

Aide-Memoire: Unitec Institute of Technology 2017 annual report

To:	Hon Chris Hipkins, Minister of Education
From:	Tim Fowler – Chief Executive
Date:	29 May 2018
Reference:	AM/18/00375

Purpose

1. You are about to receive the Unitec Institute of Technology (Unitec) 2017 annual report for tabling on the House. Unitec plan to publically release the annual report, via its website, on the afternoon of Wednesday 30 May 2018. This paper provides you with an overview of the 2017 performance of Unitec and the contents of the annual report. TEC is also preparing reactive messaging in the event of any media interest, which will be shared with your office.
2. We recommend that you release this aide-memoire once it has been considered by you, with information under the heading “Current Issues” be withheld as the release of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

Chair and Chief Executive Update

3. The Chair, Dr Lee Mathias, and the Acting Chief Executive, Alistair Carruthers, have highlighted a number of Unitec’s 2017 achievements. These include:
 - The opening of new facilities, the student hub and library building and the trades training facility, at the Mr Albert Campus;
 - Achieving significant operational improvements, including a new enrolments model;
 - Increased partnerships with secondary school and corporate partners.
4. The update also acknowledges the decline in EFTS and the impact on Unitec’s financial performance.

Statement of Service Performance

5. The Unitec Statement of Service Performance (SSP) ties key strategic goals to four critical success factors:
 - A more highly skilled, innovative and enterprising New Zealand workforce
 - Highly employable and enterprising life-long learners
 - Engaged and inspired staff equipped with capabilities for our future
 - A financially sustainable Unitec
6. Progress was either made or maintained against most KPIs relating to the first three critical success factors. However, a year on year decline in EFTS of 7.2% and Unitec’s financial performance were highlighted as areas of concern.

Financial Performance

7. Unitec's 2016 financial statements received an unmodified opinion from Audit New Zealand, which states that these:

- fairly reflect Unitec's and the group's financial position and performance; and
- fairly reflect Unitec's and the group's service performance achievements and outcomes measured against the performance targets adopted in the Investment Plan for the year ended 31 December 2017.

8. However, without modifying their audit opinion, Audit New Zealand have highlighted material uncertainty relating to the going concern basis on which the financial statements are prepared stating on page 54:

Without modifying our opinion, we draw your attention to the disclosures made in note 19 that highlight the Group's recent financial performance, and explain the uncertainties in relation to the Group achieving its financial forecasts (including forecast student revenue levels and cost savings) and meeting any future cash flow shortfalls from other funding sources. These matters indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. We consider the disclosures in note 19 to be adequate.

9. Summary metrics from the consolidated financial statements are presented in the table below:

Annual Report Consolidated Group Financial Results \$000	2017 Audited	2017 Budget	2016 Audited
Government Revenue	\$55,230	\$65,357	\$62,079
Student Fees	\$25,300	\$68,611 ¹	\$28,499
International fees	\$34,992		\$34,111
Total Revenue	\$128,426	\$149,980	\$138,486
Personnel Expenditure	\$99,151	\$99,851	\$99,039
Total Expenditure	\$160,230	\$170,932	\$163,289
Net Surplus/(deficit)	(\$31,804)	(\$20,952)	(\$24,803)
Surplus/(deficit) to revenue (%)	(24.8%)	(14.0%)	(17.9%)
Net Surplus/(deficit) including share of jointly controlled entity	(\$30,739)	(\$20,034)	(\$24,401)
Surplus/(deficit) to revenue (%)	(23.9%)	(13.4%)	(17.6%)
Net Operating Cashflows	(\$9,294)	\$5,511	(\$13,339)
Operating Cash flows (%)	93.6%	103.8%	91.2%
Total Assets	\$396,182	\$368,054	\$364,634
Total Equity	\$242,487	\$231,429	\$285,648
Staffing FTE	1,052		1,050
Total EFTS to Total Staff FTE ratio	8.0:1		8.7:1
Total EFTS to Teaching Staff FTE ratio (academic & tutorial)	15.6:1		17.8:1

¹ The 2017 budget does not separate domestic and international student fees; therefore this amount includes both domestic and international student fees.

10. 2017 financial performance was significantly lower than anticipated in the 2017 budget. The 2017 net deficit of \$30.7 million (-23.9%) was a decline in performance of \$7.0 million (-28.2%) compared to 2016, and was \$11 million worse than the 2017 budget.
11. If the Unitec share of jointly controlled entities is excluded, the 2017 operating deficit increases of \$31.8 million (-24.8%) against a budget deficit of \$21 million, and a 2016 deficit result of \$24.8 million (-17.9%).
12. Earnings before interest, taxation, depreciation, amortisation and restructuring (EBITDAR) was 1.1% of total revenue; demonstrating the impact on net surplus of the transformation programme and borrowing costs.
13. Total revenue declined \$10.0 million (7.3%). This was primarily due to declining domestic enrolments impacting on Government funding, which declined by \$6.8 million (11.0%) and domestic student fees, which declined by \$3.2 million (11.2%).
14. Cost saving measures which were employed in response to lower than anticipated student numbers meant that total expenditure reduced by \$3.0 million (1.9%) compared to 2016.
15. Debt levels increased during 2017, with total debt of \$112.7 million as at 31 December 2017 being made up of \$111.6 million in short-term debt and \$2.1 million in long term debt. This compares to a 31 December 2016 balance of \$43.4 million (\$26.9 million short-term and \$16.5 million long-term). Unitec's 2017 debt levels are within the borrowing consent approved by the Secretary of Education.
16. Total assets of \$396.2 million include \$135 million of assets held for sale, being 29 hectares of land and associated buildings at its Mt Albert campus. Net assets are impacted by Unitec's high debt levels; with net assets of \$242.5 million being primarily made up of land and buildings.

Current issues

17. We have recently briefed you on the financial position and overall performance of Unitec².
18. The appointment of an Independent Financial Advisor has been agreed between Unitec and TEC, with John Fisk of PricewaterhouseCoopers commencing the appointment on 7 May 2018 for a minimum of 1 year.
19. The Independent Financial Advisor will be appointed to monitor and advise on:
 - Unitec's financial viability;
 - strategic direction;
 - risk and performance; and
 - act as a 'critical friend' to the management and Council of Unitec.
20. The Independent Advisor will focus on the following areas:
 - A thorough assessment of Unitec's financial position, now and over the medium (three years), including a review of critical expenditure and the level of fiscal responsibility being displayed at all levels within the organisation.

² B/18/00240 Financial Concerns at Unitec Institute of Technology, 4 May 2018.

- An assessment of Unitec’s plan to address the short and long term sustainability and recommending any changes to this plan.
 - Monitoring of the implementation of the above plan, and the assessment of its effectiveness.
 - Reviewing any significant expenditure or other financial commitments, such as major expenditure items; borrowing, etc.
 - Assessing the capability of governance and management to address emerging issues, and the processes for analysing, and making robust and fiscally responsible decisions in respect of those issues. This should include advice on best practice in relation to the systems, processes and capability of the Finance function within a high performing TEI.
21. The Independent Advisor has already started reporting to the TEC on a regular but informal basis as investigations and analysis of Unitec’s financial position gets under way. More formal and ongoing reporting will follow once initial review and investigations are completed.
22. In addition to the appointment of the Independent Financial Advisor, increased monitoring arrangements will remain in place. These include:
- The receipt of Council and Audit and Risk Committee papers;
 - Increased frequency of financial and EFTS forecasts;
 - Increased engagement with TEC.
23. The sale of a large parcel of land to the Crown by Unitec has been concluded in April, with the payments in the table below to be made to Unitec by the Crown. Unitec is also required to return some of the proceeds to the Crown. These are separate transactions and are not netted off:

Year	Payment to Unitec from the Crown	Payment to the Crown from Unitec
2018	9(2)(b)(ii)	9(2)(b)(ii)
2019	9(2)(b)(ii)	9(2)(b)(ii)
2021	9(2)(b)(ii)	9(2)(b)(ii)
Total	\$134m	9(2)(b)(ii)

24. The 2018 payment to Unitec has been made and this was used to clear outstanding debt of around \$110 million.

25. Section 9(2)(b)(ii)

Next Steps

26. We will keep you informed of progress at Unitec through regular briefing's and updates as required.



Tim Fowler

Chief Executive

Tertiary Education Commission

29 May 2018

Hon Chris Hipkins

Minister of Education

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