

In confidence

Office of the Minister of Education

Chair, Cabinet Social Wellbeing Committee

OVERVIEW OF THE FINANCIAL POSITION OF THE INSTITUTES OF TECHNOLOGY AND POLYTECHNICS SECTOR

Proposal

1. This paper responds to Cabinet's request for an update on the financial position of New Zealand's institutes of technology and polytechnics (ITPs) sector. It also provides information about the actions that I and the Tertiary Education Commission (TEC) are taking to better identify and manage individual ITPs that could be at risk of short-term cash-flow issues.

Executive Summary

2. ITPs are an integral part of New Zealand's wider tertiary education network, but are currently under significant pressure. They are being out-competed both by the strong labour market and other tertiary education providers, meaning falling enrolments and declining revenues. They also face rising cost pressures, and many have been unable or unwilling to shift business models in a timely manner to ensure sustainability.
3. New Zealand needs a network of providers that is strong and viable over time. It means outcome focussed delivery of responsive, quality vocational and foundation education that meets the needs of learners and industries in New Zealand's regions and communities. This would complement the overall skills development in New Zealand and priorities such as construction and forestry skills and a high-value international education industry.
4. However, the existing sector arrangements are not viable, and the funding arrangements for the ITP sector, which are mostly based on student enrolments, expose the ITPs in particular to the business cycle. This in turn means that access to relevant programmes is more immediately at risk, particularly in regions.
5. I advised Cabinet in March 2018 that I had launched the ITP Roadmap 2020 project to address these issues by exploring how the current devolved network of autonomous providers can operate better as a system (SWC-18-MIN-004 refers). I have also provided Cabinet with a detailed update on the ITP Roadmap 2020 project (SWC-18-MIN-0017 refers), which will produce advice for me to consider by the end of September 2018.
6. Further, I have commissioned a review into the vocational education and training system, which will consider what changes to sector roles and the funding system are

needed for vocational education to be viable across the business cycle and complement the ITP Roadmap 2020 project work.

7. The above system changes can take a number of years to unfold. The accompanying Cabinet paper proposes funding to support both Unitec Institute of Technology (Unitec) and Whitireia New Zealand (Whitireia) in the meantime, which are currently in weak financial positions.
8. The Crown has already provided capital injections to Tai Poutini Polytechnic in 2017 and 2018.
9. While I do not expect any more ITPs to become unviable in 2018, the poor financial position of ITPs means that more support may be needed before the new system is fully in place. Any additional support of this nature is optional and will be designed to help move the sector towards the agreed new configuration.

Summary of sector's financial position

10. Overall, the ITP sector is in a poor financial position. Audited 2017 results show deficits at nine individual ITPs ranging from -3.6% to -18.7% of revenue (after unusual and one-off items) and a net sector deficit of -\$51.2 million. This position is exacerbated by sharper than expected declines in domestic enrolments during 2018. 2018 budgets and forecasts indicate that 10 of the 16 ITPs will return a deficit in 2018, including all of those that returned a deficit in 2017. It is unlikely that any individual ITP will return a surplus above 3%, which is the level required to be considered "low risk" on the TEC's current Financial Monitoring Framework.
11. The sector's financial performance is likely to decline further in 2019 and beyond. The Minister of Immigration's proposed changes to post-study work rights for international students are likely to have a significant impact on Auckland-based ITPs, or those with international campuses in Auckland. TEC modelling suggests only two ITPs will make an operating surplus in 2020, and only one in 2022.
12. Based on the above factors, and the issues experienced by Unitec and Whitireia, officials consider the 9(2)(b)(ii) [REDACTED] to be most at risk of short-term cash-flow difficulties that, if not addressed, could necessitate a further need for Crown financial support later in 2019. Statutory interventions of various kinds are either already in place, or being considered, for each of these institutions.

More robust financial monitoring of the sector

13. The Chief Executive of the TEC has used his powers under the Education Act 1989 (the Act) to request additional detailed financial information from both Unitec and Whitireia and the other ITPs considered a moderate risk. This information will support earlier identification of at risk ITPs which may require Crown support in the short to medium term, and enable TEC to work closely with each ITP to at best avoid the need for Crown financial assistance or at least limit the extent. This information will also inform whether further or more serious statutory interventions may be necessary at various institutions.

14. In the longer term, the TEC is reviewing its business as usual financial monitoring processes. Historically, its financial assessments have placed significant reliance on the integrity of information provided by ITPs, Section 9(2)(g)(i) [REDACTED] the need for additional information, to ensure TEC has sufficient information to identify any short-term cash-flow issues earlier.

Background

15. ITPs are an integral part of New Zealand's wider tertiary education network. They play a vital role in preparing young people for work, as well as supporting adults to retrain in a rapidly changing economy. They also provide a significant contribution to their local economies and communities, with some, such as NorthTec, supporting communities that otherwise would have very limited access to tertiary education and training.
16. However, over the last two decades, driven by government priorities and funding incentives, ITPs have refocused their delivery. They have moved away from community education and sub-degree short awards (including up skilling of adults already in the workforce via part-time and block-course delivery). Instead they moved toward delivering to young people studying toward a first qualification, especially at higher levels (including degrees). Having made this shift, ITPs are now being out-competed for their target student group, both by the strong labour market and other tertiary providers.
17. While there is a need for change driven by the nature and quality of delivery, change is also needed to secure ITPs' financial positions. Demand for places at ITPs is counter-cyclical to the economy, and ITPs are largely dependent on tuition subsidies and student fees, which historically decline at this point in the cycle. Base funding for the sector was removed in 2010 (with the funding instead bundled into volume-based funding).
18. The 2008 global financial crisis and a weak labour market resulted in significantly increased volumes of students studying full-time. With the current strong economy, volumes have dropped again, and the approach over the last ten years has left the sector significantly exposed.
19. ITPs have faced rising cost pressures with a limited ability to shift their business models to make them more profitable, and many ITPs are now in an unsustainable financial position. Modelling commissioned by the TEC found that only six ITPs will make an operating surplus in 2018, reducing to two by 2020 and one by 2022. On that basis, the sector could return an overall deficit of -\$44 million in 2018, increasing to just under -\$96 million by 2022.
20. In response to these issues I advised Cabinet in March 2018 that I had launched the ITP Roadmap 2020 project and a broader policy review of vocational education and training. The purpose is to explore how the current devolved network of autonomous

providers can operate better as a system. This will enable the resources of the whole network to achieve high-quality vocational education and training across the country. It will ensure long-term sustainability and viability of ITPs by affording financial advantages in terms of scale and efficiency.

21. I have provided a detailed update on the ITP Roadmap 2020 project in support of my accompanying paper, seeking short-term financial support for two individual ITPs, Unitec and Whitireia. The ITP Roadmap 2020 project is progressing well, with a collaborative, co-design process underway to produce advice for me to consider by the end of September 2018. I have made it clear to officials and the sector that the government sees the status quo as unsustainable and that change is essential. The co-design process is a key input to affect a meaningful change with the Government ultimately making the decision on the future direction, which is due by the end of 2018.
22. In response to the current financial support needed for Unitec and Whitireia, Cabinet requested a report back on the financial position of the broader ITP sector.

ITPs have traditionally struggled to change their business to remain viable as demand fluctuates...

23. As I have previously advised Cabinet (SWC-18-MIN-004 refers), the ITP sector has experienced significant viability issues several times in the last 25 years, each time when enrolment levels decreased. As a sector, ITPs have struggled to align their cost structures with lower volumes or to find new groups of students to maintain volume. When the economy is strong ITPs are vulnerable to losing students to universities at degree-level, the employment market, industry training systems and other providers such as private training establishments at trades and foundation education levels.
24. Many ITPs have reduced their operating costs significantly over the years within the current ITP operating model, rather than exploring different operating models. As a result, additional cost reductions are no longer sufficient to offset the recent downturn in equivalent of fulltime students (EFTS) volume. It has left many ITPs with no further cost savings to easily realise. The ITP Roadmap 2020 project is looking to address this challenge.

...but the situation has worsened more quickly than expected in 2018...

25. I have been signalling for some time that many ITPs were already in a weak financial position at the beginning of the ITP Roadmap 2020 project. As noted above, modelling commissioned by the TEC found only six ITPs will make an operating surplus in 2018, reducing to two by 2020 and one by 2022. Unitec and Whitireia are a case in point.
26. In recent months, I have made a number of decisions aimed at alleviating the financial pressure, not only for ITPs, but for the tertiary sector as a whole. This includes a freeze on competitive funding processes and an increase in funding rates (funded from existing baseline appropriations).

27. However, the decline in EFTS during 2018 was more severe than anticipated. Overall ITPs were funded for a total of 57,500 domestic EFTS in 2018 but year to date enrolment data is -2.9 % (1,071 EFTS) lower than the same time in 2017, suggesting EFTS numbers may not be achievable. While some ITPs are reporting that semester two enrolments have increased, there is still uncertainty as to the extent.
28. Growth in international EFTS, which in previous years has offset declining domestic revenue for many ITPs, is now also beginning to decline, with year to date enrolments showing full fee international EFTS down by -6.1% (436 EFTS) compared to the same time last year¹.

...and this leaves the ITP sector in a weak overall financial position

29. The financial position of the ITP sector had already declined significantly in 2017, compared to 2016. The table below shows the financial position of the sector based on 2017 audited results, which are the most recent final full year results available.

| ITP Sector Financial Summary | 2013 Audited (\$m) | 2014 Audited (\$m) | 2015 Audited (\$m) | 2016 Audited (\$m) | 2017 Audited (\$m) | Change 2016- 2017 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------|
| Total Income | 1,056 | 1,072 | 1,120 | 1,131 | 1,098 | □ |
| Total Government Funding | 625 | 618 | 619 | 614 | 574 | □ |
| Total International Income | 100 | 117 | 162 | 180 | 188 | □ |
| Total Domestic Fees and Charges | 245 | 234 | 239 | 234 | 225 | □ |
| Total Expenditure | 1,025 | 1,048 | 1,076 | 1,108 | 1,126 | □ |
| Net surplus/(deficit) before unusual items | 32 | 24 | 44 | 23 | (28) | □ |
| Net surplus/(deficit) (before unusual items) ratio | 3.0% | 2.2% | 3.9% | 2.1% | (2.6%) | □ |
| Net surplus/(deficit) after unusual items | 15 | 15 | 39 | 26 | (51) | □ |
| Net surplus/(deficit) (after unusual items) ratio | 1.4% | 1.4% | 3.5% | 2.3% | (4.7%) | □ |
| Total Liquid assets | 260 | 273 | 306 | 264 | 247 | □ |
| Total Debt (including finance leases) | 27 | 77 | 66 | 111 | 203 | □ |

30. While a small number of ITPs performed well, the remainder all exhibited declining performance.
31. Nine ITPs reported a deficit in 2017, ranging from -0.5% of revenue to -9.1% of revenue, contributing to an overall sector operating deficit of -\$28.5 million before unusual and one-off items. Unusual and one-off items increased this to deficits ranging from -3.6% to -18.7% of revenue, and a net sector deficit of -\$51.2 million. The audited financial results for each individual ITP are included in Appendix 1.

¹Unitec and Whitireia experienced the largest decline with 245 and 167 EFTS respectively.

32. The larger than anticipated decline in domestic and international enrolments during 2018 has exacerbated the sector's financial issues.
33. 2018 budgets and forecasts indicate that 10 ITPs will return a deficit in 2018, including all of those that returned deficits in 2017. It is unlikely that any individual ITP will return a surplus above 3%, which is the level required to be considered "low risk" on the TEC's Financial Monitoring Framework.
34. In addition to the numerous deficits, ITPs' cash reserves are depleting. Some ITPs, such as Southern Institute of Technology (SIT), Eastern Institute of Technology (EIT) and the Open Polytechnic, have healthy cash reserves and could absorb a short period of operating losses. However, many do not, and risk running out of cash in the near future. An increasing number of ITPs are borrowing in order to fund capital developments, or to provide cash-flow cover. This has been the case for both Unitec and Whitireia.

Financial performance is likely to decline further in 2019 and beyond...

35. The forecast deficits of 10 ITPs in 2018 aligns with modelling commissioned by TEC, which suggested that only six ITPs would return a surplus in 2018 and that only two ITPs would make an operating surplus in 2020 reducing to one in 2022. Overall, the sector could return a total deficit of -\$44 million in 2018, increasing to nearly -\$96 million by 2022.
36. The modelling was based on 2017 results and reasonable assumptions, and does not account for changes as a result of the ITP Roadmap 2020 project, and I would also expect many ITPs to individually respond to their challenges and fare better than these forecasts.
37. The Minister of Immigration's proposed changes to post-study work rights for international students are also likely to significantly impact on the financial positions of some ITPs. While officials advise that international education markets should adapt and recover from the proposed changes, Auckland-based ITPs, or those with large international campuses in Auckland, are likely to experience substantial revenue impacts from late 2018 and throughout 2019.

...and four ITPs are already considered at-risk of needing financial support in the short-term

38. The Crown has already provided capital injections to Tai Poutini Polytechnic in 2017 and 2018 and I am currently seeking Cabinet approval to provide a capital injection to Whitireia and a concessionary loan to Unitec.
39. Officials consider that four other ITPs are at high-risk and may be in need of financial support from the Crown in the next 18 months.
40. The table below reflects officials' current assessment of ITPs where their short-term viability is at risk².

² The basis for this assessment is their audited financial results, financial forecasts and indicators of short-term cash-flow issues identified by officials and independent financial advisors as a result of the situations at Unitec and Whitireia. It also includes assessment of the likely impact on individual ITPs of future changes, such as proposed changes to post-study work rights.

| Extreme Risk/Immediate concern | High risk/short term concern | 9(2)(b)(ii) and 9(2)(j) |
|------------------------------------|---|-------------------------|
| Unitec Whitireia Tai Poutini | Section 9(2)(g)(i), 9(2)(ba)(i) and 9(2)(j) | |

41. Detailed information about the above ITPs is included in Appendix 2, which sets out statutory interventions already in place, and Appendix 3, which includes an overview of each institution’s financial position.

Immediate steps are being taken to gain greater assurance about those at high risk...

42. The above risk assessments also rely on the integrity of financial information provided by ITPs to the TEC. This includes both historical data, which is confirmed against audited annual reports, and five year financial forecasts³ supplied by ITPs at least twice per year.

43. Both Unitec and Whitireia were already considered high risk on the Financial Monitoring Framework and subject to more rigorous financial monitoring by the TEC. However, Section 9(2)(g)(i) [redacted] TEC has had insufficient information to identify the short-term cash-flow issues earlier.

44. As a result, in the short-term, the Chief Executive of the TEC has used his powers under section 195B of the Act to request additional detailed financial information from those institutions deemed high risk. The information requested is based on that provided by independent financial advisors in place at Unitec and Whitireia,

45. The information received will be used to undertake a deeper dive into ITPs’ short-term viability, and provide greater clarity as to which organisations are likely to experience similar difficulties to Unitec and Whitireia. Those ITPs considered moderate risk will also be asked to provide this information (albeit not under the Act, as this requires a certain level of risk to be achieved).

46. The goal of this work is early identification of ITPs that are having financial difficulties to provide the opportunity to work closely with them to avoid the need for future Crown financial assistance or at least limit the extent. Analysis of this information may lead to additional statutory interventions, from the appointment of independent financial advisors to more serious interventions, such as Crown managers or commissioners.

47. TEC has already additional monitoring arrangements in place for MIT and WITT.

48. Further, based on reasonable grounds that there is a serious risk to the ongoing operation of Unitec, I have dissolved the Council of Unitec and appointed a Commissioner under section 195D(1) of the Act. As well as overseeing Unitec’s return to viability, this appointment also affords the Crown greater assurance that its financial support will be appropriately managed.

³ Forecasts include statement of comprehensive income, balance sheet, cash flow statements, EFTS forecasts and details of assumptions used.

49. A Crown Manager is in place at TPP, and I am currently being advised on the options available to me for Whitireia.

50.

...and the TEC is strengthening its financial monitoring processes further

51. The TEC has to date been reliant on the provision of specific kinds of information to monitor TEIs' finances. Requests for more detailed information have only been possible once the viability or performance of an institution is already believed to be at risk.

52. The learnings from Unitec and Whitireia are assisting the TEC to strengthen its ongoing business as usual monitoring processes. The short-term work set out above will also contribute to this work. The detailed information requested in these cases could form part of TEC's standard information requirements for its Financial Monitoring Framework in the future.

53. Instead of relying on lag data like the Single Data Return, the TEC will be requesting more lead data, such as student applications, offers of study and student acceptance rates compared to previous years. Similarly, due to the variability and longer term nature of forecasts, monthly/daily cash-flow forecasts will be obtained and compared to actual numbers.

54. A stronger focus on governance will also form an important part of this work. In response to the governance failures at Unitec and Whitireia, the TEC is already more actively monitoring council operations for those ITPs considered to be at high or moderate risk of short-term viability issues.

Consultation

55. This paper has been prepared by the TEC. The Ministry of Education has been consulted and its comments have been reflected in the paper. The Department of Prime Minister and Cabinet have been informed.

Financial Implications

56. There are no financial implications from this paper.

Other Implications

57. There are no human rights, gender or disability implications associated with this paper.

Publicity

58. There is no planned publicity relating this paper. However, a proactive release may generate media interest.

Proactive Release

59. I am proposing not to proactively release this paper at this time as some of the content is commercially sensitive and could impact on ITPs' business operations. If the paper is proactively released it will be subject to redactions as allowed under the Official Information Act 1982.

Recommendations

The Minister of Education recommends that the Committee:

1. Note that the ITP sector has come under increasing financial pressure in recent years due to declining enrolment of domestic and international students and competition from other parts of the education sector;
2. Note that combined with rising cost pressures many ITPs are now in an unsustainable financial position;
3. Note that to counteract this trend I launched the ITP Roadmap 2020 project to explore how the current devolved network of autonomous providers can operate better and commissioned a review into the vocational education and training system;
4. Note that I am seeking short-term financial support for Unitec and Whiteira who are in acute financial distress and will otherwise no longer be financially viable by September 2018;
5. Note that any additional support of this nature is optional and will be designed to help move the sector towards the agreed new configuration;
6. Note that 2017 financial performance of the ITP sector declined significantly compared with the 2016 performance;
7. Note that modelling based on high level assumptions found that the sector could return a total deficit of -\$44 million in 2018, increasing to just under -\$96 million by 2022, with only one returning an operating profit at that time;
8. Note that TEC has instigated more detailed monitoring for those organisations that pose the biggest risk; and
9. Note that this paper satisfies my requirement to report back to Cabinet on TPP (SWC-18-Min-0005) refers.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education

Appendix One – Individual ITP performance by year

| | Total Government Funding (\$000) | | | Total International Revenue (\$000) | | | Total Income (\$000) | | | Net Surplus/(Deficit) Before Unusual Items (\$000) | | | | | Net Surplus/(Deficit) After Unusual Items (\$000) | | | | | | |
|---|----------------------------------|----------------|----------------|-------------------------------------|----------------|----------------|----------------------|------------------|------------------|--|--------------------------|---------------|--------------------------|-----------------|---|---------------|--------------------------|---------------|--------------------------|-----------------|--------------------------|
| | 2015 Audited | 2016 Audited | 2017 Audited | 2015 Audited | 2016 Audited | 2017 Audited | 2015 Audited | 2016 Audited | 2017 Audited | 2015 Audited | 2015 Net surplus ratio % | 2016 Audited | 2016 Net surplus ratio % | 2017 Audited | 2017 Net surplus ratio % | 2015 Audited | 2015 Net surplus ratio % | 2016 Audited | 2016 Net surplus ratio % | 2017 Audited | 2017 Net surplus ratio % |
| CPIT/Ara Institute of Canterbury (1) | 58,024 | 67,990 | 64,828 | 11,139 | 14,414 | 13,653 | 100,436 | 116,161 | 112,036 | 5,963 | 5.9% | 7,713 | 6.6% | 2,816 | 2.5% | 19,227 | 19.1% | 31,468 | 27.1% | 2,823 | 2.5% |
| Eastern Institute of Technology | 39,151 | 40,151 | 39,190 | 5,010 | 6,818 | 9,061 | 59,631 | 63,559 | 64,398 | 1,944 | 3.3% | 2,618 | 4.1% | 151 | 0.2% | 1,944 | 3.3% | 2,618 | 4.1% | 151 | 0.2% |
| Manukau Institute of Technology | 65,589 | 62,744 | 51,756 | 14,113 | 17,224 | 16,156 | 113,361 | 113,933 | 103,802 | 4,028 | 3.6% | (196) | (0.2%) | (7,577) | (7.3%) | 3,037 | 2.7% | (133) | (0.1%) | (7,030) | (6.8%) |
| Nelson Marlborough Institute of Technology | 20,069 | 19,909 | 20,283 | 8,600 | 9,328 | 8,187 | 41,473 | 42,227 | 41,324 | 3,395 | 8.2% | 1,357 | 3.2% | (2,122) | (5.1%) | 3,395 | 8.2% | 1,357 | 3.2% | (2,005) | (4.9%) |
| Northland Polytechnic | 27,471 | 27,450 | 23,439 | 7,120 | 9,029 | 10,583 | 42,763 | 44,681 | 42,405 | 1,158 | 2.7% | 245 | 0.5% | (2,053) | (4.8%) | 913 | 2.1% | 56 | 0.1% | (3,357) | (7.9%) |
| Otago Polytechnic | 36,411 | 38,207 | 38,511 | 9,329 | 12,480 | 20,246 | 71,829 | 78,595 | 86,820 | 3,051 | 4.2% | 3,269 | 4.2% | 1,437 | 1.7% | 3,051 | 4.2% | 3,269 | 4.2% | 2,909 | 3.4% |
| Southern Institute of Technology | 31,230 | 31,766 | 32,235 | 8,932 | 8,920 | 11,655 | 49,202 | 50,582 | 53,160 | 2,395 | 4.9% | 2,576 | 5.1% | 4,023 | 7.6% | 2,395 | 4.9% | 2,576 | 5.1% | 4,023 | 7.6% |
| Tai Poutini Polytechnic | 16,776 | 16,154 | 16,060 | 173 | 269 | 321 | 23,653 | 22,657 | 22,843 | (1,313) | (5.6%) | (3,013) | (13.3%) | (4,067) | (17.8%) | (1,613) | (6.8%) | (3,513) | (15.5%) | (4,067) | (17.8%) |
| The Open Polytechnic of NZ | 40,344 | 41,371 | 40,926 | 438 | 388 | 292 | 59,083 | 63,289 | 61,589 | 2,023 | 3.4% | 4,130 | 6.5% | 2,877 | 4.7% | 2,023 | 3.4% | 4,130 | 6.5% | 1,182 | 1.9% |
| Unitec New Zealand | 69,342 | 62,259 | 55,500 | 33,308 | 34,111 | 34,992 | 154,317 | 141,000 | 130,603 | 11,169 | 7.2% | (4,079) | (2.9%) | (11,862) | (9.1%) | 3,038 | 2.0% | (24,400) | (17.3%) | (24,483) | (18.7%) |
| Universal College of Learning | 28,551 | 28,699 | 28,692 | 3,165 | 3,745 | 3,618 | 47,586 | 47,720 | 47,842 | 1,697 | 3.6% | 1,601 | 3.4% | 1,268 | 2.7% | 87 | 0.2% | 77 | 0.2% | 480 | 1.0% |
| Toi Ohomai Institute of Technology (2) | | 53,635 | 47,967 | | 18,842 | 16,725 | | 103,601 | 94,175 | | | 6,086 | 5.9% | (5,109) | (5.4%) | | | 4,774 | 4.6% | (9,913) | (10.5%) |
| Waikato Institute of Technology | 50,214 | 52,519 | 49,367 | 13,721 | 15,148 | 16,751 | 94,033 | 98,677 | 105,156 | 257 | 0.3% | 1,084 | 1.1% | 1,725 | 1.6% | (3,259) | (3.5%) | 3,489 | 3.5% | 2,228 | 2.1% |
| Wellington Institute of Technology | 31,540 | 29,539 | 29,921 | 7,761 | 9,388 | 9,980 | 56,866 | 57,767 | 57,492 | 1,214 | 2.1% | 2,070 | 3.6% | (289) | (0.5%) | 1,155 | 2.0% | 2,199 | 3.8% | (2,072) | (3.6%) |
| Western Institute of Technology at Taranaki | 13,954 | 13,570 | 11,315 | 2,824 | 2,338 | 2,055 | 24,418 | 23,668 | 19,957 | 185 | 0.8% | (1,288) | (5.4%) | (3,148) | (15.8%) | 185 | 0.8% | 73 | 0.3% | (3,641) | (18.2%) |
| Whitireia Community Polytechnic | 29,031 | 27,934 | 23,977 | 20,053 | 17,571 | 13,996 | 66,923 | 63,358 | 54,352 | 3,453 | 5.2% | (837) | (1.3%) | (6,533) | (12.0%) | 3,440 | 5.1% | (1,683) | (2.7%) | (8,416) | (15.5%) |
| TOTAL ITP SECTOR | 619,169 | 613,897 | 573,967 | 161,587 | 180,013 | 188,271 | 1,119,591 | 1,131,475 | 1,097,954 | 43,744 | 3.9% | 23,336 | 2.1% | (28,462) | (2.6%) | 39,411 | 3.5% | 26,357 | 2.3% | (51,188) | (4.7%) |

(1) On 1 January 2015 Aoraki Polytechnic merged with Christchurch Polytechnic Institute of Technology (CPIT). CPIT formally changed its name to Ara Institute of Canterbury shortly afterwards.

(2) On 1 May 2016 Bay of Plenty Polytechnic and Waiariki Institute of Technology were disestablished and merged into Toi Ohomai Institute of Technology. The 2017 results for Toi Ohomai reflect the operating activity of all three institutions for the period 1 January 2016 to 31 December 2017

Appendix One – Individual ITP performance by year continued

| | Total Cash and Cash equivalents (incl investments) (\$000) | | | Total Land and Buildings (\$00) | | | Total Assets (\$000) | | | Total Debt and Finance Leases (\$000) | | | Net Assets (\$000) | | |
|--|--|----------------|----------------|---------------------------------|------------------|------------------|----------------------|------------------|------------------|---------------------------------------|----------------|----------------|--------------------|------------------|------------------|
| | 2015 Audited | 2016 Audited | 2017 Audited | 2015 Audited | 2016 Audited | 2017 Audited | 2015 Audited | 2016 Audited | 2017 Audited | 2015 Audited | 2016 Audited | 2017 Audited | 2015 Audited | 2016 Audited | 2017 Audited |
| Ara Institute of Canterbury | 59,692 | 61,274 | 62,439 | 184,309 | 251,628 | 268,081 | 290,468 | 399,179 | 396,296 | 1,031 | 11,894 | 13,502 | 268,069 | 362,473 | 364,248 |
| Eastern Institute of Technology | 26,022 | 28,188 | 27,871 | 108,033 | 126,552 | 124,481 | 159,862 | 165,654 | 166,132 | | | | 132,087 | 153,353 | 153,272 |
| Manukau Institute of Technology | 4,247 | 3,727 | 2,084 | 280,240 | 271,099 | 258,808 | 314,207 | 309,781 | 299,090 | 33,000 | 34,500 | 27,000 | 248,014 | 247,806 | 240,776 |
| Nelson Marlborough Institute of Technology | 18,082 | 19,269 | 17,686 | 82,190 | 81,468 | 79,783 | 112,589 | 112,367 | 110,807 | | | | 98,879 | 100,236 | 98,231 |
| Northland Polytechnic | 15,297 | 16,649 | 15,429 | 32,990 | 37,354 | 36,426 | 55,085 | 63,996 | 61,497 | | | | 47,946 | 53,131 | 49,762 |
| Otago Polytechnic | 3,313 | 3,030 | 457 | 86,014 | 88,296 | 109,064 | 116,513 | 119,103 | 144,164 | | | 9,292 | 99,841 | 103,110 | 112,030 |
| Southern Institute of Technology | 25,214 | 29,163 | 31,145 | 71,969 | 77,513 | 79,014 | 108,449 | 119,635 | 123,998 | | | | 99,247 | 109,375 | 113,397 |
| Tai Poutini Polytechnic | 4,877 | 1,651 | 2,844 | 12,699 | 12,753 | 12,003 | 24,734 | 22,715 | 22,491 | | | | 20,800 | 17,286 | 20,521 |
| The Open Polytechnic of NZ | 43,989 | 38,404 | 36,429 | 26,655 | 26,390 | 25,912 | 92,622 | 97,538 | 100,592 | | | | 81,318 | 85,420 | 86,588 |
| Unitec New Zealand | 14,582 | 1,941 | 2,141 | 256,641 | 292,697 | 378,009 | 307,321 | 364,634 | 428,182 | 3,079 | 43,398 | 112,703 | 267,527 | 285,648 | 261,165 |
| Universal College of Learning | 5,295 | 7,462 | 8,556 | 98,634 | 97,716 | 95,529 | 121,381 | 122,476 | 122,050 | 4,329 | 4,463 | 4,309 | 98,602 | 98,679 | 99,159 |
| Toi Ohomai Institute of Technology | | 32,201 | 31,160 | | 137,726 | 187,202 | | 213,754 | 246,074 | | | | | 182,483 | 212,177 |
| Waikato Institute of Technology (1) | 1,951 | 1,862 | 3,125 | 149,463 | 165,576 | 127,704 | 185,743 | 194,222 | 196,822 | 24,794 | 18,694 | 18,336 | 126,066 | 142,131 | 144,366 |
| Wellington Institute of Technology | 11,226 | 13,530 | 1,301 | 73,239 | 68,643 | 69,710 | 95,251 | 100,543 | 98,298 | | | | 77,912 | 83,228 | 83,722 |
| Western Institute of Technology at Taranaki | 8,130 | 5,057 | 6,187 | 21,329 | 21,794 | 28,838 | 36,830 | 35,411 | 43,022 | 3,644 | 3,835 | 4,036 | 25,714 | 25,787 | 30,162 |
| Whitireia Community Polytechnic | 10,706 | 7,280 | 4,699 | 64,806 | 62,024 | 64,893 | 92,996 | 89,261 | 106,993 | | | 13,900 | 68,100 | 66,417 | 62,664 |
| TOTAL ITP SECTOR | 310,788 | 270,688 | 253,553 | 1,712,953 | 1,819,229 | 1,945,457 | 2,371,099 | 2,530,269 | 2,666,508 | 69,877 | 116,784 | 203,078 | 1,981,538 | 2,116,563 | 2,132,239 |

Appendix two – Overview of statutory interventions at ITPs

| ITP | Intervention(s) |
|---|---|
| Extreme risk / immediate concern | |
| Unitec Institute of Technology | <ul style="list-style-type: none"> • Crown Commissioner (section 195D of Education Act 1989) • Independent financial advisor (by mutual agreement) |
| Tai Poutini Polytechnic | <ul style="list-style-type: none"> • Crown Manager (s222C) |
| Whitireia Community Polytechnic | <ul style="list-style-type: none"> • Independent financial advisor (by mutual agreement) • Considering Crown Manager (s222C) or Commissioner (s159D) |
| High risk / short term concern | |
| Wellington Institute of Technology | <ul style="list-style-type: none"> • Required to provide detailed financial information under s159B • Considering Crown Manager (s222C) or Commissioner (s159D) |

Section 9(2)(g)(i), 9(2)(ba)(i) and 9(2)(j)

Appendix three – Individual ITP financial performance overviews

Unitec Institute of Technology (Unitec)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$24.5m -18.7% | not yet available |
| Cash and Short term investments | \$0.5m | not yet available |
| Borrowing consent | yes | yes |
| Total Debt | -\$112.7m | not yet available |

- **TEC risk rating** – Financial High Overall Extreme
- **Additional monitoring in place** – yes full suite of additional monitoring and intervention (Crown Commissioner) in place

Unitec is projecting a cash shortfall of -\$24.5 million in 2018, with cash due to run out in September 2018. This has arisen due to severely declining enrolments, a costly transformation programme, **Section 9(2)(g)(i)**. A further shortfall is projected for 2019. I am proposing to provide Unitec up to \$50 million in Crown financial support as a concessionary loan during 2018 and 2019 to assist it through its cash-flow issues.

Despite its current situation, Unitec holds significant surplus assets which are able to be sold. The combination of liquefiable assets (in time) and that Unitec serves a growing Auckland catchment area gives me confidence that it can return to viability.

Additional monitoring and reporting is in place, but has been informed by the quality of information provided by Unitec. Based on reasonable grounds that there is a serious risk to the operation and long-term viability of Unitec, I have dissolved the Council of Unitec and appointed Murray Strong as Commissioner, under section 195D(1) of the Education Act 1989. As well as overseeing Unitec's return to viability, this appointment also affords the Crown greater assurance that its financial support will be appropriately managed and the outcomes of the ITP Roadmap 2020 project can be implemented.

Unitec has a considerable exposure to external factors, including tight competition in the Auckland market for domestic students, and a reliance on international enrolments to support profitability. Unitec estimates the changes to post study work rights for international students could result in a decline in international revenue of up to -\$6.2 million, due to the large proportion of Graduate Diploma students.

Whitireia Community Polytechnic

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$6.5m -12.0% | not yet available |
| Cash and Short term investments | \$4.7m | not yet available |
| Borrowing consent | yes | yes |
| Total Debt | -\$13.9m | not yet available |

- **TEC risk rating** – Financial High Overall Extreme
- **Additional monitoring in place** – yes full suite of additional monitoring and intervention under consideration

Whitireia is forecasting that it will run out of money within the next two months and will be unable to meet its operational costs. This has been confirmed by the independent financial advisor recently appointed by mutual agreement between Whitireia and the TEC. It is forecasting cash shortfalls of up to -\$20 million over 2018 and 2019, driven by declining enrolments and significant investment in a new campus in central Wellington.

The situation at Whitireia has evolved rapidly. However, the extent of its financial issues, and concerns about its long-term viability, means intervention will be necessary. Any intervention in governance is complicated, as Whitireia shares a council with Wellington Institute of Technology (WelTec). However, I am currently considering what intervention may be required.

9(2)(b)(ii) [Redacted]

While some benefits of the strategic alliance with WelTec have been realised in recent years, more work will be required in terms of the rationalisation of programmes and cost savings. It is not clear that sufficient cost savings and re-sizing can be undertaken to enable it to return to viability as a standalone entity.

Wellington Institute of Technology (WelTec)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$2.1m -3.6% | not yet available |
| Cash and Short term investments | \$1.3m | not yet available |
| Borrowing consent | yes | yes |
| Total Debt | \$nil | not yet available |

- **TEC risk rating** – Financial low Overall moderate
- **Additional monitoring in place** – yes, borrowing consent covenants, planned organisational review and increased reporting and likely intervention

WelTec has, until recently, been considered low risk on the TEC Financial Monitoring Framework. This is likely to be upgraded to moderate or high, pending the outcome of further analysis. Due to the strategic alliance and combined Council and leadership team WelTec shares with Whitireia, TEC has launched a review of WelTec to ensure issues occurring at Whitireia do not also impact at WelTec.

WelTec, after a period of good results, has moved into deficit in 2017. However, this is not expected to continue in the future. WelTec has also contributed a significant sum to a significant investment in a new campus in central Wellington, which was a one-off investment. This has caused WelTec’s cash balances to decline; however, a borrowing consent, which includes a line of credit, allows WelTec to support liquidity needs.

Due to the current position and Combined Council with Whitireia I am currently considering my options regarding a statutory intervention into both Whitireia and WelTec.

Tai Poutini Polytechnic

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$4.1m -17.8% | -\$3.3m -61.3% |
| Cash and Short term investments | \$2.8m | \$4.2m |
| Borrowing consent | no | no |
| Total Debt | nil | nil |

- **TEC risk rating** – Financial high Overall extreme
- **Additional monitoring in place** – yes full suite of monitoring and intervention (Crown Manager) in place

TPP’s financial performance is the subject of ongoing and detailed monitoring as a result of Crown Support. A final decision on TPP in 2018 has been deferred, and Crown funding was agreed. TPP continues to work closely with TEC.

Manukau Institute of Technology (MIT)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$7.0m -6.8% | -0.2m -0.5% |
| Cash and Short term investments | \$2.1m | \$0.7m |
| Borrowing consent | yes | yes |
| Total Debt | -\$27.0m | -\$20.0m |

• Section 9(2)(g)(i)
/ [REDACTED]

MIT's financial performance has deteriorated since being impacted by the 2013 collapse of Mainzeal Construction during the construction of the Manukau Campus redevelopment.

The collapse meant that MIT had to enter a new contract with an alternative provider to complete the project. MIT incurred significant additional costs and required a \$25 million increase in the borrowing consent which was approved by the Secretary of Education.

Section 9(2)(b)(ii)
[REDACTED]

The decline in performance between 2016 and 2017 can be attributed to declining revenue as a result of declining enrolments and one-off restructuring costs. MIT has reduced its borrowing over recent years and current borrowing is within the consent from the Secretary of Education.

However, MIT has a large exposure to the Minister of Immigration's changes to post study work rights for international students, which could result in a revenue decline of approximately -\$11 million. As an Auckland provider, MIT will find it harder than other providers to respond. Section 9(2)(b)(ii)
[REDACTED]

[REDACTED] This is likely to take one to two years before this adjustment can be made.

Western Institute of Technology at Taranaki (WITT)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$3.6m -18.2% | -\$1.0m -11.1% |
| Cash and Short term investments | \$6.2m | \$5.5m |
| Borrowing consent | no | no |
| Total Debt | -\$5.2m (Crown Loan) | -\$5.2m (Crown Loan) |

• **Section 9(2)(g)(i)**

WITT's financial performance has declined year on year since 2014, driven by declining enrolments. A further deficit is expected in 2018, which will likely reduce cash reserves to under \$3 million. WITT is due to commence repayments on the Crown loan in 2020, with five equal instalments of \$1.04 million payable annually between 2020 and 2024. There is

Section 9(2)(g)(i), 9(2)(ba)(i) and 9(2)(j)

In 2016 WITT received a category three External Evaluation and Review (EER) rating from the New Zealand Qualifications Authority (NZQA). This means WITT has been rated as 'Not Yet Confident' in terms of both educational performance and capability in self-assessment.

This rating led to WITT being required to develop an improvement plan, which it has worked towards during 2017. NZQA has recently completed a follow up EER which has resulted in WITT being rated as 'Confident' in terms of both educational performance and capability in self-assessment.

Northland Polytechnic (NorthTec)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$3.4m -7.9% | not yet available |
| Cash and Short term investments | \$15.4m | not yet available |
| Borrowing consent | no | no |
| Total Debt | nil | nil |

Section 9(2)(g)(i)

NorthTec has experienced periods of fluctuating financial performance. The 2017 deficit was driven by declining domestic enrolments and the loss of some funding through contestable processes.

Section 9(2)(g)(i)

NorthTec has approximately 80% of its international provision based at its Auckland campus. This leaves NorthTec exposed to impacts from changes to post study work rights for students studying in Auckland.

Otago Polytechnic

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | \$2.9m 3.4% | \$2.3m 4.7% |
| Cash and Short term investments | \$0.5m | \$6.4m |
| Borrowing consent | yes | yes |
| Total Debt | -\$9.3m | -\$1.3m |

Section 9(2)(g)(i)

Otago Polytechnic is historically a strong performer. Despite a declining market, Otago Polytechnic continues to see growth in both domestic and international enrolments and has recently sought an increase in 2018 funding. Despite a low cash balance and increasing debt, Otago Polytechnic is not experiencing cash flow difficulty due to strong revenue and a credit line to manage cash flow if required. Otago Polytechnic is considered moderate risk due to the increased debt levels and exposure to changes in the international market.

Otago Polytechnic operates an Auckland International campus which, while experiencing growth in 2018, is susceptible to changes in the international education market. It estimates that international revenue could decline by up to -\$5.6 million as a result of changes to post study work rights for international students. The extent to which this can be offset by cost savings will depend on the scale of the impact at the Auckland Campus, where 76 % of Otago Polytechnic international students currently study.

Toi Ohomai Institute of Technology (Toi Ohomai)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$9.9m -10.5% | -\$4.2 m -10.2% |
| Cash and Short term investments | \$31.2m | \$36.3m |
| Borrowing consent | yes | yes |
| Total Debt | nil | nil |

Section 9(2)(g)(i)

Toi Ohomai was created on 1 May 2016 as a result of the merger between Waiariki Institute of Technology (Waiariki) and Bay of Plenty Polytechnic (BoPP). 2017 represents the first full year of operations for Toi Ohomai.

The 2017 operating deficit of -\$9.9 million includes approximately -\$3.8 million of merger related costs and other one off items of -\$1.3 million. A 2018 deficit is also forecast, although Toi Ohomai has cash reserves to withstand this in the short term. Toi Ohomai is also working on right sizing the organisation in line with the reduction in student enrolments experienced in 2017.

TEC has monitored the post-merger performance closely, throughout 2017. 2017 financial performance was impacted by both post-merger costs and declining EFTS. The deficit result was signalled to TEC prior to the end of the financial year, and while the deficit result is larger than expected, overall performance is not of significant concern in a post-merger context.

During 2017 management and support areas were reorganised, which was to be expected as the merger was fully imbedded. The review and right-sizing of delivery areas is now underway.

Nelson Marlborough Institute of Technology (NMIT)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | -\$2.0m -4.9% | \$10.6m 32.9% |
| Cash and Short term investments | \$17.7m | \$20.3m |
| Borrowing consent | no | no |
| Total Debt | nil | nil |

Section 9(2)(g)(i)

The 2017 operating deficit was driven by declining international enrolments and was the first operating deficit for some time. Despite the year to date surplus for 2018, NMIT is

Section 9(2)(g)(i), 9(2)(ba)(i) and 9(2)(j)

Universal College of Learning (UCOL)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | \$0.5m 1.0% | \$19.9m 45.6% |
| Cash and Short term investments | \$8.6m | \$12.6m |
| Borrowing consent | no | no |
| Total Debt | nil | nil |

• Section 9(2)(g)(i) [REDACTED]

UCOL financial performance has remained reasonable constant in recent years and UCOL is one of only a small number of ITPs to achieve an operating surplus in 2017. Cash reserves are reasonable for an organisation of UCOL's size, but are not provide a significantly large buffer to withstand either a long period of reduced financial performance or large external shocks.

The large year to date surplus is due to the timing of income recognition and will reduce over the remainder of the year to a forecast surplus of \$1.4 million or 2.1%.

Waikato Institute of Technology (Wintec)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | \$2.2m 2.1% | not yet available |
| Cash and Short term investments | \$3.1m | not yet available |
| Borrowing consent | yes | yes |
| Total Debt | -\$18.3m | not yet available |

• Section 9(2)(g)(i)

Wintec's profitability improved between 2015 and 2017 and debt levels were actively reduced, putting Wintec on a more solid financial footing. The operational surplus is expected to continue in 2018, Section 9(2)(g)(i), 9(2)(ba)(i) and 9(2)(j)

Eastern Institute of Technology (EIT)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | \$0.2m 0.2% | -\$0.7m -2.3% |
| Cash and Short term investments | \$27.9m | \$30.1m |
| Borrowing consent | no | no |
| Total Debt | nil | nil |

• Section 9(2)(g)(i)

EIT merged with Tairāwhiti Regional Polytechnic in 2011. A geographically dispersed population means EIT has a number of permanent and satellite campuses.

Section 9(2)(g)(i), 9(2)(ba)(i) and 9(2)(j)

EIT has a significant proportion (36 %) of its international provision at levels impacted on by changes to the post study work rights of international students. The exact impact of which will depend on EIT's ability to move existing Auckland based provision back to the Hawkes Bay campuses.

Ara Institute of Canterbury (Ara)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | \$2.8m 2.5% | -\$0.07m -0.1% |
| Cash and Short term investments | \$62.4m | \$77.0m |
| Borrowing consent | yes | yes |
| Total Debt | -\$13.5m | -\$0.7m |

• Section 9(2)(g)(i)

On 1 January 2016, Christchurch Polytechnic Institute of Technology merged with Aoaki Polytechnic to form Ara. The impacts of the Canterbury Earthquakes has caused fluctuating financial performance for CPIT/Ara since 2011. Despite this, at a base level Ara's financial performance has been reasonable.

It is important to note that Ara has had an exemption from TEC funding recoveries for under-delivery since the Canterbury Earthquakes. In 2017, the value of this exemption is approximately \$4.5 million; without this exemption Ara would have returned an operating deficit.

While Ara's reserves are partially driven by insurance proceeds post the Canterbury Earthquakes, capital development plans are likely to be reasonably constrained in the short-to medium term if the financial performance does not allow these to proceed.

Southern Institute of Technology (SIT)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | \$4.0m 7.6% | \$0.6m 2.0% |
| Cash and Short term investments | \$31.1m | \$40.7m |
| Borrowing consent | no | no |
| Total Debt | nil | nil |

• Section 9(2)(g)(i)

SIT has strong financial performance, supported by recent growth in both domestic students (in particular via distance education) and international students. While SIT has seen a decline in 2018 enrolments, a surplus result is still expected to be achieved.

Cash reserves are strong and provide a solid safety net for SIT should financial performance decline in the future.

The Open Polytechnic of New Zealand (OPNZ)

| | December 2017 | YTD June 2018 |
|--|----------------------|----------------------|
| Net surplus/-deficit | \$1.2m 1.9% | not yet available |
| Cash and Short term investments | \$36.4m | not yet available |
| Borrowing consent | no | no |
| Total Debt | nil | nil |

• Section 9(2)(g)(i)
i [REDACTED]

OPNZ's distance education operating model and very limited international enrolments has allowed it to achieve strong operating results and to avoid the susceptibility to downward enrolment trends. Recent declines in profitability have been the result in significant investment in course development.

The combination of this operating model, strong profitability and cash reserves, and limited physical asset requirements puts OPNZ on a strong financial footing.