



PERFORMANCE AUDIT

17 DECEMBER 2020

One TAFE NSW modernisation program

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled '**One TAFE NSW modernisation program**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford
Auditor-General
17 December 2020

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Section one

One TAFE NSW
modernisation program

Executive summary

TAFE NSW is the public provider of Vocational Education and Training (VET) in New South Wales. In 2018, TAFE NSW enrolled 436,000 students in more than 1,200 courses at around 130 locations across the State.

There have been major policy changes impacting TAFE NSW over the past decade. Under the Smart and Skilled reform, TAFE NSW started to compete with other Registered Training Organisations (RTOs) for a share of the student market.

In 2016, the NSW Government released 'A Vision for TAFE NSW'. The Vision stated that a failure to adapt to market circumstances had left TAFE NSW with unsustainable costs and inefficiencies. To address this, TAFE NSW needed to become more flexible, efficient and competitive. It set out that TAFE NSW must progressively reduce significant cost inefficiencies, including by moving away from a model of separate institutes to a One TAFE NSW model. The NSW Government set TAFE NSW a target to achieve savings through implementing the Vision.

TAFE NSW established the One TAFE NSW modernisation program to deliver on that vision. The program initially aimed to deliver savings of \$250 million per year from 2018–19, but this target was reviewed and updated as the program was being delivered.

This audit assessed whether TAFE NSW effectively managed the One TAFE NSW modernisation program to deliver on the NSW Government's vision for TAFE NSW. In making this assessment, the audit examined whether:

- delivery of the program was well planned
- the program was driven by sound governance arrangements
- TAFE NSW is making progress against the intended outcomes of the program.

The audit focused on the effectiveness of planning, governance and reporting arrangements. It examined five projects within the overall modernisation program as case studies.

Conclusion

The One TAFE NSW modernisation program was an ambitious plan to deliver on the NSW Government's vision for TAFE NSW, while achieving ongoing savings. Several factors contributed to TAFE NSW not effectively managing the program to deliver on planned timeframes and objectives. These factors include unclear expectations of the primary role of TAFE NSW, unrealistic timeframes, undertaking a large number of complex projects concurrently, governance arrangements that were not fit-for-purpose and poor-quality data.

Planning for the modernisation program and its projects was driven by top-down savings targets and pre-determined timeframes. This led to TAFE NSW attempting to deliver a large number of programs concurrently within tight timeframes. Program management capability was underdeveloped at the commencement of the program and this affected the quality of planning for delivery.

There was a lack of clarity around TAFE NSW's primary purpose. Part of the NSW Government's vision for TAFE NSW was for it to be more commercial, competitive and efficient. These objectives were not fully supported by existing legislation. The commercial objectives of the modernisation program conflicted with legislated social objectives for TAFE NSW. TAFE NSW did not have the autonomy to operate like a government-owned business in a market environment. And while TAFE NSW received separate funding to support students facing disadvantage this did not cover the costs of other non-commercial activities undertaken for social purposes, such as delivering uneconomic courses. The role of the TAFE Commission Board was ambiguous during the initial years of the program, which increased reporting requirements and blurred accountabilities for decision-making.

TAFE NSW's Strategic Plan 2016-22 nominated ten key milestones for delivery by January 2019. TAFE NSW has made progress against several important milestones, including that TAFE 'is a single TAFE NSW brand' and has 'industry specific TAFE NSW SkillsPoints'. Other key elements have yet to be delivered, including that TAFE NSW achieves 'integrated enterprise-wide business systems'. Because of delays to projects and higher than expected transition costs, TAFE NSW reported that it did not meet the originally targeted \$250 million in annual savings for 2018-19 (which was reviewed and updated as the program was being delivered).

1. Key findings

Governance arrangements to deliver on the modernisation program were not fit-for-purpose

An important part of the NSW Government's 'Vision for TAFE NSW' was for it to become more commercial, competitive and efficient. These objectives were not fully supported by existing legislation.

TAFE NSW's Strategic Plan 2016-22 set a key milestone for TAFE NSW to be a 'publicly-owned commercial business, at arm's length from government ... and moving towards corporatisation' by 2019. This is not aligned with the *Technical and Further Education Commission Act 1990 (Act)*, which gives the Minister for Skills a considerable degree of control over TAFE NSW.

The role of the TAFE Commission Board was ambiguous. The Act provides for an advisory board with strictly advisory functions. But in 2016 the TAFE Commission Board was directed to act as a governing board. The Ministerial Priorities Implementation Committee was also established as a sub-committee of the Board to oversee the development and delivery of a comprehensive implementation plan for a set of Minister's priorities. This blurred accountabilities for decision-making, created conflicting priorities and increased reporting requirements. There was also duplication in internal governance bodies at a program and project level.

Commercial objectives of the program conflicted with legislated social objectives

The Act defines the purpose of TAFE NSW is to provide technical and further education services that meets the needs of the workforce and industry as well as ensuring access by disadvantaged communities and groups. TAFE NSW receives funding for community service obligations to cover support services for disadvantaged students. This funding does not provide for the cost of delivering uneconomic courses (where costs outweigh revenues) or in uneconomic locations. These social objectives are not a requirement for TAFE NSW's commercial competitors.

Clearer direction around how TAFE NSW should balance the social objectives in the Act with the commercial objectives of the modernisation program would have helped TAFE NSW to set up appropriate governance arrangements to deliver the reform agenda.

In addition, there was limited reporting on spending and performance of non-commercial activities. TAFE NSW regularly reported on the estimated costs of support services for disadvantaged students. However, this is not reported publicly and it does not keep track of the costs of delivering uneconomic courses or in uneconomic locations. There is no regular reporting on the outcomes achieved by these activities.

Complex program within compressed timeframes increased implementation risks

The One TAFE NSW reform was a complex program that involved merging ten TAFE institutes into one registered training organisation, moving towards corporatisation, establishing new enterprise-wide business systems, standardising courses, creating a single digital service, restructuring the back office and expanding in overseas markets. All this was expected to be completed within three years while delivering ongoing savings and maintaining service delivery.

Initial program timeframes assumed rapid implementation. In practice, this meant that TAFE NSW managed multiple projects simultaneously. This put pressure on senior management attention, project management resources and subject matter experts needed to ensure projects met business needs. These factors increased the risk to successful implementation of the reform.

Planning for successful delivery of the modernisation program was not effective

TAFE NSW did not have a clear understanding of the initial state of the organisation and the complexity of the transformation task before committing to projects. In several cases, business cases were developed after announcements had been made and savings targets were set. This contributed to poor quality information on targeted savings in business cases, rather than rigorous analysis of the benefits that programs could realistically deliver. The compressed timeframes for delivery placed pressure on devoting adequate time to detailed planning.

The modernisation program also did not sufficiently consider whether TAFE NSW had the necessary capacity and capability to undertake many large-scale programs concurrently. Project management capability was underdeveloped at the critical set-up phase of the program. It improved over time but by that stage most projects had already moved into the delivery phase.

TAFE NSW has made progress on the reform, but not to initial timeframes

The Strategic Plan 2016-22 nominated January 2019 as a key milestone to deliver key projects. Progress was made on some elements including creating a single Registered Training Organisation and establishing SkillsPoints locations. However, other key elements are yet to be fully delivered, including the new Student Management Services system.

TAFE NSW reported it did not meet its initial savings target of \$250 million per annum by 2018–19 (which was reviewed and updated as the program was being delivered). TAFE NSW estimated that it had achieved \$84.0 million in annual savings in 2018–19 and \$155 million in 2019–20. It anticipates that benefits from other projects will be progressively realised, which will increase savings in coming years. This audit did not validate the accuracy of these reported savings attributed to the program.

2. Recommendations

By December 2021, TAFE NSW should:

1. Improve governance arrangements for delivering on commercial objectives by:
 - a) seeking clarification from Government on the primary purpose of TAFE NSW and how TAFE NSW should balance social and commercial objectives
 - b) removing any remaining ambiguity about the role of the Board
2. Improve reporting of financial and non-financial measures for non-commercial activities by:
 - a) enhancing the quality of data on non-commercial activities
 - b) expanding non-financial measures to assess performance of non-commercial activities
 - c) publicly reporting on spending and performance of non-commercial activities
 - d) publicly reporting on community services obligations funding and expenditure.

3. Lessons learned for future transformation programs

Agencies planning transformation programs should consider the following lessons:

1. Consider how the objectives of the transformation fit within relevant legal frameworks and governance arrangements.
2. Ensure that enough time is set aside for planning the transformation program, including development of robust business cases before execution and assessing the readiness of the organisation for change.
3. Consider whether the organisation has the capacity to implement the required scale of change, including establishing a program management office with adequate capability and resourcing to manage the program.
4. Consider the best approach to sequencing projects to avoid too many projects being delivered concurrently and identify project inter-dependencies early.
5. Reaffirm initial target benefits and timelines once detailed planning has been completed.
6. Ensure benefit realisation plans are in place at the beginning of the program, define clear ownership of benefits, and are followed through to business-as-usual operations.
7. Identify and clarify the purpose of governance to ensure responsibilities are clear and understood and that multiple committees do not duplicate efforts.

1. Introduction

1.1 TAFE NSW's role and objectives

TAFE NSW is the NSW Government's public provider of Vocational Education and Training (VET). It is established by the *Technical and Further Education Commission Act 1990* (Act) as a statutory body representing the Crown. The Act describes a range of functions that TAFE NSW is to perform including:

- providing technical and further education services to meet the skill needs of individuals and the workforce
- consulting with industry and the community to ensure technical and further education services are relevant to industry, business, students and other groups
- providing educationally or vocationally disadvantaged groups with access to technical and further education and other specialised services.

Prior to 2019, TAFE NSW operated as a network of ten institutes. Four institutes were in the Sydney metropolitan area and six were in regional areas. The Open Training and Education Network also provided distance education. From 1 January 2019, TAFE NSW operated as one Registered Training Organisation.

The number of enrolments at TAFE NSW increased from 424,000 in 2015 to 436,000 in 2018. Students were enrolled in over 1,200 courses ranging from short courses and skill sets to Graduate Diploma qualifications. To deliver its services at around 130 locations across the State, TAFE NSW employed approximately 5,800 teachers and 4,300 support staff (Full Time Equivalent) in 2019.

1.2 TAFE NSW operates in a semi-contestable market

In 2012, governments across Australia entered into a new National Partnership Agreement on Skills Reform (National Partnership). Under this National Partnership, the Australian Government provided incentive payments to States and Territories to introduce greater contestability in the VET market. The aim of the National Partnership was to foster a more accessible, transparent, efficient and high-quality training sector that is responsive to the needs of students and industry.

Smart and Skilled is a NSW Government program introduced in January 2015 in response to the National Partnership. The program represents a move towards a demand-driven and contestable funding model, where demand for training dictates government spending and students choose their preferred training provider. The introduction of Smart and Skilled was a major change to the way VET is funded and delivered in New South Wales.

Following the introduction of Smart and Skilled in 2015, the NSW Government commissioned an external consulting firm to report on TAFE NSW's competitive position within the VET market. This report found that TAFE NSW's unit costs were around 60 per cent above other TAFEs. It identified high teaching salaries, low teaching hours, low asset utilisation and duplicative administrative functions as issues that would expose TAFE NSW to competition from private providers.

1.3 The NSW Government's vision for TAFE NSW

On 13 July 2016, the then Minister for Skills released the NSW Government Vision for TAFE NSW (Vision). The Vision sets out the expectations for TAFE NSW and the role it will play in the competitive environment. The expectations are to:

- increase capacity to support more students in qualifications that lead to jobs
- provide better learning outcomes for students by investing in modern, relevant delivery platforms that utilise state-of-the-art technology
- offer greater flexibility and convenience in course delivery without compromising on the quality of training
- be a significant provider in regional NSW, thin markets, and to people facing disadvantage
- adopt robust corporate governance practices
- become more efficient and commercial with stronger public financial accountability.

The Vision argued that the autonomous institute structure created duplication of functions and systems across the state, leading to increased operating costs. It stated that TAFE NSW must move to a One TAFE NSW model that enhances sharing of resources, assets and knowledge.

Other actions flagged in the Vision included for TAFE NSW to:

- negotiate new industrial agreements to increase workforce productivity
- accelerate investment in a modern, blended training framework to provide greater flexibility
- accelerate its asset investment program and upgrade existing centres to support the latest technology
- deliver a new digital headquarters to bring together multiple online platforms
- provide greater accessibility to training for more people in regional NSW
- seek opportunities to grow commercial revenue.

Consistent with the Vision, the NSW Government set an overall savings target for TAFE NSW to achieve. It committed to reinvesting savings achieved through the reform program in the overall NSW Skills budget and reinvestment of the proceeds of any asset sales into new facilities.

1.4 TAFE NSW Strategic Plan 2016-22

In response to the Vision, TAFE NSW released the Strategic Plan 2016-22 in September 2016. It set out four strategic goals:

- Goal 1. Skill the State's workforce of the future as the provider of choice.
- Goal 2. Be a contemporary, commercial and sustainable business.
- Goal 3. Serve our local communities.
- Goal 4. Develop a customer-driven, proud and productive TAFE NSW team.

It also sets out ten key milestones that by January 2019, TAFE NSW:

1. is a versatile publicly-owned commercial business, moving towards corporatisation
2. is a single TAFE NSW brand
3. has education delivered where, how and when learners want
4. has a single point of contact for industry and is able to rapidly design and deliver training to meet industry's needs
5. is an efficient and competitive business, underpinned by integrated enterprise-wide systems
6. has industry specific SkillsPoints responsible for creating and maintaining learning products
7. has consistent and in-demand courses that meet and exceed customer expectations
8. is the employer of choice for leaders, teachers and administrators
9. is a significant contributor to regional NSW including establishing a single digital business
10. has an expanding and well-coordinated competitive presence overseas.

1.5 The One TAFE NSW modernisation program

TAFE NSW developed the Modernisation Portfolio at the same time as the Strategic Plan 2016-22. The Modernisation Portfolio aimed to achieve the strategic goals and priority initiatives listed in the Strategic Plan. It initially set an overall target to achieve \$250 million in annual savings by June 2019. TAFE NSW later reviewed and updated the timing for this target.

The Modernisation Portfolio was officially launched in October 2016 and included a high-level roadmap. At that time, the portfolio comprised 49 projects within 16 programs across five workstreams (Exhibit 1).

The objectives and savings targets of the workstreams were:

- **Organisation** - implement the One TAFE NSW operating model to efficiently deliver customer centric services and support staff with \$115 million annual savings by June 2019
- **Assets** - improve the utilisation of assets and systems to support staff with \$5.0 million annual savings by June 2019
- **Procurement** - improve the prudence and efficiency of procurement with \$60.0 million annual savings by June 2019
- **Delivery** - deliver training efficiently with \$70.0 million annual savings by June 2019
- **Growth** - grow TAFE NSW's market share with \$50.0 million annual additional net revenue by June 2019.

Exhibit 1: Modernisation workstreams and programs as at October 2016

Organisation	Assets	Procurement	Delivery	Growth
Corporate office	Property	Tactical Sourcing	TAFE Digital	Marketing and Sales Conversion
Regional Business Units	DoE Transition	Strategic Sourcing	Course Optimisation	Customer Retention
Organisational Health	Student Management Services		TAFE International	New Products and Markets
	Institute Systems Consolidation		SkillsPoints	

Note: Bolded programs were examined as case studies for the audit. The audit also examined the Connected Learning Centres program which was added later to the modernisation portfolio.

Source: Audit Office analysis of TAFE NSW documents.

2. Planning for successful delivery

2.1 Setting program objectives and timelines

Tight timeframes increased the risks to successful implementation of the reform

The TAFE NSW Strategic Plan 2016-22 aimed for rapid implementation. At an overall level, it described what it hoped to achieve by January 2019 (two years and three months). This timeframe was ambitious in that it included outcomes such as 'moving towards corporatisation', 'integrated enterprise-wide business systems', and an 'expanding and well-coordinated competitive presence overseas'. As an example, the new Student Management System was initially targeted to be delivered within one year, before more detailed planning was undertaken.

TAFE NSW progressively developed its plans for the Modernisation Program from January 2016. While more time was given to extract TAFE NSW systems from the Department of Education, timelines for other projects were accelerated prior to the official launch in October 2016 (Exhibit 2).

Meeting such timeframes meant that many projects started at once. At commencement of the reform, 18 of the 19 programs were set to start immediately and be completed by 1 July 2018. Running multiple programs at the same time reduced the amount of time management could focus on any particular issue. The compressed and concurrent approach to delivery also did not give TAFE NSW capacity to deal with unexpected events. These factors combined to increase the risks to successful implementation of the modernisation program.

Exhibit 2: Timeframes for key programs

Program	Timeframe as at August 2016	Timeframe as at October 2016
Corporate office program	July 2018	January 2018
Regional business units	July 2018	January 2018
DoE extraction	December 2016	January 2018
Student Management System	September 2017- July 2018	January 2018 (Release 1)
TAFE Digital	July 2018	January 2018
SkillsPoints	July 2018	July 2017

Source: Audit Office analysis of TAFE NSW documents.

Updates to the strategic and operational plans were prepared but never approved

The 2016-22 Strategic Plan set out milestones publicly to deliver the modernisation program. As circumstances changed, TAFE NSW adjusted milestones to deliver the program. It prepared an update to the annual business plan in April 2017 and an update to the overarching Strategic Plan in April 2018, but these were never finalised. Working to multiple versions of strategic and operational plans hampered accountability for delivery.

Setting a date to review and update the Strategic Plan could have better allowed TAFE NSW to respond to changing circumstances. Public reporting on performance against the Strategic Plan would have improved transparency.

The Act requires TAFE NSW to prepare and deliver to the Minister a completed corporate plan before the beginning of each financial year. The corporate plan must specify:

- the separate activities of TAFE NSW and, in particular, separate commercial and non-commercial activities
- the objectives of each such separate activity for the upcoming year and future years
- the strategies, policies and budgets for achieving those objectives
- targets and criteria for assessing the performance of TAFE NSW.

On 24 August 2017, the TAFE Commission Board endorsed the 2017–18 Annual Business Plan and Statement of Business Intent to be submitted to NSW Treasury and the then Assistant Minister for Skills. TAFE NSW reported that it received an exemption from Treasury on needing to submit the Statement of Business Intent for 2018–19 and 2019–20.

TAFE NSW advised it has now approved a two-year operating plan to complete the One TAFE NSW modernisation program.

2.2 Strategy to implement the program

Program management capability was immature at the commencement of the program

Organisation-wide transformation programs are inherently complex and require a high level of program management capability to set the program up for success. The One TAFE NSW modernisation program was an extensive change program and was to be delivered within short timeframes. TAFE NSW faced shortcomings in capacity and capability in its Portfolio Management Office (PMO) resources during the critical phases of program set up in 2016 (Exhibit 3). It is important to have necessary capability in early stages of a transformation program to ensure:

- consistency in processes and project documentation
- required processes and steps for project delivery are taken
- quality assurance of project reporting to increase the accuracy of information
- management has visibility of the entire portfolio for strategic level decision-making
- project managers and teams can be educated on standard approaches, better practices, lessons learned, and risk mitigation
- shared project knowledge and organisational understanding (which is particularly important when project management is outsourced).

Exhibit 3: Shortcomings with program management capability

Timeline of issues with program management capability

- January 2016 - TAFE NSW starts planning for the modernisation program and establishes a PMO to oversee workstreams, timelines and deliverables. An external consultancy firm is engaged to develop PMO capability during the 'set-up' phase (up to June 2016).
- June 2016 - TAFE NSW management reports on turnover in the PMO and that lack of resources is constraining the speed of the modernisation portfolio.
- Early-July 2016 - TAFE NSW conducts an internal review and assesses that the PMO is 'very immature' in its capability. The PMO transitions from the external consultancy firm to an acting internal resource while recruitment is underway. A six-week remediation program is set to 'properly launch' the portfolio. Management is again advised that momentum is being held back by a lack of capacity and capability.
- Mid-July 2016 - the 'set-up' phase of the portfolio is extended from June to September 2016. Management advises the TAFE Commission Board of 27 vacancies in the PMO and this, along with slow recruitment times, is constraining detailed planning and putting key timelines at risk.
- 26 October 2016 - the modernisation portfolio is officially launched by the Managing Director.
- 8 December 2016 - a new General Manager is appointed to lead the PMO from 16 January 2017. Management advises the TAFE Commission Board there has been insufficient planning for the modernisation portfolio, which has led to a poor understanding of program interdependencies.
- 13 February 2017 - following the appointment of the new General Manager, management advises of known deficiencies in structure, process and controls in the PMO. An external assurance review is commissioned to establish a baseline and make recommendations for enhanced portfolio delivery.
- 4 April 2017 - management considers the external review. It responds that it will use the findings of the review with findings from other sources to develop a 12-month plan to uplift PMO maturity.

Source: Audit Office Analysis of TAFE NSW documents.

TAFE NSW did not have a clear understanding of the current state when commencing programs

Understanding the current state is an important element of transformation programs. If the current systems, processes and environment of an organisation are not well understood, it is difficult to determine what is needed to achieve the future state and estimate the benefits of the proposed change. It also increases the risk of 'scope creep' as organisations uncover legacy issues, leading to an increase in program complexity and costs.

The consolidation of ten separate institutes into one was a clear driver of the modernisation program. However, TAFE NSW did not undertake detailed analysis of the existing state of courses, systems and processes across the ten institutes. This meant TAFE NSW committed to timeframes and benefits without fully understanding its baseline, nor how achievable these timeframes and benefits would be.

The SkillsPoints program was anticipated to achieve \$72.0 million in annual savings within three years through centralised development and maintenance of course materials. This accounted for around 30 per cent of the total savings target for the Modernisation Program. Achieving benefits quickly depended on identifying best practice from existing course materials. By late 2018, TAFE NSW found that course material was unsuitable for consolidation in its current form and required significantly more development to be used as the standard state-wide (Exhibit 4). This eroded targeted benefits from \$72.0 million to \$7.5 million in 2019–20.

Exhibit 4: Product quality issues found during delivery of SkillsPoints program

Timeline of discovery of issues with product quality

- 1 November 2016 - Executive Leadership Team endorses SkillsPoints functions and model, assuming it will 'leverage existing educational excellence and build further best practice teaching and learning'.
- 6 February 2017 - Program Initiate Request approved. The request notes that the program will 'identify existing training products at a local level that can be scaled across TAFE NSW'.
- 2 May 2017 - Business Case approved. The key objectives of the program are to reduce the cost and improve the quality of course design and development. Savings are forecast through consolidation of duplicated courses. 'Compliance and Standards' are placed outside the scope of the project.
- 30 June 2017 - Australian Skills Quality Agency (ASQA) releases a report raising concerns about the prevalence of unduly short VET courses across Registered Training Organisations nationally.
- 19 September 2017 - TAFE NSW senior management is briefed on the ASQA report. The brief notes extensive variation across TAFE NSW in delivery hours in areas that ASQA considers are at 'high risk' of unduly short training. Implementing the ASQA recommendations will require more time and resources to prepare TAFE NSW-wide consistent training and assessment strategies. SkillsPoints will be responsible for this but costs are unknown until they are operational.
- December 2017 - Benefits Realisation Plan confirms underpinning assumptions through workshops with delegates in each region. 'Compliance and Standards' remain out of scope of the program.
- 6 February 2018 - Project Management Plan for 'Product Catalogue' project approved. The project aims to develop a register of resources that meet agreed quality standards for use by SkillsPoints by June 2018. The plan raises significant constraints to successful delivery of the project:
 - the project depends on teachers giving their own time to organise and submit resources
 - most submissions will not be reviewed or will only be self-reviewed by contributors
 - the review criteria are a set of high-level guidelines, subject to interpretation.
- 23 July 2018 - Post Implementation Review completed as the project is handed over to business as usual. Review finds project planning and execution were done concurrently due to time pressure. This resulted in three months spent by subject matter experts on activities that were not used by the project.
- 2 November 2018 - ASQA conducts a renewal audit of TAFE NSW. Initial observations raise concerns with the duration of course delivery, inadequate resources and assessment tools for some courses.
- 6 December 2018 - Program Management Office reports that cost savings in the business case are unlikely to be achieved. Product consolidation exposed numerous issues driving up unplanned product remediation costs. Forecast savings are reduced from \$72.0 million to \$7.5 million for 2019–20.
- January 2019 - TAFE NSW develops a 'Quality Assurance Strategy' in response to the ASQA findings. The strategy aims to address systemic cultural and organisational issues. There are ongoing cost increases in delivery, capability development of teachers and process and system improvements.
- 18 September 2019 - ASQA renews the registration of TAFE NSW as a single RTO for seven years.

Source: Audit Office Analysis of TAFE NSW documents.

2.3 Quality of business cases

There were several shortcomings in project business cases

Business cases are a key tool to ensure that public funds are spent in the most efficient way and are directed to services that provide the best outcomes for the people of NSW. Shortcomings in project business cases we examined have limited TAFE NSW's ability to make evidence-based investment decisions.

NSW Government Business Case Guidelines indicate that business cases should make a clear case for change and consider service delivery alternatives. Further, it is important that all critical assumptions be made explicit and be supported by evidence.

The base case scenario of no change was presented in all five programs we examined. However, genuine consideration of options was not evident. Relatively short delivery timeframes were already announced for some projects before the business case was prepared. This limited the attention placed on developing a full set of options. In most cases only one alternative was presented compared to the base case.

Business cases were presented separately for capital and recurrent components for the Connected Learning Centres, SkillsPoints, TAFE Digital and Corporate Office programs. Presenting business cases separately does not give decision-makers a complete view of the total project costs. Planning for projects separately also creates risks that interdependencies will be missed.

Where time is limited, it is particularly important that business cases do not present an overly optimistic view of what may happen. Risks can be reduced, and assumptions challenged, by consulting with program stakeholders and industry specialists in the early stages of planning. This helps to gain a full understanding of the issues and develop realistic assumptions about what can be achieved within the expected timeframes.

3. Governance arrangements

3.1 Authorising environment to deliver the reform

There is a lack of clarity around TAFE NSW's primary purpose

The NSW Government expects TAFE NSW to operate on a more commercial basis while at the same time continuing to deliver on a broad range of social commitments. However, commercial and social objectives conflict with each other at times. In attempting to achieve its social commitments as a public provider of Vocational Education and Training, TAFE NSW is sometimes required to act in ways that detract from its commercial objectives. For example, the Act requires TAFE NSW to provide certain disadvantaged groups, such as people in rural areas, with access to technical and further education services. A commercial provider may find the number of learners in these areas too small to justify its presence in the region.

A 'Vision for TAFE NSW' outlined the government policy for the One TAFE NSW modernisation program. Among other things, it expected TAFE NSW to:

- become more efficient and commercial with stronger public financial accountability
- be a significant provider in regional NSW and to people facing disadvantage
- provide training for the jobs of the future and in areas of high demand.

The commercial focus was also reflected in TAFE NSW's strategic plan 2016-22, which stated that 'By January 2019, TAFE NSW is a versatile and standardised publicly-owned commercial business, at arm's length from Government'.

That said, there was no clear guidance on how to balance or prioritise these competing objectives. Without clarity as to the primary purpose of TAFE NSW, it is difficult to put in place the appropriate accountability and control arrangements to support TAFE NSW achieve its objectives.

Legislation didn't support the required governance arrangements for TAFE NSW to deliver on its commercial objectives

The NSW Government's 'Vision for TAFE NSW' was for it to transition to a competitive, financially sustainable government-owned education business.

There are, however, constraints in TAFE NSW's autonomy to operate like a government business in a market environment. Government-owned businesses require a greater degree of independence from the executive government to deliver on their commercial objectives. According to the NSW Public Sector Governance Framework, a lower degree of Ministerial direction and control enables more accurate costing of their functions and improves their ability to compete in the market. Government businesses also have a greater degree of financial flexibility to respond to changing market conditions.

The Act grants the responsible Minister broad powers to direct TAFE NSW. Specifically, it states:

- the Managing Director is responsible for managing the affairs of TAFE NSW, subject to any direction from the Minister
- the TAFE NSW is, in the exercise of its functions, subject to the control and direction of the Minister
- the Minister is also granted authority to perform certain functions. This includes the acquisition and disposal of land.

In addition, the legislation defines several social commitments TAFE NSW is required to meet in delivering Vocational Education and Training services.

Government directives affected TAFE NSW's ability to achieve savings within agreed timeframes

Under Section 9 of the Act, TAFE NSW is subject to the control and direction of the Minister. On occasion, Ministerial directives altered the program's timeframes. For example, a Ministerial Directive for no forced staff exits impacted timeframes for the Corporate Office program, speeding up part of the program and delaying others.

The January 2017 business case for the Corporate Office program forecast annual staff savings of \$57.7 million from 2018–19 onwards. To achieve this, it set a cascading set of milestones across six groups of employees to be finalised by 30 April 2018.

Management reported on 23 March 2017 that the NSW Government did not want any impacts to occur after December 2017. This necessitated altering the planned schedule to accelerate change for groups of employees that had already commenced the restructuring process before a 'pause' in the program during 2018–19 and then recommencing from 2019–20. Compressing the program timeframe for the first groups of employees added risks to successful delivery, increased complexity of organisational structures and contributed to delayed savings for the program.

Delayed savings from this program meant that TAFE NSW had to rely more heavily on short-term initiatives outside the modernisation program to meet its savings target. This included placing a freeze on some recruitment and reducing reliance on contractors. While initiatives such as freezing recruitment may reduce expenses in the short-term, they can create resourcing risks in areas where specialised skills are required to deliver the business and put a strain on existing employees.

Not all activities and projects undertaken for non-commercial purposes were funded from community service obligations

TAFE NSW undertakes a range of activities to meet its social commitments in line with its legislated mandate. For example, it is required to 'provide educationally or vocationally disadvantaged groups with access to technical and further education services, including a range of appropriate specialised services'.

TAFE NSW receives separate funding to support students facing disadvantage through Community Services Obligations. But this funding does not cover the costs of other non-commercial activities undertaken for social purposes, such as delivering uneconomic courses or in uneconomic locations. For example, the Connected Learning Centre business case was approved on the basis of delivering social objectives rather than a purely financial basis.

Without clarity about activities undertaken for non-commercial purposes, it is difficult to know if enough funding has been set aside to cover the costs of these activities. This increases the risk that courses delivered under commercial terms are priced higher to offset the costs of services provided to pursue social objectives. Higher priced courses can hinder TAFE NSW's ability to operate successfully in a contestable market.

Despite being an advisory board, the TAFE Commission Board acted as if it had a decision-making role

The TAFE Commission Board was established by legislation as an advisory board to review and make recommendations to the Minister, but not to take responsibility for operational decisions. Its purpose, as defined under Section 12 of the Act, is to make recommendations directly to the Minister on policies, strategic planning, the efficiency and effectiveness of TAFE NSW operations.

At times, the TAFE Commission Board was closely involved in day-to-day workings of the business. This impacted on its ability to provide independent advice to the Minister and effective oversight of TAFE NSW's operations. For example, in April 2017 the Managing Director tabled a paper on transition options for the planned One TAFE NSW structural changes. Non-executive directors unanimously endorsed an option bringing forward the timing of the restructure, despite acknowledging that management expressed concerns regarding that option.

The then Assistant Minister for Skills also directed the Board Chairman to form a sub-committee of the TAFE Commission Board, the Ministerial Priorities Implementation Committee (MPIC), to endorse an implementation plan for Ministerial priorities. Some members of the board expressed concerns 'given the MPIC appeared to function in the capacity of a management committee and that it was inappropriate for members of an advisory board to be members of MPIC given it appeared to be involved in management and operational matters'.

Further, in 2016 the then Minister for Skills requested that the TAFE Commission Board 'approach its duties as if it was a governing board', in contradiction to its legislated function. In contrast to having a purely advisory function, governing boards have decision-making authority in relation to the management of their entity.

On occasions, the Board acted as if it had authority to approve plans prepared by TAFE NSW. For example, in May 2018 the Board approved updated milestones for inclusion in a reissued strategic plan prepared by TAFE NSW. This is inconsistent with its legislated remit of being an advisory board.

Well-defined roles, accountabilities and responsibilities are an essential element of good governance. Confusion about the respective roles, powers and responsibilities of boards and executive management creates ambiguity and increases the risk of inconsistent decision-making.

Governance arrangements for the modernisation program were complex and duplicative

To manage program risks, TAFE NSW established several committees to oversee the modernisation program, including the Portfolio Steering Committee, Portfolio Design Authority, Workstream Steering Committees, and Program/Project Control Boards/Groups. These were in addition to the oversight role played by the TAFE Commission Board, the Ministerial Priorities Implementation Committee and the Investment Committee of the Board (Exhibit 5).

TAFE NSW also established a Portfolio Management Office to oversee the reform program.

Boards and committees can play an important role in monitoring performance and providing input into decision making. On the other hand, unnecessary layers of governance can hinder effective program administration. It is important for organisations to ensure that the number of committees is not excessive, and that each committee is adding value.

Some committees overlapped in function. For example, the Portfolio Steering Committee and Organisation Design Steering Committee had a role in overseeing the design of corporate office functions as well as making key decisions about the program. Duplication creates inefficiencies, blurs responsibilities and creates a risk that decisions will not be made in a timely manner.

Exhibit 5: Boards and committees involved in the modernisation program

Name	Responsibilities	Frequency of meetings
Portfolio Steering Committee	<ul style="list-style-type: none"> Steering decision making and problem solving for the Modernisation Portfolio Escalation of portfolio level issues for matters referred from the Workstream Committee Accountable for portfolio oversight and ensuring strategic alignment of initiatives Makes key organisational/commercial decisions for the portfolio. 	Monthly
Portfolio Design Authority	<ul style="list-style-type: none"> Assess projects for strategic alignment Approve/allocate program and project funding Ensures projects progress through the lifecycle with appropriate documentation at each stage gate Ensures customer focus in development, design and implementation by assessing and approving documents Review change requests that may materially impact the delivery of the roadmap, target operating model and realisation of benefits. 	Monthly (fortnightly if required)
Portfolio Management Office	<ul style="list-style-type: none"> Quality assurance, review and feedback of program/project documentation and reports Governance coordination and portfolio level reporting. 	Ongoing
Workstream Steering Committees	<ul style="list-style-type: none"> Resolves escalated program-level issues Makes decisions to ensure timely progress. 	Monthly (fortnightly if required)
Program/Project Control Boards/Groups	<ul style="list-style-type: none"> Regular status reporting Escalation to Workstream Steering Committees Provide insight and guidance and inform program decision making for the relevant Workstream Steering Committees. 	Monthly
Ministerial Priorities Implementation Committee	<ul style="list-style-type: none"> Oversees the development and delivery of a comprehensive implementation plan for a set of Minister's priorities (covering major aspects of the One TAFE NSW modernisation program). 	Weekly/ Fortnightly
Investment Committee (of the Board)	<ul style="list-style-type: none"> Reviews the annual Total Asset Management (TAM) plan Reviews needs analysis and business cases for capital projects Reviews and monitors the appropriateness of capital project management practices, divestments, and establishment of the Connected Learning Strategy. 	As required
TAFE Commission Board	<ul style="list-style-type: none"> Reviews and makes recommendations to the Minister on Policies, strategic planning, the efficiency and effectiveness of TAFE NSW operations and management and TAFE NSW's commercial activities. 	Monthly

Source: Audit Office analysis of TAFE NSW documents.

All committees had senior representation to allow effective decision-making. However, they were not independent from each other, with several executives sitting on the Portfolio Steering Committee, the Portfolio Design Authority, and on Workstream Steering Committees. This limited their ability to provide independent oversight.

An internal review in March 2018 recommended that TAFE NSW consider consolidating workstream steering committees and program control boards to reduce the burden of developing and running governance meetings. The review also recommended that the terms of reference of the Portfolio Steering Committee and Portfolio Design Authority be reviewed to remove overlap.

In 2020, TAFE NSW advised that it has reviewed internal governance arrangements to streamline arrangements and eliminate duplication. In particular, it has dissolved the following committees:

- Portfolio Design Authority
- Investment Committee (of the Board)
- Ministerial Priorities Implementation Committee (of the Board).

In addition, TAFE NSW advised that the Workstream Steering Committees and Portfolio Steering Committee have also been rationalised to a single investment committee.

3.2 Prioritising programs and projects

Financial savings targets drove the selection and initial timing of modernisation projects

The NSW Government's 'Vision for TAFE NSW' outlined that it must 'progressively remove significant cost inefficiencies that have accumulated over decades'. At that time, an external consulting firm conducted a benchmarking exercise of TAFE NSW against other public and private providers to estimate its level of inefficiency. The results of this study were used to set a top-down savings target for the modernisation program. The lack of detailed analysis in setting savings targets created risks to determining whether targets were feasible and could be implemented without impacting on service delivery.

The Strategic Plan identified cost reduction objectives in broad terms. For example, 'reducing duplication', 'increasing efficiency', and being 'a commercial and sustainable business'. The capacity to make savings was a key factor for selecting projects as the cost reduction objectives were a high priority. This focus risked achievement of other objectives to improve quality of courses, expand access to services across regional and remote areas, and provide inclusive and accessible services.

Business cases were not always used to drive investment decisions

TAFE NSW completed business cases for modernisation projects, but several were prepared after in-principle decisions had already been made. For example:

- the 2016-22 Strategic Plan announced the concept of SkillsPoints and TAFE Digital before business cases were prepared for these programs
- business cases for Connected Learning Centres at Quirindi, Coonabarabran, Glen Innes and Tenterfield were prepared following a NSW Government announcement in July 2016 that 12 centres would be established, with the first four completed by June 2017
- the selection of Armidale as the location of the TAFE Digital Headquarters was announced by the then Minister in September 2016, before a business case for the program was prepared in May 2017.

In May 2017, an internal oversight committee raised concerns on the number of initiatives which were already in execution that had not completed a business case. An assessment of the portfolio at that time found less than 30 per cent of projects had an approved business case.

Business cases are a key tool to inform evidence-based investment decisions by government. They should contain analyses of the costs, benefits, risks and assumptions of various investment and policy options to achieve a desired outcome. NSW Government business case guidelines indicate that it is good practice to prepare a business case before a decision is made.

4. Tracking progress

4.1 Performance reporting framework

Progress was regularly reported to management, the Board and the Minister

From June 2016, the Portfolio Management Office prepared monthly reports on progress to management, the TAFE Commission Board and the Minister. This was important to give key stakeholders enough information to enable them to make timely decisions at a portfolio level. Over different iterations progress reports covered things such as project budgets, costs, benefits, schedules, status updates, key issues and risks, and 'Ministerial announceables'. They also regularly reported on whether TAFE NSW was on track to meet portfolio-wide savings targets.

From May 2017 to January 2020, the Portfolio Management Office prepared weekly or fortnightly reports on modernisation projects for the Ministerial Priorities Implementation Committee. They had more detail on 'Ministerial announceables', upcoming milestones, and key risks.

TAFE NSW made changes to its reporting arrangements following two internal reviews. The Portfolio Management Office standardised project reporting and created a central repository for program data in response to a recommendation from the first review in March 2017. The frequency of program reporting was reduced from weekly to fortnightly with 'Project on a Page' reports in response to a recommendation from the second review in March 2018.

Modernisation savings are tracking significantly below original targets and timeframes

The 2016–17 Annual Business Plan set a target to deliver \$250 million in annual savings by 2018–19. This would contribute to achieving the overall savings target set by the NSW Government. TAFE NSW reported against this timeframe up to late 2017, when it reviewed the projected benefits of the portfolio and deferred achievement of the \$250 million target to 2019–20. The savings target continued to be reviewed and updated through delivery of the program.

TAFE NSW did not achieve the \$250 million savings target for 2018–19 or 2019–20. It reported \$84.0 million in savings for 2018–19 and \$155 million in savings for 2019–20.

Program delays and higher than expected transition costs contributed to lower savings. For example, TAFE NSW reported savings for 2019–20 would be significantly lower than planned in the 'Organisation' workstream (\$60.7 million against a \$115 million target) and 'Delivery' workstream (no savings against a \$70.0 million target). Delays to the SMS program 'go-live' date also reduced forecast benefits over ten years to 2026–27 from \$970.6 million to \$838.4 million.

Procurement savings were a significant contributor to reported savings in 2018–19 (around 50 per cent) and 2019–20 (around 60 per cent). TAFE NSW advised that a significant portion of these savings are unsustainable, therefore ongoing procurement savings are forecasted to be lower in future years.

There was insufficient reporting against the strategic goal to 'be a contemporary, commercial and sustainable business'

Setting and reporting against a balanced set of key performance indicators is important to monitor whether progress is being made against the overall objectives of a transformation program. The TAFE NSW Strategic Plan 2016–22 listed four overarching goals for the organisation. The 2016–17 Annual Business Plan listed 21 key performance indicators to monitor progress on these four goals. 19 of the key performance indicators identified baselines and measurable targets. One indicator was listed as 'TBC' and the second did not identify a baseline.

TAFE NSW started reporting to its Executive Leadership Team and the TAFE Commission Board on key performance indicators from its annual business plans from March 2018. However, there was only partial information reported for efficiency measures under the goal 'to be a contemporary, commercial and sustainable business'. The delayed start and partial reporting prevented senior management from having a complete picture of progress towards this key strategic goal.

TAFE NSW reported on key performance indicators for three of the four strategic goals in its annual reports but did not disclose targets. Over the life of the program, TAFE NSW did not publicly report any information on key performance indicators for its goal to be a contemporary, commercial and sustainable business. This limited transparency of progress as this goal was most strongly aligned to the objectives of the modernisation program.

There is limited public reporting on spending and performance of non-commercial activities

The NSW Government vision for TAFE NSW outlined the organisation would be transparent and accountable for Community Service Obligation (CSO) funding it receives. Transparency is important to promote confidence in the public sector.

TAFE NSW receives CSO funding in recognition of its legislated obligations to provide those experiencing disadvantage with access to 'technical and further education services, including a range of appropriate specialised services'. These services include foundational skills development, counselling, mentoring, career services, access to study facilities and other specialist support services.

The TAFE NSW Annual Report for 2018–19 does not identify the amount of CSO funding received and only provides limited information on how funding is used to support those facing disadvantage. The report identifies the number of course enrolments from students in common categories of disadvantage and describes the types of support given to students. The separate costs of activities and the outcomes they achieve are not reported.

The Act also requires TAFE NSW to specify the commercial and non-commercial activities in its corporate plan as well as the budgets and targets for assessing its performance. However, TAFE NSW's corporate plans describe funding for Community Service Obligations in broad terms only. No budgets or targets are identified to assess performance of non-commercial activities.

A funding deed with the Department of Education (formerly the Department of Industry) requires TAFE NSW to report quarterly on CSO support services given to students and the expenditure occurred. This information is not publicly reported and it does not cover on the costs of other non-commercial activities, such as delivering uneconomic courses or in uneconomic locations.

TAFE NSW commissioned a review of the cost and use of community service obligation funding in 2018 and advised that it is doing further work to better understand its costs over the next two years.

4.2 Quality of information

TAFE NSW had difficulty identifying benefits and setting baselines for benefits realisation

TAFE NSW had issues with identifying financial benefits during the planning stage. It took a top-down approach to allocating savings targets across the five workstreams. This increased the incentive for programs and projects to reach a pre-determined benefit target, rather than develop an accurate estimate from the bottom-up. In June 2017, eight months after the official launch of the modernisation program, the Portfolio Management Office reported to the Board that 'portfolio savings targets have not yet been allocated across programs, with a lack of benefit realisation planning potentially leading to savings targets not being met'.

Benefits realisation management is the process of organising and managing a project or program so that potential benefits are achieved. Under the NSW Government Benefits Realisation Framework, it is good practice to identify benefits at the early stages of project planning and business case preparation. If benefits are not identified at the outset, there is insufficient evidence to justify the investment in the initiative. Further, agencies should collect baseline data because without enough data it can be difficult to plan, monitor and evaluate future performance.

Internal reports often raised concerns about benefits realisation management at the initial stages of the One TAFE NSW modernisation program. Obtaining accurate baseline data for program planning was made more difficult due to inconsistent approaches across the previous structure of autonomous institutes.

TAFE NSW identified several weaknesses in the quality of data used to set baselines for benefits realisation. These included:

- a lack of confidence in corporate office baseline costs in the organisation design program
- challenges in estimating the costs of business as usual for the SMS program
- a lack of reliable corporate and industry data for financial modelling for the SkillsPoints program.

The Portfolio Management Office reported that in early 2018 most programs were deficient in one or more of the following areas: detailed benefits realisation planning, completion of benefits registers, establishment of baselines, benefits mapping and sign off from benefit owners.

TAFE NSW has since introduced new controls to track savings and determine whether program benefits have been achieved. It has developed a new register to inform senior management on how financial benefits are tracking within the Modernisation Portfolio and beyond. Executives, who own the cost centres, are supported by Finance Business Partners to ensure that savings are correctly reflected in the financial results. Potential benefits are also independently assessed by the Business Improvement Unit and only count as realised once they hit a certain trigger. In addition, savings targets are built into individual budgets. TAFE NSW expects these measures to improve the quality of data about benefits realisation across the organisation.

Section two

Appendices

Appendix one – Response from agency



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BROADWAY NSW
2007 AUSTRALIA

Ms Margaret Crawford
Auditor-General for New South Wales
Level 19, 201 Sussex Street
Darling Park Tower 2
SYDNEY NSW 2000

MIN 20/1240

Dear Ms Crawford

Thank you for the opportunity to respond to the Performance Audit Report: One TAFE NSW modernisation program.

The report focusses on the One TAFE modernisation with particular emphasis on the planning, governance and progress towards the intended outcomes. The report has provided a helpful opportunity to reflect on the reforms to date and implement enhancements that will support the completion of the six year strategic plan.

The report recognises that the One TAFE NSW modernisation program to effectively merge 11 independent institutes into a single One TAFE model, operating across the state, was an extremely ambitious initiative.

TAFE NSW has always recognised the One TAFE modernisation was complex and ambitious and worked tirelessly over the last four years to implement the program and address the issues identified in the report, and continuously improve our execution. From the outset, the TAFE NSW Strategic Plan 2016-22 identified this program as a six year transition, and we are now well advanced in the implementation of our two-year Operating Plan (2020-22) which will complete the six year journey.

It is important to note a transition such as the One TAFE modernisation carried the potential risk of significant disruption to normal activities, and the organisation was acutely aware there could not be any disruption of teaching activities. TAFE NSW is proud this transition was largely seamless to students and key stakeholders such as rural communities. Indeed, these groups are now experiencing the benefits of the reforms, including improved systems, more versatile and flexible delivery, and better facilities in regional communities. It is also pleasing that during this period enrolments increased from 424,000 in 2015 to 436,000 in 2018.

It was also critical that the impact of the reform on staff be carefully managed, but also progress expeditiously, to provide our teachers and staff with certainty on what the One

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TAFE modernisation reforms meant for them. All these factors had to be considered as the organisation progressed through this complex reform.

I am advised that many of the intended benefits of the modernisation are now being realised. Reinvestment of funding in facilities, such as Connected Learning Centres, are delivering real benefits to rural and regional communities. Enhanced systems are leading to more efficient administration, and product development is more efficient and enabling consistent approaches across the state. TAFE Digital as a single digital teaching entity is allowing us to scale very quickly, as exemplified by our ability to rapidly deliver 100,000 additional short course enrolments over the COVID-19 shutdown period. The One TAFE modernisation has and will continue to drive real value and capability from the public investment in TAFE NSW.

The report makes a range of observations and findings, which have been understood for some time and in most cases have been addressed. The report notes we had regular reviews and reporting on the progress during the last four years and this enabled TAFE NSW to respond expeditiously to issues as they arose and implement solutions.

I am informed that many of the issues identified arose due to the underlying complexity and the ambitious timelines and targets mentioned in the report. The major One TAFE model and restructure was completed by May 2018, and although this two year timeframe was ambitious, it was chosen due to the concern that a longer period of restructuring would potentially risk training delivery and impact students. Staff in general were also in favour of completing any restructuring process in the shortest reasonable time period.

I also note a number of issues raised in the report need to be considered in the light of the noted extenuating circumstances. For example, governance arrangements that included greater Board involvement allowed TAFE NSW to draw on the extensive commercial expertise of the Board members at a time of extensive change; while the early announcement of some modest capital projects ahead of the detailed business cases were a demonstration to stakeholders and rural communities the One TAFE reforms would bring genuine benefits to these communities.

TAFE NSW, also notwithstanding any reforms it may have planned within the Agency, must recognise any overarching Government policy. For example, communities impacted by drought and/or bushfires have been deferred for some of the changes in the modernisation program and this necessitates adjustments to timetables to protect jobs in regional / rural areas.

I note that the report makes reference to the financial savings in relation to the One TAFE modernisation, and the placing of a freeze on some recruitment. I am informed that administrative recruitment was carefully managed after the major restructures as the transitional costs were phased down, but any hiring restraint was carefully targeted and did not apply to front line teaching. TAFE NSW is committed to operating efficiently and the benefits of the One TAFE modernisation will be considerable and will be realised within the 6 year period of the strategic plan.

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The enclosed table outlines our specific actions in response to the three key recommendations of the report. Implementation is well progressed, including through the implementation of our two-year Operating Plan (2020-22) and will be implemented in the timeframe proposed by the Audit Office.

TAFE NSW has an essential role over the next year as it delivers critical training to the workforce as the economy recovers from COVID-19 and I look forward to continuing this work, including through our response to the recommendations provided by the Audit Office.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steffen Faurby', with a long, thin vertical line extending downwards from the end of the signature.

Steffen Faurby
Managing Director
TAFE NSW
9 December 2020

NSW AUDITOR-GENERAL'S REPORT – PERFORMANCE REPORT
One TAFE Modernisation
ACTION PLAN

Rec. No.	Details of recommendation
1.	<p>Improve Governance arrangements for delivering on commercial objectives by:</p> <ul style="list-style-type: none"> a) Seeking clarification from Government on the primary purpose of TAFE NSW and how TAFE NSW should balance social and commercial objectives b) Removing any remaining ambiguity about the role of the Board.
Agency response	<p>Accepted</p> <p>Both the Premier and Minister for Skills and Tertiary Education have confirmed TAFE NSW's role as a comprehensive public provider of vocational education and training. As a result, TAFE NSW will continue to apply commercial disciplines to achieve efficiency and value for money for the public investment by the people of NSW, but ensure at the same time it fully supports the workforce including those experiencing disadvantage, through programs including its Community Service Obligation funding. TAFE NSW are working closely with the NSW Government in ensuring that these two aims are aligned and funded.</p> <p>The Board's role has been reviewed and confirmed as being aligned to the advisory board function that is consistent with the requirements of the <i>Technical and Further Education Commission Act 1990</i>. This action is now considered complete.</p>
Actions	<p>1. TAFE NSW to update its strategic vision to reflect and reinforce the current commitment to its role as the comprehensive public service provider and how it meets both social and commercial objectives.</p>
Responsible	Chief Strategy and Commercial Officer
Timeframe	December 2021

Rec. No.	Details of recommendation
2.	<p>Improve reporting of financial and non-financial measures for non-commercial activities by:</p> <ul style="list-style-type: none"> a) enhancing the quality of data on non-commercial activities b) expanding non-financial measures to assess performance of non-commercial activities c) publicly reporting on spending and performance of non-commercial activities d) publicly reporting on community services obligations funding and expenditure.
Agency response	<p>Accepted</p> <p>The Community Service Obligation (CSO) is a funded program that enables TAFE NSW to deliver on a broad range of social objectives, including providing training to disadvantaged students and communities, and a wide range of support services to disadvantaged students. During the One TAFE modernisation TAFE NSW has reported on these CSO activities and costs based on a policy framework established in 2016.</p> <p>TAFE NSW had identified the need for a periodic review of this program and had included a review as part of the Two Year Operating Plan. TAFE NSW will expand the scope of this review to consider external reporting and the broader definition of non-commercial activities recommended in the report. The outcome of this review will be aligned with the Government's Outcome budgeting framework.</p>
Actions	<ol style="list-style-type: none"> 1. TAFE NSW to conduct a Community Service Obligation review as part of the Two Year Operating Plan (2020-2022) including the assessment of current guidelines, recommendations to improve tracking of outcomes and recommendations to improve both internal and external reporting. 2. TAFE NSW to complete enhancements to its costing model to comprehensively identify and cost all the non-commercial services that are provided by TAFE NSW. 3. TAFE NSW to incorporate the program objectives and costs of its non-commercial activities into the Treasury Outcome budgeting framework.
Responsible	Chief Corporate Services Officer
Timeframe	December 2021

Rec. No.	Details of recommendation
3.	<p>Agencies planning Transformation programs should consider the following lessons:</p> <ol style="list-style-type: none"> 1. Consider how the objectives of the transformation fit within relevant legal frameworks and governance arrangements. 2. Ensure that enough time is set aside for planning the transformation program, including development of robust business cases before execution and assessing the readiness of the organisation for change. 3. Consider whether the organisation has the capacity to implement the required scale of change, including establishing a program management office with adequate capability and resourcing to manage the program. 4. Consider the best approach to sequencing projects to avoid too many projects being delivered concurrently and identify project inter-dependencies early. 5. Reaffirm initial target benefits and timelines once detailed planning has been completed. 6. Ensure benefit realisation plans are in place at the beginning of the program, define clear ownership of benefits, and are followed through to business-as-usual operations. 7. Identify and clarify the purpose of governance to ensure responsibilities are clear and understood and that multiple committees do not duplicate efforts.
Agency response	<p>Noted</p> <p>TAFE NSW is committed to a continuous improvement of its transformation function and program and will adopt the lessons learned as best practice for the final stage of the program.</p> <p>TAFE NSW have implemented a Two Year Operating Plan that will complete the six year One TAFE Modernisation transition, in line with the Strategic Plan timeline. Scale of change, program capability, program sequencing were considered and are included in this process. Additionally, planning and governance reforms have now been implemented, including new benefit realisation governance processes in July 2019 and a new and reduced Governance structure in September 2020.</p>
Actions	1. TAFE NSW to review and make further enhancements related to business cases, timelines and targets to be implemented by the Program Office.
Responsible	Chief Transformation Officer
Timeframe	April 2021

Appendix two – About the audit

Audit objective

This audit assessed whether TAFE NSW effectively managed the One TAFE NSW modernisation program to deliver on the government's vision for TAFE NSW.

Audit criteria

We addressed the audit objective by examining whether:

1. Delivery of the modernisation program was planned well.
2. The modernisation program was driven by sound governance arrangements.
3. TAFE NSW is making progress against the intended outcomes of the modernisation program.

Audit scope and focus

The audit focused on TAFE NSW's. We completed a detailed review of a selection of five programs that formed a significant portion of the overall modernisation program.

Audit exclusions

The audit did not:

- examine TAFE NSW's asset management and divestment program
- examine any proposed or actual changes to staff Enterprise Agreements
- question the merits of government policies.

Audit approach

Our procedures included:

1. interviewing
 - relevant TAFE NSW staff
 - key stakeholders, including NSW Treasury
2. examining relevant data and documents, including legislation, policies, strategies, plans, guidelines and reviews
3. examining in-depth documents related to a section of five major programs that formed part of the overall modernisation program
4. research into relevant practices in other jurisdictions.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by TAFE NSW. In particular, we would like to thank our liaison officer and staff who participated in interviews and provided evidence for the audit.

Audit cost

The estimated cost of the audit is \$346,000.

Appendix three – Performance auditing

What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983* for State government entities, and in section 421D of the *Local Government Act 1993* for local government entities.

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose

Curious and open-minded

Valuing people

Contagious integrity

Courage (even when it's uncomfortable)

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