# What can NZ polytechnics take from recent TAFE transformations in Australia?

Research report for TEC

February 2018

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Building a better working world

Cathy Scott
The Tertiary Education Commission
44 The Terrace
Wellington 6011
New Zealand

**TAFE Market Scan**

Dear Cathy 14 February 2018

Further to the Engagement Agreement between EY and the Tertiary Education Commission ("TEC") dated 17 November 2017 we are pleased to present you with our Report for the TAFE Market Scan (the "Report")

**Restrictions on report**

This Report was prepared on the specific instructions of TEC solely for the purpose of assisting its ITP working group to discover challenges in Australian TAFE transformation and should not be used or relied upon for any other purpose.

The Report may be relied upon by TEC however, EY disclaims all liability to any party other than TEC for all costs, loss, damage and liability that a third party may suffer or incur arising from or relating to or in any way connected with the provision of the Report to a third party without any prior consent.

We accept no responsibility or liability to any person other than to TEC or to such party to whom we have agreed in writing to accept a duty of care, in respect of the Report, and accordingly if such other persons choose to rely upon any of the contents of the Report they do so at their own risk.

**Basis of our work**

The Report provides the outcomes of our desktop analysis and observations of Australian TAFE operators. While we have used reasonable endeavors to review the data and information we have received we have not independently verified, or accepted any responsibility or liability for independently verifying, any information, nor do we make representation as to the accuracy or completeness of the information. We accept no liability for any loss or damage which may result from your reliance on any research, analysis, or information so supplied.

If you would like to clarify any aspect of this report or discuss other related matters then please do not hesitate to contact me on +61 429 438 287.

Yours sincerely

Ben Bishop
Partner

# Contents

# Background and context for the project

## Background

TEC is undertaking an economic study on behalf of the NZ government into the future of the polytechnic system in NZ. Polytechnics are a important part of the education system, contribute to the functioning of the economy as well as drive future economic and social growth. As part of this work, TEC has identified the need to explore other systems and how they are evolving.

TEC has engaged EY to explore the experience and results from a range of distinct examples which are evolving in Australia.

The purpose of this review is to discuss gaining insights into transformation to inform TEC regarding potential options to improve performance of their polytechnic systems.

## This report

This report presents research of:

- A comparative analysis of the (centralised) NSW TAFE model and the (comparatively de-centralised) Victorian TAFE models
- An overview of key success factors of what drives modern high performing TAFE institutions in Australia

This review has been rapid in nature and has relied principally on publically available information. We have not sought to verify this information and there may be inaccuracies or incomplete data which may effect the results.

# Critical Success Factors

## Several forces are strongly influencing Polytechnics* around the world

### The future of work, demographic changes

Changes in the future of work, globalisation and demographic changes, are impacting strategic change

### Digital and technology disruption

Traditional, digital and hybrid delivery and operating models are being disrupted by technology and digital

### Increased competition

Traditional and new non-traditional competitors will disrupt the Polytechnic market to attract students

### Higher student expectations

Students are requiring more from Polytechnics, i.e. increased quality, facilities and work experience

### Less public funds

Public funds are declining, and Polytechnics are reviewing strategies to be less reliant on public funds for sustainability

### Increased demand from communities

Communities are more engaged. Lobbying and requiring more from Polytechnics i.e. attracting industry, and creating jobs



* In this report, 'Polytechnics' is being used to describe a range of vocational education providers

# Our research has revealed that six critical success factors are emerging as the basis for a modern sustainable Polytechnic


1. Exceptional customer and student experience
2. A more focused, commercially viable and market relevant offer
3. Effective Industry, Community and Government engagement
4. Commercially minded, diverse, industry relevant and agile staff
5. Sustainainable Business Model
6. Quality training and effective governance

# 1. Exceptional customer and student experience

**Key characteristics**

- Safe, Diverse, Fun Facilities
- Students feel actively engaged at key moments including enrolement
- Relevant real work skills
- Courses relate to the future required skills and work
- Flexibile delivery (times, locations)
- Rapid pathways to employment
- Value for money (e.g. training cost, time commitment, quality of employment)

**Why is this important**

Students are at the core of the Polytechnic system. Student expectation has been increasing with increased competition. We have seen bargaining power shift from provider to students.
Student satisfaction is seen to have a impact on recommendations to enrol (word of month, social media etc)
Employer satisfaction with students is influenced by both the technical and soft skills they bring
Consistently performing in this area builds polytechnic's brand which enables further attraction of students and employers through increased confidence in buying decisions
Historically customer and student experience was an improvement area and now TAFEs are focusing on to improve this

**What does good look like**

Continuously monitoring student experience via a range of techniques including social listening and analytics. Putting in place appropriate response means, e.g. teacher engagement or updating offer to meet student needs

**Observed successful activities include:**

Enhanced campuses, migration of underperforming facilities to an industry hosted model. Strong industry collaboration to improve pathway to employment

Significant focus on digital strategies to enhance Student experience

**Observed pain points include:**

Insufficient student data from student management systems, limited analytics to inform strategies on what students are expecting and experiencing

# 2. A more focused, commercially viable and market relevant offer

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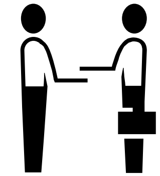
| Key characteristics | ▶ Demand driven focus (Learner focused), breaking legacy and non-performing offers<br>▶ Market insights to lead current and future offers<br>▶ Scaleable offers to reduce cost of delivery<br>▶ Prioritiese resources on profitable courses<br>▶ Strong partnerships (industry, other education providers) to fill offer gaps that the Polytechics are not strategically placed to offer |
| Why is this important | With increased competition, decreasing resources, and higher student expectations Polytechnics rationally focus their efforts and resources on the most strategic relevant and financially viable offers We have seen that more focussed, commercially viable and market relevant offers have benefited the operating performance of Polytechnics, and are driving sustainability |
| What does good look like | Focused and streamlined offers to make Polytechnics more lean, reduce costs, and focus on value adding offers and activities<br><br>Use of data, analytics, and market insights that create strategic insights to drive focused and specialised market offer. Polytechnics that specialise and focus on profitable and sustainable courses have seen improved operating results |
| Observed successful activities include: | Focus on delivering courses that are profitable and scalable and informed by market insights, but plays a facilitator role to partner to deliver less profitable less scalable courses that is not key to the strategy<br><br>Dedicated analytics team to monitor which courses are cost efficient, scalable and profitable<br><br>Focused digital offer in direct response to market needs |
| Observed pain points include: | Limited effort and focus to create focussed profitable and scalable offering, mainly driven by pushback from stakeholders |

# 3. Effective Industry, Community and Government engagement



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| Key characteristics | ▸ Leverage Industry to use their facilities and understand the requirements of future employees better<br>▸ Understand community requirements, for jobs creation, social engagement<br>▸ Work with unions to optimize the FTE counts and rationalise the courses and campuses<br>▸ Political engagement to discuss and manage expectations with funding and strategic focus |
| Why is this important | The stakeholders impact the success and sustainability of the Polytechnics. Stakeholders have the power to block or advance strategic changes. We have seen that continuous and meaningful stakeholder engagement has helped to improve the sustainability and improvement of Polytechnics |
| What does good look like | Effective, diverse and continuous stakeholder engagement to obtain buy-in for strategic options and changes<br><br>We have seen that Polytechnics that use stakeholder engagement actively to advance their strategic agenda and not just as a compliance activity have seen improved operating results |
| Observed successful activities include: | Through effective stakeholder engagement with industry, communities, staff and students, they were able to re-invent their business model. Our research indicates this supports effective industry and community collaboration especially in regional areas<br><br>Effectively negotiated with the Unions to optimise FTEs and negotiate retrenchments |
| Observed pain points include: | Significant breakdown of facilitation and discussion between the Polytechnic, government and communities. This is impacting campuses, courses, FTE optimisation, and overall financial impact on the state |

# 4. Commercially minded, diverse, industry relevant and agile staff

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| Key characteristics | ▶ Commercially minded staff, with the right balance of teachers and strategic administration staff<br>▶ Staff that is open to new training for new market insights and requirements<br>▶ Staff with strong industry experience to make the teaching as practical and relevant as possible<br>▶ Bigger use of casual staff to be more agile with market demands<br>▶ More contract employees to better manage workforce planning |
| Why is this important | The staff plays a part in providing the student experience, and play a big part in the brand and student interaction. If the quality of the staff is not up to student and industry requirements the Polytechnic will find it challenging to attract new students and retain current students |
| What does good look like | Focused strategies to update and find the appropriate staff (quality and amount) that are industry and market focused. Optimal mixes of academic and non-academic staff, with contract and casual workers a bigger part of workforce strategies.<br><br>Effective engagement with staff to continuously update and re-skill to deliver relevant and industry insights |
| Observed successful activities include: | Challenging and training staff to keep up to date with industry developments (this includes industry engagement, and hiring staff from industry), and understanding the community requirements better they operate in. Use contract work and casual workforce effectively to update the optimal mix of quality and staff numbers. Recruitment strategy to attract more commercially focused teachers and have the right balance between teaching skills and commercially minded staff<br><br>Strong union and staff engagement to optimise staff number and changing workforce profiles to match new offers and campus rationalisation. Strategies for correct mix of administration staff and teachers |
| Observed pain points include: | Recent campus consolidation has raised some staff un-happiness, and engagement could be improved to manage the transition better<br><br>Limited staff, government and union engagement to rationalise and update workforce profile to match better market requirement |

# 5. Sustainable Business Model

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| Key characteristics | ▸ Innovative, digital business and delivery model<br>▸ Market competive business model<br>▸ Business-2-Business (B2B) and Business-2-Governement (B2G), over Business-2-Customer (B2C), student experience is still at the core, the move is to maximise scale<br>▸ Adaptive and agile to respond to the market requirements<br>▸ Low asset intensive delivery model to improve cost efficiencies<br>▸ Cost efficient business model for sustainable operations<br>▸ Less reliance on Government funds and support<br>▸ Effective control and quality |
| Why is this important | Increased competition and shifts in demand for skills, has shifted business models of Polytechnics to continuously be innovated and updated to be market relevant, and cost efficient<br><br>Public funds are decreasing, Polytechnics are required to be more sustainable<br><br>Operations and management of assets require large part of the available resources. Polytechnics are consistently trying to rationalise and consolidate campuses and assets to improve efficiencies and reduce the cost to serve to students, and drive economies of scale to increase profitability of courses |
| What does good look like | Innovating business and delivery model to drive efficiencies, cost reductions and diversifying revenue streams. Bigger focus on B2B and B2G to reduce cost of acquisition of students, also easier as there is one point of contact other than B2C<br><br>Asset rationalisation with industry collaborations, focus on what will drive the highest return on resources and what is the best use of the assets for students, community<br><br>Digital delivery models to respond to market demands of fully digital offerings and reduce operating costs |
| Observed successful activities include: | Rationalise portfolio of B2B, B2G and B2C market. Rationalising assets in regional areas to increase effective use of assets working with industry to leverage their assets for training<br><br>Dedicated fully digital offerings through their digital delivery strategy<br><br>Effective negotiation with various stakeholders to improve asset use |
| Observed pain points include: | Government owns the assets and the TAFE must deliver a return on assets. The negotiation and the required return is not well defined. Asset rationalisation and negotiation to close down non-performing assets have not been effective |

# 6. Quality training and effective governance

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| Key characteristics | ▶ Effective control over issuing of qualifications<br>▶ Quality courses that are market relevant and support students to obtain employment<br>▶ Delivery and risk management excellence to manage funds effectively and accuracy of qualifications issued<br>▶ Accreditations management excellence – Working with governments and regulators to increase accreditation quality controls and reducing erros |
| Why is this important | Polytechnics focus efforts to have effective and efficient governance structures to support quality of the qualifications and comply with all regulations. If the quality and relevance of the qualifications are not sufficient the Polytechnic will find it challenging to attract and retain students, and could lose government support |
| What does good look like | Independent continuous reviews and audits (operational and financial). Increased focus on delivery and risk management to match the qualifications with the industry and student requirements<br><br>Funds are managed effectively and efficiently with clear transparent reporting |
| Observed successful activities include: | High quality controls and check to verify accreditations. Continuously working with government to increase quality standard<br><br>High quality controls and check to verify accreditations, strong centralised governance structure to support control and quality |
| Observed pain points include: | Recent resignation of CEO and dismissal of the Chairman of a TAFE in Australia, due to inaccuracies in accreditations and qualifications. Findings regarding poor internal controls. Significant breakdown of governance and quality control resulting in the initiation of a Senate inquiry |

# Comparison of the NSW and Victoria systems

# Together, NSW and Victorian systems have approximately 36% of the Australian Polytechnic  market



## NSW

- Market share: approximately 20%
- 10 major institutes
- 424,000 Polytechnic enrolments
- 355,000 individual students
- 130 campuses/sites
- 1,200 nationally recognised Polytechnic qualifications
- NSW population approximately 5.0m (2016)

## Victoria

- Market share: approximately 16%
- 18 major institutes
- 162,200 Polytechnic enrolments
- 149,815 individual students
- 95 campuses/sites
- 1,000 nationally recognised Polytechnic qualifications
- VIC population approximately 4.1m (2016)





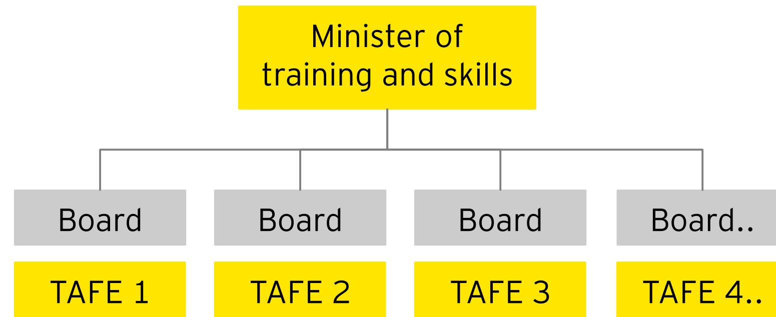
Source : IbisWorld market Report, TAFE NSW & DET Victoria Annual Reports

# The NSW and Victorian systems are operated in very different ways

## NSW: Centralised


- Structure of centralised governance
- A common TAFE commission board (an advisory board) which makes recommendations to the minister on policies, strategic planning, efficiency and effectiveness of TAFE operations, management and commercial activities
- The executive leadership team is a high level strategic forum, which informs the decision making of the managing director
- Regional business groups consisting of regional general managers (RGM) is formed by Southern region, Sydney region, Western Sydney, Northern region, Western Region and TAFE Digital
- Branding and operations is 'One TAFE NSW' not individual TAFEs
- Regional leadership team is a combination of RGMs, leaders from institutes and business partners (designated by GMs) via the 'business partnering model'

## Victoria: De-centralised




- Structure of autonomous governance by Institutes
- TAFEs are overseen by a Board of Directors who are ultimately responsible to the Victorian Minister for Training and Skills
- Board members typically comprise 9 to 15 persons, with more than one half of the Board members are appointed directly by the Minister and the remaining Board members are 'board nominee directors' appointed by the Minister
- Board members are persons with knowledge of industry and community training needs and are also appointed on the basis of governance skills related to management, finance, commerce or business law, corporate governance, vocational education and training, adult community and further education, industry and higher education

The NSW is pursuing a strategy to build a single brand, focused offerings, compete with private providers collectively, limit inefficiencies, drive synergies, reduce cost and site consolidations

Victoria is de-centralised and the current position of the state government is that the TAFEs will remain de-centralised in the immediate future

The TAFEs have a to report to the department of education at the state level

The board between the systems require the same skills sets but operate under different structures





Source : TAFE NSW Annual Reports , Victorian TAFE Association

# Evolution of the NSW and Victorian TAFE systems has been mainly shaped by policy change

## NSW

**1999**
NSW TAFE Commission was incorporated

**2000**
The Sydney Institute of Technology was rebranded to TAFE NSW Sydney Institute

**2004**
NSW TAFE Commission changed its name to Technical and Further Education Commission

**2015**
The NSW Government's Smart and Skilled reforms about the vocational and educational training (Polytechnic) systems were implemented

**2015**
IT system (LMBR) malfunctioned which cost more than $500 m to repair

**2015**
Classes started at the multi million dollar facility, Health Services Building, located in the Western Sydney Institute

**A – 2015**
10 TAFE institutes are streamlined into one TAFE NSW, through policy change under one umbrella of 'one' NSW TAFE with the objective that centralisation will boost the collaboration, increase offerings, increase competitiveness and enable better governance

**2016**
$25 million to establish joint venture school between TAFE NSW and universities in NSW to encourage entrepreneurship

Opened Hunter Institute Plant, Heavy Vehicle and Auto Electrical Training Centre after its $13.1 million upgrade

**2017**
Defined long term Digital strategy and plan

## Victoria

**2000**
Supplier funded model of TAFE education

**2012**
Deregulation of Polytechnic Market in Victoria

**2013**
Strategy towards student funded model from supplier funded previously pricing and subsidy shift with more reliance on student tuition fees

**2013**
Chairs of TAFE institute boards announced

**2014**
TAFE collaboration (Advance TAFE, GippsTAFE), (Kangan, Bendigo)
Rationalisation of non core staff and functions (cleaning, catering, maintenance)

**B – 2014**
TAFE Victoria policy started transition towards open market model as well as adapted Student funding model

ACPET fast tracked a new code of conduct and standards framework
Victorian TAFE redundancies totalling $10.3 million in 2014

**C – 2015**
Victorian Labour Government rescue package of $320 million government announcement of $50 million TAFE "Back to Work Fund"
Initiated Cost and site rationalisations
Structural adjustment fund created
Policy change to drive competitive market based solutions, and encouraging collaboration across TAFEs in Victoria
NMIT adopted a new strategy as Melbourne polytechnic

**2016**
New advocacy group of TAFE established





Source : IbisWorld market Report, TAFE NSW & DET Victoria Annual Reports

# Transformation: Key Successes

| NSW | Victoria |
|---|---|
| ▸ Cost efficiencies, reduction in duplication and streamlining the way of operation: With centralised governance, the duplication and overhead is reduced. Amalgamation of institutes offered an opportunity to bring cost efficiencies, achieve economies of scale and create a more financially sustainable public provider capable of competing effectively<br>▸ Focus in Scope and Collaboration: Different institutes under one structure and direction, has focused the scope and collaboration in the areas of administration, training materials, offerings, infrastructure, etc.<br>▸ OTEN Success: Open Training and Education Network (OTEN) supported more than 105,000 enrolments in around 320 courses in 2015. OTEN is the largest provider of distance education in Australia<br>▸ State wide branding and recognition: Centralisation of TAFE NSW assisted it to make it state wide brand recognition and increase its strength<br>▸ Improvement in Student satisfaction: With the overall quality of training, with more offerings and increased the scope of collaboration, student satisfaction has improved | ▸ Better service to regional communities: More autonomy at the individual TAFE level gives more discretion to boards and CEO's to allocate funds, and direction of courses<br>▸ The system has benefitted with greater diversity in terms of:<br>    ▸ Amount of institutes<br>    ▸ Individual missions and strategies of TAFE Institutions<br>    ▸ Matured individual Institutions with long standing brands, high levels of authority, greater independence in governance<br>▸ The number of TAFEs and dual sector institutions means that CEOs are spread across the State and these positions have the authority to respond to local conditions and issues<br>▸ The number of TAFEs and dual sectors means that the experience and skill set of CEOs and Chairs is more diverse, which is an important mechanism for divergent and innovative strategic thinking<br>▸ A number of the TAFEs and dual sector institutions have high profile industry specialisations, and long standing relationships with industry sectors |

Source : TAFE NSW Annual Reports, Victorian TAFE association, Victorian DET, EY analysis

# Transformation: Key challenges

| NSW | Victoria |
|---|---|
| ▸ Lags competitors on convenience, agility due to large centralised structure<br>▸ Large centralised structure makes responding more rapidly to employer and student needs more challenging<br>▸ One strategic focus reduces options to shape and deliver other diverse strategies for delivery of training, face to face and blended learning, as required by communities<br>▸ Challenges to simplify enrolment systems and offering more flexible enrolment options<br>▸ Challenges in cutting red tape with centralised system<br>▸ Challenge increase local autonomy to respond to local needs<br>▸ Further improve marketing and promotion of the TAFE NSW brand | ▸ Challenge to meet a common strategic objective among distributed institutions: There is challenges to meet strategic objectives of Victorian government and communities due to diverse nature of priorities and independent action plans of individual institutes<br>▸ Challenge in collaboration: As different institutes do not work under one structure, there is challenge of collaboration among different institute on various political, economic and other prevailing factors<br>▸ Loss of synergies and cost reduction: As the institutes do not operate under one structure there is a lost opportunity to drive synergies, cut out duplication and reduce cost<br>▸ Difficulty in enabling Uniform Growth: As institutions operate under a de-centralised model it poses a threat of not achieving uniform growth across the institutes, as strategies will be delivered differently by various board some institutes might fall behind. |





Source : TAFE NSW Annual Reports, Victorian TAFE association, Victorian DET, EY analysis

# Transformation: Lessons learnt

## NSW

- Centralised systems like NSW TAFE can become very complex to be governed from the top
- Challenge in providing independence to institutes: Complex organisations can benefit by allowing decisions to be made at the lower levels where an issue can be addressed effectively
- Challenge with agility and responsiveness through centralised systems losing potential focus on the market and student Changing student and employer preferences demanded that TAFE NSW will need to evolve its offering to remain competitive

## Victoria

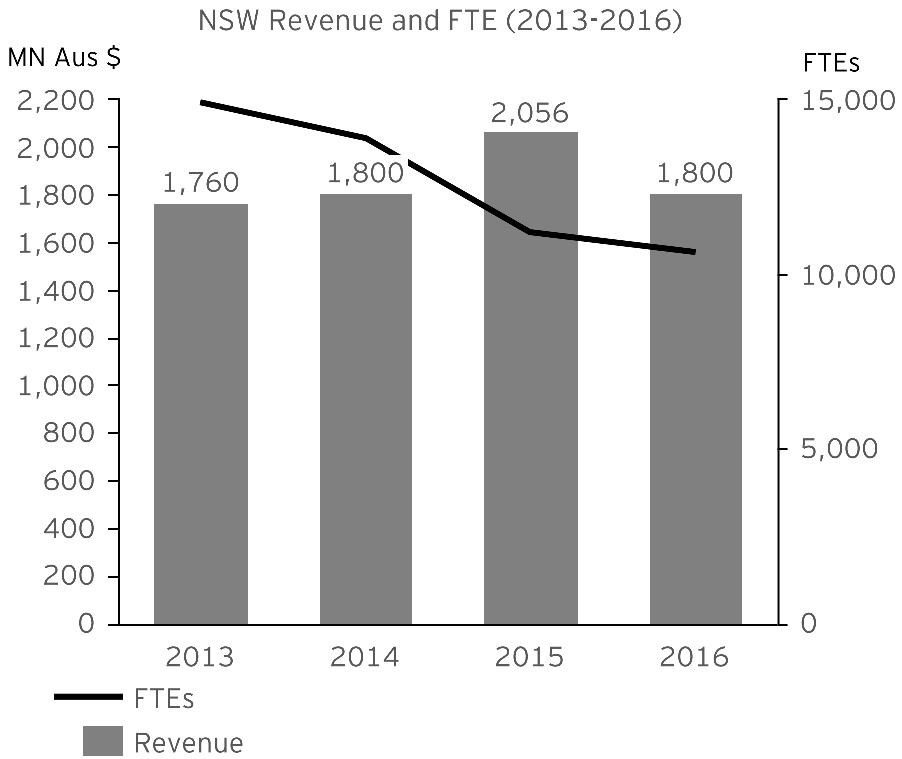
- The system has not stipulated a requirement to have similar sized TAFEs across the State. As a result county regions are served by having local TAFEs, which are large enterprises for their regions, and with the local authority of a CEO.
- The system has greater diversity in terms of:
    - Scale and size of TAFE Institutions
    - Educational scope and mission of TAFE Institutions
    - Type (legislative authority) – 14 stand-alone TAFEs, and 4 dual sector universities
- The Victorian TAFE Association acts as an important facilitator between the Department of Education and Training and the Institutes, and as an agent for strategic collaborative action
- TAFEs can improve to be a high quality and highly responsive provider. The contestability of funds in Victoria has driven competition, and TAFEs have responded to the new competition and updating delivery and operating models
- TAFEs in Victoria could further improve quality, and the recent contestability funding model has driven up quality improvements but could improve further. Metrics to improve include quality of education and financial sustainability

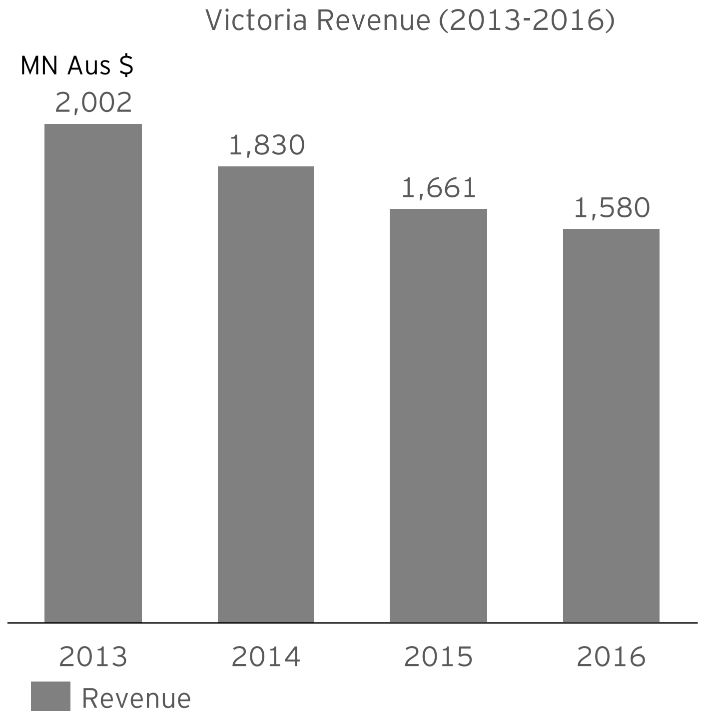




Source : TAFE NSW Annual Reports, Victorian TAFE association, Victorian DET, EY analysis

# NSW has achieved greater improvements in revenue, FTE performance and student and employer satisfaction in recent years




NSW has targeted growth through their centralised, consolidated and digital strategy
The digital strategy, course rationalisation and cost reduction efforts has resulted in 30% FTE reduction (2013 – 2016)

96% of employers satisfied with Polytechnic training*
88.5% of TAFE graduates satisfied with training*

Victoria TAFE revenue has been in decline since 2013. This decline is due to the government targeting increased quality in the system and reducing the funding of sub-par courses, as well as increased competition from private providers

81% of employers rate external training as high quality^
78% of TAFE graduates satisfied with training^

*2016 survey results ^2015 survey results





Source : IbisWorld market Report, TAFE NSW & DET Victoria Annual Reports
Please note accurate FTE numbers were not obtainable for comparison with NSW TAFE