

The review of industry training : **Better value, better outcomes, better lives**

OCTOBER 2011

“I’ve said to the ministry that I want a full review of industry training – where has it come from, is it all being done the right way and where are we going – to ensure we get the best results out of it.”
Hon Steven Joyce, *New Zealand Herald*, June 4, 2011

The review in context

The review of industry training is to make sure we, as a nation, are getting the best results we can in the best possible way at the best possible cost. However, it comes at a time when Government and the Ministry of Education are already making changes:

- Trade Academies have been introduced and are expanding
- The Gateway Programme is being expanded
- Sector pathway options in schools are being developed ready for introduction in 2012
- Targeted Review of Qualifications is in progress
- ITO funding has moved from inputs led to outputs focused through a series of policy changes.

And the impact of these changes have yet to be fully felt.

Industry training involves three key players:

- **Companies** that provide on-job classrooms for the transfer of skills within a structured and quality assured framework
- **Learners** who are acquiring skills, not only for the benefit of a company but for their own benefit and for the benefit of New Zealand as a whole
- **Educational institutions**, be they schools, ITP or PTEs, that provide the off-job theory and skills to enhance on-job learning

The glue that holds this together is the ITO

The role of ITOs is set out in the Industry Training Act 1992. ITOs, under the Act, set the standards, develop and make arrangements for delivery of training, and provide leadership within industry on matters relating to skills and training needs.

And, before the Minister can recognise an ITO, the extent to which an ITO understands and represents the employers in its industries must be taken into regard. In other words, ITOs must be a knowledgeable and credible voice for their industries.

The Minister has made his objectives plain: *We are working to drive value from existing expenditure, ensuring that young people have the skills that meet the needs of the labour market and economy.* (Ministry of Education statement of intent 2011). Achieving this objective relies on ensuring skills *do* meet the needs of employers, hence the imperative that industry has a say in education – a say which ensures education leads to the workplace and employability. The say is already being diluted: an unintended consequence of the Targeted Review of Qualifications (TRoQ) which puts a focus on educational institutions rather than the needs of industry.

But the need for an independent voice for industry has a broader purpose – it can maintain the standard of workplace training, demand the best in terms of methods and delivery of training, make sure training is aligned to business needs, and attract the best possible candidates into the industries an ITO covers. It promotes the concept of lifelong learning which in turn promotes productivity.

ITOs are already the collective, credible and knowledgeable voice of industry.

The drive for value

Much of the scope of the review has been addressed by us in our document *Vocational Education and Training: Making the system make sense* (Appendix 1) but there is opportunity to further explore “possible directions for change to improve the value of the Government’s investment in industry training” – a specified purpose of the review of industry training.

It must not be forgotten that industry training already provides value. It is highly cost effective for employers, for learners and for the country.

- Employers are sure the training is relevant to their needs, and that training leads to qualifications and standards that are set – and accepted – by industry
- Learners develop skills and a career path in meaningful and productive ways – without a student loan
- The country benefits from industry investing in relevant training, from productivity gains, from skills shortages being addressed, and from not having to finance learners through student loans. There is also the surety that the training is in parallel with employment – not a wasted course taken just for the sake of being in training.

However, there is always room for improvement and we will focus on improved value for Government by:

- Simplifying the system
 - Reducing the number of ITOs
 - ITOs as Modern Apprenticeship Coordinators
 - Transparent pathways
- Loading the funding to reflect the Tertiary Education Strategy
- Improving productivity and workplace development
- Ensuring the quality of qualifications
- Developing effective pathways from school to employment
- Promoting these pathways

Although the *Review of Vocational Education – The Wolf Report* is an in-depth look at vocational education in the UK, much of what is reported – and recommended – is relevant to New Zealand. This report has been influential in our thinking for this submission and those familiar with this work will recognise this.

Simplifying the system

Reducing the number of ITOs

An obvious way to improve the value of the government spend is to reduce the number of ITOs. Competenz has promoted the logical reshaping of the ITO sector for some time and would welcome the government taking a leadership role to make this happen.

But fewer ITOs would have greater value in more than economic terms. Fewer ITOs would mean fewer paths for learners, parents and industries to negotiate and would provide transparency for vocational pathways. It would be easier for employers and industries to engage with the vocational education system – a precursor for workplace development and improved productivity.

It is a bold step for government or its agencies to take a lead on this issue but economic levers, or using coverage as a restructuring tool, will not lead to an optimum solution. This is explored further in our paper *The future shape of ITOs* (Appendix 1)

ITOs as Modern Apprenticeship Coordinators

The Modern Apprenticeship scheme was implemented without due regard to the Industry Training Act and as a result an inefficient, and one could argue, ineffective, system has developed. Appendix 2 explains the situation from a Competenz point of view.

There are some very fundamental flaws in the current system:

- MACs have no re-recognition process, they do not have to demonstrate the support of their industry
- ITOs have no control over the performance of MACs, their outcomes or what they charge for
- ITOs have no control over a MAC's service levels

And yet ITOs lose funding if MACs do not perform.

Competenz has commissioned a paper on behalf of the ITF on the Modern Apprenticeship scheme and this will be produced later in 2011.

Apart from confusion and inefficiency, there is currently wastage in the system:

- Through duplicated contract management and support – TEC manages around 50 Modern Apprenticeship Coordinator (MAC) contracts along with 30 ITO contracts

- Through duplicated administration including funding applications, reporting and support
- Through duplicated visiting by ITO account managers and MACs
- Through paying external MACs more per apprentice than ITO MACs – a considerable extra cost to taxpayers

The government can get better value by making ITOs' MACs and changing the ITO funding accordingly.

Transparent pathways

An opaque pathway from education to work holds back our young people and condemns them to dependency and uncertainty. A simplified system with clear pathways to employment would go a long way to creating independence and certainty. Our paper *Making the system make sense* explores this in some detail.

The Wolf Report is one of many that points out the value of – and lack of – decent advice on careers. Part of the problem is the myriad of paths from school to work and the large number of education providers involved along the way. And not all paths are equal, or indeed honest about their value to employers.

“What is happening here has nothing to do with respect for vocational qualifications and for a variety of skills. It involves young people who are being deceived, and placed on tracks without their full understanding or consent.” Wolf Report

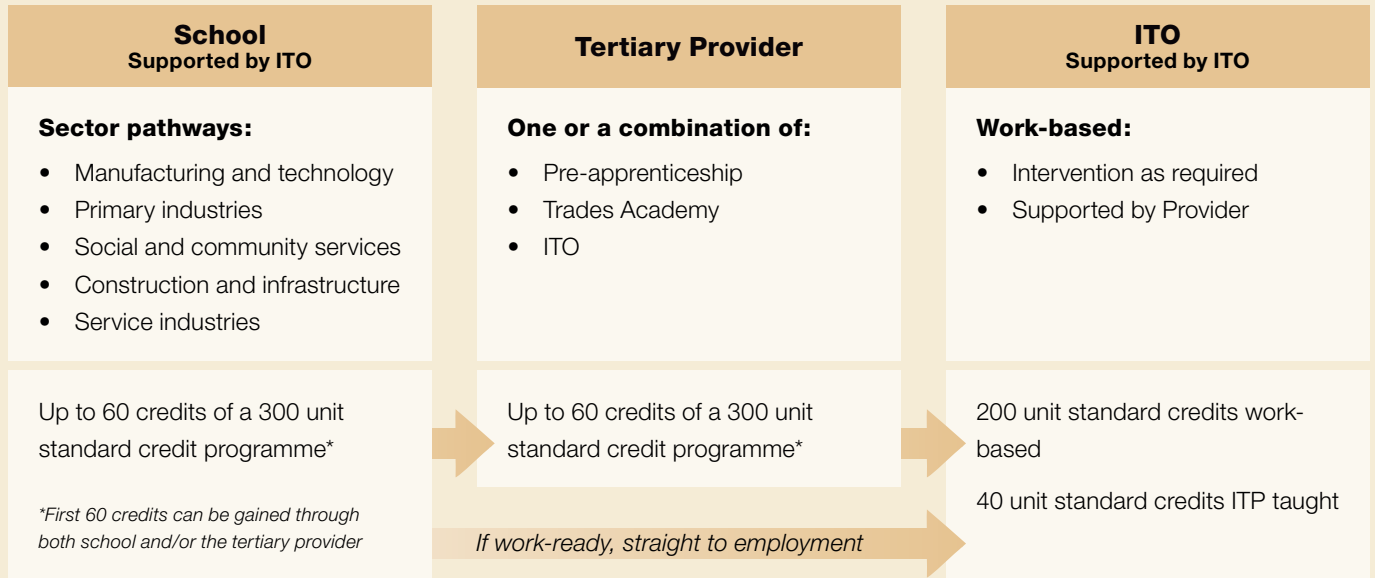
And it must be remembered that the best vocational training happens in the workplace – not in a provider classroom environment.

“[...] a genuine workplace teaches both general and specific work-skills more effectively than any education-based simulation can, however hard it tries.” Wolf Report

A clear and simple path leading to the Tertiary Education Strategy goal of improved gains in the number of under 25s completing Level 4 qualification is needed.

All learners are different and pathways need to allow for this. Some students leaving school are work ready – others will need support in both basic foundation skills and life skills. A simple pathway with the needs of the learner in mind would provide guidance to employment.

Example of an effective and efficient pathway to a Level 4, 300 credit vocational qualification



The pathway illustrated above allows a learner tasters of a vocational career while still at school, but it is a taster that is not wasted. Credits attained at school can be counted towards a vocational qualification – because the credits are aligned to the workplace component of a qualification. The system is transparent allowing parents and students to see clear career choices.

To avoid duplication, to ensure the system is efficient, and to minimise conflict, the responsibilities of the various organisations need to be made clear. These are outlined in our paper *Making the system make sense*.

Seveni

Seveni is a 16-year-old keen to work as a welder. He can already see the path to his goal. He will do NCEA Level 2 English and Maths but he will add to this 60 unit standards from the sector pathways – 40 from the mechanical engineering part of Manufacturing and Technology and 20 from other sector pathways. He'll enter the workforce with the first year of his apprenticeship under his belt and will spend the next 3½ years completing the remaining 240 credits – 40 of them off-job (in years 2 and 3) and 200 on-job supervised by his employer and monitored by his ITO.

A simplified pathway adds value by:

- Removing duplication in the system
- Setting students on the path of vocational education while still in school
- Making the pathways to a vocation transparent
- Ensuring learning is not wasted by providing tasters of potential career paths or
- Not enticing students into dead-end courses or learning

Loading the funding to reflect the Tertiary Education Strategy

Standardised funding levers are a crude way of driving performance. If the Government wants better value from its investment, a more flexible approach is needed. The aim is not to increase funding but to use it to get better results for industries – and learners.

Different methods of delivering vocational training incur different levels of cost. On-the-job takes time away from productive work; classroom workshops require an investment in equipment, facilities and teachers. Add to this the different challenges to improve productivity – numeracy and literacy skills building, pastoral care for the under 21s, encouraging Maori and Pasifika, progressing to Level 4 by the age of 25 – they all need investment.

The current flat rate for different and often overlapping tasks adds administrative costs, labour costs and confusion. The current Modern Apprenticeship Co-ordination scheme is an example of where duplication adds little benefit and considerable confusion.

Research undertaken by Ernst and Young for Competenz, and the NCVER report *The cost of training apprentices*, (Appendix 3) shows the cost to employers of taking on an apprentice, as opposed to general workforce up-skilling, is considerable. Although the productivity of an apprentice employee may even out over the time of an apprenticeship, the cost to employers of supervising apprentices is large.

To encourage employers to take on apprentices, especially during a downturn, the STM rate should be adjusted to help offset some of the cost of training. After all, the cost of someone attending university, as borne by the taxpayer, is treble that of the current support for apprentices. Plus there is no cost through student loans.

Currently there is also a funding friction between ITOs and ITPs. This occurs because ITPs are funded in SACs and ITOs are funded in STMs – and SAC is more than twice that of an STM. This means that when ITOs are arranging training

off-the-job, they are very conscious that they will have to pay more than their funding for courses.

There are two solutions: for ITOs to be given greater purchasing power for off-job training, or for funding to be given directly to ITPs for the training they provide under contract to an ITO. ITOs need to arrange the best quality off-job training for the industries they serve rather than choosing the cheapest or briefest options.

We support the model of the government purchasing outcomes but the current funding needs to be reconfigured to better reflect the real cost of delivery. STMs should be loaded to reflect STEP priorities and any additional costs implied from the type of investment that may be needed to achieve a successful training completion.

Regardless of government policy or pressure, it is a basic principle of business that you resource to the prioritised activities of your strategy to ensure results. Businesses only hire – and train – if it is economic for them to do so.

Providing the outcomes being purchased are well targeted, no additional funding should be required for the ITO sector. The current STM mechanism could be retained but training that requires additional investment could be loaded to reflect additional cost of delivery. The government could relatively easily adjust loadings to reflect any changes to its priorities.

We suggest that the following funds be reconfigured:

- the Industry Training Fund
- the Modern Apprenticeship Fund
- Embedded Literacy funding
- Sector Leadership funding

Clear funding rates would also align with clear responsibilities for entities but more importantly, with the needs of the learner.

And, to ensure funding meets the needs of government, industry and learners over the long term, funding rates should be indexed to the CPI.

Funding rates	Loading should reflect purchased outcome and specific cost component. For some learners more than one loading may be appropriate.
STM	Reflects: <ul style="list-style-type: none"> • Basic level of funding for industry training • Employer primary trainer on-the-job • Achievement and completion outcome • Standard setting • Qualifications development • Sector leadership
STM + subject loading	Reflects: <ul style="list-style-type: none"> • Additional cost of on-job assessment support and training by employer for high cost or high investment industries
STM + support for young people <i>STEP 1: Increasing the number of young people (aged under 25) achieving at Levels Four and above, particularly degrees</i>	Reflects: <ul style="list-style-type: none"> • Additional pastoral care and on-job assessment support required for young people • Achievement and completion outcome for young people
STM + Maori <i>STEP 2: Increasing the number of Maori achieving at higher levels</i>	Reflects: <ul style="list-style-type: none"> • Additional pastoral care and on-job assessment support required for Maori learners • Achievement and completion outcomes for Maori
STM + Pasifika <i>STEP 3: Increasing the number of Pasifika achieving at higher levels</i>	Reflects: <ul style="list-style-type: none"> • Additional pastoral care and on-job assessment support required for Pacific Island learners • Learning and achievement outcomes for Pasifika
STM + Matching and Placement service¹ <i>STEP 4: Increasing the number of young people moving successfully from school into tertiary education</i>	Reflects: <ul style="list-style-type: none"> • Matching and placement service to get young people into employment with a structured training agreement • Payment could be linked to successful placements
STM + N&L support <i>STEP 5: Improving literacy, language, and numeracy and skills outcomes from Levels One to Three study</i>	Reflects: <ul style="list-style-type: none"> • Administration of assessment tool • Purchase of additional L & N learning support and outcomes
STM + off-job training loading	Reflects: <ul style="list-style-type: none"> • Real cost of off-job underpinning knowledge and advanced technology training required in some industries • Qualifications that include significant components of general education

¹ Currently only required of MAs

Apanui

Apanui is an 18-year-old Maori with a training agreement to do a National Certificate in Mechanical Engineering. He has literacy issues as shown by the N&L tool. His funding would be: STM + subject loading + support for young people + Maori + N&L support+ off-job loading for block courses.

Jane

Jane is a 30-year-old returning to the workplace. She left school with NCEA Level 3 and her employer sees she has potential to develop to supervisor level. He enrolls her in a two-year Level 4 certificate course. Her funding would be the basic STM rate because the skills are acquired only on-the-job.

Loaded funding adds value by:

- Aligning investment in vocational education with government priorities
- Driving a decent return on investment from a high rate of completions
- Removing duplication from the current system
- Moving investment to areas where skills shortages exist
- Removing the funding tensions between parties involved in vocational education
- Ensuring learners are supported to completion

Improving productivity and workplace development

Industry training helps improve the productivity of New Zealanders. However, as we reported in our research report *Perceptions of productivity*, companies know they need to train people but when it comes to the crunch, they change processes instead. It's easier.

ITOs can do much to improve productivity through making the right training delivered in the right way easily accessible to industry. And, the Government needs to be more sympathetic to flexibility if it wants better value from its investment.

Companies often avoid the path to a qualification because it limits their ability to train what they want, when they want it. A rethink of funding based solely on qualifications is needed so that the skills industry needs can be delivered in a way that promotes productivity, transferability and skills acquisition. Standards are a useful mechanism for ensuring consistency and are widely accepted by industry.

Broad-based nationally recognised vocational training – rather than narrow, role specific qualifications – is particularly important for industries where staff turnover is high. If employees have a training record that establishes their competency based on national standards, employers can be assured “competent” means competent. Otherwise, training has to be repeated for each new hire as a business cannot risk compromising its brand.

The need for Level 1 to Level 3 training – the building of foundation skills – should be accepted by Government. Level 1 to Level 3 qualifications, with a combination of foundation skills

and industry skills, prepare employees for future learning and are the basis of workforce development.

Learners enter the workforce with all levels of ability but those who enter without necessarily having achieved at school need to have avenues into learning and qualifications achievement later in their lives. For many, a Level 1 qualification will be the first qualification they have been awarded. Both industry and individual need to be encouraged in this endeavour as often, industry is succeeding where the formal education system has failed.

Also, in industries with a considerable job churn, there needs to be a means for employees to move sideways or change career. People need the option to just start again in a vocation.

Jason

Jason has been working at a pet food factory and has undergone training to safely handle food. He leaves to join a chicken processing plant but he has no proof he can handle food safely as his previous training was not to a national qualification. His employer has no choice but to retrain Jason as the employer cannot risk unsafe food handling damaging the brand. Retraining is not productive for companies, for NZ or for learners.

The needs of more able and ambitious learners also need to be taken into account. The current bureaucracy around permissions and funding for those doing more than 70 credits should be removed and it should be up to the ITO and employers to manage the learning pace and credit achievement of their more ambitious learners.

Improved productivity could be achieved by:

- Supporting Level 1–3 pathways to build transferable skills
- Allowing and supporting more flexible just-in-time, top-up and high-tech training
- Allowing greater than 70 credit programmes – so long as they are achievable by the learner and supported by the employer

Ensuring the quality of qualifications

Quality control is needed in any system. An unfortunate reality of this is that not everyone will either complete a qualification or pass a qualification. However, the government is rightly purchasing outcomes. Funding levers are used to achieve an acceptable outcome for government and an achievable target for ITOs but this needs to be achieved without compromising quality.

Industry influenced standards reflect the capacities and standards industry needs. ITOs need to ensure robust moderation to protect the government's investment, industry's needs, the credibility of qualifications and the skills base of New Zealand.

Priorities 3 and 4 of the Ministry of Education's statement of intent tell us the direction in which the Government wants to go:

- Priority 3: Every young person has the skills and qualifications to contribute to their and New Zealand's future
- Priority 4: Relevant and efficient tertiary education provision that meets student and labour market needs

But, this will only happen if the skills and qualifications are what employers want and to a standard they want. ITOs have

been charged with not only establishing the standards but also maintaining them and this is a role that should not only remain with ITOs but be strengthened.

The Wolf Report is again worth quoting:

"In a qualification-based system such as ours, this means that success rates are going to remain important and high-profile. Using substantial amounts of 'outcome-related funding', with providers paid if people pass, obviously increases the need for good quality control of assessments. But quality control is needed in any system. You need it in institutions which compete for students – as pretty well all post-16 institutions do, worldwide – because the incentive to misinform is great. And you also need it when they do not compete, because then the incentive to take it easy is correspondingly large."

All vocational education, from the sector pathways in schools to Level 5 qualifications, should be measurable and comparable. This is to ensure that the credits gained at school count in the world of work and that employers would then be sure that the skills they are investing in are of a nationally recognised standard. The moderation role of standard setting bodies, such as ITOs, gives employers and learners the reassurance that people graduating with qualifications obtained in a variety of ways have the same level of competency.

Quality qualifications are a cornerstone for productivity. They add value by:

- Ensuring skills are transferable
- Providing national consistency
- Letting employers know exactly what standard they are getting

Developing effective pathways from school to employment

The sector pathways to be introduced in 2012 are an excellent initiative and provide a transparent destination for students. ITOs are working with the Ministry of Education to help develop the content and structure of learning for the 5 pathways. To ensure students choosing these paths emerge with education of value to industries and employers, ITOs need to play a bigger role. ITOs need to be guardians of the standards for vocational qualifications to ensure that learners who choose sector subjects leave school on the path to a nationally recognised vocational qualification.

And, ITOs should be using their considerable experience in supporting industry training to provide professional development to help teachers with the demands of new qualifications and to produce resources for teachers (See Appendix 4). Several ITOs already support learning specific to their trades – highly successfully – and these should be integrated into the new curricula (Tools4Work, Bright Sparks, BConstructive).

Basic foundations skills – numeracy and literacy – are essential for career progression and skills development. Sector pathways must not be seen as an “easy option” and a dumping ground for disengaged students.

A simple pathway in itself is not enough: people need to be told about it. It is a common failing across the OECD that career guidance is poorly given, within a narrow range, and with a leaning towards academia. This needs to change and the status of a vocational career needs to be re-established in society. If the Government wants value from its investment in its many initiatives to transition youth from school to work, the end goal needs to be meaningful and skilled employment – and not another course or unemployment.

Currently, ITOs are not funded for any activity in schools but

with the vocational pathway reaching from work into schools, the role of ITOs needs extending. This could be by:

- ITOs being funded to participate in and support the sector pathways in schools, including arranging teacher development and producing resource materials
- ITOs moderating the unit standards being taught in the sector pathways to maintain consistent and high levels of quality
- ITOs using their industry contacts to help with Gateway placements

Promoting pathways

Much is being written and said about delayed adulthood. Are our young people being kept in education for too long when what they need is workplace experience?

Students and parents need to know the outcome of any investment in education. Does the course they take lead to employment – or another course? Does the right to further education make it right for the student?

Work needs to be done to shine a light on the pathway from school to employment – be it through a Trade Academy, an ITP or the workplace. The best approach will be collaborative, involving a range of agencies, to provide information on careers and statistics on where job opportunities are predicted to be. The value ITOs can add to this is to highlight the pathways to a career and the skills employers will be looking for.

ITOs are charged with providing leadership in industry training needs, and research to back this up, and this can help frame careers with realistic expectations and learning objectives. ITOs know their industries and their industries' demands for skills. ITOs should be involved with the lead agency for career advice to ensure their knowledge is not wasted.

This investment by government and industry would:

- Help mitigate social issues of disengagement of students
- Prepare students for the world of work
- Ensure a sector pathway that meets the skills needs of industry
- Be an honest and transparent path to a career

A word about policy

Good simple policy underpins a clear transparent system.

The Industry Training Act of 1992 changed the focus from learning to start a career to learning for life. Employers became the stakeholders, learners lost their voice and training was expanded to include the whole workforce. The problem is, because initiatives like Modern Apprenticeships and Trade Academies have been tacked on to the original concept, the whole system has become far too complicated.

A smaller number of ITOs would shine the light back on the pathway to a career for schools, parents and learners. Employers would still have a stakeholder voice through their ownership of ITOs and the Tertiary Education Strategy would speak on behalf of learners to ensure they retain a voice.

The role of ITOs, a role which should not only be retained but also be strengthened, should be to:

- lead the design of national qualifications linked to clear educational and industry pathways and ...
- be guardians of those qualifications under the Targeted Review of Qualifications
- run moderation systems to ensure fair, valid and consistent assessment against national standards for all vocational education
- manage and arrange delivery for all vocational education that occurs in the workplace
- provide leadership to their industries on skill and training matters and needs
- support students between the ages of 16-21 and be funded to do so
- support the Tertiary Education Strategy, through targeted funding
- lead workforce development; to grow foundation skills and productivity

In conclusion

As we stated at the start of this paper, the government has already taken action to improve value and we have yet to see the full impact of this. It may be that fewer qualifications, stringent purchasing of outcomes and driving the vocational pathway into schools achieves what is required, but, as we have discussed, there are also areas where there can be improvements. The balancing act is in ensuring employees, employers and the nation have the skills needed within what the country can afford.

ITOs are the glue between companies, learners and educational institutions, and, if anything, their role should be strengthened. Their value lies in knowing their industries and their industries' needs so they can provide leadership on matters relating to skills and training, and plan and provide accordingly. It should not be forgotten that one of the strengths of the current system is industry's considerable involvement in vocational training.

No one doubts the value of vocational training and it is our belief that the aim of this review is not to emasculate the system but to build on what is valuable and look for value where it is not currently being provided. New Zealand needs a skilled workforce and the way to achieve that is through better vocational pathways in schools and support through to completion of on-the-job training.

However, government should also take a moment to stand in the shoes of employers and take note of the fact that the greatest investment and skills transfer happens in the workplace – by employers, in their workplace, using their investment in plant or equipment, and at their cost. Industry is entitled to a voice – through ITOs – just as government is entitled to value for what it purchases.