

Tertiary Education Report: Report to Ministers from the University of Canterbury Futures Governance Oversight Group

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
Date:	21 December 2018
Reference:	B-18-00969

Background

1. In 2013, Cabinet agreed to provide capital funding of up to \$260 million to contribute to the rebuilding of the University of Canterbury's (UC's) science and engineering facilities, and to help the University recover from the 2010 and 2011 earthquakes. In October 2018, the final \$50 million payment was made to UC. This now completes the Crown's financial contribution to UC's rebuild and recovery.
2. A Funding Agreement was signed between the Crown and UC outlining the terms under which the Crown agreed to provide capital funding, and the accountability and reporting mechanisms that were to be put in place. The Agreement was signed by the Minister for Tertiary Education, Skills and Employment and the Minister of Finance on behalf of the Crown.
3. When the Funding Agreement was signed, it specified that a Governance Oversight Group (GOG) was to be established. The GOG's role was to support and monitor UC's implementation of the Rutherford Regional Science and Innovation Centre (RRSIC) and the Canterbury Engineering the Future (CETF) project, and deliver on the benefits associated with these projects and the wider UC Futures Programme.
4. I attach the latest report from the Chair of the UC Futures GOG, Garry Wilson, and seek your agreement to forward the report to the Minister of Finance. The current report from the GOG Chair takes account of the meeting on 29 November 2018 and any developments since that date. Overall, the UC Futures Programme continues to progress well and is nearing completion.
5. The next GOG meeting will be in July 2019. The GOG Chair will update you following that meeting.

Recommendation

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **agree** that the TEC release this note and the GOG Chair's briefing once it has been considered by you and the Minister of Finance.
2. **note** that some information in the GOG Chair's report will be withheld on commercial grounds so as not to prejudice negotiations.
3. **send** a copy of the GOG Chair's report to the Minister of Finance. A draft letter to the Minister is enclosed together with a second copy of the report and its appendix.



Gillian Dudgeon

Deputy Chief Executive - Delivery,
Tertiary Education Commission

21 December 2018

Hon Chris Hipkins

Minister of Education

___ / ___ / ___

University of Canterbury Futures Governance Oversight Group: Report to Ministers from the Chair

To:	Hon Chris Hipkins, Minister of Education
From:	Garry Wilson, Chair of the UC Futures Governance Oversight Group
Date:	21 December 2018
Title:	Report to Ministers from the November 2018 Governance Oversight Group Meeting

Purpose

1. This report summarises recent progress on the University of Canterbury's (UC's) Futures Programme following the UC Governance Oversight Group (GOG) meeting held on 29 November 2018. The report takes account of the UC quarterly monitoring report, papers received for the November 2018 meeting, and developments since that date.

Background

2. The GOG's terms of reference in the funding agreement between the Crown and UC set out that the GOG is required to meet four times each year and to report to Ministers following those meetings. You were last briefed on 13 September 2018, following the August meeting (B/18/00629 refers).

UC Futures Programme Milestones

3. The UC quarterly monitoring report is attached and summarises progress across the UC Futures Programme for the September 2018 quarter.
4. Overall, the UC Futures Programme continues to progress well and is nearing completion. The large majority of UC's buildings have now been remediated with major projects such as Canterbury Engineering the Future (CETF), the Structural Engineering Laboratory and Stage One of the Rutherford Regional Science and Innovation Centre (RRSIC) completed and operational. The Rehua building project, which has faced numerous delays, has recently been completed with teaching due to begin in this building in mid-January 2019.
5. Enrolments have risen strongly at UC in 2018 and early indicators suggest another large increase in student numbers for 2019. Furthermore, all undergraduate programmes have now been reviewed as part of the introduction of the institution-wide graduate profile, in line with the Crown funding agreement milestone. The graduate profile ensures all UC students graduate with a minimum set of common attributes including: bicultural competence and confidence; community engagement; employable, innovative and enterprising; and, globally aware.
6. The only key remaining outstanding item is the completion of Stage Two of the RRSIC project which is due to be ready for teaching in semester two, 2019.

Early indicators suggest another increase in enrolments in 2019

7. Total EFTS at UC are up by 7% in 2018. This has been driven by domestic EFTS growth of 6% while full-fee international EFTS are up by 20%. These are by far the strongest growth rates recorded across the university sector in 2018.
8. Early indications for 2019 enrolments suggest that UC will record another strong increase in EFTS with applications-to-enrol up by more than 20% compared to a year ago. The increase has been in both domestic and international students while all of UC's five colleges have reported an increase compared to a year ago. While the significant growth in applications-to-enrol is a positive sign, it is still early in the enrolment process and reliable information will not be available until March 2019.

The Rehua building project will be ready for teaching at the beginning of 2019

9. The \$81 million Rehua building project involves a major strengthening and rebuild of the former Commerce building for use by the College of Education and the College of Business and Law. While the Crown did not directly contribute capital funding to the Rehua project, the GOG maintains oversight of the project as part of its monitoring of the wider UC Futures Programme and the funding agreement milestones.
10. As has been previously reported to you, the Rehua project has experienced repeated delays over the past 12-18 months. These issues have largely arisen from poor performance from the contractor, Hawkins (who was acquired by Downer EDI Ltd in early 2017). Despite these delays, progress has continued to be made. Construction has now largely been completed and a public use certificate was issued on 6 December. UC has begun occupying the building, and while some fit-out still needs to be completed, the building will be ready for teaching from mid-January 2019. This is in line with the reset milestone target for the Rehua building in the Crown funding agreement.
11. Deloitte undertook a 'readiness-for-service' Independent Quality Assurance (IQA) review in November 2018. The IQA report was positive and advised that successful delivery appears probable.
12. Some uncertainty remains around the total cost of the Rehua project, which has an \$80.8 million budget. Downer EDI Ltd has issued a number of variation and extension of time claims, which are now being worked through by UC and Downer. UC has made provisions within its long-term capital plan for any cost overruns based on a likely worst-case scenario.

RRSIC Stage Two is progressing well towards its completion date of mid-2019

13. The \$226 million RRSIC project is a new build, multi-disciplinary innovative science research and teaching facility that is replacing the earthquake-damaged old Rutherford and Von Haast buildings. The main building (the Ernest Rutherford building), which represents around 85% of the overall RRSIC cost, opened at the beginning of 2018.
14. UC has recently settled the final cost of the contract with Fletchers for Stage One of RRSIC. This was settled at \$145 million, slightly below the expected cost of \$147 million.
15. Stage Two (the Beatrice Tinsley building), which will hold office and study space, is progressing well with the project on time and within budget. There has been a small delay with the late delivery of the façade but the contractor, Dominion Constructors Limited, is working constructively with UC to bring this back within programme. UC is still expecting that the project will be completed in May 2019 and be ready for teaching for semester two, 2019.

The CETF is operational and the remaining minor works are nearly completed

16. The \$163 million CETF project was completed at the beginning of 2018 and the facilities are being used by students and researchers. As reported to you last quarter, there were a number of minor defects that needed to be resolved. UC is managing the minor defects and other close out works on its own through its facilities management team. UC expect all of this work to be finalised over the summer period.

Key risks

17. As UC continues to move along its recovery path, most of the key risks related to the UC Futures Programme have reduced – in particular, those risks associated with enrolment growth being lower than forecast have diminished given the exceptionally strong growth recorded over the past three years.
18. The biggest risk now relates to UC having enough teaching space and student accommodation to meet future demand on the back of the strong enrolment growth recorded in recent years and the strong indicators for 2019. In August 2018, UC agreed to invest \$78 million to develop new student accommodation on its campus which will provide up to 490 beds by the beginning of 2021 to meet forecast demand.

Future meetings of the UC Futures GOG

19. The next GOG meeting will be held on 26 July 2019. This will be the only meeting of the GOG in 2019.
20. Since 2014, the GOG has met quarterly, as required in the funding agreement with the Crown. However, all of the major projects of the UC Futures programmes have now been completed, or near completion, with the exception of RRSIC Stage Two which is due to be completed by mid-2019. Although the GOG will no longer meet on a quarterly basis, UC will continue to provide GOG members with reporting against the targets and milestones in the Crown funding agreement on a quarterly basis. It should be noted that if for some reason an additional GOG meeting is required, members can call a meeting at any time.
21. The July 2019 GOG meeting will cover the completion of RRSIC Stage Two (and the results of a readiness-for-service IQA) as well as the results of the post-implementation review for the CETF project which will report on lessons learnt from the project and benefits realisation. Following that meeting, the only remaining item left for the GOG to consider will be the post-implementation review for the RRSIC project, which is likely to be in 2020.
22. I will update you following the July 2019 meeting. In the meantime, UC would like to reiterate its request for you to visit UC for a tour of its campus at your earliest convenience in 2019.



Garry Wilson

Chair, UC Futures Governance Oversight Group

21 December 2018

UC Futures: Quarterly Monitoring Report for the Governance Oversight Group

Period: [ended 30 September 2018]

Key:

- Target indicators**
- < variance
- > variance: note explanation required, and plan to address
- > variance over more than two periods and/or variance continues post plan (see above) implemented Explanation required; separate report with recommendations for GOG required

Progress indicators (for period when target does not apply)

- ↑ On target
- ↔ slightly off target, remediation action proposed
- ↓ not expecting to meet target (report required)

Trend:

- ↑ improved since previous reporting period ie: moved toward target
- ↔ unchanged since previous reporting period
- ↓ decreased since previous reporting period ie: moved away from target

Indicator	Target for current period (2018)	Target or progress indicator	Trend	Comment (required if yellow or red) • Comments refer to the reporting period (Q3 2018) for the University entity results only.	Forecast result, comments and / or plan to address issues if required (required if yellow; additional paper to GOG required if red)	FA Target next period (2019)
Domestic EFTS (annual target)	12,684	↑	↑	• As at 30 September 2018, the University had 12,220 domestic EFTS. Full year budget is 12,277 domestic EFTS.	• The University forecasts to exceed its budget for 2018 and be within its Funding Agreement target range at about 12,362 forecast for 2018.	13,075
Overall EFTS (annual target)	14,015	↑	↑	• As at 30 September 2018, the University had 13,884 total EFTS. Full year budget is 13,805 total EFTS.	• The University forecasts to exceed its budget likely to meet its Funding Agreement target with a forecast of 14,081 EFTS for 2018.	14,597
Total operating revenue (\$m) (annual target)	\$342m	↑	↑	• Revenue for the nine months ended 30 September 2018 was \$279 million (budget \$268 million).	• Forecast is to exceed budget and Funding Agreement target.	\$362m
Net cashflow from operations (%)	115%+	↑	↑	• Net operating cash flow from operations was 129% for the nine months ended 30 September 2018 (budget 137%).	• Forecast is to exceed budget and Funding Agreement target.	115%+
Net operating surplus/total income (%)	-4% to 0%	↑	↑	• Net operating <u>deficit</u> for the nine months ended 30 September 2018 was (\$0.855) million or (0.3)% of revenue (budget <u>deficit</u> (\$7.756) million or (2.9)% of revenue).	• Forecast is for a <u>surplus</u> of \$6.989million or 1.8% (Budget <u>deficit</u> of (\$7.887) million, (2.2)%).	0% to 3%
Ability to service debt (interest cover ratio)	Less than 1.0x	↑	↑	• At 30 September 2018, the University's ability to service debt was a <u>positive</u> ratio of 0.7 (budget <u>negative</u> 1.6).	• The University continues to manage its cash flows and meet its bond interest payments.	1.0x to 1.5x
Debt to (debt + equity) ratio	7.5% to 15%	↑	↔	• At 30 September 2018, the debt to (debt + equity) ratio was 3.6% (budget 3.6%). UC continues to over achieve in this ratio with low debt ratio.	• These results are currently forecast to meet the target range in both cases.	0% to 7.5%
Engineering project metrics (% complete) (reported quarterly)	30 Sep 2018 100.0%	↔	↔	• Using project spend as an indicator of % complete the project was 98.7% complete in financial terms at 30 September 2018. (Ratio is Actual as a % Forecast.)	• Final account has been settled and an amount of bond money retained to complete some outstanding commissioning and minor works. Main contractor in liquidation.	31 Dec 2018 100.0%
Science project metrics (% complete) (reported quarterly)	96.3%	↔	↔	• Using project spend as an indicator of % complete the project sat at 84.4% complete in financial terms at 30 September 2018. (Ratio is Actual as a % Forecast.)	• Stage 1 is now complete, the Ernest Rutherford building is occupied, and research and teaching has begun. Stage 2 was delayed because of asbestos.	99.0%

Highlights for the period

- The CETF project control group had its final meeting with the final report due shortly into the fourth quarter this year. The completion of the CETF project is marked by a final settlement with the liquidators and receivers of the construction firm which was contracted to build or rebuild the five buildings that make up the bulk of the UC Engineering Precinct.
- UC retains responsibility for finalising the last key elements of the CETF build that need finishing and the UC Futures Programme continues to monitor these residual items. These are the glycol chiller and Fire Lab and Emissions Control Unit in CNRE (Civil and Natural Resources Engineering); and the steam boiler and gas line modifications in CAPE (Chemical and Process Engineering). As a result the full budget was not entirely spent at the end of this quarter.
- Second semester enrolments were strong for UC, and it appears that the university picked up some more adult and part time enrolments at this time. Part time adult enrolments in universities have fallen across New Zealand in recent years, and UC was particularly subject to this during the earthquake sequence. Whether this very small uptick is a trend is yet to be seen.
- UC is nearing the final milestone for the implementation of its graduate profile, developed as part of the UC Futures programme of recovery. The concept has been developed and progressed in leading Western universities for some years, including those in the UK Russell Group. It involves ensuring that every graduate from the University graduates with a minimum set of common attributes. In the case of UC these are: bicultural competence, employability, global awareness, and community engaged.

Risks emerging / mitigation strategies

- The rebuild and re-strengthening of the Rehua building continues to be significantly behind schedule. UC has planned to re-occupy this building over the summer now and this is expected to be a viable expectation. The Governance Oversight Group has been kept fully informed of this issue and the timetabling mitigations.
- The risks for the programme over all have significantly reduced since the programmes inception and those associated with the CETF project have now been moved over to the BAU risk logs for services and the College.

Update on project milestones

Science	↑	• Achieved Semester One 2018 for Stage One
Engineering	↑	• Achieved Semester One 2018
Education	↔	• Building behind on key milestones
Remediation	↑	• Funding Agreement milestone met in 2016

Overall project summary

Progress ↑ Trend ↑

Comments

- The UC Futures project remains on track overall and continues to be monitored by the UC Futures Programme Board, UC Council and Governance Oversight Group.
- In 2018, the Engineering Precinct rebuild has been completed, the Science Precinct RRSIC Stage One building was completed, and both occupied; and the Rehua building will be completed. This will leave only RRSIC Stage Two to be completed in 2019.
- In 2018, the final milestone in the preparation, planning and roll out of the graduate attributes will also be completed.
- The growth required to achieve pre-earthquake enrolment levels is on track for domestic enrolments to get to the targeted levels as planned in the Crown Funding Agreement in 2022. However, international full fee enrolments will likely reach the 2022 target sometime in 2019 or 2020, at least two years earlier than planned.
- In summary, the UC Futures programme is going well and on track to ensure the completion of a full recovery for UC.

Hon Grant Robertson
Minister of Finance
PARLIAMENT BUILDINGS

Dear Grant

University of Canterbury Futures Governance Oversight Group

I attach the latest report from the Chair of the University of Canterbury (UC) Futures Governance Oversight Group (GOG), established under the Crown funding agreement with the University.

The report takes account of the GOG meeting on 29 November 2018 and includes the monitoring report from the University for the third quarter of 2018. The report summarises progress on the UC Futures Programme and UC's continued recovery.

Overall, the UC Futures Programme continues to progress well and within the parameters of the Crown funding agreement. As you are aware, in October 2018 the final \$50 million of the Crown's \$260 million contribution to the UC Futures Programme was paid.

The GOG will next meet in July 2019 and the GOG Chair will provide an update to me following that meeting. I will forward the Chair's report to you at that time.

Yours sincerely

Chris Hipkins
Minister of Education