



Ref: OI/19/00056

6 March 2019

Level 9, 44 The Terrace
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Wellington, New Zealand 6141
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www.tec.govt.nz

Section 9(2)(a)

[REDACTED]

Dear [REDACTED]

Thank you for your request, transferred from the Hon Chris Hipkins' office to the Tertiary Education Commission on 16 January 2019, for the following information under the Official Information Act 1982 (the Act):

1. *What advice, if any, has the Minister received or asked for, whether written or verbal, from 1 September 2018 to 14 January 2019 regarding the Taratahi Agricultural Training Centre.*
2. *The two most recent financial reports to the Minister from TEC, specifically related to the debt levels of Taratahi Agricultural Training Centre.*
3. *A summary report detailing the Tertiary Education Commission funding over the last ten years for the Taratahi Agricultural Training Centre against number of FTE courses delivered?*
4. *Any reports, briefings, related correspondence, including email communications received regarding Taratahi Agricultural Training Centre dating back to June 2018.*
5. *Any briefings or reports related to how the fulltime equivalent student funds targeted for Taratahi Agricultural Training Centre have been disseminated to other training providers.*

I am releasing six pieces of correspondence regarding Taratahi that the Minister of Education received between June 2018 and January 2019.

The TEC is already working on two other OIA requests which will answer the remainder of your questions. Those requests will be published on the [Information releases section](#) of our website shortly.

Therefore, I am refusing parts of your request under Section 18(d) of the Official information Act 1982 as the information requested will soon be publicly available.

With regard to part 3 of your request, it's not clear exactly what information you would like to be included in the summary report detailing the Tertiary Education Commission funding over the last ten years. In the first instance, I recommend you visit the TEC's [Funding Allocations](#) page. This page contains detailed funding information broken down by tertiary education provider, fund, region and year. The page also contains links to equivalent full-time student data the TEC collects through its Single Data Return. If you can specify exactly what further information you are looking for the TEC may be able to provide you with more help.



We ensure New Zealand's future success.

I have also withheld some information from the attached letters to protect individuals privacy under section 9(2)(a) of the Act to protect individuals privacy .

I am satisfied, in terms of section 9(1) of the Act, that the need to withhold the information referred to above is not outweighed by other considerations that render it desirable, in the public interest, to make the information available.

As you may be aware, 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 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 copies of the financial appraisal on its website at: [Information releases](#).

Taratahi was placed into interim liquidation on 19 December 2018 at the request of the Taratahi Trust Board. The key priority for the Government in situations such as these is to ensure students currently enrolled at Taratahi are aware of options to complete their studies elsewhere, and that staff are aware of their options for support. Students who were beginning studying in 2019 are also being supported with information so that they are aware of alternative options. Information for students can be found on the TEC's website at: [Information for Taratahi students, including Telford students](#).

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: [Ombudsman - Fairness for all](#) or freephone 0800 802 602.

Thank you again for your request.

Yours sincerely



Tim Fowler
Chief Executive



We ensure New Zealand's future success.

117 Karaka St

Wanganui 4501

3 January 2019

Hon Chris Hipkins and Hon Damien O'Connor

Minister for Education and Minister for Agriculture

e. c.hipkins@ministers.govt.nz and d.o'connor@ministers.govt.nz

New Zealand Parliament

Wellington

Dear Sirs

I am writing to request that you please step in and provide urgent supportive action to ensure certainty for Taratahi Agricultural Training Centre students left in limbo re their 2019 studies following the announcement of interim liquidation of the facility just prior to Christmas.

My ^{Section 9(2)(a)} son, ^{Section 9(2)(b)} has been personally impacted by this situation. **Section 9(2)(a)**

^{Section 9(2)(b)} has wanted to pursue a career in farming for four years, and has been looking forward to his first year away from home at Taratahi's Masterton campus. We are not a farming family, and so to gain the necessary practical experience my son hoped to first attend Taratahi for 2-3 years, followed by a stint at university to complete a BAg degree. He is currently working part-time for a local farmer, and has previously also gained relevant experience with a beekeeper.

Farming is integral to New Zealand's economy, and students like my son are essential to this country's future success, stability, and economic/environmental savvy. Despite this, New Zealand does not seem to be taking the provision of a strong and clear career pathway for our young people very seriously. From my experience as a mother doing her best to support my son into the career of his choosing, it seems that while options do exist for those planning to take up labouring-type roles within the industry, or who wish to go straight to university (and can afford it), for students like my son who have excellent academic potential but who also lack a farming background and so need

relevant hands-on experience in the industry, it is essential that we have more places like Taratahi to fill this need, not less.

The letter my son received from the Tertiary Education Commission on 20 December is the only communication we have so far received about what is happening re Taratahi and my son's study options for 2019. The letter advised us to call TEC if we had any questions, but when we called all we got were a lot of 'ums' and nothing concrete – or tentative, even – whatsoever.

At this stage, we are considering sending my son to an alternative training facility in Australia, as there is nothing equivalent available here. I understand that the few places in New Zealand that do offer similar courses (Smedley, Tairawhiti, Waipaoa) have already completed their enrolment intake process for 2019. How ludicrous is it, given we so pride ourselves on our agricultural heartland here in New Zealand, that training for entry to the sector is haphazard, insecure and downright difficult to tap into.

I look forward to your early response re a practical plan of action to provide surety for Taratahi students for the coming academic year.

Thanks very much

Section 9(2)(a)

Hugh McIlraith

Subject: Taratahi and Telford's future

From: Section 9(2)(a)

Sent: Thursday, 13 December 2018 2:13 PM

To: C Hipkins (MIN) <c.hipkins@ministers.govt.nz>

Cc: D OConnor (MIN) <D.OConnor@ministers.govt.nz>; bryan.cadogan@cluthadc.govt.nz;

Section 9(2)(a)

Subject: Taratahi and Telford's future

Dear Minister

It has come to my attention that Taratahi is about to go into receivership. This is deeply concerning not only for agricultural training generally, but more specifically for the impact that this action will have on Telford, the rural training centre in South Otago. The take over of Telford by Taratahi was a gross error, forced onto an already financially distressed institution, by the TEC. This ill thought out strategy, not only puts jobs at risk, and has a potential adverse economic impact on the South Otago region, but will place the government in an invidious position with respect to the management and responsibility for the Telford family entrusted assets.

The seamless progress strategy for school leavers, championed by Lincoln University in 2011, with its integration of training from level 1 to level 10, was a model welcomed and recognized by organizations, both nationally and internationally, yet not followed through by successive Governments, due to the schizophrenic policy and funding behaviour by the TEC.

As individuals closely associated with agricultural training in recent years, both Dr Andrew West and myself, would welcome the opportunity to work with any Government group to assist in resolving the adverse impact this current development will have on Telford.

Thank you for considering my email.

Section 9(2)(a)

Hugh McIlraith

Subject: Taratahi

From: Section 9(2)(a)

Sent: Sunday, 23 December 2018 2:54 PM

To: Hon Chris Hipkins <Chris.Hipkins@parliament.govt.nz>

Subject:

Hello Chris,

You will be aware of the Taratahi Agricultural training facility recently being placed into receivership and liquidation.

I worked there Section 9(2)(a) 3 years, it is an amazing place and I believe possibly the best education facility in New Zealand.

In the main the students that go there have failed academically at their previous schools (not all but a lot of them). Taratahi takes these young people that in the main have no chance at finding employment and turns that completely around to where most of them leave there with a paying job and a future ahead of them. While I was there the onsite facility catered for 100 first year students and about 30 second years.

I saw so many success stories in the short time I was there, so, with the facility opening in 1919 I know there will be countless more. The place has to be worth saving.

Why did it fail?

It failed financially because an over ambitious CEO was allowed to grow the operation too fast and too big where that growth was unsustainable.

Instead of just sticking to their knitting which they did so well they expanded to managing external campuses and other farming operations.

The home farm and campus near Masterton was donated by William Perry in 1919 to provide farming skills to returned servicemen from WW1 and grew to a dairy farm milking 700 cows twice a day.

The figures I heard were that the farm had a gross income of around 6 million dollars per annum and the school operation a further 8 million. I have no idea what the expectations of all the external operations amounted too.

My challenge to you is to save it.

Restructure it back to its core business where it will be smaller, easier managed and put it back to what it has done so well for almost 100 years.

I wouldn't necessarily advocate a straight out government bailout, but get rid of the incompetent board, take it over and install a commissioner like for Whitirea & Weltec. Negotiate with the current financiers and give them the confidence and guarantees they need to continue. Even if it is only an interim measure pending a better long term solution.

Taratahi is one of the jewels in the New Zealand education crown.

Do we hold onto it or let it flush away?

Regards

Section 9(2)(a)

Hugh McIlraith

Subject: Telfords precarious position

From: Bryan Cadogan [<mailto:Bryan.Cadogan@cluthadc.govt.nz>]

Sent: Tuesday, 8 January 2019 7:49 PM

To: Hon Chris Hipkins <Chris.Hipkins@parliament.govt.nz>; Hon Damien O'Connor

Cc: Mark Patterson <Mark.Patterson@parliament.govt.nz>

Subject: Telfords precarious position

Dear Minister's

I feel impelled to express to you my concerns at the precarious position Telford Farm is presently in. I also want to assure you that the fundamental components to a viable resolution are in place, and it is our intention that all parties involved shall meet on Monday 14th, and will endeavour to present to yourselves and the liquidators next week a way forward that will be beneficial to all parties, and ensure not only the survival of Telford, but the ability for our Nation to provide level 3 and 4 courses into the future.

The key problem we face is time restraints, and today's announcement to staff from Grant Thornton that pay will be suspended as of Friday 11th January is nothing short of an act of sabotage on an organisation that remains as always financially viable, and the only provider left to fulfil such a critical role in our economy.

I was heartened pre-Christmas, from your assurances that Telford would not be collateral damage of the Taratahi debacle, and appreciated your understanding that this institution cannot be lost, but as it stands today there is an extreme risk that Christmas will kill Telford, and without your immediate intervention staff will unravel, student enrolments will vaporise, and all will be lost.

Telford has always been interwoven into our Districts history, and dear to our hearts, the staff remain totally committed, and student enquires show that the present situation is no different than when Lincoln ceased pillaging, and handed over to Taratahi two years ago, we were able to maintain student numbers.

My plea is that you take whatever actions are required to overcome this impasse and grant us the time required to do the right thing, If this was July instead of January we would already have resolved the matter, now Telford's future lies in your hands. I look forward to your response.

Regards Bryan Cadogan

Bryan Cadogan

Mayor - Clutha District Council

1 Rosebank Terrace, PO Box 25, Balclutha 9240

P: (03) 419 0200 | Free: 0800 801 350

bryan.cadogan@cluthadc.govt.nz

For more information about Council visit www.cluthadc.govt.nz

Hugh McIlraith

Subject: FW: C005441 - draft reply for the Minister re: Survival of Taratahi Institute of Agriculture

From: **Section 9(2)(a)**

Sent: Tuesday, 18 December 2018 2:35 PM

To: Hon Chris Hipkins <Chris.Hipkins@parliament.govt.nz>; D OConnor (MIN) <D.OConnor@ministers.govt.nz>; Hon Grant Robertson <Grant.Robertson@parliament.govt.nz>

Subject: Survival of Taratahi Institute of Agriculture

Tena koutou Ministers Chris Hipkins, Damien O'Connor and Grant Robertson

Taratahi Institute of Agriculture is in a difficult financial situation and as both an employee and farmer I am very concerned about its future and thus the future of pre-degree vocational agricultural education in New Zealand. The reasons for my concern are outlined below:

The rural sector is vital to New Zealand's economy.

It is dependent on a well-trained, well educated work force.

Taratahi Institute of Agriculture – which includes the renowned Telford campus and its farms, trains highly skilled, educated farm workers and farm managers through its certificate and diploma programmes. It also provides unrivalled training in Apiculture, Equine and Rural Vet Tech. Our graduates are work ready and almost all rapidly gain employment within the sector.

Taratahi is in the process of rebuilding after some very difficult years. It is under new management who have inherited substantial debt they are obliged to repay to TEC.

Also, in August 2017, Taratahi acquired the Telford campus from Lincoln University, which added a whole other layer of complexity, difficulty and cost to the rebuild process.

Taratahi/Telford is thus in a fragile state through no fault of the new management. It needs all the help it can get during the rebuild stage to ensure it continues to fulfil its vital role as New Zealand's premier training provider to the rural sector.

Unfortunately, another blow will occur in 2019 when SAC and Levels 3 & 4 Agriculture funding decreases by 1/3 when the competitive funding model is abandoned. This places even more financial stress on an already highly stressed institution.

New Zealand cannot afford to lose Taratahi Institute of Agriculture. If it did the impact would be felt around the country - especially as no other training provider is equipped or provisioned to deliver the training presently provided by Taratahi /Telford. The rural sector would be in an uproar and the Opposition would have a field day (excuse the pun).

Resolving the crisis (as I see it):

- Ensure EFT funding better reflects the true cost of sub-degree delivery to vocational agricultural students
- Excuse or reduce the debt inherited from the previous management. Alternatively, pause the repayments until Taratahi is in a stronger position to service its debt

- Reclassify Taratahi Institute of Agriculture. At present it is classified as a PTE - however, as a not-for-profit education institute delivering training for the public good it does not fit the PTE model. The government needs to recognise this and resurrect the Other Tertiary Education Provider (OTEP) category that was abolished by the previous government.

The work done for New Zealand by Taratahi Institute of Agriculture is essential and it is imperative it continues.

Chris, Damian and Grant, I know I can trust you to do your absolute best to ensure Taratahi/Telford's survival.

I thank you very much for reading this letter and for your support and assistance. Also, for the enormous time and effort you put into your jobs – it is recognised and greatly appreciated.

Section 9(2)(a)
[REDACTED]

Section 9(2)(a)
[REDACTED]

Section 9(2)(a)
[REDACTED]

| <i>Postal</i> | <i>Physical</i> |
|--------------------|--------------------|
| PO Box 6 | 498 Owaka Highway |
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| Otago, New Zealand | Otago, New Zealand |

Section 9(2)(a) [REDACTED]
Section 9(2)(a) w www.telford.ac.nz

Taratahi Institute of Agriculture **Telford**

From: Section 9(2)(a)

Sent: Friday, 30 November 2018 9:23 AM

To: chris.hipkins@parliament.govt.nz

Cc: Kieran McAnulty <Kieran.McAnulty@parliament.govt.nz>; damien.oconnor@parliament.govt.nz; Mavis Mullins Section 9(2)(a) [REDACTED] Section 9(2)(a) [REDACTED]; Arthur Graves <arthur.graves@taratahi.ac.nz>

Subject: Message from Mavis Mullins - Taratahi

Importance: High

Tēnā anō koe e te Minita

I am writing to you both as the chair of the board of Taratahi Institute of Agriculture (and arguably on behalf of agricultural VET delivery in general) and as the appointee of the Minister of Education to the board. I would like to thank you, Minister O'Connor and your officials for the work undertaken to date with Taratahi. I am well aware that you and your colleagues are considering the best option(s) for moving forward for both Taratahi and agricultural VET delivery in general. At the risk of repeating the advice you have received from your officials, Taratahi would be very happy for any solution to be dealt with in stages. The obvious and immediate priority is how to enable Taratahi to continue delivering, initially for 2019. Should that be granted, as a first stage, it will allow time for government and Taratahi to work together on what is needed for long term sustainability. Taratahi is confident it can resolve this should a solution be found to the funding/viability issue.

Taratahi's problems, like those of the agricultural non-degree VET sector in general, have been long in the making. For Taratahi, they are reflected in the current financial position (exacerbated by accumulated debt to TEC), and the stark evidence that our farming operations are no longer able to compensate totally for the cost of education delivery, let alone provide for reinvestment as well. Our analytical capability has reached the point where we can confidently demonstrate that this is a funding problem with an accumulated impact over many years.

Taratahi has worked hard over the last two to three years at massive change. It has used its balance sheet to absorb the legacy headaches and the sharp decline in the market over 2017 and 2018. However, it is clear that Taratahi cannot recover and deliver on the potential of its changes and improvements without help.

We thought it might be useful for you to have a snapshot of how Taratahi's response to the joint challenges of education and market change is going. The benefits are starting to show, both in terms of results/outcomes for students in 2018 and being able to achieve a reasonable baseline of student numbers. Another important response from Taratahi has been to put in place strategies to right-size our delivery and rebuild the pipeline into agriculture. The main focus of this is working in and with schools to increase demand and the quality of that demand. A brief outline of the data reflecting these three key areas of interest is below:

Enrolments for 2019

As at today we have 394 government funded students enrolled for 2019 with a further 117 enrolments being processed, in total 202 EFTS. This is consistent with 2018 enrolments at the same time. Based on past years trends and new analysis we are predicting 820 funded students (350 EFTS) by the end of February 2019 (our peak enrolment period). We have another high enrolment period in August/September when the Apiculture programmes begin. In 2018 we have so far enrolled 1322 tertiary agricultural students (558.19 EFTS) through Taratahi. While still at an early stage our analysis is suggesting that Taratahi's volume collapse may have 'bottomed out'.

Schools' Programmes for 2019

We are oversubscribed already with enrolments into our School Programmes (Primary Industries in Schools) due to reaching 100% of our allocation 363 students overall and our 10% oversubscription (33 places). This is the first time this has occurred this early and we have been forced to suspend further enrolments due to a lack of funded places. A positive aside is that 50 of these are in South Auckland as we start making inroads into urban schools. As there are no more funded places available from the MoE we will concentrate on shared funding approaches and using STAR funding where it is available to meet this increased interest.

EPI Progress (2018 results to date)

Taratahi course completion rate for all SAC funded programmes, using TEC EFTS weighted methodology, is sitting at just over 72% (as at 22 November 2018). While these figures are not the final figures they show a significant improvement on the 2017 full year course completion rate of 61%. Even more significant, this improvement has occurred during a significant period of change as we implemented new programmes, quality improvement planning and extended our national reach to provide choice for those wanting to enter into the agricultural sector.

The key takeaway is that Taratahi is achieving these changes yet is only at the end of year one of a three year strategy to understand and rebuild what is required from its curriculum, business model, education systems, farms and people.

We have built the national infrastructure that will supply skills that will support the changes that the government and public want of agricultural production. We have confidence in the solutions being implemented both as a public good and an industry good. To see this through Taratahi needs a funding solution that reflects the true cost of delivery for agricultural vocational education and training. As part of the rebuild Taratahi has developed some impressive analytics to underpin the changes we are making (see viability analysis attached).

Taratahi is committed to working with government, the Primary ITO and industry to rebuild a vibrant agricultural vocational education sector. Thank you and your colleagues for giving the future of our sector the serious consideration it needs.

We would appreciate the opportunity to discuss these matters further at your earliest convenience.

Nāhaku iti tonu nei, nā

Mavis Mullins | Chair, Board

Section 9(2)(a)

C/- Cornwall Road, RD 7, Masterton, 5887

0800 taratahi | taratahi.ac.nz



| | |
|------------------------|---|
| To: | Taratahi Agricultural Training Centre Trust Board |
| From: | Henry Fane de Salis, Chief Financial Officer |
| Endorsed By: | Arthur Graves, Chief Executive |
| Date: | 22 November 2018 |
| Subject: | 2019 Viability and Budget Planning |
| INFORMATION | |
| Recommendation: | That the Board note the information contained in this report. |

Purpose

To update on 2019 planning as a result of the review of programme viability. The plan for 2019 will focus on achieving breakeven whilst creating time for Taratahi to complete work to understand how to develop a sustainable delivery model with diverse income streams and to implement changes.

Background

This paper provides an update on the programme viability work and outlines a draft programme of work building towards viability. Consequences for budget 2019 are outlined.

Financial viability was defined as matching revenue to cost so that we achieve a surplus at EBITDA, breakeven post interest and depreciation and a net cashflow that is at least neutral. Taratahi's financial viability depends upon the profitability of our education programmes, farming profitability and effective generation of revenue from non-formal education to cover organisational costs. We need to be effective at creating demand for agricultural education (both formal and non-formal) and in right-sizing our delivery and corporate overheads to the demand and operating within the funding provided. The viability is affected by:

- Our efficiency in utilising tutor time;
- Our efficiency in maintaining cohort sizes that meet viability thresholds;
- Our economy in the cost of delivery, which means having as low a ratio of overhead cost to tutor cost as possible, whilst meeting quality requirements;
- Creating effective programmes that contain appropriate tutor contact hours that are efficient in use of tutor time and economic; and
- Appropriate learner subsidy that recognises the delivery requirements for vocational education and training.

The earlier paper¹ concluded that delivery of the core agricultural programmes was uneconomic and required a comprehensive programme of change starting in 2019. Programmes will be reviewed to ensure they meet learner and employer needs, within the constraints imposed by funding and safety, whilst incorporating good practice. Additionally, the delivery model will be re-designed so that it provides efficient, economic and effective solutions. In particular, tutor utilisation will

¹ Circulated to the Board on 5 November 2018.

recognise the expectation that tutors will be allocated to minimum number of revenue-earning hours, and that these hours will be used delivering to cohorts of at least 9 learners. Concurrently, further cost reduction will occur so that delivery fall within a learner-subsidy envelope agreed with TEC.

Programme of re-design

Thus, in order to deliver programmes viably, we have to:

- Increase effective tutor time (where effective is revenue-earning), measured as a ratio of the total number of potential revenue-earning hours per annum, whilst managing a range of revenue rates from formal and non-formal delivery;
- Improve effective utilisation of the tutor hours through better planning and scheduling;
- Improve the ratio of students to tutor;
- Match tutor contact hours to quality requirements and realism of funding;
- Reduce organisational costs (target between 3% and 5%);
- Secure additional subsidy for learners.

An example of viable delivery of the core Level 3 equipment and farming systems programme, occurs when it has the following characteristics:

- Cohort of 8 students;
- Effective tutor utilisation improves by 30 mins to 6.5 hours per day; and
- A 5% reduction in organisational costs; and
- Tutor contact hours reduced from 1136 to 960; and
- Subsidy rate per equivalent full-time student (EFTS) increases from \$10,820 to \$21,640.

However, with a cohort size of 9 and all other variables unchanged, the required funding per EFTS would drop from \$21,640 to \$19,909.

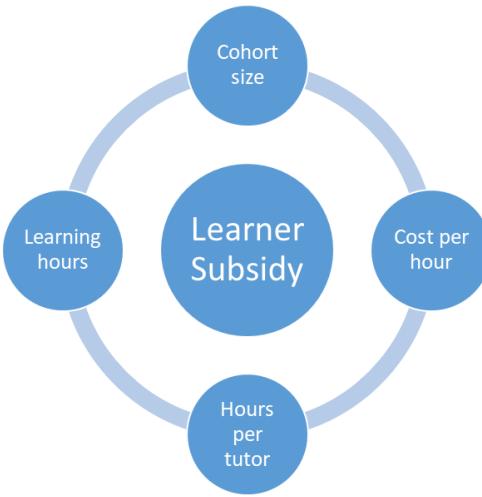
A change to each one of these factors represents a separate project work-stream.

Constraints. Constraints to making quick changes to the delivery model in 2019 are:

- Access to people and funding to review and re-develop programmes and associated teaching and learning resources and the time to complete this work;
- Timescale for approval of changes to programmes by NZQA before they can be implemented;
- Time and resources required to upskill tutors in new delivery methods (for example online learning) and new programmes;
- Involvement of key personnel in the EER in early 2019;
- Creating sufficient demand from learners to allow flexibility in cohort planning and programme delivery;
- Time, knowledge and funding to develop and implement a system for management of planning and scheduling delivery to optimise tutor utilisation, and associated support for managers to use this system.

Programme Scenarios

Potential scenarios for programme delivery are outlined below. They show the inter-relatedness of the five variables and in order to reach a viable position, changes are required to each variable:



The scenarios use the core one-year level 3 agricultural programme – combined equipment and farming systems. The programme is delivered over 38 weeks and has 1136 tutor contact learning hours and 114 independent learning hours.

The tables use the following variables:

Glossary

| | | |
|--------------|-----------|--|
| SAC per EFTS | | Revenue from SAC and course fee for cohort |
| \$ 10,820 | Revenue | \$ 120,359 |
| Cmb VMI/FS | | |
| \$ per hour | Hrs p/day | 8.00 |
| \$ 248 | 6 | \$ 281,728 |
| \$ 229 | 6.5 | \$ 260,144 |

Annotations pointing to specific values in the table:

- A blue circle labeled "Cost per delivery hour" points to the value \$ 229.
- A blue circle labeled "Number of delivery hours per day" points to the value 6.5.
- A blue circle labeled "Cost of delivery per cohort" points to the value \$ 260,144.
- A blue circle labeled "Cohort of 8" points to the value 8.00 under "Hrs p/day".

A cohort of 8 delivers the better learning outcomes and provides a safe environment for practical delivery.

Scenario – Status Quo

The current cost of delivery exceeds government subsidy rate.

| \$ 10,820 | Revenue | \$ 120,359 | \$ 135,404 | \$ 150,448 |
|-------------|-----------|------------|------------|------------|
| Cmb VMI/FS | | | | Cohort |
| \$ per hour | Hrs p/day | 8.00 | 9.00 | 10.00 |
| \$ 248 | 6 | \$ 281,728 | \$ 281,728 | \$ 281,728 |
| \$ 229 | 6.5 | \$ 260,144 | \$ 260,144 | \$ 260,144 |
| \$ 213 | 7 | \$ 241,968 | \$ 241,968 | \$ 241,968 |
| \$ 199 | 7.5 | \$ 226,064 | \$ 226,064 | \$ 226,064 |
| \$ 186 | 8 | \$ 211,296 | \$ 211,296 | \$ 211,296 |

Cost of delivery exceeds the revenue from students in cohorts from 8 to 10.

Scenario – Cohort of 9

Change Learning Hours Variable. If 6 weeks' work experience were included instead of some tutor contact hours, the tutor contact hours could reduce to 956. The cost to deliver to a cohort would reduce by \$44,640 per cohort. However, delivery would still not be viable.

| \$ 10,820 | Revenue | \$ 120,359 | \$ 135,404 | \$ 150,448 |
|-------------|-----------|------------|------------|------------|
| Cmb VMI/FS | | | | Cohort |
| \$ per hour | Hrs p/day | 8.00 | 9.00 | 10.00 |
| \$ 248 | 6 | \$ 237,088 | \$ 237,088 | \$ 237,088 |
| \$ 229 | 6.5 | \$ 218,924 | \$ 218,924 | \$ 218,924 |
| \$ 213 | 7 | \$ 203,628 | \$ 203,628 | \$ 203,628 |
| \$ 199 | 7.5 | \$ 190,244 | \$ 190,244 | \$ 190,244 |
| \$ 186 | 8 | \$ 177,816 | \$ 177,816 | \$ 177,816 |

SAC rate \$10,820
Current cost base
Tutor contact hours reduced from 1136 to 956

Change Learner Subsidy Rate. By increasing the subsidy rate to \$19,801, delivery becomes viable at cohorts of 8 with utilisation equivalent to 7 hours per day and cohorts of 9 at 6 hours per day:

| Programme hours | \$ 19,801 | Revenue | \$ 195,197 | \$ 219,597 |
|-----------------|-------------|-----------|------------|------------|
| Current | Cmb VMI/FS | | | |
| 1136 | \$ per hour | Hrs p/day | 8.00 | 9.00 |
| Modelled | \$ 248 | 6 | \$ 237,088 | \$ 237,088 |
| | \$ 229 | 6.5 | \$ 218,924 | \$ 218,924 |
| | \$ 213 | 7 | \$ 203,628 | \$ 203,628 |
| | \$ 199 | 7.5 | \$ 190,244 | \$ 190,244 |
| | \$ 186 | 8 | \$ 177,816 | \$ 177,816 |

Change Organisational Cost Variable. Alternatively, using the SAC rate of \$19,801 and current learning hours (1136), delivery is viable with cohorts of 8 and 9 become viable with utilisation at 7 and 6.5 hours per day respectively, and when organisational costs are reduced by 15%:

| Programme hours | \$ 19,801 | Revenue | \$ 195,197 | \$ 219,597 |
|-----------------|-------------|-----------|------------|------------|
| Current | Cmb VMI/FS | | | |
| 1136 | \$ per hour | Hrs p/day | 8.00 | 9.00 |
| Modelled | \$ 211 | 6 | \$ 239,469 | \$ 239,469 |
| | \$ 195 | 6.5 | \$ 221,122 | \$ 221,122 |
| | \$ 181 | 7 | \$ 205,673 | \$ 205,673 |
| | \$ 169 | 7.5 | \$ 192,154 | \$ 192,154 |
| | \$ 158 | 8 | \$ 179,602 | \$ 179,602 |

Scenario – 5% Cost Reduction

Viable delivery when costs are reduced by 5% requires: SAC funding of \$19,909, tutor utilisation equivalent to 7 hours per day² and cohorts of 9 or 10:

| Programme hours | \$ 19,909 | Revenue | \$ 196,099 | \$ 220,611 | \$ 245,123 |
|-----------------|-------------|-----------|------------|------------|------------|
| Current | Cmb VMI/FS | | | | Cohort |
| 1136 | \$ per hour | Hrs p/day | 8.00 | 9.00 | 10.00 |
| Modelled | \$ 236 | 6 | \$ 267,642 | \$ 267,642 | \$ 267,642 |
| 1136 | \$ 218 | 6.5 | \$ 247,137 | \$ 247,137 | \$ 247,137 |
| | \$ 202 | 7 | \$ 229,870 | \$ 229,870 | \$ 229,870 |
| | \$ 189 | 7.5 | \$ 214,761 | \$ 214,761 | \$ 214,761 |
| | \$ 177 | 8 | \$ 200,731 | \$ 200,731 | \$ 200,731 |

Scenario – Apply Undergraduate Learner Subsidy to Level 3+

The learner subsidy for agricultural undergraduate degrees is \$20,876 per EFTS for 2019, compared to \$10,802 for vocational education. Using the undergraduate subsidy as a maxima, viable delivery at Level 3 occurs when variables are changed so that: tutor contact hours reduce to 1106 from 1136; costs reduce by 5%; cohorts are 9 or above; and tutor utilisation is equivalent to 6.5 hours per day (cohort of 9).

| Programme hours | \$ 20,558 | Revenue | \$ 201,509 | \$ 226,697 | \$ 251,886 |
|-----------------|-------------|-----------|------------|------------|------------|
| Current | Cmb VMI/FS | | | | Cohort |
| 1136 | \$ per hour | Hrs p/day | 8.00 | 9.00 | 10.00 |
| Modelled | \$ 236 | 6 | \$ 260,574 | \$ 260,574 | \$ 260,574 |
| 1106 | \$ 218 | 6.5 | \$ 240,610 | \$ 240,610 | \$ 240,610 |
| | \$ 202 | 7 | \$ 223,799 | \$ 223,799 | \$ 223,799 |
| | \$ 189 | 7.5 | \$ 209,089 | \$ 209,089 | \$ 209,089 |
| | \$ 177 | 8 | \$ 195,430 | \$ 195,430 | \$ 195,430 |

If costs are reduced by 3% instead of 5%, delivery is viable for a cohort of 9 when utilisation is equivalent to 7 hours per day:

| Programme hours | \$ 20,558 | Revenue | \$ 201,509 | \$ 226,697 | \$ 251,886 |
|-----------------|-------------|-----------|------------|------------|------------|
| Current | Cmb VMI/FS | | | | Cohort |
| 1136 | \$ per hour | Hrs p/day | 8.00 | 9.00 | 10.00 |
| Modelled | \$ 241 | 6 | \$ 266,059 | \$ 266,059 | \$ 266,059 |
| 1106 | \$ 222 | 6.5 | \$ 245,676 | \$ 245,676 | \$ 245,676 |
| | \$ 207 | 7 | \$ 228,511 | \$ 228,511 | \$ 228,511 |
| | \$ 193 | 7.5 | \$ 213,491 | \$ 213,491 | \$ 213,491 |
| | \$ 180 | 8 | \$ 199,545 | \$ 199,545 | \$ 199,545 |

The most material viability lever for change is the learner subsidy and that is outside Taratahi's control.

Capacity Constraint

The learning hours per programme is the key variable affecting tutor revenue-earning capacity. Using current learning hours and programme mix, the EFTS-earning capacity of current tutors³ falls in the range 755 to 560 (cohorts of 10 to 8). The revenue based on current learner-subsidy would

² 7.5 hours per day at SAC funding of \$19,476

³ As at September 2018.

not be sufficient to deliver organisational viability at this level of EFTS. A change to the programme mix with higher weighting towards level 4 and 5 would improve the revenue-earning capacity. For example, moving to a mix of 30% schools, 40% Level 3, 20% Level 4 and 10% at Level 5⁴ would be close to breakeven, assuming delivery costs do not change. However, making such a change might take a few years.

At maximum capacity and utilisation efficiency equivalent to 6 hours per day, based on current learning hours construct, a Level 3 tutor can deliver 9 EFTS a year, with a marginal benefit of \$132k⁵. At these rates, breakeven is achieved at 1168 EFTS (cohorts of 10; all other revenue remaining constant and assuming no change to overheads). Sixty-eight additional tutors would be required. This means that Taratahi has to double its delivery.

2019 Plan

Recognising the constraints above, a realistic timescale for implementation of changes to the variables affecting cost (learning hours per programme, tutor utilisation, organisational cost structures) is no earlier than 2020. However, changes to all the variables may take a couple of years to become fully effective.

Consequently, we propose to seek a change to the learner subsidy variable first in order to allow time for changes to the other variables.

Target learner subsidy rates for 2019 are:

- Level 2 - \$22,722 (compared to \$13,000 planned);
- Level 3+ - \$20,558 (compared to \$10,820 planned).

At these rates, delivery of the core level 2 and level 3 programmes is viable with cohorts of 10.

Using these rates the indicative budget for 2019 would be:

| J | | |
|-----------------------------|----------------------|---------------------|
| SAC | \$ 11,364,700 | |
| Course Fee | \$ 1,325,000 | |
| Schools | \$ 1,944,076 | |
| Accn Fee | \$ 1,182,777 | |
| Non Formal | \$ 915,000 | |
| Partner | \$ 1,084,000 | |
| Sundry (eg rent, dividends) | \$ 147,000 | |
| Farms | \$ 7,718,824 | |
| | \$ 25,681,377 | |
| Revised 2019 Budget | | E |
| Revenue | \$ 25,681,377 | |
| Cost | -\$ 25,242,518 | |
| Cost reduction | 4% | \$ 883,488 |
| EBITDA | | \$ 1,322,347 |
| Interest | | -\$ 501,978 |
| Depreciation | | -\$ 810,146 |
| Net | | \$ 10,223 |

SAC Revenue

Note that there is a price benefit from the proposed SAC rate where some programmes would be viable with smaller cohorts than current – apiculture, level 4 and level 5.

Schools, accn fee at 2018 outturn

Non formal \$227k increase from 2018

Farms at 2018 rate (less Mangarata)

Managing Below EBITDA

Anticipating increased funding rate for Primary ITO delivery (not yet budgeted); and additional cost reduction.

⁴ Current mix: Schools 17%; Level 2 9%; Level 3 66%; Level 4 2%; Level 5 6%.

⁵ Based on average salary.

Pathway through 2019 to Sustainability

Using the higher funding rate will provide Taratahi time to make changes to the other variables.

- Programme Changes. A rolling programme of review and development of programmes and resources to occur from Q2/2019. Aim to be in place for delivery in 2020.
- Planning and scheduling. Tool to be sourced Q1/2019. Implementation (including training) to end 2019.
- Tutor Utilisation. Using above tool, and changes to employment practices to achieve greater utilisation, during 2019.
- Right-sizing. To continue during 2019. Target is 3% - 5% from 2018 baseline.
- Telford Right-sizing. To continue in 2019. Aim is to create a sustainable operation for the South Island.

There is fluidity surrounding revenue opportunities that may improve the revenue position from 2019. Revenue changes are being pursued through:

- Increased co-operation with Primary ITO;
- Expanding programmes to meet demand for forestry;
- Building on non-formal opportunities.

Additional Planning Assumptions

- Schools revenue represents provision for 2019 agreed with MoE and STAR delivery at 2018 rates.
- Accommodation fees shown at 2018 levels.
- Non formal revenue anticipates an increase of 30% on 2018 revenue, based on forecasts of business development activity (\$605k weighted for likelihood, max \$1.33M) and 2018 regional delivery (\$307k).
- Partner revenue reflects 2018 delivery plus additional scope (\$400k) from the Primary ITO.
- Farms revenue has been held at 2018 levels, adjusted for sale of Mangarata.
- The target cost for 2019 has been based on Q4/2018 (education delivery and corporate), plus farm costs at 2018 baseline. A staged cost reduction has been applied from end Q1/2019 to achieve that level during 2019. The reduction is 4% from 2018 forecast out-turn.