

Aide-Memoire: Consultation draft of cabinet paper seeking financial support for two ITPs

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive - Delivery
Date:	25 July 2018
Reference:	AM/18/00502
Security:	In confidence

Purpose

1. This paper provides updates and additional information about our approach to preparing a draft Cabinet paper seeking up to \$65 million in financial support for Unitec Institute of Technology (Unitec) and Whitireia New Zealand (Whitireia).
2. A copy of the draft Cabinet paper is attached, to enable you to consult with your ministerial colleagues on this initial draft.
3. We do not recommend the proactive release of this briefing, as it contains free and frank expressions of opinion.

The ITP Roadmap 2020 project

4. As we discussed with you at our meeting on 2 July 2018, we are conscious that these requests for financial support from Unitec and Whitireia are occurring within the context of the ITP Roadmap 2020 project.
5. It is likely that your Cabinet colleagues will seek assurance that the Roadmap project is delivering results, before agreeing to provide \$65 million in financial support to Unitec and Whitireia.
6. However, as also discussed with you, we are not yet in a position to signal any outcomes from the Roadmap project without prejudicing the collaborative 'co-design' approach being taken. The collaborative process is crucial, not only to ensure we arrive at the best possible solution for the ITP network, but also to generate a widely shared appreciation of the need for change, and to demonstrate that government sees the sector and its stakeholders as valued partners in identifying and implementing the solution.
7. As such, we have drafted the attached Cabinet paper to make clear that:
 - the requests for financial support are further clear evidence that the ITP Roadmap 2020 project, and significant change to the existing ITP network, is not just needed but urgent;

- work is progressing on the ITP Roadmap 2020 project, with the current focus being on reducing a longlist of possible change options to a small number of feasible solutions for the network;
 - the TEC will provide advice to you on the Roadmap by the end of September, and that speeding up this process would jeopardise not only the quality of any solutions identified, but also the goodwill and buy-in being generated by the collaborative co-design process; and
 - any solutions involving structural change are likely to require a multi-year programme of change, and it is worth investing the time and effort up front to ensure the right solution is identified, and this process does not need to be repeated in 10 years' time.
8. In line with these messages, the requests for financial assistance through the remainder of the draft Cabinet paper are made within the context that:
- we expected some ITPs to experience financial difficulties before the end of 2018 and before the results of the ITP Roadmap 2020 project could kick in, and that you signalled this to Cabinet in March;
 - financial support is being recommended only after all other options have been considered;
 - any financial support provided will be based on funding agreements with the Crown that focus the institutions on making cost savings and making organisational and operational changes aligned with the direction of the Roadmap project – including preparing for potential mergers; and
 - in the case of Unitec, a Commissioner has been appointed to safeguard the Crown's interests, and you will be considering the level of statutory intervention necessary at Whitireia to provide the Crown with the same level of oversight and assurance.
9. We will discuss with you, at our meeting on 26 July 2018, any additional materials or information regarding the ITP Roadmap 2020 project that may be required to support your consultation with your ministerial colleagues.

Unitec Institute of Technology

10. The draft cabinet paper reflects your agreement in June (B/18/00376 refers) that the TEC should prepare a Cabinet paper seeking a concessionary loan for Unitec of up to \$50 million. The loan will be interest-free, repayable within 10 years, 9(2)(j) and 9(2)(b)(ii) [REDACTED]
11. Since that update, you have confirmed the dissolution of Unitec's council and appointment of Murray Strong as Commissioner, under section 195D(1) of the Education Act 1989. This appointment is also reflected in the draft Cabinet paper.

Whitireia New Zealand

Update on the situation at Whitireia

12. The situation at Whitireia has evolved rapidly since we last briefed you.

13. John Fisk, the independent financial advisor appointed by mutual agreement between TEC and Whitireia, has confirmed that:

- Whitireia is projecting cash shortfalls of up to \$20 million across 2018 and 2019, with cash due to run out in late September; and
- as Whitireia has already fully extended its existing banking facilities, it needs Crown financial assistance if it is to keep operating beyond September 2018.

14. However, unlike Unitec, the initial view from the independent financial advisor is that Whitireia is not sustainable in the longer-term. It is projecting operating deficits for all of its forecast period, and with no ability to borrow further commercially, support for 2018 and 2019 could be just the beginning of its reliance on Crown support.

15. While Unitec, with the help of asset sales and significant structural change (including redundancies) could return to viability as a standalone entity (notwithstanding the ITP Roadmap 2020 project), the challenge for Whitireia is to urgently identify and work towards a model that could ensure its future viability. 9(2)(j) and 9(2)(b(ii))

[REDACTED]

Statutory intervention at the governance level is likely necessary at Whitireia

16. This situation gives us little confidence in the existing governance 9(2)(a) and 9(2)(g)(i). While the quantum of financial support needed for Whitireia is less than at Unitec, its longer term future is less clear. As set out in the draft Cabinet paper, we consider there have been failures of 9(2)(a), 9(2)(g)(i) and 9(2)(g)(i) governance in not identifying and addressing the issues that have led to this situation sooner.

17. At our meeting with you on 26 July 2018, we would like to discuss options for statutory intervention with you.

18. The process for statutory intervention at Whitireia would be more complicated than at Unitec, as it shares a council with WelTec. 9(2)(h)

[REDACTED]

Options for financial support considered

19. As Whitireia is unlikely ever to be in a position to repay any financial support provided to the Crown, we propose providing financial support in the form of a capital injection.

20. The independent financial advisor has indicated that Whitireia will need \$20 million in additional funding over 2018 and 2019. However, only \$15 million of this is needed in the year to 30 June 2019.

21. 9(2)(f)(iv)

[REDACTED]

22. Providing \$15 million now will give Whitireia the ability to continue operating in the short-term, affording certainty to staff and students, while giving you the opportunity to consider statutory intervention. However, without significant savings, the independent financial advisor's advice

reflects that a further \$5 million will be needed early in the 2019/20 financial year. 9(2)(f)(iv)

23. 9(2)(f)(iv)

24. 9(2)(f)(iv)

Next steps

25. The draft Cabinet paper attached has been prepared to enable you to undertake ministerial consultation. We will incorporate any comments you have on this draft, and work with your office to enable ministerial consultation as soon as possible.
26. Depending on your feedback and ministerial consultation, we recommend taking this paper to the Social Wellbeing Committee no later than 15 August and Cabinet no later than 20 August, to enable financial support arrangements to be made and to give Unitec and Whitireia certainty.
27. We also expect to be able to update the sections on Whitireia, as ministerial consultation progresses, as we expect to receive:
 - additional information from the independent financial advisor, and
 - feedback from you on potential statutory interventions.



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission
25 July 2018

Hon Chris Hipkins

Minister of Education

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