

Event backgrounder: Ministerial visit to Unitec Institute of Technology on Thursday, 23 August 2018

To:	Hon Chris Hipkins, Minister of Education
From:	Manager ITP Investment, Operations Directorate
Date:	17 August 2018
Reference:	E/18/00570

Purpose

1. You are scheduled to visit Unitec Institute of Technology (Unitec) on Thursday 23 August 2018.
2. We understand that you will hold a small media stand-up at the end of this visit, to announce a no-interest, concessionary loan for Unitec of up to \$50 million, as well as financial support for Whitireia New Zealand (Whitireia), and your intention to dissolve the combined Council of Whitireia and Wellington Institute of Technology (WeITec).
3. This paper provides an overview of Unitec, a summary of your recent decisions regarding statutory intervention and financial support, and talking points/Q&As for the media stand-up.
4. We recommend that this event backgrounder is proactively released with information about Unitec's risk rating on the TEC's financial monitoring framework withheld.

Overview of Unitec

5. General information about Unitec is attached as Appendix 1. This A3 summary sheet includes a short narrative; delivery enrolment, site and demographic data; financials; and educational performance indicator (EPI) information.
6. Biographies of the Interim Chief Executive of Unitec, and the Commissioner, are attached as Appendix 2.
7. Unitec's Student Achievement Component (SAC) and Youth Guarantee (YG) funding compared with delivery for 2017 is included in Appendix 3.
8. Unitec's funding for 2018 is included in Appendix 4. Unitec's funding was reduced in-year following analysis of delivery at June 2018. The reduction from the initial 2018 allocation to the current allocation is circa \$4.7M.

Financial difficulties and statutory intervention

9. Unitec advised the TEC in April that it was in serious financial difficulty. An independent financial advisor was appointed, who confirmed that Unitec required significant financial assistance or would be forced to close.

10. Unitec's poor financial position was assessed to be a result of continued declining enrolments and a significant transformation programme that had produced limited results to date while incurring high costs. A key concern was that Unitec's governance had failed to recognise or address these challenges.
11. While Unitec retains significant surplus assets that can be sold, and has the opportunity to right-size its operations and return to viability, ^{9(2)(g)(i)} [REDACTED].
12. As such, while officials worked on options to provide Unitec with financial support, you consulted on the possible need to dissolve the Council, and ultimately appointed Murray Strong as a commissioner on 23 July 2018.
13. Cabinet has since agreed to your proposal to provide a no-interest, concessionary loan of up to \$50 million to Unitec. This is intended to support Unitec in the short-term, while it right-sizes its operations and sells surplus assets. The loan is to be repaid within 10 years. We will shortly provide you with a draft loan agreement that will need to be signed by you, the Minister of Finance, and the commissioner.
14. You plan to announce the \$50 million loan for Unitec during your visit. The announcement will highlight the challenges facing the ITP sector and the importance of the ITP Roadmap 2020 project, as well as announcing a capital injection for Whitireia and your consultation on the possible need to dissolve the combined Council of Whitireia and WeITec due to both institutions' financial difficulties. Talking points/Q&As are attached as Appendix 5.

ITP Roadmap

15. The ITP Roadmap 2020 project team is continuing to engage with the ITP sector and other stakeholders to develop the advice we'll provide to you on options for a sustainable future ITP network. Our most recent engagements are:
 - i. Regional engagement visits, which will be complete by 24 August
 - ii. Four focus group sessions with Māori and Pasifika stakeholders.
16. On 9 and 10 August 2018 we brought together around 30 people from across the ITP sector and wider stakeholders in a co-design workshop to explore and identify a small number of coherent models for the future ITP network. These will be added into TEC's analytical mix for our advice to you in September. We will be discussing the outcomes of these workshops with you, and how our advice is shaping up, at the ITP Roadmap 2020 strategy session on 28 August.

Regional ITP Roadmap engagement at Unitec

17. TEC met with the Unitec Council, the senior leadership team, a large group of staff, the student Council and community members at a recent regional ITP Roadmap workshop in Auckland.
18. Unitec leadership are committed to Unitec remaining responsive to its community across the greater Auckland region, and to it continuing its strong delivery in trades to meet the needs of industry and learners.
19. Unitec has a longstanding and close relationship with local iwi which has been highlighted through recent community consultation processes around the appointment of the Crown Commissioner. Unitec is committed to continuing this relationship and to improving outcomes for its Māori and Pasifika learners.

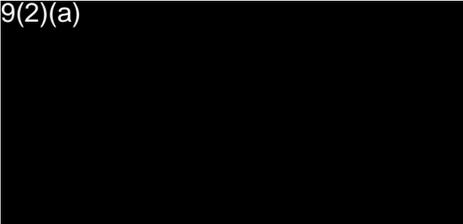
Unitec renewal plan

20. Unitec leadership are communicating openly with staff about the appointment of the Crown Commissioner, Unitec's financial state and their plans for renewal. This includes communicating to staff that significant programme closures and job losses are pending. Unitec are working closely with the relevant unions on these changes.

21. The renewal plan has four key foci:

- Recovering Unitec's financial position, by: establishing a sustainable operating model and structure for a minimum of 6,000 equivalent full time students (EFTS), realising overall cost savings of 20% across the organisation (\$25M).
- A renewed emphasis on preparing work-ready graduates and delivering to lifelong learners (many of Unitec's students are adult, in work, part-time re-trainers).
- Improving success for under 25s, Māori and Pasifika priority groups.
- Committing to provide what is needed in the West, Central and North Auckland communities to meet Auckland's future employment needs (maintain and expand Construction and Infrastructure, Health and Business, Professional Services in particular).

9(2)(a)

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Acting Manager, ITP Investment
Operations Directorate
Tertiary Education Commission
17 August 2018

Hon Chris Hipkins

Minister of Education

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Appendix 1: Unitec summary sheet (A3)

(refer accompanying A3)

TEI PROFILE: Unitec New Zealand

Chair: [Vacant] Interim Chief Executive: Merran Davis

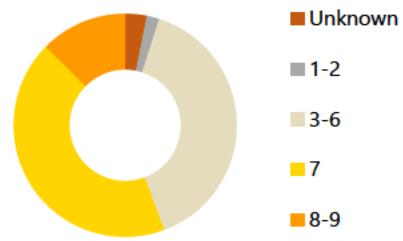
Key narrative: Unitec New Zealand (Unitec) is a category 2 EER provider and the largest polytechnic in the ITP sector. Major provision is in architecture and building subjects, engineering and related technologies, management and commerce and health subjects. Unitec also partners with MindLab to develop digital capability and collaborative teaching methods for teachers to use in the classroom.



Delivery sites	
Town/city	All EFTS (2017)
Auckland City	6,776
Waitakere City	876
Other sites	790
Total	8,442

Top five qualifications by enrolment	
Qualification	All EFTS (2017)
PG Certificate in Applied Practice	541
Certificate in Applied Technology	331
Bachelor of Nursing	331
Bachelor of Architectural Studies	328
Bachelor of Business	312

Delivery by NZQF level (all EFTS) for 2017



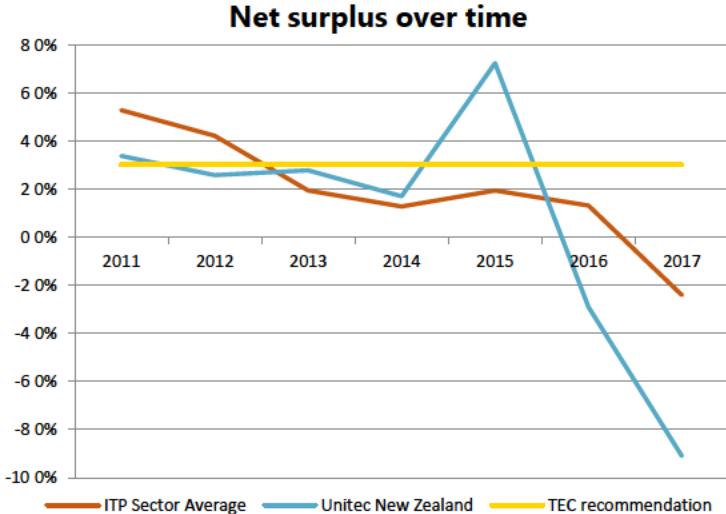
Recent delivery data and demographics

	2015	2016	2017
All EFTS	9,968	9,100	8,442
All learners	19,307	17,701	17,018
% Māori learners	10.6%	11.0%	11.3%
% Pasifika learners	12.7%	12.3%	12.7%
% learners 25 and over	51.5%	55.5%	58.0%
International full-fee delivery:			
EFTS	2,177	2,045	1,989
As % of all EFTS	21.8%	22.5%	23.6%

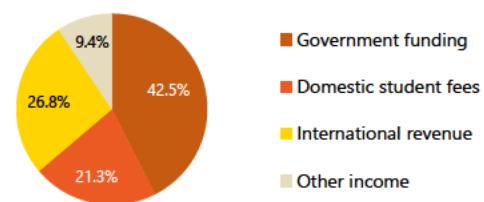
Financial commentary: Section 9(2)(g)(i) and 9(2)(ba)(i)

Additional monitoring is in place as a Debt has been paid off in 2018.

	2015 audited (\$000)	2016 audited (\$000)	2017 audited (\$000)	2016-2017 change
Total Income	154,317	141,000	130,356	↓
Total Government Funding	69,342	62,259	55,500	↓
Total International Income	33,308	34,111	34,992	↑
Total Domestic Fees and Charges	35,099	31,232	27,881	↓
Net surplus before unusual items	11,169	-4,079	-12,759	↓
Net surplus (before unusual items) ratio	7.2%	-2.9%	(9.8%)	↓
Net surplus after unusual items	3,038	-24,400	-30,739	↓
Net surplus (after unusual items) ratio	2.0%	-17.3%	(23.6%)	↓
Total Liquid assets	14,582	1,941	2,448	↓
Total Debt	3,079	43,398	110,554	↑



Funding source for 2017



Educational Performance (Cohort EPIs)



Unitec – Māori and Pasifika EPI rates benchmarked against non-Māori/non-Pasifika, 2017

Non-Māori and non-Pasifika	Māori	Pasifika									
83.1%	70.2%	68.0%	60.6%	47.2%	52.0%	30.3%	39.0%	48.2%	74.7%	58.9%	59.1%

ITP sector – Māori and Pasifika EPI rates benchmarked against non-Māori/non-Pasifika, 2017

Non-Māori and non-Pasifika	Māori	Pasifika									
84.5%	72.2%	72.2%	54.4%	49.7%	51.3%	32.6%	37.0%	36.9%	63.8%	53.9%	56.8%

Appendix 2: Biographies

Merran Davis, Interim Chief Executive, Executive Dean – Academic



Merran Davis was appointed Interim Chief Executive of Unitec from June 13, 2018, succeeding Alastair Carruthers CNZM. She remains Executive Dean – Academic and Chair of the Academic Board.

As Executive Dean – Academic Merran has responsibility for the Health & Community and Environmental Animal Sciences Networks, Construction & Infrastructure and Engineering Networks, High Technology and Business & Enterprise Networks, Bridgepoint and Te Miro Networks, Ako Ahimura, The Pacific Centre, Te Waka Urungi, Te Puna Ako, Academic Service Centre and the Library. She is also Chair of the Academic Board.

Merran joined Unitec in April 2017 and has a diverse academic and industry background. As the inaugural Executive Dean at Wintec for seven years she led major change in the ITP sector. As well as executive roles in the tertiary sector involving strategy, academic delivery and quality, Merran has worked as a teacher and physiotherapist, lectured and researched in innovation and entrepreneurship, undertaken doctoral study in strategic management and leadership, and also has experience in commercialising technology and growing small businesses.

Most recently in her own Consultancy business she worked in an advisory role with Callaghan Innovation, and managed complex capability development and stakeholder collaboration projects for organisations such as Education New Zealand, Waikato Innovation Park and Canterbury Development Corporation. Governance experience includes community, start-ups, private and public sector organisations.

Merran is passionate about lifelong learning in all forms and her formal qualifications include a Bachelor of Arts, Diploma of Teaching, Diploma of Physiotherapy, Masters of Business Administration (with Distinction), Graduate Certificate in Research Methods and Postgraduate Certificate in Business Research. She has also undertaken doctoral study in the areas of strategic management and leadership.

Murray Strong, Commissioner



Murray Strong is an independent Chair and professional director, and a Chartered member of the Institute of Directors of New Zealand.

He holds governance and advisory roles in both the public and private sector including the New Zealand Qualifications Authority, Canterbury Earthquake Recovery Authority, the Ministry of Education and the TSB Trust and is actively involved in the Christchurch rebuild. Murray has held a variety of Crown appointed senior roles over the last 15 years, including Crown Commissioner, and has worked in governance and senior management roles across the education, aviation, professional services, tourism, and sport sectors.

Murray has a long-term involvement with the TEC and the ITP sector and is the Crown Manager for Tai Poutini Polytechnic.

Appendix 3: Unitec's SAC and YG funding compared to delivery in 2017

Note: Not all identified under-delivery is subject to recovery, as a recovery threshold applies for some funds.

Edumis	Provider Name	Fund	Values		
			Total 2017 Funding	\$ Delivered	(Under)/Over Delivered Total
6004	Unitec	Student Achievement Component Levels 1 and 2 (Non-competitive)	\$493,000	\$499,386	\$6,386
		Student Achievement Component Levels 3 and above	\$62,795,550	\$56,067,907	(\$6,727,643)
		Youth Guarantee	\$1,121,300	\$395,747	(\$725,553)
		Youth Guarantee (Dual Pathway)	\$263,959	\$134,993	(\$128,966)
			\$64,673,809	\$57,098,033	(\$7,575,776)

Appendix 4: Unitec's funding for 2018

The table below shows Unitec's initial 2018 funding allocation, issued in December 2017. The table on the following page shows changes in funding as a result of in-year delivery analysis in June 2018.

Unitec funding 2018, Initial Allocation

On-plan Funds <i>Funding Period: 1 January 2018 - 31 December 2018</i>	2018 Funding (ex GST)
Adult and Community Education (TEIs) Fund	\$563,727.00
Funding rate for TEIs: \$4,444.44 per EFTS	
Number of EFTS (2018): 126	
Equity Fund Total	\$553,751.00
Amount of funding for Māori students:	\$172,998.05
Amount of funding for Pasifika student:	\$207,460.78
Amount of funding for students with disabilities:	\$173,292.54
Performance-Based Research Fund Total	\$3,114,281.69
Quality Evaluation:	\$2,140,838.35
<i>Percentage allocated from this component (2018): 1.2357%</i>	
Research Degree Completions:	\$878,795.57
<i>Percentage allocated from this component (2018): 1.1159%</i>	
External Research Income:	\$94,647.77
<i>Percentage allocated from this component (2018): 0.1502%</i>	
Specialised English for Speakers of Other Languages – Intensive Literacy and Numeracy, ESOL Fund	\$401,250.00
Funding rate: \$18.75 per hour	
Number of approved hours (2018): 21,400	
Specialised English for Speakers of Other Languages– Intensive Literacy and Numeracy, Refugee English Fund	\$541,368.35
Tuition fee is paid at a dollar per EFTS rate for provision	
Pastoral care is paid at \$400.00 per learner place	
Number of approved places (2018): 182	
Student Achievement Component – Qualifications at Levels 1 and 2 of the NZQF (Non-competitive Allocation) Fund	\$644,000.00
Estimated number of EFTS (2018): 68	
Student Achievement Component – Qualifications at Levels 1 and 2 of the NZQF (Non-competitive Allocation) Fund – Special supplementary grant for special education	\$74,060.00
Student Achievement Component – Provision at Level 3 and above on the NZQF Fund	\$57,799,418.00
Estimated number of EFTS (2018): 5,991	
Youth Guarantee – Youth Guarantee Provision Fund	\$408,550.00
Estimated number of EFTS (2018): 35	
Total On-plan Funding	\$64,100,406.04

Unitec funding 2018, Revised Allocation (June 2018)

The table below shows reductions in funding as a result of in-year delivery analysis (projected under-delivery) in June 2018. The total in-year reduction in funding for Unitec is \$4,722,145. Some additional, minor reductions in smaller funds are pending.

On-plan Funds <i>Funding Period: 1 January 2018 - 31 December 2018</i>	2018 Allocated Funding <i>(ex GST)</i>	2018 Allocation with reduction applied <i>(ex GST)</i>
Student Achievement Component – Qualifications at Levels 1 and 2 of the NZQF (Non-competitive Allocation) Fund	\$644,000.00	\$522,467.00
Student Achievement Component – Provision at Levels 3 and above on the NZQF Fund	\$57,799,418.00	\$53,356,651.00
Youth Guarantee – Youth Guarantee Provision Fund	\$408,550.00	\$250,705.00

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