

05 DEC 2019



Tertiary Education Report: Funding Agreement between the Crown and Lincoln University

Date:	5 December 2019	TEC priority:	High
Security level:	In Confidence	Report no:	B-19-01460
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>approve the updated funding agreement between the Crown and Lincoln University, which sets out the terms and conditions of Crown capital support to the University for the rebuild of its science facilities.</p> <p>forward this briefing and the revised funding agreement to the Minister of Finance for his approval.</p> <p>subject to approval from the Minister of Finance, sign and send the attached letter and funding agreement to the Chancellor of Lincoln University for his signature. The Chancellor will then return the funding agreement to you and the Minister of Finance for signature.</p>	As soon as practicable
Hon Grant Robertson Minister of Finance	<p>approve the updated funding agreement between the Crown and Lincoln University, which sets out the terms and conditions of Crown capital support to the University for the rebuild of its science facilities.</p>	As soon as practicable
Enclosure: Yes	Round Robin: Yes	

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

16 DEC 2019

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 See Minister's Notes Withdrawn

Comments:

Recommendations

Hon Grant Robertson, Minister of Finance, **Hon Chris Hipkins**, Minister of Education

It is recommended that you:

1. **approve** the updated funding agreement between the Crown and Lincoln University (Lincoln), which sets out the terms and conditions of Crown capital support to the University for the rebuild of its science facilities.

Minister of Education

AGREE / DISAGREE

Minister of Finance

AGREE / DISAGREE

2. **forward** this briefing and the revised funding agreement to the Minister of Finance for his approval.
3. subject to approval from the Minister of Finance, **sign and send** the attached letter and funding agreement to the Chancellor of Lincoln for his signature. The Chancellor will then return the funding agreement to you and the Minister of Finance for signature.
4. **agree** that the Tertiary Education Commission proactively release this briefing once the funding agreement has been signed with commercially sensitive information and the revised funding agreement withheld to enable Lincoln to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

Minister of Education

AGREE / DISAGREE



Tim Fowler

Chief Executive

5 December 2019



Hon Chris Hipkins

Minister of Education

9, 12, 19

NOTED / APPROVED / DECLINED

MINISTER

Purpose

1. This briefing seeks approval from you and the Minister of Finance of the revised funding agreement between the Crown and Lincoln University (Lincoln) for the Crown's \$80 million investment to support Lincoln rebuild its science facilities.

Background

2. Cabinet agreed in 2017 to provide up to \$85 million to Lincoln for a joint development with AgResearch, subject to joint Ministers endorsing an Implementation Business Case (IBC) for the Joint Facility project [CAB-17-MIN-0312.01]. On 30 April 2018, a funding agreement was signed between the Crown and Lincoln, which covered the terms and conditions of funding for the Crown's proposed \$85 million investment to support Lincoln's contribution to the project.
3. Following numerous delays and due to concerns around the affordability of the Joint Facility project with AgResearch, the two parties decided in late 2018 to construct their own facilities, but to develop them adjacent to each other on the Lincoln site in order to realise as many of the benefits of the former Joint Facility project as possible.
4. Lincoln submitted a Programme Business Case, *Moving Forward*, in August 2019 outlining its revised plans for rebuilding and repairing its earthquake-damaged facilities and modernising the way it teaches and undertakes research.
5. On 11 November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln to support the rebuild of its science facilities [CAB-19-MIN-0583]. On 14 November 2019, you wrote to Lincoln outlining Cabinet's decision, and the terms and conditions for funding.
6. The attached revised funding agreement codifies those decisions, and sets out the terms and conditions of Crown capital support to Lincoln.

Revised funding agreement

The revised agreement uses the same framework as the original...

7. The funding agreement is largely based on the previous agreement (which used a similar approach to the Crown's investment in the University of Canterbury's (UC's) rebuild programme). However, all references to the Joint Facility have been removed and replaced by the current programme of work as set out in Lincoln's Programme Business Case.
8. The revised funding agreement:
 - sets out the timing, amounts, terms and conditions for the payment and use of the Crown capital funding as per the recent Cabinet decision;
 - details the further business cases and project plans that must be developed, following the Treasury's Better Business Case process and guidance;
 - maintains the requirement that Lincoln sufficiently resources the project, as well as any other associated work, to ensure that the full range of benefits promised in the Programme Business Case are realised. This includes the requirement that an individual in Lincoln's senior management is assigned overall responsibility for ensuring that all reasonable steps are taken in order to realise the benefits;
 - requires Lincoln and its Council to prioritise the science re-build projects, both in terms of the University's overall capital plan, but also in terms of its overall work programme;

- provides for a Governance Oversight Group (GOG) to be established, similar to that used at UC, to monitor and oversee both the rebuild of Lincoln's science facilities as well as progress on the overall *Moving Forward* programme. The GOG will have an independent chair and be comprised of senior management and governors from the Crown and Lincoln;
- sets out the targets and milestones Lincoln is required to meet (e.g. building milestones, enrolment and financial targets) as well as reporting requirements;
- sets out the process for an Independent Programme Advisor to be appointed to provide advice to Lincoln's Council and/or the GOG if Lincoln fail to make satisfactory progress to meet a target; and
- sets out the future Independent Quality Assurance (IQA) programme required to ensure that the *Moving Forward* programme is being well-managed and governed as strongly as possible.

...but there are some gaps in the agreement that will need to be completed at a later date...

9. There are some gaps in the funding agreement around the targets, milestones and benefits realisation plans. These will need to be completed at a later date once the construction contract is agreed and the IBC is completed (scheduled for mid-2020). This information will be used for reporting and accountability purposes and will be monitored closely by officials and the GOG.
10. As per the funding agreement, all targets and milestones as well as the benefits realisation plan will need to be approved by the GOG before the second instalment of funding is released to Lincoln (which is contingent on Ministers endorsing an IBC for the Science North project).

...the only modification is around the staging of payments for the main science building

11. When the Programme Business Case was developed, Lincoln was proposing to build the main science buildings – Science North – in two phases. As per the Cabinet decision, the funding was structured to be paid on completion of each stage.
12. Following further development of the design and engineering advice, Lincoln is now planning to build the Science North buildings in a single phase. The rationale for this is set out in the Single Stage Business Case which is due to be submitted to you in early 2020. The advances in the design work show that it is cheaper and more cost-effective for it to be built in a single stage.
13. We have therefore made a slight modification to the payment terms and conditions so that the fourth instalment of \$30 million is linked to 50% of the building being completed as assessed against the construction contract by an independent Quantity Surveyor. The fifth instalment of \$30 million essentially remains the same, and will be paid on completion of the Science North buildings. The change has little impact on the timing of payments, will continue to reflect work completed, and will assist Lincoln in managing its cash flow at a time when there is significant outlay on capital projects.
14. The Cabinet decision authorised you and the Minister of Finance to approve any changes in the size, timing and conditions of funding and to agree the Crown funding agreement with Lincoln.

Consultation on the funding agreement

15. The draft revised funding agreement has been discussed in detail with Lincoln. The draft was discussed at Lincoln's Council meeting in November 2019 and was endorsed subject to minor changes, which we have now made.

16. The Treasury and the Ministry of Education were heavily involved in the development of the original agreement, and have had the opportunity to comment on the revised version.

Next steps

You and the Minister of Finance need to approve the agreement before sending to Lincoln...

17. Once you have approved the revised funding agreement, you will need to forward it to the Minister of Finance for his approval.
18. Two copies of the agreement then need to be sent to the Chancellor of Lincoln for his signature. The Chancellor will then return the two signed copies of the agreement to you and the Minister of Finance for signature. A draft letter to the Lincoln Chancellor is attached to this briefing.
19. If Lincoln has any final queries or minor changes, we can address them directly with Lincoln, and update the agreement. We will advise you if this is the case.

...and the Single Stage Business Case for Science North is nearly completed

20. Lincoln is planning to submit the Single Stage Business Case for Science North to you early next year. A draft of the business case is currently undergoing an IQA by EY, commissioned by the TEC.
21. We are expecting the results of the IQA before Christmas. This will allow Lincoln to update and improve the business case before submitting it to you in early 2020.
22. The first payment of \$5 million from the Crown is contingent on Lincoln producing a business case that meets Treasury's Better Business Case guidelines and it being endorsed by Ministers.