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## **Industry Training Federation response to *Tertiary Education Reforms: Next Steps***

1. The Industry Training Federation (ITF) is a membership-based organisation, representing Industry Training Organisations (ITOs) to the government and working with agencies and sector groups to improve the policy for, and delivery of, industry training. There are currently 41 ITOs, all of whom the ITF represents. This submission has been prepared in consultation with ITOs and represents a collective view. Individual ITOs have also prepared submissions to reflect their particular perspectives.
2. The ITF welcomes the opportunity to comment on the proposed next steps for the tertiary education reforms. This submission attempts to deal with the high level issues raised by the Minister's announcements and supporting documents, rather than providing a detailed response. The ITF sees this as the beginning of a process of consultation with the government around the next stages of the tertiary education reforms, and looks forward for further opportunities to engage as the details of the reform programme emerge.

### **Executive summary and recommendations**

3. The ITF supports, in principle, clarification of roles through the distinctive contributions process, and changes in the funding system to focus organisations on quality and relevance. In saying this, the government needs to come from the principle of responding to stakeholder requirements *before* considering structural distinctions by organisation type. The ITF is concerned with the suggested approach of making changes in the ITP sector first. We believe that to get a truly integrated system where the different parts of the system work together, the changes to the system need to happen concurrently.

### **Recommendations**

4. The ITF recommends:

- i. the government work from the principle of considering stakeholder needs and return on investment *before* structural distinctions by organisation type in making changes in the funding system;
- ii. the government take a whole of system approach to this stage of the reforms, rather than focusing on just one part;
- iii. the following issues are considered in the design of the “investing in a plan” funding system:
  - including industry training funding in consideration of funding issues;
  - clarification of the relationship between industry training funding and the student component;
  - reviewing the allocation of funding on the basis of principles such as relevance and quality;
  - considering measures of return on investment for allocation of funding in different parts of the system
  - support for ITOs’ skills leadership role, and mechanisms for effectively using the information provided by ITOs through Strategic Training Plans;
  - greater clarity and simplicity in documents such as the Strategy and the Statement of Tertiary Education Priorities;
  - better links, not only between stakeholders and tertiary education organisations, but between stakeholders and government;
  - building the capability of government agencies to be able to prioritise and make decisions based on evidence; and
- iv. the government considers how to balance the development of system wide-measures of quality with the development of more tailored and appropriate quality measures for individual organisations.

## **Discussion**

5. A small economy like New Zealand’s depends on a highly skilled workforce to maintain global competitiveness. The ITF believes that the tertiary education funding and skill recognition framework needs to be redeveloped to reflect a more integrated approach to skill supply and demand. The current reform agenda has the potential to ensure the tertiary education system is focused on delivering skills, knowledge, and

research that contribute more effectively to New Zealand's economic and social prosperity, and which are more aligned with our communities' needs into the future.

6. Little of the detailed work seems to have been decided on at this stage, and it is difficult to directly see the implications for ITOs. In particular, it is not clear whether ITO funding is included in the reform process. The ITF believes that funding needs to be examined from the perspective of return on investment across the different parts of the system.

### Distinctive Contributions

7. As the ITF stated in its submission on TEC's 2004 distinctive contributions discussion paper, we see merit in discussing the comparative value of different parts of the tertiary education sector. In saying this, in clarifying the roles between organisations, structural considerations of organisation type need to be balanced with the requirement for organisations to respond to stakeholder demands and with the need for the government to get best value for its investment. The industry training system also needs to be properly understood and reflected in this work.
8. In the Cabinet paper and background paper, it appears that most of the thinking since 2004 regarding distinctive contributions has gone into clarifying the role of ITPs. While it is understandable that the government focuses its efforts on making sure this part of the system delivers, getting the different parts of the tertiary education system to work together to meet economic and social goals requires concurrent analysis that clarifies roles *across* the different parts of sector. ITPs must not be seen in isolation from ITOs and the other parts of the sector. This stage of the reforms should be about ensuring the tertiary education system can deliver for New Zealand's future in a way that reflects the changing dynamics of industry, not just securing the ongoing viability of ITPs. **The ITF believes that changes to the system need to happen concurrently.**

### *Clarifying roles between ITOs and ITPs*

9. Over time, the roles of ITOs and ITPs have become less distinct, causing increasing tension between organisations. Different funding systems have not kept pace with changing delivery styles, which have emerged in response to changes in the ways adults are learning and working. Regulatory systems are being tested as organisations move beyond their traditional roles in response to demands for more flexible and customised learning experiences.

10. Work has been done on the relationship between ITOs and ITPs, including a TEC review of overlapping provision in 2005.<sup>1</sup> The main issue is still outstanding – the interface between the industry training and student component funding systems.
11. We seek clarification around the concept of ITPs providing “business-facing education” as stated in the discussion in the cabinet paper on their distinctive contributions, as this could potentially lead to further blurring of roles between ITOs and ITPs. The ITF supports a move towards more ITPs becoming more responsive to industry needs, including improved ability for ITOs to purchase learning for small numbers of learners across the country. However, further clarity is required around what the student component (what ever form it takes) and industry training funding systems pay for.
12. The ITF objects to the government defining what ITPs provide by referring to what is not covered by the industry training system. As stated above, we believe that the reforms need to analyse the system as a whole. While there are areas where ITOs are not purchasing training, they are currently held back by restrictions in the funding system rather than capability to arrange provision, for example, in areas such as management training and training for employers. ITOs need the flexibility to respond to the changing needs of their industries, and the current funding system does not provide this. **The government needs to come from the principle of responding to stakeholder needs before considering structural distinctions by organisation type.**
13. In addition, there are areas of ITP provision where ITOs are not actively involved through the purchase of training, but in their position at the interface between industry and the tertiary education system, ITOs have an interest in ensuring delivery best meets the needs of industry. This requires a collaborative approach between ITOs and ITPs, but is also a specific example of where the ITO leadership role can inform the investment in a plan process at both a tertiary education organisation level and a government level.
14. The ITF supports ITPs having a role as regional hubs, but notes that in TEC’s planning work, this regional focus will have to be carefully balanced with national needs. Industry Training Organisations are already in the

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<sup>1</sup> The Industry Training Federation (ITF) and The Institutes of Technology and Polytechnics of New Zealand (ITPNZ) met in 2005 to begin to develop an understanding of the different but complementary roles of ITOs and ITPs. They agreed that:

- ITOs generally have a national focus, technical expertise, and primarily concentrate on their industries,
- ITPs generally have a regional focus, teaching expertise and primarily concentrate on learners.

process of producing national strategic training plans for their industries, and there is a need for clarity in terms of how regional planning will align with this. Industry finds the tertiary education sector and its funding confusing, and looks to ITOs to help interpret this. There is a need for regional planning and national industry skills planning to happen in an integrated and collaborative way, in order to avoid a proliferation of unconnected planning activities. There may be opportunities through cross sector, whole of government initiatives such as the Food and Beverage Taskforce to test a systematic approach, which aligns regional, industry and provider level planning.

15. A proposed outcome expected of ITPs in the background paper includes responsibility for contributing to productivity gains. Education and training can contribute to productivity improvements, but it cannot do this on its own. It has to be integrated with business development strategies focused on lifting performance, and the Ministry of Economic Development and Department of Labour are working on initiatives that do this. Education and training must be relevant to employers, and it may be desirable to measure the return on investment of training at a firm level. However, ITPs cannot be held responsible for firm performance.

#### *The Distinctive Contribution of ITOs*

16. The distinctive contribution of Industry Training Organisations has not been well defined in the 2006 tertiary education reforms documents.
17. Industry training is a partnership between industry and government in which both parties invest to develop systematic training in skills that boost industry productivity. More broadly industry training is an organisational development strategy that considers skill use alongside skill development and that has training as one of its core elements. As a key interface between industry and the education sector, the broad roles of ITOs are to:
- Develop national standards and qualifications;
  - Develop arrangements for the delivery of industry training including purchasing of cost effective training delivery, monitoring of training and its outcomes, and the assessment of training (but not delivering training themselves)<sup>2</sup>; and
  - Provide leadership to their industry through identifying current and future skill needs.

Effectively this places ITOs at the interface between their industries and the entirety of the tertiary sector. ITOs develop widespread networks to inform and facilitate tertiary education provision at all levels for their industries.

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<sup>2</sup> This includes facilitation and processing of the competencies awarded via workplace assessments conducted by registered on job assessors.

18. ITOs are intimately involved in working with businesses to seek, develop and use skill within their industry context. They possess rich, engaged information gathered by working inside the “black box” of business.
19. The strength and core characteristic of industry training is that each ITO creates and continually tailors its range of services to meet the changing demands of its industry. Far from being the same, ITOs design, develop and implement industry training systems that differ depending on what is appropriate for their particular industry(ies). A key difference between ITOs and providers is that there is always a workplace context to the decision to learn - in every case the employer must be part of the training arrangement, including contributing resources.

### Funding

20. Through the tertiary education reforms the sector has had time to accept the government taking a more active role in determining the areas to be prioritised for funding purposes. The current quality and regulatory mechanisms have not been used effectively by the government to prioritise funding, and the competing pressures in the system have resulted in the introduction of ad hoc restrictions based on the need for greater fiscal control. The ITF agrees with the need for a systematic approach to funding across the tertiary education system and suggests that the following matters are taken into account in working through the details of an approach to funding based on “investing in a plan”:
  - Including industry training funding in consideration of funding issues
  - Clarification of the relationship between industry training funding and the student component
  - Reviewing the allocation of funding on the basis of principles such as value for money, relevance and quality
  - Support for ITOs skills leadership role, and mechanisms for effectively using the information provided by ITOs through Strategic Training Plans
  - Greater clarity and simplicity in documents such as the Strategy and Statement of Tertiary Education Priorities
  - Better links, not only between stakeholders and tertiary education organisations, but between stakeholders and government
  - Building the capability of government agencies to be able to prioritise and make decisions based on evidence

*Including industry training funding in consideration of funding issues*

21. While the case is made for reviewing the student component system, the reform documents are silent on industry training funding. The ITF argues that there are a number of issues with the current system which need to be resolved in order for industry training to more effectively meet industry skill needs, the main one being the relationship between the student component and STM systems. The ITF would also like the government to consider building more flexibility into the industry training funding system by, for example, allowing ITOs to arrange training for owners and the self employed, and removing the cap on STM use above level 4. Consideration should also be given to better aligning the Modern Apprenticeship and industry training funding systems, to improve the cost and effectiveness of MA systems, and examining the interface between different types of qualifications (e.g. competency based national qualifications and achievement based local and provider qualifications).
22. Currently the development of Profiles and the industry training funding allocation process are run separately, which makes the Profiles process seem redundant for ITOs. Having a more streamlined system where the Profile acts as a funding agreement has the potential to be more efficient and multi year funding would allow ITOs to plan further out. It is not clear from the Cabinet paper whether ITOs will be included in this approach. The ITF suggests that the adoption of an “investing in a plan” approach with multi year agreements linked to Profiles needs to apply to the industry training fund as well as the student component funding system.

*Clarification of the relationship between industry training funding and the student component*

23. The ITF argues that change in the student component system will impact on industry training, and that ITO funding needs to be considered alongside this. As mentioned above, tension at the interface of the industry training and student component funding systems is hindering better working relationships between ITOs and ITPs. There are providers and ITOs who have worked together to make the most of the different funding systems, however, some providers mimic the enterprise-focused delivery of industry training, accessing employer capital and labour resources to deliver the education service. These providers are funded at levels up to three times higher than ITOs. The ITF strongly urges the government to review the student component and STM rates in order to achieve a system which is equitable and transparent, providing value for money and incentives for collaboration.

24. Another issue related to the two different streams of funding is the ability of providers funded through the student component to deliver local qualifications. In some places, the local qualification may best meet industry needs. However, these qualifications are not always relevant to industry, and this is particularly problematic when there is an equivalent national qualification, which is confusing for industry and employers. The ITF recommends when making changes to the student component, consideration is given to purchasing of qualification outputs, and that where both exist, preference is given to industry endorsed national qualifications, unless there is a good case for a local qualification.

*Reviewing the allocation of funding on the basis of principles such as value for money, relevance and quality*

25. The ITF believes that the next stage of reforms needs to be based explicitly on the principles of quality, relevance and value for money. While ownership issues and provider viability are important considerations for the government, first consideration needs to be given to how to get the best balance of education and training to meet New Zealand's skill needs. These principles also need to apply to training related activities outside of Vote Education, including those funded through the Ministry of Social Development.

26. Prioritisation of expenditure through the "investing in a plan" requires the government to develop robust return on investment measures so that it can ascertain what value for money is across the different parts of the sector. This will enable the government to purchase the most effective and efficient mix of tertiary education and training.

27. Recent poor quality spending in the student component is currently being reallocated back to the same part of sector through the Quality Reinvestment fund. Funding need not be locked up in existing areas: if another part of the sector can deliver effectively and efficiently, thought should be given to reallocation across the different funding pools to get better value across the system. In a time of high employment and low unemployment, it makes sense for more people to be learning in the workplace, and reorientation of government investment should reflect this.

28. The purchasing role of ITOs is one of the unique features of the industry training system, in that it allows industry to have a direct voice in the delivery of training. It is important that ITOs maintain this role, and are able to purchase from providers on the grounds of relevance, quality and value for money, regardless of whether they are private or public providers.

29. Provision also needs to be made for industries that are not adequately covered by industry training, but that will become an increasingly important part of the economy in the future. This includes sectors such as technology, health, community services and finance. There is also still unmet demand in retail, tourism and hospitality, and local and central government. The government needs to consider how to meet additional demand for education and training in these areas as it develops its investment strategy. This will include funding an appropriate mix of ITO and provider led solutions, decided on the basis of different industry requirements. This leads to consideration of how to interpret the government's "investment in a plan" approach. For industry sectors, investing in a plan could mean investment for that industry across the whole tertiary education sector, rather than a focus on the plan of by individual tertiary education organisations.

*Support for ITOs' skills leadership role, and mechanisms for effectively using the information provided by ITOs through Strategic Training Plans*

30. As indicated in the background paper, ongoing work is required to advance the leadership role of ITOs and examination of "how this can add value to the tertiary education system as a whole" is needed. ITOs are getting on with the leadership role and are heading down the path of forming a very clear statement of industry training requirements. Some are re-examining their role in the industry and deciding on new directions, others are building on existing approaches, based on evidence that they are going in the right direction. The role is being interpreted broadly with ITOs looking at how they can influence industry/employment conditions and work organisation through to making sure there are pathways for people in their industry across the education spectrum, from schools to university. ITOs, and particularly the smaller ones, recognise that collaborative approaches are needed to drive change. This has resulted in groupings of ITOs progressing issues together (e.g. Capita and Niche Manufacturing groups).

31. The government needs to recognise the distinctive role that ITOs play in the tertiary education sector through their leadership role and to actively promote this to other parts of the system. Adequate funding needs to be made available for this role, as it requires extensive and expensive information gathering, analysis and dissemination both on the demand (industry skill needs) and supply (tertiary education provision) sides.. TEC needs to make clear how it is going to use the information provided through Strategic Training Plans, and how this will align with other planning activities (such as regional planning). ITOs through their leadership role should increasingly influence providers and the TEC allocation of funding more broadly as they provide information that TEC is able to use to better understand where current and future skill needs are.

This will enable TEC to consider how it can incorporate an industry wide focus in its investing strategy processes.

*Greater clarity in documents such as the Strategy and Statement of Tertiary Education Priorities*

32. The current reforms are about the government taking more control over how funding is allocated. In order to do this, government needs to have a clear set of priorities on which it can base decisions to fund or not to fund. The current steering documents, the Tertiary Education Strategy and the Statements of Tertiary Education Priorities (STEP) are too broad to make these kinds of decisions. To be effective, the next Strategy and STEP need to have fewer strategies/objectives/priorities (no more than 6-8), and provide clearer direction on how the different parts of the system will contribute.
33. Currently the industry training system is not well reflected or understood in these documents. The work ITOs are doing on Strategic Training Plans for their leadership role should be used by the government in preparing these documents to indicate future industry needs, as well as providing a richer picture of industry trainings' current and future contribution to skills development in New Zealand.

*Better links, not only between stakeholders and tertiary education organisations, but between stakeholders and government*

34. The government taking a more active role in steering funding through the "investment in a plan" approach needs to be done carefully. Governments have not been good in the past at predicting future education requirements, and it will be important that stakeholders are actively involved in government decision making. The current system of funding for tertiary education providers has the advantage of flexibility, and this needs to be retained to a certain extent in order for organisations to innovate and respond to changing needs. The government has to carefully consider how best it can channel stakeholder opinions in its decision making and how it deals with contradictory messages.

*Building the capability of government agencies to be able to prioritise and make decisions based on evidence*

35. A level of leadership within government agencies that has not been required in the past will be needed to exert more control over funding. Making sure the staff with the responsibility for making funding decisions have adequate experience and standing in the tertiary education sector, and the right training and support to be able to exert a high level of judgement, will be crucial.

36. An important part of this will be having the evidence base to be confident in making decisions. While the Cabinet paper outlines the need for new systems which align objectives and evidence of performance, there is also a need for government agencies to make better use of the information they currently gather through funding, quality and regulatory mechanisms.

### Quality and Monitoring

37. The government has indicated a wish to move to a more outcomes focused quality and monitoring regime, identifying a lack of information on quality as a key area of concern with the current system. The ITF supports a focus on performance, and in our 2005 Briefing to the Incoming Minister we argued for a wider stakeholder consultation policy for industry relevant education and training.
38. ITOs can contribute to a system of quality training provision through such areas as their knowledge of industry relevant skills, and assessment and moderation practices. ITOs must be one of the automatically consulted stakeholders in industry relevant education and training, for example in course approvals (including tertiary education organisation in-house academic board approvals), quality audit processes or the development of local qualifications. The system would be strengthened if the principle was maintained that non-provider stakeholders were routinely part of consultation mechanisms.
39. In terms of quality and monitoring in the industry training system, there are a range of checks in place which mean ITOs are already strongly accountable to their key stakeholders – industry and government. ITOs are partly funded by industry, have industry representation on their boards and industry is instrumental in the development of qualifications. The ITF supports performance focused targets for industry training funding, but believes that the current measures are too blunt to provide meaningful information on the outcomes that different ITOs deliver. The ITF is keen to work with the government on the development of relevant and valid quality measures for ITOs and across the different parts of the sector.
40. The ITF has argued that the information flows from ITOs to the TEC, NZQA and Ministry of Education need to be integrated and better reflected in statistical reporting and research that comes from these agencies. Making appropriate use of existing sources of information, including Profiles, to make quality decisions needs to be achieved. There is a need to balance the development of system wide-measures of quality with the development of fine grained quality measures for individual organisations in the profiles and investing in a plan processes.