u>Business rules</u> The reference year for this measure is 2009 and only completed PM-18 templates submitted by 31 March 2010 are eligible to be included.</p> <p><u>Possible implementation</u> A percentage weighting derived from the industry cash contribution over the reference period.</p> <p>A percentage weighting based on its performance compared to the average rate of industry cash contribution for all ITOs.</p>	<p>The rate of industry cash contribution for ITO A in 2007 was 30%, in 2008 it was 29%, and in 2009 it was 28%. The average rate of industry cash contribution was 29%.</p> <p>The weighting for ITO A is 29%.</p> <p>The average rate of industry cash contribution for all ITOs is calculated as 26%.</p> <p>The percentage weighting of 29% is increased based on the difference between the average and ITO A's performance (by 15%) resulting in a percentage weighting of 33%.</p>