



Aide-Memoire: Meeting with Dr Neil Barns, Commissioner of Whitireia and WelTec

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	14 December 2018
Reference:	AM-18-00946

Purpose

1. This aide-memoire provides you with information for your meeting with Dr Neil Barns, Commissioner of Whitireia Community Polytechnic (Whitireia) and Wellington Institute of Technology (WelTec) on Tuesday, 18 December, 2018, at 4pm. It contains background information on both organisations, outlines the key purpose of the meeting, and suggests some questions you may like to ask Dr Barns. A short biography of Dr Barns is attached in Appendix 1.
2. The key purpose of the meeting is for the Commissioner to seek your views on the proposed Whitireia and WelTec merger and your appetite to accept this proposal given upcoming decisions around the outcomes of the Reform of Vocational Education.
3. As background, while Dr Neil Barns is Commissioner at Whitireia and Weltec he is also the Independent Expert Advisor on the Reform of Vocational Education – Governance Group chaired by Tim Fowler.
4. We recommend that you proactively release this aide-memoire with some information withheld as it contains free and frank expression of opinions.

Background on Whitireia and WelTec

Whitireia and WelTec have been working in a strategic partnership since 2011...

5. Whitireia has approximately 3,200 equivalent full-time students (EFTS), and offers over 135 programmes of study. It delivers tertiary education at campuses in Porirua, Wellington, Kāpiti and Auckland. Whitireia's delivery is focussed in health (especially nursing), trades and service industries, business and the arts.
6. WelTec is one of New Zealand's oldest tertiary education institutions and delivers at campuses in Porirua, Wellington, Petone and Auckland. It delivers tertiary education to over 4,000 EFTS and offers 134 programmes of study. WelTec's provision is focussed in construction, IT, hospitality and trades.
7. In November 2011, the Minister for Tertiary Education combined the Council of Whitireia and the Council of WelTec. The combined Council appointed the same chief executive to both institutions in 2015, who appointed a joint leadership team in 2016. Since 2012, Whitireia

has been working in a strategic partnership with WelTec in an attempt to provide the best possible choices for students in the Wellington region and beyond. While some work has been done to rationalise the delivery and operations of each institution, they have remained separate organisations both legally and operationally.

...but both have struggled financially in recent years...

8. WelTec, and Whitireia in particular, have failed to respond to a range of challenges facing most institutes of technology and polytechnics (ITPs). At the end of May 2018, Whitireia advised the TEC that it was projecting a cash shortfall for the 2018 and 2019 financial years and financial support from the Crown would be required. An independent financial adviser, John Fisk from PwC, was subsequently appointed by mutual agreement between the combined Council and the TEC.
9. Whitireia has experienced a decline in total EFTS from 4,029 in 2015 to a forecast of 3,211 in 2018. This decline has largely been driven by international EFTS decreasing from 1,200 in 2015 to a forecast of 640 in 2018. The decline in international enrolments has been particularly severe on Whitireia's revenue streams given they represented up to 30 percent of total enrolments at its peak. The fall in enrolments over this period, combined with the decision to fund its \$18 million contribution to the Te Auaha campus from working capital, resulted in Whitireia's cash shortfall. In their current form, Whitireia's core operations are not viable or sustainable. Strategic, operational, functional and structural changes are required to right size the institution across both the support and teaching functions.
10. While WelTec is in a relatively better position than Whitireia, its financial situation is still poor. s9(2)(b)(ii) while it is needing bank borrowing to manage temporary shortfalls in its cash flow. WelTec also requires significant changes to ensure it can be financially viable in the future.

...and the Government provided a \$15 million capital injection to Whitireia earlier in 2018...

11. In August 2018, Cabinet agreed to provide a capital injection of \$15 million to Whitireia to meet its cash shortfall in 2018 and 2019 and to ensure continuity of provision for learners while rapid work was undertaken to identify and realise options, aligned to the ITP Roadmap 2020 project, for a viable model of high-quality vocational education and training that meets community needs (SWC-18-MIN-0105 refers).
12. This capital injection is covered by an agreement between the Crown and Whitireia, which sets out the terms and conditions of the Crown support. This was signed by yourself and the Minister of Finance on behalf of the Crown, and Greg Campbell, the Chair of the combined Council, on 20 September, 2018.
13. The first instalment of \$3 million was paid on 24 September and the second instalment of \$9 million was paid on 16 November 2018. s9(2)(b)(ii)

...while a Commissioner was appointed to Whitireia and WelTec in October 2018

14. On 23 August 2018, you advised the combined Council of the possible need to dissolve the combined Council and appoint a Commissioner, and sought submissions from the combined Council and interested parties on the proposal. On 8 October 2018, in accordance with section 195D of the Education Act 1989, you advised the combined Council of WelTec and Whitireia that you had dissolved the combined Council and appointed Dr Neil Barnes as Commissioner, effective from 10 October 2018.

Change programme and merger of Whitireia and WelTec

Whitireia and WelTec have announced a comprehensive change programme to restore them to financial viability...

15. On 6 November 2018, a change programme across the two ITPs was announced (E Tū Ma Tātou). The change programme is broken into three parts: fitness (efficiency savings and improved financial viability); renewal (enhancing the relevance of vocational education and ensuring programmes are flexible and sustainable); and integration.
16. WelTec and Whitireia invited feedback from staff, students and stakeholders on the proposal to merge the two organisations by integrating Whitireia into WelTec and the closure of the Kāpiti campus (where enrolments have fallen from 233 to 67 over the past five years). The consultation period closed on 28 November.

...and they are currently developing a merger business case for your consideration...

17. WelTec and Whitireia are currently developing a business case to seek your approval to merge Whitireia into WelTec. They are hopeful of getting an initial decision from you early in 2019 and, subject to consultation on the proposal as required under the Education Act 1989, a final decision in the middle of the year. They are hopeful that the merger could be implemented either in the middle of 2019 or for the beginning of 2020. We can provide you with more comprehensive advice on the merger process at that time.
18. The organisations have already integrated a substantial portion of their operating models over the past six years. However, working as two separate legal entities while in a strategic relationship significantly constrains both entities. Under the current arrangements, in which Whitireia and WelTec must have separate financial accounts and funding agreements with the TEC, it hinders the strategic agility that Whitireia and WelTec need if they are to respond to the sector and education system appropriately. For example, a single academic portfolio cannot be executed and financial resources cannot be most efficiently utilised across the two providers. There are also a number of inefficiencies in the operation of both organisations – for example, a proliferation of systems and programmes as well as processes.
19. Whitireia and WelTec believe consolidation under a single institution has benefits for staff, students, stakeholders, and will reduce costs and complexity.

...and the Commissioner is keen to seek your views on the proposed merger

20. One of the key issues that the Commissioner wants to raise with you is your appetite to accept a business case that proposes a merger between Whitireia and WelTec given upcoming announcements around the future of the ITP network and the Reform of Vocational Education in early 2019.
21. The Commissioner is seeking your feedback on both the timing of when you might consider a business case (i.e. after announcements are made so that Whitireia and WelTec could potentially align their plans and you can make more informed decisions) as well as the idea of a merger more generally (i.e. whether you have the appetite for a merger between the two institutions given your current thinking on the reforms).
22. WelTec and Whitireia are putting significant work into the development of the merger business case. The Commissioner wants to establish if this work is worthwhile.

23. The TEC has been engaging with Whitireia and WelTec on the development of its business case. We have sought to ensure that they can show evidence that there are enough short-term wins from merging now to offset the disadvantages of two sets of changes given further structural change or consolidation is likely. Essentially, the business case will need to analyse the costs and benefits of two sets of changes versus one (i.e. are there sufficient short-term savings that are achieved from a merger that make it worthwhile).

Key questions you may wish to ask the Commissioner

24. Below are some suggested questions you may wish to ask the Commissioner at the meeting:

- What are your initial views of Whitireia and WelTec and their ability to return to financial sustainability?
- Have you got confidence in the capability of Whitireia and WelTec to implement the proposed change programme?
- What are the benefits of a merger between Whitireia and WelTec now, given upcoming changes to the ITP network and vocational education and training system? What are the risks of not progressing with a merger at this time?
- How is the overall change programme being received by students and staff? What has been the result of your stakeholder consultation on the proposed merger and change programme?
- What has been the response to the closure of the Kāpiti campus, and how do Whitireia and WelTec plan to mitigate the impact on learners?
- How will current relationships held by WelTec and Whitireia (e.g. WelTec has three significant contracts with industry training organisations) be maintained through the proposed change process?
- I am required to formally appoint an advisory committee of up to five people to support you as Commissioner – when do you expect to provide me with your recommendations? What individuals are you considering for the committee?



Gillian Dudgeon

Deputy Chief Executive – Delivery
Tertiary Education Commission

14 December 2018

Hon Chris Hipkins

Minister of Education

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Appendix A – Bio for Dr Neil Barnes, Commissioner

Dr Neil Barnes has extensive experience in the tertiary education sector, recently as Interim Chief Executive of Toi Ohomai Institute of Technology and previously as the Chief Executive of Christchurch Polytechnic Institute of Technology and of Nelson Marlborough Institute of Technology.

As a consultant, Dr Barnes has worked with tertiary institutions and central government agencies on a range of international education projects. He is currently Commissioner of Whitireia and WelTec; Independent Advisor to Western Institute of Technology at Taranaki; and on the Council of Otago Polytechnic.

