

**SUBMISSION BY THE
NEW ZEALAND BUSINESS ROUNDTABLE**

Industry Training Bill

MARCH 1992

INDUSTRY TRAINING BILL

Summary

- The reforms proposed in the Industry Training Bill are likely to produce training more closely related to the needs of industry and more dynamic in its response to changing needs.
- Nevertheless, the gains from these reforms will fall short of what might be achieved because of a number of conditions in the Bill for recognising and funding Industry Training Organisations. These concerns could be avoided by tying government funding more directly to the users of training - trainees and their employers. This may be best achieved by allowing training providers to compete for the contestable pool of funds.
- The Employment Contracts Act is likely to align pay structures more closely with the productivity of trainees and also result in more reliance on contracting mechanisms for protecting employer investments in worker training. Incentives for training will continue to improve as the labour market responds to the full range of opportunities created by the Act.
- Levies and national training taxes would impose net costs on the economy and seriously weaken the responsiveness of training providers to the diverse needs of employers. They would impair the quality and range of training undertaken. Industry would be saddled with additional costs and inefficiency, hampering its ability to compete internationally.
- The requirement for training programmes to be incorporated into the national qualifications framework has the potential to significantly reduce the efficiency of training on and off the job. This is because it would give the New Zealand Qualifications Authority the power to require training programmes to teach a broader range of skills than needed by employers.

- These concerns lead the Business Roundtable to recommend the following:

A more direct allocation of government funding of industry training to trainees and/or their employer;

The deletion of Part III of the Bill, which provides for levies or national training taxes;

The deletion of section 6(1)(a)(i) in Part II of the Bill, which requires training programmes to be incorporated into the national qualifications framework.

- If the contestable fund is retained by the government, we would make the following additional recommendations:

Delete section 5(2)(b) in Part II of the Bill, which refers to the desirability of avoiding unnecessary duplication among ITOs;

Amend Part II of the Bill to allow employers and training providers to compete for the contestable pool of funds.

INDUSTRY TRAINING BILL

1.0 Introduction

- 1.1 This submission is made on behalf of the New Zealand Business Roundtable (NZBR), an organisation of chief executives of major New Zealand business firms. The purpose of the organisation is to contribute to the development of sound public policies which reflect overall New Zealand interests.
- 1.2 A number of reforms have been made to post-compulsory education and training over the last few years. Universities, polytechnics and colleges of education are now all funded on the same basis and are free to make their own decisions on the courses and training to be offered, in most cases subject only to the accreditation and qualification framework requirements of the New Zealand Qualifications Authority (NZQA). Private Training Establishments (PTEs) have also recently been allowed to bid for government funding to provide training in competition with existing government organisations.
- 1.3 These reforms apply to the provision of industry training as much as to other post-compulsory education and training. Industry training, however, involves two other features that are in need of further reform. The first is the role played by apprenticeship committees in setting course content and skills to be taught. The second feature is that the skills acquired from off-job training are only one part of the training required to be assessed. What matters for employee productivity is the ability of a worker to perform particular tasks at the workplace. Training and experience gained on-the-job therefore also need to be assessed. Certification, to be meaningful to employers, needs to be based on such an assessment, not just on the skill levels achieved at polytechnics, for instance.
- 1.4 Some of these industry training functions are undertaken by the Education and Training Support Agency (ETSA). It arranges block courses for off-job training, assesses the training capacity of employers, and provides secretarial and other back-up services to apprenticeship committees.
- 1.5 The government has indicated that it is concerned that the current structures for industry training are not sufficiently flexible to meet the diverse needs of industry operating in a rapidly changing international trading environment. In the discussion paper accompanying the Bill, the objectives are specified as being "... to increase the quantity and the quality of ... industry training, ... to extend systematic training to industries and occupations which do not currently have formal training systems ...(and) make training accessible to all who need it." ¹

¹ Foreword by the minister of education and the minister of employment in *The Government's New Industry Skills Training Strategy*, Education and Training Support Agency, December 1991.

- 1.6 These concerns are shared by others who cite the recent sharp decline in apprenticeship numbers as evidence of the apprenticeship system failing. Numbers of new apprentices in the year to June 30 1991 were only 4,856 compared to 6,129 in the previous year and 9000 five years ago.² Rising numbers of unemployed people over a wide range of skills, however, indicate that declining numbers of apprentices may simply be the result of declining demand for many skills by firms during a recession and the effects of a labour market which until recently lacked flexibility. There is also some concern among people in industry, training institutions and the government about a lack of competition among polytechnics, leading to unnecessary cost padding. Others, however, criticise ETSA for having a narrow focus on cost reduction without sufficient regard for the implications for quality.
- 1.7 The Industry Training Bill proposes to shift training decisions away from ETSA and to Industry Training Organisations (ITOs) owned and led by industry. A large portion of the government's funding for ITOs will be provided from a contestable pool of funds, with employers expected to contribute a substantial amount themselves. These reforms are intended to make industry training more dynamic and responsive to the needs of employers. To attract and retain employer support, ITOs will need to design off- and on-job training programmes which teach workers skills which are relevant to employers and to the standards desired by employers. These issues are discussed further in section 3 of this submission.
- 1.8 The Bill also provides for the minister of education to grant levy powers to ITOs should they satisfy criteria specified in the Bill. The rationale for levies rests on the presumption that some employers 'free ride' on the training investments made by other employers. The discussion paper accompanying the Bill asks for comments on whether the power to levy should be retained in the Bill, deleted, or whether a third option of national training taxes should be introduced. These issues are discussed in section 4.
- 1.9 The Bill also specifies certain quality monitoring and national qualification framework requirements to be met by ITOs. The role of quality and performance assessment is discussed in section 5, while section 6 presents conclusions and recommendations.

2.0 Background to Current Training Arrangements

- 2.1 Before describing the reforms contained in the Industry Training Bill, it is useful to summarise current training policy and arrangements. The market for post-compulsory education and training comprises full-time students attending secondary schools, colleges of education, polytechnics, PTEs and universities. The market also includes apprentices, primary industry cadets and technician trainees who gain industry training from both training institutions and from their workplace. Most industry training is provided by

² Glensy Hopkinson, "All dressed up with no place to go", National Business Review, 6 December 1991, p.25.

employers and polytechnics, with the bulk of formal industry training provided by polytechnics.³

- 2.2 Apprenticeship committees, comprising representatives of employers and unions, determine the content of courses making up formal qualifications. Employers also help set training standards through their involvement in industry organisations which liaise with polytechnics, either informally or through membership of councils and advisory and programme committee structures. Polytechnics, however, retain the ultimate right to determine how they teach.
- 2.3 Training providers seeking or receiving government funding are generally required to have their qualification form part of the national qualifications framework⁴ and the institution and the courses they offer must be accredited⁵ by the NZQA.⁶ Accreditation must be reviewed at least every five years and can be withdrawn at any time. Where standards are yet to be firmly established, shorter periods of accreditation can be given - such as for two years. Ongoing quality assurance is left up to the buyers of training to establish, although industry groups and training professionals are also expected to play a role in maintaining pressure for appropriate quality standards. The NZQA issues most trade certificates, although individual employers can also issue training certificates to recognise particular skills attained by their staff or completion of a particular training programme run by them.
- 2.4 ETSA orders block courses from polytechnics and assesses the capacity of employers to provide training on-the-job. ETSA also provides secretarial and other administrative support services to apprenticeship committees.
- 2.5 A number of Industry Training Boards are statutory bodies under provisions of the Vocational Training Act. Six of them have the power to levy employers

³ Carnevale (1986) estimates informal education and training in the United States to be equivalent in size to the entire formal education system, and that informal training provides all the skills needed in two out of three jobs.

⁴ The national qualifications framework requires qualifications to be broken down into units of learning. These are defined as groups of learning outcomes required to attain a suitable level of proficiency in a particular skill. The national qualifications framework simply places all units in a grid or matrix so that the relationship between units conveys information about their relative degree of difficulty, the length of study time to complete the unit, which units need to be completed before other units can be started (known as prerequisites at universities) and which units available from one qualification can be cross-credited to another qualification (so that a flexible programme of study is more easily developed for students). The NZQA coordinates and advises training providers on identifying where their units should be placed in the grid. Breaking qualifications down into units is not only essential for building the framework but it also helps to provide more common definitions of skill qualities and so makes it easier for users of qualifications - such as employers - to measure the skill level acquired by their staff from training. See publications from the NZQA for more detailed information.

⁵ Accrediting an institution or course involves assessing the capacity for specified training standards to be delivered. The relative roles of industry and providers in setting the standards is discussed in section 2. The role of the NZQA will in the future be to ensure quality monitoring and management processes are in place which meet ISO 9001 series of quality standards. This role will usually be contracted out to independent assessors.

⁶ ACCESS and Maori ACCESS providers are generally not required to meet NZQA requirements.

under the Industry Training Levies Act. (Restructuring of government support for these arrangements after 1988 led to several not surviving.)

- 2.6 Polytechnics are funded by the Ministry of Education using the Equivalent Full Time Student (EFTS) formula. The Ministry subsidises courses to a level of 95 percent of course costs for Study Right students and 85 percent of course costs for non-Study Right students (falling to 75 percent over the next few years). The same funding basis is used for universities and colleges of education.
- 2.7 As with other students, apprentices pay the residual course cost at the commencement of the course. However, employers usually reimburse apprentices for such fees and other out-of-pocket expenses (such as travel and accommodation) once the course is satisfactorily completed. In addition, ETSA pays employers in most trades \$110 per apprentice for each week the apprentice attends block courses. The training obligations of both employer and worker are currently determined by ETSA, with most disputes being resolved with ETSA involvement.

3.0 Organisation of Industry Training under the Bill

- 3.1 The reforms proposed in the Industry Training Bill shift decision-making to private sector organisations which are funded substantially by employers. The Bill specifies criteria by which ITOs are officially recognised by ETSA and become eligible for government funding. Recognised ITOs can take over the administration and design of industry training currently performed by ETSA, and receive ETSA's share of funding for those activities. They will be free to determine the type, content and number of courses they 'deliver' provided their training programmes are incorporated (or at least are going to be incorporated) into the national qualifications framework and provided that ETSA, after consulting the NZQA, is satisfied with the standard of their quality monitoring systems.
- 3.2 Recognised ITOs will also have the opportunity to take apprenticeship committees under their wing, or merge with them. They will be free to provide the training themselves or purchase training from polytechnics, PTEs or from employers, provided the training provider is accredited by the NZQA.
- 3.3 The Bill is silent about how ITOs should be established, except that they must be a body corporate or partnership. The aim here is to allow ITOs to establish their own client base. They may focus on servicing employers in a particular industry, or they may try to service employers across a range of industries. They may find it best to organise on the basis of their expertise in setting course content and standards for particular types of skill. Equally, a single firm does not appear to be excluded from applying for ITO status. This non-prescriptive approach is a sound feature of the Bill.
- 3.4 Three funds will be established for assisting recognised ITOs. First, a fund of

\$2.1 million will be provided in 1991/92 to assist ITOs to carry out training needs analyses and to design new training programmes. A second fund of \$6.5 million per annum will be provided to ITOs to take over the administration and design of industry training. A third fund of \$20 million per annum, which is currently used to pay polytechnics for apprenticeship and primary industry cadet off-job training, will be progressively transferred from 1993 to a contestable pool of funding to be allocated to recognised ITOs by ETSA. ITOs will bid for the use of these funds to purchase off-job training and to help provide systematic training in their industries. The \$110 per week subsidy to employers will be discontinued.

- 3.5 These reforms give recognised ITOs the responsibility to negotiate the level of funding for courses they purchase from training providers, with the residual to be paid by the apprentice. Thus, the subsidy rates for apprentice and primary industry cadet courses will no longer be set at 95 percent for Study Right students and 85 percent for non-Study Right students. The level of subsidy will be determined by ITOs.
- 3.6 Whether employers continue to reimburse apprentices for course fees and out of pocket expenses is not prescribed by the Bill. Those decisions are left for the employer and employee to negotiate in their training agreement, to be appended to the trainee's employment contract. The training obligations and requirements making up training agreements will be established by New Zealand Committees. These are expected largely to comprise the training components of existing Apprenticeship Orders. Disputes regarding the training agreement are to be resolved through exactly the same channels as other aspects of the employment contract.
- 3.7 Part V of the Bill removes statutory protection and levy powers from industry training boards. This is in line with the philosophy of the Employment Contracts Act. Competition for members will mean that more responsive, efficient arrangements will flourish at the expense of other training arrangements. Competition is essential for ensuring the range and quality of training desired by employers is delivered efficiently, for spurring innovation in the delivery of training programmes, and to limit opportunities for monopoly pricing behaviour.
- 3.8 The decision to allocate funds on a contestable basis will facilitate competition among ITOs, although this may be somewhat constrained by criteria in the Bill for recognising and funding ITOs. In recognising an ITO, ETSA is required to have regard to the "desirability of avoiding unnecessary duplication of effort in the administration of programmes of industry training ...". In deciding whether to provide funding to an ITO, ETSA is required to have regard to "the extent (if any) to which the programme extends industry training to industries, or areas of industries, where industry training has not traditionally been available" and "... to people of a kind or description identified in the Board's (*ETSA's*) charter, or in a written notice given to the Board (*ETSA*) by the Minister, as people to whom industry training has not traditionally been available..." (words in italics have been added).

- 3.9 If duplication is steadfastly avoided by ETSA in determining which ITOs receive recognition then training providers may end up having to meet the preferences of a single recognised ITO for each area of training. Similarly, although employers with training needs which are different from those represented by the recognised ITO will be free to set up their own ITO, they will be disadvantaged by the lack of government assistance. Attempts to avoid duplication risk undermining the primary purpose of the Bill which is to improve the responsiveness of training in meeting industry needs.
- 3.10 The requirement for ETSA to avoid unnecessary duplication may leave gaps in the coverage of industry training and impose unnecessary costs on multi-industry employers which see advantages in minimising the number of ITOs they deal with. The United Kingdom experience with Training and Enterprise Councils indicates that generic disciplines which straddle several industries - such as secretarial, accounting and managerial studies - tend to be left stranded by training arranged along industry lines.⁷
- 3.11 In recognising ITOs for government assistance, ETSA is also required to have regard to the degree to which the proposed training programme extends industry training to industries or areas of industries not traditionally provided for and to people for whom training is not traditionally available. This may go some way to offset the above concerns about avoiding duplication.
- 3.12 Competition for the contestable pool of funds will provide ITOs with strong incentives to contain costs. To keep costs down and increase the number of people in their training programmes, ITOs are likely to reduce the rate at which they subsidise training to their members. Additional funding is likely to be sought from their members through membership fees and through lobbying for levy powers.
- 3.13 Allocating government assistance directly to recognised ITOs presumes that ITOs are the most efficient way to organise the delivery of training to employers. This may not be the case if greater knowledge of the attitudes, work performance and skill level of trainees is an important determinant of training outcomes. Moreover, employers with specialised training needs will tend to be under-represented in ITOs and may find more value in developing course content, timetables and teaching approaches directly with training providers.
- 3.14 These concerns suggests that ITOs should receive as much funding as possible from their clients rather than directly from the government. Government assistance would be better directed to the actual users of training - employers and trainees - who would decide for themselves how to provide for their training needs. ITOs would have to compete for clients and funding to survive, probably developing a core business around setting competency-based standards rather than providing training themselves, at least where this is already catered for efficiently by other institutions.

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Fiona Rotherham, "Government gets cracking on tomorrow's skills", National Business Review, December 20 1991.

- 3.15 Most of the conditions in the Bill for funding and recognising ITOs would not be needed if government funding were allocated directly to the ultimate users of training. The users could decide which ITOs and training providers to patronise without ETSA needing to be concerned about unnecessary duplication. Buyers of ITO services would have incentives to check the capacity of ITOs to administer the delivery of industry training and to evaluate their efficiency and effectiveness. The survival of an ITO in the market place would be ample evidence that it was meeting industry needs. ETSA would not need to have regard to the amount of training provided by an ITO or the extent to which an ITO extended training to new areas of industry and new trainees, or to prescribe what corporate form an ITO should take. Employers would be able to continue to join organisations - such as Joint Action Groups (JAGs) supported by the Trade Development Board - which look at a range of issues to do with export competitiveness, including training needs and skill quality.
- 3.16 If instead the Bill carries through its proposals to fund ITOs largely through the contestable fund, consideration needs to be given to whether they should be confined to setting competency standards. Without having to compete against training providers for the contestable fund, ITOs will be free to use government funding to finance their own expansion into provision of training even when other providers are more efficient. Allowing training providers (and employers themselves) to compete for the contestable fund - as well as ITOs - would remove the prospect of ITOs capturing the government assistance for themselves. It would give employers and trainees the choice of negotiating directly with training providers or choosing ITOs to organise and purchase their training if this proved to be more efficient. It would also reduce the risk of smaller, more dedicated courses being excluded from government assistance and discourage ITOs from straying from roles - such as setting competency standards - which they may be well equipped to undertake.

4.0 Levies and National Training Taxes

- 4.1 Part III of the Bill provides for the minister of education to grant levy powers to ITOs should they satisfy criteria specified in the Bill. The discussion paper accompanying the Bill outlines two other options which the government is willing to consider. One option is a voluntary system where firms would contribute to ITOs only if they saw the value in doing so. The other option is a national training tax, set as a percentage of each firm's payroll. Firms which did not spend at least that amount on training of their own or through supporting a recognised ITO would pay the tax.

- Rationale for Levies and Training Taxes

- 4.2 The case put forward for levy powers or training taxes is based on an incorrect analysis. It presumes that workers and employers are unable to collaborate to produce outcomes which are mutually advantageous to them, supposedly

leading to a lack of worker skills to meet the needs of industry. Advocates of levies or training taxes also ignore the inefficiencies and other failures of centrally funded training systems to deliver the type and quality of training needed by industry.

- 4.3 The justification offered for levies or training taxes rests on the proposition that employers 'free-ride' on the training investments made by other employers. This is said to occur because the returns from training accrue after the costs of training are incurred. Under current funding arrangements most of the up-front costs of training (i.e. the investment component) are paid for by the government through its funding of training providers and the subsidies paid to employers while apprentices and cadets attend block courses. Thus, claims of 'free-riding' in the context of the current system are in practice overstated in our view.
- 4.4 The more general proposition that employers are exposed to substantial 'free-rider' problems needs to take into account the opportunities employers have to protect their investment through various contracting mechanisms. Firms and employees can agree to employment contracts which bond the employee to the organisation for a fixed period of time after training. Early termination of these contracts imposes financial penalties which compensate employers for losses on their investment.
- 4.5 The Employment Contracts Act (ECA) is likely to prove a significant catalyst to worker training. Bonding contracts are likely to be less costly to make and administer under the ECA and may provide more effective protection to employers from 'free-riding' employees if the Employment Court approves their use. Moreover, the ECA promotes greater reliance on cooperation and mutual respect, both of which are likely to be essential for employment relationships involving training. Incentives to stay with the firm can also be fostered by employers offering long-term career prospects, involving progressive increments in pay related largely to experience with the firm. There was less scope for such arrangements under national awards.
- 4.6 The ECA also has the potential to boost industry training by better relating the wages of trainees to their underlying levels of productivity. Previous labour law produced rigid wage relativities enforced by unions with monopoly power. A closer relationship of wages to productivity will shorten the pay-back period on training investments, reduce bonding periods and so improve the flexibility with which resources can be allocated. Wage restructuring also has the potential to increase employment opportunities for trainees.
- 4.7 The potential effect of the discrepancy between trainee wages and productivity should not be underestimated. Apprentices in West Germany and Switzerland earn on average 20 percent of adult pay rates, a level that may well be more realistic than in Australia where they earn 66 percent and in the United Kingdom where the figure is 60 percent. The ratio for New Zealand apprentices was over 50 percent for most trades in 1991.

- 4.8 Levies and training taxes impose a range of economic costs. These are costs similar to those incurred with general taxes, effects on employment relationships and the work/learning environment, and incentives for lobbying to acquire or retain levy powers.
- 4.9 Levies and training taxes have similar economic costs to those associated with general taxation. Such costs include the administration costs incurred by the government, compliance costs on employers, and the effect taxes have on people's willingness to work, to save, to invest and to bear risks. Empirical estimates of these costs at the margin range from \$1.20 for each additional dollar of tax up to \$7 for each additional dollar of tax collected.⁸ Exemptions from levies and training taxes can only add to the costs and complexities of the system. Moreover, it would be expensive for either levy or tax collectors to prevent revenue loss through firms changing the way they pay workers.⁹
- 4.10 Subsidising industry training with levies encourages employers and apprentices to use resources inefficiently. Training investments which were previously unprofitable are expanded as they become profitable. More people are trained with higher levels of skill than are optimal for industry. Subsidies for formal training will lead some employers to substitute formal training in place of on-job training.
- 4.11 Levies and training taxes also reduce employers' incentives to seek appropriate contractual commitments and encourage them to pay less attention to employee loyalty, leading to higher staff turnover than may be optimal. The absence of bonding contracts increases training 'wastage' as workers have less incentive to remain in jobs which they are trained for. Since training will be subsidised, employers will also find it cheaper to use training opportunities to reward workers for performance. Workers will tend to become over-trained for their jobs and higher skilled workers will tend to lose wages relative to average wages.
- 4.12 Levies and training taxes would reduce the responsiveness of ITOs to the needs of the employer and trainee. Incentives to serve their members wane considerably once survival does not depend on attracting members or clients. Information regarding training quality would be limited, causing recognised ITOs to pin their success on quantitative indicators such as numbers of trainees and hours of training. Cheaper courses may be funded at the expense of higher quality. Smaller firms with more specialised training needs may have little influence in getting what they need.

⁸ For a summary of the relevant research see Lindbeck, A.(1986), 'Limits to the Welfare State', *Challenge*, January-February, pp 31-36 and references cited therein. Also see Slemrod, J. (1990), 'Optimal Taxation and Optimal Tax Systems', *Journal of Economic Perspectives*, 4,1, pp 157-178.

⁹ Firms could make some wage payments in the form of fringe benefits or reduce their payroll by subcontracting their work out to 'companies' not covered by the levy. There are probably many other ways which may or may not be expensive to arrange but would certainly be expensive for authorities to effectively police.

- 4.13 Levies also give recognised ITOs an incentive to lobby to acquire or retain levy powers. Money would tend to be spent on publicity, on social functions and on contact time with decision-makers rather than on the provision of training. Head offices would tend to be set up in Wellington rather than located nearer to training needs.
- 4.14 Although the Bill does not impose levies, allowing applications for levies and specifying the criteria they must meet may create the expectation that levies should be imposed, which makes it easier for lobbyists to pursue their cause. Granting the minister of education the power to issue levy regulations makes it harder for the minister to resist intervention than if action had to be taken through an Order in Council. Hence, the Bill creates a strong assumption that levies will be introduced in the new training environment.
- 4.15 These considerations lead the Business Roundtable to recommend that any reference to levies or national training taxes be removed from the legislation. *Accordingly, Part III of the Bill should be deleted.*
- 4.16 If Part III is retained then, in view of the economic harm imposed by levies and training taxes, the criteria specified in the Bill should be strengthened to protect the interests of minority industry members from being dominated by a majority which tries to take more than its share of training services or off-load more than its share of the levy. Applicants for levies should be required to show that all levy payers will benefit in excess of the costs of the levy (that is, positive net benefits should be demonstrated). *We strongly recommend the adoption of a net benefits criterion if Part III of the Bill is retained.*

5.0 The Role of Quality and Performance Assessment

- 5.1 In the current regime ETSA monitors the performance of employers in their provision of on-job training. A district commissioner from ETSA assesses the training capacity of employers and consults with the local apprenticeship committee over the grading to be awarded to the employer. Employers are assessed both on the quality of training they or their staff are capable of providing and in respect of the facilities available for training. These functions are to be progressively transferred to recognised ITOs as they evolve for each industry.
- 5.2 ETSA must be satisfied that training programmes organised by ITOs are, or are going to be, incorporated into the national qualifications system. It also must be satisfied that ITOs have adequate quality and performance monitoring systems. In carrying out these assessments, ETSA would be required to consult the NZQA. Also, all training providers supplying training to recognised ITOs still need to meet the same accreditation and qualification framework requirements under the Bill as they do now.
- 5.3 Apprenticeship committees currently set the content and skill levels for existing apprenticeship courses. That will continue for each committee, unless ETSA approves a recognised ITO to take over these functions. Content and skill levels for any new course or training programme offered by a recognised

ITO are to be decided by that ITO. As occurs now, continuing assessment of course standards and quality is left to peer review among training professionals and pressure from industry organisations and the clients of training providers.

- 5.4 We believe the government is properly requiring ITOs to have certain standards and monitoring systems in place before taxpayer funds are handed over to them. More problematical, however, is the requirement for all training programmes to be incorporated into the national qualifications framework. We believe this should only be included on the basis that competing ITOs (or other industry groups) could not be compelled by the NZQA to reach a common agreement over skill content and standards.
- 5.5 While no agreement is currently required for integration into the qualifications framework,¹⁰ if it did happen it would lead to the content of courses or qualifications being set too broadly and to higher training costs without producing commensurate gains in worker productivity. Both workers and employers would be penalised by such requirements for industry-wide agreements.
- 5.6 Small employers with specialised training needs and small training institutions with narrowly focused training skills would be likely to incur the highest costs if excessively broad training requirements were required. They would be less likely to have staff and facilities capable of producing the skill range and quality required. Larger training organisations - such as the polytechnics - would be less affected to the extent that they already teach a broad range of skills to attract large class sizes and achieve efficiency gains through economies of scale.
- 5.7 Moreover, employers with particular training specifications needed to fully exploit niche markets and niche products may be disadvantaged by requirements for broad-based qualifications. Such disadvantages would be reinforced by restrictions on employers and training providers competing against recognised ITOs for funding from the contestable pool. This could harm the competitiveness of New Zealand industry in markets which are likely to be of growing importance to the New Zealand economy.
- 5.8 The best way to avoid these dangers would be to remove the requirement that training programmes be incorporated into the framework. Moreover, the NZQA should be confined to setting common skill definitions (modules) and quality indexes. Employers and training providers should be completely free to adopt these definitions, issue certificates themselves and offer training without first having to have industry agreement on the programme.
- 5.9 The requirement in the Bill for ITOs to integrate into the qualifications framework is unnecessary since employers face incentives to train workers in a broad range of skills. Narrowly trained employees are less adaptable to

¹⁰ The NZQA does, however, put some pressure on groups to agree to common content requirements if they believe the differences between the groups are mainly ones of style or 'industry politics' rather than substance.

changing needs and it can be costly to continually engage in retraining. Determining the efficient range of skill broadening involves a complex trade-off between additional training costs and better work performance. Trainers are likely to know best the costs of alternative course content and standards while employers know more about the implications for work performance of alternative training arrangements. Training providers develop links with employers and employer organisations to gain a wider industry view of these issues because running highly individualised courses to suit every employer is costly. Council, programme and advisory committees are therefore valued by the polytechnics.

- 5.10 Trainees have incentives to take courses and complete qualifications which lead to certification and enhanced portability. Employers and training providers thus have incentives to offer certified courses and qualifications where these are valued by the trainee. Portability would be enhanced to the extent that common skill definitions and quality indexes reduce the costs of assessing the productivity and know-how of potential employees.
- 5.11 The potential for the NZQA to straitjacket employers into providing training in skill areas of little use needs to be removed. Training costs would be greater than necessary, fewer people would receive training and those who receive training would learn more skills than they are ready to use. *Accordingly, the Business Roundtable recommends that government funding of training programmes be contingent only on accreditation by the NZQA and not be contingent on the programme being integrated into the qualifications framework.*

6.0 Conclusions and Recommendations

- 6.1 The aim of industry training should be to efficiently meet the diverse training needs of employers and workers. This requires a competitive market for the provision and delivery of training services and government policies which do not artificially inhibit access to those services for any users. All manner of collective and collaborative activity should be sanctioned provided undue market power is not created. ITOs will evolve if they are able to efficiently provide intermediary services to their members, just as training providers themselves may offer other forms of collaborative arrangements in competition with ITOs.
- 6.2 The reforms proposed in Part II of the Industry Training Bill are primarily aimed at shifting the decision-making over course design and delivery away from ETSA and in favour of industry owned and led organisations. The potential improvements arising from ITO competition for employer support are likely to be significantly undermined, however, by the priority ETSA is required to give to training programmes which avoid unnecessary duplication and extend training to areas of industry and people not traditionally covered. *Accordingly, the Business Roundtable recommends that government funding is allocated more directly to the users of training - employers and trainees. The next best option is to allow training providers to compete for the contestable pool of funds. In any case, the priority to avoid duplication and extend training programmes to new people and new areas of industry should be deleted from the Bill.*

- 6.3 The argument for levies and training taxes rests on two propositions: (1) that employers are significantly exposed to the risks of trainees 'free-riding' on their investments in training; and (2) that net benefits can be gained from using levies and training taxes to fund training. On both counts the arguments are shown to be weak. *The Business Roundtable therefore recommends that Part III of the Bill be deleted. If Part III is retained then we strongly recommend the adoption of a net benefit criterion in the Bill.*
- 6.4 Performance assessment procedures and quality standards are important to all areas of education and training. Industry training is no different. However, both employers and training providers have incentives to seek standards which they can produce efficiently. The NZQA has a role to play in offering common skill definitions and quality indexes which providers and consumers of training can use at their own discretion. Employers and training providers, however, should not be compelled by the NZQA to reach a common agreement over skill content and standards. Employers and training providers should be free to opt in or out of the qualifications framework. *Accordingly, the Business Roundtable recommends that Part II of the Bill be amended so that ITOs do not have to opt into the national qualifications framework to gain recognition status.*
- 6.5 The Industry Training Bill provides an important opportunity for industry training to better meet the diverse needs of industry and become more dynamic and responsive to changing needs. The Bill has the potential to significantly enhance the competitiveness of New Zealand industry by shifting decision-making over delivery and standards away from government agencies and to the providers and users of training. These gains would be more securely achieved with amendments to the Bill which remove biases against competition, remove the requirement for funding to be contingent on integration (or planned integration) of training into the qualifications framework and remove provisions in the Bill for levies or national training taxes to be established.