

Tertiary Education Report: Review of the appointment of the Commissioner of Whitireia and WelTec

Date:	17 September 2019	TEC priority:	Medium
Security level:	In Confidence	Report no:	B-19-01023
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>note that section 195D(6) of the Education Act 1989 requires that you review the appointment of a Commissioner annually.</p> <p>agree that the need for a Commissioner at Whitireia Community Polytechnic and Wellington Institute of Technology remains and that Dr Neil Barns continues as Commissioner.</p> <p>sign and send the draft letter to Dr Neil Barns, if you agree that he remains.</p>	9 October 2019
Enclosure: Yes	Round Robin: No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
s9(2)(a)	Principal Advisor	s9(2)(a)		✓
Gillian Dudgeon	Deputy Chief Executive – Delivery	s9(2)(a)		

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT							
<input type="checkbox"/> CERA	<input type="checkbox"/> DPMC	<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 type="checkbox"/> Treasury	
Minister's Office to Complete:				<input type="checkbox"/> Approved	<input type="checkbox"/> Declined		
<input type="checkbox"/> See Minister's Notes		<input type="checkbox"/> Noted		<input type="checkbox"/> Needs change			
<input type="checkbox"/> Withdrawn		<input type="checkbox"/> Seen		<input type="checkbox"/> Overtaken by Events			
Comments:							

Recommendations

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **note** that section 195D(6) of the Education Act 1989 requires you to review the appointment of a Commissioner annually;
2. **agree** that the need for a Commissioner at Whitireia Community Polytechnic and Wellington Institute of Technology remains and that Dr Neil Barns continues as Commissioner;

AGREED / NOT AGREED

3. **sign and send** the draft letter to Dr Neil Barns, if you agree that he remains; and
4. **agree** that the Tertiary Education Commission releases this paper proactively with commercially sensitive information withheld.

AGREED / NOT AGREED



Gillian Dudgeon

Deputy Chief Executive – Delivery

Tertiary Education Commission

17 September 2019

Hon Chris Hipkins

Minister of Education

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Purpose

1. The purpose of this briefing is to review the appointment of a Commissioner at Whitireia Community Polytechnic (Whitireia) and Wellington Institute of Technology (WelTec) and seek your agreement for Dr Neil Barns to remain as Commissioner.

Requirement to review the appointment of an Commissioner

2. On 10 October 2018, you announced that you were dissolving the combined Council of Whitireia and WelTec and appointing Dr Neil Barns as Commissioner under section 195D of the Education Act 1989 (the Act).
3. Section 195D(6) of the Act states that you must review the appointment “*at least once in every 12 months following the appointment*”. There are no requirements for what this review entails. However, section 195D(7) of the Act states that as soon as you are satisfied “*that the risk that gave rise to the appointment of the Commissioner has reduced to such an extent that it is appropriate that the institution be administered by a Council, a new Council must be appointed*”.

Review of the appointment a Commissioner at Whitireia and WelTec

There is a continued need for a Commissioner to remain in place

4. When a Commissioner was appointed in October 2018, Whitireia was not viable, reliant on Crown support, and had a significant need to right-size its operations given the large decline in EFTS it had experienced over recent years. In August 2018, Cabinet agreed to provide a capital injection of \$15 million to Whitireia to ensure it could meet its operating commitments and to support its right-sizing initiatives (SWC-18-MIN-0105 refers).
5. While progress has been made since the appointment of a Commissioner, Whitireia remains reliant on Crown financial support to be viable. On 22 July 2019, as part of the Reform of Vocational Education (RoVE) fiscal implications Cabinet paper, Cabinet delegated authority to the Minister of Finance and you to agree to draw-down up to \$5 million from RoVE contingency to support Whitireia’s viability (CAB-19-MIN-0344.33 refers). We plan to brief the Minister of Finance and you in October 2019 seeking approval to draw-down this funding to ensure Whitireia can continue to meet its operating commitments over 2019 and 2020.
6. WelTec, while not receiving any direct Crown support, remains in a weak financial position and is reliant on bank borrowing to ensure it can manage any temporary shortfalls in its cash flow. WelTec is currently seeking a consent from the Secretary for Education to borrow up to \$5 million to ensure there is a prudent level of liquidity available at the end of 2019.
7. Whitireia and WelTec both remain ‘high risk’ on the TEC’s Financial Monitoring Framework and we have an overall risk assessment of ‘extreme risk’ for both institutions. Whitireia and WelTec have confirmed large financial deficits in 2018 of \$16.5 million and \$5.8 million respectively. If Whitireia and WelTec were a combined entity, the overall deficit would have been \$22.3 million. Whitireia is expecting to report a \$10.7 million deficit for 2019 while WelTec is expecting to report a \$5.7 million deficit.
8. Given the above, we recommend that a Commissioner continues to remain in place at Whitireia and WelTec to ensure strong accountability for Crown funding and to make the necessary changes and return it to a financially sustainable position.

We believe the Commissioner has performed well

9. We consider it is appropriate to review Dr Barn's performance against three key documents:
 - the Memorandum of Understanding (MoU) between the TEC and Dr Barns, including our expectations and desired outcomes of the appointment;
 - the change programme (E Tū Ma Tātou) implemented to restore both institutions to financial viability; and
 - the capital injection agreement between the Crown and Whitireia signed on 20 September 2018 (which included targets for both Whitireia and WelTec to meet).
10. We provided a comprehensive update on WelTec and Whitireia and its progress in June 2019 (AM-19-00749 refers).
11. Overall, we consider that Dr Barns has performed well over the past year and met the expectations we agreed as part of the MoU.

The change programme continues to progress well

12. Following the Commissioner's appointment, there was an urgent need to review Whitireia's and WelTec's academic portfolio, and right-size the institutions given the significant declines in enrolments experienced in recent years. We believe progress was slow in late 2018 and early 2019, largely due to a focus on merging the two institutions. The preparation of a business case in late 2018 and the subsequent consideration of that case in early 2019, took significant time and focus away from implementing the cost savings.
13. Nevertheless, the change programme is now progressing well. As part of the capital injection agreement, Whitireia and WelTec had a target of removing around \$9.3 million in costs by the end of 2019 across both institutions – mainly through reducing staffing costs. They are on track to achieve this target and, depending on the final decisions of phase two of the change programme, will likely exceed the target. However, given enrolments and revenue continue to decline strongly, both Whitireia and WelTec will still report large deficits in 2019. There is an urgent need for both institutions to increase revenue and this is a key priority for the Commissioner.

There is an urgent need to improve student and staff morale

14. Of concern is that student and staff morale across both institutions is low, which can largely be attributed to the financial issues and the staffing reductions currently being implemented. However, there is some dissatisfaction and a lack of confidence in management, particularly the Chief Executive. As previously advised, we have engaged with the Commissioner on the issue of the Chief Executive's position, as he is responsible for managing the Chief Executive's employment contract. The Chief Executive's contract ends at the end of March 2020, and the Commissioner intends to run an open process to appoint a new Chief Executive in the near future. He has already started liaising closely with the Chair of the Establishment Board for the New Zealand Institute of Skills and Technology (the Institute) on this appointment.
15. Improving student and staff morale, as well as stakeholder and community confidence, is a key priority for the Commissioner going forward. RoVE, and the opportunities that it presents, provides a strong basis to do this. The announcement of a new Chief Executive may also assist in this regard. Nevertheless, significant and meaningful engagement urgently needs to occur with a range of stakeholders – staff, students, iwi, industry and the wider community. This is an issue we will continue to engage with the Commissioner on.

WelTec and Whitireia have complied with the conditions of the capital injection agreement

16. WelTec and Whitireia have complied with the terms and conditions of the Crown capital injection agreement, including meeting all reporting requirements. WelTec and Whitireia are generally meeting, or are on track to meet, the performance targets agreed with the TEC with the exception of some of the financial performance targets being missed.

Dr Barns has worked well with the TEC

17. As per the MOU with Dr Barns, he has worked collegially and openly with the TEC and contributed to the RoVE work programme where appropriate. His tertiary education expertise and experience has been invaluable in that regard. The TEC has a standing invitation to his advisory committee meetings.

Next steps

18. We recommend that you send a letter to Dr Barns noting that you have reviewed and confirmed the need for a Commissioner to remain in place at Whitireia and WelTec. In this letter, we note that on April 1 2020, all of the current ITP Councils will cease to exist and be replaced by subsidiary boards, appointed by the Institute. This will include all Commissioner and Crown Manager roles coming to an end.

19. We have drafted a letter for you to send to Dr Barns in Appendix One.

20. We will continue to work closely with Dr Barns as part of our intensive engagement with Whitireia and WelTec. He will remain supported by his advisory committee and John Fisk from PwC who continues to provide independent expert financial advice.