

## **Aide-Memoire: Industry training sector changes since 2002**

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<b>To:</b>	Hon Chris Hipkins, Minister of Education
<b>From:</b>	Gillian Dudgeon, Deputy Chief Executive, Delivery
<b>Date:</b>	18 July 2017
<b>Reference:</b>	AM/18/00437

### **You have asked for information about changes in the industry training sector since 2002**

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1. There have been a number of changes in the industry training organisation (ITO) sector since 2002, but predominantly since 2011.
2. We have provided information about each ITO, including its coverage and 2018 funding, in Appendix 1. Information about each ITO's link to Vocational Pathways is set out in Appendix 2.
3. We recommend you release this aide-memoire once it has been considered by you, with information on the concerns we have about the ITO sector withheld to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty.

### **There was some change in the ITO sector between 2002 and 2010 including standardisation of funding rates**

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4. Following the introduction of the Industry Training Act 1992 (the Act), ITOs were created to represent industry, set skill standards and qualifications, purchase off-job training, and arrange assessment of learners.
5. Over the next 10 years, a large number of ITOs emerged covering a wide variety of industries. Between 1992 and 2000 the numbers of employees receiving subsidised industry training increased nearly fourfold to over 63,000.
6. By 2008 learners in industry training numbered 133,000 and participating employers numbered 36,200. This growth in employee participation in industry training represented a faster growth rate than all other forms of tertiary education and training.
7. Up until 2010, ITOs were largely left to meet their obligations under the Act. By 2010, there were 196,000 funded learners enrolled in industry training programmes, through 39 ITOs.

8. The main operational change between 2002 and 2010 was the standardisation of funding rates between ITOs.
9. The existing system was complex with 26 different standard training measure (STM) rates being used for 42 ITOs. This range of rates attempted to reflect historical cost differentials but was extremely difficult for the government and ITOs to operationalise. In particular, there was:
  - a lack of transparency and rationale for the different STM rates;
  - a lack of clear signalling about the level of industry contributions expected; and
  - a lack of certainty about funding.
10. A single STM rate provided greater consistency with the wider tertiary education system, and minimised compliance and administrative costs. ITOs no longer had to gather, report and monitor detailed cost information. The rate change was introduced over time so that by 2011, all ITOs were funded at the rate of \$2,919 per STM.
11. In addition, we paid Modern Apprenticeship Brokerage to ITOs or Modern Apprenticeship Coordinators up to \$1,956 per apprentice per year. Brokerage helped provide additional pastoral care and support to apprentices.
12. Other changes during this time included the introduction of the Investment Plan process. Plans set out performance targets and form the basis for government funding, and are negotiated between us and tertiary education organisations.
13. A skills leadership role for ITOs was also introduced, although this was later removed from the legislation in 2014.

## **Between 2009 and 2011 we reviewed industry training and conducted audits**

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14. In 2009 we initiated a review into industry training. The review was prompted by variable educational performance and training activity and the build-up of significant cash reserves in some ITOs.
15. Our review and subsequent audits resulted in significant changes in the sector. The findings included inconsistent use of policies and procedures, inability to account for public funding, and learners not employed or actively training.
16. As part of the review we undertook a series of audits into ITO activity. We found that over half the learners funded in 2008 and 2009 (97,000 and 100,800 learners respectively) did not achieve a single credit, even though the ITOs were being paid training subsidies for each learner.
17. During the audits, we also found evidence of government funding being claimed where there was no eligibility. These included instances where:
  - learners had incomplete or missing training agreements;
  - learners had ceased their involvement in training or employment; and
  - in 11 instances, learners were deceased.

## **The reviews and audits resulted in cash recoveries and operational policy changes from 2011**

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18. As a result of the audits, in May 2011 we recovered almost \$4.3 million from 18 ITOs that had claimed funding in 2009 to which they were not entitled.
19. We introduced tighter operational policies to ensure government funding was used to support the achievement of credits and qualifications. The changes ensured funding was aligned to learner achievement, duration of training, and size of training programmes.
20. We also introduced a new reporting system: the industry training register. This enables ITOs to report real time enrolment information to us and allows us to make timely in-year investment decisions. The industry training register also provides up-to-date information on participation, credit achievement, and qualification completions.
21. Between 2010 and 2011, the number of funded learners reduced by 28 percent, from 196,600 to 140,100, reflecting the focus on ensuring only active learners were being funded.

## **A period of mergers saw the number of TEC-funded ITOs reduce from 39 to 11 between 2011 and 2014**

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22. The industry training review in 2009 and subsequent audits highlighted variability in levels of service from ITOs to employers and learners. Subsequent tighter operational policies meant smaller ITOs were challenged financially. Government also sought a more sustainable, efficient and effective industry training sector. ITOs were encouraged to consolidate into larger and more sustainable organisations.
23. Larger ITOs have increased connectivity, influence and credibility with industry, the rest of the tertiary education sector and Government. A single larger ITO covering a significant area of economic activity can identify, resource and arrange training model in a more efficient and effective manner.
24. The result was a series of mergers between ITOs starting in 2011 and finishing in 2014. Thirty-nine ITOs progressively merged to become the 11 ITOs that receive government funding in 2018.

## **Following a further industry training review in 2012, changes were implemented in 2014**

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25. In July 2012, the Ministry of Education undertook public consultation on a series of proposed changes to the industry training system to improve overall system performance. Many submissions highlighted the ongoing poor performance of ITOs in responding to the needs to employers and the lack of choice for employers if their ITO was not performing.
26. Following the review, Modern Apprenticeships and other apprenticeship-type training were combined together into New Zealand Apprenticeships to provide quality support for apprentices regardless of age.
27. Funding rates increased from \$2,919 to \$3,200 per STM for industry trainees and \$5,200 per STM for apprentices. The additional brokerage of \$1,956 per apprentice was absorbed into the increased funding rate for apprentices.

28. Amendments to the Act (including a name change to Industry Training and Apprenticeships Act 1992) also introduced additional quality assurance functions for NZQA in relation to ITOs.
29. Employers and other consortia were provided the opportunity to directly access industry training funding. However, as advised to you in January 2018, the potential benefits of this have not been realised, and the scheme has been suspended pending the vocational education and training (VET) review.<sup>1</sup>

## **Most ITOs are now significant players in the VET sector and have responded well to current challenges**

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30. ITOs are major players in the VET sector, and have leveraged their greater resources and economies of scale to:
- develop career resources and connect better with schools;
  - support vocational pathways to improve transitions from compulsory education into work and further training;
  - collaborate to promote trades and services careers through *Got a Trade? Got it Made!* campaigns; and
  - connect with other parts of the tertiary education sector through programmes such as Gateway, Māori and Pasifika Trades Training, and '3 plus 2' initiatives.
31. Generally, ITOs are better placed to support and promote their industries. They have reviewed their qualifications in conjunction with industries, providers, and other stakeholders. ITOs also contribute to regional activities and specific initiatives, such as the Jobs and Skills Hubs supported by the Sector Workforce Engagement Programmes.
32. Individual ITOs have responded to the skill shortages faced by their industries through specific promotions and industry engagement. Notable focus industries have been the construction, primary, and residential care and support sectors.

## **Funding for ITOs has grown significantly over the last few years**

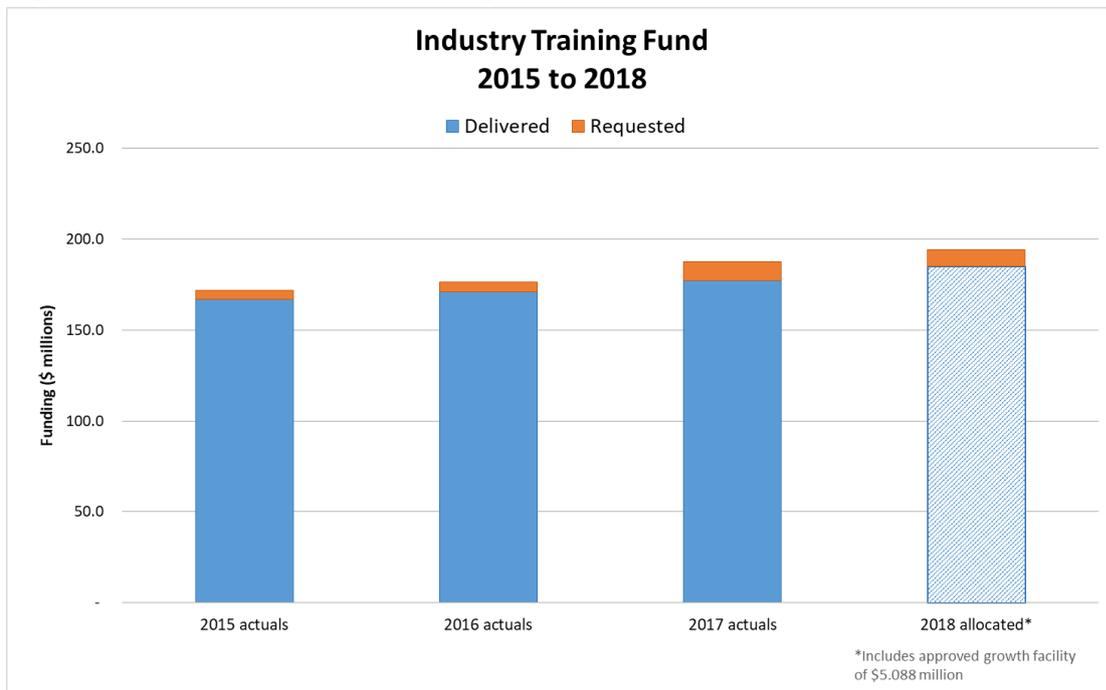
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33. High employment rates have increased enrolments in workplace training and we have increased funding to ITOs over the last four years as a result. For 2018, ITOs have been allocated 12 percent (\$20 million) more than they were funded in 2015.
34. We have allocated \$185 million funding for 2018. We expect final funded delivery for the year will be below this, as ITOs tend to be optimistic about demand. Figure 1 on the following page sets out funding over the last four years, including the amount initially requested by the sector and the end-of-year delivery position.

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<sup>1</sup> AM/18/00035 Background information on the direct funding scheme, 29 January 2018.

**Figure 1: Growth in ITO sector funding, 2015 to 2018**



**We do have some concerns about the ITO sector**

**ITOs need to add value to workplace training**

35. Since 2014, the sector has largely been left to bed in changes post-mergers, work with operational policy introduced in 2014, and face increasing demand as a result of low unemployment and high need for skilled labour.

36. 9(2)(f)(iv) [Redacted]

[Redacted]

### Blurred lines of role between ITOs and providers

38. ITOs complain about providers being paid higher funding rates when delivering industry training-like education. On the other hand, providers complain that ITOs have moved into delivery through the provision of online resources and content. ITOs are prohibited in their funding conditions from delivering training.

39. 9(2)(f)(iv) and 9(2)(g)(i)

### Complaints from employers about service from ITOs

40. Some industries feel poorly serviced by their ITO. Examples include:

- 9(2)(a) and 9(2)(f)(iv)

41. 9(2)(f)(iv)

### NZQA concerns about ITO moderation and assessment

44. NZQA has some concerns about whether ITOs are carrying out their oversight function for national external moderation in accordance with NZQA rules. In particular NZQA notes that ITOs seldom refer TEOs to NZQA for assessment practice issues identified by the ITOs' national external moderation system. NZQA by comparison find significant issues in some TEO's assessment practice for standards owned by NZQA. NZQA has discussed this issue with the ITO sector on a number of occasions but has not seen any increase in referrals.

45. 9(2)(f)(iv) and 6(c)

## TEC and NZQA levers to influence ITO behaviour

46. There are a range of existing levers to influence ITO behaviour that TEC and NZQA can use or recommend, including:

- TEC's Investment Plan process and funding conditions;
- TEC audits;
- NZQA External Evaluation and Review process;
- NZQA compliance notices; and
- recognition process and conditions on recognition.



**Gillian Dudgeon**

Deputy Chief Executive, Delivery  
Tertiary Education Commission

18 July 2018

**Hon Chris Hipkins**

Minister of Education

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**Appendix 1: Overview of ITOs**

<b>ITO</b>	<b>2018 allocation</b>	<b>Industry coverage</b>	<b>Recognition expiry</b>	<b>Current EER category</b>
BCITO	\$33,250,000	Building, construction, flooring, masonry, glass and glazing, joinery, interior systems, and painting and decorating.	Jan 2023	1
Careerforce	\$17,400,000	Health and disability support, social and community support, cleaning, caretaking, and pest management.	Mar 2021	1
Competenz	\$24,000,000	Engineering, manufacturing, forestry, communications and media, maritime and rail transport, and other trades (locksmithing, fire protection, refrigeration, heating and air conditioning).	Nov 2019	2
Connexis	\$8,369,200	Civil construction, electricity supply and transmission, water, and telecommunications.	Oct 2020	1
HITO	\$2,826,778	Hairdressing, barbering and beauty.	Jun 2022	2
MITO	\$11,360,833	Automotive, commercial road transport and logistics, stevedoring and ports, freight forwarding and distribution, industrial textile fabrication, extractives and drilling, gas, protective coating, and resource recovery.	Oct 2018	1
NZMAC ITO	\$1,173,599	Boat building design and manufacturing, composite manufacturing, marine support services, and sail making.	May 2020	2
Primary ITO	\$24,793,622	Agriculture, horticulture, sports turf, equine, dairy manufacturing, meat processing and seafood, and petrochemical, energy and chemical plant.	Jun 2019	2
ServiceIQ	\$16,946,400	Tourism, travel, retail, hospitality, museums, aviation and wholesale goods operations.	Jan 2019	3
Skills Active Aotearoa	\$5,735,520	Sports, fitness and recreation, snowsport and performing arts.	Jun 2019	1
The Skills Organisation	\$36,000,000	Plumbing, gasfitting, drainlaying, roofing, electrotechnology, real estate, financial services, local government, public sector (with some exclusions), security, contact centre, offender management, cranes and scaffolding, ambulance, emergency management, and fire services.	Dec 2022	1
Funeral Service Training Trust	Not TEC funded	Funeral (defined as funeral directing and embalming).	Jun 2019	2

## Appendix 2: How ITOs fit within Vocational Pathways as at 2018

