

Event Backgrounder: Visit to Telford

To:	Hon Chris Hipkins, Minister of Education
From:	s9(2)(a) – Manager Monitoring and Crown Ownership – Delivery Directorate, Tertiary Education Commission
Date:	27 February 2019
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Purpose

1. This briefing provides you with background information for your visit to the Southern Institute of Technology's (SIT's) Telford campus, located outside Balclutha, on 5 March, 2019 at 11am.
2. You will be meeting with the Clutha Mayor (Bryan Cadogan), the Chair of SIT (Peter Heenan), the Chief Executive of SIT (Penny Simmonds), the acting Chair of the Telford Farm Board (Jono Bavin), Telford operations manager (Lisa Snell), and the executive officer of the New Zealand Wool Classers Association (Bruce Abbott).
3. We recommend that you release this aide-memoire in full following the meeting.

History of Telford

Telford was established in 1964...

4. Telford began as the Telford Farm Training Institute (the Institute) in 1964, after a push by a group of South Otago residents who were keen to see an agricultural training facility established in the area. The land was made available from the family of William Telford.
5. The Institute is a charitable trust constituted under the Telford Farm Training Institute Act 1963. The Act established a Board of Management (the Telford Farm Board) to control and manage the Institute in accordance with the provisions of the Act. Its charitable purpose is to provide an agricultural training facility and practical farming skills to those involved with the Institute.
6. The Balclutha campus extends over 921 hectares of farmland with halls of residence and facilities, technical workshops (machinery, carpentry and welding), classrooms and livestock units. The Telford Farm is split into deer, dairy, forestry, and sheep and beef units.

...with Telford Rural Polytechnic established in 1991...

7. In 1974 a partnership was formed between the Institute's board and the Ministry of Agriculture and Fisheries (MAF) where the Telford Farm Board was responsible for the farms and MAF for delivering education.
8. In February 1991, Telford became a polytechnic – Telford Rural Polytechnic – which operated the campus and educational facilities alongside the Telford Farm Board who managed the farm.

...before Lincoln University acquired Telford Rural Polytechnic in 2011...

9. For a range of reasons, including funding changes, a proposal was made to the Minister for Tertiary Education by Lincoln University (Lincoln) and Telford Rural Polytechnic to merge. The proposal was accepted in late 2010 and the merger took effect as of 1 January 2011. This saw Telford Rural Polytechnic disestablished and merged into Lincoln. At the time, SIT had also shown an interest in merging with Telford Rural Polytechnic.
10. Lincoln acquired Telford as part of a plan to achieve 'vertical integration' in the sector between introductory lower level courses and university level courses. The aim was that many of the Telford students would stair-case towards further higher study. Another key rationale for the merger was the perceived benefits of allowing Lincoln to transfer its research and extension knowledge into qualifications that would change practice across the primary sector.
11. As part of the acquisition, Lincoln inherited \$10 million of cash reserves held by Telford Rural Polytechnic prior to the merger.

...but there were issues around performance and quality....

12. When Lincoln merged with Telford Rural Polytechnic, it appeared to be a profitable operation delivering around 1,000 EFTS per annum. Lincoln continued to deliver at this level over 2012 and 2013. However, the majority of this provision was achieved through distance delivery around New Zealand and the use of sub-contractors. The TEC had numerous concerns that this level of enrolments was being achieved due to significant over-delivery at Levels 1 and 2, and via subcontracted provision which was of questionable quality (some of which was later confirmed as part of detailed investigations). In addition, a significant proportion of delivery was in health and safety type qualifications, which are not to be funded under Student Achievement Component (SAC) funding rules.
13. As a result, the TEC reduced Lincoln's funding for its Telford operations, stopped funding health and safety programmes, and stated that Lincoln needed to increase the proportion of students achieving qualifications at Levels 3 to 5 and reduce delivery at Levels 1 and 2.
14. These changes resulted in significant under-delivery in 2014. Over the following years, the Lincoln-Telford Division did not perform well as Lincoln failed to attract students into its Level 3 and 4 programmes, and it was a financial drain on the University. The Telford Division only delivered 527 SAC funded EFTS in 2015 and 561 SAC funded EFTS in 2016 compared to an agreed target with the TEC of 800 EFTS (which was considered by Lincoln to be a breakeven point based on its cost structures).
15. An independent review of educational processes and procedures at the Telford Division also found they had breached TEC's funding conditions. Based on the investigation, Lincoln repaid \$1.5 million in late 2016 due to the under-delivery of learning hours in four programmes from 2011 to 2015. Some of these programmes had been inherited from the Telford Rural Polytechnic. Lincoln repaid a further \$338k of funding to the TEC for delivery in 2016 related to the investigation. The investigation did not include programmes that had ceased delivery before the merger.

...and in mid-2017 Lincoln transferred its Telford provision to Taratahi

16. In 2016, Lincoln made a decision to divest from its Telford operations as it had little strategic fit, was not currently profitable, and was taking up significant management time. In addition, to the performance and quality issues, the key rationale for the merger of 'vertical integration' was not sound. The types of students that chose to attend Lincoln-Telford instead of going to university from school were very different in terms of their academic capability and desire to pursue higher education. The evidence, in terms of very few students transitioning from Lincoln-Telford to the University, showed that vertical integration was not being achieved.

17. In 2016, Lincoln started implementing a plan to transfer its Telford provision to another institution. At that time, Lincoln engaged closely with Taratahi Agricultural Training Centre (Taratahi) and SIT. Lincoln and Taratahi reached an agreement for the transfer of Lincoln's Telford provision in mid-2017, which involved:
 - a. Lincoln transferring the assets and operations of Telford to Taratahi as a going concern for \$1 (the assets had an estimated book value of \$8.1 million at the time).
 - b. Lincoln providing up to \$2.2 million in cash to Taratahi. This was made up of a number of discrete amounts to be used to fund specific costs that Taratahi would incur in undertaking the transaction and in structuring Telford so that it could be financially viable and merged effectively with Taratahi's existing operations.
18. Taratahi was also required to agree terms with the Telford Farm Board. The agreement between Taratahi and the Telford Farm Board involved a lease and partnership arrangement with the Telford Farm Training Institute, and allowed Taratahi to gain access to the Telford farms to deliver its curriculum and to farm for profit. This was the key reason SIT withdrew from the negotiations as it did not wish to operate the Telford Farm, given it was incompatible with its core business.
19. The lease encompassed the farm land and buildings, and Taratahi purchased farm plant and equipment as well as livestock using some of the cash provided by Lincoln. A key part of Taratahi's plans to ensure the Telford operations were profitable involved re-introducing the model of farm and education working in synergy and as one business model. This was a different model than Lincoln operated, where it had control of the teaching operations, but not the farm.

The Southern Institute of Technology is now operating Telford

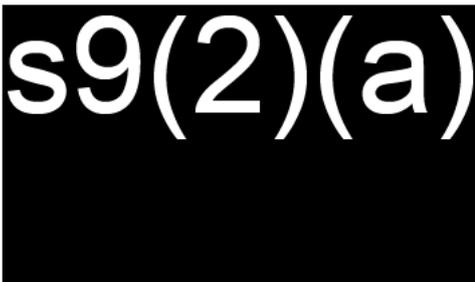
20. As you are aware, Taratahi was placed into interim liquidation by the High Court on 19 December 2018 at the request of the Taratahi Trust Board. Grant Thornton were appointed full liquidators of Taratahi on 5 February 2019.
21. In January 2019, the TEC began engaging with SIT, the interim liquidators, and the Telford Farm Board to establish whether any arrangement could be put in place to ensure the continuation of educational delivery at Telford.
22. SIT submitted a proposal to you on 25 January 2019, requesting a significant amount of Crown support to acquire Telford and ensure ongoing delivery. After further negotiation, on 4 February 2019, you agreed to invest \$1.8 million in Crown funding to assist SIT operate Telford and other distance delivery for the 2019 year.
23. SIT is aiming to teach around 200 primary industry students in 2019 at the Telford campus and across New Zealand. SIT are offering a range of primary sector qualifications across Levels 3 to 5. As well as on campus programmes, SIT are offering a number of programmes by distance learning, as well as STAR programmes for schools, and taster days. The first set of students began their programmes at Telford on 18 February 2019.

Telford delivery

24. The table below shows delivery at the Telford campus by Lincoln and Taratahi over the past five years (i.e. it does not include distance delivery or other delivery that is sometimes included under the “Telford” brand).

	2014	2015	2016	2017	2018
Lincoln University	146.4	85.2	120.0	54.0	-
Taratahi	-	-	-	29.3	81.2
Total EFTS	146.4	85.2	120.0	83.3	81.2

25. In 2018, there were 81 EFTS (108 students) delivered at the Telford campus. The largest programme was the Telford Certificate in Agriculture (Level 3) which was the primary contributor in 75 percent of delivery occurring at Level 3. Most of the remaining delivery was at Level 5 across the Diploma in Agriculture and the Diploma for Rural Veterinary Technicians.



Manager – Monitoring and Crown Ownership – Delivery
Tertiary Education Commission

27 February 2019

Hon Chris Hipkins
Minister of Education

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