A Brief History of Government Funding for Industry Training 1989-2002

The Industry Training Federation
January 2003

Prepared by Nicholas Green, Chris Hipkins,
Paul Williams and Carrie Murdoch

ITF

INDUSTRY TRAINING FEDERATION OF NEW ZEALAND

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Foreword

It has now been 10 years since the Industry Training Act (the Act) was passed in 1992. The Act marked the end of the old apprenticeship boards and the introduction of Industry Training Organisations as we know them today. This report provides an overview and background to the development of the industry training funding system and outlines how it has evolved over time.

During 2001 discussions took place on the future funding framework for industry training, and the research leading up to the publication of this report helped to inform ITF submissions and discussion papers. The report itself provides both a policy and historical context to those discussions and more particularly, the funding of industry training generally.

This report was prepared by the Industry Training Federation (ITF) and published with the support of The Tertiary Education Commission. The ITF is a membership-based organisation, representing Industry Training Organisations (ITOs) to government and working with agencies and sector groups to improve the policy for, and delivery of, industry training.

This report is based on official papers obtained under the Official Information Act 1982 and interviews with key government ministers and officials of the day. We have also spoken to a number of personnel involved in the initial establishment of ITOs to flesh out issues not otherwise fully documented.

The ITF would like to thank Rt. Hon Sir William Birch, John Blakey, Marilyn Davies, Hon Brian Donnelly, Jim Doyle, Martin Eadie, Joan Grace, Michael Leggott, Peter Palmer, Tom Reece, Judy Smith and Hon Dr Lockwood Smith for the considerable advice and support they have provided.

Darel Hall

Executive Director

Industry Training Federation

Glossary of terms & acronyms

ETSA	Education and Training Support Agency (renamed Skill New Zealand in 1999)
EFTS	Equivalent Full-Time Student
ITF	Industry Training Federation
ITO(s)	Industry Training Organisation(s)
ITDF	Industry Training Development Fund
NQF	National Qualifications Framework
NZQA	New Zealand Qualifications Authority
PMS	Performance Measurement System
PTE(s)	Private Training Establishment(s)
TEAC	Tertiary Education Advisory Commission
TEC	Tertiary Education Commission
TEI(s)	Tertiary Education Institution(s) – public tertiary providers, established under sections 161 and 162 of the Education Act 1989.
The Strategy	Industry Training Strategy as established by the Industry Training Act 1992
TOP	Training Opportunities Programmes
STM	Standard Training Measure

Executive summary

A new system for a new economy

Throughout the 1980s and 1990s, successive New Zealand governments undertook widespread reforms aimed at improving the performance of the economy. As part of this reform process, a low level of systematic training was identified as an impediment to improved economic growth and several reviews of the education system were undertaken. Specifically, a review of on and off-job training was undertaken in 1990 by the then Labour Government, and its recommendations were picked up by the incoming National Government, leading to the development of the Industry Training Strategy (the Strategy).

The review identified several problems with the traditional apprenticeship system. Specifically, the system was insufficiently responsive to the changing needs of industry, it lacked co-ordination, was limited to traditional trades and the number of employees participating was in decline. In addition, young Pakeha men dominated training statistics.

The primary objective of the new Industry Training Strategy was to expand systematic industry training beyond the traditional trades and to link industry training to the new National Qualifications Framework (NQF), the cornerstone of the new seamless education system. In order to achieve this, however, government needed to engage industry in the new system to ensure that the qualifications developed and delivered were relevant to their needs.

Phase one: establishment and development (1991-1995)

The focus of the first phase in developing the Industry Training Strategy (the Strategy) was on building infrastructure and engaging industry. A new funding system was developed to encourage the establishment of Industry Training Organisations (ITOs) – industry-owned organisations responsible for developing and managing training. ITOs were established under the Industry Training Act 1992 to play three key roles:

- Setting national industry standards;
- Purchasing training; and
- Quality assurance of training providers and workplace learning.

The formation of ITOs dramatically increased industry's ability to influence training by placing them in charge of determining what courses and programmes needed to be delivered and who would deliver them.

Government's primary role during this phase was to encourage industry engagement, promote the development of efficient forms of training (through such methods as delivering training in the workplace), support the necessary infrastructure, and provide assistance with the costs of transition.

Government provided three streams of funding to:

- Assist industry groups to establish ITOs and develop standards on the National Qualifications Framework (NQF).
- Support the administration of training; and
- Subsidise the costs of off-job training and block courses.

Phase two: consolidation – with a view to government exit? (1995-1999)

A review of the funding for industry training took place in 1995. The review identified three key issues:

- Managing growth and the increasing cost to government;
- Managing the risk of ITOs failing; and
- The differences between funding for tertiary institutions (who receive funding per Equivalent Full-Time Students) and funding for the Strategy.

Reporting back to government, officials made a number of recommendations as to how government's investment in training could better be managed. They preferred training that was:

- General rather than specific in application;
- NQF based;
- Supportive of participation of under-represented groups;
- Cost efficient; and
- Unlikely to occur without government support.

Officials also recommended the development of a new funding system that would even out costs across the system and build on earlier requirements for demonstrated industry contribution, before ITOs could access public funds.

The new funding system amalgamated the three funding streams that had operated since 1992 and was based on "benchmarked unit costs", which provided different subsidy rates for specific ITO activities. The new funding system consisted of six components. They were:

1. Providing information and advice to trainees and employers;
2. Arranging on-job training;
3. Arranging on-job assessment;
4. Purchasing off-job training;
5. Arranging off-job training; and
6. Arranging the monitoring of training quality.

The funding provided through each of these categories cumulatively resulted in a price per Standard Trainee Measure (STM). One STM equated to 120 credits on the National Qualifications Framework. The STM price was unique to each individual ITO, because of the variances in input cost unique to each industry.

This new system, the Industry Training Fund, was introduced in mid-July 1995.

At the same time as the Industry Training Fund was developed, officials noted that in the long-term government might "... wish to continue to meet some costs arising from the NQF, but otherwise expect industry to meet most of the direct costs of industry training."[1] The extent to which government envisaged reducing its role has been a topic of considerable debate.

1 Minister of Education to Chair, Cabinet Committee on Education, Training and Employment, *Funding for the Administration and Provision of Industry Training*, March 1995, pp. 3-4.

Phase three: liberalisation and performance measurement (1999-2000)

In 1999 a group of ITOs agreed to trial a performance measurement system in order to obtain improved data on participation, achievement, and cost. At the same time, officials began to rethink the "benchmarked unit costs" funding system and its tendency to focus on inputs and costs rather than on outputs. This led the way for the development and implementation of a performance measurement system and further reform of the funding model.

This third round of funding reform focused on the performance of ITOs, as expressed in terms of trainee achievement. Whereas the previous funding model created incentives for ITOs to sign up trainees, it did not necessarily provide incentives for the completion of training. The system also tended to favour off-job rather than on-job training, which in turn increased the overall costs and potentially undermined the responsiveness of an ITO to industry needs by forcing them to use off-job training where on-job training would have been more inline with industry needs.

A new system for measuring industry cash contributions was also introduced as part of the performance measurement system. Unlike previous systems for measuring industry contribution, the new system was based only on cash contribution supported by an invoice, and did not include "in-kind" contributions.

This review of funding resulted in the abolition of the benchmark unit costs system, although the unique funding rate per ITO was retained. STM rates were frozen at 1999 levels, and (largely) remained so until 2002.

Phase four: new directions and strategic focus (2000-2002)

The change of Government in 1999 brought a shake-up to post-compulsory education. The Industry Training Strategy was reviewed, with the aim of enhancing its coverage, quality, and responsiveness. Policy frameworks for the entire tertiary sector – from universities and ITOs to Training Opportunities providers and Adult and Community Education – were reviewed by an independent Tertiary Education Advisory Commission (TEAC). TEAC was set up in April 2000 to recommend means of developing "a more co-operative and collaborative tertiary education sector that will better assist us in becoming a world-leading knowledge society". A parallel review of Industry Training also took place over 2000-01.

TEAC recommended the establishment of a single agency – a Tertiary Education Commission (TEC) – to fund and 'steer' the entire tertiary system towards national strategic goals, and a Single Funding Formula, through which the whole system would be resourced. The Government subsequently agreed to establish the TEC and reform the EFTS funding model for tertiary providers, but retained separate funding systems for Industry Training and other programmes managed by Skill NZ. Government also announced that TEC (which would take over Skill NZ's funding role in the future) would be able to adjust the total amount of funding available for Industry Training, in response to demand, rather than simply capping the number of funded STMs.

The review of Industry Training focused on means of increasing the breadth and depth of industry participation, raising foundation and generic skill levels, funding workplace learning, and lifting the participation of under-represented groups. Government decisions included:

- Requiring ITOs to undertake skills forecasting and analysis for their industries;
- Allowing employers some 'choice' of ITOs, where the firm faced significant costs as a result of dealing with several ITOs or where the firm's traditional ITO could not provide satisfactory service;

- Allowing ITOs to use 10% of their bulk grant for training above NQF level 4 for a trial period;
- Empowering ITOs to levy their industries for "leadership" and qualification development costs, provided a majority of industries agreed through a ballot; and
- Lifting the lower STM levels.

A review of the funding rates for providers and ITOs was announced in 2002, focusing on internal relativities.

Conclusions

The development of the industry training system is characterised by four significant successes:

- A huge increase in the coverage of the system, well beyond the traditional trades related training areas;
- The engagement of industry in the new system;
- The improved responsiveness of the system to industry needs; and
- The inculcation of a workforce training culture across industries.

As it has evolved, the industry training system has become accepted across the political spectrum. Significantly, recent initiatives introduced by the current Labour/Alliance Government build on the foundations already in existence, rather than developing something new from scratch.

One example of this trend is the Modern Apprenticeships scheme, which has been designed to facilitate young people into structured industry training. Similarly, the review of Industry Training undertaken from 2000-2001 highlighted the successes of the Industry Training Strategy and provided further recommendations for its development.

The success of the new system in engaging trainees is also unquestionable. Whereas the old apprenticeship system was in steady decline, the number of learners engaged in industry training has steadily increased since the Strategy was introduced, hitting over 66,000 people in training at the end of 2001 compared to just over 14,000 in June 1992. The Labour party, re-elected in late 2002, confirmed this potential, by setting a target of having 250,000 people participating in training by 2007.

With the Government's stated goals of improving the 'relevance' of tertiary education and "developing the skills New Zealanders need for our knowledge society", ITOs have the potential to play a pivotal role in shaping the nature and direction of education across the tertiary sector. The challenges for ITOs in the medium-term include expanding into small-to-medium enterprises, industries not currently covered, and increasing participation by underrepresented groups across the board. The challenge for government will be establishing policy and funding frameworks that appropriately support these goals.

Background: the drive for change

Summary of key points

- **Widespread social and economic reforms took place in New Zealand from 1984-1993, including deregulation of the economy, privatisation of state assets, labour market deregulation, and a flattening of tax rates.**
- **In the late 1980s and early 1990s, the Government's focus for the education system changed, and a far greater emphasis was placed on developing a "seamless" qualifications system, linking schools, tertiary providers and other education and training entities together in a coherent framework.**
- **Government identified human capital development as a key to improved economic performance.**
- **Training arrangements prior to 1991 were seen as insufficiently responsive, lacking in co-ordination, and dominated by limited occupations and population groups.**
- **The number of people involved in the apprenticeship system was in steady decline.**
- **Several reviews of aspects of the education system were undertaken, and a working party was set up to look at the issue of off-job training and apprenticeships.**
- **The New Zealand Qualifications Authority (NZQA) was established to develop the National Qualifications Framework (NQF), oversee the accreditation of providers and quality assurance arrangements for courses and programmes (except universities).**
- **The Education and Training Support Agency (ETSA) was established to administer training and youth employment opportunities programmes and was given responsibility for promoting the establishment of and recognising ITOs and administering the various funding pools available for industry training.**

The wider economic reform agenda

The decade leading up to the passage of the Industry Training Act 1992 was one of widespread economic and social reform in New Zealand. Inheriting a poorly performing, highly regulated economy and a foreign currency crisis in 1984, the fourth Labour Government moved swiftly to roll out a series of reforms that fundamentally altered the society in which New Zealanders live.

The economy was rapidly deregulated, state assets were commercialised and many subsequently sold, and the tax system was flattened and reformed. Above all else, a new culture of efficiency and a focus on outputs and outcomes was introduced to the public sector and all other aspects of the economy and society in receipt of public funding.

The reforms were continued by the subsequent National Government elected in 1990, who deregulated the labour market, sold further state assets, and overhauled the social security system.

Change throughout the education sector

Reform in tertiary education, while slower coming, was also substantial. Student tuition subsidies were reduced and a new system of student fees and loans was introduced. Student allowances were means tested against parental income, and a greater emphasis was placed on institutional autonomy for tertiary providers.

A market culture dominated the tertiary education system throughout the 1990s, spurred at least in part by the new Equivalent Full-time Student (EFTS) funding system that coupled institutional income to the number of students enrolled.

Skills for the new economy

Both the 1984 Labour Government and the subsequent 1990 National Government identified a lack of skills in the workforce as an impediment to economic responsiveness and growth. Several reviews of education and training were undertaken, many of which were aligned to other government priorities such as the deregulation of the labour market and downsizing the role of the government in the economy.

The reviews generally reached the conclusion that New Zealand lacked the skill levels to compete internationally, that education and training participation rates were very poor, and that the education system was insufficiently responsive to meet the needs of a diversifying economy and increasingly globalised economy.[2]

The apprenticeships system

Up until the 1980s, trade training, as it was then known, was administered by thirty six national occupation-based New Zealand Apprenticeship Committees and over 400 Local Apprenticeship Committees. Membership of Committees was defined by law and each one had to include representatives of the relevant "workers' organisation", "employers organisation", and the Apprenticeship Commissioner. Until the late 1980s, the Apprenticeship Division of the Labour Department supported the Committees. This function was later transferred to the Education and Training Support Agency (ETSA).

The old trade training system had several weaknesses – it was heavily centrally regulated, was sluggish and unresponsive, had limited coverage, and was – from the late 1980s – in decline. As the former Minister of Labour, Rt. Hon Sir William Birch notes:

> *"Although it provided quite good quality training in substantial depth and over a range of skills, it was too narrowly focused. There were a whole lot of skill intensive areas where training was required that weren't covered by the existing system."*[3]

This view was echoed by Hon Dr Lockwood Smith, the then Minister of Education:

> *"I was deeply concerned that apprenticeship training or trades training was not even considered by some people to be part of the education system. What struck me particularly about workplace education was how poorly responsive it was to the changing needs of the industries, because they didn't appear to me to have control of it at all. For example the off-job training, the block courses as they were called in those days, seemed to be very much controlled by the polytechnics and it didn't matter particularly what the industries may have wanted, the polytechnics delivered their thing and that was that."*[4]

Year	Number	% change
Mar 1979	27,173	
Mar 1980	26,357	-3%
Mar 1981	25,171	-4.5%
Mar 1982	27,932	10.97%
Mar 1983	26,852	-3.87%
Mar 1984	26,290	-2.09%
Mar 1985	27,416	4.28%
Mar 1986	28,174	2.76%
Mar 1987	28,383	0.74%
Mar 1988	28,240	-0.5%
Jun 1989	24,130	-14.55%
Jun 1990	22,500	-6.76%
Jun 1991	20,220	-10.13%
Jun 1992	16,711	-17.35%
Jun 1993	14,904	-10.81%
Jun 1994	15,805	6.05%

The statistics supported the government's concerns. Numbers of apprentices and trainees had been relatively static over the 1980s, and then declined from 1988.

2 For more information on the various reviews, see The Picot Report, Learning for Life, the Hawke Report, and Skills for the 21st Century.
3 Interview with Rt. Hon Sir William Birch, 22 March 2002
4 Interview with Hon Dr Lockwood Smith, 14 March 2002 Interview with Hon Dr Lockwood Smith, 14 March 2002

Time for change

The origins of the current system of industry training can perhaps first be seen in the 1988 *Hawke Report*[5] and the subsequent government policy paper in 1989, *Learning for Life*.[6] Both reports recommended that current distinctions between education and training be avoided, that funding mechanisms across the sector be as similar as possible, and that a single Ministry of Education and Training should be set up. The reports also advocated the establishment of a National Education Qualifications Authority (NEQA), later established as the New Zealand Qualifications Authority (NZQA).

A Training and Support Division within the Department of Labour was established to supervise the Access work training schemes[7] and the apprenticeship systems. This division was later transformed into the Education and Training Support Agency (ETSA) and then subsequently Skill New Zealand in 1998.

The passage of the Education Amendment Act 1990 saw many of the reforms recommended by the various review reports passed into legislation. The Act was also the first milestone towards a "seamless" and "connected" tertiary education system where learners could move easily between providers and forms of education whilst continuing the have their prior learning recognised, even where it was assessed in a different form of educational setting.

5 The Hawke Report on Post-Compulsory Education and Training (PCET), July 1988
6 Learning for Life – Education and Training Beyond the Age of Fifteen. February 1989
7 Access, or youth training programmes, are designed to bridge the gap many students face between school and employment

Phase one: establishment and development (1991-1995)

Summary of key points

- **There were five key areas for government involvement in industry training: (i) development and maintenance of a national qualifications system; (ii) development of structured industry training; (iii) ongoing management and support of systematic industry training; (iv) provision of off-job training or suitable alternatives associated with systematic industry training; and (v) regulation of systematic industry training.**
- **Policy options under consideration were assessed against their ability to contain fiscal costs to government, encourage industry 'ownership' of training, encourage efficient forms of training, and maintain the positive aspects of existing training arrangements.**
- **Officials considered that, in the long-term, government may not wish to be involved in financially supporting the ongoing management and support of industry training. Government's key role would be the maintenance of the NQF.**
- **Ministers saw the need to place greater control of the system in the hands of industry, who they believed were in a better position to determine skill needs than government agencies or tertiary providers.**
- **Officials considered disestablishing the Education and Training Support Agency, in order to create a new "strong crown agency free of vested interests" to administer contestable funding for the provision of off-job training.**

Laying the foundations

Although the Labour Government (1984-1990) had devoted some thought to reform of the apprenticeship system (through the Skills Task Force established in late 1990), the direct policy foundations of the Industry Training Strategy were laid by the National Government (elected in 1990). The newly elected government picked up the recommendations of the Apprenticeship and On-job Working Party,[8] which had a brief to report on New Zealand's skills needs and on the means of improving industry-based training.

The Working Party conducted a review of vocational and industry-based training and recommended reforms to the government based on:

- A system which is industry-led;
- The maintenance of national standards leading to nationally recognised qualifications;
- A system that is widely marketed;
- The development of competency based training, but incorporating minimum periods of on-job training;
- The development of modular training;

8 The Working Party was chaired by Michael Leggott, the Chair of the Printing and Allied Industries Training Council and Deputy Chair of the Education and Training Support Agency Board. He was joined by a panel including Ray Fargher, the Chair of the Education and Training Support Agency Board, trade union official Angela Foulkes, Employers Federation representative Marilyn Davies and Peter Palmer, the Manager of Labour Market Policy at the Ministry of Education.

- The development of provisions for stair-casing;
- Legislative provision which is enabling rather than restrictive;
- More flexibility on the part of employers and unions; and
- Expanding the system to include new areas of systematic training.[9]

To this end, the Apprenticeship and On-Job Working Party made several recommendations, including the establishment of Industry Training Organisations (ITOs), "Occupational Training Committees" and a central government contracting agency, and the introduction of an enabling legislative framework.

The Apprenticeship and On-Job Working Party considered that government had a role in funding this system because "high-quality systematic training confers wide benefits on the economy and country as a whole, beyond those which result to employers and firms" and a flexible workforce would "reduce the adjustment and retraining costs that accrue as workers move between employment."[10]

The Working Party, however, also saw the need for a balance between government and industry contributions to the cost of training. The Chairperson of the Working Party, Michael Leggott, recalls:

> *"We never argued that industry training organisations should be fully funded by government. If they were to be effective they had to in fact have industry support, and financial support, and also they needed to be kept lean so that they didn't become reliant solely on government funding. You had to be constantly proving back to industry that what you were doing was worthwhile and you were giving worthwhile returns on their investment."*[11]

The Working Party envisaged four funding roles for government under their proposed model:

1. "Continuation of the current level for administration and support;
2. A contribution to development funding for training needs analysis, development of training publications etc;
3. Seeding funding for new initiatives; and
4. Funding for existing levels of off-job training and increased off-job training for new Industry Training Organisations/Occupational Training Committees."[12]

In late February 1991, the Cabinet Committee on Enterprise, Growth and Employment established an Inter-departmental Working Party to develop recommendations on the implementation of these – and other related[13] – skills training policies.

The setting

Officials on the Inter-departmental Working Party noted the importance of human capital to wealth generation, and stated that the "conspicuous lack of a training 'culture' in New Zealand" was "becoming an impediment to improving our economic performance."[14] Government's role in industry training was seen as intervening in order to overcome "barriers to optimum investment" in skills development by industry, without creating "distortions that lead to unproductive training activity."[15]

9 "Apprenticeship and Industry-Based Training: *Report to the Minister of Education, Dr. The Hon Lockwood Smith, on the Model Developed by the Working Party on Apprenticeship and On-Job Training*", (January 1991), p.4
10 *Ibid*, p.6
11 Interview with Michael Leggott and Marilyn Davies, 19 March 2002
12 "Apprenticeship and Industry-Based Training: *Report to the Minister of Education, Dr. The Hon Lockwood Smith, on the Model Developed by the Working Party on Apprenticeship and On-Job Training*", (January 1991), p.4
13 These included "the introduction of the Training Opportunities Programme to replace Access" and "the structural arrangements necessary to implement the Government's policies including the establishment of a Tertiary Education Commission."
14 Paper A, "A Skills Development Strategy for New Zealand" in *Report of the Interdepartmental Working Party on Skills Training*, April 1991, p.2
15 Paper B, "Industry Skills Training" in *Report of the Interdepartmental Working Party on Skills Training,* April 1991, p.1

The key barriers to optimum skills development were identified as the lack of an integrated national qualifications system, which would allow "greater labour force flexibility and mobility", and co-ordination and economies of scale and scope, particularly in industries comprised of a large number of small enterprises.[16]

The then current government interventions designed to encourage training (the Primary Industries Cadets Schemes, Apprenticeship Block Course Subsidies, Female Apprentice Incentive Recruitment) were seen as insufficiently responsive to industry needs, and requiring greater industry control.

With regard to block courses offered by polytechnics, the Minister of Labour, Rt. Hon Sir William Birch, was particularly critical:

> *"There was clearly the need to orient the training to industry. Polytechnics were very inflexible. They just wanted to run the courses that they thought industry might need, and might attract a lot of students, because they were basically being paid for bums on seats."*[17]

Government's role, and policy options

The Inter-departmental Working Party looked at five areas where government had a possible role:

1. Development and maintenance of a national qualifications system;
2. Development of systematic industry training;
3. Ongoing management and support of systematic industry training;
4. Provision of off-job training or suitable alternatives associated with systematic industry training; and
5. Regulation of systematic industry training.

As the Minister of Education at the time, Hon Dr Lockwood Smith noted, there was a strong desire on the part of government to ensure that the system was led by industry rather than government:

> *"I wanted to make the system more responsive to the needs of industry and that was why we established ITOs; to put industry in charge of what was going to be learnt through workplace education, because industry ought to know best the kinds of learning that was most valuable to industry, I didn't want bureaucrats doing it, I wanted industry to have a very active role in that."*[18]

Development of systematic industry training

Officials argued that the largest barriers to systematic industry training arrangements lay in the development phase. Government funding and regulation could help overcome these by:

- "Signalling government's commitment to this path for improving ... international competitiveness";[19] and
- Providing a "catalyst to the rapid development of new industry training schemes."[20]

Officials therefore recommended that a contestable fund of $2 million in FY 1991/92 be established, rising to $3 million in subsequent years. The fund was specifically for the development of NQF standards and ITO infrastructure.

16 *Ibid*
17 Interview with Rt. Hon Sir William Birch, 22 March 2002
18 Interview with Hon Dr Lockwood Smith, 14 March 2002
19 Paper B, "Industry Skills Training" in *Report of the Interdepartmental Working Party on Skills Training*, April 1991, p.11
20 *Ibid*

A contestable pool was considered optimal because the development needs of different industries would vary considerably, and negotiating assistance on a case-by-case basis would therefore be most efficient. The fund would be reviewed in 3 years, taking into account the development of training, and the potential for further development.

Ongoing management and support of systematic industry training

Officials considered that a future system of government assistance should take into account the:

- Future needs of the apprenticeship system, and the current needs of government-supported training;
- Most efficient use of available government resources; and
- Need to contain government fiscal costs.

The Inter-departmental Working Party also noted that several industry bodies were already in the process of developing industry training, and had indicated that they "do not need ongoing government support to maintain their schemes once they have been established." [21] Officials therefore concluded "the case for general assistance from government for the ongoing management and support of industry training is weak." [22] Government's interest was seen as lying primarily in the maintenance of the NQF.

Three options were considered for the transition period between initial industry engagement and government's exit from directly supporting systematic training.

The first was the provision of in-kind services by a central agency. This option was essentially an extension of the status quo, whereby ETSA provided the following services under the Apprenticeship scheme:

- Quality control;
- Assisting employers and apprentices to resolve problems associated with training;
- Placing redundant apprentices in new positions;
- Monitoring and processing apprenticeship contracts; and
- Servicing local apprenticeship committees.

This option was rejected because it would give industry insufficient control over the use of resources, and make them less inclined to take over responsibility for the apprenticeship system.

The second option was the provision of funds to industry bodies based on the volume of systematic training being undertaken. This option was rejected because of concerns about the potential for 'dead-weight' investment, and because it would be difficult for the government to contain fiscal costs, without heavy administrative controls. There was also a concern that as systematic training expanded, the government would be put under pressure to either increase the total quantum of funding available, or spread existing resources to a point where "desirable elements" of the apprenticeship system would not be viable.

The recommended approach was for contestable funds to be provided to industry bodies on a contractual basis, as assessed against established criteria. This option was seen as preferable, as it allowed the differing circumstances of industries to be taken into account. Fiscal concerns could be managed by capping the fund. The fund would be established from resources devoted to existing training programmes, amounting to $6.5 million.

21 *Ibid*, p. 14. Interestingly, officials did not identify the particular industry bodies that would not need ongoing assistance.
22 *Ibid*, p. 16

Provision of off-job training or suitable alternatives

Officials considered that suitable arrangements for off-job training should take into account:

- The need to achieve greater responsiveness to industry needs (this required giving industry more control over resources);
- The need to provide better incentives for efficient provision, especially where there was a choice to be made between on- and off-job training (the current funding system tended to prefer off-job training);
- The future off-job needs of the apprenticeship system, and of systematic training developed in the future (this involved ensuring the viability of current training, and allowing for new developments); and
- Containing fiscal costs to government.

Officials considered:

1. Retaining the current funding system, on the condition that learners bore a greater proportion of costs;
2. Funding industry bodies for training outcomes, either through a lump sum or a volume-based subsidy; or
3. Delivering contestable funding to industry bodies on a contractual basis, according to established criteria and need.

Option three was preferred, since the other options were judged to either not provide enough incentives to generate efficiency, or would create fiscal pressures for government. However, it was noted that contestable funding would require "a strong crown agency free of vested interests" to administer the pool, and negotiate the inevitable transfers from existing arrangements to new systems.[23] Appended documents suggested that ETSA would need to be restructured or disestablished, in order for this to occur.[24]

The contestable fund would be created from the transfer of polytechnic apprenticeship block course EFTS and MOE block course funds (then worth about $23.1 million per annum) and would be reviewed after three years.[25] However, concern was raised at the time by members of the original Apprenticeship and Off Job Training Working Party that the $23.1m did not represent the true costs of delivering the block course programmes, and that polytechnics were cross-subsidising from other areas.

Michael Leggott recalls:

> *"We mounted quite a strong response back to Lockwood Smith on the issue of the off-job training portion of funding being handed over to ITOs. If they were going to do that then they had to make sure that sufficient funding was there. At that stage they had identified that $20m of polytechnic funding had been used for training courses, but my argument was that it wasn't really $20m at all, because it was being heavily subsidized from other courses."*[26]

Regulation of systematic industry training

Officials recommended that the Apprenticeship Act 1983 and Technicians Training Act 1967 be repealed, since:

- Much of the legislation was about to be made redundant by the Employment Contracts Bill;

23 *Ibid*, p.20
24 This coincided with a directive from Government to investigate the feasibility of establishing a Tertiary Education Commission (the establishment costs of which would be funded by the disestablishment of ETSA).
25 Funding for pre-apprenticeship training remained in the polytechnics
26 Interview with Marilyn Davies and Michael Leggott, 19 March 2002

- The current legislation was too rigid and allowed certain occupations to dominate the training system; and
- What was really important was industry "ownership" and control of industry training, not detailed legislation.

These Acts were subsequently replaced by the Industry Training Act 1992, which established a more enabling and less restrictive legislative framework for the recognition of the new Industry Training Organisations.

Treasury alternative

Treasury disagreed with the findings of the Working Group, suggesting instead that government should target its funding directly to trainees in the form of vouchers or tuition rebates, which could be redeemed against NQF-based training. In Treasury's view, this would provide a training market, which was more responsive to the needs of the "main beneficiaries of training" – the trainees.

The Treasury proposal was rejected by government on the basis that the system needed to be industry – rather than learner – led. Rt. Hon Sir William Birch describes the voucher proposal as an idea ahead of its time:

> *"You need to have a pretty mature society for that. When you think about the young kids coming out of school at 16, did they have the ability to handle vouchers? Was it going to work in practice? The government finally decided it was too big a risk. But there is a lot of merit in it."*[27]

The final policies

The recommendations of the Working Party formed the basis of the initial industry training funding system:

- **The Training Support Fund:** which provided assistance to ITOs with the costs of administering Apprenticeships, Primary Industry Cadetships and new training arrangements.
- **The Off-Job Training Fund:** which enabled ITOs to purchase off-job requirements (or appropriate on-job equivalents), and to assist in the delivery of systematic training. The Fund was also used to support administration for apprenticeships.
- **The Industry Training Development Fund:** which provided resources to assist industry groups to establish as ITOs or to become integrated into existing ITOs, and to develop systematic training linked to the NQF.

Training Support Funds were allocated on the basis that they should be used for in a manner and for purposes that would:

- Be easily understood by industry;
- Be consistent and fair;
- Reduce, over time, discrepancies between the 'per-trainee' funding levels for apprenticeships and Primary Industries Cadet Scheme;
- Be sustainable into the future; and
- Take account of the nature of different industries, and the different levels of funding that can be leveraged.[28]

27 Interview with Rt. Hon Sir William Birch, 22 March 2002

28 Appendix A, *Document of Accountability between the Minister of Education and the Board of the Education and Training Support Agency for the period 1 July 1994 – 30 June 1995*, p.42

The funds could be used to purchase consultancy services to support the transfer of apprenticeships from ETSA to ITOs, and support administration for new training arrangements, subject to certain criteria. Under these criteria support would:

- Be restricted to entry level training arrangements subject to written agreements;
- Limit funding to levels no higher than those for apprenticeships;
- Use similar formulae as for apprenticeship administration; and
- Require ITOs to demonstrate industry financial support, and planned mechanisms to improve this support.

Originally, funding for off-job training was provided by transferring funds allocated for training in polytechnics through the EFTS system to ETSA, which in turn passed resources on to those ITOs "that were ready to undertake responsibility for their own training."[29] In entering into such agreements, ITOs were obliged to ensure that they would "purchase courses for **all** trainees in employment in their industry likely to want to undertake such courses." [30]

In "appropriate cases", ETSA could, in negotiation with other ITOs, fund a particular ITO to purchase courses for trainees in industries covered by other ITOs.[31] Where the Board of ETSA was not able to enter into such funding agreements with ITOs, the Ministry of Education allocated the resources for training in polytechnics through the EFTS system.

The Industry Training Development Fund (ITDF) provided for the development of NQF standards, qualifications and training and assessment resources. There were two components to the ITDF – Foundation Grants and Consolidation Grants. Foundation Grants were made available to provisionally and fully recognised ITOs which covered industries without systematic training, to assist in the development of infrastructure.

Foundation Grants from 1 January 1995 onwards consisted of a $20,000 base component and a "variable element to make up the balance of the grant, calculated from pre-determined funding steps which are weighted 30% for the size of the workforce and 70% for the number of employers covered by the ITO." [32]

Total funding available to an ITO was capped at $200,000, and ESTA was only permitted to spend up to $1.5 million of the ITDF per financial year. In determining the total amount of funding provided, ETSA took into account a number of factors, including the:

- Extent to which the ITO could obtain industry based revenue;
- Extent to which the ITO had a reasonable budget;
- Proportion of the gap between income and expenditure; and
- Extent to which the ITO had already received assistance for similar purposes.

All payments were subject to the ITO meeting specified performance targets, including:

- The development of training arrangements, business and marketing plans, administrative systems;
- Movements towards self-sufficiency; and
- Plans to link training to the NQF.

29 Cabinet Education Training and Employment Committee note, "Funding for Growth in Off-Job Training", 7 December 1994

30 Appendix A, *Document of Accountability between the Minister of Education and the Board of the Education and Training Support Agency for the period 1 July 1994 – 30 June 1995*, p.43

31 *Ibid*

32 "Appendix A: Industry Skills Training Strategy" in *1994/95 Document of Accountability*, pp.40-41

Consolidation grants provided “modest sums” to help ITOs offset “additional short-term administration costs involved in integrating an additional industry sector into an ITO’s operations.”[33]

Over 1993/94 and 1994/95, a small proportion of the ITDF was set aside, with the annual approval of the Minister of Education, to support targeted interventions to accelerate the Strategy. In 1993/94, the focus was on assisting the range of ITOs in business planning and marketing planning in order to get them “into a better position to do business”. In 1994/95, the focus was on Apparel, Forestry/Solid Wood, Horticulture and Farming industries (with the implementation of training arrangements intended for mid 1995) and Aviation, Travel & Tourism, Engineering, Electronic Manufacturing, Retail and Food/Beverage (with implementation planned for January 1996).

ITOs also accessed (and administered) the Skill Start Fund, which provided incentives of $1000 per trainee for employers to take on new young (i.e. aged 16-21) trainees with training agreements leading to qualifications up to (and including) NQF level 3.[34] Seven hundred dollars was paid up front to the employer at the time of employment, with the remaining $300 paid 6 months later, provided the trainee was still employed under the terms of the training contract. The subsidy was made in recognition of the “high front end costs of establishing an apprenticeship or other systematic training arrangement”. ITOs received $250 for every trainee taken on within their industry coverage from FY1994/95 onwards.[35]

33 *Ibid*
34 Firms were limited to a maximum of 3 trainees at any one time receiving assistance under the scheme.
35 “Future Directions in Funding Policy – what are the issues?” (Presentation by Peter Palmer to ITO Forum, 13 July 1994). The ITO bonus was subsequently folded into the Industry Training Fund in 1996. The reasons for this decision were not explicitly stated in the Cabinet papers, but the implicit rationale was to remove distortionary aspects of the funding system.

Phase two: consolidation – with a view to government exit? (1995-1999)

Summary of key points

- **The existing system of industry training funding was considered to: (i) create perverse incentives for employers to shift to EFTS-based training, and for ITOs to develop inefficient training arrangements; (ii) create fiscal pressures for the government; and (iii) put ITO finances and stability under pressure.**
- **Officials argued that the government should only support training which: (a) was general, rather than specific; (b) led to portable qualifications; (c) met government goals for involving under-represented groups; (d) provided the greatest amount of training for the least cost; and (e) generated public benefits that would be lost without subsidies.**
- **However, officials were unable to design a system that funded training only on these characteristics.**
- **Officials therefore recommended a system of funding by "benchmarked unit costs", which would allow "evening out" of costs, provide a "market test" of the training's quality (through a compulsory co-payment from industry), and maintain the still-developing NQF. There were 6 components to the "unit cost" (known as a Standard Training Measure), each of which was subsidised at a different level, and against which industry had to make a contribution.**
- **The Off-Job Training Fund, Training Support Fund and the ITO portion of Skill Start were folded into the new** Industry Training Fund.

Background

Over the first few years, the development of the industry training system had required officials and Ministers to devote a considerable amount of time and resources to manage the system. Costs varied significantly – and often arbitrarily – between ITOs, and it had proved difficult to contain or predict the costs to government.

This problem occurred in part because of the mechanism used to allocate off-job training funds. In order to manage their own training arrangements and access the necessary off-job funds, ITOs had to place bids with ETSA. In practice, the size of ITOs' bids and officials' projections of costs often varied significantly. It was also difficult to predict growth in training. Government found itself caught between the policy goals of building and expanding the Strategy, and controlling costs.

This increasingly led officials and Ministers to see the need for a review of the funding mechanism. An earlier (1994) 'stock-take' of the NQF and Industry Training Strategy had also noted that there was "no robust or sound mechanism for allocating administration or provision resources between old and new arrangements, and ... no clear relationship between the levels of government support for industry-based and institution-based training".[36]

36 Cabinet Committee on Education, Training and Employment note, "Progress Stocktake of the National Qualifications Framework and Industry Training Strategy: Paper 5 – Issues and Options", (25 October 1994)

Review of funding policies

The review process began in 1995, in response to Cabinet directives for officials to report on:

- Funding for the administration and provision of industry training;
- Changes to the Training Support Fund; and
- How industry training organisation bids could be aligned with EFTS funding levels for off-job training. [37]

In reviewing the funding policies, officials concluded that the previous system had three key weaknesses:

- **EFTS Relativities and Perverse Incentives:** specifically, there were inequities between EFTS funding levels and Industry Training rates, which created incentives for employers and employees to shift their training into EFTS-funded tertiary study outside the industry training framework, and ITOs to develop training arrangements using more government-funded off-job training instead of on-job training.
- **Increasing Costs to government:** the previous system encouraged pressure to increase funding in step with increases in the number of eligible trainees. It also allowed "resources to remain locked up in traditional areas, rather than increasing the amount and range of structured industry training." [38]
- **ITO Financial Fragility:** some ITOs were seen to be in financial difficulty. Officials were concerned that ITOs should have clear signals about the levels of funding they should expect, so as to reduce pressures from ITOs for the government to resolve their difficulties, and reduce expectations that should an ITO fall over, the government would take responsibility for the affected trainees.

In commenting upon government's role in training, officials argued that structured and portable industry training created spill-overs for the wider community, which justified subsidies for the development of the NQF and for the recognition and funding of ITOs.

In the longer run, however, officials concluded, "government may wish to continue to meet some costs arising from the NQF, but otherwise expect industry to meet most of the direct costs of industry training." [39] Similarly, in an earlier "stock-take" of the Strategy, officials had expressed concern about the increasing demand for government funding and "increasing withdrawal difficulties for government at the end of the establishment phase." [40]

However, the then Minister for Education, the Hon Dr Lockwood Smith, argues that complete exit by government from funding arrangements was never intended.

> *"That was certainly never what I envisaged. We hoped that industry could assume more of the cost of the administration of ITOs themselves, but we always saw that the government had a valid role and responsibility in the funding of off-job training."* [41]

In the short-run, officials argued that government had a developmental role, encouraging new training on the NQF, grand-parenting old training systems, and providing subsidy levels "which do not make industry training a less attractive option than EFTS subsidised forms of education and training." [42]

37 ETE (95) 18
38 Office of the Minister of Education to Cabinet Committee on Education, Training and Employment, "Funding for the Administration and Provision of Industry Training" (March 1995), p.3
39 "Funding for the Administration and Provision of Industry Training" (March 1995), pp.3-4
40 "Progress Stocktake of the National Qualifications Framework and Industry Training Strategy: Paper 5 – Issues and Options", (25 October 1994), p.7
41 Interview with Hon Dr Lockwood Smith, 14 March 2002
42 "Funding for the Administration and Provision of Industry Training" (March 1995), p.4

Officials felt that, in general, government should focus on supporting training which:

- Was general rather than specific;
- Led to portable qualifications (preferably on the NQF);
- Met its goals for involving underrepresented groups;
- Provided the greatest amount for lowest cost; and
- Generated spillovers that would be otherwise lost without subsidies.

However, officials were unable to develop a system that would fund training purely on these characteristics. Rather, they recommended restricting funding support to "entry level training linked to an industry recognised package, so that it entails portability and recognition outside the firm."[43] This approach was considered to favour "people with no training at all, or with obsolete skills",[44] and would help control fiscal risks to the government.

Reflections: Tom Reece, Chief Executive, Extractive Industries ITO

The Extractives Industry Training Organisation (EXITO) was one of the later ITOs to get established, and faced considerable challenges right from the start. Because EXITO was established towards the end of the financial year, and the pool of money available for industry training was limited, they were essentially allocated leftovers.

Tom Reece recalls "When we went to negotiate what we could get, our STM value was really put at what amount of money ETSA (Skill NZ) had at the time...It was just leftovers, that was all that we had. There was the ITDF, the development fund, and we did get some of that, that was useful, but really we were given whatever they could afford." This has had long-term implications as EXITO can only negotiate from that initial low funding level, not at the rate at which the industry needs for secure and high quality education and training. Hence EXITO remains in the bottom quartile of STM values.

The segmentation of funding into so many different components also created a challenge. Reece says it was quite often the case that an ITO would easily spend all of their money in one area, and need more, but not spend all their money in another area. Ultimately EXITO developed a system where it could more readily spread funding across its operations, and still meet ETSA requirements.

Reece believes that the key challenge for the future will be to move away from a system of once-off training to a genuine system of life-long learning. "You can't say I'm going to train an apprentice and then that person is there for life. Once you have trained an apprentice or coalminer or whatever...if you don't continue to train that person, train and retrain, you are putting yourself in some very hazardous situations." This has implications for performance measures as on-going education and training does not necessarily generate credits and qualifications.

Reece believes that the other major challenge for ITOs will be the uncapping of the Industry Training Fund so that all who apply to train can be funded at their true STM level, rather than stretching the STM value to cover more people. "There is a certain and automatic inequity to industry under the current capped system," Reece argues.

As a starting point, it was assumed that the government "should be able to determine the quantity of training which it is subsidising, and to be able to compare this with what it is achieving through the tertiary EFTS subsidy."[45]

43 *Ibid*
44 *Ibid*
45 *Ibid*

Several funding models were proposed to government. In considering the models, officials argued that there was a trade-off between objective criteria, which created pressures to increase funding as training which met the criteria increased; and discretionary approaches, which would create uncertainty for industry, "exacerbate lobbying activity ... and impede progress towards industry taking the primary responsibility for its own training arrangements." [46]

The approach finally adopted was a benchmarked unit cost system, which would "base funding on a proportion of unit costs for the various outputs ITO produced (such as assessment, monitoring training quality, purchase of off-job training) in order to ensure delivery of their training arrangements." [47] Initial funding would be based on current levels, with benchmarks established for unit costs of similar activities, in similar industries, and for government-enterprise contributions.

The benchmarked unit cost system was preferred because:

- It allowed for the evening out of costs, and for movement towards "more efficient training arrangements";[48]
- It best fitted the "developmental state of the NQF, and the present patterns of training which government will not wish to damage"; [49] and
- The requirement of a co-payment from industry provided a clear test of the training's relevance and quality. [50]

The explicit link of public funding to an industry contribution provided a significant distinction between funding for industry training and funding for provider-based education. Whereas policy for provider-based education had assumed that most students would make a private contribution (as a result of decreasing per-EFTS rates), and that this would improve provider responsiveness, there was no **requirement** on providers to charge fees. In the case of Industry Training, public funding could *only* be generated once industry had made a contribution.

The benchmarked unit cost approach was seen very much as "*an interim measure*" and officials considered that in the longer term it may be desirable to develop a tertiary sector-wide NQF credits-based system. However, it was noted that at that time a number of problems would exist with such a system, including that many training arrangements did not lead to NQF credits and that it could create "incentives to inflate training arrangements and to relax moderation and assessment procedures." [51]

The new Industry Training Fund was capped, so as to set clear expectations for industry about the level of funding available, and to reduce fiscal risk. ETSA would be given "a target number of equivalent full time student (EFTS) training places to be purchased from the combined Industry Training Fund."[52] The EFTS units in industry training were known as Standard Training Measures (STMs), and each STM reflected 120 NQF credits of training, although in reality no one learner was allowed to do more than 70 credits.

Where the Industry Training Fund was insufficient to meet demand, ETSA was to progressively apply the following criteria to bids, in order to ration funding:

- "Training linked to the NQF;
- Training which is likely to have a high overall impact on the industry;
- Training which is likely to increase the international competitiveness of the industry; and

46 *Ibid*, p. 5
47 *Ibid*, p. 7
48 *Ibid*
49 *Ibid*
50 *Ibid*, pp. 7-8
51 "Funding for the Administration and Provision of Industry Training" (March 1995), p.7
52 CAB (95) M11/1 B (i)

- Training which is likely to involve groups traditionally under-represented in structured industry training." [53]

However, the Industry Training Fund was under-subscribed until 1999, with the unallocated resources often returned to the Crown's consolidated fund.

Policy implementation

Although the Industry Training Fund was officially in place on 1 July 1995, funding under the benchmarked cost system did not begin until January 1996. The process of setting the STM price worked in the following manner:

- Funding was contingent on employers registering a training agreement with an ITO.
- The sum of the volume of training for all the training agreements registered with the ITO was converted into STMs (120 credits per measure).
- The inputs required to supply this volume of training were divided into 6 components:

  Component 1: Providing information and advice to trainees/employers;
  Component 2: Arranging on-job training;
  Component 3: Arranging on-job assessment;
  Component 4a: Purchasing off-job training;
  Component 4b: Arranging off-job training; and
  Component 5: Arranging the monitoring of training quality. [54]
- The total costs for each component was found by averaging the cost across all ITOs, based on the bids ITOs made for each component, and the converting this into a benchmark.
- A different subsidy rate was struck for each component and applied to the benchmark.
- Each ITO's bid for each component was then compared to the benchmark, modified by the subsidy rate.
- Where the costs for any component exceeded the benchmarked subsidy rate, the subsidy rate was paid for that component.
- Where the ITO's costs were lower than what the benchmarked subsidy rate would provide, the lower rate was paid.
- The total subsidy across all the components was then summed for each ITO and converted into a STM dollar value and applied to the number of STMs the ITO intended to deliver. [55]

In 1996, subsidies were paid according to the benchmarked costs of training for four groups of ITOs with all of the ITOs grouped according to the size and number of training agreements they had.

In 1997 the benchmarks were established across all industries to "ensure neutrality in the ITF mechanism so that all industries and training arrangements are treated in an even-handed manner." [56] The objective of this action was threefold:

- To begin to move the amount of government funding for similar components in different industries closer together;
- To provide "strong incentives" for ITOs with "expensive arrangements" to increase industry contributions and move towards the benchmark costs; and

53 Hon Dr Lockwood Smith to Mr John McCarthy (ESTA Chairperson), "The Industry Training Fund", 13 June 1995. In practice, these rationing criteria were not necessary, since the Fund was under-subscribed until FY 1999/2000
54 Industry contributions were required for each component.
55 Appendix A, *Current Formula and Process for Setting Prices for Industry Training*, attached to Max Kerr to Minister of Tertiary Education, "Industry Training Strategy", 8 February 1999
56 Skill NZ note to ITF Reference Group, "Industry Training Fund" (17 April 1997), p.2

- To allow ITOs to "make their own judgements about training arrangements for their industry (e.g. by shifting from more expensive to other arrangements)."[57]

The subsidy rates paid per component were as follows:

	1996/97	1998/99
Component 1	40%	30%
Component 2	80%	50%
Component 3	50%	50%
Component 4a	82%	75%
Component 4b	76%	65%
Component 5	70%	50%

According to Skill New Zealand in 1997, these subsidy rates were set: "to reflect a number of things, including relativities with EFTS subsidy levels, to encourage uptake of on-job training given it is a new activity in some industries, and estimates of the costs government should bear in relation to other components."[58]

However, when the system was reviewed in 1999, officials described the subsidy rates as "arbitrary".[59]

Subsequent developments

Despite the fact that reducing "inequities" between EFTS and STM rates was a policy goal of the 1995 review, the perception remained that there was a differential between the provider and Industry Training funding system, which discriminated against Industry Training.

In particular, the Industry Training Organisation Federation, argued:

- There was a higher rate of subsidy available to industry for off-job training at polytechnics through the EFTS system than is available through ITOs from the Industry Training Fund; and
- Employers were being discouraged by polytechnics to abandon industry training arrangements in order to benefit from this higher subsidy.[60]

The Ministry of Education maintained that the amount of funding provided for off-job training through the STM system was broadly equivalent with that provided through the EFTS system. In order to clarify the issue, the Ministry contracted Price Waterhouse to conduct a comparative analysis of the two funding streams.

The methodology Price Waterhouse used was to ask ITOs to identify the proportion of their programmes that were delivered off-job. Price Waterhouse then divided each ITO's STM total by the proportion they identified, to provide an "off-job STM" sum for each. The total number of STMs was then divided by the sum of "off-job STMs", to give an average "off-job" proportion. This worked out to be 21%. Finally, Price Waterhouse divided the total amount of STMs contracted in 1996 and 1997 by 21%, to give "off-job STM sums" for those years.

The total amount of funding provided for off-job training (through section 4a) was then divided by the "off-job STM sums" to give an average off-job rate – $8,388 in 1996 and $9,966 in 1997. The equivalent EFTS rates in those years were, respectively, $8,770 and $8,607.

The Ministry concluded that the Price Waterhouse analysis "confirmed" their view that "the subsidies available are roughly the same."[61]

57 *Ibid*
58 *Ibid*, p. 3
59 Appendix A, *Current Formula and Process for Setting Prices for Industry Training*, attached to Max Kerr to Minister of Tertiary Education, "Industry Training Strategy", 8 February 1999
60 Briefing from Ministry of Education to Associate Minister of Education, "Briefing Notes – Funding Differences between Tertiary EFTS and Industry Training", (8 December 1997)
61 *Ibid*

However, there were some conditions attached to the analysis by the consultants – namely, that not all ITOs responded, the definition of "off-job" varied between ITOs, as did the proportions; the proportion of off-job training varied according to year; and the proportions identified by ITOs were estimates at best. Some members of the sector questioned the robustness of the Price Waterhouse methodology.

Ironically, given the expressed policy goal of reducing incentives for employers to shift to EFTS-funded training (thereby increasing the cost to government), the Ministry of Education 'clarified' its policies in 1997, allowing these incentives to continue.

When funding for off-job training was shifting out of the EFTS system (the Off-Job Training Fund) into the Industry Training Fund, the initial policy interpretation was that polytechnics that wished to offer the same training to individuals not covered by ITO arrangements were not permitted to use EFTS. The effect of this policy was to prevent people who did not have training agreements from obtaining training.

From 1 January 1998, however, the Ministry allowed students who did not have a training agreement to enrol in training courses and generate funding through classification 22 of the EFTS system. Classification 22 was funded at the B rate, which was substantially higher than the STM rate paid to ITOs (then $9,051 for Study Right students or $7,145 for non-Study Right students, compared to an average STM price of $3,109). However, no controls or evaluative measures were put in place to assess whether employers were shifting away from ITO-organised training to that provided by institutions.

Reflections: John Blakey, Forest Industries Training Council

The Forest Industries Training Council, one of the first ITOs to be established under the new Act, faced several challenges – most notably the lack of an infrastructure to support training.

Initially FITC had difficulty spending all of the money given to it by government. The current Chief Executive, John Blakey, notes that "Because the system was front-loaded, you enrolled STMs and in fact the genuine struggle was to spend the money on training outcomes."

This was at least in part caused by government tying funding to off-job training. As Blakey explains, "You weren't allowed to subsidise on-job training to a large extent. Ironically you couldn't actually give a credit subsidy rate from the very beginning because the Government was trying to protect the providers."

However, the providers did not have the capacity to support the number of trainees the forestry industry required. Whereas the polytechnics could cope with about 500 graduates per year, FITC was trying to train over 8,000 people.

However, forestry managed to overcome those challenges, and is now one of the largest ITOs. Blakey argues that the new system has allowed the number of people in training to expand immensely. "Where we haven't been as successful has been completion rates. But it's much easier to have 100 people a year and have 98% complete than have 8,000 a year and have 60% complete. The difference is the scale."

Reflections: Martin Eadie, Seafood ITO

Martin Eadie arrived as Chief Executive of the Seafood ITO in early 1996, a few months after the ITO was formally recognised by Skill New Zealand. Before that, the Fishing Industry Board supported employee training and development. They had a full-time training manager, and training booklets and videos were provided.

The Seafood ITO initially did not make full use of the funding made available by Government. Eadie believes that SITO weren't ready to make use of the extra resources in the early days, although it did use money from the ITDF to develop unit standards.

Like many other ITOs, when SITO did begin to access the government funding available, they often found that it was not aligned to their needs. "The ITDF was very focused on registering standards or qualifications, nothing about assessment material, and little to support actual implementation activities."

"Looking back, it seems that those people who stayed within the box struggled, and those that stepped outside of the box did OK.

Eadie also believes that many of the constraints on funding were more perceived than real, and the contract with Skill New Zealand in particular was worded in such a way that ITOs felt unnecessarily restricted.

"You could do some quite innovative things with the funding...the box wasn't always real, but you felt very constrained. A lot of it was just the terminology used" Eadie said.

Industry contributions

Increasing attention was also paid by officials to the level of industry contribution to industry training. Although much of this attention was the result of ongoing debates about the comparability of the EFTS and STM systems (and the relative level of private contribution in each system), officials were also interested in assessing the efficiency of public investment, and assuring that the training subsidised was of value to industry.

The development of the Industry Training Fund, with its system of components linked to benchmarked costs and its explicit requirement that public subsidies could only be accessed where an industry contribution was also provided, improved the information available about the private investment in industry training.

In a 1997 comparison between EFTS and STM costs, officials cited the following figures:

- The average total cost in 1997 tertiary education and training measured by one EFTS was $10,320 – made up of an average government subsidy of $7,740 and an average student fee of $2,580.
- The average total cost in 1997 of the quantity of industry training measured by one STM was approximately $9,608, made up of an average government subsidy of $3,103 and an industry cash contribution of $2,027 and an estimated in-kind contribution of $4,478. The in-kind contribution included the net costs of down time and lost production offset against lower wages accepted by trainees.
- Therefore, in cash terms, the government met 75% of the total costs of EFTS-based education and 60.5% of the total costs of industry training. If in-kind contributions were included, the government met 32% of the total cost of industry training.[62]

However, as officials noted, the 1997 estimates of in-kind costs were somewhat questionable, since they were based on one year of operation. An approximation of 1996 total STM costs varied significantly from the 1997 estimates, with the industry contribution (cash and in-kind) in 1996 calculated to be $3,227 – 50% of the total STM cost (compared with 68% in 1997), and $3,278 less than the estimated industry contribution in 1997. There has been an ongoing debate between officials and the sector about how or whether to measure in-kind contributions by industry.

62 Briefing to the Minister of Education from the Ministry of Education. *Differences Between Industry Training and EFTS Funding Systems*. 18 March 1997

Phase three: liberalisation & performance measurement (1999-2000)

Summary of key points

- **The trial of a Performance Measurement System – which measured actual participation and achievement – sparked a re-think of the funding system.**
- **One of the Performance Measures required detailed information about industry's cash contributions to the costs of training.**
- **The benchmarked unit cost system was found to have several weaknesses. Specifically, it focused ITOs and agencies on inputs and costs, not results; it distorted input choices; it had high transaction costs; and it encouraged ITOs to organise bids to maximise public funding.**
- **The 6 cost components were abolished, and STM rates were frozen at 1999 levels. ITOs were allowed to use their funding as they saw fit (although some restrictions were placed on significant movements away from off-job training).**
- **The new funding arrangement was seen as being part of a shift to focusing ITOs on "trainee achievement as the main output of the Industry Training Strategy."**

Background

The third key modification in industry training funding policy occurred in 1999, and was triggered by the trial of a new Performance Measurement System – which reported actual participation, achievement and cost.

The review

With the shift towards a focus on achievement, officials considered that the unit cost system needed review. According to officials, the benchmarked unit cost system had delivered real benefits to government, including the:

- Collection of "rich information" about ITO costs;
- Reduction of the unit cost to government;
- Reduction in the range of prices paid;
- Increased ITO efficiency and effectiveness, resulting from their costs being subject to a higher level of scrutiny; and
- Flexibility to recognise "the differing circumstances of ITOs during the development period.[63]

The system has also delivered very positive outcomes in terms of increased training numbers and a wider range of occupations being covered by Industry Training Organisations.

However, several problems were also identified with the system. It was felt that it:

- Focused ITOs and agencies on inputs and costs, rather than "focusing on achieving results and obtaining value for money";

63 Max Kerr to Minister of Tertiary Education, "Industry Training Strategy" (8 February 1999), p.5

- Distorted input choices, where ITOs were encouraged to purchase off-job training when on-job would be more cost-effective;
- Had high administrative and transaction costs; and
- Had limitations and the formula encouraged ITOs to organise their bids to obtain "maximum advantage.[64]

Rather than enabling ITOs to best meet the training needs of industry, the system of cost components had – in many cases – created incentives for ITOs not to respond to industry, by locking in funding allocations to specific activities. ITOs had difficulty shifting funding between components, and had strong incentives to organise training arrangements in a manner that maximised their public funding.

As Peter Palmer, the manager at Skill New Zealand responsible for developing the new performance measurement system noted, the old system

> *"meant that money was being spent on off-job training which wasn't necessarily providing the best outcome. People weren't focusing on managing for a result, they were focusing on what they were doing with the money."*[65]

Reform of the funding and regulatory system was therefore seen as necessary, in order to encourage ITOs to focus on enhancing the quality of their performance and "consider new possibilities for achieving results for their industry."[66]

The 6 cost components were abolished, and the 2000 STM prices were frozen at 1999 levels – which were all different per ITO. ITOs would be free to use their STM funding as they saw fit, although ITOs planning large (e.g. greater than 20%) reductions in off-job training expenditure were required to seek approval from Skill New Zealand first.[67]

This restriction was intended to reduce the sort of difficulties that had occurred previously between providers and some ITOs, when the ITOs had significantly reduced their purchase of off-job training, in favour of on-job alternatives. The move to bulk-funding ITOs was part of a general shift to focusing them on "trainee achievement as the main output of the industry training strategy."

Funding issues were signalled by officials as needing further resolution, particularly given the new and increasingly competitive environment between ITOs and providers created by the 1997 Tertiary Review and NQF White Paper policies. The 1997 Tertiary Review had introduced fully demand-driven funding in the EFTS system, which Skill New Zealand considered could encourage providers to "seek enrolments from people who are already in employment and who will also attract substantial government subsidies."[68]

Reflections: Judy Smith, CEO, Sport Fitness & Recreation ITO

With the broadening of the focus of industry training, a number of ITOs in non-traditional areas were established. One of the early ones was the Sport Fitness & Recreation ITO. Chief Executive Judy Smith recalls that early on the major challenges were around the informality of the funding systems and the lack of written policy requirements.

"As a new chief executive, and this is still true to a large extent now, you can not lay your hands on something that says this is how an ITO runs, this is what you are supposed to do, and this is the policy and rules. That was true for me and it has been true all the way along. ITO chief executives learn how to do things anecdotally, either from other chief executives or from Skill New Zealand."

64 Max Kerr to Skill New Zealand Board, "Industry Training Strategy: Performance Measurement System Trial and Funding Arrangements for ITOs" (10 March 1999).
65 Interview with Peter Palmer, 28 March 2002
66 *Ibid*, p. 5
67 Max Kerr (General Manager Skill New Zealand) and Elizabeth Eppel (Group Manager, Ministry of Education) to Minister for Tertiary Education, "Proposed Refinements to Funding Arrangements for Industry Training Organisations (ITOs) for 2000".
68 Max Kerr to Skill New Zealand Board, "Industry Training Strategy: Performance Measurement System Trial and Funding Arrangements for ITOs", 10 March 1999, p.3

Smith said that another enormous challenge was selling the new system to an audience that did not understand it. "Starting from scratch is really difficult, especially without a national campaign and without anybody understanding. The general population still doe not understand the NQF, unit standards and traineeship. So for seven years we have attempted to sell a product that nobody understands."

"Employers consider that we have got better and better over time. They can see how customer focused we are and they can see how we try to adapt the rules to make it easy."

Changes to the then qualifications policy also meant that "institutions may also be able to develop their own qualifications provided certain quality criteria are met."[69] In the view of officials, unless ITOs could "effectively manage their provision of a credible, high quality employment based pathway, employers may not be willing to offer training places and trainees may choose to obtain their qualifications in an institutional setting."[70]

Officials felt that a future funding system should:

- Have clear linkages to the funding regime for tertiary providers;
- Pitch the pricing at a level sufficient to maintain a viable and credible industry training route;
- Manage fiscal risk to government;
- Minimise transaction and compliance costs;
- Allow ITOs to decide upon training arrangements that best meet the needs of their industries, within quality assurance criteria; and
- Accommodate the particular risks to government of subsidising employment-based training.[71]

The Training Development Fund, which had been established to assist ITOs develop their infrastructure, was retained until FY 2000/01, after which point it was phased out.

Industry contribution

Perhaps the least accepted of the new performance measures that were introduced as part of the new funding system was Performance Measure 18 (PM 18), which required ITOs to report on industry *cash* contributions. Unlike previous systems, in-kind contributions from industry were not considered.

Peter Palmer of Skill New Zealand identifies the problems with PM18:

> *"The difficulty with PM18 is twofold. One is that we're trying to capture a number of cash elements that do not go through the ITO's books, they are paid by employers or trainees directly to a provider or assessor or whatever. We're trying to capture that because it is a really genuine industry contribution – it's a cash outlay. Secondly, a problem for ITOs is that they feel that cash contribution has been defined too narrowly."*[72]

Palmer continues:

> *"A lot of ITOs resent the compliance costs of having to collect information that does not go through their books and a lot of ITOs feel that it is unfair to them because a lot of their industry contributions are more than just in-kind but are not collected."*[73]

69 *Ibid*
70 *Ibid*
71 The factors to be considered were: the differing interests of Govt and employers; the fact that trainees were employees and affected by different factors than students; the willingness of employers to provide training places; the widely differing ways the industry share of costs can be met; the different cost structures between work-based and institution-based training, especially in terms of capital; and the different basis for measuring volume between institutions and ITOs.
72 Interview with Peter Palmer, 28 March 2002
73 *Ibid*

The first release of PMS data

The first operational year of the PMS revealed a wide range of details and information about the performance of the Industry Training Strategy. Amongst other things, it provided more robust statistics on industry's cash contribution to Industry Training. (PM18 – the Performance Measure related to the industry contribution – only collects "the dollar cash cost per credit achieved by trainees for the period 1 January to 31 December in total and for government employers/trainees"). According to PMS data, industry paid $27 million in 2000 towards Industry Training, with the government providing $65 million.

Government and Industry Cash Contribution to Industry Training 1996-2000

Year	**1996**	**1997**	**1998**	**1999**	**2000**
ITF Subsidy allocation	$50.1m	$61.7m	$67.8m	$63.1m	$65.9m
% change		+23.15%	+9.89%	-6.93%	+4.44%
Industry cash contribution	$14.7m	$19.6m	$24.7m	$26.9m	$27.9m
% change		+33%	+26%	+8.23%	+3.72%
Total	$64.8m	$81.3m	$92.5m	$90m	$93.8m
% change		+25.46%	+13.78%	-2.70%	+4.33%

Note: From 1996 to 1998 these figures were calculated according to an input-based forecasting system. From 1999, they were based on out-turn information, therefore they are not strictly comparable.

The PMS data also showed strong growth in training activity. During the year 2000, 22,353 employers participated in Industry Training, 6,241 National Certificates and 1.5 million NQF credits were achieved by trainees, and trainee numbers were at their highest point ever.

Phase four: new directions and strategic focus (2000-onwards)

Summary of key points

- **The election of the Labour-Alliance Government led to a re-examination of Industry Training and other tertiary education policies, with the aim of setting long-term strategic directions, and focusing the sector on contributing to national economic and social development.**
- **A review of Industry Training led to a range of policy changes, including greater employer 'choice' of ITOs, an easing of the ban on using public funds for training above NQF level 4, allowing ITOs to levy their industries (after a ballot) for "industry leadership and qualifications design", and the raising of low STM rates.**
- **A Tertiary Education Advisory Commission (TEAC) made a wide range of recommendations over its 4 reports, including the establishment of an overarching funding and 'steering' agency for all tertiary education (including ITOs), strategic priorities for tertiary education, a 'desirability test' to assess the 'relevance' of particular programmes, and a Single Funding Formula for the entire tertiary education system.**
- **In response to TEAC, the Government agreed to establish a Tertiary Education Commission (TEC). TEC would take over all tertiary funding roles (absorbing Skill New Zealand and sections of the Education Ministry), and negotiate Charters and Profiles with providers and ITOs, to ensure that they were playing complementary and 'relevant' roles.**
- **Following further consultation, the Government released a Tertiary Education Strategy 2002-07, outlining its priorities for the next 5 years, and its proposals for an 'Integrated Funding Framework'.**
- **Under the 'Integrated Funding Framework,' the cap on funded STMs would be eased.**
- **ITOs and providers would continue to have different funding arrangements.**

Background

A Labour-Alliance Government was elected in 1999, on a platform that included far-reaching plans for review and reform of tertiary education policies. The Government's aims included reducing competition, focusing the tertiary sector on a long-term strategy and on contributing to national development, and improving overall performance.

Tertiary policies were re-assessed through two main initiatives – an officials' review of the Industry Training Strategy in 2000/2001 and an independent Tertiary Education Advisory Commission (TEAC), which was established in April 2000.

Industry Training Review

The Industry Training Review posed a number of questions about the overall Strategy. In terms of funding, the key consultative document of the Review, *Skills for a Knowledge Economy*, argued that there were several anomalies and issues with the current system:

74 New Zealand Government, *Skills for a Knowledge Economy: a Review of Industry Training*, p.15

- The system did not recognise that it was easier to implement the Strategy where "there are a small number of well-resourced firms operating in areas of high skill", but harder in other areas. This could lead to some employers "investing less in training than is beneficial for their industry or the economy as a whole";[74]

- The system did not "ensure fair access to training for educationally-disadvantaged groups", as it did not offer any "financial incentive for employers to cater for people with lower levels of education and more intensive need". Maori, Pacific Islands People and women were mentioned as groups whose participation could be targeted by government;[75]

- The restriction on generating funds for training above level 4 limited the ability of ITOs to extend the benefits of the workplace-based pathway;

- Industry Training funding was capped, whereas funding for school-based and tertiary education was demand-driven and uncapped; this difference was seen to create "some tensions between the two parts of the tertiary sector" and "an unintended competitive dynamic between ITOs and tertiary institutions;[76] and

- The voluntary nature of industry involvement in the Strategy meant that the development of "strong, industry-focused training cultures" was patchy, and there was a potential for free-riding by firms who poached trained staff from other enterprises.

Several options were put forward as possible future directions for public funding of industry training:

- "Refinement" of the capped Industry Training Fund – this would involve adjusting STM rates to remove the current anomalies;

- Adopting a demand-led funding system – in other words, removing the cap on the Fund, and funding Industry Training in the same manner as EFTS (although not necessarily at the same level);

- Targeting public funding at specific groups; and/or

- Lifting the level 4 cap.[77]

The consultation document also raised the issue of introducing industry-wide training levies.

After consultation with stakeholders, the Government released "Moving Forward", a summary of its decisions arising from the Review. Although the report noted that final decisions on funding would occur after the release of the final TEAC report, in the meantime, the Government had decided that:

- $1 million of the Industry Training Fund would be used to reduce the differences in STM rates between ITOs, particularly by lifting the lower rates. In order to qualify for higher rates, ITOs would make a business case to Skill New Zealand, outlining how higher funding would deliver "enhanced performance in areas such as expanded geographical reach or higher levels of service leading to greater trainee achievement."[78]

- Employers would be able to apply to Skill New Zealand (or TEC in the future) to work with an ITO other than its traditional organisation, where the firm faced excessive costs from having to deal with several ITOs or where the firm's traditional ITO was unable to provide satisfactory service.

75 *Ibid*, pp.15-16
76 *Ibid*, pp.16-17
77 *Ibid*, pp.17-19
78 Office of the Associate Minister of Education (Tertiary Education), *Moving Forward: Skills for a Knowledge Economy. Government decisions arising from the Review of Industry Training in New Zealand* (New Zealand Government: 2001), p.5

- A further $100,000 would be reserved in 2002 to fund training initiatives in small- and medium-sized enterprises that lacked a training culture. These initiatives would be evaluated at the end of the year "to establish the factors that lead to effective investment in training in SMEs."[79]

- From 2002, ITOs would be able to bid for subsidies for training at level 5 and above. However, only 10% of their total grant could be used on advanced training (although some exceptions were allowed to this rule). The impact of this decision on other parts of the tertiary sector, and on the supply of lower-level training by ITOs, would be evaluated before any further liberalisation of the level 4 cap was considered.[80]

- ITOs would be empowered to collect training levies from firms in their industry, should a majority of employers balloted agree. Funds collected through a training levy could only be used to support "industry leadership and qualifications design."[81]

The last provision, levies, was one of the most significant decisions since it represented a partial shift away from the voluntary nature of the Industry Training Strategy. Submissions to the Review were split over the issue, with 13 opposed to levies, 9 in favour, and 9 offering "qualified support" (out of a total of 34).[82]

It is worth noting that there had been earlier consideration of enabling ITOs to levy employers at the time of the establishment of the Strategy in the early 1990s. A draft clause had been included in the Industry Training Bill in 1992, which would have given ITOs the power to levy their employers after a ballot. However, this clause was subsequently dropped by the National Government on the basis of considerable opposition. In introducing the Bill for its third reading, the then Minister of Education, Hon Dr Lockwood Smith, argued that compulsory levies would be "the surest way to give the kiss of death"[83] to the new system, since,

> *"For industry training to work, industry must want the structures, must be committed to the structures, and must want to make industry training work."*[84]

The Labour-Alliance's ultimate approach was based upon the Commodity Levies Act 1990 (CLA) and a Private Member's Bill in 1995 tabled by Ruth Dyson. The CLA empowers representative bodies in the primary production sector to impose a levy provided that a majority of the industry supports it through a ballot. ITOs would be obliged to "adequately define their own industry, and ensure that the balloted population is substantively matched to the population who would be required to pay the levy."[85]

Officials' advice noted that there were a number of implementation issues associated with a levy system, including:

- Establishing precisely which firms fell within an ITO's coverage;
- How levies would treat firms that fell within more than one ITO's coverage;
- How to manage multi-ITO levies;
- How to treat firms that 'switch' ITOs; and
- How to treat conscientious objectors.

As at the time of publication, legislation enabling the levy system had not yet been passed by Parliament.

79 *Ibid*
80 *Ibid*
81 *Ibid*
82 "Skills for a Knowledge Economy: Analysis of Submissions", appendix to *Industry Training Review: Remaining Options for Reform* [Cabinet Education and Health Committee paper EHC (01) 17, 21 June 2001], p.22
83 Third Reading of the Industry Training Bill by the Hon Dr. Lockwood Smith, *Hansard*, 18 June 1992
84 *Ibid*
85 Associate Minister of Education (Tertiary Education) to Chair, Cabinet Education and Health Committee, *Administrative Details of a Balloted Training Levy*, paragraph 11

The Tertiary Education Advisory Commission

The Tertiary Education Advisory Commission (TEAC) was established by the Labour-Alliance Government in April 2000 to provide advice on long-term strategic directions for the tertiary sector, and to provide a greater level of co-operation and cohesion between the different parts of the sector.

Over the course of the two years of its operation, TEAC produced four reports. These recommended a number of radical structural and regulatory changes to the tertiary system, including:

- The adoption of a broad and comprehensive view of tertiary education, including all formal and non-formal learning outside the school system, with policies designed to support coherence and integration between different parts of the system;
- The establishment of strategic directions for tertiary education, with a focus on enhancing quality; lifting the skills of the most disadvantaged; improving the focus, quality, and relevance of tertiary research; and developing skills and competencies for a distinctive knowledge society;
- The creation of a new intermediary agency – the Tertiary Education Commission (TEC) – to steer the tertiary system. TEC would provide strategic policy and regulatory advice, fund providers, monitor the performance of the tertiary system, and undertake research, facilitation and leadership;
- The creation of steering instruments, such as Charters (which would describe a provider or ITO's role and place in the overall system), and Profiles (which would describe in detail a provider's programmes and activities) and a desirability test (which assess whether or not a programme or activity was suitably aligned with national goals and therefore worthy of funding); and
- A Single Funding Formula, through which all forms of tertiary education (with the exception of Adult and Community Education), would be funded.

The Government agreed to establish a Tertiary Education Commission, which would fund the tertiary education system and steer it towards national strategic goals.

The Government did not endorse TEAC's proposed strategic directions for tertiary education, but developed a separate and more detailed Tertiary Education Strategy (TES) for the period 2002-07. The TES set out six broad strategies, and 35 specific objectives for the tertiary system, which flesh out the six strategies. The six strategies for 2002-07 were:

- **Strategy One:** Strengthen System Capability and Quality.
- **Strategy Two:** Te Rautaki Matauranga Maori – Contribute to the Achievement of Maori Development Aspirations.
- **Strategy Three:** Raise Foundation Skills so that all People can Participate in our Knowledge Society
- **Strategy Four:** Develop the Skills New Zealanders need for our Knowledge Society.
- **Strategy Five:** Educate for Pacific Peoples' Development and Success
- **Strategy Six:** Strengthen Research, Knowledge Creation and Uptake for our Knowledge Society.

Finally, the Government did not introduce a Single Funding Formula, but instead decided to replace existing funding systems with an “Integrated Funding Framework”. Despite its name, the Integrated Funding Framework retained different funding approaches for different parts of the tertiary system and actually increased the number of funding streams. Most of the major policy changes occurred in the provider sector, where the potential for caps on the numbers of funded places, some performance-based funding, and student fee restrictions were announced.

The means of funding for Industry Training remained largely unchanged, with one significant exception. Total funding for Industry Training would be annually adjusted “to allow for changes in the total number to be funded.” In other words, more funding would be made available to meet increases in demand for training. A review of STM relativities was also announced. The easing of cap on funded Industry Training places would be introduced over the period 2002/03 – 2004/05.

The future

The re-election of Labour in 2002 set a number of clear and ambitious directions for Industry Training. Labour’s election manifesto included a commitment to increase the numbers of people in training to 250,000 by 2007. At the same time, however, decisions flowing from the Industry Training Review and TEAC process mean that ITOs will be increasingly expected not just to increase the volume of participation but also its breadth and depth, by working more with SMEs and new industries.

The Labour Party’s commitments to increase the number of people participating in industry training to 150,000 and 250,000 by 2005 and 2007 respectively are ambitious goals. These targets are still very much a political decision and few details are available from officials about what exactly they mean or how they will be reached, particularly with regard to funding. This however, provides ITOs with the opportunity to define what these targets mean, and how this rapid trainee growth will be managed effectively without compromising quality. Nonetheless, this policy will require increases in the quantum of funding for industry training, and will if realised, change the shape of the tertiary education sector. If the 2007 target of 250,000 trainees is realised then there will be a similar number of people participating in industry training than the combined number of students participating in universities, polytechnics, PTEs, colleges of education and wananga.

While government will retain its interest in promoting skill development as a means of enhancing international competitiveness, it is also likely to increasingly look to Industry Training as a means of achieving social goals. The social goals include increasing the volume and extent of participation by Maori and Pacific Peoples and women. Increasing the connections between school and Industry Training, and using Industry Training as a means of smoothing the school-work transition are also possible goals.

ITOs will also be expected to take a leadership role for their respective industries, forecasting and analysing skill needs, factoring the results of this work into their programmes and strategic plans, and becoming centres of excellence and reference in their fields.

The key question is: is the funding system up to these challenges, and if not, will there be significant modifications?

While it is difficult to reach firm conclusions, some patterns and lessons can be derived from the past ten years. First, the system of bulk grants is likely to be retained for the majority of Industry Training funding. The flexibility and improvement in performance that resulted from the move to bulk funding is evidence enough of the policy’s wisdom. Both flexibility and incentives for performance will be necessary conditions for the achievement of Labour’s goal of 250,000 trainees. In addition, the ITO network is strong enough not to require input-management.

Where the government wishes to achieve specific goals, previous experience suggests that agencies will do so by establishing separate contestable pools. This reduces the potential for deadweight, and allows for more agency control and risk management. The new system of Charters and Profiles may lead to a form of up-front performance management, linked to recognition.

What we are likely to continue to see in the short-to-medium-term, therefore, is a bulk grant system, with additional pools for such purposes as raising participation by Maori and Pacific Peoples, entering new industries, and working with SMEs. Government is unlikely to provide specific funds for skills forecasting and analysis, particularly since it will have made legislative provisions for levies to support these roles.

Will the perennial problem of "perverse incentives" created by poor alignment between providers and ITOs be resolved? The answer depends on what you think the solution should be. Government – and particularly officials – are unlikely to support funding ITOs at provider rates, since this would inflate the cost of training. In addition, such a solution would be hard to justify, given the different cost structures of the two pathways and current thinking about desired outcomes. More likely is either minor change by government or management of the problem by regulation. Given the increasingly dynamic nature of tertiary education, the problem of "perverse incentives" is likely to remain in some form or another.

If the government's goals are achieved by 2007, Industry Training will have gone from being a small, fledgling initiative in 1992 to a parallel pathway (in terms of volume, range, prestige and breadth) to the traditional providers – all within 15 years. History suggests that getting the funding policies right at the right time will be a key component to success. The funding approaches adopted by agencies over the past decade have been designed to manage a number of objectives and risks, but have tended to mainly reflect the stage of the ITO network's development. A mature and innovative ITO network is likely to require more flexibility, more transparency, and more trust. Balancing these goals against the Government's social and fiscal interests will be *the* policy challenge for Industry Training over the next five years.

Recurring themes and possible directions for the future

Recurring policy issues:

- The need to align the provider and Industry Training funding systems, so as to reduce “perverse incentives”, and preserve a range of learning pathways.
- The need to ensure ITO stability and a strong, viable and credible Industry Training pathway (thereby reducing the risk to the Crown).
- The need to identify the optimal level and nature of Government involvement in the Strategy.

Developments/policy shifts:

- Between 1992 and 2000, agencies shifted from being ‘guardians’ of the Industry Training Strategy and controllers of funds to being monitoring bodies. Recent decisions suggest that agencies – especially TEC – will move back towards a taking guardian role for the entire sector.
- Funding systems have shifted away from a tight focus on inputs and control of costs towards outputs.
- The funding model has shifted towards a devolved bulk grant system and the ITDF has been wound up, signalling that ITOs are out of the ‘development stage’.

Current/future drivers:

- The outputs sought from Industry Training are likely to increase and become more complex. The current output is “trainee achievement”, but future outputs are likely to be greater participation by Maori and Pacific Peoples, SMEs, and new industries (as signalled in the Tertiary Education Strategy).
- A greater level of direct Government involvement in tertiary education, with funding used to encourage greater “relevance”.
- Pressure from Government and TEC for ITOs to respond to, and reflect the needs of, non-traditional stakeholders.
- Pressure from Government and TEC for ITOs to work more closely together, and for providers and ITOs to co-operate.
- Government ambition to significantly increase participation in Industry Training.

Timeline of significant events and decisions

1990-1: Apprenticeship and On-Job Working Group and Skills Taskforce recommend establishment of industry-driven training system.

1991: Inter-departmental Working Party sees development of training cultures in enterprises as pivotal to international competitiveness. Analysis of possible areas for government involvement leads to the establishment of three contestable pools, to (i) help meet the costs of administering the old and new training arrangements; (ii) support the purchase of off-job (and appropriate on-job) training; and (iii) help new ITOs be set up or existing ITOs to merge.

1995: Review of Industry Training funding policies identifies three key problems – (i) EFTS-Industry Training fund inequities; (ii) increasing costs to government; and (iii) ITO fragility. Two of the three contestable pools are folded into the new Industry Training fund, which provides differing levels of subsidy towards the benchmarked costs of six key ITO activities.

1997: The Ministry of Education 'clarifies' policy, to allow providers to offer training to workers not in training agreements through the EFTS system.

1997-98: Ministry-funded analysis of EFTS-Industry Training funding finds that subsidies for off-job training are "roughly the same".

1999: Introduction of Performance Measurement System leads to review of funding system. Review concludes that system focused ITOs on costs and inputs, distorted input choices, had high transaction costs, and interfered with responsiveness to industry. As a result, the six 'cost components' were abolished and ITOs were given freedom to use their subsidies as they saw fit. Funding rates were frozen at 1999 levels. Policy focus now on trainee achievement as "main output" of the Strategy.

2000: The last remaining contestable pool from 1992 (the Industry Training Development Fund) is disestablished from FY 2000/01. The Tertiary Education Advisory Commission review and Industry Training Review begin.

2001: Industry Training Review completed, and Government decisions on the level 4 cap, employer 'choice', and levies announced. TEAC recommends the establishment of TEC, the development of a national strategy, and a Single Funding Framework. Work begins on drafting a Draft Tertiary Education Strategy and setting up the TEC.

2002: ITOs with lower STM rates receive top-up funding, to bring them towards the average rate. The Government rejects the Single Funding Framework, in favour of a modified status quo. This includes a gradual increase in the number of funded STMs. The final Tertiary Education Strategy and Statement of Tertiary Education Priorities is released. Legislation enabling the establishment of TEC is held up for general elections, in which Labour campaigns on a commitment to increase the number of trainees to 250,000 by 2007.

Total Industry Trainees June 1992 – December 2002

Year	Total numbers	% change
June 1992	16711	-17.35%
June 1993	14904	-10.81%
June 1994	15805	6.05%
June 1995	18344	16.06%
June 1996	23957	30.6%
June 1997	31652	32.12%
June 1998	45392	43.41%
June 1999	49577	9.22%
June 2000	63102	27.28%
December 2000	62857	N/A
December 2001	66225	5.35%
December 2002	83456	26%

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