



Ref: OI-19-00024

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7 March 2019

Section 9(2)(a)

[Redacted]

Dear Section 9(2)(a)

Thank you for your request, received on 9 January 2019, for the following information under the Official Information Act 1982 (the Act):

*the number of students at Taratahi that had already started courses prior to liquidation and who have been offered other opportunities to study elsewhere.*

*I am also interested in all advice prepared or received, including any independent advice, in relation to Taratahi in the last six months. I am particularly interested in all advice provided to Ministers by TEC in the last six months.*

The TEC has interpreted your request to include only formal advice prepared or received by the TEC.

Taratahi Agricultural Training Centre (Taratahi) is a private training establishment that delivered agricultural training in locations throughout New Zealand. Taratahi has struggled financially over recent years and has amassed significant debt. In 2018, Taratahi enrolled 50 per cent fewer students than it expected, meaning it is required to pay back approximately \$6.5 million in funding to the Tertiary Education Commission (TEC). This is in addition to the \$4 million that it already owed to the TEC, and a significant amount of debt owed to its bank. The TEC did commission PricewaterhouseCoopers to carry out a financial appraisal of Taratahi as a whole in late 2018. The TEC has published a copies of the financial appraisal on its website at: <https://www.tec.govt.nz/about-us/information-releases/>.

There were around 500 current Taratahi students who have yet to complete their qualifications and are due to finish in 2019. Our top priority is ensuring these students get the information they need to make decisions about ongoing studies. We have provided information on our website about alternative study options so these learners can enrol at another provider to complete their qualifications.

The enrolment relationship is between an individual student and a provider. It is up to the student to decide whether they want to enrol at another provider and complete their qualification. We will be monitoring the uptake of enrolments at alternative providers and a full analysis of this will be available in May 2019.

I am also releasing the information referenced in the attached table. In compliance with the Official Information Act, I am withholding some information in the released documents. Redactions are clearly marked in the documents, with reasons for the redactions provided.



You have the right to seek an investigation and review by the Ombudsman of this decision. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or freephone 0800 802 602.

The TEC also intends to publish its response to this OIA request on our website with your personal information withheld. Consistent with the Act, we are publishing OIA responses in the interests of transparency and accountability, and improve access to official information.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Tim Fowler', with a stylized flourish at the end.

Tim Fowler  
Chief Executive  
Tertiary Education Commission

## Information released under the Official Information Act (1982)

Item No	Date	Document Type	Title	Reference/ Notes	Release
1	14 September 2018	Briefing	Advice to Ministers on the Taratahi Agricultural Training Centre	B-18-00658	Release with information redacted. Please note that there was a minor factual error in paragraph 16 of this paper. The paper incorrectly states that Taratahi had its 2019 funding approved.
2	16 October 2018	Aide Memoire	Update on Taratahi Agricultural Training Centre	AM/18/00735	Release with information redacted
3	16 November 2018	Briefing	Future options for Taratahi Agricultural Training Centre	B-18-00814	Release with information redacted
4	22 November 2018	Aide Memoire	Taratahi Agricultural Training Centre	AM-18-00864	Release with information redacted
5	29 November 2018	Aide Memoire	Taratahi Agricultural Training Centre	AM-18-00928	Release with information redacted
6	Various	CE Report	Excerpt from CEs report to the Board	N/A	Release with information redacted
7	3 September 2018	Board Report	Taratahi Agricultural Training Centre – Proposed Short and Long Term Approach to Investment	N/A	Release with information redacted
8	5 November 2018	Board Report	Update on Taratahi Agricultural Training Centre	N/A	Release with information redacted
9	1 October 2018	Board Report	Update on Taratahi Agricultural Training Centre	N/A	Release with information redacted



14 September 2018

Document Number: B18-0750

## Advice to Ministers on the Taratahi Agricultural Training Centre

### Purpose:

Provide Ministers with information on options to address Taratahi's financial position.

Minister	Action Required:	Minister's Deadline
Minister of Agriculture  Minister of Education	Agree to discuss funding options with MPI and TEC officials.	As soon as practicable

### Contact for telephone discussion (if required)

	Name	Position	Work	Mobile
Responsible Manager	Holly Foran	Manager, Animal Sector Policy, MPI	Section 9(2)(a)	
Principal Author	Section 9(2)(a)	Senior Policy Analyst, Animal Sector Policy, MPI	Section 9(2)(a)	
Responsible Manager	Dean Winter	Manager, Monitoring and Crown Ownership, TEC	Section 9(2)(a)	
Principal Author	Section 9(2)(a)	Principal Advisor, Monitoring and Crown Ownership, TEC	Section 9(2)(a)	

## Key Messages

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1. Taratahi is the largest private training enterprise in the primary sector (with 723 EFTS) and a key learning provider for the primary industries.
2. Taratahi is likely to end this year with a debt from the Tertiary Education Commission (TEC) of approximately \$6.1 million as a result of lower than expected student enrolments in 2018 (i.e. \$7.8 million over funding less \$1.7 million withheld payments). This debt is in addition to Taratahi's historic debt to the TEC of \$3.9 million.
3. **Section 9(2)(ba)(i)**
4. Taratahi is operating to business and strategic plans that project a return to profit in 2021. This is dependent on Taratahi meeting its projected student numbers for 2019 in a declining student market.
5. The immediate problem for Taratahi is the 2018 debt owed to the TEC. TEC has already provided financial support to Taratahi in the short term, via its discretion about repaying debt. It has now requested Taratahi to indicate how it intends to repay the TEC debt **Section 9(2)(ba)(i)**. Depending on the response, TEC may then need to reconsider ongoing funding decisions and may cease any further funding. Cessation of TEC payments would be likely to result in Taratahi ceasing operations immediately.
6. Given Taratahi's importance to the provision of agricultural training, MPI and TEC recommend that Ministers consider other sources of funding in the immediate term to address the 2018 TEC debt.
7. If the TEC can be given assurance in the next two weeks that the 2018 debt can be addressed, either via Taratahi being able to undertake some form of refinancing, or via funding from another source, it can continue payments to Taratahi for the rest of 2018, and for 2019.
8. Addressing this debt will ensure that Taratahi can continue operating while further work is undertaken to ensure it has a sound financial basis to continue providing quality education or alternative provision can be put in place.
9. Any Crown funding options are likely to require the agreement of the Minister of Finance and Cabinet.
10. The Ministry for Primary Industries (MPI) and the TEC would like to meet jointly with Ministers to discuss options to address Taratahi's situation in the immediate and longer term.

## Recommendations

11. The MPI and the TEC recommend that you:

a) **Note** that Taratahi is likely to end this year with a debt to the Tertiary Education Commission (TEC) of approximately \$6.1 million as a result of lower than expected student enrolments (in addition to a \$3.9 million historic debt) and is highly unlikely to be in a position to pay this debt back.

**Noted**

b) **Note** that TEC requires assurance in the next two weeks on whether the 2018 debt can be addressed, or it will be required to reconsider its funding decisions and may cease any further funding.

**Noted**

c) **Note** that without further TEC funding, Taratahi would need to cease operations immediately.

**Noted**

d) **Note** that Taratahi is a key provider of agricultural education across New Zealand, and that it would be difficult for any single provider to replace this provision in the near term.

**Noted**

e) **Note** that MPI and TEC recommend that Ministers consider other sources of funding in the immediate term to ensure that Taratahi can continue operating, while further work is undertaken to ensure it has a sound financial basis to continue providing quality education or alternative provision can be put in place.

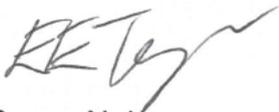
**Noted**

f) **Note** that any Crown funding options are likely to require the agreement of the Minister of Finance and Cabinet.

**Noted**

g) **Agree** to discuss funding options with MPI and TEC officials.

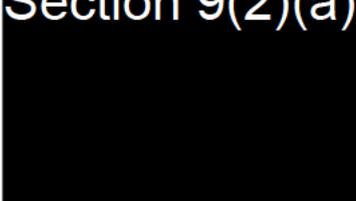
**Agreed / Not Agreed**

*1P*  
  
Penny Nelson  
Deputy Director-General  
Policy and Trade  
for Director-General

Damien O'Connor  
Minister of Agriculture

/ / 2018

## Section 9(2)(a)



Manager, Monitoring and Crown Ownership  
Tertiary Education Commission  
14 September 2018

Hon Chris Hipkins  
Minister of Education  
/ / 2018

## Background

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### *Overfunding issue – 2018*

12. Taratahi is likely to end this year with a debt to the Tertiary Education Commission (TEC) of approximately \$6.1 million as a result of lower than expected student enrolments (i.e. \$7.8 million over funding less \$1.7 million withheld payments). This debt is in addition to the \$3.9 million debt (still owing) resulting from a 2014 investigation and poses a significant risk to Taratahi's financial position. The 2018 overfunding debt has been increasing, as TEC is still funding Taratahi for the higher number of student enrolments. Taratahi would likely cease operations immediately if funding is reduced mid-year during 2018 due to insufficient cash flow.

### *TEC's normal plan assessment process would decline to fund Taratahi in 2019*

13. The TEC's normal investment plan assessment process would recommend that Taratahi be declined for funding in 2019, given the existence of the 2018 debt and historical debt, declining enrolments and low educational performance in some of its programmes. But the TEC is working with MPI to consider options for potential ongoing support, given Taratahi's unique history and position as a nationwide agricultural educational provider in a key investment area for New Zealand.
14. Taratahi is a vital provider in primary sector education. It has nationwide delivery in the sub-degree provision, especially at levels 3 and 4. Taratahi had 723 EFTS in 2017 in levels 2 to 5). As a comparison, other primary sector educators are much smaller and limited in scope of delivery – e.g. the next largest PTE had less than 225 EFTS in levels 2 and 3. Only Taratahi has national coverage.
15. Taratahi is well regarded by the sector for its residential provision, and has also maintained coverage when other providers (e.g. Agribusiness Training Ltd, Agriculture New Zealand Ltd and Tectra) has ceased in recent years. If Taratahi was no longer offering this provision, it would be difficult for any single provider, or for the education sector, to replace this provision in the near term.

### *TEC funding for 2019 – dependent on Taratahi's ability to repay debt*

16. On 3 September 2018, the TEC Board agreed to fund Taratahi for 2019 to the level of funding requested by Taratahi (approximately \$7.3 million). This funding decision was based on the assumption that Taratahi would be able to manage its TEC debt by rebalancing its balance sheet, putting historical bank debt onto a long term footing and right sizing the organisation to generate positive cash flows.
17. Taratahi had planned for the 2018 TEC debt to be repaid by mid-2019 through asset sales and bank re-financing. The 2015 historical TEC debt of \$3.9 million was proposed to be repaid over the next eight years at \$480,000 per year. Taratahi is operating to business and strategic plans that project a return to profit in 2021.

# Section 9(2)(ba)(i)

## *TEC's next steps*

20. TEC has asked Taratahi how it intends to repay the TEC debt **Section 9(2)(ba)(i)** decision, and is currently awaiting a reply.
21. If Taratahi cannot identify how it will repay the debt, the TEC will need to reconsider its funding decisions and may cease any further funding. A decision to cease funding would likely lead to Taratahi stopping operations immediately.
22. TEC has already funded Taratahi for the student numbers it expects to deliver during 2018. Any further funding in 2018 solely provides financial cash flow support and grows the debt to TEC.

## **Government options for providing support to Taratahi**

23. In the immediate term (i.e. the next two weeks), the Government can consider other sources of Crown funding that would address Taratahi's 2018 debt to the TEC, and allow it to continue operating.
24. If Crown funding is provided, the TEC could then impose specific conditions such as close monthly reporting and monitoring of financial and education outcome targets, requirement to appoint a financial or general management advisor on funding provided to Taratahi for 2019 to ensure that the specified outcomes in Taratahi's plan are being achieved, or will be achieved.
25. In the longer term, further options can be explored, including:
  - a. The Minister of Education could allocate additional funding using Section 321 Grant for special purpose of the Education Act. This funding could be used to fund the additional pastoral care required for Taratahi's residential delivery. This mechanism requires approval from the Minister of Education, who would need to be satisfied that payment under this section is in the national interest. This funding is not available for repayment of the 2018 debt.
  - b. Whether Taratahi is eligible for funding under the Provincial Growth Fund.

- c. Taratahi can be considered as part of the Ministry of Education's Institutes of Technology and Polytechnics Roadmap 2020 project.
- d. Sale or contracted management of Taratahi.

### Limited statutory powers under the Taratahi Act

26. The Minister of Agriculture has limited statutory powers under the Taratahi Agricultural Training Centre (Wairarapa) Act 1969. These do not allow the Minister of Agriculture to intervene directly in Taratahi's operations, or management decisions.

27.

## Section 9(2)(f)(iv)

28. The Act places a number of constraints on the Taratahi Board, and provides the following powers for the Minister:

- The Board must administer the property in accordance with the Preamble. The Preamble limits the use of the training centre to demonstration farming, farm education and farm research and development purposes.
- The prior consent of the Minister is required if the Board proposes to:
  - Acquire real property
  - incur capital expenditure exceeding \$100,000 plus GST on any one item of new buildings or equipment or any extension of existing capital works
  - alter the mode of investment of any of its funds
  - make any major policy change with respect to the use of the training centre
  - sell, exchange, or lease the training centre or any part of it
  - borrow money for any of the purposes of the Board
  - mortgage or charge any real or personal property owned by the Board for the purpose of securing repayment of money borrowed.
- The Board is required to provide to the Minister annual operations report, financial statements and audit reports.

29. Taratahi's acquisition of Telford Campus in 2016 is an example of the limitations on the Minister's statutory powers. Taratahi was able to take decisions on the acquisition of Telford Campus and its associated business risks and benefits without requiring Ministerial consent for the transaction as a whole. However, the transfer of assets from Lincoln University to Taratahi involved a small piece of land, which required Ministerial consent, even though this was not a significant part of the larger acquisition.

## **How does funding compare with residential based programmes**

30. Minister O'Connor has asked for advice on how Taratahi's model and funding levels compare to other industries with higher costs of training.
31. Tertiary education funding rates vary according to industry and sector type, which reflect the underlying costs of delivery. The Funding Mechanisms (also known as 159Ls) for each respective fund are set by the Minister of Education.
32. Taratahi's residential programmes have become uneconomical as:
  - Student numbers decrease which lowers the student to tutor ratio, increasing the delivery cost per student
  - Other costs of delivery include high proportions of fixed costs which will take several years to reduce in line with falling student numbers
  - Removal of higher rates available through previous competitive funding pilots
  - The cross subsidy from farming activities is no longer able to cover the funding shortfall and cannot be guaranteed each year due to fluctuating primary sector returns.
33. Land Based Training, the only other provider that runs successful residential agriculture training, has a different cost structure. In that case, residential costs are funded by independent Farm owners, leaving the provider with the training costs alone.
34. We will provide further advice on how funding compares with other sectors.

## **Next steps**

35. The MPI and the TEC would like to meet with you to discuss the above options. In particular, given the importance of Taratahi as an educational provider to the agricultural sectors, we would like to ensure that Taratahi can continue operating, until further work is undertaken to fully explore how to ensure Taratahi has a sound financial basis to continue providing quality education or alternative provision can be put in place.



## Commercial In-Confidence

### Aide-Memoire: Update on Taratahi Agricultural Training Centre

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<b>To:</b>	Hon Chris Hipkins, Minister of Education
<b>From:</b>	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
<b>Date:</b>	16 October 2018
<b>Reference:</b>	AM/18/00735

#### Purpose

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1. The purpose of this aide memoire is to provide you with an update on Taratahi Agricultural Training Centre (Taratahi) and the actions we are taking to understand and address its financial position.
2. We have consulted with the Ministry for Primary Industries (MPI) and the Ministry of Education (MoE) on this aide memoire.

#### Background on Taratahi

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##### Taratahi is an important provider of vocational land-based training...

3. Taratahi delivers vocational land-based training across New Zealand in the subject areas of farm skills and agriculture, apiculture, and agribusiness management. It owns and leases a number of farms, and also has access to a wide range of private farms, to provide a farm-based learning experience. Its main farm in the Wairarapa was bequeathed to the Crown in 1918 to be used to re-skill returning servicemen following World War One. Taratahi was created through an Act of Parliament in 1919, which vested the gifted farm and other personal property in the Taratahi Trust.
4. Taratahi delivers residential training in the Wairarapa and through its Telford campus in Balclutha, which it acquired from Lincoln University in 2017<sup>1</sup>. Its residential programmes are costly to run but they offer significant pastoral care for their students. Feedback from employers show industry value students who graduate through Taratahi's residential programmes, particularly as the training creates work-ready graduates.

##### ...and it is governed by its own Public Act...

5. The Taratahi Trust was created under the Taratahi Agricultural Training Centre (Wairarapa) Act 1969. It is an incorporated charitable trust under the Charities Act 2005, and a private

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<sup>1</sup> Taratahi acquired the educational business and a range of assets from Lincoln, but leases the Telford farm from the Telford Farm Board for its on-farm training.

training establishment (PTE) for TEC funding purposes. Taratahi is expected to deliver around 620 EFTS in 2018 and is over three times the size of the next largest primary sector vocational education provider.

6. The Trust is governed by a Board of Trustees, appointed by the Minister of Agriculture based on nominations from the Wairarapa branch of Federated Farmers, Wairarapa Agricultural and Pastoral Society, Masterton Agricultural and Pastoral Society, the Minister of Agriculture, the Director-General of MPI, the Primary Industry Training Organisation and the Minister of Education.
7. The Minister of Agriculture has limited statutory powers under the Taratahi Act relating to Board appointments and consent for significant borrowing, acquisition of real property and for capital expenditure. These do not allow the Minister of Agriculture to intervene directly in Taratahi's operations or management decisions.

#### **...but it has struggled financially since a TEC investigation in 2014/15...**

8. In 2014/15, an investigation found that Taratahi had failed to deliver courses it had been funded for and the TEC sought to recover approximately \$7.5 million (excluding GST) of funding. Taratahi was also required to appoint an independent financial advisor, Jeremy Morley from PwC, to assist Taratahi management to identify ways to repay the TEC debt without compromising the ongoing viability of Taratahi. The TEC has worked closely with Taratahi since that time, and Taratahi has made a substantial effort to repay that debt, whilst also continuing its educational delivery. To date, \$3.55 million of funding has been repaid (largely from asset sales) leaving an outstanding balance of \$3.9 million (excluding GST).
9. Taratahi made small operating deficits over 2014 to 2016 before recording a \$2.5 million operating deficit in 2017. An even larger deficit is expected in 2018. The higher deficits in 2017 and 2018 have largely been due to the acquisition of Telford **Section 9(2)(j)** as well as a failure to achieve optimistic enrolment targets. Taratahi's high fixed cost structure has meant that it has struggled to respond quickly to declining student numbers.

#### **...and it has taken on significantly more EFTS funding in recent years**

10. Taratahi delivered around 700 EFTS per annum in 2013 and 2014 and around 400 to 500 EFTS per annum in 2015 and 2016. However, Taratahi was very successful in the SAC 3 and 4 competitive pilot process run in 2016 where it received funding for a significant number of additional EFTS at that level in 2017. In addition, Taratahi picked up additional EFTS funding through other providers ceasing operations (e.g. Agribusiness Training Ltd) and its acquisition of Telford. Overall, Taratahi's funding increased from around \$10 million in 2016 to approximately \$17 million in 2018. A significant part of its forecast financial improvement, including at Telford, was based on achieving strong enrolment growth and delivering to this higher level of funding. This forecast strong enrolment growth has not eventuated.

## **Taratahi's current financial position**

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### **The TEC has been working closely with Taratahi over recent years...**

11. We have worked closely with Taratahi in recent years as it has worked hard to repay the debt to the TEC and to re-develop its business model from a farm that trains people to an educational organisation that also farms. Work has also started on integrating the Telford campus into its main business and making quality improvements and efficiencies across its operations. Taratahi's plans to reshape the business to become a national education provider for the primary sector currently project a return to profitability in 2021.

**...but 2018 has been a particularly difficult year with enrolments significantly below forecast...**

12. Taratahi has faced a number of significant challenges in 2018. In particular, enrolments have been considerably lower than expected and Taratahi is forecast to deliver only 50% of the EFTS it has been funded for in 2018. This would usually result in an in-year funding adjustment of \$7.8 million. However, given its current cash position, if the TEC were to reduce funding during 2018, Taratahi would not be able to meet its operating commitments.
13. Taratahi has currently proposed that the December 2018 TEC payment be withheld (bringing total 2018 funding withheld to \$1.7 million) leaving a debt of \$6.1 million to be carried forward into 2019. Combined with the remaining debt balance of \$3.9 million from the 2014/15 investigation, the total debt owed to the TEC is at least \$10 million.

**...bringing its total debt to \$23 million...**

14. In addition to the debt to the TEC, Taratahi has a significant debt to Westpac. This includes Section 9(2)(ba)(i) and 9(2)(b)(ii) [REDACTED] This brings Taratahi's total debt to around \$23 million.

15. Although Taratahi has a balance sheet of over \$40 million, Section 9(2)(j) and 9(2)(b)(ii) [REDACTED]

16. Section 9(2)(ba)(i) [REDACTED]

17. [REDACTED]

**...while another deficit is projected for 2019...**

18. Taratahi currently predict a \$1.1 million deficit in 2019. This is based on significantly right sizing its business to a lower EFTS volume and TEC funding of approximately \$7.3 million. Contributing to its 2019 financial forecast position is that the SAC 3 and 4 competitive funding rates (which funded its residential and some other provision at higher rates) will cease at the end of 2018, resulting in an estimated \$2.3 million reduction in revenue for 2019. While Taratahi's farming operations are performing well and have been subsidising educational activities, they are not enough to fully offset the projected losses of its educational provision.
19. In addition, Taratahi will also need to retain some funds from any asset sales to undertake some critical capital expenditure of at least \$1 million in 2019.
20. Given the current uncertainty, and the significant debt owed to the TEC, the TEC Board has not yet made any decisions on 2019 funding. In situations such as these, particularly where a PTE is involved, the TEC would usually recommend that Taratahi be declined for funding in 2019. Given the uncertainty around its financial future, the TEC Board has to assess the balance between providing funding in a key investment area for New Zealand against the potential risk of training not being provided and growing the high level of debt already owed to the TEC.

## Financial modelling and debt reduction

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### We have engaged PwC to undertake urgent and critical analysis...

21. The TEC has engaged John Fisk from PwC, and his team, to go into Taratahi to assist with urgent financial modelling and analysis. This has been arranged in agreement with Taratahi. As Taratahi is a PTE, the normal range of Crown interventions available to the TEC are not available. Mr Fisk has considerable experience in business recoveries, and has recently been engaged by the TEC to assist with other serious financial issues faced by Tai Poutini Polytechnic, Unitec, and Whitireia and WelTec.
22. There is an urgent need to understand a number of key issues in more detail. Once we have this information, we will be able to have more informed discussions with the Taratahi Board, and Ministers, around how Taratahi may be able to restructure its balance sheet and right size its operating model to be viable in the future. This information will also be needed before the TEC Board can make decisions on Taratahi's 2019 funding and how it will treat the debt owed to the TEC. The TEC has already funded Taratahi for the student numbers it expects to deliver during 2018, and by continuing to provide funding, it is increasing the size of the debt as well as the risk of non-payment. This is an urgent issue PwC will need to examine so we can establish whether the remaining payments for 2018 can be withheld and what other funding recoveries can be made.
23. PwC's work will be in three phases, to ensure we get the most important information as soon as possible:
  - a. **Phase One: assessment of current state** – this will include a review of Taratahi's assets, their disposal value (rather than book value), and the ability to sell them given the legal framework it operates under. This is important to understand should a wind-down process eventuate and to give confidence to the TEC Board that both the Westpac and TEC's debt is appropriately covered (noting that Westpac is a secured creditor and its debt will be prioritised over the TEC's debt). PwC will also provide an assessment of short-term cash requirements for the remainder of 2018 to ensure there will be no liquidity issues. This will inform our decision on whether the remaining TEC payments for 2018 can be withheld. This phase is due to be completed by 22 October.
  - b. **Phase Two: modelling savings options and asset sales** – this will include an assessment of the cash-saving initiatives and asset sale options available to Taratahi. The key outcome of this work will be to identify if there are any viable options available for moving Taratahi towards a financially sustainable position. This work will also include reviewing Taratahi's financial model and its assumptions, and undertaking sensitivity analysis, including downside scenarios which will reduce revenue or increase costs. This phase is due to be completed by the end of November.
  - c. **Phase Three: significant change options** – this work will assess the options available involving more radical change to Taratahi's delivery model. This could include consolidating sites, exiting non-profitable provision, partnerships with other tertiary education organisations, or sub-contracting. This work will also consider options involving direct Crown support or Crown ownership, should it be needed. PwC will need to work closely with Taratahi and officials from various agencies on this phase as well as incorporate legal advice given the legal framework Taratahi operates under. Officials from the TEC, MPI and MoE have already begun exploring many of these options. There is no current time frame for this work to be completed, and it will be dependent on the findings of the first two phases of work.

**...but there is a range of work Taratahi can be doing themselves**

24. We have been engaging closely with Taratahi and its Board over recent months. They are being co-operative and welcome any assistance but, in our view, they are focussed on looking to the Government for guidance and ongoing support – both financially, and in determining the potential options available.
25. While Taratahi has been working on developing a new integrated farming and educational strategy over the past two years, recent developments indicate that bigger and more drastic change is likely to be required.
26. We believe there are a number of actions Taratahi can take in the short term to reduce its debt level and improve viability while medium and long-term options are assessed. The Board has recently agreed to sell Mangarata farm **Section 9(2)(j) and 9(2)(b)(ii)**  
[REDACTED]  
However, this will also have an impact on revenue as the farm makes a positive contribution to the financial position of Taratahi.
27. While Taratahi has also been implementing cost-savings initiatives over the past year, this work needs to continue with pace and our initial view is that these could be more aggressive. There **Section 9(2)(j)**  
[REDACTED] Further assessment of what other asset sales could be made also needs to be undertaken (in conjunction with PwC).

## **Next steps**

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**We are engaging closely with MPI, MoE and Taratahi on this issue...**

28. We are continuing to engage closely with Taratahi, MPI and MoE on Taratahi's current situation and the options available. A meeting is scheduled between the TEC, MPI, Taratahi management and Taratahi Board members on 17 October.
29. Taratahi are keen that MPI look at reviewing the Taratahi Act, and hopefully the Telford Act, to ensure they are fit-for-purpose. Both have complex trust arrangements and the Taratahi Act places a number of constraints on the Taratahi Board and requires Ministerial consent for some actions (such as certain capital expenditure). A more effective, modern and independent governance framework would be beneficial. Changes could also look to include changing representation on the Board, which is currently more weighted towards those with farming based expertise instead of educational expertise.
30. We recognise the importance of the provision that Taratahi delivers and so we will continue to examine what options are available to the Government to assist in developing a financially sustainable delivery model. This could include direct Crown support or looking at options to ensure funding rates are appropriate for various models of provision in the primary sector. However, this will need to be based off solid evidence that all parties can work from. The PwC work should provide this. It is also likely that a combination of options may need to be considered – for example increased funding rates will not help in isolation, given Taratahi has been receiving higher rates over the past two years and has still recorded significant operating deficits. In addition, an increase in funding rates will have an impact across the wider primary industries sector, and the impact and scale of this potential change needs to be considered.

**...and will update you after we receive our first report from PwC...**

31. We will update you following our meeting with Taratahi and after we have received our first report from PwC on 22 October. We then intend to update you again in late November or early December after PwC have completed its second phase of work. **Section 9(2)(ba)(i)**  
[REDACTED]

**...while the TEC Board are unlikely to make 2019 funding decisions until December...**

32. It is unlikely that the TEC Board will make any decision on Taratahi's 2019 funding and how it will treat the debt owed to the TEC until its December 2018 Board meeting when further information is available. Obtaining clarity that Taratahi has sufficient assets to cover its debts to both Westpac and the TEC and that Taratahi has a plan to repay the debt over time, would allow the Board to consider providing interim funding for 2019. This would enable Taratahi to continue operating while further work is undertaken on options to move Taratahi towards a financially sustainable position.

**...and we will work closely with MPI to ensure consistency of advice to Ministers**

33. MPI provided a briefing on 8 October to the Minister of Agriculture on Taratahi. This noted that medium and long-term options on Taratahi's viability would be provided to you and the Minister of Agriculture in November 2018. However, it would be more appropriate to wait for PwC to undertake its analysis before detailed advice on future options is provided to Ministers. We will continue to work with MPI to ensure consistency of approach with both yourself and the Minister of Agriculture on this issue.
34. We recommend you forward a copy of this aide memoire to the Minister of Agriculture for his information.
35. We also recommend you do not proactively release this aide memoire at this stage to allow Taratahi to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).



**Gillian Dudgeon**

Deputy Chief Executive – Delivery  
Tertiary Education Commission

16 October 2018

**Hon Chris Hipkins**

Minister of Education

\_\_\_ / \_\_\_ / \_\_\_

## Tertiary Education Report: Future options for Taratahi Agricultural Training Centre

<b>Date:</b>	16 November 2018	<b>TEC priority:</b>	High Priority
<b>Security level:</b>	In Confidence	<b>Report no:</b>	B-18-00814
		<b>Minister's office No:</b>	

ACTION SOUGHT		
	Action sought	Deadline
<b>Hon Chris Hipkins</b> Minister of Education	<p><b>discuss</b> this briefing with officials at your earliest convenience.</p> <p><b>agree</b> to forward this briefing to the Minister of Agriculture for his information.</p> <p><b>agree</b> that the Tertiary Education Commission does not proactively release this briefing at this stage to allow Taratahi to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p>	As soon as practicable
<b>Enclosure:</b> Yes	<b>Round Robin:</b> No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
Section 9(2)(a)	Principal Advisor	Section 9(2)(a)		✓
Gillian Dudgeon	Deputy Chief Executive-Delivery	Section 9(2)(a)		

### THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

- CERA   
  DPMC   
  ENZ   
  ERO   
  MBIE   
  MoE   
  MFAT  
 MPI   
  MSD   
  NZQA   
  NZTE   
  TEC   
  TPK   
  Treasury

<b>Minister's Office to Complete:</b> <input type="checkbox"/> Approved <input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's Notes	<input type="checkbox"/> Declined <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by Events <input type="checkbox"/> Withdrawn
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## Recommendations

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**Hon Chris Hipkins**, Minister of Education

*It is recommended that you:*

1. **discuss** this briefing with officials at your earliest convenience.
2. **agree** to forward this briefing to the Minister of Agriculture for his information.

**AGREED / NOT AGREED**

3. **agree** that the Tertiary Education Commission does not proactively release this briefing at this stage to allow Taratahi to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

**AGREED / NOT AGREED**



**Gillian Dudgeon**

Deputy Chief Executive – Delivery  
Tertiary Education Commission

16 November 2018

**Hon Chris Hipkins**

Minister of Education

\_\_\_ / \_\_\_ / \_\_\_

## Purpose

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1. The purpose of this briefing is to provide you with an update on the financial position of Taratahi Agricultural Training Centre (Taratahi) and to outline potential options for Crown support to address both Taratahi's significant debt and its ongoing viability. As requested, it also outlines potential structural changes where there is some form of Crown ownership as part of any financial support.
2. We have consulted with the Ministry of Education (MoE), the Ministry for Primary Industries (MPI) and the Treasury on this briefing and incorporated their feedback. A copy of this briefing has been sent to the State Services Commission (SSC).

## Background

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3. We last briefed you on 16 October regarding Taratahi and the actions we were taking to understand and help address its financial position (AM/18/00735 refers). As noted in that aide-memoire, the TEC engaged John Fisk and his team from PwC to work with Taratahi to provide urgent financial analysis. Taratahi's financial situation has deteriorated since our last update.

## Recent developments and PwC's assessment of Taratahi's position

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### Enrolments are now even lower than expected...

4. In early November, Taratahi informed the TEC that it was now expecting to deliver only 556 EFTS in 2018. This was down from 633 EFTS forecast in October, which was down from earlier estimates of 662 EFTS and a budgeted 720 EFTS. Based on 556 EFTS, Taratahi will only deliver around 44 percent of its funding allocation. Unless the TEC revoke Taratahi's funding prior to the December payment, under delivery in 2018 will be around \$8 million (\$6.7 million if the December payment is not made) and total debt to the TEC will be around \$12 million (\$4 million relates to the 2014/15 investigation). With \$13 million also owed to Westpac, Taratahi's total debt is approximately \$25 million (excluding suppliers and employees).
5. Based on the latest enrolment numbers, Taratahi is now forecasting a \$7 million operating loss in 2018, significantly worse than the \$4 million loss forecast in August.

Section 9(2)(j) and 9(2)(b)(ii)

- [Redacted]
- [Redacted]
- [Redacted]

### ...with TEC's debt repayment dependent on how much the Home Farm could be sold for...

9. To repay the \$12 million debt owed to the TEC, it will require the sale of the Home Farm in the Wairarapa – Taratahi's main farm which was gifted to the Crown in 1918 and where it delivers

its Wairarapa residential-based training. Under the Taratahi Agricultural Training Centre (Wairarapa) Act 1969, this would require approval from the Minister of Agriculture.

10. Section 9(2)(b)(ii) and 9(2)(j)  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

**...and Taratahi has no ability to repay its significant debts while continuing operations...**

11. Section 9(2)(j) and 9(2)(g)(i)  
[REDACTED]  
 Taratahi recently updated Westpac on the latest developments. While Westpac is taking a close interest, at this stage it noted it is unlikely to take any significant action while the Government is considering options around Crown support.
12. Taratahi can reduce the level of debt owed to Westpac by selling Mangarata farm and associated stock Section 9(2)(j) and 9(2)(b)(ii)  
[REDACTED]  
[REDACTED] We understand that Taratahi is keen on progressing the sale of Mangarata, with the Taratahi Board due to consider the issue later in the month. There is limited scope to reduce Westpac's debt further while continuing operations. The TEC debt is only repayable in any significant form under a wind-down scenario where Taratahi ceases operations.

**...while Taratahi's cash position continues to be extremely tight...**

13. PwC's analysis shows that Taratahi faces significant cashflow concerns. Section 9(2)(b)(ii)  
[REDACTED]  
[REDACTED]
14. Taratahi has only been operating within the facility limits it has with Westpac due to the TEC continuing to provide funding. Given that Taratahi is expected to deliver less than half of the EFTS it was allocated for in 2018, this would usually result in an in-year funding adjustment (through a plan amendment) with the remaining payments for 2018 not being made. However, given its current cash position, the TEC has been continuing to make monthly payments to ensure that Taratahi can continue to meet its operating commitments.
15. PwC's analysis shows that Taratahi is unlikely to be in a financial position to continue operations without the December payment from the TEC being made. If it is not made (i.e. the TEC revokes Taratahi's funding under section 159YG of the Education Act), Taratahi will be at risk of breaching its facility with Westpac, especially if its forecast income or the timing of that income is unfavourable. By making the payment, we will be increasing the level of debt owed to the TEC.

**...with Taratahi expecting to make ongoing losses based on its current EFTS level**

16. Based on a budget of 550 EFTS in 2019, Taratahi would make around a \$3 million operating loss, even with planned cost savings initiatives implemented. If EFTS fall further from 2018 levels, the operating loss will increase.
17. Taratahi's view is that it cannot be viable at 550 EFTS based on the current funding rates and its delivery model. Initial analysis from Taratahi shows that the only way it can be viable is with an increase in agriculture funding rates of more than 90% for its Level 2 qualifications and between 55% and 90% for its Level 3 programmes. Even if funding rates were increased (or an operating subsidy provided), it would only make Taratahi viable. It would not put it in a position to repay the debt to the TEC.

## TEC funding and issues that need to be addressed

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### The TEC Board is unlikely to fund Taratahi in 2019 without a Crown equity solution...

18. At its December meeting (or soon after), the TEC Board will need to decide whether to approve (in full or in part) Taratahi's proposed plan for 2019. To receive plan approval, the TEC Board must be confident that Taratahi meets the *Gazetted* Investment Plan criteria. The criteria do not provide that a tertiary education organisation must not be in debt, but it does include "satisfactory financial performance", including "that it meets TEC's Prudential Financial Standards for PTEs" and "demonstrated good governance and management capability". The TEC's Prudential Financial Standards essentially require a private training establishment (PTE) to be able to pay its bills as they fall due and be solvent.
19. More generally, the TEC Board is answerable to Parliament for its actions and ensuring accountability for Crown funding. The TEC Board would have to be comfortable that the TEC debt was covered by Taratahi's assets and that it was appropriate to fund a PTE with no plan to repay a substantial debt. The TEC Board would also have to be comfortable that it may just be increasing the level of debt Taratahi owes, therefore increasing the chance of non-repayment. Early indications from the TEC Board are that Taratahi's proposed plan is unlikely to meet the *Gazetted* criteria unless it was clear that Ministers were going to take action to address Taratahi's issues.

### ...with any solution needing to address both Taratahi's debt and its ongoing viability...

20. Any solution to Taratahi's financial position will need to address both its significant debts and its ongoing viability and is likely to require a range of short and longer term actions. Addressing Taratahi's debt is likely to require asset sales (e.g. sale of Managarata Farm), a Crown capital injection, and/or forgiveness of the TEC debt. If Ministers did not want assets sold, a larger capital injection would be required to compensate.
21. Addressing Taratahi's viability and long-term sustainability is likely to require a package of support, including: further cost cutting from Taratahi in addition to what it already has planned; changes to its operating model; legislative changes; different governance; alternative arrangements with industry; new ways of attracting students; relationships with other tertiary education organisations; and potentially an increase in funding rates or implementation of a special operating subsidy. Officials would need further time to work through the strengths and weaknesses of each of these options. Many of these will take time to implement and Taratahi's immediate operating shortfall would have to be addressed while these medium and longer-term options are worked through.

### ...but changes to SAC funding rates are unlikely...

22. The TEC provides funding to tertiary education organisations based on the number of EFTS they deliver and the Student Achievement Component (SAC) funding rates, which differ by course classification (subject area) and level of study. These rates are set by you, as Minister of Education, based on advice from MoE and are reviewed annually.
23. The scope and purpose statements for SAC funding rates in the Tertiary Tuition and Training Multi-Category Appropriation (MCA), set out that funding is to be "limited to funding for teaching and learning services for enrolled students in approved courses at tertiary education organisations to achieve recognised tertiary qualifications". Taratahi has chosen to make an offering that includes a residential component, and has at times, cross-subsidised its farming operations to achieve this. However, SAC funding does not cover residential costs – students in other programmes of study at a provider have to fund their own living costs. MoE advise that establishing accommodation costs as a necessary component in delivering agricultural tuition and training is highly unlikely.
24. MoE has advised us that it would not recommend adjustments to the agriculture SAC funding rates to address Taratahi's viability issues because:

- The current rate for non-degree agricultural provision (i.e. that offered by Taratahi) is already relatively high compared to other funding rates. For example, the funding rate 'L1' (agriculture/horticulture Level 3 to 6) is \$10,820 per EFTS. MoE have no evidence that the rate is too low for the training component of Taratahi's provision.
- SAC funding rates are not provided on a single-provider basis – they are for all training in a specific field and level. Therefore, MoE would need to take into account other providers delivering non-degree agriculture and horticulture and assess whether they are unsustainable at that level, or whether this is an issue specifically related to Taratahi. The fiscal impact of increasing the funding rate for all providers in this area would also need to be considered. For reference, Taratahi's delivery only represents around 16% of all delivery in the funding rate 'L1'.
- While a key difference in Taratahi's delivery model is that a significant proportion of its overall delivery is residential-based, SAC funding rates are not intended to cover accommodation.
- Increasing the applicable SAC funding rate to the extent requested by Taratahi would open up significant risk of other tertiary education organisations lobbying to increase funding rates they consider too low. In addition, the consequences of establishing that accommodation and a residential component is a necessary part of training sets a precedent in the system for all other forms of provision.

### **...with a section 321 grant or capital injection being preferable**

25. If Ministers decided they wanted to implement an operating subsidy to ensure Taratahi's viability, we consider that this would be more appropriately achieved through a grant under section 321 of the Education Act (section 321 grant). Section 321 provides the Minister of Education with flexibility and discretion to recognise and fund educational bodies and their activities that do not fit within the standard funding provisions of the Education Act. The amount of the grant and the terms and conditions under which it is awarded (via a funding agreement) are determined by you as Minister.
26. One possible reason for a Section 321 grant could be because Ministers believe that it is necessary to provide additional funding for Taratahi's residential programme, which is targeted to at-risk students who require significant pastoral care and support.
27. In terms of Section 321 grants for tertiary education purposes, a grant may not be paid to a tertiary education provider or industry training organisation unless you, as Minister, are satisfied that the payment is in the national interest. If you consider that a Section 321 grant is an alternative or supplementary funding option, we can provide further advice in terms of how an operating subsidy could be allocated through a Section 321 grant. Unlike the process for other tertiary funding, the decision as to whether a Section 321 grant is appropriate is a matter for you, as Minister, and advice from officials would be provided to inform your decision.
28. Alternatively, as noted earlier, Ministers could provide a larger Crown capital injection to cover Taratahi's operating shortfall in coming years while addressing the medium and longer-term issues required to try to return Taratahi to financial viability. This could be as a one-off capital injection, or provided over time subject to Taratahi meeting certain conditions.

## **Amount of Crown support required**

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### **The amount of Crown financial support could be up to \$35 million...**

29. We estimate that the amount of Crown financial support needed to clear Taratahi's debt and ensure it remains viable in the short-term could be up to \$35 million if no asset sales were made. We have worked with PwC to estimate this amount. This is comprised of:
  - \$13 million to clear Westpac's debt.

- \$12 million to clear the TEC's debt.
  - \$2 million of urgent capital expenditure to address health and safety issues and upgrading of residential facilities.
  - \$5 million to \$8 million to cover operating losses over the next two years, depending on the level of cost-savings that could be achieved.
30. This number would reduce to approximately [Section 9(2)(j) and 9(2)(b)(ii)] if Mangarata farm is sold. The TEC debt could also be forgiven, which would reduce the amount of funding needed to around [REDACTED] (noting that forgiving the debt would have the same impact on the Crown's balance sheet). Given the TEC debt is a debt to the Crown, the TEC Board would want Cabinet to consider this issue first.
31. Further funding may be needed in the medium-term depending on the ability to return Taratahi to financial viability over the next two years and the size of its operating losses over 2019 and 2020. We have not yet undertaken a thorough analysis on whether substantive changes to Taratahi's operating model could return it to financial viability. This would be part of PwC's work programme, once the immediate financial problems are resolved.
32. We have investigated if there are any potential interim funding options to ensure Taratahi can continue operating in the short-term while further work on its future is undertaken. However, the TEC Board is unlikely to fund Taratahi in 2019 without a plan to repay the TEC debt and in [Section 9(2)(g)(i)]. The TEC debt therefore needs to be addressed as part of any potential solution. The Westpac debt however, would not necessarily need to be fully cleared. Westpac may be comfortable as long as Mangarata farm is sold and its debt reduced to a more manageable level. We believe however that if Ministers want to ensure Taratahi survives, resolving all of its debts would be the best approach.

### **...and this would have to be found by reprioritising other spending**

33. There is no specific funding available within Vote Tertiary Education or Vote Agriculture to provide financial support. Ministers would need to find this support from reprioritising other or new spending across agencies. Reprioritising any underspends from Vote Tertiary Education would impact on the funding required to implement the changes resulting from the ITP Roadmap 2020 project and review of the vocational education and training (VET) system.
34. The Minister of Finance and Cabinet would need to approve any funding.
35. It must also be noted that these amounts are our best estimate based on the current information available to us. Given the speed at which the situation has developed and evolved, we have not had any time to undertake any due diligence or develop a more precise estimate of the level of support required.

## **Ministers need to decide whether to support Taratahi or not**

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### **The situation with Taratahi is urgent and decisions needs to be made quickly...**

36. The TEC Board needs to make decisions in December on funding Taratahi in 2019. The TEC Board will likely decide to not fund Taratahi in 2019 if Crown support is not provided. At that time, the Taratahi Board would likely be forced to wind-up Taratahi. [Section 9(2)(g)(i)] [REDACTED]
37. As a result, Ministers will need to make decisions on whether to provide Crown support in the coming weeks. Later in this briefing, we provide a number of options around how the Crown could take ownership of Taratahi alongside any financial support.

38. As part of the decision-making process, Ministers will need to consider the importance of Taratahi and the provision it offers as well as what the Government wants from Taratahi or agricultural provision more generally. Taratahi delivers vocational land-based training across New Zealand and accounts for around one-third of all non-degree agriculture training, and around 15% of all non-degree wider primary sector delivery (e.g. agriculture, horticulture, viticulture, forestry, fisheries, and environmental studies). It is also the main provider of residential-based agricultural programmes focused on at-risk youth (e.g. through Youth Guarantee and Youth Services).
39. Feedback from employers shows that the agriculture industry values students who graduate through Taratahi's residential programmes, particularly as the training creates work-ready graduates. However, it must also be noted that occupancy in Taratahi's residential programme in the Wairarapa has been low this year.

**...and if Ministers decide to not provide Crown support, Taratahi will cease trading...**

40. The training Taratahi provides needs to be assessed against the level of Crown support required to address its financial issues. If Taratahi ceased operations, we would lose a key provider of vocational land-based training and it would likely reduce the number of agricultural trainees in a key strategic investment area in the short-term, even if efforts are made to encourage other providers to deliver in this area.
41. The *Future capability needs for the primary industry* report produced for MPI in 2014 estimated that there would need to be an almost 50% increase in the number of students in agriculture, environmental and related studies by 2025. If Taratahi were to cease training, our ability to attract, train and upskill the primary industry workforce we need in the future will be impacted.
42. However, even if Taratahi's debt situation is resolved and significant cost savings are made alongside changes to its operating model, it may be that Taratahi is just not viable given the current funding system and the current student demand environment. Furthermore, the amount of Crown support required to ensure Taratahi's survival is significant, especially when compared to the number of EFTS it delivers. On a per EFTS basis, it would be roughly ten to twelve times bigger than the \$15 million capital injection provided to Whitireia Community Polytechnic (which has around 3,200 EFTS) to address its financial issues.
43. Given the size of the financial support required and the limited options around improving its viability, the TEC would have concerns around recommending Crown support. In contrast to Taratahi, when Crown support was provided to Unitec Institute of Technology and Whitireia Community Polytechnic earlier in 2018, there were potential long-term sustainable solutions.

**...and the TEC would need to develop an option for teaching out students...**

44. If Taratahi is wound-up, the TEC would need to manage the students at Taratahi who had study remaining. One option is that the TEC could fund Taratahi to teach out its current students. This would require Taratahi to remain operational until mid-2019. This is likely to be the easiest to manage and probably the option with the least chance of students dropping out, but it is unclear how it would work with any managed wind-down including the ability to retain the required staff. Another option may be to contract another provider to run Taratahi during this period. However, these options would be dependent on the liquidator's plans.
45. The TEC could also look to other providers to teach out students. However, no single provider would be able to take all of Taratahi's students. Students would have to be spread between providers. This option would likely require some sale of qualifications and a fast tracking of NZQA approval. Further work on these options would be required if this situation eventuates.

**...but work would need to be undertaken on how we increase agriculture provision**

46. Officials will need to undertake further work on how we would replace the provision lost by Taratahi ceasing trading. No single provider could take Taratahi's current EFTS allocation and

it is likely some delivery would just not be provided. We would attempt to address the gap in agriculture provision by seeking to build up delivery through other providers or establish if a new provider could set up in this space. We could potentially also look at what options may exist to shift to more on-the-job training through the Primary ITO. This may also require examining funding settings and structural changes to agricultural education more broadly, given the failure of some other providers in this area.

## Options for structural change alongside Crown support

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### There are a number of Crown ownership options available to Ministers...

47. You have previously signalled to officials that the Government would be reluctant to provide Crown support unless this is provided alongside structural changes where there is some form of Crown ownership and greater Crown control. The below options allow greater influence over Taratahi's future direction and its role going forward, as well as additional flexibility to make changes in future. They also allow the assets to move on to the Crown's balance sheet.
48. It should be noted that there are no perfect options and each comes with its own risks and challenges. Furthermore, these have been developed in a relatively short period of time and there may be other issues that arise. These options are also not solutions in themselves nor do they reduce the significant amount of Crown support required. All involve the Crown taking on Taratahi's significant financial risks, and despite Crown ownership, there is no guarantee that Taratahi can be viable over the long-term.
49. The five options we have considered are:
- Establish a new ITP under section 162 of the Education Act 1989.
  - Establish a new specialist college under section 162 of the Education Act 1989.
  - Establish a new company under the Crown Entities Act 2004.
  - Establish a company under schedule 4A of the Public Finance Act 1989.
  - Sale of Taratahi to another ITP(s).
50. The Taratahi Board would then be required to transfer its assets to the new organisation/entity, which requires consent from the Minister of Agriculture. Given that some of the options above cannot be implemented in a short-time frame, we have also considered two short-term transition options:
- Appoint a statutory manager to manage Taratahi until one of the potential longer-term solutions above are implemented.
  - The TEC (or another Crown agency) acquires Westpac's debt (and security rights) and appoints a receiver to manage Taratahi until longer-term solutions are implemented.
51. These options are outlined in more detail in Appendix 1, including a summary of the time to implement, feasibility and strategic fit, and key risks associated with each option. Section 9(2)(f)(iv)

### ...with a company established under schedule 4A of the Public Finance Act being one potential option...

52. We believe that this option is likely to be relatively quick to implement (within two weeks following a Cabinet decision) and gives Ministers flexibility to make further changes in future. It would also allow for Taratahi to potentially be a shareholder (but does not require them to be so). The Government can appoint all of the directors, and establish the constitution of the company which could specify how the company is to be run. However, it is the board of the

company that is charged under the Companies Act with the management of the business and affairs of the company, not the shareholders. Ministers as shareholders would have no legal powers of direction over the company.

53. Section 3AB of the Public Finance Act provides for the Governor-General, by Order in Council made on the recommendation of the Minister of Finance, to amend schedule 4A of the Public Finance Act. The criteria for a company to be included in schedule 4A are:
- a) that Ministers of the Crown hold, on behalf of the Crown, more than 50% of the issued ordinary shares in the capital of the company;
  - b) shares in the company are not listed on a registered market; and
  - c) the company is not a Crown entity or a State enterprise.
54. Specific sections of the Crown Entities Act 2004 would apply to the company. For example, reporting obligations, and provision for binding government directions. Before the company could provide any approved programme or training scheme to a student, the company would have to be registered as a PTE by NZQA. While there is a process to register the PTE, the TEC could ask NZQA to prioritise the application.
55. However, companies are traditionally set up to make a profit. The Treasury, and ultimately the Minister of Finance, would have to be comfortable in setting up a company that had long-term viability concerns. Nevertheless, if Ministers decide that they want to provide a capital injection to ensure Taratahi's survival, this would be on the assumption that a range of initiatives would be implemented that could return Taratahi to viability and sustainability over the longer-term. The company could always be sold or wound up at a later date if those longer-term solutions did not achieve viability for Taratahi.

#### **...or the establishment of a specialist college...**

56. We believe Taratahi is unlikely to meet the requirement to become an ITP, which need to be *"characterised by a wide diversity of continuing education"*. Taratahi is more likely to fit the requirement for a specialist college, which is characterised by *"teaching and research of a specialist nature that maintains, enhances, disseminates and assists in the application of knowledge and expertise."*
57. There are currently no other examples of specialist colleges, and the process for setting one up would be lengthy, requiring public consultation. As a result, it would have to be implemented in conjunction with a short-term transition option such as the appointment of a receiver, which comes with its own risks. Furthermore, establishing a new institution is likely to be seen as potentially contrary to the aims of the ITP Roadmap 2020. The establishment of a specialist college may also give the Crown less flexibility if further changes were required in future.

#### **...and Taratahi transfer its assets to the new company or specialist college**

58. If one of the above options is implemented, the Taratahi Trust Board can sell the assets or lease those assets to the new organisation with consent from the Minister of Agriculture. It should be noted that Taratahi do not own the land at Telford, and this would remain under the control of the Telford Farm Board. Currently, there are no provisions in the Taratahi Act for the Trust Board to be wound up. Therefore, the Trust Board would keep going until the Taratahi Act was repealed, although without any property or business it would be defunct.

## **Summary of options**

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59. Ministers must balance the risks and benefits of providing financial support to Taratahi against the risks and benefits of Taratahi ceasing operations and what this means for agricultural training more generally.

60. On balance, based on the information currently available to us, the TEC and MoE do not recommend providing Crown financial support to Taratahi. This is due to:
- a) Taratahi requiring significant financial support for a relatively small number of EFTS;
  - b) Taratahi presenting ongoing financial risks and a lack of a clear path to viability; and
  - c) The negative impact that intervention would have on the funding available for other vocational education and training priorities (such as the ITP Roadmap 2020 and VET system review).
61. However, by not providing financial support, a key provider of vocational land-based training will be lost and Ministers will need to consider the implications of this. This is a significant concern for MPI as Taratahi's failure would leave a sudden and significant gap in agricultural provision, which may take considerable time to recover from. If Taratahi did cease operations, officials would need to work on how we could build up and transition resources into other high-quality training alternatives.
62. Should Ministers determine that intervention is necessary, officials suggest using a Section 321 Grant or capital injection. This is because a SAC funding rate increase is not possible under the scope and purpose statement of the MCA appropriation for SAC funding – funding accommodation is not an essential component of teaching or training. Under this option, officials would still need to determine where this funding would come from.
63. Should Ministers determine that Crown ownership of Taratahi is required in order to safeguard any additional investment, a potential option is to create a schedule 4a company under the Public Finance Act 1989, noting that the Treasury and the Minister of Finance would need to be comfortable with this option. Taratahi would be required to sell or transfer its assets to this new company in order to receive any Crown support.

## Next steps

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64. Following your consideration of the options and advice in this briefing, we recommend that you discuss this issue with officials at your earliest convenience. Once we have clarity on your preferred course of action, we can provide additional advice as required. Any decisions on capital support or setting up a new entity would require Cabinet approval.
65. We recommend that you forward a copy of this briefing to the Minister of Agriculture. However, it should be noted that we have been engaging closely with MPI on the development of this advice, and they intend to provide a report summarising the content of this briefing to the Minister of Agriculture.
66. We will continue to work closely with SSC, MoE, MPI and the Treasury.

## Appendix 1:

The below table provide a summary of the potential structural options that could be implemented alongside Crown financial support. This include five structural options, as well as two short-term intervention options (e.g. appointing a receiver) which would be needed to implement some of the structural options.

Option	Description	Time and process to implement	Feasibility and strategic fit	Risks / comments
<b>Structural options</b>				
<b>Set up a new ITP</b>	Establish a new ITP under s162 of Education Act and transfer Taratahi's assets to the ITP.	<b>Approx. 3 or 4 months – additional short term intervention (i.e. receiver) required</b> <ul style="list-style-type: none"> <li>Required to give NZQA time to give advice on the matter.</li> <li>Required to consult with institutions, organisations representing institutions, and other relevant bodies, as the Minister considers appropriate.</li> <li>Implemented by recommendation to the Governor General to make an Order in Council.</li> <li>Appointment of ministerial appointees to council of new ITP.</li> <li>Requires Minister of Ag consent to sell/transfer land and assets to new ITP.</li> </ul>	<b>Not feasible</b> <ul style="list-style-type: none"> <li>Taratahi is unlikely to meet the requirement for an ITP to be "<i>characterised by a wide diversity of continuing education</i>"</li> <li>Other ITPs, especially those in the Wellington region experiencing financial difficulty, would likely contest the establishment of a new ITP during consultation.</li> <li>Another intervention required in the short-term to keep Taratahi going long enough for an ITP to be established.</li> </ul>	<ul style="list-style-type: none"> <li>Establishing a new ITP likely to be seen as contrary to the aims of the ITP Roadmap 2020.</li> <li>Less influence compared to a Crown entity company or schedule 4A company (as autonomous entity).</li> <li>Potentially greater governance costs than a similar organisational form.</li> </ul>
<b>Set up a specialist college</b>	Establish a specialist college under s162 of Education Act, and transfer Taratahi's assets to the specialist college.	<b>Approx. 3 or 4 months – additional short term intervention (i.e. receiver) required</b> <ul style="list-style-type: none"> <li>Similar process as establishing an ITP (including the appointment of a Council)</li> </ul>	<b>Feasible</b> <ul style="list-style-type: none"> <li>Taratahi is more likely to fit the requirement for a specialist college to be characterised by "<i>teaching and research of a specialist nature that maintains, enhances, disseminates and assists in the application of knowledge and expertise.</i>"</li> </ul>	<ul style="list-style-type: none"> <li>Establishing a new Crown educational entity likely to be seen as contrary to the aims of the ITP Roadmap 2020.</li> <li>Less influence compared to a Crown entity company or schedule 4A company (as autonomous entity).</li> <li>Potentially greater governance costs than a similar organisational form.</li> </ul>

<b>Crown entity company</b>	Establish a new company under the Crown Entities Act and transfer Taratahi's assets to the new entity.	<b>Time estimate – a month? short term intervention likely not required</b> <ul style="list-style-type: none"> <li>Establish new company under the Crown Entities Act.</li> <li>Establish a constitution and ministerial shareholdings.</li> <li>Requires Minister of Ag consent to sell/transfer land and assets.</li> <li>Registration, programme approval (etc.) with NZQA.</li> </ul>	<b>Feasible</b> <ul style="list-style-type: none"> <li>Simpler and faster than the specialist college option.</li> <li>Crown Entities Act includes some restrictions on the sale of shares.</li> <li>Would still be a PTE under the Education Act, despite being Crown-owned.</li> </ul>	<ul style="list-style-type: none"> <li>Less flexible in the longer term (e.g. restrictions on sale of shares) than some other options.</li> </ul>
<b>Schedule 4a company</b>	Establish a company with at least 50% of shares owned by Ministers under schedule 4A of the Public Finance Act, and transfer Taratahi's assets to the new company.	<b>Time estimate – two weeks</b> <ul style="list-style-type: none"> <li>Establish company in which Ministers hold at least 50% shares, but could own 100%. Possibility that Taratahi Trustees could own shares.</li> <li>Minister of Finance recommends Governor General to make Order in Council to name company in schedule 4A of Public Finance Act.</li> <li>Requires Minister of Ag consent to sell/transfer land and assets.</li> <li>Registration, programme approval (etc) with NZQA</li> </ul>	<b>Feasible</b> <ul style="list-style-type: none"> <li>Simpler and faster than the specialist college option.</li> <li>Greater flexibility than a Crown entity company (e.g. option for other stakeholders and less restrictions re sales of shares) and more operating freedom/less compliance overheads than a specialist college.</li> <li>Would still be a PTE under the Education Act, despite being Crown-owned.</li> </ul>	<ul style="list-style-type: none"> <li>Some specific sections of the Crown Entities Act (e.g. reporting obligations) would apply.</li> <li>The Treasury, and the Minister of Finance, would need to be comfortable with establishing such a company, which they may not be given the viability concerns.</li> </ul>
<b>Sale to another ITP</b>	Sale and purchase of assets, and transfer of students to existing ITP(s).	<b>Could be lengthy process – additional short term intervention required</b> <ul style="list-style-type: none"> <li>Requires Minister of Ag consent to sell/transfer land and assets.</li> <li>Requires sale of some qualifications and programme approval with NZQA.</li> </ul>	<b>Not feasible</b> <ul style="list-style-type: none"> <li>Unlikely to find any ITPs willing to take on Taratahi given the debt and lack of viability.</li> <li>Full sale of provision to another ITP would risk the financial stability of that ITP.</li> <li>More feasible to transfer specific parts of Taratahi's provision to ITPs (e.g. EIT, SIT) and other provision to existing PTEs.</li> </ul>	<ul style="list-style-type: none"> <li>Inconsistent with the ITP Roadmap 2020 project as asking ITPs to take on service delivery which is not viable.</li> <li>Debt still needs to be addressed.</li> </ul>

**Short-term intervention options**

<p><b>Statutory management</b></p>	<p>Appoint a statutory manager to manage Taratahi, until longer term solutions (such as the options above) could be implemented.</p> <p>The primary purpose of statutory management is to manage a corporation, rather than dissolve it. However, liquidation is not precluded.</p>	<p><b>Time estimate – a month?</b></p> <ul style="list-style-type: none"> <li>Requires the Financial Market Authority to recommend to the Minister of Commerce that Taratahi Trust Board should be subject to statutory management.</li> <li>Minister of Commerce then advises Governor General.</li> <li>Governor General, by Order in Council, declares statutory management.</li> </ul>	<p><b>Possibly feasible</b></p> <ul style="list-style-type: none"> <li>Statutory management could apply to Taratahi, particularly given the limitations of the Taratahi Act that hinder other options for ensuring ongoing operation of Taratahi and protecting assets gifted to the Crown.</li> <li>However, it is an extreme option, and the FMA may not be convinced that it meets the criteria of the relevant Act, given Taratahi's small scale.</li> <li>The statutory manager is independent from creditors (Westpac and TEC), who cannot influence the statutory manager's decision making.</li> </ul>	<ul style="list-style-type: none"> <li>High profile and expensive.</li> <li>Assets do not move onto the Crown balance sheet – if the result was liquidation, all TEC debts may not be able to be repaid.</li> <li>Ministers and the Crown lose control.</li> <li>If the statutory manager determined that Taratahi could not be made financially viable in the longer-term, it is likely that a statutory manager would seek to liquidate Taratahi.</li> <li>The TEC Board is unlikely to approve 2019 funding without a more substantial, longer-term option being agreed given no guarantee that TEC debts are able to be repaid in a wind-up scenario and Taratahi's proposed plan is unlikely to meet <i>Gazetted</i> criteria.</li> </ul>
<p><b>The TEC (or another Crown agency) appoints a receiver</b></p>	<p>The TEC (or another Crown agency) acquires Westpac's debt and security rights, and seeks agreement from the Taratahi Board to appoint a receiver.</p>	<p><b>Time estimate – 2 weeks?</b></p> <ul style="list-style-type: none"> <li>Negotiate with Westpac to acquire its debt. Seek agreement from the Taratahi Board to appoint a receiver, and enter into contract with the receiver, which specifies the role of the receiver (e.g. management while other options are implemented rather than wind-up).</li> <li>Appointing a receiver would have to be through an application to the High Court.</li> </ul>	<p><b>Feasible, but...</b></p> <ul style="list-style-type: none"> <li>Westpac may prefer just to appoint its own receiver to recover its funding.</li> <li>It is a short-term solution, as a receiver would not want to manage a business for the medium- or long-term.</li> </ul>	<ul style="list-style-type: none"> <li>Assets do not move onto the Crown balance sheet – if Taratahi ceased trading, all TEC debts may not be able to be repaid.</li> <li>Receiver would not want to continue in this arrangement for very long – so longer term work would need to be done quickly.</li> <li>The TEC Board is unlikely to approve 2019 funding without a more substantial, longer-term option being agreed given no guarantee that TEC debts are able to be repaid in a wind-up scenario, and Taratahi's proposed plan is unlikely to meet <i>Gazetted</i> criteria.</li> <li>If the Crown acquired Westpac's debt, it may set a bad precedent.</li> </ul>



## Aide-Memoire: Taratahi Agricultural Training Centre

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<b>To:</b>	Hon Chris Hipkins, Minister of Education
<b>From:</b>	Tim Fowler, Chief Executive, Tertiary Education Commission
<b>Date:</b>	22 November 2018
<b>Reference:</b>	AM-18-00864

### Purpose

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1. The purpose of this aide-memoire is to provide you with talking points for your oral item at Cabinet on Monday 26 November regarding Taratahi Agricultural Training Centre (Taratahi). This aide-memoire also provides some additional information on Taratahi that you have requested.
2. Suggested talking points for Cabinet are provided in Appendix 1. Additional information on Taratahi is provided in Appendix 2.
3. We recommend that you do not proactively release this aide-memoire.

### Background information on Taratahi

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4. Taratahi delivers vocational land-based training across New Zealand in the subject areas of farm skills and agriculture, apiculture, and agribusiness management. It owns and leases a number of farms, and also has access to a wide range of private farms, to provide a farm-based learning experience. Its main farm in the Wairarapa was bequeathed to the Crown in 1918 to be used to re-skill returning servicemen following World War One. Taratahi was created through an Act of Parliament in 1919, which vested the gifted farm and other personal property in the Taratahi Trust.
5. Taratahi delivers residential training in the Wairarapa and through its Telford campus in Balclutha, which it acquired from Lincoln University in 2017<sup>1</sup>. Its residential programmes are costly to run but they offer significant pastoral care for their students.
6. The Taratahi Trust was created under the Taratahi Agricultural Training Centre (Wairarapa) Act 1969. It is an incorporated charitable trust under the Charities Act 2005, and a private training establishment (PTE) for the purposes of the Education Act 1989.
7. The Trust is governed by a Board of Trustees, appointed by the Minister of Agriculture based on nominations from the Wairarapa branch of Federated Farmers, Wairarapa Agricultural and Pastoral Society, Masterton Agricultural and Pastoral Society, the Minister of Agriculture, the

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<sup>1</sup> Taratahi acquired the educational business and a range of assets from Lincoln, but leases the Telford farm from the Telford Farm Board for its on-farm training.

Director-General of MPI, the Primary Industry Training Organisation and the Minister of Education.

8. The Minister of Agriculture has limited statutory powers under the Taratahi Act relating to Board appointments and consent for significant borrowing, acquisition of real property and for capital expenditure. These do not allow the Minister of Agriculture to intervene directly in Taratahi's operations or management decisions.



**Tim Fowler**

Chief Executive

Tertiary Education Commission

22 November 2018

**Hon Chris Hipkins**

Minister of Education

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## Appendix 1: Talking points for Taratahi

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### Taratahi's financial position is poor and it has \$25 million of debt

- Taratahi has struggled financially over recent years and enrolments in 2018 have been significantly lower than expected.
- Taratahi is expecting to under-deliver against its TEC funding allocation by \$8 million in 2018. A further \$4 million is owed to the TEC relating to an investigation in 2014/15 where it was found that Taratahi had failed to deliver courses it had been funded for.
- Taratahi also owe \$13 million to Westpac bringing its total debt to \$25 million.

### Taratahi is not viable and it has no ability to repay its debt

- Taratahi can sell one of its farms (Mangarata) to reduce the Westpac debt from Section 9(2)(b)(ii) and 9(2)(j). However, Taratahi has no ability to repay the remaining Westpac debt or any of the TEC debt while continuing operations.
- In addition to the significant debt, Taratahi is not financially viable and its situation continues to worsen. Taratahi is forecasting a \$7 million operating loss in 2018 and, even with planned cost savings initiatives implemented, they are expecting a \$3 million operating loss in 2019.
- Taratahi is not viable based on current funding rates, enrolment levels and its delivery model. It requires a significant increase in the funding it receives per student to be viable.
- Cash is extremely tight and Taratahi is only continuing operations through receiving TEC payments for students it knows it will not enrol. If the TEC had stopped funding during 2018, which would be the usual practise, Taratahi would have been unable to meet its operational commitments.

### The debt to the TEC may not be fully covered in a wind-down scenario

- PwC have been engaged by the TEC in recent months to provide expert financial analysis. Based on a controlled wind-down of Taratahi, Section 9(2)(j) and 9(2)(g)(i)
- To repay the debt owed to the TEC, it will require the sale of the Home Farm in the Wairarapa – Taratahi's main farm which was gifted to the Crown in 1918 and where it delivers its Wairarapa residential-based training. Section 9(2)(b)(ii) and 9(2)(j)

### The TEC Board is unlikely to fund Taratahi in 2019 without a Crown equity solution

- The TEC Board has not yet made a decision on funding Taratahi in 2019. Given the significant debt owed to the TEC, the inability to repay this debt, and a lack of viability going forward, the TEC Board is unlikely to fund Taratahi unless Crown support was provided.

### Taratahi require Crown support otherwise they will cease operations

- Taratahi require significant support from the Crown to address both its debt and its ongoing lack of viability.

- The amount of Crown financial support needed to clear Taratahi's debt and ensure it remains viable in the short-term could be up to \$35 million (\$29 million if Mangarata is sold). This comprises: \$25 million to clear its debts, \$2 million of urgent capital expenditure and \$5 million to \$8 million to cover operating losses over the next two years.
- Even with Crown support, long-term viability is not assured, and additional funding may be required in future.
- If Crown support is not provided, the TEC Board is unlikely to fund Taratahi in 2019, and the Taratahi Board would be forced to wind-up Taratahi.

**If Crown support is not provided, a key provider of vocational land-based training will be lost**

- The significant level of Crown support required to address Taratahi's financial issues needs to be assessed against the loss of a key provider of vocational land-based training.
- If Taratahi ceases operations, it leaves a sudden and significant gap in agricultural provision, **Section 9(2)(g)(i)**
- Officials would need to work on how we could transition resources into other high-quality training alternatives and what options are available to respond to the loss of Taratahi.
- The TEC would also need to work on what options are available for students currently enrolled in Taratahi to finish their studies.
- The Crown could look at options to retain the Home Farm that was gifted to the Crown. However, further work would need to be undertaken to assess the strategic value of the farm and who specifically would purchase it. The Minister of Agriculture would also need to consent to any sale. Finally, there are a number of legal issues that would need to be worked through given the Taratahi Act requires the farm to be used for educational purposes.

## Appendix 2: Additional information on Taratahi

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9. Following our 16 November briefing (B-18-00814 refers), you have asked for additional information on Taratahi. A range of information is summarised below, based on what could be provided in the timeframe. The majority of this information is for 2018, and the numbers will increase for the full year.

### Taratahi's delivery by level

10. The table below shows Taratahi's Student Achievement Component (SAC) and Youth Guarantee (YG) delivery in 2018 by level. Around 80% of Taratahi's delivery is at Level 3, with the remainder of its delivery at Level 2, Level 4 and Level 5.

Level	2018 EFTS
Level 2	37
Level 3	370
Level 4	27
Level 5	34
<b>Total</b>	<b>469</b>

### Taratahi's delivery by region

11. The table below shows Taratahi's SAC and YG delivery in 2018 by key region. The majority of delivery is in the Wellington region (specifically the Wairarapa) accounting for 25% of its delivery, followed by the Otago region (at the Telford campus in Balclutha) accounting for 18% of its delivery and Northland (16% of delivery).

Region	2018 EFTS
Wellington Region	119
Otago Region	86
Northland Region	75
Taranaki Region	39
Waikato Region	39
Extramural	28
Southland Region	26
Manawatu-Wanganui Region	21
Auckland Region	16
Hawke's Bay Region	14
<b>Total</b>	<b>469</b>

## Delivery by funding source

12. Taratahi delivers across a range of funding sources. SAC delivery accounts for 61% of Taratahi's delivery followed by Trade Academies (11%), Māori and Pasifika Trades Training (10%) and Second Tertiary Alignment Resource (STAR) funding (8%).

Funding source	2018 EFTS
SAC Funding	392
Trade Academies	69
Maori Pasifika Trades Training Level 3 and 4	64
S.T.A.R. Funded Student	53
DualPathways (Level 2-3 secondary-tertiary pilot) Funding	21
Youth Guarantee Scheme	13
Other	30
<b>Total</b>	<b>641</b>

## Sector-wide delivery at Levels 3 to 6 in agriculture, environmental and related studies

13. The table in Appendix 3 shows the number of EFTS delivered by all TEOs who deliver at Levels 3 to 6 in agriculture, environmental and related studies in 2018. This includes SAC and YG funded delivery as well as Industry Training Organisation (ITO) funded delivery.
14. The table shows that Taratahi accounts for 35% of all SAC and YG Level 3 to 6 training in agriculture. When ITO delivery is included, Taratahi accounts for 13% of all agriculture delivery at these levels.
15. In the wider subject area of agriculture, environmental and related studies (which includes agriculture, horticulture and viticulture, forestry, fisheries and environmental studies), Taratahi accounts for 17% of all SAC and YG delivery. When ITO delivery is included, Taratahi accounts for 6% of all delivery.

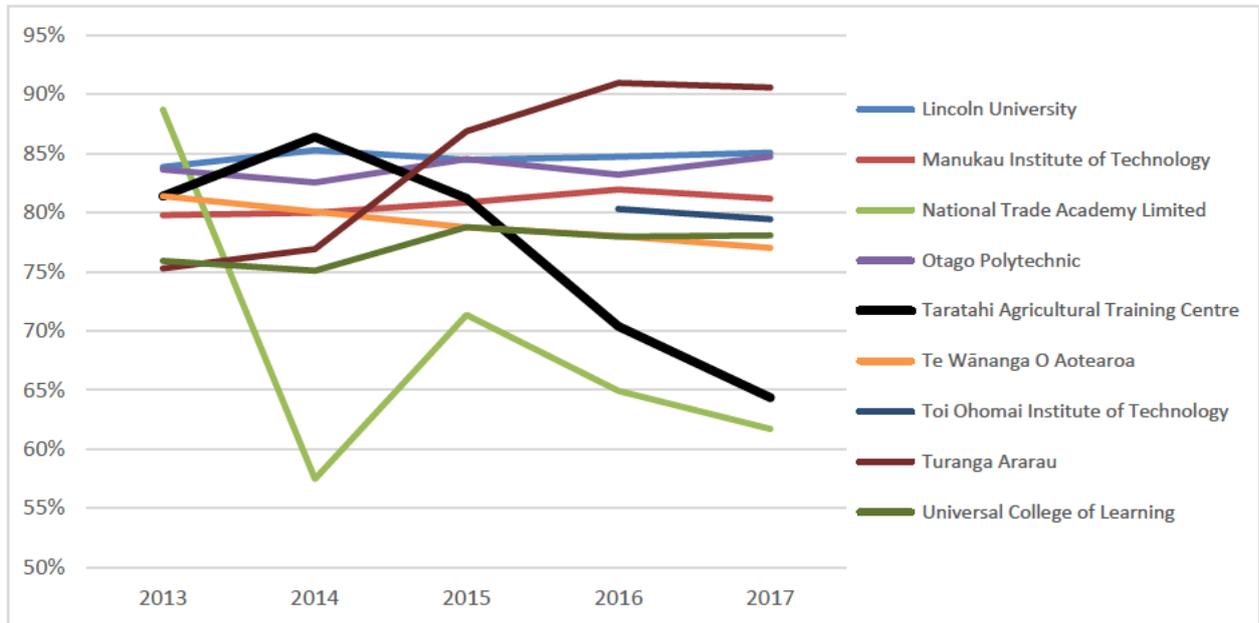
## Key characteristics of students enrolled at Taratahi

16. Of SAC and YG funded students enrolled in Taratahi in 2018:
- 43% are Māori and 4% are Pasifika
  - 18% are aged 17 years or under and 38% are aged 20 years or under.
  - 27% have no secondary school qualification and 80% have a Level 2 qualification or below as their highest secondary school qualification.
  - A significant proportion of students come from rural secondary schools.

## Course completion rates compared to TEOs delivering similar provision

17. The graph below shows course completion rates for SAC and YG funded students at Levels 3 to 6 in agriculture, environmental and related studies for those TEOs where at least 45% of the cohort is aged under 25 years of age. While we have not adjusted for the characteristics of the students between the different TEOs (which is likely to vary), this does show a basic comparison.

18. Taratahi's course completion rate has fallen strongly over the past three years and in 2017 it was 64% - lower than nearly all other TEOs delivering in this area. Taratahi has previously noted that its educational performance has declined since 2014 mostly due to the significant organisational and delivery changes required after the 2014/15 investigation. An entire shift in educational delivery was required (including development of a large number of new programmes) as well as significant staffing and organisational changes.



### Employment outcomes data for Taratahi relative to other PTEs

19. TEC post-study outcomes data, which has been extracted from Statistics New Zealand's Integrated Data Infrastructure, shows that Taratahi's graduates have higher rates of employment compared with other PTEs.
20. The graph in Appendix 4 shows graduate outcomes in 2015/2016 for students aged under 25 years of age, at sub-degree level who graduated in 2012/13 (i.e. three years after completion). Only PTEs who had more than 30 graduates are included.
21. Based on this data, 66% of young graduates from Taratahi were employed three years after study. This is above average compared to other PTEs.

### Data on Taratahi's residential programme

22. While a number of other TEOs deliver agriculture residential programmes around New Zealand, no other provider does it at the scale that Taratahi does. Feedback from employers show industry value students who graduate through Taratahi's residential programmes, particularly as the training creates work-ready graduates.
23. We do not have outcomes data specifically for those students who graduate from Taratahi's residential programmes. However, Taratahi has provided destinations data to the TEC that it collects for graduates from its residential programmes. This is outlined below. The graduate destinations data is collected via a survey.
24. In 2017, 59 students graduated from Taratahi's Telford Campus – 46 from its Level 3 certificate and 13 from its Level 5 Diploma. In 2018, 39% of the Level 3 certificate graduates were in employment, 26% were seeking employment, and 33% were in other study. The outcomes from the Level 5 diploma were stronger with 12 out of the 13 in employment and one graduate seeking employment.

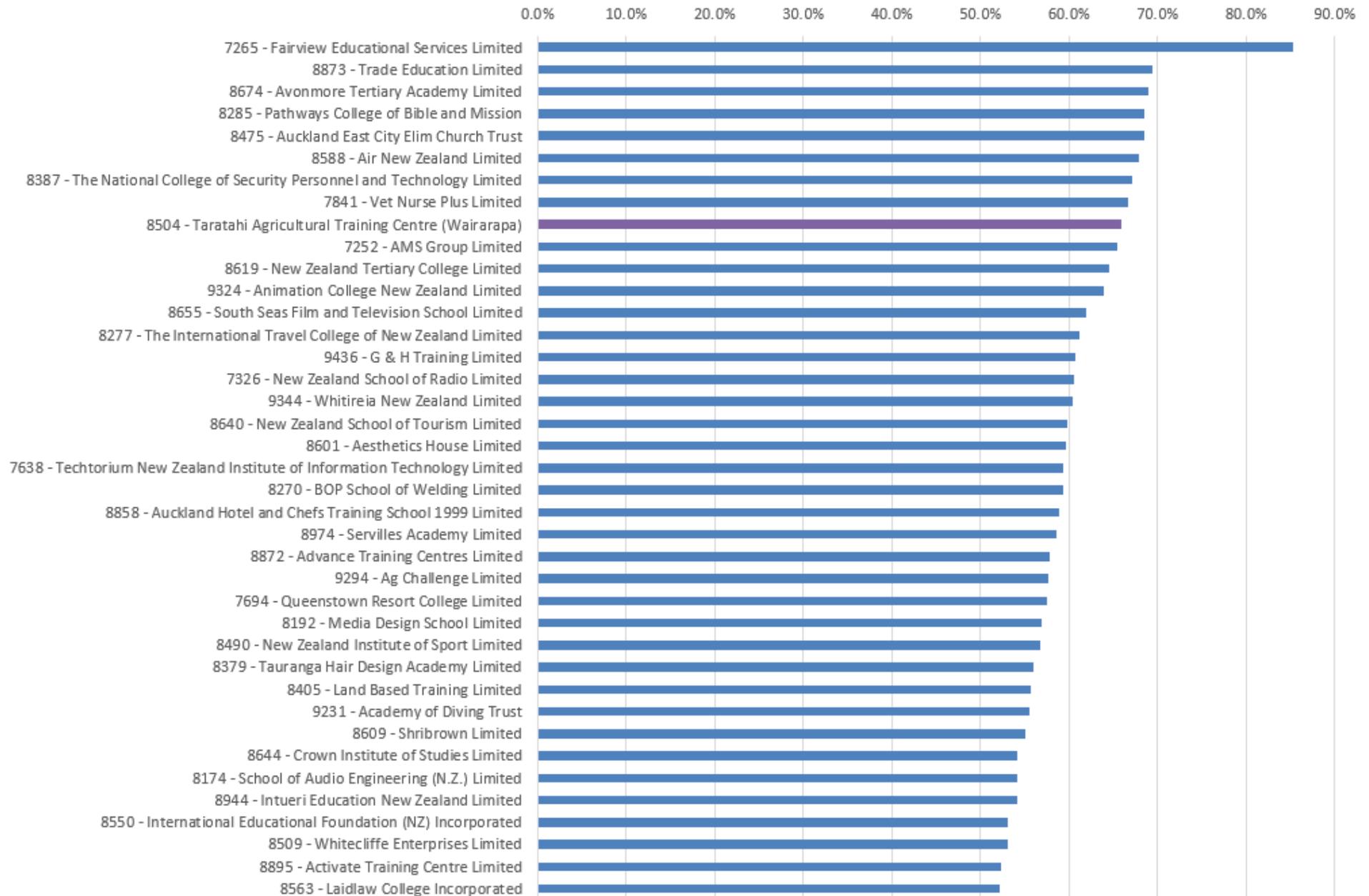
25. In 2017, 61 students graduated from Taratahi's Masterton campus – 41 from its Level 3 certificate, 18 from its Level 4 certificate and 2 from its Level 5 diploma. In 2018, 38% of the Level 3 certificate graduates were in employment, 18% were seeking employment, and 45% were in other study. The Level 4 certificate outcomes were stronger with 2 graduates seeking employment and the rest in employment.

### Appendix 3: Total 2018 SAC, YG and ITO delivery, Levels 3 to 6, Agriculture, Environmental & Related Studies

Provider	0501 - Agriculture	0503 - Horticulture and Viticulture	0505 - Forestry Studies	0507 - Fisheries Studies	0509 - Environmental Studies	0599 - Other Agriculture, Environmental and Related Studies	Total 05 – Agriculture, Environmental and Related Studies
Primary Industry Training Organisation Incorporated	2,014	925	75	105		257	3,376
Competenz Trust			752				752
Taratahi Agricultural Training Centre (Wairarapa)	415						415
EIT	186	107					293
Toi Ohomai Institute of Technology	61	39	60		94	8	262
Te Whare Wananga O Awanuiarangi		256					256
NorthTec	99	28	94		30		251
Land Based Training Limited	116	25					141
Lincoln University	97	33			1	4	134
WINTEC	13	86					99
SIT	12	40			37		89
Otago Polytechnic	4	71					75
NMIT		23		14	32		68
Open Polytechnic		1			55		56
Pacific Coast Technical Institute	49	4					53
Community Support Services ITO						47	47
MIT		43					43
Turanga Ararau	38		4				42
WITT	30	7					36
Infrastructure Industry Training Organisation	2					31	33
VETEL	26	2					28
National Trade Academy	12	9					21
The New Zealand Industry Training Organisation				15			15
<b>Total</b>	<b>3,198</b>	<b>1,698</b>	<b>993</b>	<b>136</b>	<b>265</b>	<b>347</b>	<b>6,637</b>
<b>Total minus ITOs</b>	<b>1,182</b>	<b>773</b>	<b>166</b>	<b>16</b>	<b>260</b>	<b>12</b>	<b>2,409</b>

Note: Only providers with 10 EFTS or more are shown in the table. Totals will therefore not sum to total.

## Appendix 4: Graduate Outcomes in 2015/2016 for those aged 25 years, at sub-degree level, who graduated in 2012/13 for PTEs





## Aide-Memoire: Taratahi Agricultural Training Centre

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<b>To:</b>	Hon Chris Hipkins, Minister of Education
<b>From:</b>	Gillian Dudgeon, Deputy Chief Executive - Delivery, Tertiary Education Commission
<b>Date:</b>	29 November 2018
<b>Reference:</b>	AM-18-00928

### Purpose

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1. The purpose of this aide-memoire is to provide you with talking points for your oral item at Cabinet on Monday 3 December regarding Taratahi Agricultural Training Centre (Taratahi).
2. The Tertiary Education Commission (TEC) recommends that any decision to proactively release this paper is made as part of the Taratahi communications plan.

### Talking points for Cabinet

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**The Minister of Agriculture and I intend to inform Taratahi that Crown support will not be provided to rescue them from their severe financial difficulties**

- Following my update to Cabinet last week, the Minister of Agriculture and I have confirmed that Crown support will not be provided to bail out Taratahi from its debt and viability issues.
- To ensure Taratahi's future sustainability would have required significant financial support from the Crown. Even with Crown support, long-term viability is not assured, and additional funding may have been required in future.
- We have investigated options of Crown ownership, but it would still require significant Crown financial support to bail Taratahi out of its current situation and put the institution on a stable footing.
- Given the significant debt owed to the TEC, the inability to repay this debt, and a lack of viability going forward, the TEC Board are unlikely to fund Taratahi for 2019 given no Crown support will be provided.
- Minister O'Connor and I will be sending a joint letter to the Chair of the Taratahi Board, Mavis Mullins, tomorrow to inform her of our decision and to urge her to work closely with officials with regards to ensuring students can complete their studies.

### Taratahi's Board will have to make decisions about its future

- Given the significant debt owed to Westpac and the TEC, the Taratahi Board will have to make decisions on their next steps.

- This will include reviewing their cash position, whether they are meeting the Westpac loan covenants and whether they are acting in “good faith”. This may well trigger the appointment of a liquidator or receiver.
- Shortly after the letter is sent to Taratahi, the TEC will set up an urgent meeting with the Taratahi Board and senior management to discuss the Taratahi Board’s proposed course of action, agree a communications plan and protocols, and establish how we best teach out and/or transition current students to complete their studies.

**The priority is ensuring current students can complete their studies**

- The priority for officials from TEC, NZQA, MoE, the Ministry of Social Development and StudyLink will be working with Taratahi to identify options for students currently enrolled at Taratahi and how we can ensure they are able to complete their studies and are not disadvantaged in any way.
- Some transition work has already been undertaken by officials, but they will need to work closely with Taratahi itself as well as other tertiary education organisations to get the best outcomes.
- Taratahi were allocated Trades Academies funding for 270 learner places in 2018 and deliver to over 50 schools in most regions of the North Island. Other primary industries Trades Academies deliver in all of these regions, however, Taratahi delivers the greatest proportion of delivery in the Waikato and Wellington regions. Officials will need to work closely with other providers to establish if they have the capacity and capability to cover Taratahi’s delivery.

**Significant focus needs to be given to the future of agriculture training**

- While a key focus will be ensuring that current students enrolled in Taratahi can complete their studies, further work will need to be undertaken by MPI and the TEC on how we could respond to Taratahi ceasing operations and identify other high-quality agriculture training alternatives. This work is already underway and I have asked officials to come back to me with further advice in early 2019.
- The outcomes of the reforms of vocational education and training may assist in responding to the future needs of agriculture training.



**Gillian Dudgeon**

Deputy Chief Executive - Delivery  
Tertiary Education Commission

29 November 2018

**Hon Chris Hipkins**

Minister of Education

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## Taratahi

### Taratahi's financial situation remains critical...

- 1 As you are aware, Taratahi's financial position is poor and it is expecting to under-deliver against its TEC funding allocation by \$6.7 million to \$8 million in 2018 (depending on whether the December TEC payment is made). A further \$4 million is owed to the TEC relating to the 2014/15 investigation bringing the debt owed to the TEC to \$12 million. In addition to the \$13 million Taratahi owes to Westpac, its total debt is \$25 million.
- 2 Taratahi can sell one of its farms (Mangarata) to reduce the Westpac debt <sup>Section 9(2)(i) and 9(2)(b)</sup> [REDACTED]. However, Taratahi has no ability to repay the remaining Westpac debt or any of the TEC debt, unless Taratahi is wound down.
- 3 Taratahi is forecasting a \$7 million operating loss in 2018 and, even with planned cost savings initiatives implemented, it is expecting a \$3 million operating loss in 2019. Taratahi has noted to the TEC that it is not viable based on current funding rates, enrolment levels and its delivery model. It requires a significant increase in the funding it receives per student to be viable.

### ...and Taratahi's cash position continues to be extremely tight....

- 4 Taratahi continues to face significant cashflow concerns. <sup>Section 9(2)(b)(ii)</sup> [REDACTED].
- 5 Taratahi has only been operating within the facility limits it has with Westpac due to the TEC continuing to provide funding. We have recently informed Taratahi that the TEC will not be making the December payment unless Crown support is provided. I will update you verbally at the TEC Board meeting on this issue.

### <sup>Section 9(2)(g)(i)</sup> [REDACTED]

- 6 PwC has provided an assessment of whether Taratahi has sufficient assets to cover all debts based on the latest information available. To repay the debt owed to the TEC, it will require the sale of the Home Farm in the Wairarapa – Taratahi's main farm which was gifted to the Crown in 1918 and where it delivers its Wairarapa residential-based training. <sup>Section 9(2)(b)(ii) and 9(2)(j)</sup> [REDACTED].

- 7 <sup>9(2)(b)(ii) and 9(2)(j)</sup> [REDACTED]

**...while we believe up to \$35 million in Crown support would be needed to support Taratahi...**

- 8 We estimate that the amount of Crown financial support needed to clear Taratahi's debt and ensure it remains viable in the short-term could be up to \$35 million if no asset sales were made. We have worked with PwC to estimate this amount. This is comprised of:
  - \$13 million to clear Westpac's debt.
  - \$12 million to clear the TEC's debt.
  - \$2 million of urgent capital expenditure to address health and safety issues and upgrading of residential facilities.
  - \$5 million to \$8 million to cover operating losses over the next two years, depending on the level of cost-savings that could be achieved.
- 9 **Section 9(2)(j) and 9(2)(b)(ii)**  
Further funding may be needed in the medium-term depending on the ability to return Taratahi to financial viability over the next two years and the size of its operating losses over 2019 and 2020. We have not yet undertaken a thorough analysis on whether substantive changes to Taratahi's operating model could return it to financial viability. PwC will analyse this as part of its next phase of work if required.
- 10 We have informed Ministers and Taratahi that given the significant debt owed to the TEC, the inability of Taratahi to repay this debt, and a lack of viability going forward, the TEC Board is unlikely to fund Taratahi unless Crown support was provided and a solution could be found that assisted Taratahi to be viable in the medium to long-term. Taratahi was discussed at Cabinet on Monday 26 November.
- 11 If Crown support is not provided, a key provider of vocational land-based training will be lost and it will leave a sudden and significant gap in agricultural provision, which may take considerable time to recover from. The TEC would need to work quickly on how we could transition resources into other high-quality training alternatives while also ensuring we provide support to current students at Taratahi to allow them to finish their studies.

**Excerpt from CEs report to the Board – 5 November 2019**

**We have engaged PwC to undertake financial modelling to assess options for Taratahi's future viability**

- 12 Taratahi has been developing a new integrated farming and educational strategy over the past two years to ensure its ongoing financial viability, but recent developments indicate that bigger and more drastic changes are likely to be required.
- 13 In agreement with Taratahi, TEC has engaged John Fisk from PwC to undertake urgent financial modelling and analysis to assess future options for Taratahi. PwC were engaged to deliver an approach consistent with that taken for the recent ITP interventions.

- 14 We are engaging closely with MPI, MoE and Taratahi and will update you after we receive our first report from PwC.

**Excerpt from CEs report to the Board – 6 August 2018**

**Taratahi has insufficient cash flow to withstand an in-year plan amendment**

- 15 Taratahi expects to significantly under-deliver against 2018 funding allocations, equating to an estimated amount of \$5.3m for 2018 out of total funding of 16.3million.
- 16 Taratahi has requested that TEC provide financial support by delaying 2018 funding reductions as a result of an in-year plan amendment and funding recoveries.
- 17 The standard TEC practice of applying an in-year plan amendment to reduce ongoing funding to match reduced delivery would result in payments for September to December 2018 being withheld. While there is sufficient asset coverage for their liabilities, without continued TEC funding Taratahi would have insufficient short term cash flows to support continued trading.
- 18 Taratahi will undertake some asset sales later in the 2018 year or early in 2019. Some of these funds may be available for TEC debt repayments, **Section 9(2)(j)**  
[REDACTED]
- 19 Before TEC can make a decision on Taratahi's request, Taratahi has been asked to provide more information to evidence certainty that it has the ability to rebuild its business into a sustainable operation in the longer term. TEC must also consider the role Taratahi plays in meeting the primary industry skill needs. **Section 9(2)(f)(iv)**  
[REDACTED]
- 20 Taratahi's 2018 funding reductions, 2019 funding allocation and financial support options will be presented to the Board for consideration on 3 September 2018. We will raise with the Minister the opportunity afforded by the proposed process at Lincoln University as well.

**From:**

Dean Winter, Manager, Monitoring and Crown Ownership  
Niki Penberthy, Manager, ITP and PTE Investment

**Approved:**

Gillian Dudgeon, Deputy Chief Executive, Delivery  
Tim Fowler, Chief Executive

Please **give us your comments on** the various proposals outlined in this paper, which will allow us to provide you with a proposed funding recommendation for Taratahi Agricultural Training Centre in an out-of-cycle Board Paper in September/October 2018.

### **This paper seeks your guidance for a funding decision for Taratahi Agricultural Training Centre, one of the 15 largest TEC funded Private Training Establishments (PTEs), in 2019 and beyond**

- 1 Taratahi Agricultural Training Centre (Taratahi) is a large PTE with its head office based in the Wairarapa. It delivers agricultural training nationwide, through both intramural and mixed-mode delivery, across the subject areas of farm skills and agriculture, apiculture and agribusiness management. Created through an Act of Parliament in 1919, Taratahi was established to re-skill returning servicemen following World War One, and holds a strong place in the New Zealand agricultural psyche.
- 2 In 2014, the TEC was made aware of the enrolment of Taratahi staff members in courses and qualifications run by the PTE and engaged Deloitte to investigate on its behalf. The outcome of this investigation was that Taratahi under-delivered the required teaching hours for several of its programmes. As a result, in 2015, Taratahi was ordered to pay back approximately \$7.5M (GST exclusive) in over-funding received over the period 2009-2014. Taratahi was also required to appoint an independent financial consultant, Jeremy Morley of PriceWaterhouseCoopers, to provide oversight and report back to the TEC Board.
- 3 The TEC has continued to work with Taratahi since that time, and Taratahi has made a substantial effort to repay the debt, whilst also continuing its educational delivery. To date, \$3.55m of funding has been repaid leaving an outstanding balance of \$3.9m (GST exclusive).
- 4 Taratahi is expected to under-deliver against its funded allocation in 2018 to the value of approximately \$7.7M (this represents approximately 50% of its 2018 funding allocation). Taratahi's cash flow cannot support this level of funding adjustment within 2018. Therefore Taratahi has asked that TEC continue to maintain its existing funding payments until November 2018, and withhold the December payment and fees free funding to the total of

\$1.7M. This will leave a balance of \$6M over-funding to be carried forward into 2019 as a debt, in addition to the \$3.9M still outstanding from the 2014 investigation.

- 5 Due to the impact that a Plan amendment to reduce 2018 funding would have on Taratahi's cash flow, we have not taken any action to date, but are seeking your feedback on both their future funding and 2018 under-delivery in this paper.
- 6 *Our normal plan assessment process for PTEs would recommend that we decline Taratahi for funding in 2019.* Taratahi's unique history and position as a nationwide agricultural educational provider in a key investment area for New Zealand has meant that TEC is considering options for potential ongoing support (not usually available to other PTE's) to address Taratahi's stressed financial situation.
- 7 Usual interventions used by TEC (such as the appointment of a financial advisor or Crown Manager) are set out in the Education Act and apply to TEIs, rather than PTEs. Therefore, as Taratahi is an incorporated charitable trust under the Charities Act 2005 and a PTE, TEC would need to take a different approach. As a PTE, TEC could impose specific conditions on any funding provided to Taratahi for 2019 to ensure that the specified outcomes in Taratahi's plan are being achieved, or will be achieved.
- 8 Neither the Ministry for Primary Industries nor the Minister of Agriculture has any responsibility or oversight of the business development and performance of Taratahi, other than the limited sphere set out in the Taratahi Act 1969, which include Board appointments and consent for significant borrowing, acquisition of property and capital expenditure.

### **We are recommending a two-stage approach to funding Taratahi from 2019**

- 9 As a large, nationwide provider, Taratahi offers a breadth of primary sector delivery not achieved by any other single provider. Industry feedback has indicated that employers value students who graduate through Taratahi's residential programme, and that the training creates work ready graduates. This is reflected in the post-study outcomes for Taratahi graduates when compared to the rest of the PTE sector, who in 2012/2013 (our latest year of data) demonstrated around 65% learners going into the workforce.<sup>1</sup>
- 10 There is already an existing gap in primary industry delivery in New Zealand, to meet the needs of industry. **Section 9(2)(g)(i)**  
[REDACTED]  
[REDACTED]

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<sup>1</sup> TEC's Post Study Outcomes by TEO app, outcome year 2012/2013, under 25, sub-degree levels, and PTEs with more than 30 graduates in 2012/2013. We use data relating to graduates in 2012/2013 as this provides outcomes three years after completion of qualifications. Outcomes using graduates from 2014/15 provide similar results but there are slightly less graduates employed and slightly more jobseekers which is what we would expect two years after graduation.

- 11 Therefore, our proposed options for 2019 broadly focus around providing interim funding for the 2019 year, while we investigate longer term options for Taratahi.

### **Although Taratahi plays an important role in the sector, it has seen a decline in educational performance**

- 12 Taratahi's educational performance has suffered in recent years, with a decline in the course completion rate achieved by learners. In 2017, Student Achievement Component (SAC) levels 3 and above learners achieved a course completion rate of around 66%. When compared to other educational providers delivering at SAC levels 3 to 5 in agriculture and horticulture, Taratahi's course completion performance sits at around the middle in terms of achievement (when compared against delivery at similar PTEs, and the qualifications delivered at ITPs in the agriculture/horticulture sector). However, as indicated above, PSO outcomes for learners that complete study are high compared to the PTE sector.
- 13 This course completion rate decline can in some part be attributed to the significant changes within the organisation in the previous three years. Following the Deloitte investigation, Taratahi was required to transition out of a number of qualifications that were not meeting NZQA and TEC delivery requirements. This has meant an entire shift in the educational delivery of the organisation, whilst trying to internally redevelop staffing capabilities and educational programmes. Our engagement has seen Taratahi shift its proposed mix of provision largely to higher performing qualifications for 2019. Where we are proposing to continue to fund some programmes that have historically been poorer performing, we have set clear expectations with Taratahi about increased achievement levels, particularly in their level five agribusiness delivery. Taratahi has already begun to make changes to the delivery of this qualification in 2018, which should result in increased performance if we continue to fund in 2019.
- 14 Taratahi is also a category three External Education and Review provider with the NZQA. This indicates that NZQA has concerns about the on-going delivery at Taratahi, and has required them to review their internal processes and procedures significantly. While Taratahi was rated Confident in Self-Assessment, it was rated Not Yet Confident in Educational Performance in July 2017, based on visits to the organisation in October 2016. It will likely be re-reviewed by NZQA in late 2018/early 2019.

### **Taratahi's financial viability status is 'high risk'**

- 15 While Taratahi is progressing with diversifying its income streams, and reducing operational costs, it has cash flow issues in light of decreasing enrolments from learners coupled with on-going fixed costs that cannot immediately be rectified. **Section 9(2)(j)**  
[REDACTED]  
[REDACTED]
- 16 Taratahi was also highly impacted by both the TEC's Competitive SAC level 3 and 4 pilot (the pilot), and the cessation of delivery at Agriculture New Zealand (they picked up this additional provision delivery through the pilot process). Taratahi bid aggressively through the pilot, and based on the decision-making parameters, was allocated an ambitious level of funding for 2017 and 2018. Taratahi has not been able to deliver against its optimistic

funded allocation, and has also struggled with the additional allocation of SAC levels 1 and 2 funding due to the closure of Agriculture NZ. Both of these issues have placed a strain on the internal capabilities of Taratahi.

- 17 On-going discussions between the TEC and Taratahi have focused on the need for Taratahi to be able to support on-going delivery without a dependence on TEC financial support. However, in its current state, there is a strong risk that Taratahi could not continue as an educational provider without the on-going support of TEC (i.e. delayed repayment schedules for the investigation debt and/or over-payments made relating to significant forecasted under-delivery in 2018).
- 18 Taratahi has stated that it needs immediate TEC financial support by delaying the recovery of funding from 2018 under-delivery. During 2018 Taratahi is expected to deliver 50% of its allocated EFTS, resulting in an over-funding debt of \$6M to be carried forward into 2019. Details are provided in the table below. Funding to be withheld during 2018 includes the December grant funding payment (\$1.36M) and fees free funding (\$0.35m), totalling \$1.7M across both funding types.

**2018 Under-Delivery Debt Estimate**

***EFTS***

Allocated	1,265	
Expected Delivery	<u>633</u>	
Difference	<u>633</u>	50%

***Funding (\$Millions)***

Allocated	17.1	
Expected Delivery	<u>9.4</u>	
Difference	<u>7.7</u>	45%

Funding to be Withheld during 2018	<u>1.7</u>	
2018 Under-Delivery Debt Estimate	<u>6.0</u>	

19 The following table provides a summary of Taratahi’s financial projections. This shows that Taratahi expects to be able to repay the \$6M 2018 debt to TEC during 2019 following selected asset sales and bank re-financing. The balance of the 2014 investigation debt (\$3.9M) is proposed to be repaid over the next eight years at \$480k per year. A return to surplus is expected from 2021.

<b>Financial Assessment (\$ Millions)</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
EFTS	633	663	684	691
Revenue - TEC & MSD	10.7	11.1	11.5	11.8
Revenue - Other Education	3.0	3.7	4.1	4.3
Revenue - Farming	8.3	7.9	7.6	7.6
Net Surplus/(Loss)	(4.6)	(1.1)	(0.1)	0.5
Assets	44.8	39.6	39.4	39.9
TEC 2018 debt	(6.0)	-	-	-
TEC 2014 Debt	(3.9)	(3.5)	(3.0)	(2.5)
Other Liabilities	(16.1)	(17.5)	(16.9)	(16.4)
Equity	18.8	18.6	19.5	21.0

20 While there is sufficient asset coverage for all liabilities during this period, we have concerns regarding the following key assumptions:

- **Re-financing** – it is unclear at this point whether a bank would agree to re-financing based on the current projections and key underlying assumptions.
- **Section 9(2)(j) and 9(2)(b)(ii)**
- **Equivalent Full Time Student (EFTS) growth** – 5% to 3% growth is forecast for the next two years. This level of growth will be difficult to achieve based on previous performance. If there is no growth in EFTS, Taratahi will not return to surplus during this period.
- **Other educational revenue** – projections are for significant growth in non-TEC funded education services. We do not have adequate evidence that provides confidence the projections will be achieved, particularly as Taratahi also needs to increase its core educational services at the same time.
- **Section 9(2)(g)(i) and 9(2)(b)(ii)**
- **Targeted cost savings** – a cost control program has begun with a target \$3M annual cost saving target. This will be difficult to achieve given the underlying fixed cost structure and the need to improve educational outcomes at the same time.

- 21 Taratahi's financial viability status remains at "high risk" and any future support will need to be structured to recognise this. In addition, if we fund Taratahi in 2019, we will include funding conditions that require monthly financial reporting, as well as educational performance information, to proactively manage any financial variances during the year.
- 22 Please note that this paper does not consider the allocation of Trades Academies funding (determined by Ministry of Education) and Māori and Pasifika Trades Training (Off-Plan funding), both of which Taratahi receives in 2018, amounting to \$1.8M. However, we do not consider the possible allocation of these funds in future to materially change our concerns about the financial situation at Taratahi.

### **Residential programmes are high cost, and the standard EFTS funding rate does not cover delivery costs**

- 23 Taratahi's provision most valued by industry is its residential delivery, both in the Wairarapa and through the Telford campus in Balclutha.
- 24 Through the pilot, Taratahi received a higher funding rate for 2017/2018 delivery, which was calculated based on a cross-subsidisation of its residential programmes. In 2017 and 2018, Taratahi was paid approximately \$15k per SAC EFTS at levels 3 and 4. The Minister announced in March 2018 that all competitive SAC funding would not continue into 2019. Thus, if Taratahi is funded in 2019, it would currently receive a decreased funding rate for delivery, based on the standard SAC funding rates at levels 3 and above (\$10,800 per EFTS). While the 1.6% increase in SAC funding rates will provide some relief, Taratahi will be required to attract even more students in 2019 than in 2017/2018 to achieve the same level of funding.
- 25 One possible avenue to better allow us to support residential delivery would be the allocation of a Section 321 Grant for Special Purposes (Section 321 funding) under the Education Act. This funding, which requires ministerial approval, could be used to fund the additional pastoral care required for Taratahi's residential delivery. This is not a commonly used funding allocation and currently only two providers<sup>2</sup>, which are deemed to have national significance, receive it. There is no guarantee this funding would be approved.

### **Section 9(2)(g)(i)**

- 26 During 2018, we have requested that Taratahi continue to provide updated forecasts to the TEC in regard to delivery volume. While original estimates sat near its 1,200 EFTS allocation, subsequent forecasts have dropped to 802 (May), 740 (July) and most recently 630 EFTS (August). Taratahi has indicated through its engagement with us that its inaccurate forecasts are due to the lack of capability in its regional offices to forecast their delivery. Taratahi does not appear to have sophisticated systems, high capability in monitoring overall delivery, and forecasting future educational activity and determining learner demand.
- 27 Despite two years of under-delivery, this is the first Plan submission during this period that Taratahi has requested funding at a level that appears more reasonable in light of past delivery (totalling 662 EFTS). However, given historical under-delivery and inaccurate forecasting, it is difficult to ascertain

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<sup>2</sup> The School of Dance and the School of Drama.

whether this level of delivery can be achieved. While the Plan submitted does contain general strategies to engage more learners, and measures of success relating to these, there is a level of uncertainty around their practical application.

- 28 In terms of educational performance, we requested information from Taratahi on where its year to date educational performance sits. It has not been able to supply this to the TEC at this stage. While the Plan has outlined a large number of programmes, interventions and strategies to increase educational performance – and proposals to cease delivery in some low-performing qualifications – we are concerned about the ability of the organisation to make the gains committed through its performance commitments.
- 29 If we were to fund Taratahi in 2019, we would include a funding condition that requires Taratahi to finance and utilise an external Management Consultant or Advisor, agreed by the TEC, who would look to address the shortfalls in current management capabilities. We would also require a monthly progress report from this person.

### **Our normal Plan assessment process for PTEs would recommend that we decline Taratahi for funding in 2019**

- 30 We have undertaken a Plan assessment of Taratahi’s proposed 2019 Plan. Based on this assessment, we have rated Taratahi as Not Yet Confident overall, with specific ratings of Not Yet Confident for Strategic Intent, Not Yet Confident for its Mix of Provision (MOP), and Confident for its Educational Performance Indicator Commitments.
- 31 The main concerns we have are around the provider’s ability to deliver to its proposed MoP (given historical forecasting issues), and the aforementioned capability issues. There is more detail on these matters in Appendix One of this paper. In addition, the PTE fails the TEC’s prescribed prudential financial standards for PTEs. If Taratahi was financially sound, through our normal process, we would recommend funding them on a one-year basis, ensuring that we put strong educational performance monitoring in place.

### **However, there are some extra considerations that need to be made in regards to Taratahi**

- 32 Taratahi has a nationwide operation. There is no other single provider that could take over this provision quickly. It is also being subcontracted by a number of ITPs, meaning the impact of its closure would spread further than solely direct enrolments at the provider level.
- 33 While there are a number of other PTEs and ITPs delivering in the agriculture space, most of these are in smaller numbers. In addition, some regions would have no coverage should Taratahi close. It would be relatively easy to engage other providers to deliver the provision Taratahi does at level five, but not at levels three and four, or its residential provision. **Section 9(2)(g)(i) and 9(2)(j)** we are aware of one other provider who has shown an interest in entering primary sector educational delivery.

34 Given Taratahi's position within the primary industry sector, its history, and its establishment under an Act of Parliament, there may be political fallout should it cease to deliver. Other Government agencies, such as the Ministry of Primary Industries, have concerns about the ongoing viability of Taratahi, and are interested in ensuring that there are enough skilled workers for industry.

### **Funding Taratahi at any level in 2019 offers some level of risk**

35 Our financial analysis indicates that funding Taratahi at the proposed level requested through their Plan (662 EFTS) would mean that Taratahi would struggle to make any profit by 2021. This presents an issue given the level of debt owed to the TEC by Taratahi. Section 9(2)(g)(i)

[REDACTED]

36 Recognising the role that Taratahi has in the sector and the need to address its longer term viability, this paper offers both a short and longer term set of options for consideration in the following two tables.

Table 1: Potential funding Decision Options for Taratahi for 2019

	Option	Impact	Debt Repayment	Risk	Mitigation	Network Impact
Option One	Do not fund Taratahi in 2019	<ul style="list-style-type: none"> <li>Taratahi cease delivery and learners need to move elsewhere to complete their studies</li> <li>Liquidation or attempted sale of organisation</li> <li>Section 9(2)(g)(i) and 9(2)(j) [REDACTED]</li> <li>Potential significant decrease in primary industry level training in NZ, especially in regional areas.</li> </ul>	<ul style="list-style-type: none"> <li>Historic and 2018 under-delivery debt only repaid if asset sales or sale of organisation is sufficient to cover it</li> </ul>	<ul style="list-style-type: none"> <li><b>Learner risk:</b> Likely to have a number of displaced students or organisational issues as change of ownership occurs</li> <li><b>Lack of other providers in short term unable to take up lost capacity</b></li> <li>Section 9(2)(g)(i) [REDACTED]</li> </ul>	<ul style="list-style-type: none"> <li>Close working relationship with NZQA and Studylink, and other providers.</li> <li>Funding available to support other providers</li> <li>Proactive communications management</li> </ul>	<ul style="list-style-type: none"> <li>Drop in primary industry provision</li> </ul>
Option Two (A)	To fund in part to the level of funding requested by Taratahi (~\$7.3m)	<ul style="list-style-type: none"> <li>Continued delivery</li> </ul>	<ul style="list-style-type: none"> <li>Historic debt to be repaid over the next eight years</li> <li>2018 under-delivery repaid as soon as refinancing facility is arranged in 2019</li> </ul>	<ul style="list-style-type: none"> <li>Long term repayment of historic debt</li> <li><b>Learner risk:</b> Some risk that the provider will still cease operations and potential learner impact</li> </ul>	<ul style="list-style-type: none"> <li>Close monitoring (applied through funding conditions)</li> <li>9(2)(b)(ii) [REDACTED]</li> <li>Appointment of a new Management Consultant or Advisor</li> <li>Monthly reporting to support expected delivery levels condition of funding</li> <li>Ability to suspend monthly payments or revoke funding at any time if funding conditions not met (likely to result in Taratahi ceasing operations)</li> </ul>	<ul style="list-style-type: none"> <li>Maintain network of provision</li> </ul>
Option Two (B)	Option 2(A), but also require Taratahi to obtain a debt consolidation facility	<ul style="list-style-type: none"> <li>Continued delivery</li> </ul>	<ul style="list-style-type: none"> <li>Historic and 2018 under-delivery debt repaid in full, covered by debt facility</li> </ul>	<ul style="list-style-type: none"> <li>Unable to secure a debt consolidation facility</li> <li><b>Learner risk:</b> Some risk that the provider will still cease operations and potential learner impact</li> <li>However, if it ceases operation, it will no longer owe anything to the TEC</li> </ul>	<ul style="list-style-type: none"> <li>As for 2(A)</li> </ul>	<ul style="list-style-type: none"> <li>Maintain network of provision</li> </ul>

Option Three	Option Two (A) or Two (B), but also allocating additional Section 321 funding	<ul style="list-style-type: none"> <li>As above, plus, Taratahi likely to become slightly less risky financial as the cost of residential delivery would be better offset through the EFTS funding rate and Section 321 funding</li> </ul>	<ul style="list-style-type: none"> <li>As per Options Two (A) or Two (B)</li> </ul>	<ul style="list-style-type: none"> <li>As per the above; plus</li> <li>One other provider delivers residential funding – may have to consider extending Section 321 funding to them as well</li> <li>Additional cost – we would be unable to recover Section 321 funding once allocated, as it is not tied to specific EFTS</li> <li>Requires Ministerial approval and work with the Minister of Education over viability</li> <li>Time frame may not be feasible for 2019</li> </ul>	<ul style="list-style-type: none"> <li>As per the above; plus</li> <li>Need to investigate possible mitigations with the Ministry of Education</li> </ul>	<ul style="list-style-type: none"> <li>Maintain network of provision</li> </ul>
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37 If Option One is pursued (i.e. no funding for 2019 to be allocated) we recommend that we cease future 2018 payments to Taratahi as soon as possible to minimise the debt owing to TEC resulting from under-delivery. This would likely result in Taratahi ceasing educational operations immediately. Other actions which would be required include:

- working with the NZQA and the Studylink over the placement of students part-way through study, and any student loan issues;
- undertaking debt recovery **Section 9(2)(h)**; and
- investigating the possibility of transferring funding to other providers who wish to deliver in the primary industry sector.

### There are also several longer term structural options to consider for Taratahi

38 The previous options for funding are for a period of one-year only. It is recommended that you also consider the following longer term approaches to managing Taratahi, which would allow us to investigate the viability of preparing Taratahi for any of these approaches.

39 We would seek external advice and assistance to develop a plan and framework concerning each of the options listed in Table 2 below, before we provide detailed advice to you on our proposed approach and consult with stakeholders. These stakeholders would include other Government organisations and the Minister of Education.

40 There are some primary sector issues impacting Taratahi. Many young people have negative perceptions about working in the agriculture sector. These focus around issues such as low pay, social isolation and demanding work hours and conditions. We believe that industry, as a whole, will need to address working conditions and pay to make it a more desirable career choice. This would have a positive impact on increasing the overall demand for primary industry tertiary provision. The TEC has been in discussions with other primary sector organisations about these issues through our Primary Industries Focus Area Brief. This work ties in with some of our Careers work around ensuring that students understand the demands of working in the primary sector, and that teachers are able to provide advice and resources to support students to make informed career choices.

41 Other issues facing the primary industries include the development of sector capability, and addressing the high cost for residential provision. While we have advised that a Section 321 grant may be an option to subsidise Taratahi’s residential provision, this is not a long term solution. [REDACTED]  
[REDACTED] Section 9(2)(g)(i) and 9(2)(j) [REDACTED] We will work with Ministry of Education to investigate options to address this.

42 We will continue to advance this work, however, progress is not likely to be fast enough to impact Taratahi in the short term.

Table 2: Longer term options for Taratahi

	Detail	Impact	Risk	Mitigation	Network Impact
<b>Option A – Sale of Taratahi</b>	Taratahi is purchased by another PTE <i>(A large PTE grouping has previously shown interest in purchasing Taratahi)</i>	<ul style="list-style-type: none"> <li>• Continuity for students</li> <li>• Potential TEC debt recovery</li> <li>• Level of primary provision is retained (initially)</li> </ul>	<ul style="list-style-type: none"> <li>• No PTEs may be prepared to take on the level of financial risk and debt burden</li> <li>• TEC debt is not repaid through the sale and purchase process and is transferred to another PTE</li> <li>• OIC approval may be needed to support this transaction</li> <li>• Complexities of the Taratahi and Telford Acts</li> </ul>	<ul style="list-style-type: none"> <li>• Work with NZQA to approve purchaser</li> <li>• Purchase agreement could be conditional on grand parenting of current students.</li> </ul>	<ul style="list-style-type: none"> <li>• Possible reduced delivery in some regions after consolidation and business rationalisation</li> </ul>
<b>Option B – Management Contract</b>	A high performing organisation is contracted to manage the Taratahi operation. We are aware of a high performing PTE that is interested in how it could support the ITP sector. The PTE may be interested in an arrangement with Taratahi.	<ul style="list-style-type: none"> <li>• Continuity for students</li> <li>• Level of primary provision is retained (initially)</li> </ul>	<ul style="list-style-type: none"> <li>• Taratahi might not be in a financial position to pay for the management contract. We might need to consider other options for paying for this arrangement</li> <li>• Might increase debt and lower speed of debt recovery in short term</li> <li>• Uncertainty around legislative levers we can use to force this – as a PTE, the organisation is a private entity</li> </ul>	<ul style="list-style-type: none"> <li>• Would need to work closely with appointed organisation to ensure sufficient oversight and monitoring is in place</li> </ul>	<ul style="list-style-type: none"> <li>• Possible reduced delivery in some regions after consolidation and business rationalisation</li> </ul>

<p><b>Option C – Transition to ITP</b></p>	<p>Taratahi is considered as part of the ITP Roadmap 2020 project.</p>	<ul style="list-style-type: none"> <li>• Taratahi becomes an ITP or part of another ITP in the future</li> <li>• Crown could consider writing off the historical debt</li> <li>• We would have greater crown monitoring and legislative levers</li> </ul>	<ul style="list-style-type: none"> <li>• May take too long, and Taratahi might not remain in operations while the Roadmap work comes to a conclusion</li> <li>• May not be politically palatable to the public</li> <li>• Complexities of the Taratahi and Telford Act</li> </ul>	<ul style="list-style-type: none"> <li>• Careful monitoring and ensuring business advisor in place to provide feedback to TEC if organisation is at risk</li> <li>• If Taratahi does cease operations, we would need to consider transition options for learners</li> </ul>	<ul style="list-style-type: none"> <li>• Possible reduced delivery in some regions after consolidation and business rationalisation</li> </ul>
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## Appendix One:

### Taratahi Agricultural Training Centre (Taratahi)

<b>Level of confidence</b> Not Yet Confident	<b>Plan length (years)</b>  <b>1</b>	<b>SAC Level 3+ EFTS 2019</b> 612	<b>% variation total 2019 final funding recommendation to total 2018 funding<sup>3</sup></b>  -56%	<b>Additional funding conditions</b>  Yes
<b>Financial Monitoring Framework rating</b>  High		<b>Total funding 2019</b> \$7,296,205 <i>(excludes MPTT and Trades Academies funding not yet allocated)</i>	<b>Indicative allocation impact due to EPI penalties</b>  -\$1,169,560	<b>Matters of concern arising out of a review or investigation?</b>  Yes
<b>Funding Recommendation</b>		<i>Please see body of paper for proposed options</i>		

#### Overview

- 1 In 2017 and 2018, Taratahi has struggled to deliver to its funded allocation. It has significantly under-delivered in 2018, with the value of current under-delivery at approximately \$7.7M. Through its Investment Plan submission for 2019, Taratahi has attempted to right-size its delivery by requesting a significant decrease in funding, even lower than its proposed indicative allocation.

<sup>3</sup> Please note that this calculation is based on Taratahi's confirmed 2018 allocation, whereas the 2019 value excludes Off-Plan funding.

### **Taratahi is struggling to deliver to its funded EFTS allocation**

- 2 Following the investigation of Taratahi in 2014 and 2015, the organisation has faced several leadership changes and restructuring activity. The impact of these changes continued into 2018, and coupled with decreasing overall enrolments in agricultural industry training, has meant that Taratahi has seen a downturn in demand for its programmes against its funded allocation. Taratahi has also been required to continue to make repayments to the TEC for its investigation debt. This has meant limited capital has been available for the organisation to invest in systems and processes to improve performance and delivery, although it has still attempted to do so cautiously during 2017.

### **It is expecting to deliver to our priorities for Māori and Pasifika, as well as young learners, and to our primary industry investment brief**

- 3 Taratahi's focus is on preparing learners, particularly young learners, for a career in the primary industries. It also enrolls a significant amount of Māori learners, and in 2017 this was around 40% of total enrolments. However, Taratahi has achieved poor educational performance over the past two years. As a result of our engagement over these issues, it has shifted funding away from several low-performing programmes, which will be offered for the last time in 2018. For those programmes that are lower-performing that it wishes to continue delivering, it has outlined key steps being taken to ensure greater levels of learner success.
- 4 Taratahi's historic educational achievement performance is low. It has set performance commitments that do not reach parity by 2020. Given the levels of achievement of Taratahi, it would have been extremely unlikely it would have achieved parity by 2020. However, it is committing to engage more Māori and Pasifika learners, and the Plan submitted by Taratahi contains detail on the activities being undertaken to improve its educational performance.

### **2019 will hold the following challenges for Taratahi, and we are recommending a decreased allocation for 2019**

- 5 Taratahi have shown poor forecasting capability in the past. In 2017, they took on some provision formerly delivered by Agriculture NZ, and also took over the Telford campus previously owned by Lincoln University (and before that, run as an independent ITP). While Taratahi has indicated it is confident it will achieve delivery of its funded allocation in 2019, we hold concerns over its ability to do so – despite it being a decrease on the actual 2018 allocation (of which Taratahi is expected to deliver no more than 55%).

### **Our confidence in Taratahi**

- 6 We are Not Yet Confident in Taratahi's ability to deliver to its full funded allocation. While we have concerns about its educational performance, it has outlined sufficient strategies to address these. However, it is difficult to ascertain (based on historical delivery patterns) whether Taratahi can achieve the level of delivery it is seeking for 2019.

### Issues or risks

- 7 As outlined in the main body of this paper, Taratahi has significant financial viability issues. Section 9(2)(g)(i) any decision to fund Taratahi contains a level of risk. In addition, there is a political and educational risk should we choose not to fund the provider.

### Proposed additional funding conditions for Taratahi

- 8 Our assessment of Taratahi's proposed Plan and organisational capability indicates that, should TEC fund the provider in 2019, we will need to apply organisation-specific funding conditions to protect our investment. These conditions will relate to ongoing monthly reporting from Taratahi to the TEC, and monthly meetings with the TEC to ensure it is making progress towards both educational and delivery goals. We would also require Taratahi to contract a Management Advisor or Consultant (approved by the TEC).

**From:**

Section 9(2)(a) Delivery Directorate

**Approved:**Gillian Dudgeon, Deputy Chief Executive, Delivery Directorate  
Tim Fowler, Chief Executive

We are providing this Board Paper **for your information only**.

**Purpose**

- 1 The purpose of this paper is to provide an update to the TEC Board on Taratahi Agricultural Training Centre (Taratahi) and the actions we are taking to understand and address its financial position.

**We have engaged PwC to undertake urgent and critical analysis...**

- 2 In early October, we engaged John Fisk from PwC, and his team, to go into Taratahi to assist with urgent financial modelling and analysis. This was arranged in agreement with Taratahi. From our point of view, there is an urgent need to understand a number of key issues in more detail and we were not confident that we could get this information from Taratahi.
- 3 Through PwC's work, we will be able to have more informed discussions with the Taratahi Board, and Ministers, around how Taratahi may be able to restructure its balance sheet and right size its operating model to be viable in the future. This information will also be needed before the TEC Board can make decisions on Taratahi's 2019 funding and how it will treat the debt owed to the TEC. As you are aware, the TEC has already funded Taratahi for the student numbers it expects to deliver during 2018, and by continuing to provide funding, it is increasing the size of the debt as well as the risk of non-payment.
- 4 PwC's work will be in three phases, to ensure we get the most important information as soon as possible:
  - a. **Phase One: assessment of current state** – this will include a review of Taratahi's assets, their disposal value (rather than book value), and the ability to sell them given the legal framework it operates under. This is important to understand should a wind-down process eventuate and to give confidence to the TEC Board that both the Westpac and the TEC debt is appropriately covered (noting that Westpac is a secured creditor and its

debt will be prioritised over the TEC's debt). PwC will also provide an assessment of short-term cash requirements for the remainder of 2018. This will inform our decision on whether the remaining TEC payments for 2018 can be withheld. We received a draft report from this phase on 25 October and a summary is provided below.

- b. **Phase Two: modelling savings options and asset sales** – this will include an assessment of the cash-saving initiatives and asset sale options available to Taratahi. The key outcome of this work will be to identify if there are any viable options available for moving Taratahi towards a financially sustainable position. This work will also include reviewing Taratahi's financial model and its assumptions, and undertaking sensitivity analysis, including downside scenarios which will reduce revenue or increase costs. This phase is due to be completed by the end of November in time for the December TEC Board meeting.
- c. **Phase Three: significant change options** – this will assess the options available involving more radical change to Taratahi's delivery model. This could include consolidating sites, exiting non-profitable provision, partnerships with other tertiary education organisations, or sub-contracting. This work will also consider options involving direct Crown support or Crown ownership. PwC will need to work closely with Taratahi and officials from various agencies on this phase as well as incorporate legal advice given the legal framework Taratahi operates under. There is no current time frame for this work to be completed, and it will be dependent on the findings of the first two phases of work.

### ...but there is a range of work Taratahi can be doing themselves...

- 5 We have been engaging closely with Taratahi and its Board over recent months. Most recently, we met with members of the Board and senior management team on 17 October. They are being co-operative and welcome any assistance but, in our view, they are looking to the Government for guidance and ongoing support – both financially, and in determining the potential options available. Taratahi has noted however that it is open to all options, including the selling of assets and fundamental changes to its delivery model.
- 6 We believe there are a number of actions Taratahi can take in the short term to reduce its debt level and improve viability while medium and long-term options are assessed. Section 9(2)(b)(ii) and 9(2)(j) [REDACTED]  
[REDACTED]
- 7 While Taratahi has also been implementing cost-savings initiatives over the past year, this work needs to continue with pace and our initial view is that these could perhaps be more aggressive. Section 9(2)(j) [REDACTED]  
[REDACTED]. Further assessment of what other asset sales could be made also needs to be undertaken (in conjunction with PwC). We need to ensure Taratahi exhausts all options available to it to make the organisation financially sustainable, before any sort of Crown support is considered.

## Section 9(2)(j) and 9(2)(b)(ii)

### ...but cash is very tight...

- 9 PwC also confirms that Taratahi's cash position is extremely tight. Taratahi has been proposing to ask the TEC that the \$1.5 million December 2018 payment is not made given its significant under delivery this year. However, PwC has noted that this is only viable if all other income forecasts are achieved and there is a significant risk that they will not all eventuate. If the income forecasts are not achieved, Taratahi is unlikely to be in a financial position to continue operations without the December payment from the TEC. However, by making the payment, we will be increasing the level of debt owed to the TEC. Taratahi has indicated it is putting significant effort into ensuring the December payment is not required.
- 10 We will continue to monitor Taratahi's cash position closely over November before deciding on our planned approach to the December 2018 payment. This decision will need to be made in late November, before the next Board meeting. We will keep the Board apprised of our approach through the intersessional Board update.

### ...and we will provide the TEC Board with advice regarding 2019 funding decisions in December

- 11 We will provide the Board with comprehensive advice in December on Taratahi's 2019 funding and options for how the debt owed to the TEC could be treated. By this stage, we should have additional information from PwC and be able to make a more informed assessment around future viability and the extent of the issues at Taratahi. Section 9(2)(g)(i), we will be looking to assess if Taratahi can be viable in future. This will include assessing whether Taratahi has the ability to repay the debt over time, both with and without Crown assistance.
- 12 Following this analysis, the TEC Board could consider providing interim funding for 2019. This would enable Taratahi to continue operating while further financial savings are made and more work is undertaken on assessing the options to move Taratahi towards a financially sustainable position.

As noted earlier, this could include a Crown capital injection, some form of Crown ownership, or another arrangement. We are continuing to assess what options are feasible.

- 13 Typically, in situations such as these, particularly where a PTE is involved, the TEC would usually recommend that it be declined for funding in 2019. This would be due to ongoing viability concerns, risks around non-delivery, and that continuing to fund Taratahi could increase its debt and therefore the risk of non-payment. Given the uncertainty around Taratahi's financial future, the TEC Board will have to balance the advantages and disadvantages of each option. If the Board declines funding, Taratahi will cease operations and a key provider of vocational agricultural training will shut down. If the Board provides funding, there is a potential risk of training not being provided and the high level of debt already owed to the TEC will increase.
- 14 We will also continue to keep the Minister of Education and the Minister of Agriculture updated on developments, as both have a keen interest in the situation. We understand that the Minister of Agriculture is meeting with Taratahi on 6 November to discuss its situation and possible solutions going forward. Taratahi is also keen that the Ministry of Primary Industries review the Taratahi Act, and hopefully the Telford Act, to ensure they are fit-for-purpose. Both have complex trust arrangements and the Taratahi Act places a number of constraints on the Taratahi Board and requires Ministerial consent for some actions (such as certain capital expenditure). A more effective, modern and independent governance framework would be beneficial.

**From:**

Gillian Dudgeon, Deputy Chief Executive, Delivery

**Approved:**

Tim Fowler, Chief Executive

**Recommendations**

Based on the advice and recommendations of the Chief Executive, it is recommended that the Board of Commissioners (the Board):

- A. **Note** that we are engaging with the Taratahi Board of Trustees (the Taratahi Board) regarding establishing a range of options and broader solutions for the future of Taratahi;
- B. **Note** that we have requested a range of information from Taratahi to ensure that we have the confidence to confirm ongoing funding to Taratahi;
- C. **Note** that we are currently exploring what our legislative and operational levers are for obtaining stronger oversight of the operations of Taratahi, which is a privately owned Trust governed by provider-specific legislation; and
- D. **Note** that we will not propose a funding recommendation for 2019 until we have received additional information from Taratahi, have more certainty about its business recovery plan, and determined what approach we will recommend towards 2018 funding.

**Taratahi continues to demonstrate a perilous cash flow position and the TEC is providing financial support to allow it to continue to trade**

- 1 At the September 2018 Board meeting, we proposed a range of options for Taratahi in 2019, including funding, not funding, and funding only if Taratahi could secure a banking facility to cover its full debt to the TEC. We did not provide a funding recommendation. If we were to fund Taratahi in 2019, we would recommend providing approximately \$7.3m. This is a significant decrease of funding when compared to its full 2018 funded allocation of \$17M (which it is under-delivering against).
- 2 We recommended in September that any funding decision would need to be based on evidence that Taratahi could manage its debt to us by rebalancing its balance sheet, putting historical bank debt onto a long-term footing, and right-sizing the organisation to generate positive cash flows. By the end of 2018, it is expected that Taratahi will hold the following major debts:

■ Section 9(2)(b)(ii)

■ [Redacted]

- \$3.9m to TEC for historical under-delivery and investigation debt up to 2015; and
- \$6.08M to TEC for 2018 under-delivery.

3 In 2018, we have paid Taratahi more funding than it has been able to use, growing its debt to TEC. Taratahi was expecting to be able to repay the debt related to 2018 under-delivery by mid-2019 through asset sales and bank re-financing. Historical debt of \$3.9m relating to its previous investigation was proposed to be repaid over the next eight years.

Section 9(2)(ba)(i)

■ [Redacted]

■ [Redacted]

■ [Redacted]

**We are currently investigating our options for gaining greater oversight and influence of the operations and management of Taratahi, which is a privately owned Trust**

7 Given the significant issues at Taratahi, we are examining the range of options available to the TEC and are working closely with MPI to determine both a short-term and a longer term approach towards the future of Taratahi. This includes exploring what our legislative and operational levers are for obtaining greater oversight and influence over the operations and management of Taratahi. As a privately owned Trust governed by provider-specific legislation (the Taratahi Agricultural Training Centre (Wairarapa) Act 1969) (Taratahi Act), both MPI and the TEC are able to instigate some interventions, but we believe these are limited in nature.

***The legislative levers to intervene under the Education Act are limited***

8 We believe that our current legislative powers, including using funding conditions, to intervene in a privately-owned PTE are limited even if land utilised by that PTE was gifted to the Crown. Our legal advice supports this position. Any interventions (such as the appointment of a financial advisor or Crown manager) set out in the Education Act 1989 relate to Tertiary Education Institutions, rather than PTEs. We have no ability to appoint a Commissioner, as we did at Unitec Institute of Technology, which would allow us to gain strong oversight and monitoring of the day-to-day operations of Taratahi.

9 9(2)(h)

10 Historically, we have requested additional information and reporting from Taratahi in an attempt to be able to more closely monitor the organisation. However, the information received has regularly been inaccurate due to a lack of internal capability within that organisation in regards to forecasting and delivery.

***The Taratahi Act also does not allow any significant intervention***

11 The Taratahi Act specifies that the Minister for Primary Industries can remove Board members from office, but only due to their inability to perform the functions of the office, bankruptcy, neglect of duty, or misconduct. At this stage, we do not consider we can make a case that the Board members have neglected their duty in regards to the administration of all real and personal property vested in the Trust.

12 We have looked at our options to implement change at the governance level at Taratahi, but our ability is limited. MPI has the ability to appoint members to the Taratahi Board under the Taratahi Act, but these members must be appointed on the nomination of specific industry committees. The Minister of Education also holds the ability to nominate one Board member, and we are satisfied with the performance of this nominated Board member. Board level change may improve the capability of governance in the medium-term, but it is unlikely to be of any help in the short-term. Furthermore, it should be noted that the Taratahi Act specifies that the Board acts to administer all real and personal property vested in the Trust. It does not specifically account for the financial and educational management of the PTE.

13 Section 9(2)(f)(iv)

Section 9(2)(j)

***We have an option to suspend or revoke Taratahi's funding for 2018***

14 One option available to us is to propose to suspend or revoke funding for Taratahi under section 159YG of the Education Act. This will allow us to engage with the Taratahi Board and ensure it is acutely aware of the seriousness of the situation. We could use this to ensure stronger oversight of its operations, including investigating the possibility of having a person appointed by the TEC to provide advice to the Taratahi Board and to help Taratahi with its forecasting and delivery issues. However, any agreement between the TEC and Taratahi would have to include an indemnity by Taratahi relating to any loss caused by the appointee.

15 Section 9(2)(h)

**There is value in continuing to fund Taratahi but we need clarity on its long-term future and assurity of the likely repayment of debt**

- 16 Given Taratahi's strategic importance as a national provider of primary industry training, we need to look at all options available to us to ensure the continuity of this delivery. However, we need clarity on how Taratahi expects to transform to a long-term, viable operation as well as have certainty of its ability to repay debt to the Crown before the Board can make a decision on continuing to fund Taratahi.
- 17 We will continue to investigate the options available to us to gain greater oversight of Taratahi's operations and ensure a sustainable future. This includes ensuring that Taratahi is attractive for any possible takeover by another funded organisation, sale, or for operation under a management contract if that eventuates. Section 9(2)(g)(i) and 9(2)(j)
- 18 We have recently written to the Taratahi Board seeking further information on its current situation and the options available to it to move towards a sustainable future. This includes gaining a greater understanding of the assets Taratahi holds, the value of these assets, who they are owned by (including the original farm that was gifted to the Crown) and the potential process for selling these assets. We are also due to meet with Taratahi Board members before the Board meeting, where we will make our position clear and to work through the issues and options available to all parties. As part of this, we will be discussing the capability of the Board and whether there needs to be any changes. We will also continue to engage closely with the independent advisor and Westpac. I will verbally update you on this engagement at the Board meeting.
- 19 We will report back to you in November, including on an appropriate approach towards managing 2018 delivery and funding as well as any recommendations on 2019 funding. If necessary, we will propose the Board only fund Taratahi for the first six months of 2019.