

Talking points: Crown support for Unitec Institute of Technology and Whitireia New Zealand

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive - Delivery
Date:	14 August 2018
Reference:	AM/18/00561

Purpose

1. This aide memoire provides you with talking points to support your paper seeking agreement to financial support for Unitec Institute of Technology (Unitec) and Whitireia New Zealand (Whitireia) at the Social Wellbeing Committee on 15 August 2018.
2. Since the paper was lodged, you have agreed to begin the statutory process towards dissolving the combined Council of Whitireia and Wellington Institute of Technology. These developments are covered in the talking points below so that you can update your colleagues. An updated recommendation is included in Appendix 1 to replace recommendation 17 of the paper that was lodged.
3. We recommend that you release this aide-memoire after Cabinet has made a decision, you have announced any financial support for Unitec and Whitireia, and after you have completed any statutory intervention process relating to Whitireia.

Talking points

4. As I have previously advised Cabinet, both Unitec and Whitireia are in financial difficulty, and require support from the Crown or will be forced to close from September 2018.

The ITP Roadmap 2020 project will address the sustainability of the ITP sector as a whole...

5. New Zealand's ITPs have faced a range of challenges in recent decades, and I launched the ITP Roadmap 2020 project to reconfigure the network of ITPs across New Zealand to work better as a system and achieve sustainability.
6. The TEC is leading a co-design process that will ensure buy-in from the sector, and ensure the final product is robust and fit for purpose. I will receive advice on the way forward at the end of September, and bring proposals to Cabinet by the end of this year.
7. I have made it clear to officials and the sector that the government sees the status quo as unsustainable and that change is essential. I have set high expectations for the co-design process and made it clear that if this process does not produce a blueprint for significant and meaningful change, the government will seek to progress change in a more unilateral fashion.

...but individual ITPs need financial support in the short term

8. I advised Cabinet in March that while this strategic work is undertaken, ad-hoc support may be needed before the end of 2018 for some individual ITPs. This is now the case for both Unitec and Whitireia.
9. Although they have faced the same challenges as other ITPs, failures in governance and management have also contributed to the challenges faced by Unitec and Whitireia.
10. I have already replaced the council of Unitec with a commissioner. I am about to begin a process towards dissolving the combined council of Whitireia and WelTec and replacing it with a commissioner. WelTec is more stable than Whitireia, but also at high financial risk.
11. These interventions will provide the Crown with assurance that its financial support will be well managed. They will also ensure that necessary organisational changes are made in line with the ITP Roadmap 2020 project in mind.
12. Without financial support, both institutions would have to close in September 2018 – impacting approximately 23,000 students and 1,500 staff, and damaging New Zealand’s reputation as an education destination. I do not consider that this is an option.

I propose a no-interest, concessionary loan of up to \$50 million for Unitec

13. Unitec’s poor financial position is due to a failure to right-size despite enrolments declining since 2012, and a significant and costly transformation programme.
14. However, Unitec has many surplus assets and serves a growing Auckland demographic. With significant organisational change, I am confident that it can return to viability, and play a key role in the future network being designed by the ITP Roadmap 2020 project. ^{9(2)(g)(i)}
15. As such, I am proposing to provide financial support of up to \$50 million, in the form of a no-interest, concessionary loan that will be repaid within 10 years. The loan agreement will ensure Crown funding is used only as a last resort, with targets to incentivise cost savings and asset sales, and fast repayment of the Crown’s support.

I propose a capital injection of \$15 million for Whitireia

16. Whitireia’s poor financial position is due to declines in both domestic and international enrolments, and a decision to fund capital developments from working capital, which has depleted its cash reserves.
17. Unlike Unitec, it has limited surplus assets and is unlikely to be in a position to return to viability. With no access to commercial borrowing, it needs financial support both to continue operating and to begin making significant structural changes. ^{Section 9(2)(f)(iv)}
18. I do not have confidence that the current combined Council has the capability to make the necessary changes. They have led Whitireia into this position, and WelTec is also a high financial risk. ^{9(2)(b)(ii), 9(2)(j), and 9(2)(f)(iv)}
19. As such, I am proposing to provide the \$15 million financial support that Whitireia needs to continue operating in 2018/19 in the form of a capital injection. This will allow it to continue to operate until the Roadmap outcomes are known. Any further financial support that may be needed can be considered in the context of the Roadmap.

20. I am also about to commence a process to consult on replacing the combined council of Whitireia and WelTec with a single commissioner. Both institutions are at risk, and I do not consider the current council's position is tenable, even if only at WelTec. A commissioner is also the most appropriate option as separate governance arrangements for two institutions that are so closely linked, including by a combined leadership team, would likely be dysfunctional.

I have provided a separate update on the financial position of all other ITPs

21. At Cabinet's request, I have provided the Committee with a separate report on the financial position of all other ITPs, and the actions I and officials are taking to identify and manage other ITPs that could be susceptible to financial difficulties over the short-term.



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

14 August 2018

Hon Chris Hipkins

Minister of Education

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Appendix 1: Suggested replacement for recommendation 17

17. **note** that I have serious concerns about the capability of the combined Council of Whitireia New Zealand and Wellington Institute of Technology, which is also at high financial risk, and I am beginning a process in line with section 195D of the Education Act 1989 towards dissolving the combined Council and appointing a commissioner, on the grounds that there is a serious risk to the operations and long-term viability of both institutions;