

Tertiary Education Report: Lincoln University and the University of Canterbury Partnership Proposal

Date:	25 July 2019	TEC priority:	Medium
Security level:	In Confidence	Report no:	B-19-00928
		Minister's office No:	

ACTION SOUGHT

	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>agree not to proceed with the Lincoln University and University of Canterbury partnership proposal at this time.</p> <p>sign and send the attached draft letters to the Chancellors of Lincoln University and the University of Canterbury.</p>	
Enclosure: Yes	Round Robin: No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)

Name	Position	Telephone	1st contact
Section 9(2)(a)	Principal Advisor	Section 9(2)(a)	✓
Gillian Dudgeon	Deputy Chief Executive, Delivery		

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

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

- Minister's Office to Complete:** Approved Declined
 Noted Needs change
 Seen Overtaken by Events
 See Minister's Notes Withdrawn

Recommendations

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **note** that Lincoln University (Lincoln) and the University of Canterbury (UC) submitted a proposal for a partnership between the two institutions to you on 21 December 2018, requesting Crown support of between \$124 million and \$161 million to support its implementation;
2. **agree** not to proceed with the partnership proposal at this time given:
 - a. Lincoln's improved financial situation and reduced short and medium-term financial risks;
 - b. a lack of support from the new leadership at both Lincoln and UC for the proposal; and
 - c. the costs of the proposal significantly outweigh its proposed benefits;

AGREE / DISAGREE

3. **sign and send** the attached draft letters to the Chancellors of Lincoln and UC, informing them of your decision;
4. **agree** that the Tertiary Education Commission proactively release this briefing once decisions have been made, with some redactions in order to maintain the effective conduct of public affairs through the free and frank expression of opinion and to avoid prejudicing ongoing negotiations.

AGREE / DISAGREE



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

25 July 2019



Hon Chris Hipkins

Minister of Education

8 / 8 / 19

Purpose

1. The purpose of this briefing is to seek your decision on the Lincoln University (Lincoln) and University of Canterbury (UC) partnership proposal.

Background

2. UC and Lincoln submitted a proposal for a partnership between the two institutions to you on 21 December 2018. This followed discussions with Lincoln earlier in 2018 about the possibility of a merger with another institution to strengthen Lincoln's capacity and capability, and ensure that the land-based sector is better serviced by the university sector.
3. We provided you with an initial overview of the partnership proposal and an assessment of the costs and benefits on 20 December 2018 (AM-18-00968 refers). We subsequently provided you with further analysis of the proposal and options for next steps in February 2019 (B-19-00082 refers).
4. You met with the new Chancellor, Pro-Chancellor, and acting Vice-Chancellor of Lincoln in March 2019 and the new Chancellor and Vice-Chancellor of UC in May 2019.

Overview of the proposal

Lincoln and UC proposed a partnership structure rather than a full merger...

5. Lincoln and UC proposed a partnership structure in their proposal, rather than a full merger. The partnership structure would require the creation of a new legal entity with a single council, management team, and balance sheet. However, it would enable UC and Lincoln to operate as two separate universities for academic purposes. This is similar to international federation models such as the University of London, or the state university systems in the United States. It is a greater degree of integration than just shared services and/or selected shared research/teaching arrangements.
6. As previously advised, legislative change would be required to implement the proposal.

...but they requested significant Crown support to implement the partnership

7. As part of the partnership proposal, Lincoln and UC requested Crown support of between \$124 million and \$161 million to support its implementation. The majority of funding was to upgrade and refurbish Lincoln's campus, but it also included funding for transition costs, upgrades to IT systems, and the equalisation of salary rates. This request was in addition to the \$85 million in Crown support set aside to support Lincoln rebuild its science facilities.

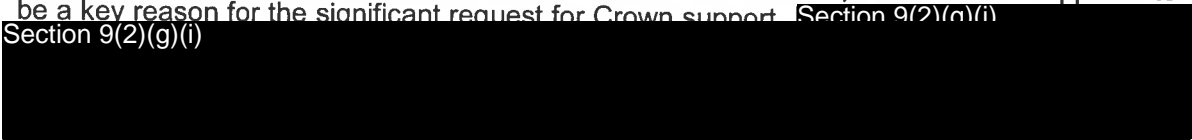
Current status of the proposal and developments since it was submitted

There have been a number of developments since the partnership proposal was submitted...

8. Since the proposal was submitted, the Lincoln/AgResearch Joint Facility project is no longer proceeding as planned and Lincoln has settled its outstanding insurance claim for \$45 million. Lincoln now has nearly \$80 million of cash in the bank and is proposing a far more affordable and achievable capital plan for the rebuild and modernisation of its campus. As such, we consider there are no immediate financial risks to Lincoln and medium-term risks have reduced substantially. Over 2018, we had significant concerns about Lincoln's finances, which were largely associated with the financing of the Joint Facility project and its cash position during the construction of the building.

9. There have also been significant personnel changes at both universities. Both Lincoln and UC have new Chancellors and new Vice-Chancellors (in Lincoln's case, an acting Vice-Chancellor through to June 2020).

...and there is now a lack of overall support for the proposal from Lincoln and UC...

10. As previously advised, the original discussions between Lincoln and UC were difficult. In some sense, both were reluctant partners and the proposal submitted to you was a compromise option, albeit for different reasons.
11. Recent engagements with UC and Lincoln have indicated a lack of ongoing support for the proposal. In Lincoln's case, it has always been wedded to remaining a standalone entity operating in a similar manner to present arrangements and was not keen to consider more radical change options such as a full merger. Now that Lincoln is in a stronger financial position, this view is probably more entrenched. Its key focus is on redeveloping its campus and transforming the way it teaches and undertakes research.
12. In UC's case, it perceives significant risk associated with taking on Lincoln and those risks outweigh the additional value a partnership would add to its own operations. This appears to be a key reason for the significant request for Crown support. Section 9(2)(g)(i)


...and we do not believe it achieves the best outcome for the wider tertiary system...

13. We continue to believe a full merger would deliver the best outcomes for students, researchers, industry and the tertiary education system. Furthermore, it could be implemented under existing legislation. However, we also believe it will be difficult to achieve without the full support of both parties.
14. Overall, officials consider that the costs of the proposal significantly outweigh the proposed benefits. The partnership was expected to only result in a small increase in student numbers, and much of the costs were for refurbishing Lincoln's campus. While a range of initiatives were proposed that would result in increased industry-focussed research and closer collaborations with Crown Research Institutes (CRIs), many of these can be implemented without the need for structural change and providing the requested Crown support.
15. The biggest benefit from the partnership appeared to be 'de-risking' Lincoln. However, recent financial improvements have already 'de-risked' Lincoln to a certain extent. This means that the level of Crown support which was requested as part of the proposal is likely to be far more than any required to ensure Lincoln's educational and financial viability as a standalone entity.

...but a number of benefits can still be achieved through current arrangements

16. Despite no formal decision having yet been made, the process of developing the partnership proposal has led to closer collaboration between UC and Lincoln, with plans for further collaboration. This includes:
 - **Increasing collaborative research work** – including potential joint research bids, a re-bid for the Bio-Protection Centre of Research Excellence (CoRE), which Lincoln leads with UC as a partner, and a potential joint bid for a new CoRE.
 - **The development of new joint programmes and co-teaching** – a new joint taught Masters programme in Precision Agriculture is currently being considered by the Committee on University Academic Programmes (CUAP) and will start in 2020, with intentions to develop a suite of jointly taught programmes. Both universities are currently discussing cross crediting arrangements to allow students from each university to

incorporate courses from the other university. This will include the possibility of UC students including Lincoln transferable majors in their programmes.

- **The development of a land-based postgraduate school** – Lincoln is currently leading this piece of work and hoping UC will co-lead. The aim of the school will be to create more multi-disciplinary graduates and to facilitate more productive and effective collaboration with CRIs, Section 9(2)(b)(ii) AgResearch, Manaaki Whenua and Plant and Food Research have all formally agreed to participate. It will be modelled on the Joint Graduate School in Biodiversity and Biosecurity at the University of Auckland, and have a series of land-based themes.
- **The establishment of the Children’s University** – UC and Lincoln jointly deliver the programme, in conjunction with the University of Adelaide and with support from Ngai Tūāhuriri and the Christchurch City Council. The programme encourages 7 to 17 year olds to engage in exciting and innovative learning activities and experiences outside of the classroom. Its aim is to raise young people’s aspirations for higher education and encourage lifelong learning. The programme began at the beginning of 2019 and has had a very strong take up rate. The first graduation will be in November 2019.

Where to from here?

We recommend that you do not support the proposal...

17. Given the current status of the proposal, where both institutions do not fully support it and where the costs to the Crown significantly outweigh the benefits, we recommend that you do not support the proposal. While we have previously discussed engaging with both universities to negotiate the requested Crown support down to a more reasonable amount, that no longer appears to be a suitable approach given no party seems to now believe the partnership option will get the optimal result for UC, Lincoln, the Crown or the tertiary education system as a whole.
18. Alternatively, you have the option of reverting to the previously proposed Expression of Interest (EOI) process to establish if any other arrangements may result in a better outcome. Section 9(2)(g)(i) Section 9(2)(g)(i) Section 9(2)(b)(ii) Section 9(2)(b)(ii)

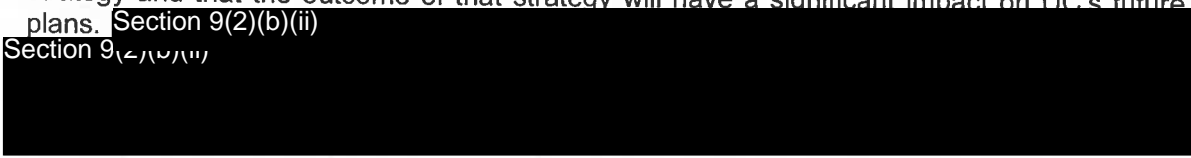
...but continue to encourage greater collaboration, particularly for Lincoln...

19. Given the above, and with Lincoln’s financial situation much improved, we suggest that you write to the Chancellors of Lincoln and UC informing them of your decision not to support the proposal and encouraging both institutions to continue to collaborate and explore opportunities for greater collaboration.
20. We recommend two separate letters given the messaging to each university is slightly different. In Lincoln’s case, we recommend that you encourage it to also collaborate with other tertiary education institutions, CRIs, industry, iwi and other research partners. This is consistent with the findings of the 2017 Transformation Board report which stated that Lincoln should “*move away from being a standalone university to being the academic heart of the Lincoln Hub and a valued partner to institutions with shared goals*”.
21. Not only will this help improve Lincoln’s financial sustainability but it will also better position our land-based sectors to make a greater contribution to a sustainable economy and environmental sustainability through world class teaching and research. These are consistent with your original objectives regarding Lincoln’s future.

...which would see Lincoln focus on its campus redevelopment and transformation programme...

22. Lincoln's key focus at present is its campus redevelopment programme and its plans for modernising its research, teaching and learning as envisaged by the 2017 Transformation Board report. Lincoln will be submitting a Programme Business Case to you on these matters in the near future, which it will use to seek reconfirmation of the \$85 million in Crown funding set aside to support the rebuild of Lincoln's science facilities. We recently provided you advice on the Programme Business Case and next steps (AM-19-00827 refers).
23. With greater certainty over its financial position, and a staged approach to its campus redevelopment programme, there are no immediate financial risks to Lincoln and the medium-term risks have reduced. Nevertheless, given the size of the capital programme (over \$200 million) and that Lincoln still remains extremely small compared to any other university, long-term risks do remain.
24. We also believe that further work needs to be undertaken on Lincoln's overall strategy and how it is delivering graduates and research that meet the needs of New Zealand's land-based sector. In this sense, increased collaboration by Lincoln remains essential. Lincoln has plans to develop additional partnerships and increase collaboration as part of its overall campus redevelopment and transformation programme.
25. If the Programme Business Case is approved and Crown support is reconfirmed for the redevelopment of Lincoln's science facilities, we would be able to monitor progress and agree milestones relating to increased collaboration/partnerships through the Crown funding agreement process.

...while UC will continue along its own path...

26. For UC, not going ahead with the partnership proposal will have limited impact given it is in a strong financial position, with enrolments continuing to grow robustly, and its rebuild is nearing completion. We understand the new Vice-Chancellor is currently refreshing UC's academic strategy and that the outcome of that strategy will have a significant impact on UC's future plans. Section 9(2)(b)(ii)
Section 9(2)(b)(ii)

27. We would continue to encourage UC to work with Lincoln as much as possible through our engagements and potentially the investment plan process.

...but a merger remains on the table for future

28. The current decision does not rule out consideration being given to a merger in future. This is something we will continue to monitor and discuss with both institutions as part of our regular engagements. Lincoln and UC may also consider working together on shared back-office services. However, given the limited management capacity Section 9(2)(g)(i) at Lincoln, it is hard to see it being able to take on a major shared services initiative as well as its campus redevelopment and transformation programme.

Next steps

29. We have attached two draft letters for your consideration to send to Lincoln and UC.
30. We will support your office with any public announcements or media as required.
31. You may wish to forward this briefing to the Minister of Finance and the Minister for Research, Science and Innovation, given their previous involvement in this matter.

Appendix 1: Draft letter to Lincoln University

Bruce Gemmell
Chancellor
Lincoln University
P O Box 85084
Lincoln 7647

By email: bruce.gemmell@lincoln.ac.nz

Dear Bruce

Lincoln University and University of Canterbury Partnership Proposal

Thank you for the submission of the Lincoln University (Lincoln) and University of Canterbury (UC) partnership proposal to me on 20 December 2018. I appreciate that it was the result of a significant amount of work by both institutions, particularly the Project Steering Group that was set up to develop the proposal. I would like to thank you for those efforts.

I believe the costs of the proposal outweigh the proposed benefits

I have considered the proposal carefully over the past six months, including engaging with the leadership of both Lincoln and UC. It is clear that a partnership between Lincoln and UC would offer a range of benefits for students, research and industry by leveraging off each institution's strengths. The proposal also makes it clear that a key benefit of the partnership is the 'de-risking' of Lincoln.

However, the proposal included a request for Crown support of between \$124 million and \$161 million to implement the partnership. This is a very substantial amount of Crown funding given that traditionally mergers or other partnerships between tertiary education institutions do not receive Crown support. In my view, the costs of the proposal significantly outweighs the proposed benefits.

There have been a number of developments since the proposal was submitted

There have been a number of developments since the proposal was submitted, including the Joint Facility project no longer proceeding as planned and Lincoln settling its outstanding insurance claim for \$45 million. Both of these developments have reduced the financial risks to Lincoln in the short and medium-term.

Through my engagements with both institutions, it has also become apparent that both UC and Lincoln do not fully support the partnership proposal that was submitted.

I do not plan to move forward with the partnership proposal at this time

Given recent developments, the lack of support for the proposal, and because I believe the costs to the Crown significantly outweigh the benefits, I am not willing to move forward with the proposal at this stage.

Nevertheless, I understand that Lincoln and UC have already initiated a closer working relationship, and begun implementing a number of joint initiatives. These include the development of joint programmes, the Children's University programme, and initial discussions on a joint land-based postgraduate school. I would like to strongly encourage both Lincoln and UC to continue to collaborate and explore opportunities for greater collaboration. I understand a working group between UC and Lincoln has been established specifically for these purposes.

I expect Lincoln to actively explore opportunities to increase collaboration and partnerships

Lincoln's key relationships with AgResearch, Blinc Innovation, and UC will remain important, but I expect Lincoln to go further and investigate opportunities for greater collaboration and additional partnerships that assist Lincoln to achieve its strategic goals and deliver the skills that New Zealand needs. This would involve exploring opportunities to collaborate with other tertiary education institutions, Crown Research Institutes, industry, iwi and other research providers.

As per the findings of the 2017 Transformation Board, Lincoln needs to "*move away from being a standalone university to being the academic heart of the Lincoln Hub and a valued partner to institutions with shared goals*". Greater collaboration will not only help improve Lincoln's long-term financial sustainability but also better position our land-based sectors to make a greater contribution to a sustainable economy and environmental sustainability through world class teaching and research. Despite not proceeding with the proposed partnership, I still expect Lincoln to strive to achieve the objectives I outlined as part of your partnership discussions with UC.

I understand that as part of the development of your Programme Business Case, a key consideration was how the layout of Lincoln's campus can be optimised to promote collaboration and partnerships. I look forward to seeing your progress in this regard, and will carefully be monitoring developments.

I will also be informing UC of my expectations regarding increased collaboration.

The Government will make decisions on the Crown's investment in Lincoln's science facilities over coming months

A key issue over coming months will be consideration of the Programme Business Case and the \$85 million in Crown funding set aside to assist Lincoln rebuild its science facilities. I look forward to receiving the business case in the near future.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission
Professor Bruce McKenzie, Acting Vice-Chancellor, Lincoln University

Appendix 2: Draft letter to the University of Canterbury

Sue McCormack
Chancellor
University of Canterbury
Private Bag 4800
Christchurch 4180
susan.mccormack@canterbury.ac.nz

Dear Sue

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postgraduate school. I would like to strongly encourage both Lincoln and UC to continue to collaborate and explore opportunities for greater collaboration to meet the objectives I stated in my 21 August 2018 letter regarding your partnership discussions.

I understand a working group between UC and Lincoln has been established specifically for these purposes. I look forward to seeing the results of these discussions, and how Lincoln and UC can better position our land-based sectors to make a greater contribution to a sustainable economy and environmental sustainability through world class teaching and research.

I also understand that UC is currently refreshing its academic strategy, which is likely to have a significant impact on your future plans. I look forward to receiving an update on this work at an appropriate time, including how it will positively impact UC's approach to delivering high-quality teaching and research.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission
Professor Cheryl de la Rey, Vice-Chancellor, University of Canterbury



MP for Rimutaka

Minister of Education

Minister of State Services

Leader of the House

Minister Responsible for Ministerial Services

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