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### ITF Submission: Review of Industry Training

The Ministry of Education is reviewing industry training in New Zealand. Industry training plays a significant part in up-skilling the workforce, meeting employers' needs and creating a skilled and productive New Zealand. Industry Training Organisations (ITOs) have a key role to play in this. For the review to have maximum benefit ITOs and the wider vocational education and training (VET) sector need to work together and funding discrepancies across the sector need to be addressed.

The impact of industry training in New Zealand is significant. Recent independent research by business and economic research company BERL shows that if Government investment in industry training was removed, the long-term impact on GDP would be more than \$7 billion a year. Given the Government's industry training fund is currently \$156 million per year, this is a significant return on investment.

As part of this review the Ministry is looking at options that would place up to 90% of ITOs operations at risk.<sup>1</sup> The arrangement of industry training role, which forms around 90% of ITOs operations and generates 99% of ITO Government funding, could be opened up to competition or shifted to other organisations under the options outlined. The ITF strongly believes that the rationale for change provided by the Ministry has been mitigated by the Targeted Review of Qualifications which reduces the tension between ITOs standard setting and arranging functions. With these tensions mitigated, the ITF believes ITOs are best placed to arrange the delivery of training although recognises that this one-size-fits all approach may not be suitable for all industries. The ITF also recommends further improvements to this role that neutralise existing funding incentives across the industry training and VET sectors, otherwise none of the options outlined by the Ministry will result in a high performing industry training system.

The Ministry also proposed changes to the industry skills leadership and skills setting roles of ITOs. These roles, whilst not directly linked to funding, are crucial and underpin what ITOs do in their arranging of training role. The ITF believes that increased collaboration across the VET sector and the development of VET-wide plans, led by ITOs, will strengthen all ITO roles and provide the Government with sector wide information about industry demand and training supply when making funding decisions.

The ITF views on industry training are presented in this paper. In particular, this paper:

1. Outlines the value of industry training;
2. Describes what a high performing industry training system could look like; and
3. States how ITOs could help achieve this through their three core roles.

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<sup>1</sup><http://www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy/IndustryTrainingReviewDiscussionDocument.aspx>

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## 1. The value of industry

Industry Training and ITOs provide benefits to employees, employers, industry and the economy. While the Ministry of Education provides a rationale for investment in industry training in the [Key Roles in Industry Training](#) discussion paper, much of this is narrow and omits many key benefits. In response, we draw on [independent research](#) recently completed by economic consulting company BERL to outline the benefits from industry training that accrue to employers, employees, industry, and the Government. This provides the rationale for the time, money, and effort that each group invests in industry training.

### *Benefits for Employers*

The primary benefit to employers of engaging in industry training is increased profits. This occurs through efficiency gains, and improved planning and work processes. These benefits are focused on improvements in productivity and the workplace. In addition, industry training can have a positive impact on the culture of the workplace and the motivation of employees. These benefits are focused on improvements in self-esteem, motivation and team morale. They also cross over into productivity gains as employees work better as a team, communication between team members improves, and there is a decrease in absenteeism.

### *Benefits for Employees*

Employees gain skills, knowledge, and work experience from industry training that are verified by national qualifications. The nature of these qualifications makes them portable so the employee can then aspire to higher levels of work with their employer or elsewhere in the industry. Industry training also provides employees with personal benefits of increased income, increased work satisfaction and career pathways.

### *Benefits for Industry*

When industry training happens in many businesses and for many employees in the same industry, there can be significant benefits at an industry level. One of the most important industry wide benefits is that training can lift the quality of the goods and services produced across the industry. This means customers and clients can be confident of a high level of quality from all businesses in an industry, whether those businesses are producing lambs, kiwifruit, a water-tight home, a restaurant dinner or a well-serviced hotel room.

### *Benefits for the Economy*

The main benefit of industry training for the NZ economy is higher levels of economic growth through increased skill levels of workers, increased volume of trade, and promotion of innovation through dissemination of research and technology. At an economy-wide level, industry training helps businesses to reduce costs and increase the quality of goods they produce and services they provide. Industry training also allows firms to develop new markets for existing goods and services while also creating new goods and services as employees increase their skills and become better able to respond to the changing industry.

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## 2. What would a high performing industry training system look like?

ITOs are key to addressing workforce challenges such as improving productivity, and skills shortages as well as ensuring that secondary school students have clearer pathways from school to tertiary education, training and work. ITOs do this through the way they demonstrate skills leadership, set standards and develop qualifications, broker arrangements for training, and assist firms and businesses to get maximum value from their training investment. They also work hard to improve the pathways for secondary school students to tertiary education, training and work whilst ensuring that these pathways meet the needs of industry.

There are many parallels and crossovers between industry training and Institutes of technology and Polytechnics (ITPs), Wānanga and private training establishments (PTEs) as well as the important connections to secondary education. For the review of industry training to be successful it should focus on refining the vocational education and training (VET) system to best meet the skill needs of NZ and achieve an overall vision for VET in NZ.

The ITF believes that the key contributions ITOs have in creating a skilled and productive NZ are best carried out in partnership with the VET sector, where the sector is designed to support the learner to achieve meaningful and productive qualification(s) that meets industry demand. ITOs are a key pivotal organisation in a learner's journey.

The ITF has developed a vision for the sector in collaboration with ITOs and other stakeholders. Our vision for the NZ VET system is one led by ITOs in partnership with ITPs, Wānanga and PTEs that:

- responds to the current and future needs of industry – including both employers and employees
- clearly states the skill needs of industry, particularly through setting skill standards and defining qualifications and pathways for industry
- ensures industry is able to influence what is delivered and how it is delivered across all forms of tertiary education
- is sufficiently flexible to respond to the different requirements of different industries, employers, and employees rather than the 'one-size-fits-all' approach
- operates in an environment where funding, measurement, and regulation are consistent across different forms of vocational education and training, and in particular where similar activities are funded at the same levels across the system
- is supported by Government investment decisions that are informed by a broad 'VET plan' of skill requirements for each sector or industry
- has a clear set of qualifications and pathways from secondary education, through tertiary education provision, and into the workplace
- balances responsiveness, effectiveness and efficiency when making decisions around the delivery of education and training

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### 3. How ITOs can help the industry training system become high performing?

ITOs have three roles under the Industry Training Act 1992:

- Arranging the delivery of training;
- Setting standards and developing qualifications; and
- Industry skills leadership.

The three roles that ITOs have are all central to a high performing industry training system. This section discusses how the ITF believes each role contributes and outlines recent changes to the system, which are part of ITOs ongoing effort to improve the industry training system and ITO performance, to show that much of the progress needed does not require radical change.

One issue crossing all three current roles of an ITO is funding. At the moment the Government essentially funds all three roles through the arranging of training role. The ITF strongly urges the Government to consider discrete funding streams for all three roles that an ITO performs. This would enable greater transparency of funding and improved clarity about funding levels for each role. It would also enable ITOs to provide and the Government to more accurately capture the contribution of industry training to the New Zealand economy beyond what is captured in the current education performance indicators. Furthermore, if change were to be made to the functions of an ITO at a later date, it would ensure that each role was adequately funded with clear funding expectations.

#### 3.1. Arranging the delivery of training

This is the most widely understood role of ITOs, and the one that Government invests directly in. ITOs are seen by their industries as specialists in securing the supply of skilled workers that meet industry standards, and that means arranging appropriate contexts for learning and assessment that will develop all the skills a trainee needs. The ITF urges the Government to make the most of ITOs' expertise in this area.

The current system of arranging training works well for most industries. It ensures that the delivery of training is arranged consistently around the country and that all areas of New Zealand have access to training, even in areas where there are no ITPs or other providers. In addition to this, various studies over recent years have also shown the cost per credit and qualification completion through ITO arranged training are much lower than other parts of the VET sector.

The ITF believes that ITOs, as a result of their independence relative to providers and Government and their strong links with industry, are best placed to arrange the delivery of training. Further, the arranging role is crucial for ITOs to maintain links with industry that are needed to inform setting standards and industry skills leadership. The ITF does however recognise that the current 'one-size-fits-all' whereby ITOs arrange the delivery of workplace training may not be suitable for some industries. For example, it may be suitable to allow ITOs direct involvement in the delivery of on-job training

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where there is no viable existing solution. Such changes could be possible provided they were agreed by the VET sector in the industry and clearly signalled in the VET-wise plan.

An argument against ITOs having the arranging role has been that since ITOs hold both standard setting and arranging the delivery of training roles, it has been possible for ITOs to develop qualifications to suit their own purposes and to maximise funding. However, the introduction of the Targeted Review of Qualifications (TRoQ) has mitigated this tension and perceived conflict of interest.

The key aspect of the arranging role that we believe does need to be addressed is funding. ITPs and other providers receive roughly double the funding that ITOs receive for the same volume of training. This difference is well known and can impact on the mode of training arranged. As long as the difference in funding levels remain, the possibility to compromise the best interests of the trainee, employer, or industry remains.

A further aspect that needs to be addressed is Modern Apprenticeship Coordinators (MACs). While the ITF agrees with the 2010 Ministry of Education report that states 'when other factors are controlled for, there seems to be a premium in the Modern Apprenticeships model over normal industry training', we believe a more efficient and simpler model needed. The ITF believes that a key feature this model is where brokering and any other services specifically aimed at connecting potential learners into employment and industry learning are purchased separately from learning related services, such as the learning support component of the current MA initiative.

The ITF strongly recommends that for ITOs to best meet the needs of trainees and employers there should be neutrality of funding, measurement, and regulation across different forms of VET. This will lead to the optimal range of solutions to meet industry skill need and ensure that skill needs can be delivered in a cost-effective manner. While different activities might be funded in at different levels, similar activities should be funded at the same level across the system.

### ***Recent developments***

In response to the TRoQ, Canterbury earthquakes, and increased scarcity in general, ITOs and providers are increasingly looking at different ways of working collaboratively to best meet the needs of employers and trainees.

The TEC, ITOs, the ITF and the tertiary education sector have been working together since 2007 to shift the tertiary funding system from input-led funding to results-based funding. This work, combined with ITOs ongoing effort to improve performance, has resulted in improved educational performance indicators, such as completions (which increased from 41% in 2009 to 55% in 2010). Progress is still being made, but ITOs have highlighted they are able to respond to Government needs while keeping the needs of industry paramount.

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### **3.2. Setting standards and developing qualifications**

Industry standards ensure that while skill development benefits firms and employees, it also benefits the industry and nation. ITOs have a strong understanding of what standards are required for their industries so are ideally placed to lead the development of skill standards and qualifications for their industries.

The ITF also recognises that providers have good links with industry at a regional level and make a valuable contribution in this space. To utilise this contribution and to limit the potential for undue proliferation the ITF advocates for a consortia model approach for the development of standards. This approach would be led by ITOs but with involvement by stakeholders and underpinned by the VET wide plan for the sector.

The TRoQ is having positive impacts on the suite of qualifications available as well as qualifications development as neither ITOs nor providers can dominate the development process. This ensures that the needs of industry are at the core of negotiated decisions and that the perceived tension between an ITOs standard setting and arranging delivery functions previously discussed are mitigated.

The ITF supports the continued implementation of the TRoQ and believes all other focus in the area of qualification development should centre on developing clear pathways, from secondary school to VET training and within the VET sector.

#### ***Recent developments***

The sub-degree qualification development process has changed greatly over the last year, as NZQA has introduced the TRoQ. The TRoQ was introduced following a 20080-2009 NZQA study that found that the qualifications system was difficult for learners, employers and industry to understand because it:

- was not relevant to some employers and industry
- was not user-friendly, and the status of qualifications was unclear
- led to the proliferation of similar qualifications that made distinguishing between qualifications and identifying education/career pathways difficult.

Implementing the changes as part of the review has so far been worthwhile and ITOs remain committed to the process. In particular the process has changed the core focus of qualification development away from provider and ITO needs to industry needs.

The Ministry's discussion paper does not reference these recent changes and therefore overstates the conflict between qualification-setting and arrangement roles.

### **3.3. Industry skills leadership**

ITOs are uniquely placed to fulfil the role of determining their industry's skills and training needs. ITOs have a strong understanding of the needs of their industries and play an important intermediary role between industry, education and Government.

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They also play a key role in creating that secondary school students have clearer pathways from school to tertiary education, training and work and that these pathways match the needs of industry.

While ITOs are best placed to fulfil this role, they can't do it in isolation. Industry Skills Leadership is most effective when ITOs work collaboratively with industry, tertiary providers, Government and other stakeholders to determine skill needs and plan how best to respond to those needs.

The ITF believes that for ITOs to truly determine their industry's skills and training needs they need to be given the power to lead the process and have binding input from key stakeholders. This would enable the development of ITO led VET wide sector plans for their sectors. These plans would provide a strong platform for ITOs to fulfil their standards setting and qualification roles, create an ITO-led approach to improving secondary-tertiary transitions across the VET sector and enable the Government to make informed investment decisions based on industry demand and VET supply.

### ***Recent developments***

ITOs have developed many approaches to determine their industry's skills and training needs over the past decade. Historically these have been developed by ITOs with industry input. In recent years, many ITOs have been working collaboratively together, with industry, tertiary providers, Government and other stakeholders to determine skill needs and plan how best to respond to those needs. These examples include:

- Vocational Pathways: developed by ITOs and the ITF, vocational pathways utilises existing standards to create clear pathways from secondary school into the workplace and reduce youth disadvantage. The Ministry of Education has now picked up this initiative.
- Built Environment Skills Strategy: developed by the BETA group of ITOs in collaboration with industry groups, the wider VET sector and Government. This strategy sets out a skills vision for the sector over the next 10 years and outlines how skills can help address the sectors productivity challenge.