

## Tertiary Education Report: Financial concerns at Unitec Institute of Technology

<b>Date:</b>	4 May 2018	<b>TEC priority:</b>	High
<b>Security level:</b>	In Confidence	<b>Report no:</b>	B/17/00240
		<b>Minister's office No:</b>	

ACTION SOUGHT		
	Action sought	Deadline
<b>Hon Chris Hipkins</b> Minister of Education	<b>Note</b> the information contained in this briefing  <b>Agree</b> to defer a decision on the proactive release of this briefing	At your earliest convenience
<b>Enclosure:</b> No	<b>Round Robin:</b> No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
Section 9(2)(a)	Manager, Monitoring and Crown Ownership	Section 9(2)(a) [REDACTED]	[REDACTED]	✓
Mike Blanchard	Deputy Chief Executive, Operations	Section 9(2)(a) [REDACTED]	[REDACTED]	

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 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 type="checkbox"/> Treasury	

<b>Minister's Office to Complete:</b>	<input type="checkbox"/> Approved <input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's Notes	<input type="checkbox"/> Declined <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by Events <input type="checkbox"/> Withdrawn
---------------------------------------	---	--

**Comments:**

## Recommendations

---

**Hon Chris Hipkins**, Minister of Education

*It is recommended that you:*

1. **note** that Unitec Institute of Technology (Unitec) is projecting a cash shortfall for the 2018 year, largely due to lower than forecast equivalent full-time student (EFTS);
2. **note** that Unitec is taking steps to respond to the situation, and has agreed that the Tertiary Education Commission (TEC) will appoint an independent financial advisor to provide an independent view on its financial position and support to the Unitec council and senior management;
3. **note** that we will provide you with advice as the situation develops, including on whether further statutory intervention is necessary and options for that intervention; and
4. **agree** to defer a decision on the proactive release of this briefing (to avoid adverse effects on Unitec staff and students, suppliers and reputation) until after we have more information about Unitec's financial situation and any decisions about further interventions have been made.

**AGREED / NOT AGREED**



**Tim Fowler**

Chief Executive  
Tertiary Education Commission

4 May 2018

**Hon Chris Hipkins**

Minister of Education

\_\_\_ / \_\_\_ / \_\_\_

## Purpose

---

1. Further to the verbal briefing provided on 30 April 2018, this report briefs you on concerns about Unitec's financial position. It also sets out initial steps taken to address the concerns by both Unitec and the TEC.

## We have been monitoring Unitec's financial position since early 2017

---

2. As a result of Unitec's large-scale borrowing and transformation plans, we have been monitoring the organisation since February 2017. Over this period, Unitec has been considered high-risk but stable.
3. January 2018 projections from Unitec indicated the sale of 29.3ha of surplus land to the Government for \$134 million would clear debt and leave them with resources to ensure they could borrow to complete their transformation project (including further building development).
4. Delays in the land sale process through to early March 2018 led Unitec to identify a small shortfall in operating capital, which they expected to manage internally. By the end of March, Unitec had identified that their earnings before interest, tax, depreciation and amortization (EBITDA) was tracking to be \$0. At this point, they expected to be able to manage the **Section 9(2)(b)(ii)** annualised savings needed internally.
5. However, in mid-April updated equivalent full-time students (EFTS) projections based on first semester enrolments led to Unitec's interim chief executive<sup>1</sup> reporting to the TEC that their latest financial projections were significantly worse than previously understood. Unitec's revised calculations show that all new EFTS scenarios projected for 2018 potentially leave the organisation in a negative net cash position.

## Unitec EFTS and related funding have been falling since 2012...

---

6. Unitec's submitted budget indicated that it was aiming for minor growth to achieve 6,600 domestic EFTS (in 2018). Data returns through the April 2018 Single Data Return (SDR) indicates that final domestic EFTS numbers are likely to be around 6,000. As a result, the TEC is likely to further reduce total in-year funding by around **Section 9(2)(b)(ii)**. There will also be reductions in revenue from student fees paid. This substantially changes Unitec's projected operating position.
7. This shortfall in EFTS continues the downward trend Unitec has experienced over the last five years, which has led to a drop in government tuition funding of around **Section 9(2)(b)(ii)**.

	2012 EFTS	2017 EFTS	Change
<i>Total</i>	10,776	8,442	- 22%
<i>Domestic</i>	9,116	6,408	- 30%
<i>International</i>	1,659	2,034	+ 23%

8. The SDR submitted by Unitec in April indicates that Unitec EFTS have fallen 10 per cent relative to the same period last year. Typically about three quarters of Unitec's full year EFTS are reflected in the April SDR.

---

<sup>1</sup> Unitec's Council has deferred the appointment of a new chief executive for the immediate future. An interim chief executive has been in place since January this year. The TEC has high confidence in the interim chief executive.

9. SAC level 3+ EFTS have fallen 7.6 percent, while full-fee international EFTS have fallen 17.8 percent as compared to the same time last year.

### **...and its financial position is now critical**

---

10. With lower than projected EFTS, Unitec's operations are not currently viable. **Section 9(2)(b)(ii)**  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]

### **Unitec has already taken some steps to reduce costs and make savings...**

11. Since the gravity of the situation was identified, Unitec's senior leadership team has responded rapidly to reduce costs. The Unitec council was advised of the situation on 17 April 2018, and is keeping the TEC up to date with developments.
12. Unitec has halted all non-essential spending, shelved plans for building development, and is moving to rationalise non-essential teaching staff. Vacancies created through senior staff recently departing are not being filled, complementing the general sinking lid that has been applied to recruitment since the start of the year. A large number of short term professional staff have also had arrangements terminated from 31 May, unless their work is essential to academic outcomes.
13. As well as limiting spending, Unitec needs to achieve cost savings of at least **Section 9(2)(b)(ii)**. It has identified **Section 9(2)(b)(ii)** potential savings to date. This is an ambitious target in itself, at this point of the year, and would still not be enough to deliver a break-even operating result. The TEC considers it highly unlikely that Unitec can break-even through cost savings alone, as most savings would be in staff costs, which take time to realise.
14. The interim chief executive has advised that no short term incentive or bonus payments will be made to the executive leadership team or senior management in respect of work completed in the 2017 year. **Section 9(2)(b)(ii)**
15. Further, the Unitec council has wound up its subsidiary the Wairaka Land Company in recognition that it has fulfilled its purpose (following the completion of recent building projects and sale of land). While some roles will be re-established within Unitec, the majority have been disestablished, resulting in further annualised savings **Section 9(2)(b)(ii)**

### **...but it will need additional support – possibly from the Crown**

16. Unitec has identified further asset sales as an option to raise cash. However, while it has identified four further potential asset sales, with indicative proceeds ranging from **Section 9(2)(b)(ii)** [REDACTED] the first tranche of sales **Section 9(2)(b)(ii)** would take up to twelve months to finalise, and the remainder up to 18-24 months.
17. This timing means Unitec will need to seek alternative financial support to remain viable during the interim period.
18. One possibility is bank lending. Unitec has an existing borrowing consent<sup>2</sup> from the Secretary of Education (Secretary) until 2025. However Unitec is required on conclusion of the land disposal transaction to engage with the TEC to develop an appropriately amended consent including new lower maximum borrowing limits and new covenants.

---

<sup>2</sup> The existing borrowing consent has a maximum borrowing limit of \$140 million.

19. Unitec expect their bankers to agree to an amended **Section 9(2)(b)(ii)** borrowing facility. However Unitec will not be able to access this facility unless it is achieving a positive operating result (i.e. break-even or better).
20. Unless Unitec can achieve the **Section 9(2)(b)(ii)** in cost-savings, we consider that it may seek a cash injection from the Crown, similar to that provided to Tai Poutini Polytechnic.

## **An independent financial advisor is being appointed**

---

21. Due to Unitec's very poor financial position and the possibility that it may seek Crown support, the TEC and Unitec have agreed to the appointment of John Fisk, a partner at PwC, as an independent financial advisor. This appointment is underway and we expect to have it completed in the next few days. The appointee will conduct a financial review to ascertain problems, with a particular focus on cash flow and the need for financial support.
22. The independent financial advisor will also attend and participate in Council meetings and meetings of relevant sub-committees; receive all papers; be able to ask for additional information; and will report to you, the Secretary of Education, and myself as the chief executive of the TEC.
23. The appointment will be funded by the TEC. Similar appointments have been made to a number of other institutions experiencing financial difficulties, including Manukau Institute of Technology, the Western Institute of Technology at Taranaki, and Lincoln University. We will update you as this situation progresses.
24. I have also advised Unitec's Chair that the TEC will continue to closely monitor this situation, and that further action may be required.

## **Next steps**

---

25. A mutually agreed independent financial advisor is only the first step in accessing better information about Unitec's financial position and supporting the Council and senior management to stabilise the institution.
26. As you are aware, the Education Act 1989 allows for a range of formal interventions at TEIs by either the chief executive of TEC or you as the Minister, based on the level of risk to the financial and long-term operation of TEOs. Additional interventions are available in the case of ITPs, providing the ability to intervene based on possible risk to the educational performance of students, not just on financial grounds as with other TEIs. The full range of interventions available is set out in the table below.

<b>Type of action</b>	<b>Responsibility</b>	<b>Applies to</b>
Requirement for information	CE of the TEC	All TEIs
Requirement for ITP to seek specialist help	CE of TEC	ITPs
Performance improvement plan	CE of TEC	ITPs
Appointment of a Crown Observer	Minister	All TEIs
Appointment of a Crown Manager	Minister	ITPs
Dismissal of the Council and appointment of a Commissioner	Minister	All TEIs

27. The Secretary for Education issues risk assessment criteria via a notice in the New Zealand Gazette that define what is within scope when assessing whether any of these formal or statutory interventions is appropriate.
28. The different interventions you can make as Minister require either formal notice to the Council or consultation with the Council and other interested parties. We will update you again as the situation develops, including advising on whether further intervention may be necessary, and if so, on the intervention options available to you.
29. It is also important to note that the actions and options discussed in this paper are focused only on achieving the short term sustainability of the institution. Achieving a break even result is a short term solution only and would not make the organisation financially sustainable in the medium to long term.
30. The independent financial advisor and I will be meeting with the Council and interim chief executive next Friday, 11 May. At this meeting I have advised the Chair that I expect the latest update on Unitec's cash position, steps toward cost cutting, and further modelling for EFTS for the remainder of 2018. I also plan to update the Council on the ITP Roadmap 2020 process, as this project is particularly relevant to Unitec's future.
31. I will provide you with a further update after this meeting, and once we have received an initial review of the situation from the independent financial advisor.