

Aide-Memoire: Lincoln University 2018 financial results

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive
Date:	3 May 2019
Reference:	AM-19-00611

Purpose

1. This aide-memoire updates you on Lincoln University's (Lincoln's) end of year 2018 financial position given its recent insurance settlement.
2. We recommend that this aide-memoire is proactively released following the tabling of Lincoln's 2018 Annual Report in Parliament.

End of year 2018 results

Lincoln has reported good operating results

3. Lincoln made an operating surplus of \$4.1 million in 2018, in line with expectations. This reflects Lincoln's on-going cost control, despite the reductions in income due to lower than expected student numbers. It is a good result in comparison to those over the past five years.

A deficit was previously expected due to write-offs associated with the Joint Facility

4. We previously briefed you that Lincoln's 2018 financial results would be impacted by an impairment of the Joint Facility work-in-progress expenditure given the project is no longer going ahead in its current form (E-19-00404 refers).
5. We indicated that the final 2018 result would therefore be a deficit of around \$14.4 million due to the write off of \$15.2 million associated with the Joint Facility project. These relate to project management expenses, design costs, ground work, steel purchases and the moving of services (e.g. power, gas, water).
6. While some of this may be able to be re-used in any new construction plans (e.g. early design work and site preparation will still be of value in future development), Lincoln's auditors advised that it was appropriate that all of this expenditure be written-off in the 2018 financial year.

Lincoln has now settled its remaining insurance claim

7. In late March 2019, following a mediation process, Lincoln reached a settlement with its insurers of \$45 million for its outstanding claim related to the 2010 and 2011 Canterbury earthquakes. The settlement was paid in full by the end of April 2019. The settlement is comprised of business continuity insurance, claims preparation costs, and damage to buildings.

However, these items are not individually specified in the settlement, as was the case in previous partial settlements.

8. The settlement is considerably more than the \$20 million which was modelled as part of the 2018 Joint Facility Implementation Business Case. The final settlement brings Lincoln’s total insurance receipts relating to the Canterbury earthquakes to \$110 million.
9. On the advice of its auditors, Lincoln’s 2018 accounts fully recognise this final insurance payment. This will result in Lincoln reporting a surplus of \$30.2 million in its end of year 2018 accounts.
10. It should be noted that these numbers are still in draft. The end of year accounts are in the process of being finalised and signed off by Lincoln’s Council.
11. Lincoln’s overall 2018 result is summarised in the table below:

Item	\$m
Operating surplus	\$4.1
Abnormals – write-offs associated with the Joint Facility project	\$-15.2
Other abnormals ¹	\$-3.7
Insurance settlement	\$45.0
End result	\$30.2

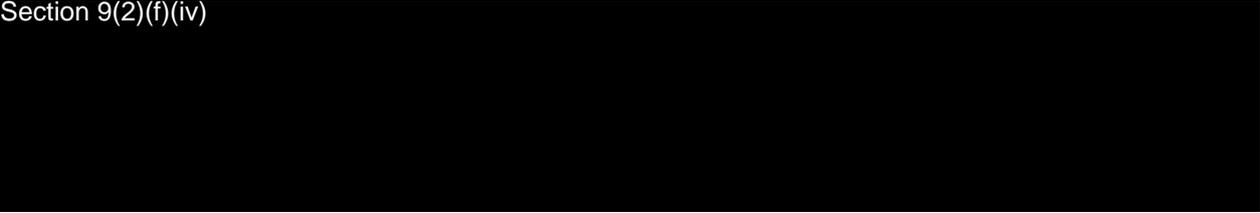
Impact on Lincoln’s campus redevelopment programme

Greater financial certainty will enable better planning

12. Following the settlement of its final insurance claim, Lincoln will have around \$75 to \$80 million cash on hand. In addition, Lincoln has advanced its asset sales programme focussing on surplus housing close to the campus and on the two farms previously identified for sale.
13. This gives Lincoln increased certainty over its sources of capital for its campus redevelopment programme. It has enabled Lincoln to quickly advance its revised plans and look at the affordability of any developments.
14. As previously advised, AgResearch has decided to construct its own building following the decision not to proceed with the Joint Facility project. Lincoln has offered to sell land to AgResearch for its new building in the same area that the Joint Facility was to be built.
15. As part of its campus redevelopment programme, Lincoln is now looking at a smaller staged set of developments to fit in with the AgResearch development, as well as to better manage decanting and demolition of the Burns building, and to address seismic issues across a number of buildings on the campus.

¹ Other abnormals include revaluation of assets, changes in impairment assessments due to further seismic assessment, repairs completed, Lincolns’ contribution to the Lincoln Hub and Lincoln’s change/transformation costs. It is arguable as to whether some of these costs should be treated as abnormals.

Next steps in the process

16. Lincoln is currently working on a revised high-level Programme Business Case for its campus redevelopment, including the redevelopment of its science facilities. This takes into account AgResearch's plans to build on the Lincoln campus site. This is expected to be completed by the end of June 2019.
17. Once this Programme Business Case has been completed, it will enable you to consider the terms and conditions of the Crown's \$85 million contribution to Lincoln for the redevelopment of its science facilities. Much of the funding agreement with Lincoln for the \$85 million, and the Cabinet minutes from the 2017 decision (CAB-17-MIN-0312.01 refers), are no longer applicable or relevant given the change in project timings and in construction plans.
18. Section 9(2)(f)(iv)

19. Given the first \$65 million of the Crown's \$85 million contribution was appropriated in the 2018/19 government financial year, this funding has been moved out a year as a technical initiative for Budget 2019. However, as part of this, you noted that you will report back to Cabinet later in 2019 on Lincoln's revised development plans for the rebuild of science facilities, and any new arrangements for Crown funding.

Next steps

20. We are working closely with Lincoln on the development of its campus redevelopment plans and Programme Business Case. We will keep you updated on developments and will brief you in detail in June 2019.
21. You may wish to forward this aide-memoire on to the Minister of Finance for his information.
22. We have briefed the Treasury on this matter.



Gillian Dudgeon

Deputy Chief Executive
Tertiary Education Commission

3 May 2019

Hon Chris Hipkins

Minister of Education

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