



Aide-Memoire: Lincoln University's Science North project

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
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Purpose

1. This aide-memoire provides you with additional advice on Lincoln University's (Lincoln's) Science North project in the context of COVID-19. It complements recent advice we provided to you on Lincoln's Single Stage Business Case for Science North, which recommended that Ministers endorse the business case (B-20-00161 refers).
2. We recommend that this aide-memoire is proactively released following Ministerial decisions.

Crown support for the Science North project in the context of COVID-19

The strategic case for Science North remains strong...

3. Lincoln is in clear need of new science facilities to replace those damaged in the 2010/11 earthquakes. Lincoln has already demolished the Hilgendorf building. The Burns building, which is currently being used by students, staff and researchers, is earthquake-damaged, inconsistent with modern teaching and learning approaches, barely complying with health and safety standards, and needs to be demolished. It cannot continue to operate in its current state for many more years without considerable expenditure (and that still would not bring it up to modern standards). The Government's \$80 million commitment to Lincoln to rebuild its science facilities followed previous decisions to provide Crown support to the two other Canterbury tertiary education institutions (TEIs) to rebuild their campuses.
4. While the Science North project delivers a number of important benefits for Lincoln (e.g. safe, modern buildings, increased ability to attract staff and students, improved financial outcomes) it also delivers a range of benefits for our land-based sectors and New Zealand as a whole. This includes increasing the number and quality of graduates to support our land-based sectors and delivering better research outcomes for New Zealand through greater collaboration with Crown Research Institutes and other stakeholders.

...and its construction will support the economic recovery from the impacts of COVID-19...

5. In addition to the above benefits, the Science North project will help support economic growth and the wider recovery from the impacts of COVID-19. Lincoln has already completed developed design (the second to last stage of the design process), engaged with the market, and shortlisted main contractors. Lincoln is now ready to engage with the shortlisted contractors to finalise design and pricing of the project, and ultimately identify its preferred main contractor.

6. Lincoln has been discussing timing with the shortlisted contractors. They are keen to get on with their pricing and tenders, and are in a position to do that now while they are not actively involved in actual physical construction due to the lockdown.
7. Science North is essentially 'shovel ready' and we understand the Treasury has already made contact with Lincoln to establish when the project can begin to help drive growth. It is an economically significant project that will also provide stability and certainty for construction contractors in an uncertain environment. Lincoln is currently awaiting endorsement from Ministers of the Single Stage Business Case before formally going out for final construction tenders from its shortlisted contractors. In this sense, a timely decision from Ministers is needed to ensure the project can begin as soon as possible. Lincoln hope to begin construction by the end of 2020.

...while the project is also closely interlinked with AgResearch's development

8. Lincoln's rebuild is closely connected with AgResearch's development of new science and corporate facilities at Lincoln. AgResearch's facilities will be built directly next to Lincoln's on Lincoln land. The two institutions are working closely on design to ensure that the buildings complement each other. If Lincoln was not to proceed with Science North it would have a significant impact on AgResearch's proposed benefits and outcomes. It may even result in AgResearch reconsidering its build plans on the Lincoln campus and delay its project.
9. AgResearch is due to submit an Implementation Business Case for its project at the end of May 2020 to shareholding Ministers for approval. We understand the project continues to have strong support from the Minister for Research, Science and Innovation, given the strategic case for the build remains strong and that it is an economically significant project that will directly support the economic recovery from COVID-19. The Ministry of Business, Innovation and Employment (MBIE) and the Treasury are supportive of the project and are looking at options to support AgResearch address any affordability issues in order to get this project underway quickly.

The impact of COVID-19 on the Science North project

COVID-19 is likely to impact on the affordability of Lincoln's capital programme...

10. Lincoln's campus redevelopment and transformation programme includes capital expenditure of \$305 million over the next ten years. This is comprised of \$206 million in campus development, \$96 million in business-as-usual capital expenditure, and a \$3 million capital investment in online education.
11. This expenditure is to be funded through a range of sources including operating surpluses, insurance settlements (Lincoln has around \$80 million in cash reserves), interest revenue, asset sales, and the Crown's \$80 million contribution. The biggest, and most important, project within this capital programme is the \$88 million Science North project. A significant amount of Lincoln's capital spend is planned to happen over the next three years, which would have resulted in cash falling to a low point s9(2)(b)(ii).
12. COVID-19 is likely to have a significant impact on the financial position of all TEIs, but the extent of these impacts remain uncertain. It will depend on a wide range of factors such as the length of border closures, the number of international students each TEI has, how well COVID-19 is controlled in other countries, student preferences (both domestic and international), the state of the economy, and the quality of online offerings. Lincoln has the highest proportion of international EFTS of any TEI, so assumptions around future international enrolments will have a big impact on its finances.

...and Lincoln is undertaking a range of scenario analysis to test affordability...

13. Lincoln has already modelled the impact of COVID-19 on its 2020 position. Essentially, Lincoln is expecting revenue to be \$11 million lower than expected due to no further international enrolments for the rest of the year. Around half of this loss can be mitigated by reducing operating and capital expenditure. Lincoln had originally budgeted for an operating surplus of \$4.0 million in 2020 but is now likely to post a small deficit.
14. To test the affordability of the Science North project and the wider campus redevelopment programme, Lincoln is undertaking a wide range of scenario analysis that looks at the impact COVID-19 will have on student numbers and financial performance over the next ten years. This includes scenarios around long-term border closures and no/constrained international growth in 2020, 2021 and beyond. It also includes various rates of recovery in international enrolments in future. The TEC is working closely with Lincoln on this analysis.
15. While the scenario analysis work is still ongoing, it will show that Lincoln has less cash to contribute to the programme from forecast operating surpluses and that its cash position will be lower than the previously forecast low point **s9(2)(b)(ii)**.

...but Lincoln has a number of mitigations it can implement to support affordability...

16. Lincoln has a wide range of mitigations and actions it can take to respond to COVID-19 and support affordability of the Science North project. These will vary depending on the scenario which eventuates, but include:
 - Deferring or scaling back parts of its planned \$305 million capital programme to prioritise the \$88 million Science North project. This is the key mitigation strategy it can implement to ensure affordability of Science North;
 - Undertaking further asset sales in addition to the **s9(2)(b)(ii)** currently planned;
 - Implement new learner recruitment strategies (e.g. new delivery models, new programmes, increased partnerships) to increase enrolments for both online and face-to-face learning;
 - Borrowing to support its cash position through the low point in 2022. Lincoln can borrow a small amount, but further borrowings would require obtaining consent from the Secretary for Education; and
 - Reducing the size or scope of Science North or building the project in stages.
17. The mitigation strategies will be analysed by Lincoln as part of its scenario analysis.

...and the Crown also potentially has some options to support affordability

18. If Ministers agree the project remains a priority, the Crown also has a number of options available to it to further improve affordability, and to allow the project to go ahead in the current timeframe. This could be considered in the context of wider Government investment in infrastructure projects.
19. This could include contributing additional capital funding over and above the \$80 million currently committed. It could also include adjusting the payment schedule from that set out in the Crown funding agreement and previous Cabinet decisions. The current funding profile provides for \$30 million to be paid after 50 percent of the project is completed and another \$30 million to be provided at the end of the project. Funding could instead be provided up-front to assist Lincoln's cash position and smooth the low point in cash in 2022.

Ministerial decisions

We recommend Ministers endorses the Single Stage Business Case...

20. As per the advice in B-20-00161, we recommend that Ministers support the project and endorse the Single Stage Business Case, even in the context of COVID-19. Not only is the project needed for Lincoln, but it will deliver a range of benefits for industry and New Zealand, and support the wider economic recovery in coming years. Endorsement will allow Lincoln to go to market for a main contractor within the next couple of weeks and develop an Implementation Business Case (IBC) for Ministerial consideration.
21. The IBC will need to set out the negotiated commercial and contractual arrangements for delivery of the project and confirm that the project is affordable. It will also canvass the impact of COVID-19 on Lincoln's financial situation and ability to deliver the project. Ministers will need to endorse the IBC before construction can begin. As such, it provides a further decision point for Ministers (and officials) to review affordability and any risks to the Crown from the project due to COVID-19.
22. If Ministers decide to delay endorsement of the business case to wait for further clarity of the impacts of COVID-19 on the project, Lincoln will not be able to go to market for a contractor. This will mean further delays to the project and realisation of the benefits, continued use of the Burns building, impact on AgResearch's project and its benefits, and delay any economic contribution from construction. Furthermore, it is likely that uncertainty regarding COVID-19 will prevail for some time and it is not clear how long you would have to wait before there was greater certainty.
23. The Ministry of Education, the Treasury and other agencies remain supportive of the recommendation for Ministers to endorse the Single Stage Business Case, especially given further analysis on the impact of COVID-19 can be undertaken on the IBC.

...with a significant impact on Lincoln if the Crown withdrew support

24. If decisions were made not to provide Crown support for the project, it would undermine Lincoln's financial sustainability. Lincoln would have to rely on its own resources to rebuild and upgrade its campus. Lincoln could look to sell further assets but there would be limited other opportunities to raise any significant cash. Borrowing would remain an option but Lincoln would need to borrow a large amount, which would add significant cost for Lincoln and undermine its medium- and long-term financial viability. Furthermore, in the absence of Crown support, Lincoln may not be financially secure enough to obtain a borrowing consent from the Secretary for Education.
25. We consider the following would be likely if Crown funding was not provided:
 - Lincoln would look to construct basic low-cost warehouse type buildings to replace some of the unsuitable/demolished science facilities;
 - the earthquake-damaged Burns building may not be demolished, but some parts of it might be upgraded for interim use (e.g. teaching labs and the traditional lecture theatres);
 - the opportunity to invest in student facilities would be severely limited;
 - Lincoln would continue to have difficulties attracting domestic students and future international growth may be impacted;
 - it would be less attractive for staff, which would further undermine both teaching and research; and

- it would reduce the opportunities to collaborate with AgResearch and maximise the benefits of having AgResearch on campus, which would impact on the proposed benefits for not only Lincoln but also industry and New Zealand.
26. Overall, this would create a downward spiral of performance and negatively impact on Lincoln's long-term viability and sustainability. It would also reduce Lincoln's ability to better position our land-based sectors to make a greater contribution to a sustainable economy and environmental sustainability through world class teaching and research, as well as support the economic recovery from the impacts of COVID-19.



Gillian Dudgeon

Deputy Chief Executive – Delivery
Tertiary Education Commission

14 April 2020



Hon Chris Hipkins

Minister of Education

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