

Tertiary Education Report: Southern Institute of Technology's proposal for operating Telford in 2019

Date:	1 February 2019	TEC priority:	High
Security level:	In Confidence	Report no:	B-19-00081
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>agree to provide up to \$2.4 million in Crown funding to support the Southern Institute of Technology operate Telford in 2019, as a grant under section 321 of the Education Act 1989.</p> <p>agree that the section 321 grant will be funded from available 2018/19 Student Achievement Component funding from within the Tertiary Tuition and Training Multi-Category Appropriation in Vote Tertiary Education, meaning that the grant is fiscally neutral in terms of Vote Tertiary Education.</p>	As soon as possible
Enclosure: Yes	Round Robin: No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
§9(2)(a)	Principal Advisor	§9(2)(a)	§9(2)(a)	✓
Tim Fowler	Chief Executive	§9(2)(a)	§9(2)(a)	

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT						
<input type="checkbox"/> DPMC	<input type="checkbox"/> MPI	<input type="checkbox"/> ENZ	<input type="checkbox"/> ERO	<input type="checkbox"/> MBIE	<input checked="" type="checkbox"/> MoE	<input type="checkbox"/> MFAT
<input type="checkbox"/> MPP	<input type="checkbox"/> MSD	<input type="checkbox"/> NZQA	<input type="checkbox"/> NZTE	<input checked="" type="checkbox"/> TEC	<input type="checkbox"/> TPK	<input checked="" type="checkbox"/> Treasury

Minister's Office to Complete:

<input type="checkbox"/> Approved	<input type="checkbox"/> Declined
<input type="checkbox"/> Noted	<input type="checkbox"/> Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments:

Recommendations

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **note** that the Southern Institute of Technology (SIT) has submitted a revised proposal for Crown support to operate the Telford campus (Telford) and some of Taratahi's Institute of Agriculture's distance delivery in 2019.
2. **agree** that providing funding to SIT to ensure ongoing agricultural training provision at Telford in 2019 is in the national interest.

AGREE / DISAGREE

3. **agree** to provide up to \$2.4 million in Crown funding to support SIT to operate Telford in 2019, as a grant under section 321 of the Education Act 1989.

AGREE / DISAGREE

4. **agree** that the grant to be provided to SIT under recommendation (3) will be funded from available 2018/19 Student Achievement Component (SAC) funding from within the Tertiary Tuition and Training Multi-Category Appropriation (MCA) in Vote Tertiary Education, meaning that the grant is fiscally neutral in terms of Vote Tertiary Education.

AGREE / DISAGREE

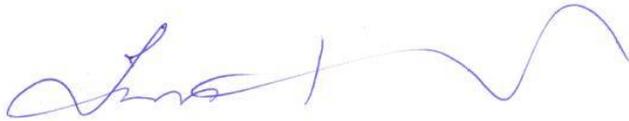
5. s9(2)(f)(iv)

6. s9(2)(f)(iv)

7. **note** that the Tertiary Education Commission and the Ministry of Education will draft a funding agreement for the section 321 grant for signature by SIT.
8. **forward** a copy of this briefing to the Minister of Finance for his information.
9. **sign and send** a letter to the Chair and Chief Executive of SIT informing them of your decision.

10. **agree** that the Tertiary Education Commission proactively release this briefing once decisions have been made with all commercially sensitive information redacted.

AGREE / DISAGREE



Tim Fowler

Chief Executive
Tertiary Education Commission

1 February 2018

Hon Chris Hipkins

Minister of Education

___ / ___ / ___

Purpose

1. The purpose of this briefing is to seek your decision on the Southern Institute of Technology's (SIT's) proposal for operating the Telford campus (Telford) and some of Taratahi Institute of Agriculture's (Taratahi's) distance delivery in 2019.
2. We have consulted with the Ministry of Education (MoE) and the Treasury on this briefing.

Background information

SIT recently submitted a proposal to acquire Telford...

3. On Friday 25 January 2019, SIT submitted a proposal to operate Telford. The proposal was to operate Telford to deliver non-degree primary industry training via the residential campus in Balclutha and via distance blended delivery. s9(2)(f)(iv)
[REDACTED]
4. We provided you advice on the proposal on 28 January (AM-19-00070 refers). While we have strong confidence in SIT's capability as a provider – it has a long history of sound academic and financial performance, and is a well-managed and well-governed institution – it was requesting a significant amount of Crown funding, much of it for things that the Government would not usually fund.
5. Our biggest concern was that the proposal requested s9(2)(f)(iv) in Crown funding to be spent on earthquake strengthening and deferred maintenance for assets that would be owned by the Telford Farm Board. Furthermore, a number of the costs requested, including for the buildings, were for longer-term costs.
6. As such, you directed officials to engage with SIT on the potential to operate Telford for one year only. Early indications suggested that this would likely cost around \$2 million. On 29 January 2019, Cabinet noted that you had received a proposal from SIT and that you were considering an option of SIT operating Telford in the short-term for a year, at an estimated cost of \$2.0 million to be funded from Vote Tertiary Education, subject to the outcome of negotiations with SIT (CAB-19-MIN-0015 refers).

...and you asked SIT to update their proposal based on what it would require to operate Telford in the short-term...

7. On 29 January 2019, you wrote to SIT requesting they outline what level of Crown support would be required to run Telford and other distance programmes for 2019 only. Further work would then be undertaken over 2019 to explore and analyse the potential long-term options regarding the future of the Telford provision.
8. s9(2)(f)(iv)
[REDACTED]

...and SIT responded with updated costs on 30 January 2019

9. Following your letter, the TEC has engaged with the Chief Executive of SIT, Penny Simmonds, on the proposal. SIT have confirmed they are willing to operate Telford for 2019 with a lower level of Crown support. On 30 January 2019, SIT submitted an updated estimate of the amount of Crown support that it would require to operate Telford in 2019.

Crown support requested

SIT have requested up to \$2.4 million in Crown support to operate Telford in 2019...

10. SIT's revised request for Crown support is comprised of the following:
- **s9(2)(f)(iv) maintenance of buildings:** The updated proposal has removed the earthquake strengthening and deferred maintenance costs but includes an estimate **s9(2)(f)(iv)** to allow SIT to meet normal annual maintenance of the buildings. This will be a requirement of the Telford Farm Board's offer to lease the education and residential buildings to SIT for 2019 **s9(2)(f)(iv)**
 - **s9(2)(f)(iv) staffing costs:** SIT is proposing to employ 20 full-time equivalent Telford staff (60% of current Telford staff) **s9(2)(f)(iv)**. This figure has not changed from the original proposal.
 - **s9(2)(f)(iv) programme development costs:** SIT has requested this funding to convert programmes to online and to develop others into New Zealand qualifications (as they currently do not meet New Zealand Qualifications Authority (NZQA) requirements). This figure has not changed from the original proposal and is necessary if Telford is to continue operations in the future.
 - **s9(2)(f)(iv) IT infrastructure:** The original proposal was **s9(2)(f)(iv)** to upgrade old IT infrastructure and ensure it is fit for purpose, as well as to move Telford to an online enrolment environment. SIT has reduced its request for IT **s9(2)(f)(iv)**, to be used as a contingency sum for expected issues and failures.
 - **s9(2)(f)(iv) a development fund:** SIT believe the campus is significantly underutilised and there are a number of opportunities to develop programmes that meet industry need, including online/blended delivery and short community programmes. SIT have reduced its request for a development fund **s9(2)(f)(iv)**, which is the amount they consider integral to 2019 delivery.
 - **s9(2)(f)(iv) transition costs:** This is to cover the likelihood that SIT will have to run programmes with suboptimal student numbers in 2019 given the current uncertainty that exists and the late start to the academic year. It also includes funding for a transition coordinator to manage the transition. This figure is unchanged from the original proposal.

...with \$600,000 to be required only if Telford ceased operations at the end of 2019

11. In addition to the above Crown support, which totals \$1,809,939, SIT has requested a total of \$570,114 be set aside **s9(2)(f)(iv)** should SIT not be required to continue Telford operations for 2020 onwards. This would only be drawn down at the end of 2019 if a decision to discontinue Telford operations was made. This brings the total request for Crown support to \$2,380,023. On a per equivalent full-time student (EFTS) basis, this equates approximately to an additional \$10,000 per EFTS, based on SIT's proposed delivery.

12. SIT's proposal also assumes that the TEC will provide funding for EFTS delivery of around \$2.3 million in 2019 to deliver 224 funded EFTS. The TEC is comfortable with this assumption, but funding would be managed in the usual way – including recovery of funding in the event of under-delivery against SIT's overall allocation. SIT has included transition costs in its request for Crown support on the assumption it will have to run programmes with suboptimal numbers.

Funding the proposal

We believe this proposal would be best funded through a section 321 grant...

13. In consultation with MoE, we consider that SIT's proposal would be best funded through a section 321 grant. Section 321 of the Education Act 1989 exists to provide the Minister of Education with flexibility and discretion to recognise and fund educational organisations and their activities that do not fit within the standard funding provisions of the Education Act 1989. Section 321 provides that grants can be paid to educational bodies for a specific purpose, provided you as Minister are satisfied that payment of the grant is in the national interest. You determine the amount of the grant, any conditions subject to which it will be paid, and the purpose(s) for which it may be used.
14. The TEC and MoE agree you could consider that providing funding to SIT to ensure the continued delivery of agricultural training at Telford in the short-term is in the national interest – given the importance of ensuring ongoing access to primary industries provision, and the lack of any viable alternative options for residential-based agricultural training for these students. We understand that you then plan to consider the longer-term future of primary industries provision as part of your RoVE work programme.
15. If you agree to the section 321 grant, we will negotiate a funding agreement with SIT based on its proposal, with established deliverables and the intended outcomes of the funding. The grant is then authorised by the Secretary for Education (or delegate) and the payment of the grant will be administered by the TEC.

...and the proposal can be funded through Vote Tertiary Education underspends

16. Funding for this proposal can be reprioritised from underspends in 2018/19 in the Tertiary Tuition and Training multi-category appropriation (MCA), and the proposed section 321 grant is within scope of this appropriation.

Next steps

17. Following your agreement, we recommend that you send a letter to the Chair and Chief Executive of SIT to inform them of your decision. A draft letter is attached in Appendix 1. Subsequent to your letter being sent, the TEC and MoE will engage with SIT on agreeing the terms and conditions of the section 321 funding agreement.
18. Once the terms of and conditions have been agreed with SIT, we will prepare a section 321 funding determination, and draft letter for you to send to SIT setting out the conditions of the grant.
19. We have prepared communications material, including a draft press release, to assist your office with any public announcements.
20. As part of the lease arrangements, the Minister of Agriculture will be required to approve Telford Farm Board's lease agreement to SIT under the Telford Farm Training Institute Act 1963. We have engaged with the Ministry of Primary Industries on this requirement.

Appendix 1: Draft letter to SIT

Peter Heenan
Chair
Southern Institute of Technology
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Invercargill 9840

By email: peter.heenan@hwr.co.nz

Penny Simmonds
Chief Executive
Southern Institute of Technology
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By email: penny.simmonds@sit.ac.nz

Dear Peter and Penny

Proposal for Southern Institute of Technology to operate Telford in 2019

I would like to thank you for the Southern Institute of Technology's (SIT's) prompt reply to my letter of 29 January 2019 on what costs would be required to operate Telford for 2019.

I have considered your updated request for Crown support in conjunction with your 25 January 2019 proposal. I can confirm that the Government is willing to provide up to \$2.4 million in Crown funding to support SIT to operate Telford over 2019 while longer-term options are investigated and my proposed reforms of vocational education are consulted on and implemented.

I intend to provide the required Crown support through a grant under section 321 of the Education Act 1989. I have instructed officials from the Ministry of Education and the Tertiary Education Commission to negotiate a funding agreement with SIT for this grant based on your proposal. I note that the purpose of this funding agreement will be to support the delivery of equivalent full-time students in New Zealand Qualifications Authority-approved programmes. As set out in your proposal, SIT may not require all of the \$2.4 million in Crown funding.

s9(2)(f)(iv)



I intend to announce my decision to provide Crown support to SIT to operate Telford in 2019 publicly in the very near future. I would appreciate if you could co-ordinate any public announcements with my office. I am mindful that students and Telford staff will want some certainty on the future of Telford as soon as possible.

Thank you again for your assistance in ensuring the ongoing delivery of agricultural provision at Telford and around New Zealand. My officials and I look forward to engaging with you in the near future as part of the consultation on my proposed vocational reforms.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission