



WALTERTURNBULL
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Department of Immigration and
Citizenship

**Business Review Report - National
Accreditation Authority for
Translators and Interpreters Ltd**

A Report on the Assistance with Implementation of the
Recommendations of the Independent Review of NAATI

Final Report

April 2009 ■ ■ ■

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1 Executive Summary

1.1 Overview

WalterTurnbull was engaged by the Department of Immigration and Citizenship (DIAC) to assist NAATI in the implementation of a number of key recommendations stemming from the Independent Review of NAATI¹ (the Independent Review), which was aimed at determining a sustainable funding model for NAATI.

The recommendations that NAATI was to implement may be summarised as follows:

- Development of a strategic plan and supporting business plans,
- Costing of NAATI's core business functions and revision of financial reporting and associated systems,
- Revision and streamlining of the funding agreement with regard to the strategic plan,
- Revision of the funding model,
- Progressive implementation of the strategic and business plan, and realignment of business structures and processes as appropriate.

The full details of the recommendations of the Independent Review subject to this report are reproduced at Appendix A.

The purpose of this report is to:

- Advise on progress associated with the above recommendations,
- Provide details and an assessment of key strategies proposed by NAATI in its strategic and business plans, which WalterTurnbull has been providing assistance in developing,
- Provide details and an assessment of the impact of those strategies,
- Advise on further major tasks to be undertaken.

1.2 Approach

The approach to the project has been to work collaboratively with NAATI with the implementation of the recommendations. The work has been undertaken with reference to NAATI's Constitution and with regard to the strategic priorities identified by the Members in the Statement of Expectations². Extensive work has been done by NAATI with our assistance in relation to:

¹ Independent Review of National Accreditation Authority for Translators and Interpreters Ltd (NAATI), May 2008

² Statement of Expectations, NAATI Members, 27 October 2008

- The development of the strategic plan,
- The development of the draft business plan,
- The development of the draft Statement of Intent,
- Identification, development, analysis and assessment of key strategies and actions,
- Rigorous analysis of existing income and expenditure base, forecasting over the next three years and impacts of proposed key strategies,
- Detailed analysis of the market and impacts on NAATI.

We acknowledge the collaborative approach, as well as the extensive efforts and co-operation, afforded by the Board, Chief Executive Officer, Management and Staff of NAATI in the work undertaken to date.

1.3 Summary

The Statement of Expectations identifies that:

NAATI provides a community service which is recognised by all jurisdictions in the development and maintenance of a viable, ethical and robust translating and interpreting industry. This service is essential for enhancing the settlement outcomes of migrants to Australia³.

In addition the Statement of Expectations specifically establishes the view that NAATI provides an essential community service.

These views are important in determining the appropriateness of the strategies developed by NAATI. The strong community service role of NAATI means that a strict business view of profitability is an inappropriate basis from which to assess the viability of strategies.

In assessing, and working with the development of, NAATI's key strategies we have taken a viewpoint that a balance needs to be taken between ensuring that the societal and community objectives that are the heart of NAATI's objectives are achieved, but these are achieved efficiently.

Financial performance improvement strategies

WalterTurnbull sought to verify the likely ongoing operating results for NAATI in its current form. This involved extensive analysis of the original forecast for 2009 prepared by NAATI as the base. The original forecast identified potentially a loss of \$1.1 million. A number of key adjustments were made to the forecast, which were agreed with NAATI, and are referred to as the "current state" leading to a revised loss of \$848,700 prior to implementation of financial performance improvement strategies (financial strategies).

³ Section 2.1, Statement of Expectations, 27 October 2008

Two key strategies to improve the financial performance of NAATI have been developed:

- Realignment Strategy - realignment of the national network of offices and staffing, and
- BPR and ICT Strategy – business process reengineering and information communications technology investment.

The combined impact of these two financial strategies should save NAATI an estimated \$561,720 per annum in operating costs from the current state commencing from and including 2011/12, whilst ensuring that NAATI meets the strategic priorities as detailed in the Statement of Expectations, including the objectives of its constitution that are given priority in the Statement of Expectations.

The timing and impact of these net savings are expected to accrue as follows:

Table 1 Combined impact of financial improvement strategies

Strategy	Total	2009/10	2010/11	2011/12
Realignment strategy	416,320	416,320	-	-
BPR and ICT strategy	145,400	(135,320)	180,720	100,000
Impact of financial performance improvement strategies	561,720	281,000	180,720	100,000

In relation to the above:

- Realignment Strategy - represents estimated cost savings between the current state and 2009/10 of \$416,320. Other things being equal, these will represent a permanent reduction in costs which will flow beyond 2009/10, and
- BPR and ICT Strategy - There are estimated costs that will be incurred in the 2009/10 whilst the project is undertaken. However, the proposed changes should result in a permanent estimated reduction of annual expenditure against the current state of \$145,400 per annum after 2010/11,

The estimated financial results of the core activities of NAATI including the proposed key strategies (excluding special projects, revalidation and quality improvement strategies) are summarised as follows:

Table 2 Summarised Profit and Loss⁴

Summarised profit and loss	Current State	2009/10	2010/11	2011/12
Government revenue	1,090,000	1,090,000	1,090,000	1,090,000
Non government revenue	2,002,000	2,002,000	2,002,000	2,002,000
Total revenue	3,092,000	3,092,000	3,092,000	3,092,000
Expenditure	3,940,700	3,524,380	3,524,380	3,524,380
Net (loss)	(848,700)	(432,380)	(432,380)	(432,380)
BPR and ICT Strategy	-	(135,320)	45,400	145,400
Net (loss)	(848,700)	(567,700)	(386,980)	(286,980)

The above table demonstrates that:

- If only the Realignment Strategy is implemented, there would be an ongoing financial shortfall of \$432,380 per annum,
- Investment in the BPR and ICT Strategy will lead to an estimated overall shortfall of \$286,980 per annum after 2010/11 or a further savings of \$145,400 per annum,
- The estimated net savings through a reduction in the current state costs of NAATI after implementation of all strategies is \$561,720 per annum commencing in 2011/12.

In assessing the above it is important to note that:

- There is also significant work required in relation to quality improvements that have been identified in the Statement of Expectations, but deferred until 2010/11. These are excluded from the above, but are addressed further below, and
- Revalidation⁵ has been subject to a separate analysis as it should be on a cost recovery basis. However, there are significant costs and risks associated with generation of sufficient fees to cover those costs. The first candidates subject to the regime will be due for revalidation in the 2009/10 financial year.

⁴ The figures are based in today's dollars and have not been adjusted for CPI

⁵ Revalidation was initiated by the Members as reflected in the Constitution, reinforced in a teleconference of Members' Representatives on 19 May 2006 and recorded in Budget Estimates, Hansard 23 May 2006. It is highlighted in the Statement of Expectations as a priority objective of the Constitution.

The BPR and ICT strategy will require an upfront investment as follows:

Table 3 BPR and ICT Investment Strategy

Investment	Total	ICT	Salaries and on costs	Transition costs	Overheads
BPR and ICT	408,320	273,000	71,100	50,000	14,220

The timing of the cash-flows is anticipated to be incurred throughout the course of 2009/10, with a weighting of the capital costs towards the beginning of 2009/10 for the ICT component. A critical element to the success of this strategy will be appropriate change management and transition work to maximise the benefits achieved.

Quality Improvement

There is also other work in relation to other Constitutional objectives that have significant financial implications (e.g. critical quality improvements recommended by the Cook Report⁶ and other reviews) that would need to be addressed through additional resources over and above the resources allocated in the revised financial forecasts.

The Statement of Expectations asks these to be deferred into 2010 and beyond. There is an overall "Quality Improvement Strategy" that will need to be considered in 2010/11, with the following impacts:

Table 4 Quality Improvement Strategy

Summary	2009/10	2010/11	2011/12
Annualised forecast expenditure	-	130,000	95,000

The ongoing annual impact of these costs is estimated to be \$95,000 per annum from and including 2011/12. The full costs of implementation as recommended are significantly higher. However, NAATI has in determining the costs to be incurred excluded any recoupment of costs incurred to date; included implementation of critical recommendations or elements thereof; and proposed absorption of costs through efficiencies by NAATI.

⁶ *A Review of NAATI Administrative Processes Related to Testing, Including Quality Control Processes, AccessMQ, September 2005*

Revalidation

The estimated costs of revalidation over the next three years are summarised below:

Table 5 Revalidation Analysis

Summary	Average	2009/10	2010/11	2011/12
Annual revalidation costs	180,226	216,162	164,512	160,004
Estimated revalidations	1,056	1,322	972	874
Cost per revalidation	\$171	\$164	\$169	\$183

Fees will need to be levied in relation to the revalidation of candidates. The key risk is that the number of actual revalidations is significantly lower than forecast. The impact of variations to the forecast levels of revalidations and the resultant cost per revalidation is summarised below:

Table 6 Revalidation sensitivity

Variability	5%	10%	15%	20%
Costs per revalidation	\$177	\$185	\$193	\$202
Potential loss through unrecouped costs	(6,583)	(13,165)	(19,748)	(26,330)

Whilst revalidation should be cost neutral there are significant unknowns in how the market will respond; the market's sensitivity to fees; and the extent of take up by the market.

Market

The *Environmental Scan and Costing Report (ESC Report)*⁷ identified a range of environmental factors that impact on the market. There are major challenges in attracting and retaining new translators / interpreters and provision of testing services in a wider market. Some of the biggest factors include:

- The absence of a regulatory framework requiring the use of NAATI qualified (or any other qualified) people,
- The predominant use of such people in community, health and welfare areas, and
- The relatively low rates of remuneration paid to these people predominantly used by Governments.

⁷ NAATI Environmental Scan and Costing Report, WalterTurnbull, July 2008

NAATI has also undertaken an extensive analysis of a ten year history of testing, which indicates the declines in testing⁸ since 2006/07 have brought the levels back to the levels before 1999/2000. The analysis also indicates that key changes in testing levels over that period seem to correlate with key changes in immigration policies. It also illustrates the volatility of the market, particularly when fee changes during the same period in the Australian market have been minimal.

A review of fees over 2005 to 2009 shows that NAATI has placed significant upwards fee pressure on the market, particularly since 2005/06. However, until 2008/09 these increases have been modest in the Australian market, with a more aggressive fee strategy taken with the overseas market.

The market appears to be characterised by a limited ability and / or willingness of the Australian market to pay fees, combined with sensitivity to immigration policy changes.

Course approvals provide another means of providing translators and interpreters to the market, but are faced with similar constraints. The offerings by academic institutions focus predominantly on high volume and immigration related languages in limited locations, and are driven by a need to deliver profitable courses to the institutions. Based on an analysis of the main language types tested and their associated profitability to NAATI, an active push of these languages (that the institutions are likely to take up and have demonstrated they are willing to take up), would most probably lead to a decline in profitability of NAATI as a whole.

Regard has also been had to the Australian Quality Framework, as referred to in the Statement of Expectations. It appears that there may be some conflict between the Statement of Expectations, where members recognise the need for NAATI and its role in being the National Authority in this market, and a proposed application of the Framework that could potentially exclude the requirement for courses being NAATI approved. NAATI should continue to take an active role in the approval of courses developed under this Framework along with appropriate fees being earned to cover costs, as occurs in other professions.

The balance between the supply of sufficient translators and interpreters and the market's ability to deliver these within an appropriate cost structure and at an appropriate quality appears to have fairly significant challenges. It is proposed that NAATI undertakes a formal market analysis and study, the costs of which have been factored into the BPR and ICT project.

1.4 Work to be Completed

The key tasks to be completed include:

- Approval of the business plan and Statement of Intent by the Board,
- Finalisation of a funding model and revision of the funding agreement, upon agreement on the strategies and projections with the funding bodies, and including finance strategy for strategic and business plans,

⁸ These testing declines have been extensively documented and communicated to the Members by NAATI and in previous reports by WalterTurnbull

- Implementation of a revised financial management system, costing and reporting framework,
- Formalisation of a strategic risk assessment, building on the work undertake in the strategic and business planning,
- Implementation of the strategic and business plans.

1.5 Conclusion

The proposed strategies offer:

- Significant immediate permanent reductions in annual costs,
- Offer further permanent significant reductions in annual costs, which require an up front investment to achieve, through business process reengineering and improved ICT capability,
- Enable NAATI to address critical quality improvements beyond 2009/10.

The net impact of proposed net savings through all strategies is summarised below:

Table 7 Summary – Revised Cost Base and Net Savings from Proposed Strategies

Details	2009/10	2010/11	2011/12
Current cost base	3,940,700	3,940,700	3,940,700
Realignment strategy	(416,320)	(416,320)	(416,320)
BPR and ICT strategy	135,320	(45,400)	(145,400)
Quality improvement strategy	0	132,000	95,000
Revised cost base	3,659,700	3,610,980	3,473,980
Net savings - annualised	281,000	329,720	466,720

The proposed combined strategies will reduce the cost base of NAATI by \$466,720 per annum from a present estimated \$3,940,000 per annum to \$3,473,980 per annum after 2010/11

2 Key Strategies

2.1 Overview of Key Strategies

Two key financial strategies to improve the financial performance of NAATI have been developed:

- Realignment Strategy - realignment of the national network of offices and staffing, and
- BPR and ICT Strategy – business process reengineering and information communications technology investment.

One key performance improvement strategy has been developed to address the quality of services NAATI delivers:

- Quality Improvement Strategy – implementation of key quality improvement recommendations of previous reviews, including the Cook Report.

2.2 Statement of Expectations

The strategies were developed with regard to the Statement of Expectations. Of particular note, we have highlighted the following key extracts from the Statement of Expectations:

NAATI provides a community service which is recognised by all jurisdictions in the development and maintenance of a viable, ethical and robust translating and interpreting industry. This service is essential for enhancing the settlement outcomes of migrants to Australia.

In formulating its strategic plan the board will have specific regard to ...

- *A Review of NAATI Administrative Processes Related to Testing Including Quality Control Processes – Final Report (Cook Report) ...*

In this period the Members have identified the following issues for strategic consideration; in particular ...

- *The current applicability of the recommendations of the Cook report and related reports with specific reference to the requirement of interpreters to be fluent in English as well as their community language. The remaining Cook recommendations should be examined for continued applicability in the next period commencing in 2010 ...*

... priority be given to the following objectives in this period:

- *Setting and maintaining high national standards in translating and interpreting,*

- *Maintaining and enhancing a nationally recognised accreditation system that is responsive to the changing needs of the Australian community and accreditation applicants,*
- *Raising community awareness of the value and appropriate use of accredited translators and interpreters,*
- *Providing opportunities for accredited translators and interpreters to re-validate and/or upgrade their accreditation level,*
- *Raising community awareness of the value and appropriate use of accredited translators and interpreters,*
- *Adjusting NAATI's cost structure (through rationalisation of resource usage and the implementation of innovative solutions) to meet these Objectives consistent with its budgetary position.⁹*

... the Strategic Priorities for NAATI for the period are ...

- *That NAATI is expected to provide testing services for all community languages subject to resource constraints, maximising the efficiency of existing methods of accreditation. e.g. approved courses for common languages*
- *That NAATI attempt to reduce its cost structure through thorough review of its property leasing arrangements and its staffing levels in all states and territories ...*
- *That NAATI continue to provide testing services in all states and territories without requiring a physical presence in each state or territory on a permanent basis ...*
- *NAATI is to examine ways and means to achieve this objective as soon as practicable.¹⁰*

2.3 Forecast Results

The forecast results after the implementation of the Realignment Strategy and the BPR and ICT Strategy are summarised below.

⁹ Extracted from Section 2.1, Statement of Expectations

¹⁰ Extract from Section 3, Statement of Expectations

Table 8 Forecasts 2009/10 to 2011/12 – with Financial Strategies

	Current State	2009/10	2010/11	2011/12
Revenue				
Members contributions	1,090,000	1,090,000	1,090,000	1,090,000
Total accreditation revenue	1,850,000	1,850,000	1,850,000	1,850,000
Other operating revenue	120,000	120,000	120,000	120,000
Sundry revenue	2,000	2,000	2,000	2,000
Special projects	0	0	0	0
Investment revenue	30,000	30,000	30,000	30,000
Total revenue	3,092,000	3,092,000	3,092,000	3,092,000
Expenditure				
Member related expenses	58,000	55,880	55,880	55,880
Credentialing	1,730,000	1,534,000	1,534,000	1,534,000
Products and services	309,000	268,600	268,600	268,600
Promotion and communication activities	26,000	26,000	26,000	26,000
Sundry	2,000	2,000	2,000	2,000
Governance	247,000	231,900	231,900	231,900
Stakeholder relations	101,000	90,600	90,600	90,600
Business development	70,500	70,500	70,500	70,500
Business management	353,000	314,800	314,800	314,800
Office expenses	877,000	773,000	773,000	773,000
Depreciation	68,000	68,000	68,000	68,000
Other corporate expenses	99,200	89,100	89,100	89,100
Total expenditure	3,940,700	3,524,380	3,524,380	3,524,380
Profit / loss after Realignment Strategy	(848,700)	(432,380)	(432,380)	(432,380)
BPR and ICT Strategy	-	(135,320)	45,400	145,400
Profit / (loss)	(848,700)	(567,700)	(386,980)	(286,980)

(Excludes the Quality Improvement Strategy which is discussed in Section 2.6)

2.4 Realignment Strategy

The key elements of the Realignment Strategy are:

- Reduction of staffing levels to correlate with the decline in testing activity,
- Closure and sublet of the ACT Office and relocation / renegotiation of the NSW Office.

Staffing levels

The rationale applied in determining the reductions in staffing levels is as follows:

- Testing levels declined by an average of 36% between 2006/07 and 2007/08,
- There has been a real reduction in actual staffing levels since 2006/07 (estimated 7%) through natural attrition and non replacement of staff that has been factored into the current state,
- From the current staffing levels, a proposed, reduction of a further 21% reduction in permanent ongoing positions to deliver the core business, excluding revalidation and special projects is proposed,
- Of the 21% reduction, 8% of these resources will be redeployed to introduce and administer revalidation on a cost recovery basis,
- Of the 21% reduction, 4% of these resources will be redeployed to manage the BPR and ICT Strategy for 2009/10.

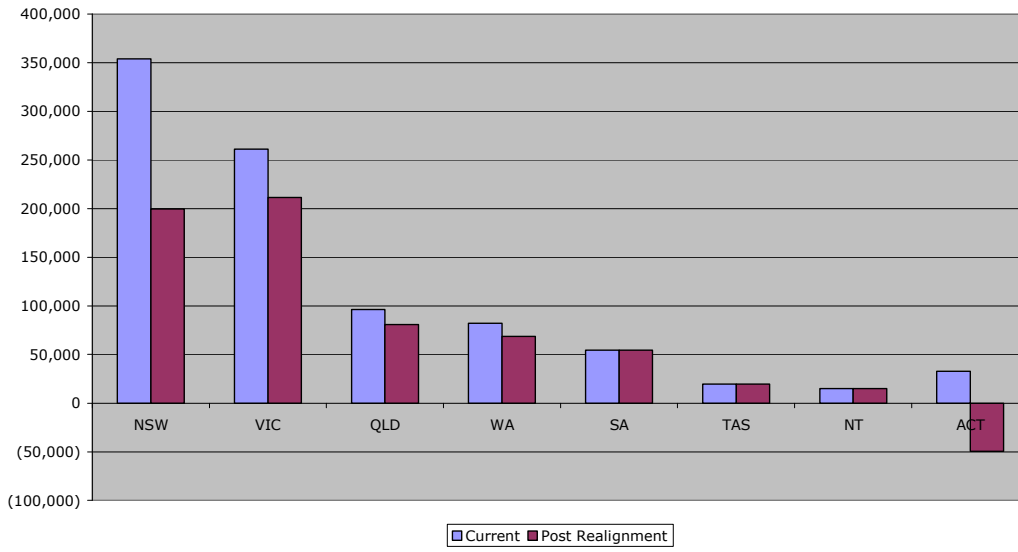
Estimated salaries and on costs savings on current state - \$312,320 per annum in addition to previous reductions

National network of offices

The rationale in determining the realignment of the national network of offices is as follows:

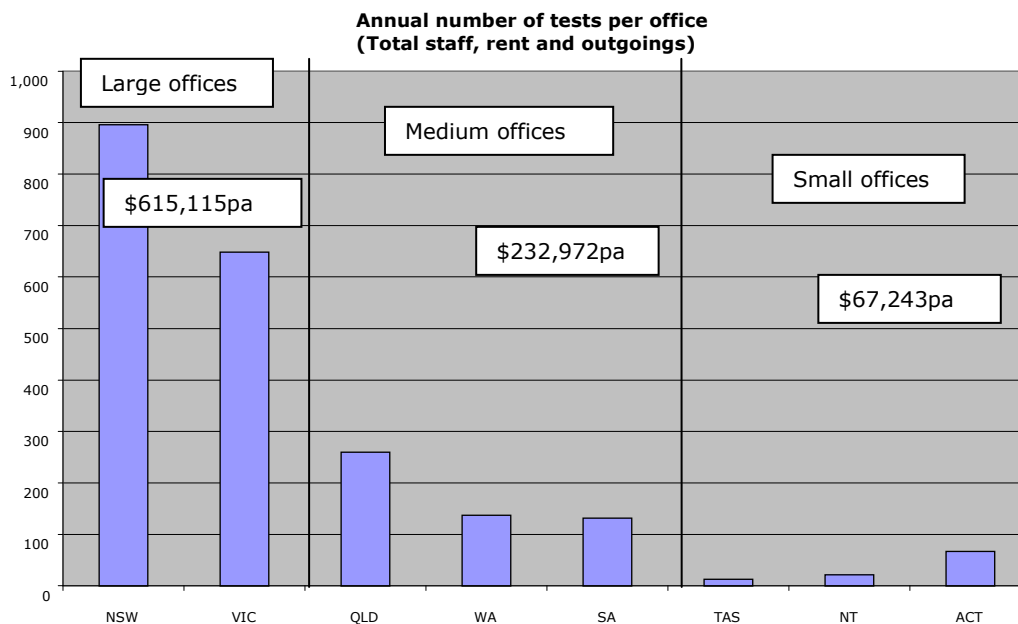
- After detailed analysis, the financial benefits of closing offices will be outweighed by the costs of having to meet the Statement of Expectations without a physical presence, with the exception of the ACT Office,
- The following charts provide data on the current state and post realignment strategy costs of providing testing services in all States and Territories through a national network of offices and the associated testing levels by office:

**Absolute Cost of State Offices
Pre and Post Realignment Strategy**



Rent and outgoings per office





- The above charts show:
 - The level of testing activity undertaken in the medium to large offices warrants a presence on the ground. The level of testing in the small offices is less but the costs of maintaining those offices is relatively minor. The closure of the ACT office will reduce the \$67,243 above in costs to \$34,442, and inject rent income into NAATI. The most cost effective means of being able to provide testing services in those localities and to meet the Statement of Expectations will warrant a physical presence,
 - There is a strong correlation between the costs of each office and the level of testing undertaken. The negative post Realignment Strategy costs of the ACT office reflect the impact of the sublease of the office,
 - The areas where most savings can be made are in the medium to large offices through reduced staff and rent savings. In addition to the staff savings, rent savings from the NSW office of \$40,000 will be sought.
- Accreditation through approved courses has significant limitations and probable adverse profit impacts in meeting the expectation of providing testing services for all community languages through alternate means (this is expanded further under the market analysis),
- There is an inbuilt desirable minor excess capacity that needs to be carried to ensure the Statement of Expectations is met, and relatively minor cost associated with the existence of the small offices.

Estimated property costs savings and rental income on current state -

\$104,000 per annum

2.5 BPR and ICT Strategy

The key elements of the BPR and ICT Strategy are:

- Reengineering of key business processes including:
 - Testing, and
 - Corporate and finance functions.
- Investment in ICT across testing, corporate and finance functions to enable the benefits of the business process reengineering to be achieved and maximised.

A summary of the financial impacts of the BPR and ICT project is summarised below:

Table 9 BPR and ICT Project

	Total	2009/10	2010/11	2011/12
Profit and loss				
Expenditure reductions	300,000	-	100,000	200,000
Salary and on costs	71,100	71,100	-	-
Transition costs	50,000	50,000	-	-
Overheads	14,220	14,220	-	-
Amortisation of capital investment	109,200	-	54,600	54,600
	244,520	135,320	54,600	54,600
Net profit /(loss)	55,480	(135,320)	45,400	145,400
Cash flow				
Expenditure reductions	300,000	-	100,000	200,000
Salary and on costs	71,100	71,100	-	-
Transition costs	50,000	50,000	-	-
Overheads	14,220	14,220	-	-
Capital investment	273,000	273,000	-	-
	408,320	408,320	-	-
Net cash (outflow) / inflow	(108,320)	(408,320)	100,000	200,000
Five year NPV (10%) – cash flow	\$205,139			
Payback period	45.3 months			
Permanent annual savings	\$145,400 after 2010/11			

The key assumptions / expectations are:

- The strategy assumes NAATI will achieve reductions of costs associated predominantly with the testing, corporate and finance business processes, through process redesign and improved use of technology,
- The project has a positive Net Present Value (NPV) cash flow over a 5 year period and a payback period of 45.3 months, which would indicate it is a financially viable undertaking,
- NAATI has a proposal which details the required investment in ICT, which supported the costs of \$273,000,
- One staff member will be redeployed from the current staffing realignments to work full time on this project during 2009/10. Transition and change management time and costs have been allowed for during 2009/10. These resources will be critical to the success of the BPR and ICT Strategy,
- The BPR and ICT Strategy should result in an initial reduction in expenditure of \$45,400 in 2010/11 and total permanent reduction in annual expenditure of \$145,400 after that year.

2.6 Quality Improvement

There is also other work in relation to other Constitutional objectives that have significant financial implications (e.g. critical quality improvements recommended by the Cook Report and other reviews) that would need to be addressed through additional resources over and above the resources allocated in the revised financial forecasts.

The Statement of Expectations asks these to be deferred into 2010 and beyond.

The Cook Report has been recognised as a key review focussed on what NAATI needed to do to improve its quality.

In the ESC Report WalterTurnbull identified that the Cook Report made thirty recommendations for the improvement of the quality of the testing processes of NAATI of which only one key recommendation has been implemented, this being independent marking for translation tests. However, NAATI has introduced improved screening of applicants through preparatory workshops and mock testing in response to a specific recommendation for introduction of a "NAATI Readiness Test" due to the costs of the recommendation.

A summary of costs as reported in the ESC Report follows:

Table 10 Summary of Cook Report Costs

No 11	Recommendation	Capital / One Off	Recurrent	Five Year View
Recommendations not implemented				
1	Formal appraisal of examiners	-	68,000	340,000
3	Program to monitor examiners marking	-	12,000	60,000
5	Use of panel in mentoring roles	-	5,000	25,000
6	Panel Chairs with appropriate qualifications	-	20,000	100,000
10	Mandatory examiner attendance at workshop	-	85,000	425,000
11	Review of examiner's remuneration	-	30,000	150,000
14	Enhance test setting guidelines	-	6,000	30,000
18	Feasibility study for phase in of computers for translating tests ¹²	25,000	-	25,000
22	Align processes for marking of translating and interpreting tests	-	6,000	30,000
26	Review the role and functions of the QAAC	60,000	-	60,000
	Costs for recommendations not implemented	85,000	232,000	1,245,000
Recommendations implemented				
21	Implement procedure for two independent markers for translation tests		95,000	475,000
27	Implementation of improved applicant screening ¹³	30,000	-	30,000
	Costs for recommendations implemented	30,000	95,000	505,000
	Total costs of Cook Report	115,000	327,000	1,750,000

¹¹ The number corresponds to the recommendation number in the Cook Report

¹² This would be the feasibility study only. It would not include the actual costs of capital and systems upgrade to improve technology estimated to be potentially \$50,000 per annum

¹³ It is important to note that NAATI did not implement the original recommended NAATI readiness test as actually referred to in the Cook Report but has implemented improved screening of applicants

NAATI has prepared an update of the costs that they think would be incurred in the implementation of the above, along with an estimate of where they would seek to reduce costs:

Table 11 Quality Improvement Strategy Costs

Details	2009/10	2010/11	2011/12
Salary and on costs - Admin Officer (Rec 1)	-	47,400	47,400
Cook Improvements			
Appraisal System for Examiners (Rec 1-3)	-	20,000	5,000
Mentoring Role for Panel Chairs (Rec 7)	-	14,000	14,000
Review Examiners' Remuneration (Rec 11)	-	70,000	70,000
Extend Scope of Examiners' Workshops (Rec 10&16)	-	30,000	30,000
Feasibility Study for Computers in Translating Testing (Rec 18)	-	20,000	15,000
Feasibility Study for On-Line Examiner Development	-	-	10,000
Amortization previous investment ¹⁴	-	49,400	49,400
Annualised costs	-	250,800	240,800
Absorption of previous investment costs by NAATI / adjustment to recommendations / efficiencies			
Salary and on costs	-	47,400	47,400
Amortisation of previous investment	-	49,400	49,400
Other reductions		22,000	49,000
Annualised forecast of quality improvements	-	130,000	95,000

NAATI have estimated annualised costs of \$95,000 per annum from 2011/12 and beyond.

The above costs would be above and beyond the forecasts presented in Section 2.3 of this report.

¹⁴ Amortisation represent estimated costs to date invested in implementation of Cook Report recommendations amortised over 5 years

3 Revalidation

3.1 Overview

NAATI has been required to introduce revalidation effective from 1 January 2007, requiring newly accredited translators and interpreters to revalidate their credentials every three years, with the first being due to do so from 1 January 2010. Existing accredited translators and interpreters may choose to join the regime.

It is intended that a fee be charged to accredited translators and interpreters for their revalidation.

3.2 Costs of Revalidation

An extensive analysis has been undertaken of the likely costs of the introduction and maintenance of a revalidation regime in order to estimate the potential fees that will need to be charged.

There is a range of tasks that need to be undertaken including:

- Development and implementation of the business processes and associated documentation to support the revalidation process,
- Upgrade of ICT to support the business processes,
- Development and implementation of a validation process to assess the revalidation applications.

NAATI has estimated that two full time staff will be required in the 2009/10 financial year to develop and implement the system, reducing to one and a half full time staff for two years after that, and then to one full time staff member.

There will also be a new fixed cost of information storage and maintenance, along with new variable costs associated with postage and certificates.

The following table summarises the expected costs associated with revalidation:

Table 12 Revalidation costing

	2009/10	2010/11	2011/12
Salary and on costs - revalidation officer	71,100	35,550	35,550
Salary and on costs - administration officer	59,250	59,250	59,250
Overheads – fixed and variable	70,812	54,712	50,204

	2009/10	2010/11	2011/12
Amortisation capital investment ¹⁵	15,000	15,000	15,000
Annualised costs	216,162	164,512	160,004

The following table provides details of the estimated level of accreditations over 2009/10 to 2011/12 as determined by NAATI, and provides an estimated cost per revalidation and averages for the three years:

Table 13 Costs per revalidation

Summary	Average	2009/10	2010/11	2011/12
Annual revalidation costs	180,226	216,162	164,512	160,004
Estimated revalidations	1,056	1,322	972	874
Cost per revalidation	\$171	\$164	\$169	\$183

There is a risk associated with the level of revalidations actually taken up that needs to be considered. Variations may lead to unrecouped costs accruing to NAATI. The following table analyses the impact of variations on the estimated levels of revalidations by reference to the average for the next three years:

Table 14 Revalidation sensitivity

Variability	5%	10%	15%	20%
Costs per revalidation	\$177	\$185	\$193	\$202
Potential loss through unrecouped costs	(6,583)	(13,165)	(19,748)	(26,330)

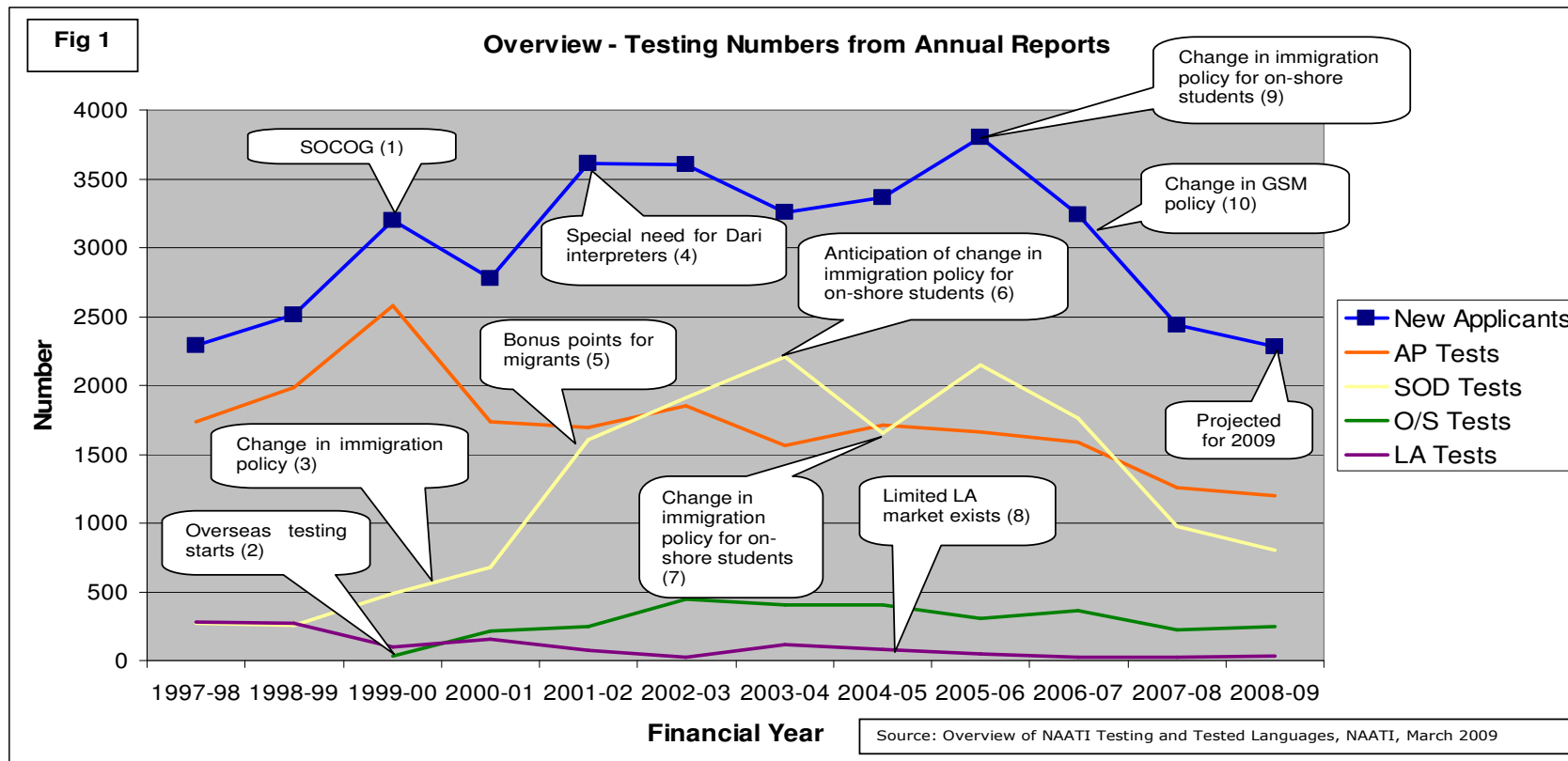
A major issue will be the impact of the level of fees that the market is willing to pay to revalidate. Whilst it is anticipated that the cost per revalidation on average for three years is about \$171, a 20% variation to the levels achieved this may lead to a loss of \$26,330 being incurred.

¹⁵ Amortisation represent estimated costs to date invested in the revalidation regime amortised over 5 years including ICT, stakeholder engagement and initial work on the framework and process

4 Market

4.1 NAATI Analysis – Overview of Testing and Tested Languages

As part of the planning process, NAATI performed an extensive analysis of the historical trends in testing levels which was reviewed by WalterTurnbull and is reproduced in this Section.



There have been significant peaks in testing (during 1999/2000 and 2005/2006) leading to a decline to the current levels of testing. Aside from a peak in 2005/2006, annual program testing has been relatively stable, but nonetheless shows an overall downward trend. The principal source of variation has been in Special on Demand (SOD) testing. In performing the analysis, NAATI noted the following points derived from views expressed by various boards in NAATI Annual Reports (the numbers correlate to those shown in the above chart):

- 1 Between 29 July 1999 and 30 June 2000, NAATI tested 589 candidates (PPI) in relation to the SOCOG program designed for the language volunteers to assist at the Olympic Games. (Annual Report 1999/2000),
- 2 Overseas testing commenced on 1 March 2000 and was developed due to a growing demand for testing overseas. The growth in demand is predominantly related to intending migrants who needed to have their skilled occupation assessed by NAATI as the designated Assessing Authority. (Annual Report 1999/2000),
- 3 An increase in SOD testing numbers was attributed to the new immigration regulations which required the assessment of skills prior to application for migration. This was in particular for overseas students in Australia who applied for NAATI special tests prior to their return to their home country after completing their course. (Annual Report 1999/2000),
- 4 A special need for Dari interpreters was identified early in the year due to the influx of asylum seekers. NAATI responded to a special request by the Department to provide training workshops and special accreditation testing for this language group. (Annual Report 2001/2002),
- 5 Between 1999 and 2001 there was a dramatic shift in the demand from annual program tests to SOD tests (as a percentage of total tests), part of which was attributed to intending migrants seeking to obtain either a skilled occupation assessment or an assessment of language fluency skills for the bonus points associated with fluency in a community language. (Annual Report 2001/2002),
- 6 A significant proportion of the demand for SOD tests and overseas tests was created by intending migrants who were seeking to obtain either a skilled occupation assessment or an assessment of language fluency skills for the bonus points associated with fluency in a community language. It is thought that 2003-2004 may have been an exceptionally high year for SOD tests as on-shore students sought NAATI accreditation prior to the introduction of the two year study rule by the Department on 1 April 2004. (Annual Reports 2002/2003 and 2003/2004),
- 7 In 2004/2005 there was a decline in the demand for SOD tests which appears to be related to a change in the immigration policy related to on-shore students. From 1 April 2004, international graduation students applying for permanent residency were required to complete two years of study instead of one. Since 2004-2005 represented the first year of a two year period, applications for

NAATI tests were significantly fewer. There seemed to be a start in recovery for SOD tests by 30 June 2005. (Annual Report 2004/2005),

- 8 The demand of language aide tests has declined after an initial strong uptake, particularly in Victoria. There is now a limited market for this test which remains dependent upon state government policies. (Annual Report 2004/2005),
- 9 In 2004-2005 there was a significant decline in the demand for SOD tests, which appeared to be related to a change in the immigration policy related to on-shore students. The demand for such tests showed recovery in 2005-2006. (Annual Report 2005/2006), and
- 10 The recent decline in testing (particularly SOD) has been attributed to a number of factors including fluctuations leading up to and following on from changes to General Skilled Migration in 2007.

Changes in Profile of Predominant Tested Languages

Fluctuations in testing have been represented by a minority of languages that have been traditionally associated with immigration (see green rows in Table 11 below) and dominated by Chinese/Mandarin. Some other languages have showed a general decline in testing roughly paralleling the decline in Annual Program testing (see brown rows in Table 11 *versus* Annual Program Testing in the above Chart) with relatively little cyclical variation.

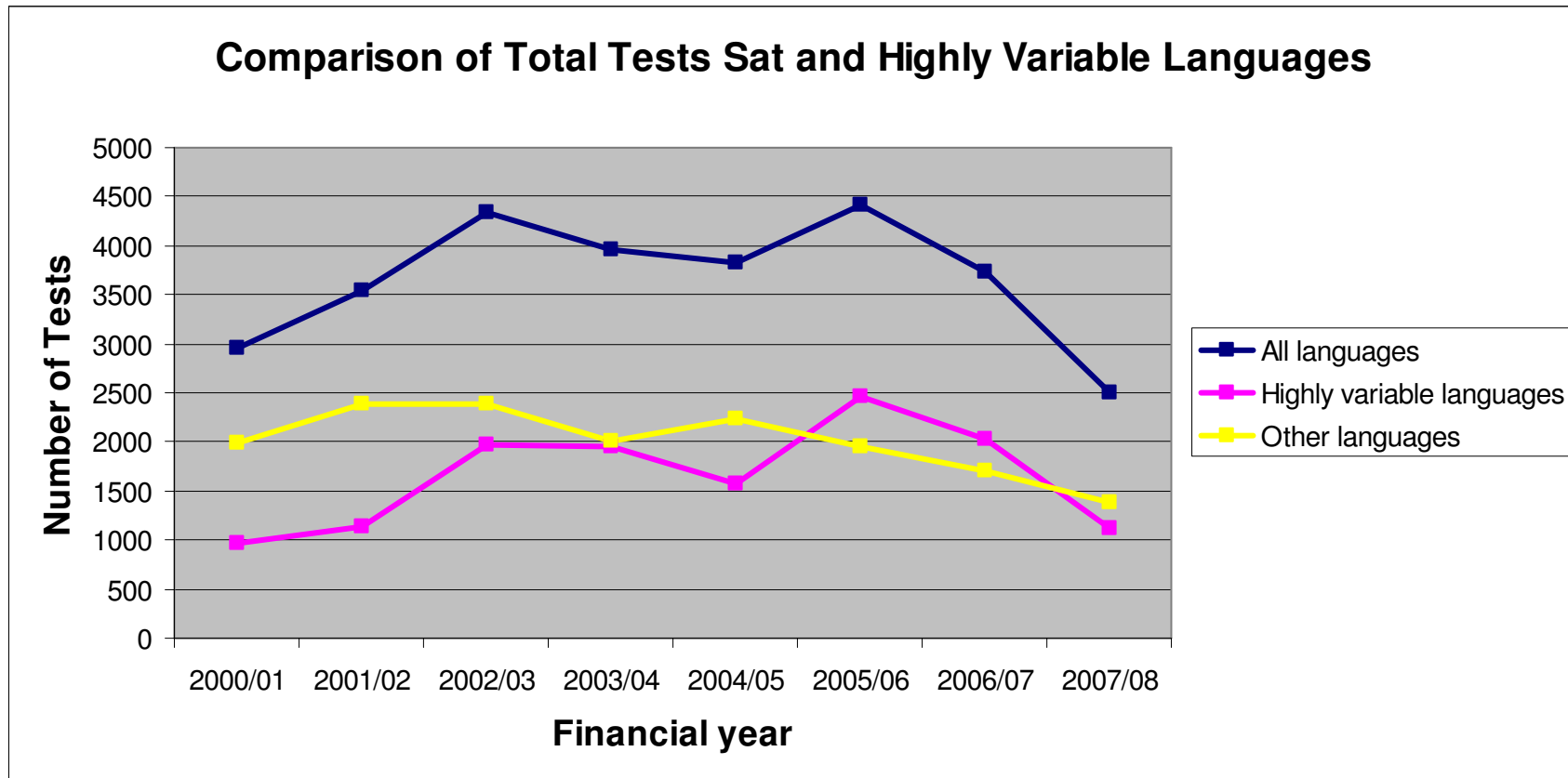
Table 15 Changes in Profile of Predominant Tested Languages

Language	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Chinese/Mandarin	589	792	1220	1108	818	1068	872	600	7067
Hindi	142	133	199	178	182	477	347	109	1767
Bangla	1	13	218	301	214	445	338	140	1670
Japanese	270	285	282	252	201	146	118	98	1652
Korean	186	137	246	234	184	147	168	141	1443
Arabic	137	169	205	167	243	194	157	127	1399

Language	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Spanish	58	181	196	142	163	131	125	119	1115
French	106	143	149	149	155	134	112	92	1040
Indonesian	152	172	149	118	83	105	96	43	918
German	128	95	169	99	111	109	117	80	908
Vietnamese	85	92	85	109	139	138	132	93	873
Italian	96	76	88	84	70	75	40	65	594
Sinhalese	25	34	47	86	65	141	135	82	615
Persian	72	116	56	68	71	73	91	92	639
Cantonese	74	52	60	31	91	83	58	49	498
Tamil	22	29	26	31	66	94	63	32	363
Malay	24	61	47	57	41	50	30	22	332
Urdu	26	46	36	46	43	55	47	18	317
Turkish	47	20	57	39	41	23	37	42	306
Punjabi	4	7	5	15	49	93	95	21	289
Cumulative	76.1%	74.9%	81.5%	83.8%	79.4%	85.7%	85.4%	82.6%	23805
Other languages	705	887	802	643	787	631	544	434	5433

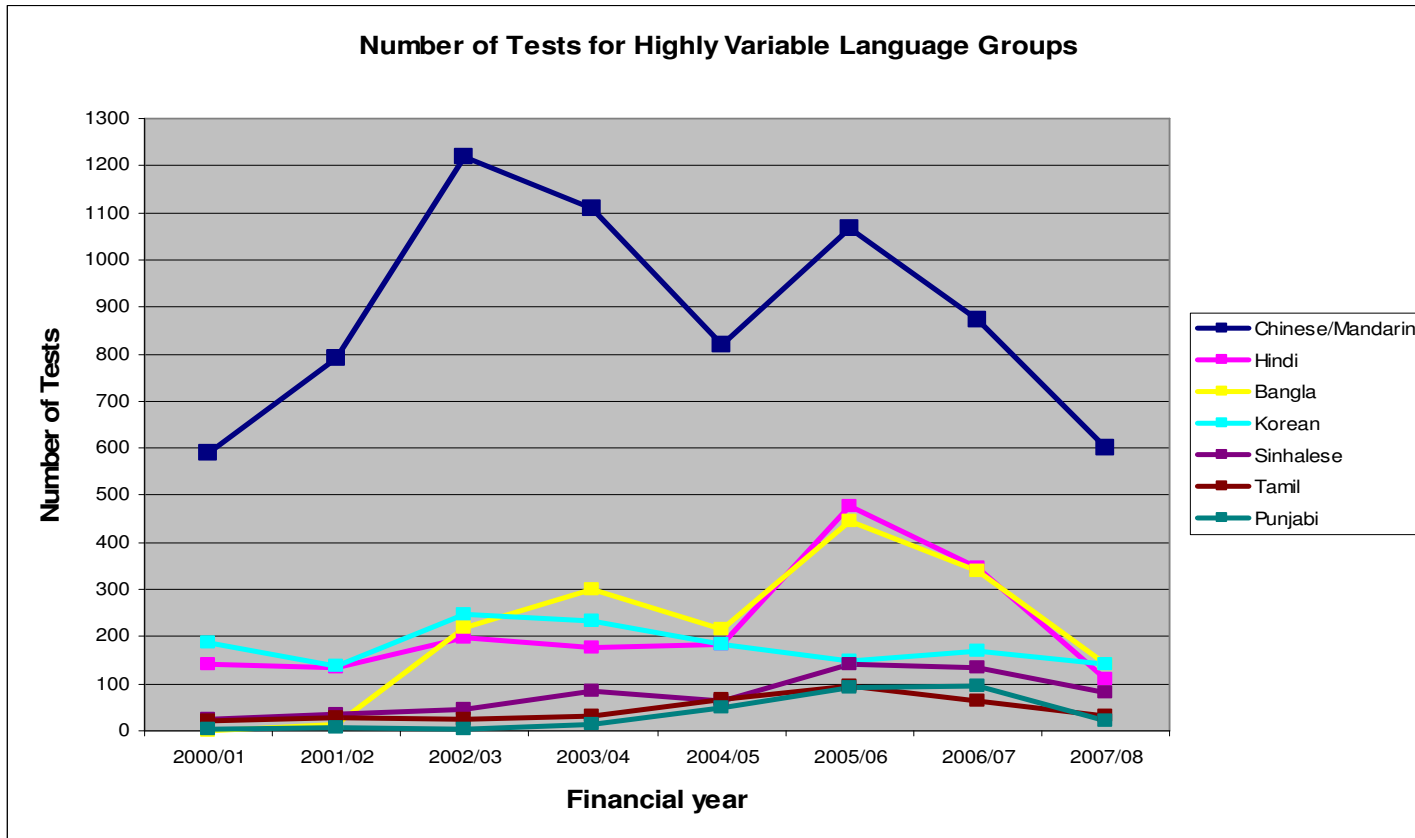
Relative Contributions of Highly Variable and Relatively Stable Other Languages

As shown in the Chart below the marked variations in testing seen over recent years is dominated by relatively few high-volume languages that are primarily associated with immigration, as distinct from an underlying relatively stable but slightly declining contribution from other languages.



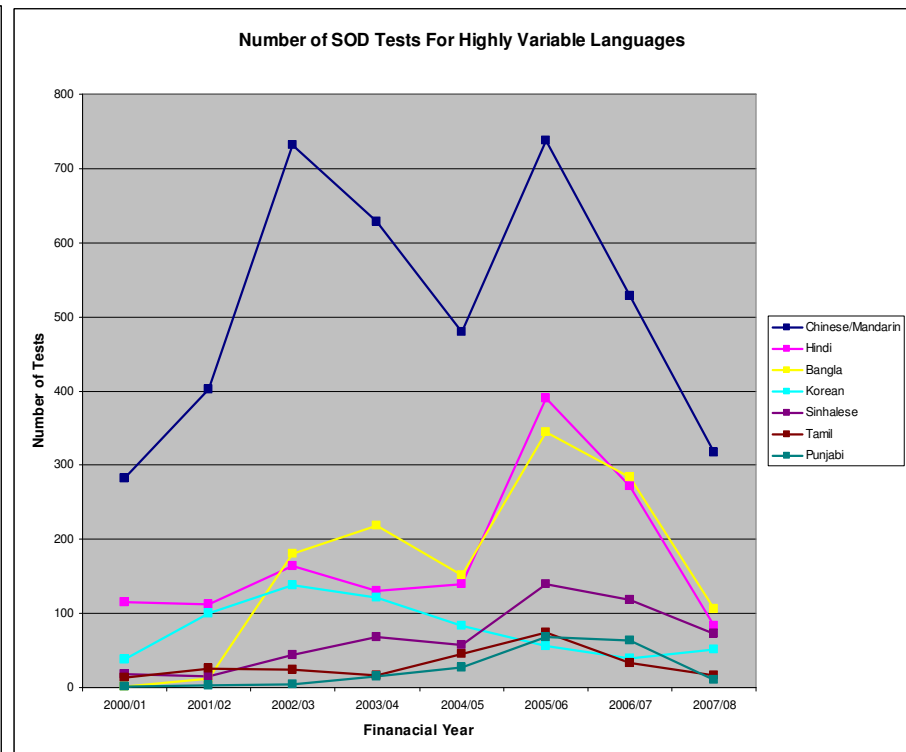
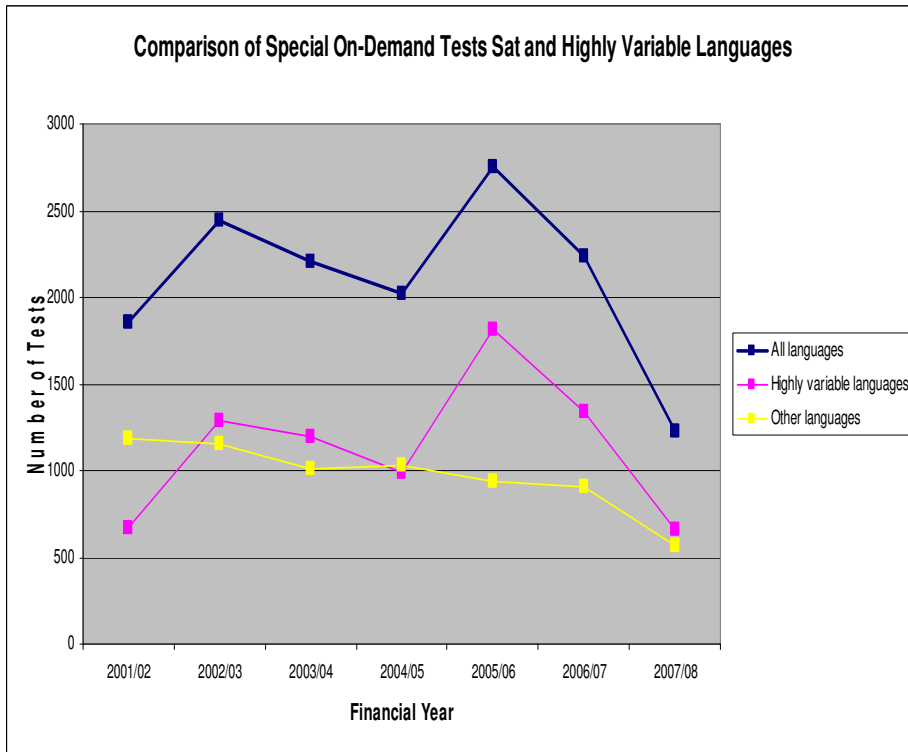
Contributions of Particular Languages to Variations in Testing

The following shows the predominance of Chinese/Mandarin among the 'variable' languages, followed by Hindi and Bangla.



Contribution of SOD Testing to Fluctuations in Testing.

This following charts show how the highly variable high-volume languages have contributed to variations in testing predominantly through variations in SOD testing (first Chart) and that this is reflected in corresponding variations in SOD testing in immigration-related languages (second Chart).

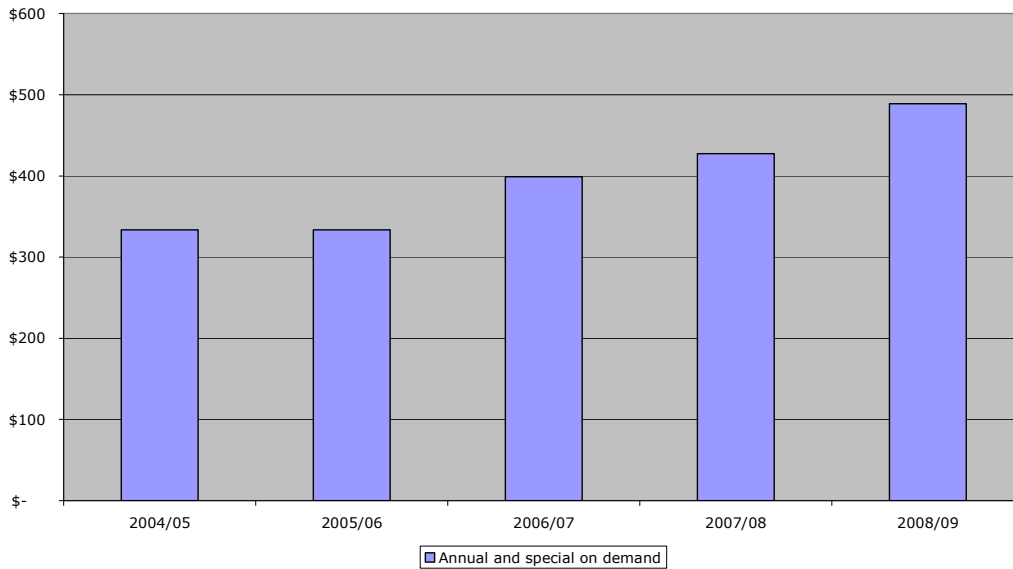


As SOD testing is a premium-priced, these fluctuations in testing have had a marked effect on NAATI’s revenue.

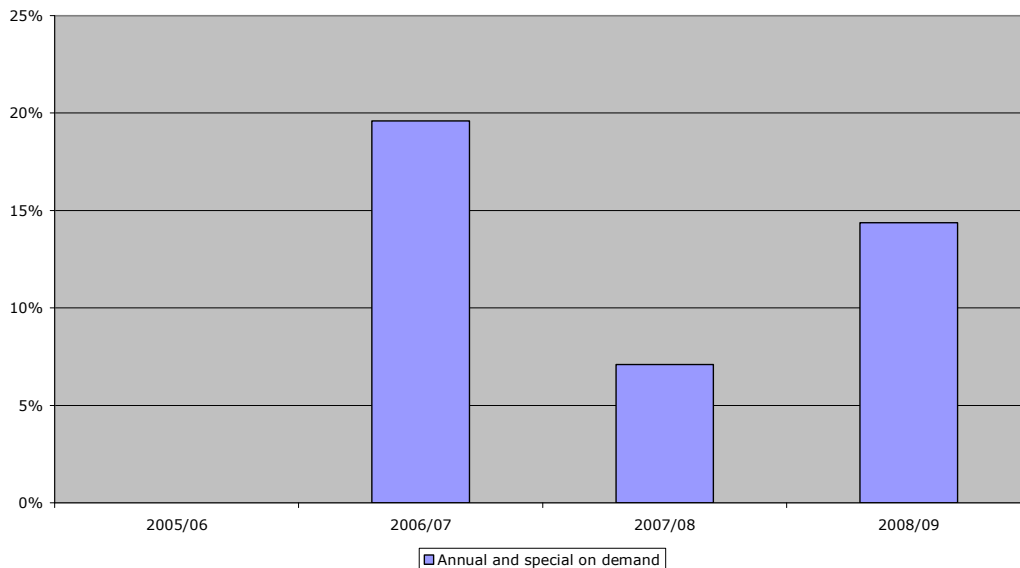
4.2 Fee Analysis

A review of fees over 2005 to 2009 shows that NAATI has placed significant upwards fee pressure on the market, particularly since 2005/06. However, until 2008/09 these increases have been modest in the Australian market, with a more aggressive fee strategy taken with the overseas market. This is illustrated in the charts below¹⁶:

Testing - Average fees main types

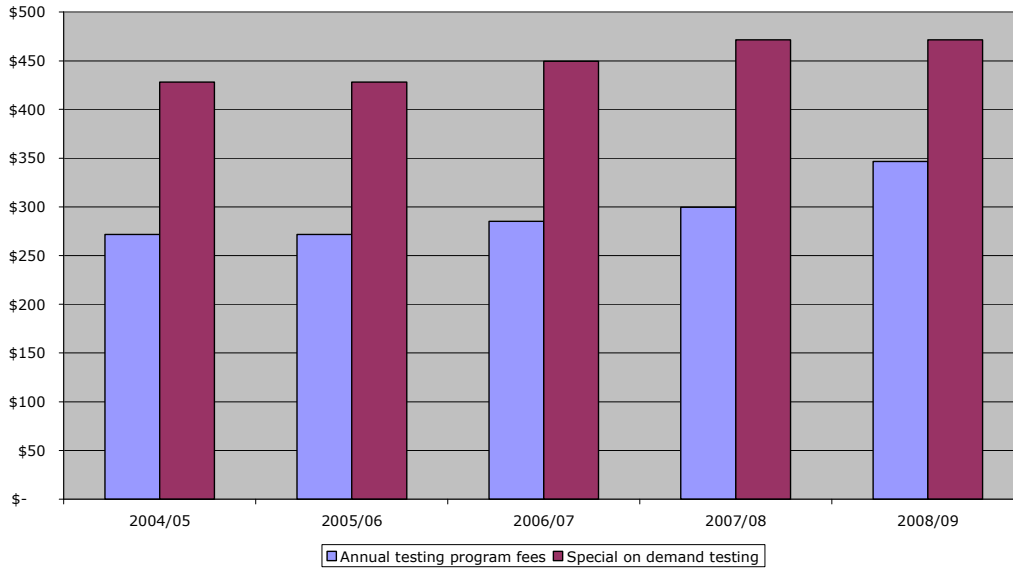


Testing - average fees % increase main types

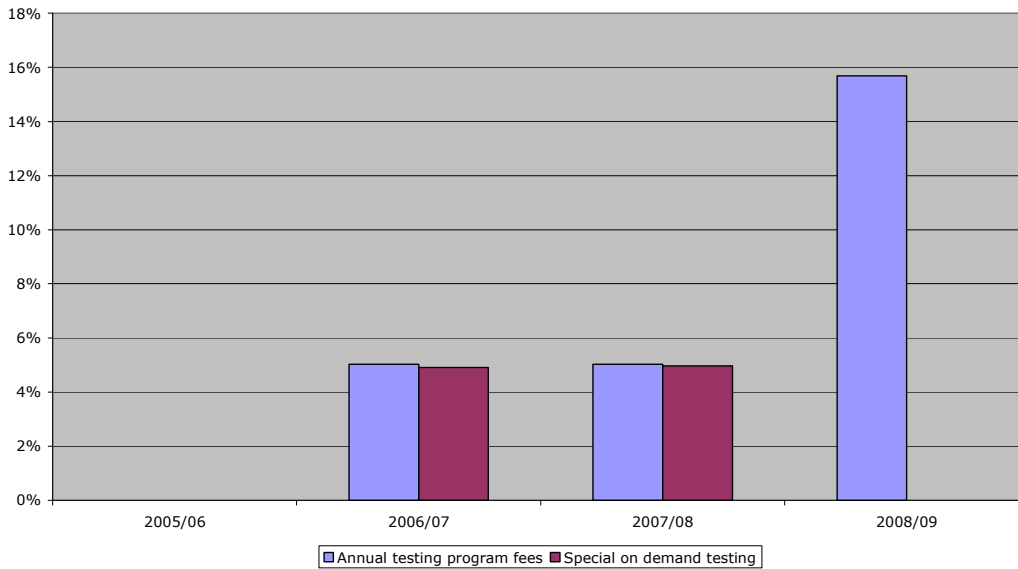


¹⁶ The fee analysis is an average of the different types of tests that represent the majority of NAATI activity

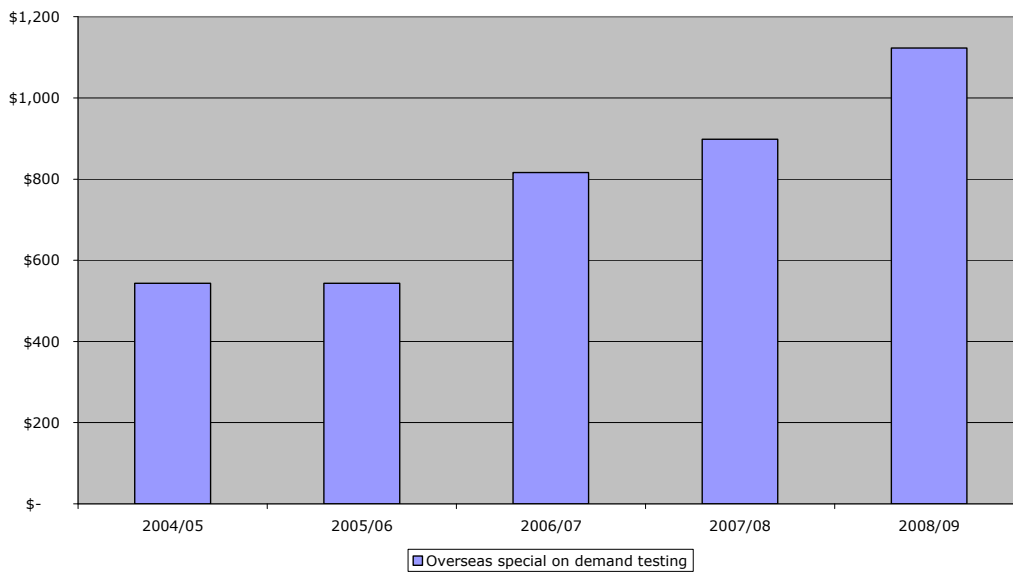
Australian testing - average fees main type - 2005-2009



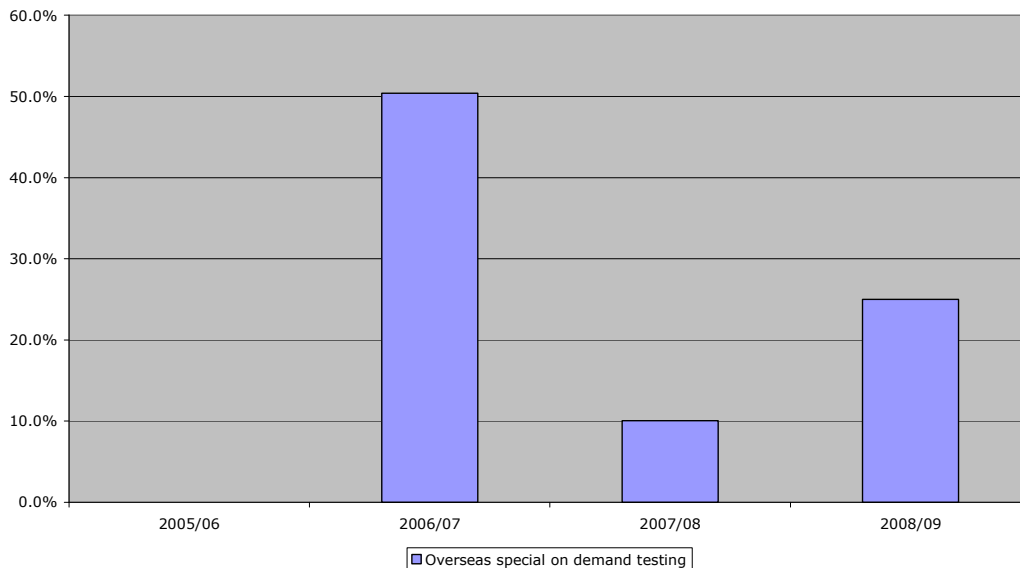
Australian fees - average % increases main types



Overseas testing average fees main type - 2005 to 2009



Overseas testing - average % increases



The declines in the levels of testing experienced after 2006/07 would not be explained by the fee increases levied. For Australian tests the fees experienced minor increases in that period, and represent the major decline in overall testing, particularly special on demand testing.

4.3 Profitability of Testing

In regards to Australian testing, there is a wide range of languages tested by NAATI. The top 10 languages for 2008 were:

Table 16 Top ten languages – NAATI 2007/08

No	Language	% of total	Cumulative % of total
1	Chinese	17%	17%
2	Korean	6%	23%
3	Bangla	6%	29%
4	Arabic	5%	35%
5	Spanish	5%	40%
6	Hindi	5%	44%
7	Mandarin	4%	49%
8	Japanese	4%	53%
9	Vietnamese	4%	57%
10	French	4%	61%

The ESC Report identified that many of these languages are those that are offered by education institutions. In considering the increased “outsourcing” of testing of languages regard needs to be made to the profitability of these languages.

WalterTurnbull undertook an assessment of:

- The revenue and estimated costs of testing, and
- The revenue and estimated costs of course approvals and accreditation by course

in order to determine the profitability of these activities. The results of the analysis is summarised below.

An analysis of Australian related data for 2007/08 reveals:

- The top 5 languages (9% of the total languages) represented 40% of the tests and revenue,
- The top 10 languages (18% of the total languages) represented 61% of the tests and revenue,
- The balance of 43 languages (81% of the total languages) represented 39% of the tests and revenue.

The importance of these statistics is the contribution these languages make to the profit of NAATI. Logically, the higher the volume, the greater the total gross profit contribution made to meet NAATI's fixed costs.

It is estimated that:

- The top 5 languages contributed gross profits sufficient to cover 57% of the estimated fixed costs associated with testing,
- The top 10 languages contributed gross profits to cover 87% of the estimated fixed costs associated with testing.

The full "outsourcing" of the testing of these languages would leave NAATI carrying 87% (or \$188,640) of its estimated fixed costs associated with testing uncovered.

An analysis of course approvals and accreditation by course approvals indicates that:

- The gross profit per accreditation (taking into account income and expenditure with both) based on 2008 figures per accreditation are significantly lower than testing,
- The volumes for 2008 do not generate sufficient gross profits to meet its portion of the fixed costs associated with the accreditation, if an attribution of the ICT related fixed costs are made in the same way they have been for testing.

On the face of it, it would appear to be a financially damaging decision to NAATI to seek to encourage the growth of accreditation by course approvals. At the current estimated gross profit of \$83 per accreditation, the volume of accreditations required to make up for a shortfall in fixed costs would need to increase to 2,270 per annum compared to the 423 undertaken in 2008.

Regard has also been had to the Australian Quality Framework, as referred to in the Statement of Expectations. It appears that there may be some conflict between the Statement of Expectations, where members recognise the need for NAATI and its role in being the National Authority in this market, and a proposed application of the Framework that could potentially exclude the requirement for courses being NAATI approved. NAATI should continue to take an active role in the approval of courses developed under this Framework along with appropriate fees being earned to cover costs, as occurs in other professions.

The Statement of Expectations requires NAATI to provide testing in such a wide range of languages. Key implications from this and the above analysis include:

- NAATI is unlikely to place much further fee pressure on the market to cover costs (although through the BPR and ICT process a simplification of fee structure is proposed as part of the removal of annual testing),
 - It is highly unlikely that the market will provide sufficient coverage of languages to meet this requirement,
 - It does not have the opportunity to reduce fixed costs associated with testing, as it will still need to provide testing, and
-

- Educational institutions have demonstrated some take up of this function, but mainly in the languages currently profitable to NAATI.

The balance between the supply of sufficient translators and interpreters and the market's ability to deliver these within an appropriate cost structure and at an appropriate quality appears to have fairly significant challenges. It is proposed that NAATI undertakes a formal market analysis and study, the costs of which have been factored into the BPR and ICT project.

Appendix A: Background and Objectives

Objective

The objective of this project was to assist NAATI in the implementation of a number of recommendations from the Independent Review.

Recommendations of the Independent Review

The recommendations of the Independent Review which were covered by this project were as follows:

- The Board and CEO of NAATI should develop a strategic plan with appropriate consultation with the Members, and other stakeholders. They should also develop underlying business plans for the delivery of the strategic objectives and outputs for NAATI. As a starting point, this process should have regard to the framework reported in the Subcommittee Report 2002, along with the work undertaken to date by the Board and the CEO,
- As part of the development of the strategic and business plans, NAATI should undertake a detailed costing of its functions in order to determine its costs between variable, semi variable and fixed, as well as by National, State and Territory Offices. It should also cost delivery of its core activities. This will assist in determining the appropriate funding base for NAATI, as well as enable the development of work plans that align with strategic objectives. It will also assist in making decisions about any organisational readjustments and restructuring that are required to deliver the plan. It should be noted that revision to the financial systems are required to provide better and more streamlined information to assist the Board and management in the decision making process,
- The funding agreement should be revised to reflect the new strategic plan. The funding agreement should be significantly rationalised to reduce the number of outputs to be reported. In addition, the full costing of NAATI, as a whole, identifying the costs to deliver the strategic plan, along with funding sources should be reflected in the funding agreement. The funding agreement should identify the costs of NAATI existing and the costs of NAATI delivering its outputs. Sufficient funding should feature to enable NAATI to operate efficiently, effectively and to fulfil its objectives at acceptable standards,
- Any revision of the funding model should ensure that new activities Members require NAATI to deliver or the Board wishes to deliver, which result in a permanent increase to the cost base (or result in savings), are reflected in a revised level of funding. Any one off or new initiative that the Members request of NAATI should be separately funded based on an appropriate business case, and
- The strategic and business plans will need to be progressively implemented. Adjustments and restructuring of the business as appropriate would form part of the implementation process.