

Tertiary Education Report: Lincoln University Implementation Business Case for Science North

Date:	11 August 2020	TEC priority:	High
Security level:	In Confidence	Report no:	B-20-00542
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	agree to endorse Lincoln University's (Lincoln's) Implementation Business Case for Science North and release the next instalment of \$5 million in capital funding to Lincoln as per the terms and conditions of the Crown funding agreement; and forward this briefing to the Minister of Finance for his consideration and agreement.	4 September 2020
Hon Grant Robertson Minister of Finance	agree to endorse Lincoln's Implementation Business Case for Science North and release the next instalment of \$5 million in capital funding to Lincoln as per the terms and conditions of the Crown funding agreement.	4 September 2020
Enclosure: Yes	Round Robin: Yes	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)			
Name	Position	Telephone	1st contact
s9(2)(a)	Principal Advisor	s9(2)(a)	✓
Tim Fowler	Chief Executive		

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT							
<input type="checkbox"/> DPMC	<input checked="" type="checkbox"/> MPI	<input type="checkbox"/> ENZ	<input type="checkbox"/> ERO	<input checked="" 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:**
- | | |
|-----------------------------------------------|----------------------------------------------|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments:

Recommendations

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

It is recommended that you:

1. **note** that on 11 November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln University (Lincoln) to support the rebuild of its science facilities [CAB-19-MIN-0583 refers];
2. **note** that on 4 May 2020, the Minister of Finance and the Minister of Education endorsed a Single Stage Business Case for Science North;
3. **note** that Lincoln submitted an Implementation Business Case for the development of Science North to Ministers on 6 August 2020, which outlines the negotiated commercial, financial and management arrangements for the successful delivery of the project;
4. **note** that the funding agreement between the Crown and Lincoln states that the next instalment of capital funding of \$5 million will be paid to Lincoln following endorsement of the Implementation Business Case by the Minister of Finance and the Minister of Education;
5. **note** that the Implementation Business Case has undergone an Independent Quality Assurance assessment by EY, which provided positive ratings for all aspects of the business case;
6. **note** that the impacts of COVID-19 will negatively affect Lincoln's financial position and the affordability of Science North, however we recommend endorsing the Implementation Business Case and proceeding with the project because:
 - the strategic case for Science North remains strong;
 - we consider the project remains affordable even if Lincoln has significantly lower international enrolments in 2021 as it has other options available to it to finance the build and support its overall financial position;
 - the Crown can support affordability and Lincoln's cash position by amending the current funding profile to provide funding earlier; and
 - Science North is a shovel-ready project that will assist with the economic recovery from COVID-19 and support our land-based sectors.
7. **agree** to endorse the Implementation Business Case for Science North, which will trigger the release of \$5 million in capital funding to Lincoln;

Minister of Education

AGREE / DISAGREE

Minister of Finance

AGREE / DISAGREE

8. **forward** this briefing to the Minister of Finance for his consideration and decision;
9. subject to the agreement of the Minister of Finance, **sign and send** the attached letter to the Chancellor of Lincoln informing him of Ministerial endorsement of the Implementation Business Case;
10. subject to the agreement of the Minister of Finance, **sign and send** the attached letter to the Secretary for Education requesting payment of \$5 million to Lincoln;

11. **note** you will receive quarterly reports on Lincoln's progress of the *Moving Forward* programme and the construction of Science North from the Lincoln Governance Oversight Group; and
12. **agree** that the Tertiary Education Commission proactively release this briefing once decisions have been made, with commercially sensitive information withheld to allow Lincoln to carry on negotiations without prejudice or disadvantage (including commercial and industrial negotiations).

Minister of Education

AGREE / DISAGREE



Tim Fowler

Chief Executive
Tertiary Education Commission

11 August 2020



Hon Chris Hipkins

Minister of Education

29 / 08 / 20



Hon Grant Robertson

Minister of Finance

2 / 09 / 20

Purpose

1. The purpose of this briefing is to provide advice to Ministers on Lincoln University's (Lincoln's) Implementation Business Case (IBC) for Science North – Lincoln's main new science facilities.
2. The Treasury supports the recommendations in this briefing.

Background

Cabinet agreed to provide up to \$80 million to support Lincoln rebuild its science facilities...

3. Lincoln submitted a Programme Business Case, *Moving Forward*, in August 2019 outlining its revised plans for rebuilding and repairing its earthquake-damaged facilities and modernising the way it teaches and undertakes research.
4. On 11 November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln to support the rebuild of its science facilities [CAB-19-MIN-0583 refers]. A funding agreement between the Crown and Lincoln, which set out the terms and conditions of Crown support as well as the timing and conditions for payment, was signed in December 2019.

...with Ministers endorsing a Single Stage Business Case for Science North in May 2020...

5. On 4 February 2020, Lincoln submitted a Single Stage Business Case for Science North, which outlined the recommended approach for the development of Lincoln's main new teaching and research facility referred to as Science North (B-20-00161 refers). On 4 May 2020, the Minister of Finance and the Minister of Education endorsed the Single Stage Business Case, which triggered the release of \$5 million in capital funding to Lincoln.

...and Lincoln has now submitted an Implementation Business Case for the project

6. On 6 August 2020, Lincoln submitted an IBC for Science North. This business case is the next stage in the Better Business Case process and was required as part of the Crown funding agreement. The purpose of an IBC is to recommend a preferred supplier, set out the negotiated commercial terms, and seek approval from decision-makers to enter into a contract. An IBC is also required to confirm that the project is affordable and that the detailed management arrangements are in place for the successful delivery of the project.

Independent Quality Assurance process

EY has undertaken a thorough Independent Quality Assurance of the business case...

7. EY was contracted to provide an Independent Quality Assurance (IQA) review of the IBC. EY was the same provider who reviewed the Single Stage Business Case earlier in the year. As with the previous business case, a 'rolling IQA' approach was used, with EY reviewing drafts of the IBC and providing recommendations for Lincoln to address. A final IQA was then undertaken on the finalised IBC in July 2020.
8. The purpose of the IQA is to assess the business case against the Treasury's Better Business Case guidance, and provide Ministers with the assurance that there is enough context and information in the business case to make informed decisions.

...and has assessed the business case as high-quality

9. Overall, EY has found no major issues in the IBC and that there is sufficient content for Ministers to make decisions. Indeed, all five cases of Lincoln's IBC were assessed as "green", which is an impressive achievement. These are the highest ratings received out of any of Lincoln's previous businesses cases. The full IQA report is attached to this briefing for your information.

The Science North project

The strategic case for Science North remains strong...

10. Lincoln is in clear need of new science facilities to replace those damaged in the 2010/11 earthquakes. Prior to the earthquakes, Lincoln operated the majority of its science teaching and research out of two buildings – the Hilgendorf and the Burns buildings.
11. Lincoln has already demolished the Hilgendorf building, which comprised around 30 percent of its academic floor space. The Burns building, which is currently being used by students, staff and researchers, is earthquake-damaged, inconsistent with modern teaching and learning approaches, barely complying with health and safety standards, and needs to be demolished. It has a New Building Standards rating of between 37 percent and 52 percent. It cannot continue to operate in its current state for many more years without considerable expenditure, and that still would not bring it up to modern standards.

...with the project delivering a number of key benefits for Lincoln and New Zealand...

12. Science North will assist Lincoln to replace earthquake-damaged buildings (particularly the Burns building) and deliver the following key benefits:
 - teaching and research spaces that are safe, modern, flexible and future-proofed, and which provide an increased ability for Lincoln to attract, retain and grow talent – both staff and students;
 - improved financial outcomes through operating modern, flexible, efficient facilities with a reduced footprint; and
 - a greater return on research and development through facilities that enable increased collaboration with Crown Research Institutes (CRIs), industry and other partners.
13. Science North is also expected to deliver an increase in the number and quality of graduates to support our land-based sectors and better research outcomes for New Zealand through greater collaboration with CRIs and other stakeholders. This will help develop a globally competitive land-based sector and contribute to a sustainable and productive economy.

...and it will also support the economic recovery from the impacts of COVID-19...

14. Science North will also help support economic growth and the wider recovery from the impacts of COVID-19 by:
 - generating economic activity and supporting employment in the construction-related sectors and the Canterbury region. Construction is expected to begin on Science North at the beginning of 2021 and go through to 2023; and
 - supporting research and development and providing high-quality graduates to assist our land-based sector help drive New Zealand's economic recovery.

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

15. Science North is closely connected with AgResearch's development of new science and corporate facilities at Lincoln. AgResearch's facilities will be built directly next to Science North on Lincoln land that was acquired by AgResearch. The proximity of the new buildings will increase contact between post-graduate students and their supervisors as well as researchers to ensure all of the benefits of close collaboration can be achieved. The two institutions have been working closely on design to ensure the buildings complement each other.
16. In June 2020, the Minister for Research, Science and Innovation announced the Government would provide \$45 million over three years to AgResearch from the COVID Response and Recovery Fund to assist with AgResearch's Lincoln facility project and ensure it went ahead as planned.

17. The construction of Science North is integral to AgResearch's proposed benefits and outcomes. It is also a key part of the wider agricultural science precinct at Lincoln which includes CRIs and private partners. Science North has been designed to maximise opportunities for collaboration, including provision of innovation space and meeting rooms for staff and students, and shared function and meeting spaces.

...and forms a key part of Lincoln's *Moving Forward* Programme

18. Lincoln's *Moving Forward* programme, which was the basis on which Cabinet decisions were made, is wider than just a campus redevelopment programme. It also aims to transform the way Lincoln teaches and undertakes research through its New Ways of Operating programme.
19. Science North is a key enabler of the New Ways of Operating programme, although many of the proposed benefits of Science North are also reliant on the New Ways of Operating programme being a success. The New Ways of Operating programme includes:
 - the expansion of Lincoln's multi-disciplinary Centres of Excellence;
 - the introduction of blended and online learning to existing and new programmes;
 - development of a new land-based post-graduate school in conjunction with the University of Canterbury (UC) to create more multi-disciplinary graduates and facilitate more productive and effective collaboration with CRIs at Lincoln;
 - the Children's University initiative in partnership with UC; and
 - expanding partnerships with key stakeholders such as AgResearch, other CRIs, Ngāi Tahu, and other universities.
20. Lincoln has also made good progress on other parts of the *Moving Forward* programme regarding campus redevelopment. In particular:
 - construction of Science South has commenced – a \$10 million build which will focus on the disciplines of post-farm gate and agricultural science, and is due to open in May 2021;
 - Stage Two of the Georges Forbes building has been completed – a \$7 million investment in study and communal spaces to enhance the student experience; and
 - refurbishment of the Sport and Recreation centre has commenced – a \$10 million investment in new recreational facilities and is due to open for semester one, 2021.

Implementation Business Case for Science North

The results of the procurement process have been positive...

21. Lincoln ran a two-stage design and build procurement process for Science North which allowed for the design and procurement processes to run in parallel. A key reason for the approach was to allow Lincoln to retain control of the design and to meet its tight timelines. The procurement approach has been externally peer-reviewed by specialist procurement advisors and the Ministry of Business, Innovation and Employment.
22. At the end of 2019, Lincoln went to market seeking tenders on non-price attributes to create a shortlist of suppliers. Following the completion of developed design by Lincoln, two shortlisted suppliers were invited in May 2020 to submit pricing for completing detailed design and for the construction of Science North. During the request for tender process, one contractor withdrew due to the impacts of COVID-19.
23. Given only one contractor remained – Leighs Construction (Leighs) – Lincoln put in place a number of controls to ensure the price remained reasonable and aligned with market expectations. This included Lincoln appointing its own Quantity Surveyor to benchmark all

costs against current market rates. Leighs was also required to provide an open book approach to its trade pricing, preliminary and general costs, margin and rates to facilitate this transparency. EY's IQA reviewed the additional processes and checks put in place and did not raise any concerns that Lincoln was not obtaining a competitive price.

...with a price agreed largely in line with budget...

24. Leighs tender was received at the end of June 2020. After further engagement and value engineering, Lincoln agreed a fixed lump-sum price of **s9(2)(j)** for the construction of Science North. With the addition of professional fees, decanting costs and a 10 percent contingency, this resulted in a total cost for the project of **s9(2)(j)**
25. The result of the procurement process is an extremely positive one, especially in the current environment where there are pressures on construction companies due to COVID-19, potential supply-chain delays, and increased construction costs as a result.
26. Lincoln has agreed contractual terms with Leighs. The contract used is a standard government contract, with the usual minor modifications to make sure it is fit-for-purpose. The contract includes the requirement for a partnering approach to be taken and risk allocation has been agreed in line with market expectations. The contract also includes an approach to how the impacts of COVID-19 border closures affecting the supply chain will be dealt with. EY have reviewed the contract and found no major issues.

...and the risks are reasonable and manageable...

27. A previous area of concern was the tight timelines for the construction of Science North and the ability to open the facility by the beginning of 2023. This is now a lower concern given the tender process has provided greater clarity on the timeline and that an additional six months has been included in the timeline. This allows some room for unexpected delays and puts Lincoln in a better position to deliver the sought outcomes within the funding envelope.
28. Increased construction costs, especially given COVID-19, is another key risk. Lincoln has established a contingency of **s9(2)(j)** of construction and professional costs, which is consistent with the stage of the project and accepted practice for projects of this scale, complexity and nature. Specific processes have also been established for spending of the contingency.
29. The other key risk relates to ensuring Science North delivers on its proposed benefits given its reliance on implementing the New Ways of Operating projects to achieve these benefits. Lincoln has established a Futures Committee, a subcommittee of the Council, to oversee the New Ways of Operating programme and recently developed project plans for each project. These outline key milestones, how the projects interact with Science North, and how they will contribute to the overall programme. However, it will be important that Lincoln continues to dedicate sufficient resource to progress these initiatives and has the right management and governance arrangements in place to understand the inter-dependencies and achieve the intended outcomes.
30. The greatest risk to the project however is around affordability, especially given the ongoing impact of COVID-19. These risks are discussed in more detail from paragraph 34.

...with governance and management structures put in place to ensure the project is a success

31. The IBC clearly sets out the governance and project management structures that have been put in place to deliver the project successfully. The accountability, purpose, scope and governance and management roles for the construction of Science North are all clearly set out in the IBC and the IQA raised no concerns with the Management Case. However, the IQA encouraged Lincoln to continually review its management practices and processes to ensure they remained fit-for-purpose.

32. Lincoln's Capital Assets Council sub-committee will oversee the construction-side of the campus redevelopment programme, which will be complemented by the Futures sub-committee that will oversee the New Ways of Operating programme. A Project Control Group (PCG) has also been established to oversee the management and delivery of Science North and report into the Capital Assets Committee. The PCG is chaired by an experienced independent industry expert.
33. As required by the funding agreement, a Governance Oversight Group (GOG) was established earlier this year, chaired by Murray Coppersmith. The GOG will have strong oversight of the overall programme and monitor performance against the targets in the funding agreement. The GOG Chair has provided you separate advice on the IBC, recommending you endorse it, and will regularly update Ministers on developments as construction begins.

Affordability and financial risks

Science North is part of a wider capital and improvement plan...

34. Lincoln has a 10-year capital plan for the 2019 to 2028 period of \$309 million. This is comprised of \$210 million in campus development (including Science North), \$97 million in business-as-usual capital expenditure, and a \$3 million capital investment in online education.
35. This expenditure is to be funded through a range of sources including operating surpluses, insurance settlements (Lincoln has around \$80 million in cash reserves), interest revenue, asset sales, and the Crown's \$80 million contribution. The biggest, and most important, project within this capital programme is the s9(2)(j) Science North project. A significant amount of Lincoln's capital spend is planned to happen over the next three years, which is expected to result in cash falling to a low point of s9(2)(j).

...but COVID-19 has impacted Lincoln's profitability in 2020...

36. As with all universities, COVID-19 and the ongoing border restrictions has had a significant impact on Lincoln's financial position. Revenue is expected to be down by \$12 million (or 9 percent) in 2020 as a result of fewer international students, lower hospitality and on-campus activity, and reduced research revenue. The number of international students in 2020 is expected to be 26 percent lower than in 2019, when growth had been budgeted for.
37. In response, Lincoln has implemented a number of savings and cost-management measures (e.g. voluntary reductions in working hours, reduced use of contractors) and delayed some capital projects. It has also scaled back most business-as-usual capital expenditure. Operating expenditure is therefore expected to be around \$8 million (or 7 percent) below budget in 2020.
38. Lincoln had budgeted for an operating surplus of \$4 million in 2020 but is now forecasting a small operating deficit of \$1 million. Given the current environment, this would be a strong result and one of the best across the university sector. Furthermore, Lincoln is reporting year-to-date results that are above its reforecast as well as a significant increase in second semester domestic enrolments, which suggest a potential improvement on the forecast deficit.

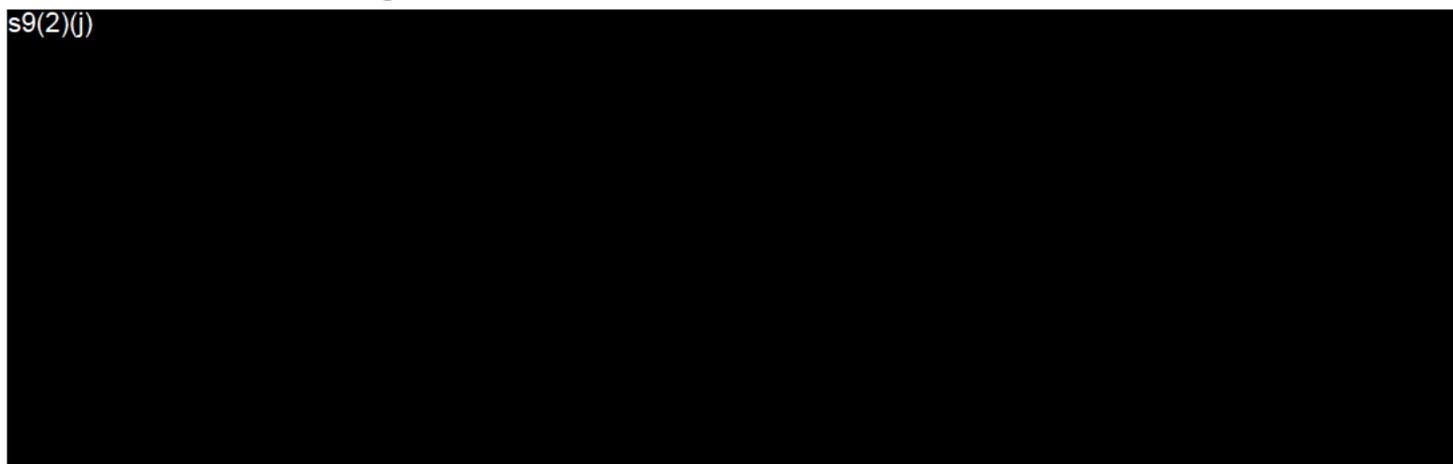
...and Lincoln has undertaken scenario analysis to test affordability...

39. Lincoln's base case assumes it will attract nearly 500 new international EFTS in 2021 – around 75 percent of its normal annual intake. It also assumes strong domestic enrolment growth over the next three years of 8 percent per annum as a result of current economic conditions. Both assumptions appear to be optimistic.
40. Under the base case, Lincoln is expecting to report a s9(2)(j) on the back of increased domestic and international enrolment growth. Cash is expected to fall to s9(2)(j), which is when the majority of funds have been spent on the construction of Science North, but before the

Crown has provided all of the committed funding. It should be noted that Lincoln has assumed it will contribute 50 percent of the costs towards quarantine for international students in 2021.

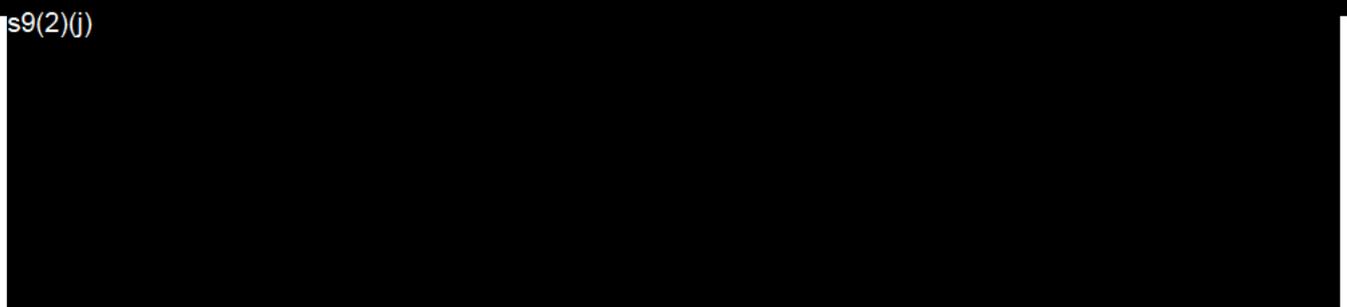
41. To test the affordability of Science North and the wider campus redevelopment programme, Lincoln has undertaken a wide range of scenario analyses. This includes scenarios around lower international enrolments as well as scenarios around cost escalation for Science North, slower domestic enrolment growth, and a slow international recovery. The graphs below show the base case against a scenario which includes a 10 percent cost increase, a slow recovery in international EFTS, and lower domestic enrolment growth. Under this scenario, cash is expected to fall to a deficit of \$3 million in 2022, necessitating the need to implement some short-term borrowing.

s9(2)(j)

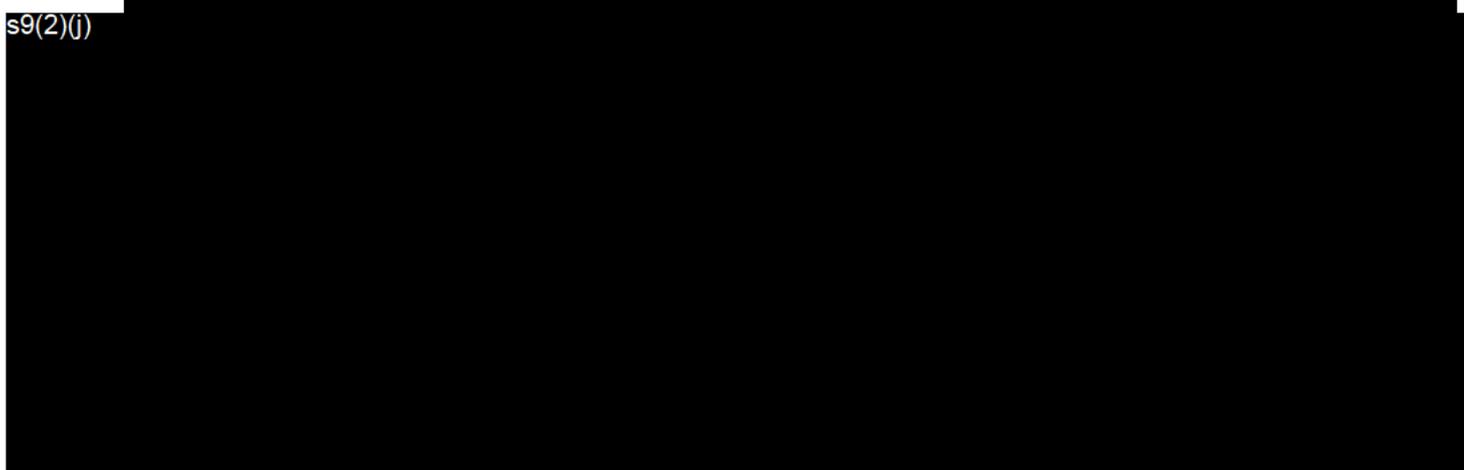


42.

s9(2)(j)



s9(2)(j)



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

43. Lincoln has a wide range of mitigations and actions it can take to respond to the impacts of COVID-19 and support affordability of Science North. These will vary depending on the scenario which eventuates, but include:
- Deferring or scaling back parts of its \$309 million capital programme to prioritise the s9(2)(j) Science North project;
 - Undertaking further asset sales in addition to those already planned;

- Implementing new learner recruitment strategies (e.g. new delivery models, new programmes) to increase enrolments for both online and face-to-face learning;
- Borrowing to support its cash position through the low point in 2022 (e.g. if the downside scenarios eventuate, a \$15 million liquidity facility could be established). Lincoln can borrow up to 2 percent of its revenue without consent, but further borrowings would require obtaining consent from the Secretary for Education; and
- Seek further reductions in operating expenditure, including not increasing staffing levels if enrolment levels are not met and reducing/deferring strategic investment, which totals s9(2)(f) over the forecast period.

...while the Crown has some options to support affordability...

44. The Crown also has options to further support affordability. The current funding profile provides for \$30 million to be paid after 50 percent of the project is completed and another \$30 million to be provided at the end of the project. This funding profile was established before COVID-19 when there was little concern regarding affordability. Providing the final \$30 million payment at an earlier date (i.e. when 50 percent of the project is completed) would assist Lincoln's cash position and smooth the low point in 2022.

...but overall we think the risks are manageable

45. There is currently significant uncertainty around the future financial performance of tertiary education organisations, including Lincoln. Based on the forecasts provided, we consider there is a strong chance that some combination of the downside scenarios will eventuate – particularly around lower international enrolments, but also around COVID-19 impacting on the construction price (e.g. through increased costs for materials or equipment).

46. Nevertheless, even under these scenarios, we consider the risks to Lincoln and the project are manageable. In recent years, Lincoln has shown a much improved ability to manage its finances. It also has options available to it to mitigate any negative impacts. We consider it likely that Lincoln will have to reduce its wider capital programme and that a small amount of borrowing will be needed to ensure sufficient liquidity over the cash low point in 2022. Furthermore, we are supportive of amending the Crown funding profile to provide additional funding at an earlier date, which would assist Lincoln's cash position and further support affordability. We are likely to seek a decision from Ministers on this issue at a later date.

Ministerial endorsement of the IBC

We recommend Ministers endorse the IBC...

47. Lincoln has produced a strong IBC that meets Treasury's Better Business Case guidelines and no major issues were found in the IQA. The strategic case for the project remains robust, especially in light of COVID-19 and the Government's support for AgResearch's plans, and Lincoln has run a successful procurement process with a build price agreed largely in line with the budget. While the impact of ongoing border restrictions has increased the financial risks to the project, we still consider those risks can be managed. As such, we recommend Ministers endorse the IBC to allow Lincoln to enter a construction contract with Leighs. As per the funding agreement, this will trigger the release of \$5 million in capital funding.

48. The TEC and the GOG will continue to monitor Lincoln's financial position closely over coming years as the build project progresses to ensure risks are identified and managed appropriately.

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

49. If Ministers decide not to endorse the IBC, it would have a range of negative effects for Lincoln and the sector. Not only would the project not go ahead, with the outlined benefits not being achieved, it would also undermine Lincoln's financial sustainability.

50. Without Crown funding, Lincoln would have to rely on its own resources to rebuild and upgrade its campus. Lincoln could potentially sell further assets but there would be limited other opportunities to raise any significant cash – particularly given ongoing border restrictions limit the revenue opportunities from additional international students. Borrowing would remain an option but it would require Lincoln to borrow a large amount, which would add significant cost for Lincoln and would likely undermine its medium- and long-term financial viability. Furthermore, in the absence of Crown support, Lincoln may not be financially secure enough to obtain a borrowing consent from the Secretary for Education.
51. We consider the following would be likely if Crown funding was not provided:
- Lincoln would look to construct basic low-cost warehouse type buildings to replace some of the unsuitable/demolished science facilities;
 - the earthquake-damaged Burns building may not be demolished, but some parts of it might be upgraded for interim use (e.g. teaching labs and the traditional lecture theatres), but it would still remain not fit-for-purpose;
 - the opportunity to invest in student facilities and deliver on other parts of the *Moving Forward* programme would be severely limited and impact on the programme benefits;
 - Lincoln would continue to have difficulties attracting students given the quality of its campus relative to other universities, which would result in fewer graduates for the land-based sector;
 - it would be more difficult to attract and retain high-quality staff, undermining both teaching and research activity and quality and representing a loss in value for the land-based sectors; and
 - it would reduce the opportunities to collaborate with AgResearch and maximise the benefits of having AgResearch on campus, which would impact on the proposed benefits for not only Lincoln but also AgResearch, industry and New Zealand.
52. Overall, this would negatively impact on Lincoln's performance and its long-term sustainability. A decision not to provide support would likely lead to other decisions needing to be made about the future of Lincoln.

Next steps

53. If you agree to endorse the IBC, please forward this briefing to the Minister of Finance for his consideration and endorsement. If the Minister of Finance agrees to endorse the IBC, please sign and send the attached letter to the Secretary for Education authorising the \$5 million payment. We have also drafted a letter for you to send to Lincoln's Chancellor informing him of the decision.
54. Once endorsement is received, Lincoln will then enter into a contract with Leighs for finalising detailed design and the construction of Science North. The terms agreed with Leighs expire on 7 September 2020, so we are seeking decisions before this date to avoid any issues.
55. The GOG will provide quarterly updates to Ministers on Lincoln's progress regarding the *Moving Forward* programme and the construction of Science North. As per the funding agreement, the next payment to Lincoln of \$5 million is to be made on completion of Science South, due in May 2021.

Appendix 1: Draft letter to Lincoln

Bruce Gemmell
Chancellor
Lincoln University

By email: bruce.gemmell@lincoln.ac.nz

Dear Bruce

Ministerial endorsement of the Implementation Business Case for Science North

Thank you for your letter on 6 August 2020, and for submitting the Implementation Business Case (IBC) for Science North. The Minister of Finance and I have now considered the IBC alongside the Independent Quality Assurance (IQA) report provided by EY, and the report from the Chair of the Lincoln University (Lincoln) Governance Oversight Group (GOG).

On the basis of the information provided, I would like to advise you that the Minister of Finance and I have endorsed the IBC for Science North and ordered payment of \$5 million in capital funding to Lincoln as per the Crown funding agreement. I trust this endorsement should allow you to finalise, and enter into, commercial arrangements for the build of Science North. I look forward to seeing the development of these state-of-the-art teaching and research facilities which will hopefully attract greater numbers of students, researchers and investment partners to Lincoln to support our land-based sectors.

I would like to congratulate Lincoln on running a successful procurement process, and producing a high-quality business case. It was clear that you and the team had put significant effort into its development, which was clearly reflected in the positive ratings provided by EY in its IQA report. It is also pleasing to see solid progress being made on other parts of the *Moving Forward* programme, particularly the recent completion of Stage Two of the George Forbes building and the commencement of construction on Science South.

COVID-19 has changed the economic and social landscape in which Lincoln is now undertaking this project. I note the business case includes a range of downside scenarios, including outlining the impacts of reduced international enrolments, lower domestic enrolment growth, and cost increases for the build. Given COVID-19, and the ongoing border restrictions, there is a strong likelihood that some combination of these scenarios will eventuate.

While Lincoln has a range of options available to it to manage its financial performance and support the affordability of the Science North project, it will require strong management and governance oversight, and robust, timely decision-making to ensure the project progresses as planned and Lincoln remains financially sustainable. This needs to be a strong focus for the Council and I expect you to work closely with the Tertiary Education Commission and the GOG to ensure any risks are identified early and responded to promptly and appropriately.

As you are aware, the funding agreement envisaged that a key set of targets, by which Lincoln will be held accountable, had been agreed by the GOG at this stage. However, I understand that in light of COVID-19 these targets are still being developed, and will be considered by the GOG at its next meeting in November 2020. I am comfortable with this approach and expect to be updated on this matter by the GOG Chair at a later date.

More generally, I look forward to continuing to be updated regularly by the GOG on how the Science North project and the wider *Moving Forward* programme progresses.

Yours sincerely



Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission
Professor Bruce McKenzie, Acting Vice-Chancellor, Lincoln University

Appendix 2: Draft letter to the Secretary for Education

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

Dear Iona

Lincoln University – payment of \$5 million of capital funding

In November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln University (Lincoln) to support the rebuild of its science facilities (CAB-19-MIN-0583 refers).

As per the funding agreement between the Crown and Lincoln, the Crown is required to pay \$5 million in capital funding to Lincoln following Ministerial endorsement of an Implementation Business Case for Science North. I can confirm that the Minister of Finance and I have now endorsed the Implementation Business Case which triggers the release of \$5 million in capital funding to Lincoln.

I therefore request that you, as the Secretary for Education, make payment to Lincoln of \$5 million from the Non-Departmental Capital Expenditure appropriation “Support for Lincoln University” in Vote Tertiary Education as soon as possible.

Yours sincerely



Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission