

Increasing the number of apprenticeships in New Zealand and improving the quality of industry training

Proposal

1. I am seeking Cabinet's agreement to further improve the performance of the industry training system through:
 - combining Modern Apprenticeships and other apprenticeship-type training together into New Zealand Apprenticeships that will provide quality support for apprentices regardless of age
 - introducing a sustainable funding regime for New Zealand Apprenticeships and other industry training
 - setting clearer roles and performance expectations of industry training organisations (ITOs) to improve the quality of training and remove the co-ordination issues in the wider Vocational Education and Training (VET) system
 - undertaking an "Apprenticeships Re-boot" initiative to increase the number of apprentices, particularly for the coming construction boom
 - increasing competition by allowing employers direct access to industry training funding.

Executive summary

2. Industry training is government-subsidised workplace training that leads to qualifications and is targeted at entry-level and low-skilled workers. Apprenticeship training (for example, to become a plumber or builder) is subsidised through industry training, as are shorter qualifications in industries that have not traditionally trained through apprenticeships (in the aged care sector or in the mining industry, for example). Industry training is supported through industry training organisations (ITOs), which develop programmes leading to industry-relevant qualifications and arrange training for employees leading to these qualifications. Industry training also includes the Modern Apprenticeship scheme, which provides a pastoral care top-up for young apprentices.
3. Government funding for industry training almost trebled since 2000, but value for money has been poor – qualification completions and credit attainment have been very low. Audits of ITOs in 2009 and 2010 also revealed that Government had been subsidising a number of trainees who were no longer eligible for funding, eleven of whom were no longer alive. In response to these issues, the funding rules were tightened and monitoring was increased. Qualification and credit attainment in industry training has improved as a result.

4. In 2011, I initiated a policy review of industry training to assess whether the current model was providing the best value for money. The evidence-gathering phase of the review found that although the system was not broken, there was room for significant improvement. The main findings of the review were:
 - employers most value ITOs' role in arranging training for staff
 - industry training is highly variable in terms of the level of service to employers and trainees, connection to industry, and performance
 - apprenticeship training within the industry training system is relatively underfunded, resulting in high fees to employers and risking the quality of the theory component of apprenticeships
 - tensions between ITOs and tertiary providers have contributed to the proliferation of qualifications and hinder easy transitions between sectors for learners
 - the Modern Apprenticeship scheme lacks accountability. Modern Apprenticeship Co-ordinators (MACs) are not responsible for completions and MAC contracts are generally rolled over from year to year.
5. In July 2012, I sought Cabinet's approval to public consultation on a series of proposed changes to the industry training system to improve its performance [SOC Min (12)-14/1 refers]. Consultation closed in mid-September and over 300 organisations and individuals provided feedback. There was widespread support for the package of proposals. However, many of the submissions highlighted the poor performance of ITOs in responding to the needs of employers and the lack of choice for employers if their ITO is not performing.
6. I am therefore seeking your agreement to a package of changes for the industry training system that will:
 - combine Modern Apprenticeships and other apprenticeship-type training together into New Zealand Apprenticeships that will provide quality support for apprentices regardless of age
 - define an apprenticeship as a programme of study of at least 120 credits, that results in a level four qualification on the New Zealand Qualifications Framework (NZQF)
 - introduce a sustainable funding regime for New Zealand Apprenticeships and other industry training
 - set clearer roles and performance expectations of industry training organisations (ITOs) to improve the quality of training and remove the co-ordination issues in the wider VET system
 - undertake an "Apprenticeships Re-boot" initiative to increase the number of apprentices, particularly for the coming construction boom
 - increase competition by allowing employers direct access to industry training funding, and to examine means of further levelling the playing field between funding arrangements for apprentices in ITOs and in tertiary providers.
7. The proposed change to combine Modern Apprenticeships and other apprenticeship-type training together into New Zealand Apprenticeships is the most significant. Combined with the proposed funding changes, I expect this to have the most

immediate impact. Providing the same level of subsidy to all apprentices increases overall funding for apprenticeships by around 20%. This will allow ITOs to invest in the quality of education within apprenticeships. It will also enable ITOs to drop their fees to employers to stimulate growth in apprenticeships.

8. Boosting participation and achievement in apprenticeships, which are long programmes resulting in a level 4 qualification, is important for realising the Better Public Services target of 55% of 25-34 year olds holding a qualification at level 4 or above in 2017. Raising the subsidy level for trainees will provide a sustainable future for these programmes. All funding changes can be made within baselines.
9. The proposal to allow employers access to the industry training fund directly is necessary to incentivise ITOs to provide excellent service to employers, apprentices and trainees. However, this has not been consulted on and it is likely ITOs will oppose this change as it increases competition for the services they provide.
10. I propose the majority of changes come into effect from 1 January 2014. Some of these proposals require legislative change, and I intend submitting a paper to the Cabinet Social Policy Committee in March to get agreement to the legislative changes needed. Throughout 2013, officials will work with an implementation advisory group made up of experts from industry, ITOs and tertiary providers to provide me with advice on key implementation issues, such as details of performance expectations for ITOs.
11. The "Apprenticeships Re-boot" will commence from 1 April 2013. It will provide apprentices in priority trades such as building and plumbing with up to \$2,000 towards tools and other apprentices up to \$1,000 towards purchasing tools, and be matched by equal payments to the employer, with some exclusions, eg. for apprentices and employers already accessing MSD support. This will provide greater incentive to take up trade apprenticeships and support the labour force needs for the Christchurch rebuild. The "re-boot" will be available for the first 10,000 apprentices that enrol from 1 April 2013 and cost a total of \$28.2 million, funded from the Transitional Funding for Industry Training tagged contingency.

Background

12. Industry training is systematic work-based training that leads to national qualifications. New Zealand's current industry training system was introduced in 1992. It is a comprehensive system that encompasses initial vocational training (apprenticeships), foundation education, and continuing vocational education for employees. It replaced a narrower apprenticeship system that focused on school leavers and was largely a time-served model. The introduction of the more flexible industry training system resulted in an expansion of government-subsidised workplace training to industries that did not traditionally train through apprenticeships.
13. Industry training focuses on qualifications at levels 1 to 4 on the New Zealand Qualifications Framework (NZQF), to incentivise employers to invest in training for low-skilled workers, who generally receive less investment and training than higher skilled workers.¹

¹ A 2008 survey found that overall 31% of New Zealand employees received employer-funded training in the previous year, but the rate varied by qualification level: 17% of employees with no

14. Industry training is supported by industry training organisations (ITOs) that are industry-owned bodies. ITOs have three main statutory roles: setting skills standards for their industries (i.e. developing qualifications), arranging training towards those skill standards (both in the workplace and off-job), and providing leadership within their industries on matters relating to skills and training.
15. The Modern Apprenticeship scheme was introduced in late 2000 to address under-representation of young people in industry training. It provides additional support to young people (aged 16 to 21 when they start their programme) in programmes at levels 3 and 4 of the NZQF. The additional support is provided by Modern Apprenticeship Co-ordinators (MACs). MACs may be an ITO, a tertiary provider, a group training scheme or an independent organisation. MACs provide advice and mentoring to the Modern Apprentice and their employer. However, the only requirement placed on MACs is to visit the apprentice a minimum of four times per year.
16. In 2011, there were approximately 144,000 trainees and apprentices enrolled, including 14,300 Modern Apprentices. This compares to an average of 25,000 apprentices per year who were supported under the pre-1992 apprenticeship system.

How industry training is funded

17. Industry training is co-funded with industry: Government provides 70% of the cash cost of training, while employers are expected to fund 30% (this is comparable to the cost sharing between Government and students in provider-based tertiary education).
18. Co-funding recognises that industry training benefits the employer as well as the trainee and the wider economy. It should be noted that some employers, especially some smaller employers, consider the cost of training to be quite high because of the non-cash contribution they make to the training of their employees.
19. Government subsidises industry training to up-skill the New Zealand workforce for the benefit of the economy. We therefore direct subsidies towards employees obtaining transferable skills and therefore full qualifications that will benefit them throughout their working careers. Short awards (small bites) of training for compliance and regulatory purposes are the full responsibility of the employer.
20. Government's investment in industry training is substantial and grew significantly through the last decade – the 2013/14 baseline is \$195.786 million (\$146.487 million in the Industry Training Fund and \$49.299 million in the Modern Apprenticeship Fund). This compares with \$64 million in 2000/01.
21. Both industry trainees and Modern Apprentices attract funding to support their programme of learning, which varies according to the length and intensity of their programme. The maximum government funding a trainee can attract in a year to support their learning programme is \$1,703. Modern Apprentices attract an additional per head subsidy for co-ordination services (pastoral care and brokerage).

qualifications received employer-funded training, compared with 49% of employees with postgraduate qualifications. Department of Labour (2010), *Employer-funded education and training – who receives it?*

22. Counter-intuitively, the Labour Government set up the co-ordination subsidy to be higher than the subsidy to support the learning programme. Modern Apprentices currently attract a co-ordination subsidy of \$1,777 per year if their Modern Apprenticeship Co-ordinator is an ITO or \$1,956 per year if their Co-ordinator is not an ITO.

Problems with vocational education and changes made to date

23. The Government inherited some significant issues with industry training when it came into office in 2008. These included:
- a proliferation of qualifications that confused employers and students, and over-complicated vocational training pathways
 - poor transitions from school to tertiary vocational education
 - a history of increasing budgets and poor performance in industry training.
 - a large number of ITOs (39) with highly variable performance.

We have introduced a comprehensive set of reforms to address these issues.

Targeted Review of Qualifications

24. When we came into Government, there were 4,600 qualifications below degree level listed on the Qualifications Register (now the New Zealand Qualifications Framework or NZQF). The large numbers of vocational qualifications, many of which overlapped, were highly confusing for learners and employers (for comparison Finland, a similar sized country, had 500). The NZQA-led Targeted Review of Qualifications (TROQ) has targeted reducing the number of qualifications to 1200-1300.
25. An initial clean-up of the register to remove duplicated and inactive qualifications reduced the number by 15%. Since the beginning of 2011, NZQA has been reviewing all existing qualifications at levels 1-6 on the NZQF within 'clusters' such as hairdressing, agriculture, and business. Of the 32 reviews completed to date, 1,591 qualifications have been replaced with 331 new qualifications – a further 79% reduction. To date there has been a 39% reduction in the total number of qualifications at levels 1-6. Six further reviews will be completed in early 2013 and these will bring the overall reduction to 47%. The remaining reviews will be completed during 2013-2014 and NZQA is confident that the projected end target of 1,200-1,300 qualifications at levels 1-6 will be achieved.

Youth Guarantee and Trades Academies

26. The education system has not traditionally supported student transitions for vocational learners effectively. Students going into university study had a clear pathway via University Entrance. Vocational learning was often presented as a second-best option for less capable students, and entry points into tertiary-level vocational learning were not well signposted.
27. To strengthen engagement in vocational education and transitions into tertiary learning, the Government has created fees-free Youth Guarantee tertiary education places for 16-17 year olds (now up to 8,750 places in 2013). We have also

established Trades Academies, which enable school students to participate in tertiary learning while remaining enrolled at their school and continuing to work towards NCEA Level 2 (3,700 places in 2013).² These new offerings give students greater opportunities to participate in vocational learning, and greater choice as to the environment in which they wish to study, and the point at which they begin their transition into tertiary education.

Vocational Pathways

28. Underpinning the Youth Guarantee is the development of new simpler Vocational Pathways. These are intended to provide secondary-level students in any setting with information about which NCEA standards are valued by which industries. The Vocational Pathways will provide clear direction on straightforward study pathways for vocational learners - ensuring they are well prepared to transition into the workforce or on to higher-level study.
29. The new Vocational Pathways have been developed in association with the Industry Training Federation and industry and encompass five broad sectors of industry: Construction and Infrastructure; Manufacturing and Technology; the Primary Industries; the Service Industries; and Social and Community Services. The Vocational Pathways will link together secondary study, foundation-level tertiary study and VET training in both on-job and off-job settings. Vocational Pathways will commence this year.

Performance of industry training

30. Government expenditure on industry training more than trebled over nine years – from \$64 million in 2000/01 to a peak of \$204 million in 2009/10. Recorded participation in industry training grew with the increasing expenditure, but performance, as measured by qualification completions and credit attainment, has been very low.
31. Less than a third of trainees achieve a qualification five years after starting their industry training programme. Between 2000 and 2010, an average of 53% of industry trainees and 36% of Modern Apprentices achieved no credits even though they attracted a government subsidy.
32. In 2010, the TEC found that 96,831 people, or 53% of all "trainees" funded in 2008 and 100,801 people or 54% of all "trainees" funded in 2009 did not earn a single credit, even though the ITOs were being paid their training subsidies.
33. The TEC also conducted a series of ITO audits in 2010 and 2011, which found evidence of funding being claimed where there was no record of eligibility for government funding. These included instances where trainees had not actually been engaged for training, where there were incomplete or missing training agreements, trainees who had ceased their involvement in training or employment, and eleven instances where trainees were deceased. As a result of those audits, in May 2011 the TEC recovered up to \$4.3 million from 18 ITOs which had claimed more funds than they were entitled to in 2009, based on numbers of trainees and the status of trainees.

² 2013 numbers (Budget 2012).

34. As a result the TEC introduced tighter operational policies to ensure that government funding is utilised to support the achievement of credits and qualifications. These policies including requiring each trainee to achieve at least one credit per year, and policies to ensure ITOs didn't inflate their funding by claiming for unrealistic credit loads.
35. The tightening of the rules and accountability for industry training has started to shift the funding system from one that is inputs-led towards a much more output-focused model. It has also reduced the number of people listed as being in training (but not actually achieving anything). This has improved the performance of industry training. The credit achievement rate has risen to 71% in 2011 and the programme completion rate to 69%. At the same time, the total number of funded trainees who did not earn credits decreased from 74,574 in 2010 to 41,187 in 2011, a fall of 44.7%.
36. At the same time the global financial crisis and associated reduction in local economic activity has reduced the number of employers participating in industry training and apprenticeships; and increased the number of students studying vocational disciplines at full-time providers.
37. In the short term, the combined effect of increasing accountability and the drop-off in demand has been reduced expenditure on industry training. Much of this has been reallocated to other initiatives short-term (for example, the Christchurch rebuild and increased funding for engineering, and full-time study). However, with the economic upswing and expected growth in construction, plus the consolidation and improved performance of industry training sector, now is the time to re-invest the money back in industry training.
38. The tables on the follow page summarise the funding tracks by Industry Training Fund and Modern Apprenticeships Fund since 2011/12 and projections to 2017.
39. The current budget baseline for core industry training in the Industry Training Fund is \$115.98 million in 2012/13, rising back up to \$137.38 million annually from 2013/14³. Current expenditure is around \$100 million annually, and we are expecting some growth as the employment market grows again.
40. The current budget baseline in the Modern Apprenticeships Fund is \$49.3 million per annum, and the current expenditure is around \$37 million to \$40 million annually. Again, without any policy changes, I would expect that expenditure to grow again as the economy recovers and employers invest more in apprenticeships.

Withheld under s9(2)(f)(iv) of the OIA.

³ On top of the core baseline there is specific funding in the Industry Training funding for embedded literacy and numeracy (\$7.57M per annum) and other ring-fenced funding (\$1.6M per annum).

Withheld under s9(2)(f)(iv) and s9(2)(g)(i) of the OIA.

42.

Withheld under s9(2)(f)(iv) of the OIA.

Consolidation of the ITO Sector

43. I have strongly signalled to the ITO sector since 2010 that the Government wants to see fewer, larger ITOs in order to reduce the proliferation and duplication across the sector. Larger ITOs will have greater capability to better service their industries, be more efficient, and to make the system easier for employers and the public to understand.
44. At the start of 2010 there were 39 ITOs. This has steadily reduced to the current 21 ITOs. The current configuration of ITOs is contained in Appendix One. I expect further consolidation in 2013 that will reduce the number of ITOs to between 12 and 15. By way of comparison, Australia has eleven industry skills organisations that cover the same broad industries as New Zealand ITOs

The industry training policy review

45. Following on from the operational changes to industry training, I initiated a policy review in 2011 to take a more fundamental look at the system, and to assess if the current model is fit for purpose and achieving the best value for money. The review looked at the history of industry training, vocational training systems in other countries and the performance of the New Zealand industry training system. I initiated a survey of and interviews with employers. This led to a discussion document that laid out a new direction for the system.

Findings of the review

46. The main findings of the industry training review were:
- employers most value ITOs' role in arranging training for staff
 - industry training is highly variable in terms of the level of service to employers and trainees, connection to industry, and performance
 - apprenticeship training within the industry training system is relatively underfunded, resulting in high fees to employers and risking the quality of the theory component of apprenticeships
 - tensions between ITOs and tertiary providers have contributed to the proliferation of qualifications and hinder easy transitions between sectors for learners. One of the main causes of tension is ITOs' monopolistic behaviour in relation to the standards and assessments they develop
 - the Modern Apprenticeship scheme lacks accountability. MACs are not responsible for completions and MAC contracts are generally rolled over from year to year.

Consultation on proposed changes to industry training

47. In response to these findings, I sought Cabinet's approval in July 2012 to public consultation on a series of proposed changes to the industry training system to

improve its performance [SOC Min (12) 14/1 refers]. The consultation forms the basis of the proposed changes to the system set out in this Cabinet paper.

48. The consultation was undertaken in August and September 2012. A total of 332 submissions were received from employers (188), industry associations (53), ITOs (23), tertiary providers (25), non-ITO Modern Apprenticeship Co-ordinators (9), and other submitters (32).
49. Although there was widespread support for the package of proposals, opinions were divided on ITOs' arranging training role and the impact of the proposed funding changes on the future of the Modern Apprenticeship scheme. ITOs and most employers supported ITOs continuing to arrange training for workers. Tertiary providers disagreed with the definition of arranging training, stating that developing learning materials and providing assessment services is part of delivering training (ITOs are prohibited from delivering training). Tertiary providers and some employers expressed concern about the educational quality of some industry training provision.
50. A higher apprenticeship rate was widely supported. ITOs suggested a credit minimum for apprenticeships of between 120 and 140 credits. ITOs supported incorporating the Modern Apprenticeship co-ordination fee into the apprenticeship subsidy, as this is administratively simpler. However, non-ITO Modern Apprenticeship Co-ordinators (MACs), and many of the employers they work with, believe the Modern Apprenticeship Scheme should remain as it is. That is, the MAC contracts should continue to be managed by the Tertiary Education Commission (TEC) rather than ITOs, and the co-ordination subsidy should remain separate.
51. Of the individual submissions to the consultation document, the submissions from non-ITO MACs in particular highlighted the poor performance of some ITOs in responding to the needs of employers and the lack of choice for employers if their ITO is not performing. This made it clear to me that the proposals do not go far enough in providing incentives for ITOs to provide excellent service to employers and trainees.

Outcomes sought from a revised industry training system

52. The industry training system should support employees to gain industry-relevant qualifications that improve their long-term labour market prospects. It should contribute strongly to meeting the skill needs of employers and to Government's wider economic development goals, including the Better Public Services target of 55% of 25-34 year olds holding a qualification at level 4 or above in 2017.
53. An industry training system that delivers these results has the following features:
 - **Well-connected to industry with high employer buy-in.** This means that qualifications embody skills that are valued by industry and useful for employees. The services employers can expect should be clear and timely.
 - **Educationally sound.** Trainees should gain transferable skills as part of their programmes that enable them to adapt to changing technology and to apply knowledge in different situations. The skills they gain should be useful to them throughout their careers.
 - **Coherent with the wider tertiary system.** The industry training system is part of the wider vocational education and training system. Learners should be able to

transition between different sectors with a minimum of repeated learning, and qualifications gained in different ways should have equivalent learning outcomes.

- **Delivers value for money for employers and the Government.** A high proportion of people complete the training programme or apprenticeships they enter into and gain qualifications.

54. Given the findings of the review, I consider the system does not need radical change to achieve these results. New Zealand's industry training is relatively well-connected to industry, and many employers value the arranging training and standard setting services provided by ITOs. However there are a number of changes that should be made to boost the performance of the system for employers and trainees.

Proposed changes to the industry training system

A. Combining Modern Apprenticeships and other apprenticeship-type programmes into New Zealand Apprenticeships that provide quality support for apprentices regardless of age

Current model – Modern Apprenticeships restricted to young apprentices and pastoral care receives more funding than the programme of learning

55. In 2002, apprenticeships were rebranded Modern Apprenticeships. The Modern Apprenticeship scheme is restricted to young people (aged between 16 and 21 when they start their programme). It provides industry training funding to support the learning of apprentices and an additional top-up for a Modern Apprenticeship Co-ordinator (MAC). Older people can still undertake an apprenticeship programme, but they do not normally attract the additional subsidy associated with a MAC.⁴
56. Over the previous five years, Modern Apprentices have accounted for approximately 10% of all industry trainees. In 2011, there were 14,200 Modern Apprentices.
57. The current Modern Apprenticeship Scheme pays more for pastoral care than it does for the learning of Modern Apprentices – in 2011, Government spent \$19.51 million on pastoral care for Modern Apprentices and \$17.47 million supporting their learning. The balance of funding between these activities is out of kilter. The funding rate for pastoral care for Modern Apprentices is also higher than for young people in Trades Academies and in Youth Guarantee programmes.
58. Modern Apprenticeship programmes must be at level 3 or 4 on the NZQF and be at least 100 credits. A programme must be approved by the TEC to be eligible for the Modern Apprenticeship co-ordination top-up.
59. MACs may be an ITO, a tertiary provider or an independent organisation. There is no difference in the completion rates between ITO MACs and non-ITO MACs in the same industry. MACs are also not accountable for Modern Apprentice completions – this is the responsibility of the relevant ITO. The TEC is only able to hold MACs accountable for the activities specified in their contracts, typically four visits per year to each Modern Apprentice, rather than results.

⁴ Up to 10% of Modern Apprentices can be outside the target age range when they enrol.

60. The Modern Apprentices brand is confusing for many employers, who do not understand the distinction between "modern" apprentices, and those older than 21 who participate in apprenticeship programmes who aren't "modern" apprentices.

Proposal – all apprentice-type industry training programmes become New Zealand Apprenticeships, they attract the same subsidy, pastoral care is integrated into the funding rate, and the definition of apprenticeships is revised

61. I propose creating a more comprehensive apprenticeship system called "New Zealand Apprenticeships" that will provide the same level of support to all apprentices regardless of age, and integrate the pastoral care subsidy into the apprenticeship rate. This aligns with the funding for most tertiary programmes, where learners attract the same subsidy regardless of age. It recognises that the most substantial part of the subsidy should be directed towards the learning component.
62. I also propose that apprenticeships comprise programmes at level 4 of at least 120 credits. The minimum credit value aligns with the feedback received through consultation, which suggested a minimum of between 120 and 140 credits.
63. Restricting apprenticeships to level 4 will assist with achieving the Government's Better Public Services target for achievement of qualifications at level 4 and above. This definition means a small number of Modern Apprenticeship programmes would not qualify for apprenticeship funding as they are currently designed. However, I anticipate ITOs will redevelop apprenticeship programmes to meet the new criteria during the transition period.
64. The minimum credit value of 120 credits will be the basic entry requirement for apprenticeship funding, but there will also be an application process to ensure that apprenticeships maintain their current high standing with stakeholders and to avoid ITOs inflating the credit value of their other programmes unnecessarily to obtain a higher level of funding. The tests for the application process will be based on the following principles:
1. apprenticeships should provide an entry point into an occupation setting a person up for a career in an industry
 2. apprenticeships should meet any regulatory requirements for entry into an occupation
 3. apprenticeships should contain a strong theoretical component to support further learning, as well as a practical element.
65. I propose that the detailed criteria that sit beneath these principles be finalised after consultation with the sector. It is important that industry is involved in the tests for the first principle in particular. This approach is detailed in the implementation section below (from paragraph 120).
66. ITOs will be expected to provide excellent service and support to apprentices and their employers to ensure high completion rates. I expect this to involve more than the four visits per year currently expected of Modern Apprenticeship Co-ordinators.

Impact of the proposed changes

67. Approximately 16,000 people in industry training (outside of the Modern Apprenticeship scheme) will meet the new criteria of apprenticeships (see table 2 in the section below). They will be provided with significantly greater pastoral support and assistance than if they remained as industry trainees. The majority of apprentices will still be young – in 2011, 73% of people in level 4 programmes of 120 credits or more were under the age of 30.
68. Integrating the pastoral care and co-ordination subsidy into the funding rate for apprentices will mean that ITOs will control who provides pastoral care services for apprentices. I expect that some ITOs will continue to contract other organisations to undertake these services, but are likely to offer a lower rate compared to the current Modern Apprenticeship scheme. Some non-ITO MACs may no longer provide these services as a result of this proposal. Unsurprisingly, independent MACs opposed this proposal in the consultation process. They argued that there would be less choice for employers with this proposal and instead supported the retention of the status quo.
69. I do not believe there is a strong rationale to maintain the status quo given the expense of Modern Apprenticeship Co-ordinators and their weak accountability settings. However, I am convinced that there needs to be some competitive tension in the industry training system to ensure a quality service for employers, and there may be a role for independent MACs in the pilot scheme allowing direct access to the industry training fund detailed below. Information on the current allocations to independent MACs is in Appendix Two.

B. Provide sustainable funding for New Zealand Apprenticeships and other industry training

Raising the trainee rate and introducing an apprenticeship rate

70. The funding rate for industry training has not changed since 2009.⁵ The current system funds learners in short programmes that are entirely based in the workplace at the same rate as multi-year programmes that have a high degree of theory and off-job learning. The tightening of the funding rules has exposed that many ITOs have operated business models based on cross-subsidising trainees who are achieving with funding from a large number of trainees who are inactive.
71. I propose increasing the subsidy rate for trainees in industry training and introducing a new, higher subsidy rate for apprenticeships. In general, apprenticeships have the highest return to individuals of any industry training programme. They are more likely to include a substantial theory component involving tertiary providers, which is more expensive than other types of industry training programmes. The higher funding rate will better support the theory components of these longer qualifications.

Funding rates

72. The Ministry has modelled funding rates of \$3,200 per Standard Trainee Measure (STM) for trainees and \$5,200 per STM for apprentices based on 2011 enrolments.

⁵ The funding rate is \$2,919 (excl. GST) based on 120 credits per year. As industry trainees cannot be funded for more than 70 credits in a year, the maximum funding per trainee is \$1,703 per year.

The apprenticeship rate would effectively incorporate the Modern Apprenticeship co-ordination fee, which will no longer be a separate line of funding. Based on projected 2013 allocations, this would support up to 30,000 apprentices and 95,400 trainees at a cost of \$150 million. As illustrated in the table overleaf, the proposed funding rates would increase funding for apprentices by around 22% - from a total of \$57 million to an estimated \$69 million. Total funding for trainees increases by 10% - from \$78 million to \$86 million.

Table 2: Comparing the existing and new funding regime

Future definition	Current definition	2013 allocations						% increase / decrease in funding
		Number	STM	Current Total Funding \$ M	Current average per head funding	Future funding rates - total \$ M	Future average per head funding	
Apprentices (120+ credits, L4)	MAAs	13,603	5,977	35.808	2,632	31.080	2,285	-13%
	Trainees	16,319	7,201	21.018	1,288	37.445	2,206	71%
	Total	29,922	13,178	56.826	1,899	68.526	2,290	21%
Trainees	Trainees	95,370	26,754	78.096	819	85.6128	898	10%
	Total	95,370	26,754	78.096	819	85.6128	898	10%
Grand Total		125,292	39,179	134.922	1,077	154.138	1,198	11%

MAAs = Modern Apprentices.

The costings assume that all trainees in programmes of 120 credits or more at level 4 will qualify for apprenticeship funding. This is likely to be an overestimation.

The costings assume that Modern Apprenticeship programmes that do not currently meet the future definition of apprenticeship will be redeveloped to meet this definition in time for the introduction of the new system.

73. Around 2,000 Modern Apprentices (15% of all Modern Apprentices) are currently undertaking programmes that do not meet the future definition for apprenticeship funding. The majority are in programmes at NZQF level 3 rather than level 4, a small number are in programmes of less than 120 credits. These Modern Apprenticeships are predominantly in agriculture and retail. Over the next two years, I expect that ITOs will re-develop Modern Apprenticeship programmes that are currently at level 3 or less than 120 credits so that they meet the new apprenticeship definition. This means that these Modern Apprentices will in future also qualify for apprenticeship funding. This has been taken into account in the costings for growth in apprenticeships over the next five years.
74. The proposed funding rates are lower per head than the current funding for some Modern Apprenticeship programmes. However, Modern Apprentices with ITO MACs will not notice any change, as the minimum performance requirements of four pastoral care visits per year will continue to apply following the change. In fact, stronger completion requirements will likely increase the time dedicated by the ITO to pastoral care.
75. It is possible that the change in funding (both amount and method of payment) will have an impact on Modern Apprentices who currently work with a non-ITO MACs or who are participating in programmes at NZQF level 3. To ensure that these Modern Apprentices are not disrupted and can continue to receive pastoral care services from their current MAC, I propose that Modern Apprentices who are active in 2013 and who are with non-ITO MACs or are in programmes at level 3 continue to attract the same

level of funding as under the existing regime until they finish their apprenticeship, to a maximum of four more years, from 1 January 2014. This will minimise disruption to current arrangements. This is estimated to cost \$6.045 million over four years.

Withheld under s9(2)(f)(iv) of the OIA.

77. Even accounting for the costs of grand-parenting, the funding rates leave a significant growth contingency in the baseline. I am also proposing to encourage an increase in the use of apprenticeships as the Christchurch rebuild gathers strength and the economy recovers with an "Apprenticeship Re-boot" outlined below.
78. At the moment the employer contribution is calculated on STM funding only – it does not include the pastoral care subsidy paid through the Modern Apprenticeship scheme. Incorporating the pastoral care element into the apprenticeship subsidy raises the dollar value of the expected employer contribution. Industry training should continue to be co-funded between Government and employers, but it is important that the cost of apprenticeships does not disincentivise employers from hiring apprentices. I therefore propose a lower industry contribution of 20% (rather than the usual 30%) for apprenticeships.

Withheld under s9(2)(f)(iv) of the OIA.

C. Setting clearer roles and performance expectations of ITOs to improve the quality of training and remove the co-ordination issues in the wider VET system

ITOs focus on arranging training and standard setting for their industries

80. I propose that ITOs focus on two key roles: arranging training and standards setting for their industries, and that ITOs' statutory role in skills leadership is removed.
81. As noted above, the review found that employers most value ITOs' role in arranging training for their staff. Employers from a wide range of industries have told us they would like more support for training from ITOs.⁶ This proposal means ITOs would continue to support training in the workplace through developing learning and assessment materials, training and mentoring workplace trainers, supporting the learning of trainees, and providing assessment services.
82. To address the concerns raised about the variability of service and performance of ITOs, I propose that clearer expectations be set about the level of service employers should expect from ITOs. Such expectations could be set through the recognition

⁶ The Ministry of Education asked employers how ITOs could better meet their needs as part of the employer survey. More support for training was a priority for 24% of employers who answered this question. Ministry of Education (2012), *Industry Training Review: Results of the employer interviews and survey*.

process⁷ or through funding criteria for ITOs. ITOs will continue to contract tertiary providers to deliver the theory, or off-job, component of their programmes.

83. ITOs would continue their standard-setting role within the programmes of learning that they develop.⁸ I propose that the restrictions placed on tertiary providers by ITOs relating to the use of their learning and assessment materials, and the conditions specified for the assessment of some standards, be removed. This would increase the transferability of learners across the tertiary system and address concerns about the monopolistic behaviour of ITOs in terms of the standards and assessments they develop.
84. As part of the clarification of roles in the vocational education sector, I plan to make explicit that ITOs may not be the beneficial owners – in part or in full – of a private training establishment. Pecuniary interests in a PTE can drive the perverse behaviour of ITOs directing trainees to one provider rather than offering employers training solutions that best meet business and trainee needs.

Higher expectations of qualification completions

85. Current performance expectations for ITOs are still low – the only expectation in the investment plans with clear consequences is that each trainee is expected to achieve at least one credit per year.
86. To increase the contribution the industry training system makes to the Better Public Services target of 55% of 25 to 34 year olds having a level 4 or above qualification in 2017, I propose introducing additional expectations in ITO investment plans in terms of qualification completion and progression to higher level qualifications. Apprenticeship programmes will have higher completion expectations than lower level programmes, which is commensurate with the higher funding for these programmes.
87. Setting additional performance requirements in investment plans will mean that over time the TEC will shift funding away from programmes that have low completion rates, which is consistent with the approach the TEC has taken across the tertiary education sector. Details of the expected higher completion rates will be worked through as part of implementation in the first half of 2013.

Opening up skills leadership to wider industry

88. I propose removing ITOs' statutory skills leadership role.⁹ ITOs' performance of their skills leadership role has been patchy and in some cases non-existent.

⁷ ITOs have to go through a formal recognition process to be eligible for industry training funding.

⁸ Skill standards (assessment standards in the New Zealand context) describe what knowledge and skills are required for a learner to demonstrate competence in a particular area. They allow learners' achievements to be recognisable and transferable between qualifications and providers.

⁹ The Industry Training Act defines the skills leadership role as identifying current and future skill needs in an industry, developing strategic training plans, and promoting training that will meet those needs to employers and employees.

89. Removing ITOs' skills leadership role will incentivise others, such as industry associations, to take a greater role in communicating demand and supply of skills to government agencies to inform Government's purchase of tertiary education.
90. Removing this role will also encourage ITOs to focus on arranging training for employees, which businesses have told us are the services of most value to them. ITOs could still maintain a role in this area if that is what its member employers want. Responses to the consultation document indicated that many ITOs see skills leadership as an important element of standard setting and programme development, and therefore they expect to still play this role, even if the statutory requirement was removed.

Improving educational quality

91. To address the concerns raised through the consultation process about the quality of industry training education, I propose that NZQA have a greater role in the recognition of ITOs.¹⁰ NZQA will set criteria relating to quality assurance for recognising ITOs and will have the power to obtain information from ITOs and impose conditions on ITOs where quality is in question. This may mean somewhat higher compliance costs for ITOs, but I consider this necessary to ensure Government is investing in high quality industry training.
92. NZQA will also proceed with the review of quality assurance mechanisms that was signalled in the consultation document. This review will focus on improving the usefulness of standards across the tertiary sector, and getting better consistency between the moderation systems used in different parts of the system.

D. Undertaking an "Apprenticeships Re-boot" initiative to increase the number of apprentices, particularly for the coming construction boom

The re-boot initiative

93. To lift the profile and participation in the new expanded apprenticeship system, I am proposing to announce a "re-boot" initiative to commence from April 2013. The "re-boot" initiative will provide \$1,000 to new apprentice sign-ups to cover the cost of equipment and tool costs.¹¹ Up to \$2,000 will be available for new apprentices in priority trades such as building and plumbing. I propose the first 10,000 new apprentices who sign-up after 1 April get access to this extra support. The tool cost subsidy will be matched by an equal payment to the employers who take on those first 10,000 apprentices.
94. There is a great deal of variation in tool costs, so it is not possible to estimate what share of each apprentice's total tool cost is met by the subsidy. TEC advises that

¹⁰ ITOs must be recognised by the Minister for Tertiary Education to be eligible for industry training funding. The Minister must consult NZQA before recognising an ITO, but the Industry Training Act does not specify what NZQA provides advice on or the quality assurance criteria that ITOs must meet.

¹¹ \$1,000 is the amount available for course-related costs through the student loan system, so is a consistent level of support to that offered to learners that study through tertiary providers. Industry training and apprenticeships are not able to access the student loan and allowances system.

actual costs of tools for all of the priority trades exceed \$1,000 in the first full year of training.

95. The re-boot payments will not be available to employers or apprentices who are participating in Ministry of Social Development subsidy schemes and to a small number of other classes of employers. The details will be developed as part of the implementation phase.
96. This will provide a greater incentive to take up trade apprenticeships and will support the anticipated labour force needs for the Christchurch rebuild. The funding will be paid to ITOs to pay to apprentices and employers. For the purposes of the "re-boot", apprenticeships are defined as programmes at level 4 of 120 credits or more.
97. The proposal has been costed on the basis that around 41% of the new starts will be in the priority trades (this was the proportion of priority trade apprentices of total enrolments in 2011). Around 4,100 of the new apprenticeship starts are expected to be in priority trades.
98. The estimated cost of the tools for apprentices will be \$14.100 million in 2013 and 2014, and the cost for the matching employer is also to cost up to \$14.100 million, depending on the operational policy we set for the operation of this scheme. I propose drawing this down from the Transitional Funding for Industry Training contingency,

Withheld under s9(2)(f)(iv) of the OIA.

Growth in apprenticeships

99. In 2011, there were 31,000 people enrolled in programmes of 120 credits or greater at level 4 (12,100 Modern Apprentices and 18,900 industry trainees). An estimated 7,000 apprentices start their programmes each year. Based on these figures, I propose to set a target for ITOs to enrol 14,000 additional new apprentices over the next five years (2013 to 2017). Participation in apprenticeships in particular needs to increase for industry training to make a strong contribution to meeting the Better Public Services target at level 4 and above.
100. The government's industry training funding for the additional apprenticeship places is estimated to cost \$69 million over the next five years (see table below). The costings of the new funding rates include a growth contingency, which means the cost of these additional apprenticeship places can be accommodated within existing baselines.

Table 3: Costs of additional apprentices

	2013	2014	2015	2016	2017	Five-year total
Additional new starts	2,000	3,000	3,000	3,000	3,000	14,000
Baseline new starts each year	7,168	7,168	7,168	7,168	7,168	35,842
Continuing Apprentices from previous years	20,646	21,758	24,071	25,646	26,516	
Total Apprentices	29,814	31,926	34,239	35,814	36,684	
Additional new starts - Costs \$M	3.683	10.563	15.661	18.868	20.581	69.255

The costings above assume that 780 (354 STMs) of the new starts in 2013 will be Modern Apprentices and 43% of these people will attract the Modern Apprenticeship funding rate for the following four years.

The cumulative STMs apply historical patterns of Modern Apprenticeship STM consumption to the first year STMs. Modern Apprentices typically consume higher STMs in their second year compared to their first year, which reflects that apprentices may start at any time in the year and therefore may not complete a full year of learning in their first year.

The exiting apprentices line shows people who are active in a particular year but who are not active the following year.

E. Increasing competition to drive better service to employers and trainees

101. The submissions to the consultation document made it clear to me that incentives for ITOs to provide excellent service to employers and trainees need to be stronger. While some employers thought their ITO did a good job, a significant number thought they did a poor job. It was clear that some employers value the role played by non-ITO Modern Apprenticeship co-ordinators in their workplace, in contrast to their ITO.
102. While there are many scale and co-ordination benefits of moving to a smaller number of larger ITOs, competitive tension to encourage innovation and high performance is unlikely to increase. The ability of employers to influence their ITO and demand excellent service may in fact reduce, particularly for those sectors that form a small component of the industry coverage of a large ITO.
103. To address these issues, I propose a pilot to enable employers with significant numbers of trainees and other organisations, such as group training schemes or Modern Apprenticeship co-ordinators, to access industry training funding directly. This is possible in the current legislative framework. At present, the funding determination restricts access to the industry training fund to ITOs, but this could be broadened to include other organisations that have been identified by the Minister for Tertiary Education through a notice in the New Zealand Gazette.¹²
104. The TEC can then recognise organisations within these approved types that meet defined criteria. This would include similar requirements on the use of funding as ITOs – i.e. the funding would have to be used for industry training programmes and trainees would need to be progressing towards qualifications to be eligible for funding.
105. The TEC approval process will ensure that quality assurance matters are managed appropriately by non-ITO organisations accessing the industry training fund to provide employees and other employers in the industry with confidence about the learning experience and the validity of the qualifications gained. Currently only ITOs and tertiary providers are able to moderate assessments and register credits with NZQA and I am not proposing to change this. This means that organisations accessing the industry training fund directly will need to have an agreement with a relevant ITO or tertiary provider to perform these services.
106. While these arrangements may not occur immediately, it is likely that they will develop over time if large employers and industry organisations seek to develop their own training and apprenticeship management activities.
107. I am proposing that the pilot scheme be open to independent Modern Apprenticeship co-ordinators, many of whom are polytechnics and private training establishments. It

¹² The TEC can only fund the types of organisations identified in section 159B of the Education Act 1989. Organisations are defined as tertiary providers, industry training organisations, or a person or body that provides tertiary education-related services and is identified in accordance with section 159B(2) as an organisation.

is likely that they could quickly adapt their current apprenticeship co-ordination role to take on full responsibility for working with employers to manage apprenticeships. This would provide the most immediate competitive pressure for ITOs. Although the current role of Modern Apprenticeship co-ordinators would no longer exist, this provides an avenue for their continued involvement in the industry training system.

108. At the same time I am proposing to curtail the practice where some polytechnics run what is known as "Managed Apprenticeships", and run apprenticeship-type programmes while being paid at a higher funding rate for each trainee¹³. I have asked officials to consider how to amend the funding arrangements for polytechnics as part of the implementation plan so that ITOs, polytechnics and any other providers operate on a level playing field for the support of New Zealand apprenticeships.
109. It should be noted that many industry training organisations will oppose the competition proposal. However the reality is that if they supply a quality cost-effective service, few employers would want to do the work required to create an alternative arrangement.

The impact of these changes

110. I expect that the main impacts of this proposal will be:

- a more consistent level of service and support for employers and trainees
- fewer enrolled trainees than would have been the case under the old settings (which tolerated phantom trainees), but many more of those trainees earning credits and completing qualifications
- more apprenticeships and better quality education within these programmes, leading to more people completing qualifications at level 4 and contributing the the Better Public Services target for level 4+
- a greater proportion of younger trainees, as they are more likely to complete full qualifications
- greater links between Government and industry to determine skills needs.

111. Fewer, larger ITOs will be better positioned to provide excellent service and support to employers and trainees. They will also be more capable of arranging high quality education. From January 2013, there are 21 ITOs. By January 2014, it is likely there will be around 16 ITOs.

112. Employers should see more timely and appropriate communication from ITOs, better learning resources for trainees, and more contact and support through their ITO. If employers are not satisfied with the service from their ITO, they will have the choice to access industry training funding directly to support industry training programmes. At the moment employers who want to upskill their staff but are not happy with their ITO can access education via the mainstream tertiary system, which may not suit their needs for workplace training.

113. The most significant change is the expansion of apprenticeships by providing the same level of subsidy to all apprentices regardless of age. There were 14,300

¹³ Polytechnics qualify for Student Achievement Component (SAC) funding which pays a higher rate.

Modern Apprentices in 2011. The expanded apprenticeships will support an estimated 36,700 apprentices by 2017 (see table 3 on page 18). The introduction of a higher subsidy for apprenticeship programmes will better support the significant level of theory learning in these long qualifications. This should raise the quality of education and support for occupations that train through the apprenticeship system.

114. The continued emphasis on full qualifications and the increased expectations of qualification completions will mean that a greater number of trainees and apprentices will achieve qualifications. This will raise the skill levels in the workforce and increase the labour market prospects of trainees and apprentices. It will also make a significant contribution to the Better Public Services target for level 4. I estimate that industry training will contribute at least 2,250 additional 25-34 year olds with level 4+ qualifications over the period to 2017.
115. An increased subsidy for traineeships coupled with the higher rate for apprenticeships will put industry training on a sustainable footing that doesn't rely on additional funding of inactive trainees to keep the sector afloat. The majority of people in industry training are trainees rather than apprentices – in 2011, 110,700 people were training in short qualifications at levels 1-6 linked to their workplace.
116. Removing the statutory skills leadership role from ITOs will require government agencies to more actively engage with different industries and industry with government, to inform Government's purchase of tertiary education. Over the long term, industries should see greater information available on the supply and demand for skills and should expect to have a greater input into the supply of tertiary education.
117. A single subsidy for apprentices that supports both learning and pastoral care means Government will no longer separately fund Modern Apprenticeship Co-ordinators (MACs). ITOs undertake the MAC function for most Modern Apprentices. Twenty-four other organisations, including six polytechnics, seven private training establishments and three group training schemes, provide pastoral care for around 4,500 Modern Apprentices (31% of all Modern Apprentices). ITOs may choose to subcontract pastoral care and support to independent MACs. Independent MACs may also have a role in the new system in facilitating direct employer access to the industry training fund.
118. The "Apprenticeships Re-boot" and the re-categorising of all apprenticeships as "New Zealand Apprenticeships" will lift the profile of and participation in apprenticeships at an important time coinciding with a major boost in the construction industry and New Zealand's general economic upswing.
119. I also expect the changes proposed in this paper, and the stronger industry training system that results to make an important contribution to training the workforce needed for the Canterbury rebuild.
120. To date, the rebuild pace has been steady, but it is now beginning to ramp up. The Ministry of Business Innovation and Employment modelling suggests that labour demand will increase significantly over the first two quarters of this year when major rebuild projects are likely to begin. It is currently predicted to peak around the end of 2014. Government's initial response to the Canterbury rebuild through the tertiary sector has been on off-job training in readiness for employers to take on apprentices as the rebuild increases. In 2011 under the \$42 million Skills for Canterbury

contingency, the Government drew down \$8 million for trades training initiatives including the Māori and Pasifika programmes nationwide. In addition to this, \$16.7 million of additional funding was sourced from TEC baselines, and \$11.7 million was reprioritised by ITPs to trades training from other programmes. These initiatives provided 1,187 additional training places in 2011 and 2,660 in 2012. In November last year a further \$28 million was allocated from the Skills for Canterbury contingency to maintain the expanded training pipeline for trades people for the Canterbury rebuild in 2013. That takes to \$64.4 million the amount spent to date to fund additional trades training for the Canterbury rebuild.

121. This training will assist to build a base of more skilled New Zealand job-seekers available to employers. Students in priority trades at polytechnics are being registered with the Canterbury Skills and Employment Hub as job seekers prior to study completion, to make the transition to employment more direct.
122. As labour market demand associated with the rebuild increases and employers begin recruiting, the emphasis needs to shift to the industry training system to assist people to up-skill. The changes proposed in this paper will enable employers to take on those who have already completed foundation studies and continue their training through the industry training system.

Risks

123. The key risks associated with the proposed changes are:
 - Changes to the industry training system at a time when demand for skilled workers is growing.
 - Government may pay more per trainee/apprentice but does not see improvements in performance, quality or outcomes for learners.
124. I propose we address these concerns through:
 - a staged implementation of the review, beginning with a re-launch from January 2013, the commencement of the Re-boot initiative from 1 April 2013, and the full implementation of final changes from 1 January 2014
 - setting clearer expectations of service performance for ITOs and employers
 - involving the sector and key industry groups in the implementation design process, for example, in finalising the definition of apprenticeship and reviewing quality assurance settings
 - strengthening the quality assurance system as it applies to ITOs, including external and internal moderation processes and a stronger role for NZQA in the recognition process
 - establishing the pilot scheme to allow employers and other organisations, such as independent MACs, direct access to the industry training fund – to give a viable alternative to ITO provision.

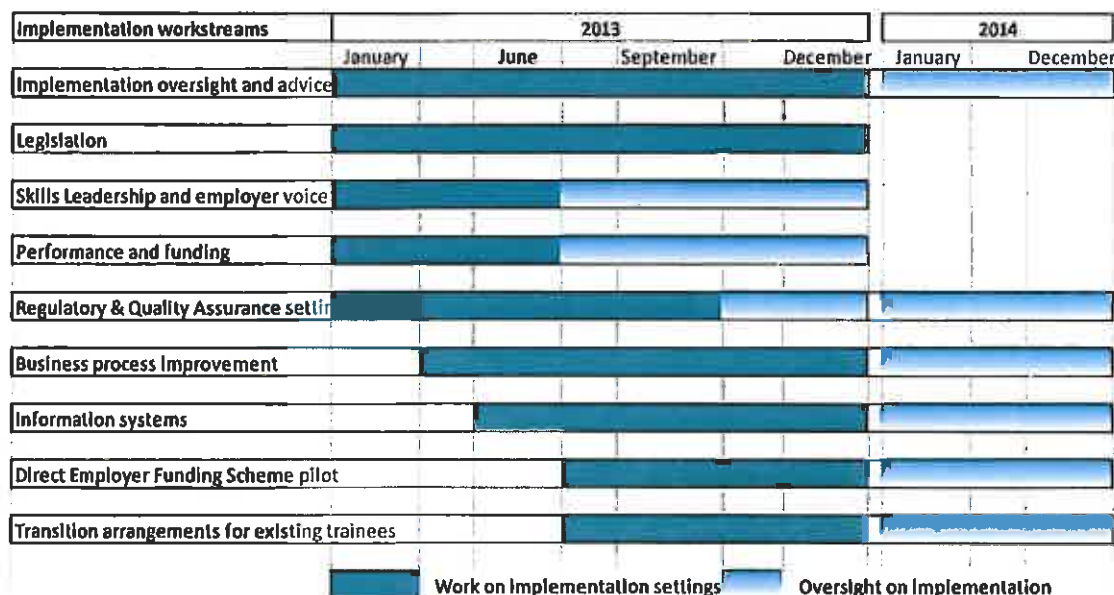
Implementation

125. I propose the legislative and funding changes come into effect from 1 January 2014. A 1 January 2014 implementation date would allow time for the further work needed on the operational details and the legislative amendments. I am seeking your

agreement now to the high level changes in policy and that I take decisions on these final operational matters throughout 2013.

126. I propose establishing an implementation advisory group, made up of experts from industry, ITO and tertiary providers, to work with officials on the key operational details. Government officials and the advisory group will provide me with advice on performance expectations and funding settings, new regulatory and quality assurance settings, and a government-industry approach to skills leadership.
127. Alongside the further design and operational policy development necessary to give effect to the changes, both TEC and NZQA will need to improve their business processes so that trainees, employers, ITOs and tertiary providers obtain the best possible service from these agencies. The systems requirements to support these processes will flow through to associated information system developments for January 2014 implementation.
128. The requirements for participation in the Direct Employer Funding pilot will be developed so that this can roll out from 1 January 2014. The TEC will engage with industry and employers throughout the pilot to ensure that it can be improved and fine-tuned before it is expanded.

Figure 1: Implementation overview



129. The table below details the issues within each topic and when I will make final decisions to enable full implementation of the new system from 1 January 2014. The work on performance and funding and skills leadership will need to be completed by June 2013, while the quality assurance work could be completed by September 2013.
130. As noted below, there are legislative implications arising from a number of the proposed changes to the industry training system. I propose submitting a paper to this committee in February 2013 to seek policy approval for these changes.

Table 6: Implementation issues and timeline of decisions

Dimension	Detail	Final decision
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Performance expectations & funding settings	Finalise funding arrangements and operational policy settings for re-boot payments to apprentices and employers	March 2013
	Definition of apprenticeship – criteria for application process Qualification progress and completion expectations – units of measurement Performance consequences when ITOs do not meet different performance expectations Learner & MAC transitional arrangements Detailed requirements for Direct Employer Funding Scheme Transferability of learners – enabling completions to count when learners transfer between sectors Investigate applying the same performance requirements and funding rates to training for apprentices in industry training and at tertiary providers	June 2013
Regulatory & quality assurance settings	Recognition requirements that ensure that ITOs have the governance, management and operational / educational capabilities to effectively deliver on their roles and functions Requirements for industry contribution and the use of public funds External moderation and managing consistency of graduate outcomes, including funding for these activities	September 2013

131. During the implementation phase, officials will provide me with advice on the place of group training schemes within the system. Group training schemes are schemes that employ apprentices and then place them with host employers who are qualified tradespeople who provide the training for the apprentices.

Financial Implications

132. The proposed changes to industry training will be met from within current baselines for industry training and the Modern Apprenticeship scheme. The 2013/14 baseline is \$195.786 million (\$146.487 million in the Industry Training Fund and \$49.299 million in the Modern Apprenticeship Fund), which sit in the Training for Designated Groups appropriation.

133. The costings of the new trainee and apprentice rates are conservative – they assume that all trainees in level 4 programmes over 120 credits will qualify for the higher apprenticeship rate, which is unlikely in the short-term. As illustrated in Table 8 below, the costings also include a significant contingency for growth – \$17 million by 2017. The new funding regime is estimated to cost \$178.8 million by 2017.

Table 7: Expected growth path for industry training from 2014 – number of trainees and apprentices

		2013	2014	2015	2016	2017	Five-year total
Apprentices	Additional new starts	2,000	3,000	3,000	3,000	3,000	14,000
	Baseline new starts each year	7,168	7,168	7,168	7,168	7,168	35,842
	Continuing from previous years	20,646	21,758	24,071	25,646	26,516	
	Total Apprentices	29,814	31,926	34,239	35,814	36,684	
Trainees	2013 baseline	97,479	97,479	97,479	97,479	97,479	
	Growth	0	1,773	3,546	5,318	7,091	
	Total Trainees	97,479	99,252	101,025	102,797	104,570	
Grand Total		127,293	131,177	135,264	138,612	141,254	

Table 8: Estimated costs of new funding rates and grandparenting Modern Apprentices, 2014 - 2017

		2014	2015	2016	2017
Apprentices	Baseline activity	63.691	63.691	63.691	63.691
	Additional new starts*	9.423	14.722	18.328	20.321
	Total	73.114	78.413	82.019	84.012
Trainees	Baseline activity	88.023	88.023	88.023	88.023
	Growth	1.600	3.200	4.800	6.400
	Total	89.623	91.223	92.823	94.423
Grandparenting MAs	Baseline MAs	3.046	1.769	0.881	0.349
	Additional MAs starting in 2013	0.151	0.111	0.071	0.034
	Total	3.196	1.880	0.952	0.384
Total cost		165.934	171.516	176.795	178.819
TOTAL BASELINE		195.786	195.786	195.786	195.786
Growth contingency in the baseline	ELN & ITO Projects	9.107	9.107	9.107	9.107
	Projected under spends	20.745	15.163	10.884	7.860
	Total	29.852	24.270	19.991	16.967

* The additional new starts costing covers the lifetime of the new apprentices. In other words, the 2015 figure includes the 3,000 new starts in 2015 as well as the new starts from 2014 who are continuing on in 2015 (2,560 of the 3,000 who started in 2014).

134. The estimated cost of the "re-boot" initiative, which will provide new apprentices with up to \$2,000 for training-related costs, will be approximately \$28.2 million. I am seeking your agreement to draw this down from the Transitional Funding for Industry Training tagged contingency [Withheld under s9(2)(f)(iv) of the OIA.]

135. The additional new apprenticeship places that I am setting for ITOs will cost approximately \$69.3 million over the next five years (includes grandparenting and costs in 2013). This will be met from the industry training baseline.

Legislative Implications

136. The proposed changes in this paper will require a number of legislative amendments to the Industry Training Act 1992 and the Modern Apprenticeship Training Act 2000, in particular to:

1. remove ITOs' statutory skills leadership function

2. consolidate Modern Apprenticeships into apprenticeships
 3. a formal role for NZQA in the recognition of ITOs.
137. In addition, I propose modernising and streamlining the Industry Training Act 1992. This means clearly outlining the roles and functions of ITOs, aligning the sections relating to the recognition process with current agency roles, and aligning the Industry Training Act with the relevant sections of the Education Act 1989.
138. I have submitted a bid to the legislative programme for 2013. In March 2013, I will submit a paper to the Cabinet Social Policy Committee to get policy approval to the specific legislative changes needed to implement the review.

Regulatory Impact Analysis

139. The regulatory impact analysis will be attached to the paper to the Cabinet Social Policy Committee in February seeking policy approval to the specific legislative changes.

Human rights implications

140. None of the proposals contained in this paper are in any way inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Gender implications

141. This paper has no gender implications.

Publicity

142. The re-boot initiative was announced by the Prime Minister following Cabinet discussion of the policy on Wednesday, 23 January. This was accompanied by a press release from myself which detailed many of the high level changes to industry training.

Recommendations

143. The Minister for Tertiary Education, Skills and Employment recommends that the Committee:
1. **note** that the Minister for Tertiary Education, Skills and Employment initiated a policy review of industry training in 2011 to provide advice on whether the current model is fit for purpose and achieving value for money
 2. **note** that the main findings of the review were:
 - 2.1. employers most value the arranging training role that ITOs undertake
 - 2.2. ITOs vary significantly from one another in terms of the level and type of service to employers and trainees, their performance, and their connection to industry

- 2.3. the industry training funding rate does not adequately support the level of theory learning required in apprenticeships (which are long qualifications at levels 3 and 4 on the New Zealand Qualifications Framework (NZQF) that provide entry into an occupation or trade)
- 2.4. tensions between ITOs and tertiary providers have contributed to the proliferation of qualifications, and hinder easy transitions between sectors for learners
- 2.5. the Modern Apprenticeship scheme, which provides additional support to young people in specific industry training programmes, lacks accountability
- 3. note that we undertook public consultation in September on proposals to change industry training policy settings [SOC Min (12) 14/1 refers] and there was broad support for most of the proposals, however:
 - 3.1. tertiary providers dispute the definition of arranging training and have concerns about the quality of industry training
 - 3.2. independent Modern Apprenticeship Co-ordinators argued to retain the current Modern Apprenticeship Scheme
 - 3.3. many submissions highlighted that incentives for ITOs to respond to employers need to be stronger
- 4. agree that as a result of the proposed changes to industry training, the industry training system will be:
 - 4.1. well-connected to industry with high employer buy-in
 - 4.2. educationally sound
 - 4.3. coherent with the wider tertiary system
 - 4.4. delivering value for money for employers and the Government

Changes to the industry training system

- 5. agree that to achieve this the following changes should be made to the industry training system:

Establishing New Zealand Apprenticeships

- 5.1. combine Modern Apprenticeships and other apprenticeship-type training into New Zealand apprenticeships that will provide the same level of support regardless of age
- 5.2. an apprenticeship is defined as a programme of study of at least 120 credits that results in a level 4 qualification
- 5.3. New Zealand Apprenticeships will be supported through a single funding rate with no separate funding for apprenticeship co-ordinators

Sustainable funding for New Zealand Apprenticeships and other industry training

- 5.4. a more sustainable funding regime be introduced with separate rates for trainees and New Zealand Apprenticeships
- 5.5. that the s8(2)(iv) funding rates be \$3,200 per standard training measure (GST exclusive) for trainees, and \$5,200 per standard training measure (GST exclusive) for New Zealand Apprenticeships

Clearer roles and performance expectations of ITOs and improving educational quality

- 5.6. ITOs focus on two core roles: arranging training and standards setting for their industry
- 5.7. the statutory skills leadership role of ITOs is removed to allow industry to also communicate skills needs directly to the Ministry of Business, Innovation and Employment (MBIE) and the Tertiary Education Commission (TEC)
- 5.8. clarify that ITOs not be permitted to own or be beneficial owners of private training establishments
- 5.9. higher qualification and programme completion expectations be set for ITOs through the investment planning and funding systems
- 5.10. including quality assurance measures in the recognition of ITOs and powers for the New Zealand Qualifications Authority (NZQA) to impose conditions where quality is in question
- 5.11. NZQA will review mechanisms for ensuring quality in vocational education (external moderation and managing consistency of graduate outcomes)

Increasing competition to drive better service to employers and trainees

- 5.12. establishing a pilot to open up access to industry training funding to employers and other organisations, subject to appropriate quality assurance processes, to maintain competitive pressure for the provision of industry training
 - 5.13. examining a means of achieving a level playing field for funding arrangements between apprenticeships managed through ITOs and those managed by polytechnics or other tertiary providers
6. **note** that the proposed apprenticeship rate increases overall funding for apprentices by around 20%, but it is lower than the current funding arrangements for Modern Apprenticeship programmes
 7. **agree** that Modern Apprentices who are active in 2013 and who are with non-ITO Modern Apprenticeship Co-ordinators or are in programmes that do not meet the future definition of apprenticeship continue to attract the same level of funding as in the current Modern Apprenticeship scheme for a maximum of four years from 1 January 2014

Financial implications of the new funding rates

Withheld under s9(2)(f)(iv) of the OIA.

9. note that, based on the projected growth path (table 7 in the financial implications section above) the indicative funding rates will support 104,500 trainees and 36,700 apprentices at a cost of \$178.819 million by 2017

"Apprenticeships Re-boot"

10. agree that to lift the profile and participation in the new apprenticeship system, the Minister for Tertiary Education Skills and Employment announces a 're-boot' initiative commencing from 1 April 2013 that will provide up to \$2,000 to new apprentice sign-ups to cover the cost of equipment and tools for the first 10,000 apprentices to enrol
11. note that the intent is that both of these payments are effectively tax free
12. agree that the grants to the first 10,000 new apprentices will be matched by equal payments to the employer, with some exclusions and the details to be developed as part of the implementation phase
13. approve the following changes to appropriations to fund the industry training 're-boot' start with a corresponding impact on the operating balance:

Vote Tertiary Education	\$ million increase / (decrease)				2016/17 and Outyears
	2012/13	2013/14	2014/15	2015/16	
Minister for Tertiary Education, Skills and Employment					
Non-Departmental Output Expenses:					
Training for Designated Groups	3.200	25.000	-	-	-

14. agree that the changes to appropriations above be a charge against the Transitional Funding for Industry Training "tagged" operating contingency established by Cabinet in June 2012 [SOC 12(10)/2], Withheld under s9(2)(f)(iv) of the OIA.
15. agree that the changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and, that in the interim, any increases be met from Imprest Supply

Implementation

16. agree that the changes to industry training be implemented from 1 January 2014
17. note that an implementation advisory group will work with officials on the operational details of the new system including performance expectations and funding settings, new quality assurance settings, and how industry input can be taken into account in tertiary education investment decisions

18. **agree** that the Minister for Tertiary Education, Skills and Employment take final decisions about the operational details of the new system in 2013
19. **note** that there are legislative implications arising from these proposals and that the Minister for Tertiary Education, Skills and Employment has submitted a bid for an omnibus bill on the 2013 legislative programme
20. **note** that the Minister for Tertiary Education, Skills and Employment proposes to submit a paper to the Cabinet Social Policy Committee in March 2013 to seek policy approval to the detailed legislative changes needed.

Hon Steven Joyce
Minister for Tertiary Education, Skills and Employment

_____/_____/_____

Appendix 2: Impact analysis

Effect of changing the definition of apprenticeship on Modern Apprentices

Table 1 shows that most Modern Apprentices (over 80%) are in programmes that would qualify for apprenticeship funding with the revised minimum credit value of 120 credits and restricting apprenticeships to level 4 programmes. Most of the Modern Apprentices that would not qualify for apprenticeship funding are in programmes at level 3 (95%). The following industries have a large number of apprentices at level 3 on the NZ Qualifications Framework: agriculture, retail, infrastructure, forestry, and hospitality.

Table 1: Modern Apprentices in 2011 and 2012 by whether they would qualify as apprentices with the new definition (a level 4 programme worth 120 credits or more)

Industry (ITO)	2011			2012		
	Trainees	Apprentices (L4, 120+ credits)	% trainees	Trainees	Apprentices (L4, 120+ credits)	% trainees
Hospitality	132	353	27%	162	197	45%
Forestry, Furniture making	171	417	29%	156	332	32%
Building & Construction	10	2,419	0%	5	2,286	0%
Motor	134	2,372	5%	121	2,098	5%
Engineering	59	1,784	3%	87	1,677	5%
Agriculture	786	280	74%	973	258	79%
Mining	27	3	90%	29	3	91%
Electro-technology, Telecommunications	24	820	3%	20	631	3%
Infrastructure	175	5	97%	234	5	98%
Dairy processing	0	1	0%	0	1	0%
Plastics & Material processing	0	33	0%	0	31	0%
Sports Turf	0	109	0%	0	87	0%
Aviation, Travel, Tourism	78	213	27%	87	185	32%
Printing, Media	0	123	0%	0	117	0%
Electricity Supply	89	316	22%	95	258	27%
Plumbing, Gasfitting, Drainlaying, Roofing	1	762	0%	2	699	0%
Retail	233	0	100%	179	0	100%
Public sector	38	0	100%	23	0	100%
Horticulture	0	686	0%	0	736	0%
Flooring	88	284	24%	10	410	2%
Joinery	96	187	34%	92	173	35%
Boat building	22	253	8%	23	218	10%
Hairdressing	2	672	0%	6	633	1%
Equine	55	26	68%	4	4	50%
Total	2,220	12,098	16%	2,308	11,039	17%

Effect on non-ITO MACs of incorporating the co-ordination subsidy into the apprenticeship funding rate

Table 2 shows that the majority of Modern Apprentices have co-ordination services provided by ITOs (69% of full-time equivalent Modern Apprentices). Nonetheless, non-ITO MACs receive a sizeable allocation of government funding (\$6.4 million in 2011).

