

Aide-Memoire: Update on the financial position of ITPs

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive - Delivery
Date:	12 December 2018
Reference:	AM-18-00939

Purpose

1. This aide-memoire provides you with an update on the financial position of New Zealand institutes of technology and polytechnics (ITPs).
2. In particular, it sets out the findings to date of the additional, more intensive, financial monitoring of all ITPs we have undertaken following the significant issues at Unitec Institute of Technology (Unitec) and Whitireia Community Polytechnic (Whitireia).
3. We recommend that this aide-memoire is proactively released with the appendices withheld in order to protect the commercial position of individual ITPs. Information to afford public accountability of individual ITP finances is included in each institutions' annual reports, while you will continue to make information available about the financial position of the ITP sector as a whole through the ongoing Reform of Vocational Education (RoVE).

Background

4. Earlier in 2018, the Crown provided short-term financial support to both Unitec and Whitireia in response to acute cash flow problems. As a result, we reported to you and your Cabinet colleagues on the financial position of the whole ITP sector [SWC-18-MIN-0104 refers].
5. This paper assessed the financial risk of all ITPs, based on information we held at that time. Beyond the three ITPs where intervention was already required (Unitec, Whitireia and Tai Poutini Polytechnic), four further ITPs were classified as "High risk/short term concern". Five were considered "Moderate risk/longer term concern", and four were considered "Low risk/minimal concern".
6. However, the situations at Unitec and Whitireia had already made clear that – in addition to failures in the ITPs' governance – our heavy reliance on information provided by ITPs, and the frequency with which information was required to be supplied, limited our ability to identify adverse cash-flow and enrolment issues early.
7. As a result, we advised you and your colleagues that we were requesting more detailed financial and enrolment information on a monthly basis from all ITPs. The aim of this work was to identify any other ITPs at risk of short-term cash flow issues, and to engage earlier with those on a downward trend.

8. We have now received three months' worth of information from most ITPs, and this aide-memoire provides an updated view and risk assessment of the ITP sector. This assessment is based on the first two months' (August and September) information as the third month (October) has only just been received and is currently being analysed.

Updated financial risk assessments for individual ITPs

9. Analysis of more detailed information from ITPs shows that:
- five ITPs are at more risk than indicated in the August Cabinet paper;
 - three ITPs are at less risk; and
 - eight ITPs show no change in their risk status.
10. Based on the information received and analysis undertaken to date, no further ITPs appear to be at risk of a cash-shortfall in the immediate future. However, at least some of those that are higher risk are likely to be in a position to need support in 12-18 months if challenges are not addressed at both the institution and system levels, and/or if there are further significant declines in enrolments in 2019, or any unanticipated shocks.
11. Appendix 1 sets out the current financial risk rating for each ITP, and summarises the key issues at each ITP as of the most recent analysis (at 26 November based on 30 September financial information).
12. This analysis has been undertaken on our behalf by PwC based on a range of information including Council papers, monthly cash-flows, planned capital expenditure and other financial forecasts and historic information. This information was far more granular data than we would usually receive¹.

Overview of financial performance at a sector level

13. While Appendix 1 sets out individual risk assessments of each ITP, there are a number of themes that are common across the sector.
- Most ITPs are experiencing declining equivalent full-time students (EFTS) and revenue, accompanied by increasing costs. The consolidated year to date EFTS position of all ITPs is down on budgets and forecasts (which were optimistic), and there are some expectations that it may decline further by year-end, albeit not materially from the current position. The ability to assess this with confidence is limited by the quality of the data that is coming through whereby ITPs are able to accurately predict their year-end EFTS positions.
 - Early indications are that most ITPs are not expecting any major material turnaround in fortunes for 2019. Better evidence of this will be available once 2019 budgets are received and analysed.
 - Cash reserves are mixed. Some have solid holdings, while others are seeing rapidly declining levels. We are most concerned about those that are, or will become, reliant on borrowings.

¹ Unitec, Whitireia, Wellington Institute of Technology and Tai Poutini Polytechnic are not subject to these requests, as we are already working closely with the commissioners, Crown manager, and independent financial advisors in places to access relevant information and monitor their financial position.

- Capital expenditure generally remains high at originally budgeted levels. There is some evidence of a slowdown in capital expenditure relative to budget, which is likely to be due to ITPs attempting to protect declining cash holdings – however, some capital expenditure, particularly around campus and property developments, is questionable given the state of the sector and the well signalled system changes that you are considering.

14. Another key theme from the analysis is that the quality of reporting to council and other committees is highly variable. s9(2)(f)(iv)

[REDACTED]

Next steps

We will continue to receive monthly updates...

15. We have asked ITPs to provide information to us monthly. Although all ITPs s9(2)(f)(iv) [REDACTED] [REDACTED] have complied with our request, the quality and breadth of information has differed. This is partially due to capability issues, in which case we are working to assist ITPs to identify and provide the information we require. However, some ITPs believe they are performing well and, as such, are reluctant to provide the information requested believing they do not require additional monitoring.

16. The failure of two ITPs to provide all the information requested has meant that their rating has moved from low to moderate risk when compared to the August position as a result of incomplete information.

17. We have made it clear that, given the challenges facing the whole sector, we require greater assurance about the financial position of *all* ITPs. The next tranche of information includes 2019 budgets, which will assist us to further refine our risk assessments.

...and will consider further actions or interventions as needed

18. s9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

19. For those at higher risk, we will be approaching them separately for their feedback on our findings, and what they might be doing to address the issues. Their responses and analysis of 2019 budgets will enable us to determine whether we need to take any further action - such as recommending or requiring the appointment of external financial assistance such as that provided by an independent financial advisor. Where ITPs remain high risk, performance against 2019 budgets will then be key, and we will continue to monitor that closely, particularly as enrolment levels become clear by March/April 2019.

² s9(2)(f)(iv) [REDACTED]
[REDACTED]

We are also feeding back into ITPs’ governance and financial management capability

- 20. We are using our findings with regard to ITPs’ capability to improve governance at ITPs. At a recent induction session for new council members, TEC’s chief executive gave a presentation on the ‘business of education’ that picked up on a number of information gaps identified through our analysis of ITPs council and committee papers. Dr Neil Barns, the commissioner at Whitireia and WelTec, and s9(2)(a) [REDACTED], a governance specialist, also spoke during an afternoon focused on good governance.
- 21. Reviews of ITPs’ council and committee papers has also identified some instances of good practice – for example, Otago Polytechnic’s council papers showed exemplary risk reporting. PwC are using these examples and TEC’s expectations to develop a template dashboard reporting tool that we can share with all ITP councils and management to demonstrate the quality and detail of information they should expect to see. We aim to implement this in the new year.
- 22. We are mindful that your proposed structural changes to the ITP network would mean a shift to a single national governing council. Our work with existing ITP councils to improve training and induction, and identify good practice, will enable us to provide excellent support to any new national council – as well as enhancing the ability of existing councils to contribute to a healthy transition process for their ITP.

We will update our Financial Monitoring Framework, as system-level changes are implemented

- 23. In the longer term, this intensive monitoring exercise will inform improvements to the TEC’s existing Financial Monitoring Framework. As indicated earlier, this process currently relies heavily on information supplied by ITPs, as well as being representative of a fixed point – with increased monitoring only once institutions are considered higher risk. Our current work will inform the nature and frequency of information required for a business-as-usual monitoring process.
- 24. However, you are currently considering large-scale change to the ITP subsector and the vocational education and training system more broadly. Any large-scale improvements to our financial monitoring processes will be made as the shape of the new system, and ITPs’ role within it, becomes clear, to ensure it is fit-for-purpose into the future.
- 25. In the meantime, we will continue to work closely with ITPs as individual entities to ensure they remain focused on maintaining and improving their financial position as far as possible, while also preparing for change. Our financial monitoring staff will continue to provide advice to the RoVE project team as necessary.

Gillian Dudgeon

Deputy Chief Executive, Delivery Directorate,
Tertiary Education Commission

12 December 2018

Hon Chris Hipkins

Minister of Education

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s9(2)(b)(ii)

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