

## Tertiary Education Report: Whitireia/WelTec Commissioner Consultation

<b>Date:</b>	12 September 2018	<b>TEC priority:</b>	High
<b>Security level:</b>	In Confidence	<b>Report no:</b>	B/18/00627
		<b>Minister's office No:</b>	

ACTION SOUGHT		
	Action sought	Deadline
<b>Hon Chris Hipkins</b> Minister of Education	<p><b>note</b> the feedback received regarding your proposal to dissolve the combined Council of Whitireia Community Polytechnic and Wellington Institute of Technology and appoint a Commissioner.</p> <p><b>agree</b> to notify the combined Council of your preliminary decision to dissolve the Council of Whitireia Community Polytechnic and Wellington Institute of Technology and appoint Mr Neil Barns as Commissioner under section 195D(1) of the Education Act 1989.</p> <p><b>sign</b> the attached notice to the combined Council notifying them of your decision.</p>	As soon as practical
<b>Enclosure:</b> Yes	<b>Round Robin:</b> Yes	

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

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 See Minister's Notes  Withdrawn

**Comments:**

## Recommendations

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**Hon Chris Hipkins**, Minister of Education

*It is recommended that you:*

1. **note** the feedback received regarding your proposal to dissolve the combined Council of Whitireia Community Polytechnic and Wellington Institute of Technology and appoint a Commissioner.
2. **agree** to notify the combined Council of your preliminary decision to dissolve the Council of Whitireia Community Polytechnic and Wellington Institute of Technology and appoint Mr Neil Barns as Commissioner under section 195D(1) of the Education Act 1989.

**AGREED / NOT AGREED**

3. **sign** the attached notice to the combined Council notifying them of your decision.
4. **agree** that the Tertiary Education Commission proactively release this briefing once decisions on dissolving the combined Council have been made with personal details about submitters withheld to protect their privacy.



**Tim Fowler**

Chief Executive  
Tertiary Education Commission

12 September 2018

**Hon Chris Hipkins**

Minister of Education

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## Purpose

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1. The purpose of this briefing is to summarise the feedback received by the Tertiary Education Commission (TEC) on your proposal to dissolve the combined Council of Whitireia Community Polytechnic (Whitireia) and Wellington Institute of Technology (WelTec) and appoint a Commissioner.

## Background

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2. In August 2018, Cabinet agreed to provide a capital injection of \$15 million to Whitireia to meet a cash shortfall in 2018/19 and ensure continuity of provision for learners while rapid work is undertaken to identify and realise options, aligned to the ITP Roadmap 2020 project, for a viable model of high quality vocational education and training that meets community needs (SWC-18-MIN-0105 refers).
3. We briefed you in August 2018 (B/18/00508 refers) outlining the serious financial issues facing Whitireia and WelTec and the options available to you for statutory intervention. On 23 August 2018, you advised the combined Council of the possible need to dissolve the combined Council and appoint a Commissioner, and sought submissions from the combined Council and interested parties by 5pm on 5 September 2018 on the proposal. The TEC undertook this initial consultation process on your behalf.

## Summary of feedback from key stakeholders

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4. The TEC received nine submissions on your proposal to dissolve the combined Council of Whitireia and WelTec and appoint a Commissioner. The current combined Council is not supportive, and we have provided an in-depth summary of their feedback below. A full list of submitters is attached as Appendix 1, with the key comments summarised below.

### The Tertiary Education Union is supportive

5. The Tertiary Education Union (TEU) is supportive, noting that its members have concerns about the effectiveness of the current Council. They consider that, given the financial concerns facing Whitireia and “*a series of poor decisions made by its Council*” the appointment of a Commissioner is “*both prudent and warranted*”. The TEU also notes concerns that the Council was too focused on business and managerial outcomes at the expense of educational outcomes and quality research, and that the consolidation of marketing resources for the WelTec, Whitireia, Te Auaha and Auckland campuses limits their ability to attract domestic enrolments.
6. The TEU emphasises the importance of properly engaging with staff and students and having a clear strategic vision for WelTec and Whitireia, and suggests a number of options to improve WelTec's and Whitireia's positions.

### Iwi leaders are neutral but understand your position and see significant opportunities for improvement of both institutions

7. Representatives of the TEC met with the Chairs of Ngāti Toa, Te Atiawa and Taranaki Whānui ki te Upoko o te Ika (the wider collective of iwi who are now mana whenua in Wellington) to discuss your proposal. Leaders of the major land holding Trusts and Treaty Settlement entities were also present. The iwi leaders remained neutral on the proposal to dissolve the Council and appoint a Commissioner, but acknowledged why you were considering it given the financial position of the institutions.

8. The iwi were united in the view that regardless of the outcome of your consultation, significant changes are needed across Whitireia and WelTec. They view this as an opportunity for iwi to reset their long-term relationship with both institutions and they are determined to use this “crisis” to ensure they have a genuine voice at the table. The iwi view is that they have been only involved in the institutions as a consulted party, whereas they believe they need to be a more direct participant and help to drive the future strategy and direction of the institutions given the importance of the institutions in serving Māori, both as learners and employers.
9. Iwi noted that they had had difficulty in getting a voice on the combined Council, and Ngāti Toa in particular noted that Māori-focused positions at Whitireia had remained unfilled. Both iwi felt strongly about the difficulty of seeing an institution bearing the gifted name Whitireia being spoken of negatively, particularly given their lack of ability to influence the institution.
10. The iwi agreed that if a Commissioner were to be appointed, it would be essential that the advisory committee include iwi representatives to begin to give effect to this change. They are willing to nominate suitable candidates for consideration by you and any Commissioner that may be appointed.
11. Our discussions also touched on matters relevant to the ITP Roadmap 2020 project, the TEC’s Ōritetanga Learner Success work, the Ministry of Education’s Vocational Education and Training (VET) review, and other system issues. The TEC will continue to engage with this group on these matters.

### **Local communities have mixed views but want to ensure that a Commissioner will have strong relationships with stakeholders**

12. Porirua City Council and Hutt City Council are relatively neutral while a joint submission from the Wellington Chamber of Commerce, Business Central, and ExportNZ Central (a division of BusinessNZ) questions whether it is appropriate to hold the Council totally responsible for the current situation if the funding model is flawed.
13. Porirua City Council emphasises the importance of Whitireia to Porirua. It is concerned that representation of local interests on the current Council is inadequate, and suggests that if a Commissioner is appointed, there needs to be a formal mechanism in place to ensure ongoing consideration of local interests.
14. Hutt City Council notes that it can understand the Government’s desire for more oversight. However, Hutt City Council and the Wellington Chamber of Commerce, Business Central, and ExportNZ Central submission note that they have good relationships or confidence in the Council, and emphasise the importance of those relationships. They each suggest some continuity if a Commissioner is appointed by including some existing Council members on the advisory committee.
15. Le Cordon Bleu New Zealand Institute Limited Partnership (LCBNZILP), which is a joint venture between Le Cordon Bleu International, Le Cordon Bleu Australia and WelTec Enterprises (the commercial arm of WelTec) also made a submission. The key reason for this was because LCBNZILP requires a Board of Directors with representation from both partners. Currently, this includes two representatives from the combined Council – Greg Campbell and Dr Deborah Hume. LCBNZILP’s submission was neutral but stressed the importance of speed in making a decision in order to provide clarity regarding the future for their governance structure, to ensure business continuity is maintained, and so that decisions can continue to be made in a timely manner in the best interests of the school.

### **Other feedback was not relevant**

16. We also received comment from a former staff member and a student. However, neither of their comments were directly related to the proposal.

## Summary of feedback from the combined Council

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17. The combined Council provided a submission advising that they do not support your proposal. They do support closer engagement with the TEC and the involvement of an Independent Financial Advisor (IFA).
18. The combined Council's full submission is attached as Appendix 2. However, we have summarised the key issues raised by the Council below. Overall, we disagree with a number of the statements made by the Council in their submission. Following consultation with the IFA, we have provided commentary on some of these issues below.

### The Te Auaha development

19. The Council state that they disagree with the consultation document and related IFA opinion which highlight the decision to fund the Te Auaha development with cash as an issue with governance decision-making. The Council note that a number of options were considered, and the decision to proceed with the development was *"based on reasonable and independently informed analysis and consistent with previous practice and known information."*
20. The IFA did not comment directly on the decision to proceed or otherwise with Te Auaha, but that the Council has *"placed the institution into a difficult cash position through the use of working capital to fund the Te Auaha fit-out"*. While the TEC acknowledges that a range of options were considered for the Te Auaha development, the IFA has advised that in the PwC advice provided to the institutions in 2013, funding from their own resources was given a low rating, whilst obtaining appropriate bank funding or leasing were considered better options.
21. Furthermore, additional advice from PwC on the 2013 business case for Te Auaha stated that the commitments made mean the institutions would have reduced resilience to withstand material shocks and would adversely affect the risk profile of both institutions.
22. In the TEC's view, the consideration of alternative options and reliance on professional advice does not detract from the Council's accountability for the final decision to fund the project from cash and the associated risks of this decision – in particular, the increased risk of cash flow issues and an increased reliance on continued strong growth in international enrolments. The TEC or the IFA do not consider that the Council's response refutes the IFA's advice on this matter.

### Reliance on international students and declining student enrolments

23. The Council notes that their business model was highly dependent on recruiting international students but this was supported by government policies and was highly successful for many years, until enrolment numbers began to decline in 2015. The Council also note that at the same time there was a slow but steady decline in enrolments and revenue from domestic students.
24. The TEU, Porirua City Council, Hutt City Council, and the joint submission from the Wellington Chamber of Commerce, Business Central and ExportNZ Central also all point to the current funding model, combined with a change in government policy towards international students, as having contributed to the financial difficulties the Council is facing. In particular, submitters are concerned that the current funding model has made institutions over-reliant on enrolments by international students, and many promote redesigning it.
25. There is no doubt that the operating environment for ITPs in recent years has been challenging and that there are some system wide issues that need addressing – hence the ITP Roadmap 2020 project. However, in the TEC's view, the need for financial support from the Crown reflects that the Council has not managed these challenges sufficiently, nor as well as other ITPs. As above, we consider that the strong reliance on international enrolments and the decision to fund the Te Auaha development through working capital significantly increased the risks to Whitireia,

and that the Council did not respond swiftly enough to the deteriorating financial situation when it became apparent.

## Change initiatives

26. In its submission, the Council points to *“a significant and strategic organisational change programme which both responds to the current financial challenges and the need to strengthen relevance for the needs of the employers and learners in the 21<sup>st</sup> century.”*
27. We acknowledge that the Council is currently considering major options for change across both Whitireia and WelTec, and that substantial effort is being made to achieve savings where possible. However, our understanding is that the current significant change options being explored only began to be seriously considered after Whitireia’s imminent cash shortfall came to light.
28. As per the IFA’s key findings, Whitireia had previously initiated a change process in 2017 following the fall in enrolments, but this was a series of individual change projects that appeared to *“lack an overall strategic focus on what is required to make Whitireia sustainable and viable for the future.”* We understand that the private consultancy firm appointed to implement this change process had its engagement terminated early.
29. The Council has recently engaged PwC to assist with the *“significant and strategic operational change programme”* to which the Council’s response refers. We are working closely with Whitireia and WelTec to support this process but it remains in its early stages. It does not alter our view, nor that of the IFA, that the Council has not acted swiftly enough in terms of reducing cost or resourcing the current change process to address the long-term financial difficulties that Whitireia and WelTec have been facing.
30. The TEC does recognise and appreciate the Council’s engagement in the ITP Roadmap 2020 project, and their current consideration of options for significant change in line with potential outcomes of the Roadmap work.

## Council’s focus on financial issues

31. The Council disagrees with the comment from the IFA (included in the consultation document) that *“more focus should have been given to cash flow”*. They note that the Council and its Finance Committee *“reviewed cash flow modelling and projections at every meeting and TEC were kept briefed on developments”*.
32. We acknowledge that the Council has been focused on Whitireia’s financial difficulties. However, as per the IFA’s advice – our concern stems from the fact that the Council being aware since at least early 2017 of Whitireia’s deteriorating financial performance and that its cash position would become negative in 2018. Despite this, they have not acted swiftly enough and have been unable to guide Whitireia out of difficulty to the point that they now need a capital injection from the Crown to continue operating.
33. Furthermore, although cash flow appears to have been discussed by the Council, the IFA has advised that this was not at the detail, nor given the focus, that would have been expected given Whitireia’s financial situation. For example, the IFA has noted that he has not seen evidence of the Council considering the options available to them to deal with the potential to run out of funding, other than from utilising more bank debt or from asset sales. In addition, he notes that he has not seen evidence that the Council considered the level of cash burn that would require them to alert the TEC for the need to receive Crown funding until June 2018.
34. In our view, the fact that the Council notes it has been focused on these issues for some time but the institutions remain in financial difficulty and Whitireia requires Crown support, does not provide sufficient confidence that they are best placed to utilise the \$15 million capital injection from the Crown to turn the institutions around.

## The Council's relationships

35. In its submission, the Council stated that *“The Council’s membership provides a good understanding of and connectivity with the diverse vocational needs of the wider Wellington region and has a close relationship with the leaders of industries that we serve.”*
36. This is recognised by the TEC, and was supported by feedback received from the local Councils and a joint submission from the Wellington Chamber of Commerce, Business Central and ExportNZ Central. As noted above, iwi noted they had had difficulty in getting a voice on the combined Council. Feedback from the Council and TEC’s engagement with the Council also supports the Council’s view that it is *“cohesive and unified”*.

## Educational performance

37. The Council noted in its submission that *“Whitireia has consistently delivered exceptional educational performance. It is a NZQA category 1 provider and course completion EPIs are consistently top quartile (if not top) when benchmarked against other ITPs. The consultation document and related opinion from the Independent Financial Adviser (IFA) is incorrect with reference to educational performance. An evidential approach would conclude the opposite.”*
38. The IFA has not made any comments around educational performance in advice to the TEC and comments on educational performance were not included in the consultation document. It is unclear what the Council is referring to.

## Opportunity to comment

39. The Council noted that *“there was no opportunity to comment, correct or contradict any statements or facts in the consultation document, Cabinet paper, or the PwC advice which appear to have led to the Minister’s proposal. There are material issues of fact and/or opinion in the PwC advice which are incorrect or not supported by evidence.”*
40. The TEC and the IFA strongly dispute that there was no opportunity to comment on the accuracy of the PwC advice (i.e. the IFA’s advice). A draft of the IFA’s advice was provided to the Chief Executive and Whitireia’s Director of Finance and Operations, who confirmed in writing that the information was accurate. The Chair was copied in on this response.
41. We acknowledge that the Council was not given an opportunity to comment on the Cabinet paper. This is in line with standard confidentiality conventions surrounding advice to Cabinet. However, the Cabinet paper was informed by the IFA’s advice, and Whitireia had confirmed the information was accurate. Furthermore, the current consultation process has given the Council the opportunity to comment on the consultation document and the IFA’s key findings.
42. The Council has noted concerns around the accuracy of some information and conclusions in the IFA advice, and has repeated many of these concerns in its submission. We believe the key issues have been addressed in this briefing and in other correspondence with the Chair of the combined Council. However, we will seek to engage further with the Chair to ensure there are no outstanding issues. The IFA has reviewed the Council’s feedback and does not consider any points raised in his advice need to be amended.

## Next steps

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43. Although the combined Council is opposed to your proposal, we do not consider that their response sufficiently allays your concerns or provides a robust argument for why you should not proceed with your proposal. We note that while we received minimal feedback from other parties, these submissions were largely either supportive or neutral and acknowledged why you might consider such an intervention. These submissions also offered some useful suggestions for representation on an advisory committee should a Commissioner be appointed.

44. We therefore recommend that you proceed with your proposal. If you agree, you will need to notify the combined Council of your preliminary decision to dissolve the combined Council and appoint Mr Neil Barns as Commissioner. The combined Council will then have a further opportunity to respond to your decision.
45. To do so, please sign the attached notice to the combined Council advising them of your decision. You are required to give them a 21 day timeframe to consider the formal notice of your preliminary decision.
46. We will brief you again following receipt of the combined Council's response, and provide advice to assist you in making a final decision.

## Appendix One – Summary of Submissions

	Name of submitter	Stakeholder type	Do they support the proposal?	Summary or excerpt of comments related to the appointment of a commissioner (as necessary)
1	Greg Campbell	Chair – Weltec and Whitireia	No	In depth summary provided above
2	The Tertiary Education Union	TEU	Yes	Summarised above
3	Ray Wallace and Tony Stallinger	Mayor and Chief Executive – Hutt City Council	Neutral	<p>“We understand the government’s interest in having a greater governance role given the capital injection that is planned. However, we have been generally impressed with changes being made at Weltec under the current Council’s leadership....so if a commissioner is to be appointed, we recommend that the expertise within the current Council is not lost. We would prefer to see either:</p> <ul style="list-style-type: none"> <li>• A commissioner appointed as chair of something similar to the current Council; or</li> <li>• A reasonable number of current Council members retained on an advisory panel to the appointed commissioner.”</li> </ul>
4	Business Central, Wellington Chamber of Commerce, and ExportNZ Central		No	<p>“At this point we must declare a potential conflict of interest as Vaughan Renner is the Chair of Business Central Incorporated, as well as a Council member of Whitireia and Weltec and Chris Gosling is a Board member of Business Central Incorporated as well as Chief Executive of Whitireia/Weltec. Neither of these parties has requested of our organisation that we make a submission.....</p> <p>....As a business membership organisation, we understand the need for good governance and accountability. However, if the funding model for tertiary educators is flawed, is it appropriate to hold the Council totally responsible for the outcome? We would also suggest that if you decide to terminate the Council and appoint a statutory manager you should ensure that institutional Council knowledge is not lost and that a selection of Council members be retained to advise and assist the statutory manager.”</p>
5	Wendy Walker, Chief Executive	Porirua City Council	Neutral	<p>“Porirua City Council does not have an opinion about the effectiveness of the Whitireia/WelTec Council but we do feel strongly about the importance of local voice in the way Whitireia’s future is decided.”</p>

6	Jenny Jenkins	Le Cordon Bleu NZ Institute	Neutral	Summarised above.
7	s9(2)(a)	Former Staff	N/A	Comments did not refer specifically to the proposal.
8	s9(2)(a)	Student	N/A	Comments did not refer specifically to the proposal.
9	Chairs of Ngāti Toa, Te Atiawa and Taranaki Whānui ki te Upoko o te Ika Leaders of the major land holding Trusts and Treaty Settlement entities were also present		Neutral	Summarised above.

**Appendix 2: Submission of the combined Council of Wellington  
institute of Technology and Whitireia Community  
Polytechnic**

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**Appendix 3: Letter and notice of preliminary decision**

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