

Tertiary Education Report: Report to Ministers from the University of Canterbury Futures Governance Oversight Group

To:	Hon Chris Hipkins, Minister of Education
From:	Brendan Kelly, Deputy Chief Executive Information, Tertiary Education Commission
Date:	25 June 2018
Reference:	B/18/00431

Background

1. In 2013, Cabinet agreed to provide capital funding of up to \$260 million to contribute to the rebuilding of the University of Canterbury's (UC's) science and engineering facilities, and to help the University recover from the 2010 and 2011 earthquakes. To date, \$210 million has been provided to UC from the Crown. The final \$50 million is due to be paid in the 2018/2019 financial year.
2. A Funding Agreement was signed between the Crown and UC outlining the terms under which the Crown agreed to provide capital funding, and the accountability and reporting mechanisms that were to be put in place. The Agreement was signed by the Minister for Tertiary Education, Skills and Employment and the Minister of Finance on behalf of the Crown.
3. When the Funding Agreement was signed, it specified that a Governance Oversight Group (GOG) was to be established. The GOG's role was to support and monitor UC's implementation of the Rutherford Regional Science and Innovation Centre (RRSIC) and the Canterbury Engineering the Future (CETF) project, and deliver on the benefits associated with these projects and the wider UC Futures Programme.
4. I attach the latest report from the Chair of the UC Futures GOG, Garry Wilson, and seek your agreement to forward the report to the Minister of Finance. The current report from the GOG Chair takes account of the meeting on 29 May 2018 and any developments since that date. Overall, the UC Futures Programme continues to progress well and enrolments have grown strongly in 2018.
5. As outlined in the Chair's report, the final \$50 million of the Crown's \$260 million contribution to the UC Futures Programme is due to be paid in 2018/2019. The GOG will consider the issue at its August meeting and will provide advice to you and the Minister of Finance following the meeting.

Recommendation

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **agree** that the TEC release this note and the GOG Chair's briefing once it has been considered by you and the Minister of Finance.
2. **note** that some information in the GOG Chair's report, largely relating to the Rehua building project as well as the quarterly scorecard, will be withheld so as not to prejudice negotiations.
3. **send** a copy of the GOG Chair's report to the Minister of Finance. A draft letter to the Minister is enclosed together with a second copy of the report and its appendix.



Brendan Kelly

Deputy Chief Executive Information, Tertiary Education
Commission

25 June 2018

Hon Chris Hipkins

Minister of Education

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University of Canterbury Futures Governance Oversight Group: Report to Ministers from the Chair

To:	Hon Chris Hipkins, Minister of Education
From:	Garry Wilson, Chair of the UC Futures Governance Oversight Group
Date:	25 June 2018
Title:	Report to Ministers from the May 2018 Governance Oversight Group Meeting

Purpose

1. This report summarises recent progress on the University of Canterbury's (UC's) Futures Programme following the UC Governance Oversight Group (GOG) meeting held on 29 May 2018. The report takes account of the UC quarterly monitoring report, papers received for the March 2018 meeting, and developments since that date.

Background

2. The GOG is required to meet four times each year and to report to Ministers following those meetings. You were last briefed on 19 March 2018, following the March meeting (B/18/00150 refers).

UC Futures Programme Milestones

3. The UC quarterly monitoring report is attached and summarises progress across the UC Futures Programme for the March 2018 quarter.
4. Overall, the UC Futures Programme continues to progress well. Enrolments have grown strongly in 2018 and UC is meeting all of the financial targets in the Funding Agreement. The engineering precinct and the main science building (the Ernest Rutherford building) were both completed in time for teaching in semester one, 2018, and are being well-received by students. The only area of concern is the Rehua building – which will accommodate the College of Education and a section of the College of Business and Law – which is continuing to face delays.

Enrolments have risen strongly in 2018

5. Based on semester one data (which accounts for around 93% of full-year enrolments) total EFTS at UC are up by 7%. Domestic EFTS are up by 5% while full-fee international EFTS are up by 25%. These are the strongest growth rates recorded across the university sector in 2018.
6. The growth in enrolments is across all areas with an increase recorded in all of UC's five colleges. The strongest growth has been in the College of Engineering (up 10%) followed by the College of Education, Health and Human Development (up 8%).
7. At the time the Crown Funding Agreement was signed in 2014, UC had forecast enrolments would begin to recover in 2015 and grow by around 4% per annum through to 2022. However, domestic EFTS declined in 2015 and overall enrolments were largely flat over the year. This saw UC fall behind the EFTS targets in the Funding Agreement.

8. Over the past three years however, total enrolments have risen by between 5% and 7% per annum. Following the exceptionally strong growth in 2018, UC is forecasting to hit the Funding Agreement EFTS target in 2018 for the first time in its recovery – a major achievement for the University. While domestic EFTS growth has been robust, this has largely been achieved due to full-fee international enrolment growth, which has been well above forecast.
9. The strong growth in enrolments over recent years, combined with a 14% increase in new-to-UC enrolments in 2018, is a positive sign for future enrolment growth. UC is currently forecasting a 6% increase in enrolments in 2019.

The Canterbury Engineering the Future (CETF) project is completed and operational but there are some minor works that need completing

10. The \$163 million CETF project comprised a major modernisation and renewal of all engineering facilities. Tranche Two of the CETF project was completed earlier in the year and the engineering precinct was ready for the start of the 2018 academic year.
11. Although the engineering facilities are being used by students and researchers, and there has been a strong increase in enrolments for the College of Engineering in 2018, there are a number of minor defects that need to be resolved and some works in dispute. In particular, the Large Scale Fire Laboratory and Emission Control Unit remain incomplete, which is impacting on research.
12. The main contractor for the CETF project is Hawkins Construction. However, the Hawkins Group was sold to Downer EDI Ltd in April 2017, and while some contracts were transferred to the new Downer EDI entity, the CETF contract remained with the residual company, named H Construction South Island. On 11 May, it was announced that the Orange-H Group (of which H Construction South Island is a subsidiary) was placed in receivership. As a result, H Construction is not undertaking any works to close out the CETF project and will not do so until instructed by the receiver.
13. Given the uncertainty on when these works may or may not be undertaken, UC's Council recently concluded that the best course of action was to terminate the contract and to make appropriate claims on a \$1.6 million retention bond UC held – this would cover all outstanding and disputed works. UC are now managing the defects and other close out works on its own, with a focus on addressing critical College of Engineering needs. A small number of disputed claims with the main contractor remain, which may take some time to resolve. I will provide an update to you on this issue following the next GOG meeting.

Rutherford Regional Science and Innovation Centre (RRSIC) – Stage One is operational, Stage Two is due to be completed in mid-2019

14. The RRSIC is a new build, multi-disciplinary innovative science research and teaching facility that will replace the earthquake-damaged old Rutherford and Von Haast buildings. The \$220 million project will provide 25,000 square metres of new accommodation for the College of Science across two buildings.
15. As reported last quarter, the main building (the Ernest Rutherford building) was completed in time for semester one, 2018, and is operational. The Ernest Rutherford building includes specialist teaching and research laboratories and represents around 85% of the overall RRSIC project cost.
16. Stage Two of the project involves the demolition of the existing Von Haast building before the construction of a timber-framed building on the same site, which will be known as the Beatrice Tinsley building. Stage Two will hold office and study space as well as the College Office.

17. Stage Two has faced some delays due to the significant levels of asbestos found in the Von Haast building, and recently introduced legislation requiring a very complex process for removing the asbestos safely. This has resulted in an additional cost of around \$2.3 million and a delay of around 15 weeks to the programme. The building is now expected to be ready for occupation for semester two, 2019, instead of semester one, 2019, as originally planned.
18. The other major risk for the project – finding the foundations were less fit-for-purpose than investigations to date had suggested following the demolition of Von Haast – has not eventuated. Following demolition, the foundations were found to be largely as expected and did not suffer any significant damage during the demolition process. Work has now begun on constructing the timber-framed building.

Rehua building project – continues to experience delays and quality issues

19. The \$78 million Rehua building project involves a major strengthening and rebuild of the former Commerce building to accommodate the College of Education and a section of the College of Business and Law.
20. The Rehua project continues to experience repeated delays and quality issues for a variety of reasons. 9(2)(g)(i) [REDACTED] The façade is still not completed, there has been some water ingress in the basement, and the atrium is still not yet watertight. The completion date has slipped again to September 2018, which is nearly a full year later than the scheduled completion date of November 2017.
21. UC has removed all reliance on this building being ready for semester two, 2018. All semester two classes that were originally planned for the Rehua building have been re-timetabled into other spaces. While the additional delay is unfortunate, it is having minimal effect on staff and students who are simply remaining in their current locations. As long as it is ready for semester one, 2019, which UC are confident of, there will be no significant impact on staff or students. Nevertheless, without the availability of Rehua and given the strong growth in overall enrolments, space is constrained and UC has had to work hard to repurpose space to meet requirements. This has been compounded by the recent decommissioning of the temporary Dovedale village, which was set up following the earthquakes for temporary accommodation.
22. Despite the ongoing delays, the benefits of the project are still being achieved. Enrolments in the College of Education, Health and Human Development are up by 8% in 2018 while enrolments in the College of Business and Law are up by 5%. Furthermore, the project is likely to remain within budget. UC have paid out the full value of the Rehua contract and are now simply invoicing for liquidated damages.

The final \$50 million Crown payment

23. As previously advised, the final \$50 million of the Crown's \$260 million contribution to the UC Futures Programme is due to be paid in 2018/2019. The Crown Funding Agreement includes a provision where the final \$50 million of funding is to be offset against any EFTS delivered over and above 14,800 EFTS in 2018.
24. The key reason for this provision is because enrolments are the main driver of operating revenue for UC (accounting for around two-thirds) and there was uncertainty around the future speed of UC's recovery. At the time of the original Cabinet decision in 2013, it was calculated that unless UC was well above 14,800 EFTS in 2018, the final \$50 million in funding would be necessary to assist in UC's recovery.

25. UC's latest forecast is that it will deliver 14,016 EFTS in 2018. As a result the Funding Agreement specifies that the final \$50 million of funding is to be paid to UC in the 2018/19 financial year. The GOG will consider this issue at its August meeting and I will provide advice to you and the Minister of Finance following that.

Post-implementation reviews

26. The Crown Funding Agreement outlines the requirement for post-implementation reviews to be undertaken for the Canterbury Engineering the Future (CETF) and RRSIC projects no more than six months after the completion of the projects. However, given the two projects have had a number of minor defects that are still being resolved, there has been a delay in the realisation of some benefits – specifically those related to building performance.
27. Given the purpose of post-implementation reviews is to identify both lessons learnt from the project and to report on benefits realisation, the GOG agreed at its recent meeting that post-implementation reviews for the two projects could be completed 12 months after the buildings receive practical completion or certificate of public use, whichever is the later. This will allow more value to be obtained from the reviews. The first post-implementation review, for the CETF project, is currently scheduled to be completed in the first quarter of 2019.

Key risks

28. The following outlines the key risks related to the UC Futures Programme:
- Domestic and international EFTS growth being lower than forecast. While this has become less of a risk after the strong 2018 result, UC noted that recent changes by the New Zealand Qualifications Authority to English language rules in the private training establishment sector have affected UC's two private education providers who run English language preparation and foundation courses – this will likely see international enrolment growth rates ease back from recent strong levels;
 - Not having enough money to remediate all of the larger buildings and also maintain adequate BAU investments. The likelihood of this risk is reducing as the three major projects come to an end; and
 - Risk of further delays to the Rehua building project, with 9(2)(g)(i) [REDACTED].
29. From my point of view, the GOG appears to be working well with UC providing high quality information and actively raising any issues regarding the UC Futures Programme.

New Vice-Chancellor

30. Dr Rod Carr announced late last year that he would not seek re-appointment as the Vice-Chancellor of UC when his contract ended on 31 January 2019 – a role he has held since 2009.
31. After an extensive global search, UC announced on 11 June that Professor Cheryl de la Rey will take up the Vice-Chancellor role in February 2019. Professor de la Rey is currently the Vice-Chancellor of the University of Pretoria in South Africa. A registered psychologist, de la Rey has published books and held several high-level positions at South Africa's University of Cape Town, Council on Higher Education, and National Research Foundation.

The GOG's future focus

32. The next GOG meeting will be held in August 2018. At this meeting, the GOG will receive an update on semester two enrolments and discuss the final \$50 million Crown payment. The GOG will also receive an update on the Rehua building project and its forecast completion date. I will update you following the meeting.



Garry Wilson

Chair, UC Futures Governance Oversight Group

25 June 2018

Hon Grant Robertson
Minister of Finance
PARLIAMENT BUILDINGS

Dear Grant

I attach the latest report from the Chair of the University of Canterbury (UC) Futures Governance Oversight Group (GOG), established under the Crown Funding Agreement with the University.

The report takes account of the GOG meeting on 29 May 2018 and includes the monitoring report from the University for the first quarter of 2018. The report summarises progress on the UC Futures Programme and UC's continued recovery.

Overall, the UC Futures Programme continues to progress well and within the parameters of the Crown Funding Agreement.

The final \$50 million of the Crown's \$260 million contribution to the UC Futures Programme is due to be paid in 2018/2019 as per the provisions in the Crown Funding Agreement. The GOG will consider the issue at its August 2018 meeting, and the GOG Chair will provide me with advice on the final payment following that meeting. I will forward the Chair's report to you at that time.

Yours sincerely

Chris Hipkins
Minister of Education