

Commercial in Confidence

Office of the Minister for Education

Chair, Cabinet Social and Wellbeing Committee

CROWN SUPPORT FOR UNITEC INSTITUTE OF TECHNOLOGY AND WHITIREIA NEW ZEALAND

Proposal

1. This paper seeks agreement to a \$50 million funding envelope to support Unitec Institute of Technology (Unitec) through acute, short-term cash flow problems. It also seeks agreement to draw down \$15 million from an existing Tertiary Education Institution (TEI) Support Contingency to provide immediate relief to Whitireia New Zealand (Whitireia) while I consider statutory interventions required to stabilise its financial position, and institute a programme of savings.

Executive Summary

2. Over the last two decades, driven by government priorities and funding incentives, institutes of technology and polytechnics (ITPs) have refocused their delivery. They have moved away from community education and sub-degree short awards (including upskilling of adults already in the workforce via part-time and block-course delivery), and toward delivering to young people studying toward a first qualification, especially at higher levels (including degrees). Having made this shift, ITPs are now being out-competed on all sides for their target student group, both by the strong labour market and other tertiary providers.
3. While there is a need for change driven by the nature and quality of delivery, change is also needed to secure ITPs' financial positions. ITPs have faced rising cost pressures, with a limited ability to shift their business models to make them more profitable, and many ITPs are now in an unsustainable financial position. Modelling commissioned by the Tertiary Education Commission (TEC) found that, making plausible assumptions about international and domestic student numbers, only six ITPs will make an operating surplus in 2018, reducing to two by 2020 and one by 2022. Overall, the sector could return an overall deficit of \$44 million in 2018, increasing to just under \$96 million by 2022.
4. In response to the issues set out above, I advised Cabinet in March that I had launched the ITP Roadmap 2020 project and a broader policy review of vocational education and training, to explore how the current devolved network of autonomous providers can operate better as a system. This will enable the resources of the network as a whole to achieve high-quality vocational education and training across the country and ensure long-term sustainability and viability of ITPs by affording financial advantages in terms of both scale and efficiency. The ITP Roadmap 2020

project is progressing well. While the collaborative, co-design process being used takes time, it is necessary to ensure the solution ultimately delivered is robust, well-tested with the sector, and avoids unintended consequences. Further, the co-design process is crucial to ensuring the goodwill and buy-in of people across the sector who will need to be advocates and leaders of the change process to ensure its success. A longlist of options is currently being reduced to a small number of feasible solutions for the network. The project is due to deliver me advice at the end of September on the way forward for New Zealand's ITP network, and I will bring proposals to Cabinet by the end of this year.

5. I have made it clear to officials and the sector that the government sees the status quo as unsustainable and that change is essential. I have set high expectations for the co-design process and made it clear that if this process does not produce a blueprint for significant and meaningful change, the government will seek to progress change in a more unilateral fashion.
6. I advised Cabinet in March 2018 (SWC-18-MIN-004 refers) that while this strategic work is undertaken, ad-hoc support may be needed before the end of 2018 for some individual ITPs that are already in a weak financial position. This position has worsened as a result of the downturn in student numbers in 2018. The Crown has already provided capital injections to Tai Poutini Polytechnic in 2017 and 2018. Financial support is now required for two further ITPs with acute financial issues. Both Unitec and Whitireia are expected to run out of cash and will not be able to cover their operating expenses in the next two months.
7. Unitec and Whitireia have failed to respond to the range of challenges that most New Zealand ITPs are facing. Financial support is needed in the short-term to prevent both institutions from having to close from September 2018, when cash is expected to run out. This would jeopardise the investment of time and money by approximately 23,000 students, as well as leaving approximately 1,500 staff out of work, across both institutions. While the TEC and other agencies would look to help students continue their studies elsewhere, it is likely to lead to a number of students withdrawing completely from tertiary study.
8. I am also conscious of the impact to New Zealand's reputation as an educational destination, should Crown-owned institutions be allowed to close. This would send a poor message to prospective international students about the confidence they could have when studying in New Zealand. In contrast, providing financial assistance affords Unitec and Whitireia time and resources to remain operational while they undertake significant changes so they are ready to contribute to the future state network of vocational provision currently being designed through the ITP Roadmap 2020 project.
9. Unitec is projecting a cash shortfall of \$24.5 million in 2018, with cash due to run out in September. This has arisen due to severely declining enrolments, a costly transformation programme, and a failure of governance. A further shortfall is

projected for 2019. I am proposing to provide Unitec up to \$50 million in Crown financial support during 2018 and 2019 to assist it through its cash-flow issues.

10. Despite its current situation, Unitec holds significant surplus assets which are able to be sold. The combination of liquefiable assets (in time) and that Unitec serves a growing Auckland catchment area gives me confidence that it can return to viability. As such, I am proposing to provide financial support in the form of a no-interest concessionary loan of up to \$50 million that must be repaid within 10 years. ^{9(2)(j) + 9(2)(b)(ii)}

[REDACTED]

11. Based on reasonable grounds that there is currently a serious risk to the operation and long-term viability of Unitec, I have dissolved the Council of Unitec and appointed Murray Strong as commissioner, under section 195D(1) of the Education Act 1989. As well as overseeing Unitec's return to viability, this appointment also affords the Crown greater assurance that its financial support will be appropriately managed and operational changes will align with the ITP Roadmap 2020 project.

12. Whitireia is also forecasting that it will run out of money within the next two months and will be unable to meet its operational costs. This has been confirmed by the independent financial advisor recently appointed by mutual agreement between Whitireia and the TEC. It is forecasting cash shortfalls of up to \$20 million over 2018 and 2019, driven by declining enrolments and significant investment in a new campus in central Wellington. The independent financial advisor's analysis is that urgent and comprehensive change is required to ensure the institution's short-term viability and ^{9(2)(j) and 9(2)(b)(ii)} [REDACTED] as well as implement any other changes arising from the ITP Roadmap 2020 project.

13. Based on Whitireia's current difficulties, and a lack of action taken to ensure Whitireia's short and long-term viability, I do not have confidence in the current council to turn the institution around. The independent financial advisor indicates that it is unlikely that Whitireia will ever be in a position to repay any Crown support provided. As such, I am proposing to provide immediate short-term financial support in the form of a \$15 million capital injection, while I investigate statutory intervention options ^{9(2)(j) and 9(2)(b)(ii)}

[REDACTED]

14. Supporting Unitec and Whitireia in the short-term will enable the institutions to continue to operate for the remainder of the 2018 academic year, thus ensuring continuity for students and allowing me to progress my broader work to reform the ITP sector to achieve a sustainable and future-proofed network of provision.

15. Officials are closely monitoring the financial position of other ITPs. I have made clear that there is no appetite for further short-term bail outs, at least until ITP Roadmap 2020 changes begin to take effect and government can have confidence that expenditure aligns with the future direction of the system. I have provided Cabinet with a detailed report of ITPs' finances and the monitoring actions being undertaken to manage the risk of further similar requests for short-term financial support.
16. I have consulted with the Minister of Finance on this paper.

Background

17. Over the last two decades, driven by government priorities and funding incentives, ITPs have refocused their delivery. They have moved away from community education and sub-degree short awards (including upskilling of adults already in the workforce via part-time and block-course delivery), and toward delivering to young people studying toward a first qualification, especially at higher levels (including degrees). Having made this shift, ITPs are now being out-competed on all sides for their target student group, both by the strong labour market and other tertiary providers.
18. While there is a need for change driven by the nature and quality of delivery, change is also needed to secure ITPs' financial positions. ITPs have faced rising cost pressures, with a limited ability to shift their business models to make them more profitable, and many ITPs are now in an unsustainable financial position. Modelling commissioned by the TEC found that, making plausible assumptions about international and domestic student numbers, only six ITPs will make an operating surplus in 2018, reducing to two by 2020 and one by 2022. Overall, the sector could return an overall deficit of \$44 million in 2018, increasing to just under \$96 million by 2022.
19. In response to the issues set out above, I advised Cabinet in March that I had launched the ITP Roadmap 2020 project and a broader policy review of vocational education and training, to explore how the current devolved network of autonomous providers can operate better as a system. This will enable the resources of the network as a whole to achieve high-quality vocational education and training across the country and ensure long-term sustainability and viability of ITPs by affording financial advantages in terms of both scale and efficiency.

ITP Roadmap 2020 project update

20. The TEC-led ITP Roadmap 2020 project is due to deliver me advice at the end of September on the way forward for New Zealand's ITP network. I will bring proposals to Cabinet by the end of this year.
21. TEC is engaging extensively and collaboratively with the sector and its stakeholders in developing the advice, including ITP councils and managers, academic and general staff, students, secondary schools, local government, businesses, Māori and Pasifika and community groups. Representatives from these groups are currently

participating in a co-creation exercise to move from a “longlist” of possible change options to a small number of feasible solutions for the network. TEC will then analyse these in more detail before advising me on the best way forward.

22. The open and collaborative approach TEC is taking to engagement on the Roadmap process will deliver two main benefits. The first is that the advice I will receive at the end of September will be based on a rich and multi-faceted understanding of ITP sector operational realities.

23. 9(2)(g)(i) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

24. TEC’s robust and inclusive process is designed to ensure that the advice it delivers in September has been thoroughly tested from multiple directions. Change always involves unintended consequences, but the Roadmap approach will reduce the risk of these. It will also ensure that we, as a government, can make decisions about the future of the network based on good information about the trade-offs involved, including upfront and long-term costs, risks, speed of change, and impact on stakeholder groups.

25. The second benefit is that TEC’s process is growing the goodwill and buy-in of key parts of the sector, because their expertise and contribution is being sought and respected. The value of this cannot be underestimated. Regardless of the future shape of the network, we will be heavily reliant on the cooperation and support of existing ITP sector ‘leaders’ at all levels, to ensure the success of a change process. The Roadmap process is designed to generate a widely shared appreciation of the need for change, and to demonstrate that government sees the sector and stakeholders as valued partners in identifying and implementing a solution. While this requires a significant investment of time up front, it will pay dividends in 2019 and beyond.

26. As I have previously advised Cabinet (SWC-18-MIN-004 refers), the continuum of options to get ITPs operating more as a system includes:

- Retaining the current system but making it behave more collaboratively, eg. Tightening requirements on existing providers with regards to programme approval, targeting investments into more collaborative activity, and leveraging future capital investments to create more nationally-focussed behaviour.
- Modifying governance and administration of the current system, eg regulating for greater shared services including back office, programme and resource development, and the associated research. This might require a stronger collaborative capacity in the sector.
- Significant structural change – reducing the number of providers and ensuring each has a minimum size and scope.

- Fundamental structural change (including reconsidering the type of entity ITPs are) – either short-term (centralise while planning to re-devolve) or long term.

27. While all options remain on the table, except the status quo, it is clear that some form of consolidation of the network is likely to be necessary, whether via formal mergers or other sharing arrangements. There is an evident need to both reduce costs by improving scale and removing duplication from the system, and to make better use of scarce resources across the network, including governance capability. The current 'longlist' of change options includes a number of different structural reconfigurations, generated both by groups with the sector or from within the TEC-led project team.
28. No matter how necessary, structural change is rarely a fast, cheap, or popular solution. Experience overseas and within New Zealand suggests a multi-year programme of change will be necessary, and that government will need to meet some upfront short-term transitional costs in 2019 and 2020 (at least), before savings start to be realised from a more efficient and effective network. Our task is to ensure that these costs represent investments in an asset that will deliver for New Zealand in the long term.

Additional short term support is needed for two individual ITPs in the interim

29. I also advised Cabinet in March (SWC-18-MIN-004 refers) that while work is underway to achieve sustainability for the ITP network as a whole, we may need to look at ad-hoc solutions for some ITPs as early as this year. Short-term financial support is now required to support two individual ITPs with acute financial issues.
30. In light of these urgent financial pressures, I considered asking TEC to shorten the timeframes of the ITP Roadmap 2020 project, to deliver me advice more quickly so that we can start implementing change more quickly. My assessment is that this would cause a significant amount of sector goodwill to evaporate or turn to resentment, and put at risk the quality of the future system design, without any significant compensatory benefit in terms of the likely multi-year timeline of change.
31. Financial support from the Crown is only proposed as the last resort. However, without financial support, both Unitec and Whitireia will no longer be able to pay their bills in September and will have to cease operating. This would jeopardise the investment of time and money of approximately 23,000 students, as well as leaving approximately 1,500 staff out of work, across both institutions. While the TEC and other agencies would look to help students continue their studies elsewhere, it is likely to lead to a number of students withdrawing completely from tertiary study.
32. Funding provided by the Crown will be underpinned by funding agreements that 9(2)(j) and 9(2)(b)(ii) [REDACTED]
[REDACTED]
[REDACTED]. Similar to the up-front investment of time in the ITP Roadmap project, and anticipated short term-transition costs, the financial support sought in this paper is a necessary investment to ensure the future network is best placed to deliver for New Zealand in the long term.

Unitec has significant cash-flow issues and a history of poor governance, but is well-placed to return to financial sustainability in the medium-term

33. Unitec is projecting a cash shortfall of \$24.5 million in 2018, with cash due to run out in September. A further cash shortfall of \$23.9 million is currently forecast for 2019.
34. I am proposing to provide Unitec up to \$50 million in Crown financial support during 2018 and 2019 to assist it through its cash-flow issues. As Unitec holds significant surplus assets, which are able to be sold, and serves a growing Auckland catchment area, I am confident it can return to profitability in the medium-term. As such, financial support will be in the form of a loan, to be repaid within 10 years.

Declining enrolments and a significant transformation programme have all contributed to Unitec's financial difficulties

35. Unitec, like many ITPs, has experienced declining enrolments in recent years. Excluding The Mind Lab¹, which has grown strongly, Unitec's total enrolments have declined by almost 30 percent since 2012 – from 10,776 to 7,789 equivalent full-time students (EFTS) in 2017. Declines in enrolments across the ITP sector have been worse than expected in 2018, with Unitec forecasting a further decline potentially exceeding 10 per cent.
36. Unitec's domestic EFTS, in particular, have been declining since 2012. Initially, international enrolments partially offset those declines. However, since 2015 Unitec's international enrolments have also fallen approximately 10 percent. The declines have affected the financial viability of Unitec's core teaching and research business.
37. Since 2016, Unitec has been undertaking a significant transformation programme, which has produced limited results to date but incurred high costs. Unitec posted large deficits in both 2016 and 2017, with borrowing increasing to over \$100 million at its peak. This was initially to fund capital costs and lately to support core operations. A large deficit is also forecast for 2018.
38. Unitec has recently sold land to the Crown for the development of housing, through the Ministry for Business, Innovation and Employment (MBIE), for \$134 million, which has cleared its debt.
39. Despite this, and as a result of declining enrolments, a failure to resize its operations and its bank being unwilling to lend further, the latest forecasts expect Unitec to run out of cash in September.
40. An independent financial advisor, John Fisk from PwC, was appointed by mutual agreement between Unitec and the TEC in May 2018. He has confirmed Unitec's urgent need for financial support.

¹ Unitec holds a 50 percent share in The Mind Lab, with the other 50 per cent owned by EDLAB Limited, a private company. The Mind Lab is dedicated to enhancing digital capability and collaborative teaching methods in the classroom. It offers a range of postgraduate qualifications designed for teachers at all levels. While The Mind Lab operates independently, it is funded by the TEC through Unitec, and Unitec owns the programmes that The Mind Lab develops.

There has been a failure at the governance level which I have already addressed

41. Given Unitec's current financial situation, I formed the view on reasonable grounds that there was a serious risk to the operation and long-term viability of Unitec, and methods for reducing the risk (other than the appointment of a commissioner) appeared likely to fail.
42. This view was supported by the independent financial advisor, 9(2)(g)(i) [REDACTED]
[REDACTED]
[REDACTED]
43. As I advised Cabinet on 23 July 2018, I have therefore dissolved the Council of Unitec, and appointed Murray Strong as commissioner, under section 195D(1) of the Act.
44. The appointment of a commissioner provides the Crown with greater assurance that the necessary steps will be taken to ensure the longer-term future of Unitec and that the financial support sought in this paper will be appropriately managed. It will also allow the outcomes of the ITP Roadmap 2020 project to be more readily implemented.

Unitec can be viable in the medium-term but needs support in the short-term

45. While Unitec is not viable in its current form, it has an educational offering and all of the assets needed to be transformed into a viable and profitable operation. I believe this can be achieved by the commissioner. Any work must be consistent with the direction of the ITP Roadmap 2020 project.
46. As set out above, declining enrolments mean that Unitec's core teaching and research business is no longer financially viable. However, despite high people and fixed costs, it remains one of the largest ITPs in New Zealand and serves a growing Auckland catchment area. While difficult decisions will need to be made by the commissioner, including making redundancies in both the teaching and support functions, I am confident Unitec can return to financial viability.
47. Unitec management, under the advice of the independent financial advisor, is already implementing a number of cost saving initiatives. To date, savings of \$6.5 million have been realised, relating to the disestablishment of Unitec's Project Management Office and its subsidiary, the Wairaka Land Company. 9(2)(j) and 9(2)(b)(ii) [REDACTED]
[REDACTED]
48. Work is already underway towards re-sizing Unitec to a 6,000 EFTS organisation². This reflects the independent financial advisor's most conservative forecast for future enrolments. However, this will not be completed in time to address the substantial cash shortfall forecast for 2018 or 2019.

² Excluding The Mind Lab

49. Similarly, while Unitec retains significant land assets, and is exploring various options to realise value from this land, asset sales are unlikely to generate any cash before the end of 2019.
50. As such, if the commissioner is to be given the opportunity to turn Unitec around, urgent financial support is needed.

A range of options for providing financial support have been considered

51. Given Unitec is not in a position to generate enough cash in the short-term from either cost saving initiatives or asset sales, Crown financial support is required.
52. Unitec has noted that it is not currently able to access bank borrowing as its core operations are unprofitable. In addition, it could not currently afford interest on a commercial loan. Unitec's bank has signalled that it may be willing to lend in the future. However, as part of the consent for the concessionary loan (agreed in principle subject to Cabinet approval), the Secretary of Education will suspend Unitec's existing consent to borrow from commercial sources.

I am proposing a no-interest concessionary loan to be repaid within 10 years

53. In the past, the Crown has supported tertiary institutions that are in financial difficulty through capital injections or suspensory loans. However, Unitec is assessed to be operationally viable in the medium- to long-term, and it holds significant property assets with a total estimated value between **9(2)(j) and 9(2)(b)(ii)** that can be sold over the medium-term to raise cash. I therefore propose to provide Unitec a concessionary loan which must be repaid.

The loan agreement between the Crown and Unitec will incentivise a fast transformation of Unitec and the sale of assets

54. I propose a Crown funding envelope of up to \$50 million for Unitec set out as follows to meet wage and operational commitments:
 - \$10 million payable in August 2018;
 - \$17 million payable in November 2018;
 - up to \$8 million payable in May 2019 if required;
 - up to \$10 million payable in August 2019 if required;
 - up to \$5 million payable in November 2019 if required.
55. The proposed drawdown of payments has been established with assistance from the independent financial advisor based on the best information currently available. These funding requirements assume 13.5 percent declines in both domestic and international enrolments. While international enrolments in particular could decline more strongly than this, as a result of changes to immigration settings and English language entry rules, both Unitec and the independent financial advisor are aware of these challenges and the need to manage within this funding envelope of up to \$50 million.

56. Loan drawdowns will only be permitted on the advice of the commissioner and the independent financial advisor. Depending on Unitec's needs and its progress on its transformation and property sales, not all payments may be required in full.
57. The formal loan document between the Crown and Unitec will set out the conditions and schedule for the release of funding. This agreement will be developed by the TEC and The Treasury, in consultation with the Ministry of Education.
58. The loan document will be designed to ensure that Crown support is used only as a last resort and repaid as quickly as possible while ensuring Unitec's medium-term viability. Detailed monthly and quarterly reporting will be required, including a set of targets and milestones to ensure strong accountability. The release of funding will be subject to a range of key performance indicators, 9(2)(j) and 9(2)(b)(ii)
[REDACTED]
[REDACTED]
59. Since the concessionary loan will be a non-interest bearing loan with a repayment timeframe of 10 years, there is an impairment associated with the loan of up to \$35 million. This represents the transfer of value from the Crown to the tertiary education provider.
60. I am seeking Cabinet's agreement to delegate authority to myself, as Minister of Education, and the Minister of Finance to approve this agreement on behalf of the Crown.

Tertiary education institutions require the Secretary of Education's consent to borrow from the Crown

61. Section 192(4)(d) of the Education Act 1989 requires TEIs to seek consent to borrow from the Secretary of Education, or a delegated person. The Deputy Secretary with delegated authority has, subject to Cabinet's agreement to provide Unitec with a concessionary loan, agreed in principle to:
 - Allow Unitec to borrow up to \$50 million from the Crown; and
 - Suspend Unitec's existing borrowing consent of \$140 million from commercial sources, until Unitec returns to financial sustainability and submits an amended request to borrow.

Whitireia also has significant cash-flow issues that require Crown support, and its long-term viability is not assured

62. Whitireia has recently advised the TEC that it is projecting a cash shortfall of \$8 million in 2018, with cash forecast to run out in late September 2018. A further cash shortfall of \$9 million is projected for 2019.
63. An independent financial advisor, John Fisk from PwC, was appointed to Whitireia at the beginning of July 2018, when Whitireia raised its financial issues with the TEC. He has confirmed that Whitireia needs \$11 million in financial support during 2018, to cover the cash shortfall and working capital requirements, as well as \$9 million in 2019.

Whitireia's financial difficulties are due to more than just declining student numbers

64. The independent financial advisor has advised that as well as softening enrolments, which is being faced by the ITP sector as a whole, there are two main factors contributing to Whitireia's financial difficulties.
65. Whitireia and WelTec operate in strategic partnership, including sharing a Council and executive leadership team. In 2014, they committed to a capital development plan which included funding the substantial fit-out of a new leased campus in central Wellington. This campus was designed to both consolidate provision from a number of existing leased and owned facilities, and to improve the quality of facilities for creative programmes.
66. The total cost of this development was \$25 million, with Whitireia contributing \$18 million from existing and forecast cash reserves. Whitireia's analysis indicated this development could be funded without borrowing, although a borrowing consent for **9(2)(b)(ii)** was granted for Whitireia to remain within its internal liquidity policy, as it was forecast to be in a low-cash situation in 2017. As declines in enrolments worsened between 2015 and 2017, Whitireia's revenue declined. It sought an increase of its borrowing consent to \$14 million in September 2017 and has since utilised all of this facility very quickly. The decision to fund this campus development from working capital, rather than balance sheet borrowing, has significantly contributed to Whitireia's cash-flow issues.
67. The strategic partnership between Whitireia and WelTec has meant that there is significant inefficiency in the operation of both organisations – for example, a proliferation of systems and programmes as well as processes. Although a range of initiatives are planned to capitalise on the strategic partnership (reducing central support costs, reducing programme duplication) and the new joint campus (disposal of surplus leased assets, land and business assets), the independent financial advisor's advice reflects that these do not go far enough, and are not moving quickly enough.

Unlike Unitec, Whitireia's long-term viability is not assured

68. Whitireia's cash-flow issues are only the most immediate problem. Whereas Unitec is facing cash flow issues in the short-term, but has a clear path back to financial viability via right-sizing and asset sales, Whitireia's future is less certain.
69. Unlike Unitec, Whitireia has limited surplus assets available for realisation.
70. However, similar to Unitec, its domestic EFTS have been in decline since 2012, down approximately 25 per cent from 3,241 to 2,381 in 2017, with further declines expected in 2018. Despite this, Whitireia expects domestic EFTS to continue at current levels in 2019 and beyond. In 2017, Whitireia experienced declines in both foundation and higher-level provision. While higher-level provision appears to be recovering in 2018, foundation level enrolments are still declining. Whitireia's forecast of flat total domestic enrolments goes against broader sector trends and appear optimistic.

71. International enrolments reached record levels in 2015 and 2016, and the fit out of the new campus in central Wellington was primarily funded through cash flow generated through international students. However, international enrolments have since begun declining and Whitireia projected up to a 45 percent decrease in international enrolments for 2019 as a result of initially proposed changes to post-study work rights. Whitireia is among those ITPs most exposed to the impact of post-study work rights changes, as its Auckland campus, which is specifically targeted at international education, has significant overhead costs that cannot be easily scaled back.
72. Section 9(2)(g)(i), 9(2)(ba)(i) and 9(2)(j)
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
73. As such, it is likely that Whitireia would need further cash flow assistance from the Crown in the coming years, unless urgent action is taken to address its future viability.

Based on its financial issues and inaction to secure a viable operating model, Section 9(2)(g)(i), and 9(2)(j)
 [Redacted]

74. The situation at Whitireia has evolved rapidly. However, the extent of its financial issues, and concerns about its long-term viability, mean I have little confidence in the current governance Section 9(2)(g)(i), and 9(2)(j).
75. 9(2)(g)(i) [Redacted]
 [Redacted]
 [Redacted]
 [Redacted] Similarly, Council did not appropriately interrogate the information it received, nor ask for further information to assure themselves that Whitireia was being well managed. This would be a minimum expectation at a time when Whitireia was making significant investments in a capital project, borrowing to manage its cashflow, and experiencing declines in enrolments.
76. Similarly, action should have been taken earlier to address inefficiencies, including the strategic partnership with WelTec, that are impacting on Whitireia's long-term viability. A new Chair, Greg Campbell, was appointed to the combined council of Whitireia and WelTec in June 2017. He has started a transformation programme, but it remains in its early stages (there is no clear assessment of potential savings associated with the plan, nor a clear prioritised timetable). Furthermore, it has been implemented too late. The remainder of the Council have been in their roles for some time.
77. As such, I am currently considering the options for intervention at Whitireia. Intervention at Whitireia is more complex than at Unitec, as it shares a combined Council with WelTec. Officials are in active conversations with the combined council and investigating how intervention could best be achieved. I will update Cabinet as any intervention progresses.

78. I do note, however, that WelTec’s financial position, while better than Whitireia’s, is also not strong. Section 9(2)(ba)(ii) and 9(2)(j)
- More detailed information about WelTec’s financial position is included in a separate report on the financial positions of all ITPs.

In the meantime, Whitireia needs urgent financial support, and I propose a capital injection

79. Without financial support, Whitireia will run out of cash in late September 2018 and have to cease operating, affecting approximately 6,000 students and 450 staff.
80. While I have concerns about its existing governance, the Crown must step in to provide certainty and continuity for learners, staff, and the community, in the immediate short-term.
81. I am proposing that in the first instance, the Crown provide the minimum required financial support to enable Whitireia to continue operating in 2018. I propose to provide this in the form of a capital injection, and set out as follows:
- \$3 million payable on 3 September 2018;
 - \$9 million payable on 15 October 2018;
 - \$3 million payable in 2019, with a payment date to be confirmed by the independent financial advisor.
82. The \$3 million to be paid in September provides the minimum financial support necessary to cover Whitireia’s losses and ensure it can continue to operate. By Section 9(2)(j)
83. I propose appropriating this funding from the existing “Tertiary Education Institution (TEI) Support” operating contingency. Budget 2018 established this contingency of \$10 million that could be drawn down to assist TEIs if the need arose. Cabinet recently agreed in principle to increase this contingency to \$15 million through the transfer of underspends in Vote Tertiary Education subject to confirmation of 2017/18 audited financial statements for Vote Tertiary Education (SWC-18-MIN-0073 refers). I am seeking Cabinet’s agreement for confirmation of the additional \$5 million ahead of the October Baseline Update (OBU), to provide timely financial support for Whitireia. The \$5 million is available from different appropriations within the Vote, and can be draw upon following Cabinet agreement of early confirmation of the transfer.
84. I am also seeking Cabinet approval to change the TEI Support contingency from operating to capital expenditure. Budget 2018 established this contingency as

operating expense, Section 9(2)(f)(iv)

If this contingency is accessed to support Whitireia, I would likely need to return to Cabinet to seek additional funding to support these other initiatives.

I will report back to Cabinet regarding any further funding needs for Whitireia

85. The independent financial advisor has advised that Whitireia will likely need up to \$20 million in financial support over 2018 and 2019. Beyond the \$15 million proposed above, a further \$5 million may be required in the first quarter of 2019/20.
86. Whitireia is also currently reliant on an existing \$14 million facility with ANZ, of which \$6 million is repayable on demand and \$8 million is on a fixed two-year term.
Section 9(2)(b)(i)
While any of this loan remains repayable on demand, it represents a further risk to Whitireia's operations should it be recalled with immediate effect.
87. I will report back should further funding be required to support Whitireia to continue operating. As set out above, any further funding would be conditional on satisfactory progress being made towards a viable future operating model.

Officials are closely monitoring the financial positions of other ITPs

88. I have provided Cabinet with a separate report on the financial positions of all ITPs. This report also addresses the potential impacts of other changes the Government is making, including the Minister of Immigration's post-study work rights changes, and the actions I and officials are taking to identify and manage other ITPs that could be susceptible to financial difficulties over the short-term.

Financial implications

89. The \$50 million concessionary loan to Unitec will be a pre-commitment against the Budget 2019 capital allowance. The Treasury has noted that due to the uncertainty regarding repayment timelines, and the future of the institution, it is more prudent to charge the loan in this way. Since the loan is interest free, there will be an impairment of up to \$35 million which will not be charged against the operating allowance.
90. The \$15 million capital injection to Whitireia will be a draw-down on the TEI Support operating contingency. Budget 2018 established this contingency of \$10 million that could be drawn down to assist TEIs if the need arose. Cabinet recently agreed in principle to increase this contingency to \$15 million through the transfer of underspends in Vote Tertiary Education, subject to confirmation of 2017/18 audited financial statements for the Vote (SWC-18-MIN-0073 refers). I am seeking Cabinet's agreement for confirmation of the additional \$5 million ahead of the October Baseline Update (OBU), to provide timely financial support for Whitireia. The \$5 million is available from different appropriations within the Vote, and can be draw upon following Cabinet agreement of early confirmation of the transfer.

91. I am also seeking Cabinet approval to change the TEI Support contingency from operating to capital expenditure. Section 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]. If this contingency is accessed to support Whitireia, I would likely need to return to Cabinet to seek additional funding to support these other initiatives.
92. The independent financial advisor has advised that without significant change, Whitireia could need a further \$5 million in financial support in the first quarter of 2019/20. Any further funding for Whitireia will be sought through Budget 2019.

Other implications

93. There are no human rights, gender or disability implications associated with this paper.

Consultation

94. This paper has been prepared by the TEC, and the Treasury has drafted the financial recommendations. The Treasury and the Ministry of Education have been consulted and their comments have been reflected in the paper. The Department of Prime Minister and Cabinet has been informed.

Publicity

95. Subject to Cabinet's agreement regarding Crown support, I intend to release a press statement announcing the Crown's support package for Unitec and Whitireia. I will consult with relevant Ministerial colleagues as required on the intended press statement.

Proactive Release

96. I do not intend to publicly release this paper at this stage so as not to prejudice any commercial negotiations Unitec and Whitireia are currently engaged in.

Recommendations

I recommend that Cabinet:

1. **note** that due to many of New Zealand's institutes of technology and polytechnics (ITPs) being in an unsustainable financial position I am undertaking reform of the ITP sector, via the ITP Roadmap 2020 project, and vocational education and training settings more broadly;
2. **note** that this work may require significant structural and legislative change, and needs to be co-designed with the sector, and I will report back to Cabinet no later than December 2018 with a proposed way forward, process, and to indicate the direction of any associated policy changes;
3. **note** that, as I advised Cabinet in March 2018 (SWC-18-MIN-004 refers), while this strategic work is undertaken, ad-hoc support may be needed to support some ITPs that are already in a weak financial position;
4. **note** that financial support is now required for two ITPs that will run out of money to pay their bills during September 2018 to provide continuity for students and staff, while enabling the institutions to remain operational while they undertake significant change and work towards the outcomes of the ITP Roadmap 2020 project;

Unitec Institute of Technology

5. **note** that Unitec Institute of Technology is currently projecting a significant cash shortfall for 2018 and 2019 and is expected to run out of cash in September 2018;
6. **note** that given Unitec Institute of Technology's current financial situation, I dissolved the Council of Unitec on 23 July 2018 and appointed Murray Strong as a commissioner under section 195D(1) of the Education Act 1989;
7. **note** that an independent financial advisor was appointed to Unitec Institute of Technology in May 2018 to provide expert financial advice and has confirmed that Unitec will require \$35 million in 2018 and \$15 million in 2019 to meet its cash shortfall, while it puts in place initiatives to right-size the organisation;
8. **note** that Unitec Institute of Technology is not in a position to generate enough cash in the short-term from either cost saving initiatives or asset sales and it is unable to access commercial bank borrowing;
9. **agree** to provide an interest-free concessionary loan facility of up to \$50 million beginning August 2018 with a 10-year term to meet Unitec Institute of Technology's cash shortfall in 2018 and 2019 and support its right-sizing initiatives;
10. **note** that I consider that Unitec Institute of Technology can be viable over the long-term and that the Crown loan will be repaid as and when assets are sold and that it will be repaid within the 10-year term;

Whitireia New Zealand

11. **note** Whitireia New Zealand is projecting a cash shortfall of \$8 million in 2018 and \$9 million in 2019 with cash forecast to run out in late September 2018;
12. **note** that an independent financial advisor was appointed to Whitireia New Zealand in July 2018 to provide expert financial advice and has confirmed that Whitireia will require \$15 million in 2018 and \$5 million in 2019 to meet its cash shortfall;
13. **note** that Whitireia New Zealand is not in a position to generate enough cash in the short-term from either cost saving initiatives or asset sales **Section 9(2)(g)(i)**
[REDACTED]
14. **note** that Whitireia New Zealand does not appear to be viable in the long-term, and financial support is required to ensure continuity of provision for learners in the short-term while rapid work is undertaken to identify and realise options, aligned to the ITP Roadmap 2020 project, for a viable model of high quality vocational education and training that meets community needs;
15. **note** that Budget 2018 established a \$10 million Tertiary Education Institution (TEI) Support contingency to assist TEIs if the need arises, and Cabinet recently agreed in principle, subject to confirmation of 2017/18 audited financial statements for Vote Tertiary Education, to increase this contingency to \$15 million through the transfer of underspends in the Vote (SWC-18-MIN-0073 refers);
16. **note** that Whitireia has a fully extended \$14 million loan facility with the ANZ, of which \$6 million could be recalled at any time, and is likely to need further financial support in 2019/20, but that I will report back to Cabinet should further funding be required, and any further financial support would be conditional on satisfactory progress being made towards a viable future operating model;
17. **note** that I have serious concerns about the capability of governance at Whitireia New Zealand given its financial and viability issues, and I am investigating what level of statutory intervention is required to provide assurance of its future;
18. **agree** to provide a capital injection of \$15 million in 2018/19 to Whitireia New Zealand to ensure continuity of provision for learners in the short-term while rapid work is undertaken to identify and realise options, aligned to the ITP Roadmap 2020 project, for a viable model of high quality vocational education and training that meets community needs;

Financial implications

19. **agree** to establish the following new appropriations to provide a capital injection to Whitireia New Zealand and a concessionary loan to Unitec Institute of Technology;

Vote	Appropriation Minister	Title	Type	Scope
Tertiary Education	Minister of Education	Support for Whitireia New Zealand	Non-Departmental Capital Expenditure	This appropriation is limited to providing a capital injection for Whitireia New Zealand to support its cash flow and manage normal operations and organisational change
Tertiary Education	Minister of Education	Support for Unitec Institute of Technology	Non-Departmental Capital Expenditure	This appropriation is limited to providing a loan facility for Unitec to support its cash flow and manage normal operations and restructuring costs

20. **approve** the following changes to appropriations to give effect to the decision in recommendation 9 above, with a corresponding impact on the operating balance and debt:

Vote Tertiary Education Minister of Education	\$ million increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & outyears
Non-Departmental Capital Expenditure: Support for Unitec Institute of Technology	35.000	15.000	-	-	-
Non-Departmental Other Expenditure: Impairment of Loans to tertiary Education Institutions	35.000	-	-	-	-
Total Operating	35.000	-	-	-	-
Total Capital	35.000	15.000	-	-	-

21. **Section 9(2)(f)(iv)** [REDACTED]
[REDACTED]
[REDACTED]
22. **note** that the Treasury consider it to be a more prudent approach to charge the loan against the capital allowance due to the uncertainty regarding repayment of this loan within 10 years;
23. **note** that the impairment of the loan will not be charged against the operating allowances as the full cost of the loan has been charged against the capital allowance as outlined in recommendation 21 above;

24. **note** that the following existing appropriation in Vote Tertiary Education will account for the impairment of the loan:

Tertiary Education	Minister of Education	Impairment of Loans to Tertiary Education Institutions	Non-Departmental Other Expenditure	This appropriation is limited to impairment expenses associated with Crown decisions about repayment of existing Crown loans to tertiary education institutions
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25. **agree** to provide confirmation ahead of the October Baseline Update to increase the Tertiary Education Institution (TEI) Support operating contingency by \$5 million as was agreed in principle by Cabinet in June 2018 (SWC-18-MIN-0073 refers);
26. **agree** to convert the Tertiary Education Institution (TEI) Support operating contingency, established at Budget 2018, and the decision in recommendation 26 above, to a capital contingency with the following impact on the operating balance and debt:

Vote Tertiary Education	\$m – increase/(decrease)				
	2018/19	2018/19	2019/20	2020/21	2021/22 & Outyears
Operating Balance Impact	(15.000)	-	-	-	-
Debt Impact	15.000	-	-	-	-
No Impact	-	-	-	-	-
Total	-	-	-	-	-

27. **agree** to draw down the Tertiary Education Institution (TEI) Support capital contingency as outlined in recommendation 26 above to provide a capital injection to Whitireia New Zealand;
28. **approve** the following changes to appropriations to give effect to the decision in recommendation 18 above, with no impact on debt:

Vote Tertiary Education Minister of Education	\$ million increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & out years
Non-Departmental Capital Expenditure: Support for Whitireia New Zealand	15.000	-	-	-	-

29. **agree** that the proposed change to appropriations for 2018/19 in recommendation 20 and 21 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
30. **note** that the Minister of Finance and the Minister for Education will establish a formal funding agreement between the Crown and the mentioned tertiary education providers that sets out the conditions and schedule for the release of funding as well as 9(2)(j) and 9(b)(ii)

31. **note** that the Deputy Secretary of Education with delegated authority has agreed in principle to provide Unitec Institute of Technology with consent to borrow from the Crown, and will make this decision subject to Cabinet's agreement to the concessionary loan facility;
32. **authorise** the Minister of Finance to approve a loan up to \$50 million for Unitec Institute of Technology under section 65L of the Public Finance Act 1989.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education