



## Tertiary Education Report: Southern Institute of Technology's proposal for operating Telford in 2020 and 2021

<b>Date:</b>	17 July 2019	<b>TEC priority:</b>	High
<b>Security level:</b>	In Confidence	<b>Report no:</b>	B-19-00867
		<b>Minister's office No:</b>	

<b>ACTION SOUGHT</b>		
	<b>Action sought</b>	<b>Deadline</b>
<b>Hon Grant Robertson</b> Minister of Finance	<b>agree</b> to transfer \$4.677 million from "the Tertiary Tuition and Training MCA, Category Tertiary Education: Student Achievement Component" into "Access to Tertiary Education" for the purposes of providing the grant.	As soon as possible
<b>Hon Chris Hipkins</b> Minister of Education	<b>agree</b> to provide up to \$4.677 million in Crown funding to support the Southern Institute of Technology to operate Telford in 2020, 2021 and beyond, as a grant under section 321 of the Education Act 1989.  <b>agree</b> to transfer \$4.677 million from "the Tertiary Tuition and Training MCA, Category Tertiary Education: Student Achievement Component" into "Access to Tertiary Education" for the purposes of providing the grant.	As soon as possible
<b>Enclosure: Yes</b>	<b>Round Robin: Yes</b>	

<b>CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)</b>			
<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st contact</b>
Section 9(2)(a)	Principal Advisor	Section 9(2)(a)	✓
Gillian Dudgeon	Deputy Chief Executive – Delivery		

<b>THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT</b>							
<input checked="" type="checkbox"/> DPMC	<input checked="" type="checkbox"/> MPI	<input type="checkbox"/> ENZ	<input type="checkbox"/> ERO	<input type="checkbox"/> MBIE	<input checked="" type="checkbox"/> MoE	<input type="checkbox"/> MFAT	
<input type="checkbox"/> MPP	<input type="checkbox"/> MSD	<input type="checkbox"/> NZQA	<input type="checkbox"/> NZTE	<input checked="" type="checkbox"/> TEC	<input type="checkbox"/> TPK	<input checked="" type="checkbox"/> Treasury	

**Minister's Office to Complete:**  Approved  Declined  
 Noted  Needs change  
 Seen  Overtaken by Events  
 See Minister's Notes  Withdrawn

**Comments:**

## Recommendations

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**Hon Chris Hipkins**, Minister of Education

*It is recommended that you:*

1. **note** that in February 2019 you agreed to provide \$1.8 million in Crown funding as a grant under section 321 of the Education Act 1989 to support the Southern Institute of Technology (SIT) to operate Telford in 2019;
2. **note** that SIT has submitted a proposal for Crown support to operate Telford in 2020 and 2021;
3. **note** that SIT believes that this funding will allow it to establish a financially sustainable delivery model at Telford;
4. **note** that the majority of funding is for deferred maintenance and earthquake strengthening at the Telford campus and it is unusual for the Crown to fund capital costs;
5. **agree** that providing funding to SIT to ensure ongoing agricultural training provision at Telford is in the national interest;

**AGREE / DISAGREE**

6. **agree** to provide up to \$4.677 million in Crown funding to support SIT to operate Telford going forward as a grant under section 321 of the Education Act 1989;

**AGREE / DISAGREE**

7. **note** that the Tertiary Education Commission will negotiate an amendment to the existing funding agreement for the section 321 grant with SIT for this additional funding which will include key deliverables and reporting requirements to ensure accountability for funding;
8. **forward** a copy of this briefing to the Minister of Finance for his decision, once you have signed it;

**AGREE / DISAGREE**

9. subject to the Minister of Finance's agreement to the funding, **sign and send** a letter to the Chair and Chief Executive of SIT informing them of the Government's decision;
10. **agree** that the Tertiary Education Commission proactively release this briefing once decisions have been made with all commercially sensitive information redacted.

**AGREE / DISAGREE**

**Hon Grant Robertson**, Minister of Finance, and **Hon Chris Hipkins**, Minister of Education

*It is recommended that you:*

11. **approve** the following fiscally neutral adjustments to give effect to the decision in recommendation 6, with no impact on the operating balance and net core Crown debt:

Vote Tertiary Education Minister of Education	\$ million – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Multi-Category Expenses and Capital Expenditure:					
Tertiary Tuition and Training MCA					
Non-departmental Output Expense					
Tertiary Education: Student Achievement Component	(3.422)	(1.255)			
Non-departmental Output Expense:					
Access to Tertiary Education	3.422	1.255	-	-	-
<b>Total Operating</b>	-	-	-	-	-

**Minister of Education**

**AGREE / DISAGREE**

**Minister of Finance**

**AGREE / DISAGREE**

12. **agree** that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

**Minister of Education**

**AGREE / DISAGREE**

**Minister of Finance**

**AGREE / DISAGREE**

**Gillian Dudgeon**

Deputy Chief Executive, Delivery  
Tertiary Education Commission

17 July 2019

**Hon Chris Hipkins**

Minister of Education

\_\_\_ / \_\_\_ / \_\_\_

**Hon Grant Robertson**

Minister of Finance

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## Purpose

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1. The purpose of this briefing is to seek joint Ministers' approval to fund the Southern Institute of Technology's (SIT's) proposal for operating the Telford campus (Telford) in 2020 and 2021.
2. We have consulted with the Ministry of Education (MoE), the Treasury, and the Ministry of Primary Industries (MPI) on this briefing. The Department of the Prime Minister and Cabinet has been informed.

## Background information

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### SIT offered to take over delivery at Telford in 2019 in return for additional Crown funding...

3. Following Taratahi Agricultural Training Centre (Taratahi) being placed into liquidation, SIT submitted a proposal on 25 January 2019 to operate Telford to deliver non-degree primary industry training via the residential campus in Balclutha, and via distance blended delivery. SIT requested \$6.5 million in Crown support to ensure Telford had a solid foundation to be financially sustainable in the medium to long-term. We provided the Minister of Education with advice on the proposal on 28 January 2019 (AM-19-00070 refers).

### ...but the Government decided to provide funding for only one year...

4. Given the Reform of Vocational Education (RoVE), the Minister of Education directed officials to engage with SIT on the potential to operate Telford for one year only. Following negotiation with SIT, the Minister of Education agreed to provide up to \$2.4 million in Crown support to SIT to operate Telford in 2019 (B-19-00081 refers). Approximately \$1.8 million was paid directly to SIT while \$0.570 million was set aside **Section 9(2)(b)(ii)** should SIT not be required by the Government to continue Telford operations for 2020 onwards. The \$1.8 million in funding was provided to cover:
  - **S 9(2)(j)** for maintenance of buildings in 2019;
  - **S 9(2)(j)** given it only employed 60% of the Telford staff;
  - **S 9(2)(j)** to assist with converting programmes to online and to develop some programmes into New Zealand qualifications that complied with New Zealand Qualifications Authority (NZQA) requirements;
  - **S 9(2)(j)** to cover IT-related issues and failures;
  - **S 9(2)(j)** for a development fund to begin developing programmes that meet industry needs, including online/blended delivery and short community programmes; and
  - **S 9(2)(j)** for transition costs, and to offset SIT having to run programmes with suboptimal student numbers in 2019 given the uncertainty and late start to the academic year.

### ...with funding provided to SIT through a section 321 grant

5. Section 321 of the Education Act 1989 exists to provide the Minister of Education with the flexibility and discretion to recognise and fund educational organisations and their activities that do not fit within the standard funding provisions of the Education Act 1989. Section 321 provides that grants can be paid to educational bodies for a specific purpose, provided the Minister of Education is satisfied that payment of the grant is in the national interest. The Minister of Education agreed that providing funding to SIT to ensure the provision at Telford continued was in the national interest (B-19-00081 refers). The proposal was funded through Vote Tertiary Education underspends.

6. In late February 2019, TEC, MoE, and SIT signed a funding agreement which set out the terms and conditions of the grant, including reporting requirements. The \$1.8 million payment was made to SIT on 1 March 2019. SIT provided its first quarterly report in May 2019 outlining its progress, with its next report due in August 2019.

## Summary of SIT's updated proposal

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### SIT will continue to operate Telford going forward if \$4.7 million in Crown support is provided...

7. At the end of May 2019, SIT submitted an updated proposal to operate Telford for 2020 and 2021, requesting \$4.677 million in Crown support. The request for Crown funding is largely consistent with the original request from January 2019, and comprises the following:
  - **§ 9(2)(j) for earthquake strengthening and deferred maintenance:** This includes § 9(2)(j) for earthquake strengthening and § 9(2)(j) for deferred maintenance costs. The two buildings that require earthquake strengthening are currently below 34% of the New Building Standard (i.e. "earthquake prone") and the amounts indicated would see these upgraded to a minimum of 67%. The deferred maintenance covers a range of assets on the Telford campus that were not maintained by Lincoln University (Lincoln) and Taratahi during their operation of the campus. Of particular urgency is the deferred maintenance relating to the residential hostel and the wastewater system. The wastewater system becomes non-compliant in 2021 and both of these areas have potential to cause significant issues in 2020 if greater numbers of students are attracted to the campus. A summary of the estimated deferred maintenance costs is provided in Appendix 1.
  - **§ 9(2)(j) for the development fund:** SIT believes the campus is significantly underutilised and there are a number of opportunities to develop programmes that meet industry need, including online/blended delivery and short community programmes. § 9(2)(j) was provided for these purposes as part of the 2019 payment. The additional § 9(2)(j) would be used to market to international students and to develop short courses and training schemes that meet primary sector skill shortages.
  - **§ 9(2)(j) for IT infrastructure:** In addition to the § 9(2)(j) provided earlier in the year, this funding would be used to upgrade the IT infrastructure and ensure it is fit for purpose, as well as to move Telford to an online enrolment environment. Much of the IT hardware is over 10 years old and in a poor state with urgent upgrades required.
8. SIT's proposal also requests that the \$0.570 million already set aside in early 2019 § 9(2)(b)(ii) needs to be retained for possible draw down should Telford be closed under SIT's management. This funding remains ring-fenced within the TEC's overall Student Achievement Component (SAC) appropriation for 2019/20.

### ...with the assumption that the TEC will continue to fund delivery at Telford...

9. In addition to the above Crown funding, SIT assumes that the TEC will provide funding for equivalent full-time student (EFTS) delivery of \$2.3 million in 2020 and \$2.6 million in 2021. While TEC funding must be managed in accordance with the investment plan process set out under the Education Act 1989, we are comfortable with this assumption given that primary skills training of the kind proposed will remain a high funding priority for the foreseeable future. Funding would be managed in the usual way – including recovery of funding in the event of under-delivery against SIT's overall allocation. If the RoVE proposals are to proceed, special consideration to the situation at Telford may need to be given to ensure that this level of funding is available for this specific provision.

### **...and SIT proposes to deliver over 200 EFTS per annum going forward**

10. SIT proposes to deliver 220 EFTS in 2020 and 250 EFTS in 2021. This delivery would be a mixture of on-campus, blended, and online delivery. Around 60% of the proposed delivery would be at Level 3, 20% at each of Level 4 and Level 5, and a small amount at Level 2. Delivery is expected to be greatest in apiculture, agriculture, wool technology, and fencing.
11. SIT's ability to attract its projected enrolment numbers is the biggest risk to achieving ongoing viability at Telford. Our view is that the enrolment forecasts look somewhat optimistic, especially given reduced student demand for agricultural related vocational training over recent years. However, SIT is planning to utilise a different model and offer a wider range of products compared to Taratahi and Lincoln. In particular, SIT will introduce online and blended delivery and plan to develop new programmes with, and for, industry, including short-courses. SIT also plan to market to international students. SIT has a good track record of growing its business through these kinds of approaches.
12. SIT expect to deliver around 135 EFTS through its Telford operations in 2019. However, the uncertainty regarding Telford's future over late 2018 and early 2019, combined with SIT not taking over Telford until February 2019, had a major impact on enrolment numbers this year. 2019 delivery is therefore not a strong indication of future performance.

## **Our view on the funding requested**

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### **The requested funding is for work that needs to be undertaken...**

13. Overall, the Crown funding being sought is for work that clearly needs to be undertaken. For example, it is entirely reasonable that SIT is unwilling to have staff and students using earthquake-prone buildings – most institutions would hold the same position. There are also significant years of deferred maintenance on the campus that need to be fixed for compliance reasons and to ensure the campus is an attractive and safe place for students to attend. The funding for a much needed upgrade of old IT infrastructure and for a development fund to develop programmes that support a sustainable delivery model at Telford are also sensible.
14. To support the funding being requested, SIT has provided supporting documentation, including Quantity Surveyor estimates.

### **...and we have partially resolved the ownership issues regarding the assets...**

15. S 9(2)(g)(i) [REDACTED]  
S 9(2)(g)(i) [REDACTED] We were concerned about these arrangements as it meant that up to S 9(2)(i) [REDACTED] of Crown funding would be used to refurbish and remediate buildings owned by a private party.
16. S 9(2)(g)(i) [REDACTED]  
[REDACTED]  
This includes classrooms, hostels, administrative buildings and other buildings. The Telford Farm Board will retain some of the more historical building assets as well as the land. These arrangements are conditional on the requested Crown funding being provided.
17. From the Telford Farm Board's point of view, it is happy for SIT to own the assets if it allows for the significant deferred maintenance and earthquake related issues to be resolved, and for viable educational delivery to continue going forward.

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<sup>1</sup> The Telford Training Institute is a body corporate established under the Telford Farm Training Institute Act 1963. The Act established a Board of Management (the Telford Farm Board) to control and manage the Telford Farm Training Institute in accordance with the provisions of the Act.

18. The assets that SIT will purchase have a book value of around **§ 9(2)(j)** (supported by valuations) and will result in a positive impact on SIT's, and therefore the Crown's, balance sheet. However, in reality, the assets have little real value for SIT if they are not used for delivering vocational training at Telford. They sit on Telford Farm Board land in Balclutha, cannot be easily moved or sold, and have little purpose other than for educational delivery. Therefore, while they hold value for SIT while it is operating Telford, if Telford operations ceased, SIT would not be able to realise much, if any, value from these assets. This is a key reason why SIT is unwilling to use its own cash reserves to meet the required building costs.

**...but some Crown funding would still be used to refurbish non-Crown assets...**

19. In total, around **§ 9(2)(j)** requested for building costs would be for assets owned by the Telford Farm Board. This includes all of the earthquake strengthening work **§ 9(2)(j)** and around **§ 9(2)(j)** in deferred maintenance work – particularly that related to the Main Hostel Block.
20. While the proposed arrangements mean the majority of Crown funding is being provided to refurbish and remediate assets owned and controlled by SIT, Ministers would still need to be comfortable that some of the funding would be used on assets owned by a third party.

21. **§ 9(2)(b)(ii)**

**...and it is unusual for the Crown to fund capital costs for TEIs**

22. As you are aware, the Government does not usually provide funding for earthquake strengthening and deferred maintenance costs for tertiary education institutions (TEIs) except in exceptional circumstances (e.g. to Canterbury TEIs to rebuild their campuses following the 2010 and 2011 earthquakes). In this instance, the Crown is essentially being asked to fund building costs that should have been met by the previous operators – Lincoln and Taratahi. This work was not undertaken due to financial issues at both institutions and other priorities (e.g. recovering from the Canterbury earthquakes in Lincoln's case).

23. **§ 9(2)(g)(i)**

## **Our view on SIT operating Telford**

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**We have confidence in SIT's capability as a provider...**

24. If you decide to provide the requested funding, we have confidence in SIT as a provider. This confidence would remain should SIT become part of the proposed New Zealand Institute of Skills & Technology (NZIST). SIT has a long history of sound academic and financial performance, and is a well-managed and well-governed institution. It also has strong connections to industry and stakeholders in the region, and has established a good working relationship with the Telford Farm Board and the surrounding community. This was not always the case when Lincoln and Taratahi operated Telford, especially with regards to the relationship with the Telford Farm Board.

**...and SIT is confident that it can make Telford viable...**

25. Educational delivery at Telford has historically not been viable. This was the case under both Lincoln and Taratahi and partly relates to the costs of delivering a residential-based sub-degree agricultural training model. In general, a residential delivery model is likely to struggle if accommodation costs are not being charged or recovered appropriately (usually from

students). However, we would also note that neither Lincoln nor Taratahi gave Telford sufficient attention, oversight, or investment to develop a viable educational delivery model. This was due to both financial issues and other priorities.

26. Given solely on-campus delivery has proved challenging at Telford, partly due to low student numbers, SIT has begun implementing a blended delivery model. This will result in SIT delivering via a number of delivery modes ranging from online delivery, to online/distance with block courses, to on-site delivery. SIT has significant experience in delivering across a range of campuses and delivery modes, and has the infrastructure to enable these types of delivery – particularly through its successful distance delivery unit SIT2LRN.

### **...and make Telford a valuable asset for New Zealand...**

27. SIT are determined to make Telford a success and believe in the value it can offer to both the surrounding regions and New Zealand as a whole by addressing primary industry skill shortages and maintaining a proficient workforce in the sector. SIT's delivery model will not only ensure there are primary sector training options for young people in the surrounding area but also enhance access to upskilling for those already in the workforce, and serve to maintain and strengthen industry and employer connections.
28. SIT believes the Telford campus is significantly under-utilised. It considers there are a number of areas where programme development and industry engagement opportunities exist (e.g. forestry, engineering, construction, commercial road transport – all of which are also priority areas for the Government). Further utilisation of the campus would involve:
  - Secondary Tertiary Alignment Resource (STAR) and Trades Academy courses for secondary school students;
  - short community programmes to re-engage the community; and
  - the enrolment of international students to both provide an additional revenue stream and to meet industry skill shortages in the region. SIT hope to be able to deliver up to 15 international EFTS in 2020.
29. With greater certainty on Telford's future and adequate time before the beginning of the 2020 academic year, SIT will also have the ability to implement marketing initiatives to attract both domestic and international students going forward. The uncertainty regarding Telford's future over the end of 2018 and early 2019 did not allow any marketing for 2019.
30. Through the above actions, and with the Crown support provided, SIT believes it can implement a viable operation at Telford over the next two years. Nevertheless, a number of risks exist which may impact SIT's ability to achieve viability, with the key risk being its ability to achieve its student enrolment targets. Failure to achieve its enrolment forecasts is likely to result in the Telford operations running at a loss and require SIT to use its own cash reserves to support Telford.

### **...with significant progress already made over the first half of 2019...**

31. Since SIT has taken over operations at Telford, it has already made a number of changes to make the Telford operations viable as well as better meet industry and stakeholder needs. As part of the transition, SIT only took 60% of staff from the liquidators of Taratahi, thereby reducing staffing costs by around one-third. It has also:
  - Responded to community needs by initiating blended delivery of courses in areas such as project management and te reo;
  - Set up Telford as the base for block courses to cater for those in employment wishing to undertake primary production training;
  - Re-engaged with the local beekeeping community to utilise existing facilities for beekeeping industry training;

- Re-engaged with secondary schools in the provision of primary production STAR courses (currently over 540 students across New Zealand);
- Re-established Telford's distance delivery (now over 50 EFTS);
- Collaboratively worked with the New Zealand Wool Classers Association and the Wool Research Organisation of New Zealand, who have just announced the provision of \$5,000 worth of scholarships to SIT students undertaking the Certificate in Wool Technology; and
- Provided specific agricultural-based health and safety training free of charge to students via Tahi Ngātahi (endorsed by Federated Farmers, the Accident Compensation Corporation, and WorkSafe).

### **...and Crown support would help ensure ongoing delivery at Telford**

32. In our engagements with SIT, it has noted that if the requested Crown funding is provided, it will have sufficient certainty and funding to make the Telford operations financially sustainable going forward and will not require any further Crown support. This would ensure Telford continues to deliver skills for the primary sector and the Southland and Otago regions. With Taratahi no longer delivering its residential-based training in the Wairarapa, the Telford campus is the largest residential agricultural training facility remaining in New Zealand.
33. We consider the current decision to provide funding to SIT to operate Telford going forward differs greatly than the decision to provide Crown support to Taratahi. Independent analysis by PwC showed that it would have required around \$30 million in Crown support to clear Taratahi's debts and ensure its short-term viability if no asset sales were made. Even then, further Crown support was likely given Taratahi's clear lack of viability and the absence of a plan to restore profitability. **S 9(2)(b)(ii)**  
[REDACTED]  
[REDACTED] This is in contrast to SIT, which is a well-governed and well-managed TEI, with a plan to implement a viable delivery model at Telford.
34. Assuming the current RoVE proposals are implemented, SIT's obligations regarding Telford would eventually transfer to the NZIST. The NZIST would then own the Telford buildings - and the risks associated with the ownership of those buildings and implementing a viable model at Telford. At that point, decisions about continued delivery at Telford would be made through NZIST's investment plan process.

## **Funding the proposal**

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### **We believe this proposal would be best funded through a section 321 grant if the Minister of Education considers it is in the national interest...**

35. As with the initial Crown support provided in February 2019, if Ministers wish to fund SIT's proposal, we consider it would be best funded through a section 321 grant. Section 321 provides that grants can be paid to educational bodies for a specific purpose, provided the Minister of Education is satisfied that payment of the grant is in the national interest.
36. We believe you could consider providing funding to SIT to ensure the continued delivery at Telford is in the national interest – given the importance of ensuring ongoing access to primary industries provision in the area and to meet industry skill shortages. However, another aspect you may wish to consider as part of the 'national interest' test is the opportunity cost of providing funding to SIT to upgrade buildings at Telford rather than other uses of funding within the sector.

### **...and the proposal can be funded through Vote Tertiary Education...**

37. Funding for this proposal can be reprioritised from funding in 2019/20 and 2020/21 in the Tertiary Tuition and Training multi-category appropriation (MCA). As joint Ministers, you have the requisite authority to reprioritise \$4.677 million from "the Tertiary Tuition and Training MCA, Category Tertiary Education: Student Achievement Component" in 2019/20 and 2020/21 into the "Access to Tertiary Education"<sup>2</sup> appropriation for the purposes of providing the section 321 grant. We seek your agreement to this.

### **...but we recommend releasing the funding in tranches...**

38. We recommend that the grant is not paid in full up-front. Given the majority of funding is for maintenance and earthquake strengthening, which has been estimated by a Quantity Surveyor, the actual amount may be less. To ensure the Crown only provides the amount of funding necessary to undertake the required work, we suggest the grant is provided as follows:

- \$1.922 million paid on signing of the section 321 funding agreement (comprised of § 9(2)(i) for the development fund, § 9(2)(i) for IT infrastructure and an initial § 9(2)(j) for building costs);
- \$1.5 million to be paid later in the 2019/20 financial year based on work completed to date;
- Up to \$1.255 paid in 2020/21 based on the actual cost of the work completed.

39. We have engaged with SIT on this approach, and they are comfortable with the total amount of funding being based on the actual cost of the work. We have also made it clear to SIT that any costs incurred over the \$3.755 million set aside for deferred maintenance and earthquake strengthening would need to be met by SIT.

40. With regards to the \$0.570 million § 9(2)(b)(ii) should SIT no longer be required to operate Telford in future, we have agreed with SIT that this figure will only remain available until the end of 2021. To be clear, if Crown support is provided, SIT will be required to operate Telford over 2020 and 2021 and with the expectation that SIT can make Telford financially sustainable and continue operating it going forward. The \$0.570 million of funding is for a situation where SIT is no longer required by the Government to operate Telford, § 9(2)(b)(iii)

### **...and we will formalise these details in a funding agreement with SIT**

41. Earlier this year, we negotiated a funding agreement with SIT based on its proposal, with established deliverables and the intended outcomes of the funding. If you agree to fund SIT's proposal for 2020 and 2021, we will negotiate an amendment to the funding agreement including the payment schedule, key deliverables and reporting requirements. The funding agreement will be clear on the requirements and obligations on SIT as part of the Crown funding being provided.

## **What would happen if funding is not provided**

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42. If you choose not to fund SIT's proposal, SIT has been clear that it will not meet the building and other costs required to ensure ongoing delivery at Telford. It is therefore likely that the residential and other on-campus delivery at Telford would be lost. However, some of the off-campus and distance delivery may potentially be picked up by alternative providers or retained by SIT. We are not aware of any other tertiary education organisations who would be willing to deliver education at the Telford campus.

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<sup>2</sup> The purpose and scope of the "Access to Tertiary Education" appropriation is for "improving access to tertiary education and training for Tertiary Education Strategy priority learners", and we consider this is the most suitable appropriation to pay the section 321 grant given what the funding will be used for and that it will support young people into vocational training in the Southland and Otago regions.

43. Not funding the proposal will also result in the \$0.570 million being paid to SIT at the end of 2019 **S 9(2)(b)(ii)**
44. An alternative option Ministers may wish to consider would be to try to negotiate a lower amount of Crown support to SIT. This could include not providing funding for the development fund and/or only providing a portion of the funding requested for the deferred maintenance and earthquake strengthening. SIT could then choose to either not undertake the maintenance on some of the buildings or contribute some of its own capital. However, SIT has been clear that it is not willing to use its own cash reserves to cover the building costs at Telford, especially given the assets essentially have no value if training is not undertaken at Telford. Furthermore, SIT consider that the development fund is integral to establishing a viable delivery model. SIT consider they are already taking on risk as part of this transfer given an inability to achieve the desired level of enrolments would likely result in Telford making a loss.

## Treasury consultation

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45. The Treasury has been consulted on this briefing and supports its recommendations.

## Next steps

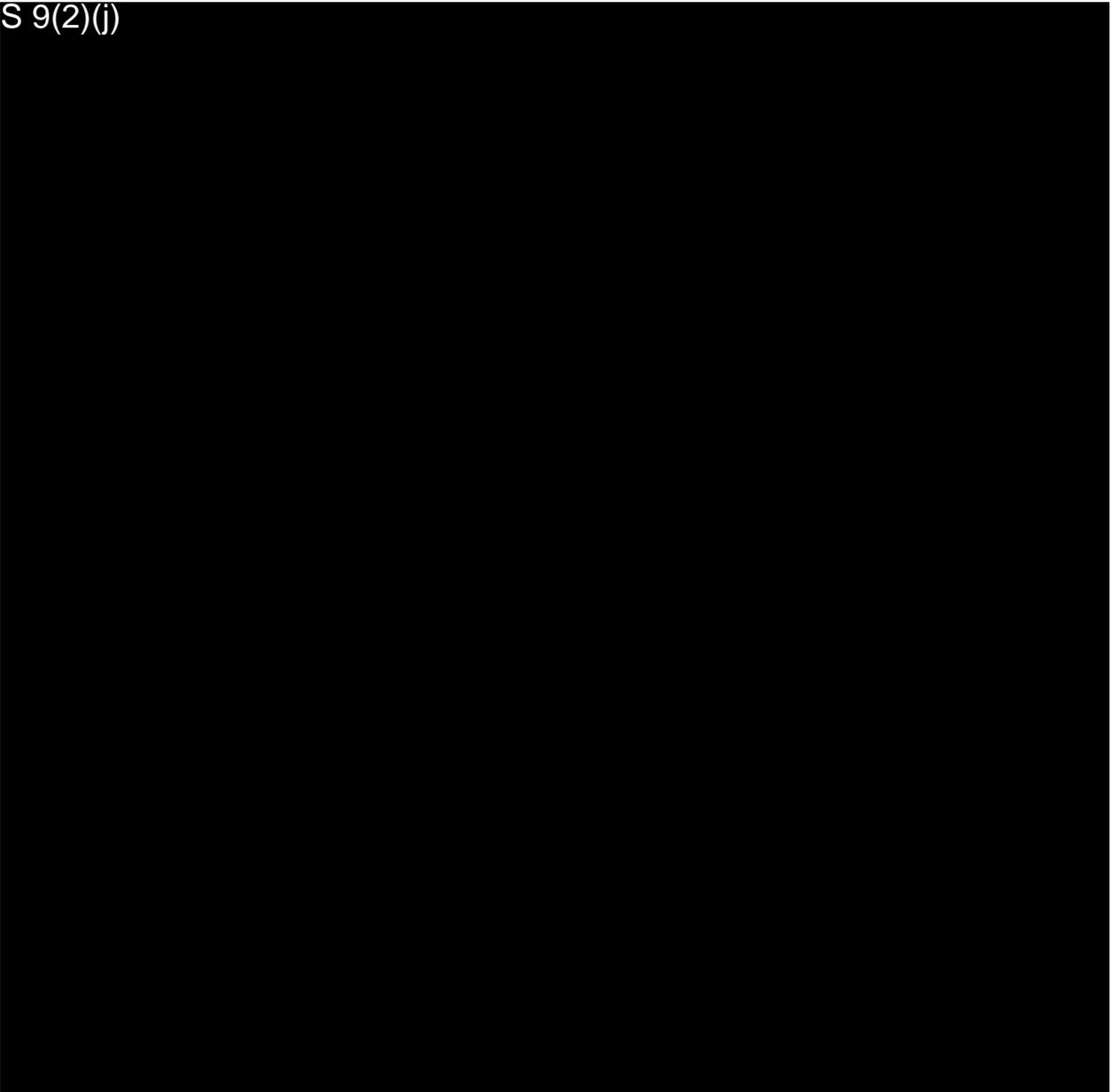
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46. Subject to joint Ministerial approval, we recommend the Minister of Education:
- Takes an oral item to Cabinet on this issue on 22 July where you will be discussing the wider RoVE work programme. We can provide talking points to assist with this, if required.
  - Send a letter to the Chair and Chief Executive of SIT to inform them of the Government's decision. A draft letter is attached in Appendix 2. As part of the section 321 grant, this letter is required to outline the amount of the grant, any conditions of the grant, and the purpose for which it may be used.
47. Subsequent to your letter being sent, we will engage with SIT on agreeing an amendment to the section 321 funding agreement. Once signed by MoE and the TEC, we will make the first payment of the grant.
48. **S 9(2)(g)(i)**
49. You may wish to forward this briefing to the Minister of Agriculture.

## Appendix 1: Estimated deferred maintenance costs

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50. S 9(2)(j)



## Appendix 2: Draft letter to SIT

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Peter Heenan  
Chair  
Southern Institute of Technology  
Private Bag 90114  
Invercargill 9840  
[peter.heenan@hwr.co.nz](mailto:peter.heenan@hwr.co.nz)

Penny Simmonds  
Chief Executive  
Southern Institute of Technology  
Private Bag 90114  
Invercargill 9840  
[penny.simmonds@sit.ac.nz](mailto:penny.simmonds@sit.ac.nz)

Dear Peter and Penny

### **Funding approval of proposal for the Southern Institute of Technology to operate Telford in 2020 and 2021**

On 4 February 2019, I wrote to you outlining that the Government would invest \$1.8 million in the Southern Institute of Technology (SIT) to deliver primary industry training programmes in 2019, both at the Telford campus and through distance learning. This grant was provided under section 321 of the Education Act 1989 and a funding agreement was signed by SIT, the Tertiary Education Commission (TEC) and the Ministry of Education (MoE) on 22 February 2019 which outlined the terms and conditions of funding.

I have now considered your updated request for Crown support to operate Telford for 2020 and 2021. I can confirm that the Government is willing to provide up to \$4.677 million in Crown funding to SIT to ensure operations at Telford can continue. I understand that with this funding and the certainty it provides, SIT is confident its Telford operations can be financially sustainable going forward and no further Crown support will be required. The Government is providing the funding to SIT on this understanding and with the expectation of continued delivery at Telford.

As with the payment earlier in the year, I intend to provide the required Crown support through a grant under section 321 of the Education Act 1989. The grant will be provided for the purpose of supporting SIT to operate the Telford campus and deliver primary industries training programmes to enrolled students at the Telford campus and through distance learning.

The grant will be subject to the following conditions:

- Funding will be provided only for the period up until 31 December 2021;
- The grant will be up to a maximum of \$4,677,000 for SIT to operate Telford over 2020 and 2021;

- A further \$570,144 will remain available until the end of 2021 if SIT is not required to continue Telford operations **S 9(2)(b)(ii)**; and
- SIT must provide regular reporting to the TEC on the performance of Telford, and the progress and expenditure against the activities outlined in its proposal to operate Telford.

I have instructed officials from MoE and the TEC to negotiate an amendment to the current funding agreement with SIT for this grant based on your proposal and the above conditions. This will outline the obligations and conditions of funding. I understand that the TEC has already engaged with you on some details of the funding agreement, particularly with regards to the conditions for the release of funding.

I intend to publicly announce my decision to provide Crown support to SIT to operate Telford publicly in the near future. I would appreciate if you could co-ordinate any public announcements with my office. I am mindful that students and Telford staff will want some certainty on the future of Telford as soon as possible.

I would like to thank you for assistance in this matter and for working collaboratively with the TEC on finding a pragmatic solution to ensure the ongoing delivery of agricultural provision at Telford and around New Zealand. The Government's investment, combined with SIT's experience and its plan for developing a viable delivery model at Telford, has the potential to create a sustainable and high-performing primary industry training facility that meets the skills needs of the sector – both for the surrounding regions and for New Zealand as a whole. I look forward to receiving updates on how matters progress over the next year.

Yours sincerely

**Chris Hipkins**  
**Minister of Education**

cc. Tim Fowler, Chief Executive, Tertiary Education Commission