

Tertiary Education Report: Crown support for Tai Poutini Polytechnic

Date:	24 July 2019	TEC priority:	High
Security level:	In Confidence	Report no:	B-19-00882
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>agree to provide Tai Poutini Polytechnic with \$2.25 million in Crown funding from the Reform of Vocational Education contingency to ensure it can continue to operate in 2019.</p> <p>sign two copies of the attached amendment to the Crown funding agreement.</p>	As soon as practicable
Hon Chris Hipkins Minister of Education	<p>agree to provide Tai Poutini Polytechnic with \$2.25 million in Crown funding from the Reform of Vocational Education contingency to ensure it can continue to operate in 2019.</p> <p>sign two copies of the attached amendment to the Crown funding agreement.</p> <p>forward this briefing and the funding agreement to the Minister of Finance for his agreement and signature.</p>	As soon as practicable
Enclosure: Yes	Round Robin: Yes	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)			
Name	Position	Telephone	1st contact
S 9(2)(a)	Principal Advisor	S 9(2)(a)	✓
Gillian Dudgeon	Deputy Chief Executive, Delivery		

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

- DPMC MPI ENZ ERO MBIE MoE MFAT
 MPP MSD NZQA NZTE TEC TPK Treasury

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 See Minister's Notes Withdrawn

Comments:

Recommendations

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

It is recommended that you:

1. **note** that as part of Budget 2019, Cabinet agreed to establish a tagged operating contingency of the following amounts to provide for the Reform of Vocational Education (CAB-19-MIN-0174.40 refers):

	\$m					
Operating Contingency	2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL
Reform of Vocational Education	63.532	62.500	41.700	29.400	-	\$197.132

2. **note** that on 22 July 2019, Cabinet authorised the Minister of Finance and Minister of Education to jointly agree draw-downs from the Reform of Vocational Education contingency of up to \$2.25 million for Tai Poutini Polytechnic (TPP) to support the viability of this institution (CAB-19-MIN-0344.33 refers).
3. **agree** to draw-down \$2.25 million from the above contingency and to a 1:1 operating to capital swap in order to provide a capital injection to TPP, with the following impacts on the operating balance and net core Crown debt:

	\$ million increase/(decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Operating Balance and Net Core Crown Debt Impact	(2.250)	-	-	-	-
Operating Balance Only Impact	-	-	-	-	-
Net Core Crown Debt Only Impact	2.250	-	-	-	-
No Impact	-	-	-	-	-

Minister of Education

AGREE / DISAGREE

Minister of Finance

AGREE / DISAGREE

4. **approve** the following changes to appropriations to give effect to the swap in recommendation 3:

	\$ million increase/(decrease)				
Vote Tertiary Education Minister of Education	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Non-Departmental Capital Expenditure: Support for Tai Poutini Polytechnic	2.250	-	-	-	-

Minister of Education

AGREE / DISAGREE

Minister of Finance

AGREE / DISAGREE

5. **agree** that the proposed changes to appropriations and departmental capital injection 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

Minister of Finance

AGREE / DISAGREE

AGREE / DISAGREE

5. **note** that a funding agreement between the Crown and TPP was signed in March 2018 by the Minister of Finance, the Minister of Education and the Crown Manager of TPP, and that the attached amendment to the funding agreement sets out the terms and conditions of the \$2.25 million capital injection to ensure accountability for funding;
6. **sign** two copies of the attached amendment to the funding agreement;
7. **forward** copies of the agreement and this briefing to the Minister of Finance for his consideration and decision;
8. subject to the agreement of the Minister of Finance, **send** the signed copies of the amendment to the funding agreement to the Crown Manager of TPP alongside the attached letter;
9. once TPP return the signed funding agreement, **sign and send** the attached letter to the Secretary for Education requesting the \$2.25 million payment be paid;
10. **note** that further Crown funding will be required in 2020 to ensure TPP can remain operational and that we will report back to Ministers later in 2019 with advice on the level of Crown support required;
11. **agree** that the Tertiary Education Commission proactively release this briefing once decisions have been made with commercially sensitive information and the amendment to the funding agreement withheld to enable TPP to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations);

Minister of Education

AGREE / DISAGREE



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

24 July 2019

Hon Chris Hipkins

Minister of Education

___ / ___ / ___

Hon Grant Robertson

Minister of Finance

___ / ___ / ___

Purpose

1. The purpose of this briefing is to seek joint Ministers' agreement to provide a \$2.25 million capital injection to Tai Poutini Polytechnic (TPP) to ensure it can continue to operate over 2019.

Background

Serious financial issues at TPP came to light in 2016...

2. In 2016, it became apparent there were serious financial issues at TPP and that it would not be able to meet its financial obligations by early 2017. In addition, an investigation undertaken in 2015 and 2016 by Deloitte, on behalf of the TEC, found significant under-delivery in 13 of 14 programmes investigated, with some dating back to 2010. The under-delivery resulted in TPP owing \$21.2 million to the TEC.

...which led to the appointment of a Crown Manager...

3. In December 2016, the then Minister for Tertiary Education, Skills and Employment appointed a Crown Manager under section 222C of the Education Act 1989 to take over responsibility of the financial management and the quality of programmes at TPP from the Council. The Crown Manager was asked to prepare a business case on the future strategic options for the delivery of high-quality vocational education on the West Coast.
4. The objective of the appointment was to improve TPP's financial performance and management as well as ensure ongoing access to high-quality, tertiary level, vocational education and training on the West Coast that meets the needs of students and employers and contributed to the economic development of the West Coast.
5. In April 2017, Cabinet agreed to provide a Crown capital injection of \$3.6 million to TPP to ensure it could remain solvent and provide essential provision on the West Coast, while work was undertaken on strategic options for its future (EGI-17-MIN-0062 refers).

...and the 2017 strategic options business case showed that TPP was not viable...

6. The Crown Manager submitted a business case to the Minister of Education in November 2017. It proposed two options for the future structure and ownership of vocational education delivery on the West Coast – a regional ownership model, with joint ownership between the Crown and local stakeholders, or a merger with the Southern Institute of Technology (SIT).
7. The business case was clear that TPP could not survive without ongoing Crown support. Under both of the structural options, the business case proposed a regional remote subsidy to account for the higher costs of providing tertiary education in this region and to ensure the financial sustainability of tertiary education on the West Coast. The West Coast has particular challenges accessing tertiary education due to its small population (32,500 people), which is spread over a large geographic area (even compared with other regional polytechnics).

...but it was decided to defer decisions until work on the ITP reforms was undertaken...

8. Following consideration of the business case in early 2018, the Minister of Education decided to postpone making any decision on TPP's future preferring to align any decision with the outcome of the Reform of Vocational Education (RoVE) proposals. The Minister of Education noted that both options involved a number of trade-offs which would be best considered in light of wider decisions on the future direction of the vocational education and training system.

...and further Crown support was provided to ensure TPP remained operational

9. In early 2018, TPP had two issues that needed resolving – its lack of ongoing viability and its significant debt to the TEC of \$24.9 million (comprised of \$21.2 million from the investigation and \$3.7 million from under delivery against its 2016 funding allocation).

10. Given TPP only had assets of \$12 million and was forecast to remain in deficit, it was never going to be able to repay the debt owed to the TEC. As part of the package of Crown support, the TEC Board agreed to write off the \$24.9 million debt.
11. In early 2018, Cabinet agreed a capital injection of \$8.5 million to keep TPP operating into the 2019 academic year while work continued on the sustainability of ITPs, and the Crown Manager at TPP made operational and educational improvements (SWC-18-MIN-0005 refers).

Recent progress

The latest milestone report shows TPP has made good progress over 2018...

12. We recently briefed the Minister of Education on the final milestone report received by TPP as part of the \$8.5 million capital injection (B-19-00640 refers). The report showed that TPP has now met all of the eight targets associated with the 2018 Capital Injection funding agreement. The below table summarises the progress made against the agreed targets. It shows TPP has made a number of changes to enhance academic quality, improve its financial management, and better engage with key stakeholders.

Objective	Target	Comment on progress
Improve financial performance, management, and reporting	Ongoing operational savings of \$5 million	<ul style="list-style-type: none"> Actual savings of \$5.8 million achieved with a 38% reduction in total operating expenses. Number of FTEs reduced to 86 in line with reduced enrolments, down from 169 in 2017 and 194 in 2016. Remote campuses in Invercargill, Hamilton and Wellington closed.
	Improve management and compliance accountabilities	<ul style="list-style-type: none"> Centralised monitoring of compliance accountabilities is in place and being monitored for effectiveness.
	Centralisation of organisational structure to enable quality improvement & oversight	<ul style="list-style-type: none"> New leadership team in place and induction, goal and expectation setting completed. New Institutional Academic Committee with revised Terms of Reference created to 'reset' expectations under new centralised faculty.
Ensure vocational education and training on the West Coast is of high-quality	Improve EER rating to category 3 by December 2018	<ul style="list-style-type: none"> NZQA conducted EER review in December 2018, which resulted in TPP improving from a Category 4 to a Category 3.
	Increase staff capability, academic quality and improve self-assessment	<ul style="list-style-type: none"> A Programme Evaluation Process has been developed and trialled to provide a more consistent and more frequent self-assessment across programme areas. Self-assessment completed against NZQA self-assessment and educational performance rubrics and will feature in the 'testing' of staff capability and academic quality. Academic Board work plan has been self-assessed and revised to ensure consistent academic oversight to improve academic quality of teaching and delivery.
To ensure access to vocational education and training on the West Coast that is high-quality, meets the needs of students and employers, and contributes to the economic development of the West Coast	Develop and document relationships with SIT, Open Polytechnic, TWOA	<ul style="list-style-type: none"> MoUs developed and signed with SIT, Open Polytechnic, and Te Wānanga o Aotearoa to improve quality assurance, academic quality, pastoral support and for joint delivery on the West Coast.
	Workforce and training needs analysis completed for West Coast region	<ul style="list-style-type: none"> Workforce and training needs analysis completed to inform mix of provision. Survey of West Coast businesses in collaboration with Development West Coast has been completed. Current job prospects on the West Coast collected and analysed to determine alignment with training needs analysis.
	Mix of provision aligned with West Coast region workforce and training needs	<ul style="list-style-type: none"> Web application called 'Coast Connect' launched in March 2019, which connects job seekers with local jobs and training opportunities. Staff, community, Iwi and industry stakeholders canvassed to inform mix of provision.

...and delivery continues to be refocussed on the West Coast

13. Over the past two years, enrolment numbers at TPP have fallen sharply – from nearly 2,000 EFTS in 2017 to 900 EFTS in 2018 and a forecast 400 EFTS in 2019. The majority of the reduction is due to either non-West Coast delivery ceasing or the delivery being transferred to another provider (e.g. the Music and Audio Institute of New Zealand being transferred to SIT or scaffolding delivery being transferred to industry training organisations). Furthermore, following the TEC’s investigation, a number of qualifications were found to be oversized and had to be reduced to an appropriate EFTS level, which further reduced overall EFTS delivery.
14. Over the past two years, TPP has focussed on identifying the skills and training needs of the West Coast and delivering programmes to meet these needs (e.g. conservation, tourism, and small business management). Programmes that did not align with the training requirements of the region have been discontinued (which has also had the effect of reducing income).
15. In terms of TPP’s delivery on the West Coast, it has fallen from around 377 EFTS in 2017 to 286 EFTS in 2018 with another small fall expected in 2019. Around two-thirds of TPP’s EFTS are currently being delivered on the West Coast compared to 19% in 2017. Some of the decline is due to delivery being transferred to other providers, however, low unemployment rates on the West Coast has meant the demand for training remains weak. A number of programmes were not run in 2019 due to low enrolment numbers – including hair, beauty and grooming; computing; pre-health; and science. TPP has also reduced the number of short courses it offers to ensure quality standards are met and that they align to the region’s training requirements.

Crown support

TPP has always indicated it would need Crown support in 2019...

16. TPP and officials have always expected TPP would need additional financial support for 2019, and beyond, to provide services on the West Coast (this has been signalled in AM-19-00494, B-19-00574 and AM-19-00707). When decisions were made in early 2018 to provide Crown support to TPP, they were only ever made on the basis that it needed to remain operational until the end of 2018 (as at that point it was anticipated the vocational reforms would be underway).
17. While progress has been made over the past year, both financially and educationally, TPP continues to not be viable in its current form and is forecasting a \$4.8 million deficit for 2019. The 2017 business case was clear that TPP could not survive without ongoing Crown support.

...and TPP requires \$2.25 million in Crown support for the remainder of 2019...

18. TPP wrote to us in March 2019 indicating that it required \$2.25 million in the third quarter of 2019 to maintain sustainable provision in 2019. Despite EFTS being lower than expected in 2019, TPP’s latest cash flow forecasts show that \$2.25 million will be sufficient to ensure it remains operational over 2019. Our latest engagement with TPP suggests it can continue to operate until about mid-August 2019 before it encounters any significant cash flow issues. A timely decision to provide Crown support will help reduce any liquidity risks for TPP.
19. The graph on the following page shows TPP’s cash flow forecast, with and without the \$2.25 million Crown capital injection.

...and joint Ministers’ sign off is required to authorise the capital injection...

20. On 22 July 2019, as part of the RoVE fiscal implications Cabinet paper, Cabinet delegated authority to the Minister of Finance and the Minister of Education to agree draw-downs from the RoVE contingency of up to \$2.25 million for TPP and **S 9(2)(b)(ii)** for Whitireia Community Polytechnic to support the viability of these institutions (CAB-19-MIN-0344.33 refers).

Section 9(2)(b)(ii)

21. This paper seeks the Minister of Finance's and the Minister of Education's agreement to draw-down \$2.25 million from the RoVE contingency and make payment to TPP. Failure to provide funding would result in TPP ceasing operations as it would not be able to pay its expenses. This would result in a number of learners being unable to continue their studies given TPP is the only provider of broad-based tertiary education on the West Coast.

...while amending the existing funding agreement will provide accountability for funding

22. A funding agreement between the Crown and TPP was established as part of the \$8.5 million capital injection to TPP, which was signed by the Minister of Finance and the Minister of Education on behalf of the Crown in March 2018 (B/18/00114 refers). An amendment can be made to that agreement to cover the additional \$2.25 million in funding.
23. We have drafted an amendment to the funding agreement and attached it to this briefing for consideration and signature from the Minister of Finance and the Minister of Education. The Treasury, MoE and TPP have been consulted in the development of the amendment.
24. The amendment sets out targets for 2019 which we have developed in conjunction with the Crown Manager and Chief Executive of TPP. These complement and build off the actions and targets that were previously agreed as part of the 2018 capital injection. They are centred on improving financial performance and academic quality, and meeting the needs of the West Coast. They have also been developed in the context of the RoVE proposals.
25. The amendment will require TPP to provide quarterly milestone reports to the TEC outlining progress against the targets as well as providing a range of enrolment, financial and cash flow reporting, and a breakdown of expenditure funded by the capital injection.

RoVE and TPP's 2020 financial position

TPP's long-term future is linked to RoVE...

26. Given TPP's lack of viability, its long-term future and financial sustainability is linked to RoVE. It is expected that on 1 April 2020, TPP will become a Crown entity subsidiary, albeit initially an unviable one, of the New Zealand Institute of Skills & Technology (the Institute).
27. TPP has been working on the basis of ensuring it had sufficient Crown support to continue to operate through 2019 and then transition to the Institute on 1 January 2020, as per the RoVE proposals released in February 2019. While the \$2.25 million capital injection will ensure TPP can get through 2019, it will end the year with little cash (around \$0.5 million) and a likely debt to the TEC for 2019 under-delivery of around \$1 million.

...with further Crown support required to ensure TPP remains operational in 2020...

28. Given the Institute is not expected to be established until 1 April 2020, TPP has recently prepared cash flow forecasts for 2020 at our request. These forecasts take into account TPP's lower EFTS numbers for 2019 and assume similar enrolment levels for 2020. The forecasts suggest that TPP will start entering cash flow issues almost immediately in 2020. § 9(2)(b)(ii)

[REDACTED]

...but further work is needed on how TPP might transition to the Institute...

29. TPP is keen to integrate into the Institute at the earliest possible date. Given its current situation and small size, TPP considers it is a perfect candidate to lead any transition. TPP has noted its willingness to work with officials to support the transition.

30. Nevertheless, the Institute will not have the scale, capabilities, or systems to ensure viable provision on the West Coast from day one of the transition period. The unified funding system work programme will be looking to support the sustainability of strategically important delivery, such as delivery on the West Coast. § 9(2)(g)(i)

[REDACTED]

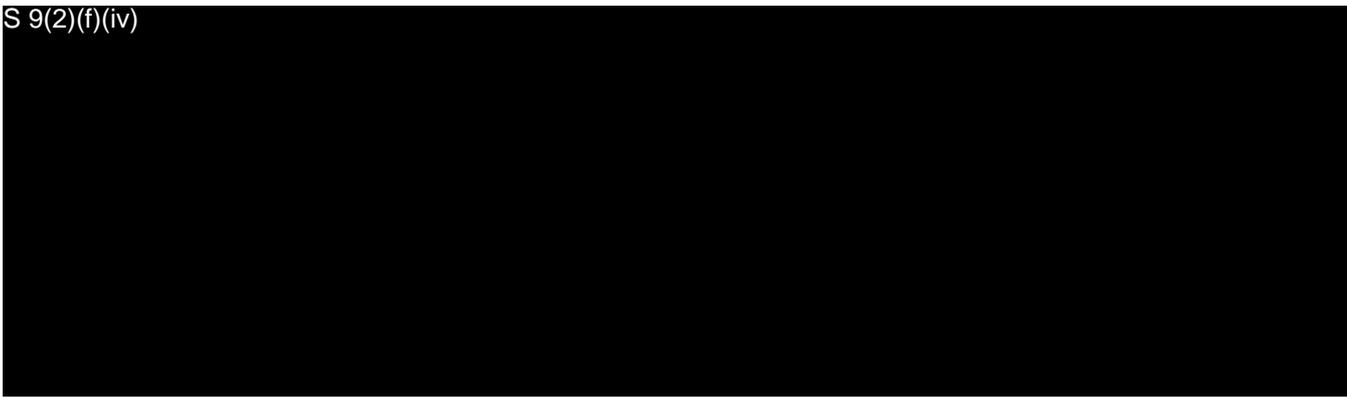
31. A part of establishing the Institute will be to plan the transition from the existing institutions to being part of the consolidated Institute, via the subsidiary structures. We have anticipated that some parts of the network will still need additional support beyond 1 April 2020. This will be geared towards positioning them so that the Institute can take over managing "unders and overs" while delivering on its charter obligations to provide strong provision across all regions.

32. Officials and the Establishment Unit will provide further advice later this year on the implementation of RoVE, including how the Institute might manage an unviable part of the network, such as TPP, in the short-term, and how TPP might be able to be integrated.

§ 9(2)(f)(iv)

[REDACTED]

S 9(2)(f)(iv)



Next steps

38. If the Minister of Education agrees to provide the \$2.25 million in Crown funding to TPP, the following actions are required:
 - sign two copies of the amendment to the funding agreement attached to this report;
 - send this briefing and the amendment to the funding agreement to the Minister of Finance for his agreement and signature;
 - once signed by the Minister of Finance, send the attached letter and signed funding agreements to the Crown Manager of TPP for his signature; and
 - once a signed copy of the funding agreement has been returned to you, sign and send the attached letter to the Secretary for Education authorising the \$2.25 million payment.
39. We will assist the Minister of Education's office with any public communications as required.

Appendix 1: Draft letter to TPP

Murray Strong
Crown Manager
Tai Poutini Polytechnic
S 9(2)(a)

Dear Murray

Confirmation of \$2.25 million Crown capital injection to Tai Poutini Polytechnic

The Government has agreed to provide a \$2.25 million capital injection to Tai Poutini Polytechnic (TPP) to ensure it can meet its operating commitments in 2019.

Attached are two copies of an amendment to the March 2018 funding agreement between the Crown and TPP, which covered the previous \$8.5 million capital injection. The amendment has been signed by myself and the Minister of Finance on behalf of the Crown. It outlines a range of targets for TPP to achieve in 2019, centred on improving financial performance and academic quality, and meeting the needs of the West Coast. It also outlines the required reporting arrangements. I understand you have already engaged with the Tertiary Education Commission on these matters.

Please sign both copies of the amendment. One is for TPP to keep for your records and the other needs to be returned to my office as soon as possible. Following receipt of the signed agreement, the payment of \$2.25 million will be made.

Thank you and the TPP staff for your hard work to date. It is important to ensure that there is access to quality vocation education for people living on the West Coast. I look forward to receiving reports on progress throughout the remainder of the year.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission

Appendix 2: Draft letter to the Secretary for Education

Iona Holsted
Secretary for Education
Ministry of Education
PO Box 1666
WELLINGTON 6140

Dear Iona

Tai Poutini Polytechnic – payment of \$2.25 million of capital funding

Cabinet recently authorised the Minister of Finance and I to agree to draw-down up to \$2.25 million from the RoVE contingency for Tai Poutini Polytechnic (TPP) to support the viability of the institution (CAB-19-MIN-0344.33 refers).

The Minister of Finance and I have now agreed to provide a \$2.25 million capital injection to TPP. We have agreed an amendment to the March 2018 funding agreement, which sets out the terms and conditions of funding, and a range of targets for TPP to achieve in 2019. These are centred on improving financial performance and academic quality, and meeting the needs of the West Coast.

The amendment has now been signed by all parties. A copy is attached for your records.

I therefore request that you, as the Secretary for Education, make payment to TPP of \$2.25 million from the Non-Departmental Capital Expenditure appropriation “Support for Tai Poutini Polytechnic” in Vote Tertiary Education as soon as possible. I am aware that TPP’s cash flow situation is tight, so I would appreciate if this could be done as soon as possible.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission