

Talking points: Overview of the financial position of the ITP sector

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive - Delivery
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Purpose

1. This aide memoire provides you with talking points to update the Social Wellbeing Committee and Cabinet on the financial position of New Zealand's institute of technology and polytechnics (ITPs) sector. It also includes information on the actions the TEC is taking to better identify and manage individual ITPs that may be at risk of short-term cash-flow issues.
2. The TEC recommends you do not proactively release this document as some of the content is commercially sensitive and could impact on ITPs' business operations.

Talking points

3. ITPs are an integral part of New Zealand's tertiary network, but the existing sector arrangements are not viable.
4. As I have previously advised you, the ITP Roadmap 2020 (and a vocational education and training (VET) review) are designed to address this. I will receive advice on the way forward at the end of September, and bring proposals to Cabinet by the end of this year.
5. In response to the need to provide financial support to Unitec Institute of Technology (Unitec) and Whitireia New Zealand (Whitireia), Cabinet asked me to report on the financial position of all ITPs.
6. Overall, the ITP sector is in a poor financial position:
 - The Crown has already provided capital injections to Tai Poutini Polytechnic in 2017 and 2018, and there is now a need to support Unitec and Whitireia.
 - Audited 2017 results show deficits at nine individual ITPs ranging from -3.6% to -18.7% of revenue (after unusual and one-off items) and a **net sector deficit of -\$51.2 million**.
 - 2018 budgets and forecasts indicate that **10 of the 16 ITPs will return a deficit in 2018**.
 - **It is unlikely that any individual ITP will return a surplus above 3%** which is the level required to be considered "low risk" on the TEC's current Financial Monitoring Framework.
 - The sector's performance is likely to decline further in 2019 and beyond.

- The Minister of Immigration’s changes to post-study work rights for international students are likely to have a further impact on Auckland based ITPs, or those with international campuses in Auckland.
 - Modelling commissioned by the TEC suggests **only two ITPs will make an operating surplus in 2020, and only one in 2022.**
7. Based on currently available information, officials consider the following four ITPs are most at risk of short-term cash-flow difficulties that, if not addressed, could necessitate a further need for Crown financial support in 2019:
- 9(2)(b)(ii) and 9(2)(j) [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - **Wellington Institute of Technology (WelTec)** posted a deficit in 2017, having contributed to the fit-out of a joint campus in Wellington with Whitireia. Section 9(2)(j) [REDACTED] I also have concerns about the capability of the WelTec Whitireia combined Council.
8. Immediate steps are being taken to gain greater assurance about these institutions. The Chief Executive of the TEC has used his powers under the Education Act to request additional detailed financial information from those institutions, and those deemed moderate risk. Analysis of this information will either provide greater assurance, or enable further statutory interventions to manage risk to the Crown.
9. The TEC is also strengthening its financial monitoring processes further. For example, instead of relying on lag data or institutions’ (often optimistic) forecasts, the TEC will use lead indicators to model how they might turn applications and offers into enrolments.

Tim Fowler
Chief Executive
Tertiary Education Commission

13 August 2018

Hon Chris Hipkins
Minister of Education

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