



Tertiary Education Briefing: Decision on Manukau Institute of Technology's application to retain the full net proceeds from the sale of part of its Otarā Campus

Date:	19 June 2020	TEC priority:	Medium
Security level:	In Confidence	Briefing no:	B-20-00419
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	agree that Manukau Institute of Technology retains the full net proceeds of sale of part of its Otarā Campus transferred to it from the Crown, with the approval being for \$6.1 million; and forward this briefing to the Minister of Finance for his consideration.	At your earliest convenience
Hon Grant Robertson Minister of Finance	agree that Manukau Institute of Technology retains the full net proceeds of sale of part of its Otarā Campus transferred to it from the Crown, with the approval being for \$6.1 million.	At your earliest convenience
Enclosure: No		Round Robin: Yes

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
Gillian Dudgeon	Deputy Chief Executive, Delivery	s 9(2)(a)	s 9(2)(a)	✓
s 9(2)(a)	s 9(2)(a)	s 9(2)(a)		

- THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS BRIEFING**
- DPMC MPI ENZ ERO MBIE MoE MFAT
 MPP MSD NZQA NZTE TEC TPK Treasury

TERTIARY EDUCATION BRIEFING: DECISION ON MANUKAU INSTITUTE OF TECHNOLOGY'S APPLICATION TO RETAIN THE FULL NET PROCEEDS OF THE SALE OF PART OF ITS OTARA CAMPUS

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 Withdrawn |

Comments:

Executive Summary

1. In 2010, when establishing the tertiary education institution (TEI) Crown asset transfer and disposal policy, Cabinet agreed that should a TEI sell an asset within five years of its transfer from the Crown it must pay up to 20 percent of the net proceeds of sale to the Crown.
2. Manukau Institute of Technology (MIT) submitted its Crown asset transfer and disposal application in 2010. However, the collapse of Mainzeal Property and Construction Ltd (Mainzeal) in 2013 left MIT with more immediate issues to address and adversely impacted on the transfer timeline. As a result, the Otago campus did not transfer into MIT's legal title until September 2018.
3. In parallel with the protracted transfer process, MIT had been assessing its changing needs and priorities for its property assets. As a result, in January 2019 MIT declared part of its Otago campus as surplus to its future needs. In December 2019, MIT sold this surplus property to the Ministry of Housing and Urban Development (MHUD) for social housing purposes.
4. In November 2019, MIT submitted an application to retain the full net proceeds of the sale of this part of its Otago campus, despite it being sold within five years of its transfer from the Crown. The discretionary 20 percent, which MIT is seeking to retain, is for \$6.1m.
5. The Tertiary Education Commission (TEC) has assessed MIT's application against assessment criteria agreed by Joint Ministers in 2018, and considers that there is a compelling case for MIT to retain the full net proceeds of the sale based on:
 - a. the time taken to complete the transfer process, as had it not been for the collapse of Mainzeal, the land could have been transferred to MIT over five years prior to its sale and MIT would have been able to retain the full net proceeds of the sale, as of right;
 - b. MIT proposes to use of the \$6.1 million to support investments in educational facilities that are critical to its future viability – i.e. the fit-out of its new TechPark campus at Manukau; and
 - c. the investment MIT made since 2013 (approximately \$7 million) in that portion of its Otago campus sold to MHUD, in order to maintain the buildings on that land in a safe and functional state.
6. The new TechPark campus for trades and engineering, along with the improvements MIT is making to its remaining Otago campus, will also assist it to have the capacity to meet any increase in domestic enrolments due to the impacts of COVID-19.
7. As part of the Reform of Vocational Education (RoVE), all institutes of technology and polytechnics (ITPs) became subsidiaries of the New Zealand Institute of Skills and Technology (NZIST) on 1 April 2020. At the end of 2022, these subsidiary ITPs will be fully consolidated into the NZIST, including their assets and liabilities.
8. The TEC has consulted the Ministry of Education and the Treasury in preparing this briefing, and both support the TEC's recommendation for MIT to retain the full net proceeds.

Recommendations

Hon Chris Hipkins, Minister of Education

We recommended that you:

1. **forward** this briefing to the Minister of Finance for his consideration.

We recommend that the Minister of Education and the Minister of Finance jointly:

2. **note** that the tertiary education institution (TEI) Crown asset transfer and disposal policy provides for TEIs to apply to have the Crown assets they manage be either:
 - a. transferred into their legal ownership for ongoing educational purposes; or
 - b. disposed of, with up to 100 percent of the net proceeds of disposal being available to the TEI for investment in capital projects that support educational activities.
3. **note** that where a TEI disposes of an asset within five years of its transfer from the Crown, the TEI is required to pay up to 20 percent of the net proceeds of sale to the Crown, but may retain the full net proceeds of sale if it satisfies assessment criteria agreed by Joint Ministers in 2018;
4. **note** that Manukau Institute of Technology (MIT) has applied to retain the full net proceeds from the sale of part of its Otara campus to the Ministry of Housing and Urban Development, despite the sale occurring within five years of its transfer from the Crown;
5. **note** that the Tertiary Education Commission (TEC) has assessed MIT's application against the framework of assessment criteria agreed by Joint Ministers in 2018;
6. **note** that in terms of the above framework the TEC considers the reasons to support MIT's application to retain the full net proceeds of sale include:
 - a. a factor outside MIT's control (the collapse of Mainzeal Property and Construction Ltd) contributed to a lengthy delay between its application for the transfer of Crown assets in 2010 and their transfer in 2018;
 - b. MIT is not overcapitalised;
 - c. MIT proposes to use the \$6.1 million to fund the fit-out of its new TechPark campus at Manukau - a capital project that will provide value to the educational activities of MIT;
 - d. MIT has provided a Business Case for the \$10.8 million TechPark campus fit-out – the cost of which is well in excess of the \$6.1 million it has applied to retain;
 - e. MIT has been required to invest approximately \$7 million, since 2013, in the disposed Otara campus buildings, in order to maintain them in a safe and functional state; and
 - f. MIT continues to comfortably exceed the minimum Capital Asset Management (CAM) expectations for tertiary education institutions.
7. **note** that the TEC considers there is a compelling case for MIT to retain the full net proceeds from the sale of part of its Otara campus as, based on the information provided to officials, MIT satisfies all criteria agreed by Joint Ministers in 2018;
8. **note** that, as part of the Reform of Vocational Education (RoVE), all Institutes of Technology and Polytechnics (ITPs) became subsidiaries of the New Zealand Institute of Skills and Technology (NZIST) upon its establishment on 1 April 2020, and all MIT assets and liabilities will be fully incorporated into the NZIST at the end of December 2022;

9. **agree** that MIT retains the full net sale proceeds from the disposal of part of its Otago campus, sold within five years of its transfer from the Crown, for investment in capital assets it has identified that benefit educational outcomes;

AGREE DISAGREE

Minister of Education

AGREE / DISAGREE

Minister of Finance

10. **note** that the Ministry of Education and the Treasury have been consulted in the preparation of this briefing and both support the TEC's recommendation for MIT to retain the full net proceeds;

We recommend that the Minister of Education:

11. **note** that, once notified of the decision of Joint Ministers, the TEC will provide your office with a letter to communicate the decision to MIT; and
12. **agree** that the TEC releases this briefing once it has been considered, with information on MIT's future financial plans and MIT's financial viability information withheld due to commercial sensitivities, and the contact details of officials also withheld.

AGREE DISAGREE

Minister of Education



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

19 June 2020



Hon Chris Hipkins

Minister of Education

01 / 07 / 2020



Hon Grant Robertson

Minister of Finance

7 / 7 / 20

Purpose

1. The purpose of this briefing is to seek your agreement to Manukau Institute of Technology (MIT) retaining the full net proceeds of the sale of part of its Otara campus to the Ministry of Housing and Urban Development (MHUD), despite the sale occurring within five years of its transfer from the Crown.

Policy background

2. In 2009/2010, Cabinet agreed to a policy that, subject to certain conditions, allows tertiary education institutions (TEIs) to obtain the legal title to Crown-owned assets under their management [CAB Min (09) 38/12 and SOC Min (10) 5/6]. The policy also provides incentives for TEIs to identify assets for disposal that are surplus to their requirements.
3. Where a TEI identifies assets for disposal as part of its asset transfer application, 80 percent of the net proceeds are available to the TEI for capital projects to support its educational activities. The remaining 20 percent is also available to the TEI if the Crown agrees it is not overcapitalised and has demonstrated the funds will be used in capital projects that contribute to the educational activities of the institution.
4. In order to discourage TEIs from circumventing the above requirements, Cabinet also agreed that should a TEI sell a property within five years of its transfer, then the TEI must pay up to 20 percent of the net proceeds to the Crown. This requirement to only pay back up to 20 percent recognises that an asset may become surplus sooner than expected and aims to discourage TEIs from simply delaying the disposal of such assets until the five years have passed.
5. As the policy did not provide a basis to assess applications from TEIs to retain the full net proceeds of sale of properties sold within five years of transfer, in June 2018, Joint Ministers agreed a framework of assessment criteria. This framework, as set out in Appendix A, now provides the basis for a consistent approach to the treatment of all such applications.
6. In July 2019, Cabinet agreed to reform New Zealand's vocational education system. As part of the reform, all ITPs, including MIT, became subsidiaries of the New Zealand Institute of Skills and Technology (NZIST) on 1 April 2020. At the end of 2022, these subsidiary ITPs will be fully consolidated into the NZIST, including their assets and liabilities, unless NZIST elects to consolidate these assets earlier.

MIT is seeking to retain the full net proceeds of the sale of part of its Otara campus

7. In November 2019, MIT submitted an application to the Tertiary Education Commission (TEC) to retain the full net proceeds from the sale of part of its Otara campus, sold within five years of its transfer from the Crown. MIT has cash flow constraints stemming from the collapse of Mainzeal Property and Construction Ltd (Mainzeal) and regards the discretionary 20 percent of net proceeds (\$6.1 million), which it is seeking to retain, as valuable funding for the capital investment required for the fit-out of its new TechPark campus at Manukau. Retention of the full net proceeds will also indirectly support the parallel capital investment MIT is making at its remaining Otara campus and in the required relocation of its Maritime School¹.
8. MIT's application relates to six hectares of land, and associated buildings, which it sold to MHUD for social housing purposes in December 2019. This land was transferred to MIT from the Crown in September 2018 and consists of the southern portion and a smaller part of the

¹ The Maritime School's lease on its current site expires at the end of 2020 and the landlord has informed MIT that it will not be renewed. As such, MIT needs to identify new premises.

northern portion of its Otago campus. Appendix B provides a map of the Otago campus showing the land sold to MHUD and that retained by MIT.

9. The land sold to MHUD is currently occupied by a number of MIT's vocational educational schools and workshops, central services units, the library, and student support services. MHUD agreed for MIT to continue its occupancy and use of this land until 31 March 2021 at a peppercorn rental. This was to enable MIT to transition to its new TechPark campus and complete refurbishments of the northern portion of its Otago campus.
10. MIT's Automotive, Engineering and Trades schools at Otago will be relocated to the new TechPark campus in Manukau once it is ready by late 2020. The rest of the schools, service units and support services including the library will be relocated to refurbished buildings in the remaining northern portion of MIT's Otago campus.
11. In recognition of the educational needs of the large Māori and Pasifika populations in Otago, MIT will continue to retain a strong presence in Otago. This commitment is signalled by the investment it is making in the refurbishment of the northern portion of its Otago campus.

We have assessed MIT's application against the criteria agreed by Joint Ministers

12. The Otago campus has been financially challenging for MIT due to its large footprint, significant deferred maintenance, and the high remediation costs associated with bringing a large number of buildings with complex maintenance issues (such as asbestos) up to a viable standard. This situation was exacerbated in 2013 by the financial impact of Mainzeal going into liquidation midway through the construction of the Manukau Tertiary Centre (MTC) building in Manukau². As a result, since 2013, MIT has had severe constraints on its capital spending and has not been able to fund the development of fit-for-purpose buildings across its wider Otago campus. Notwithstanding this, MIT has still been required to invest approximately \$7 million in the interim to maintain the viability and safety of the buildings on the land it sold to MHUD. During this time MIT has also been incurring interest on additional debt incurred to support the completion of the MTC building.
13. As background to its application MIT notes that as a priority it has repaid the remaining debt balance (approx. \$30 million) incurred following the Mainzeal collapse, to support its strategy of being debt-free in the medium term. Beyond this, MIT is now investing in capital projects worth approximately **§ 9(2)(i)** to enhance all its teaching and learning facilities to ensure they meet the needs of students and are fit-for-purpose.
14. In requesting the retention of the full net proceeds of the disposal of that part of its Otago campus, transferred from the Crown within the last five years, MIT acknowledges that the discretionary funds (\$6.1 million) must be spent on capital projects and has specifically identified the fit-out of its new TechPark campus at Manukau. The capital projects MIT has planned support the Tertiary Education Strategy, particularly by providing high priority (Māori and Pasifika) learners with ready access to engineering and trade qualifications, and will also provide MIT with the capacity to meet any increase in domestic enrolments due to the impacts of COVID-19.
15. Even if MIT is permitted to retain the discretionary final 20 percent of the net proceeds of sale of the assets (\$6.1 million) it will still face a shortfall of \$11 million, which will need to be covered by borrowing. This highlights the importance to MIT of retaining the full amount of the

² Mainzeal Property and Construction Limited was the main contractor for the Manukau Tertiary Building, which was left incomplete following Mainzeal's collapse. The building was subsequently completed by a new contractor for an additional cost of close to \$30 million

proceeds to help it achieve its long term strategic vision of being a world-class vocational education provider.

16. The following sections apply the framework as set out in Appendix A to MIT's request.

Criteria i and ii: The time taken to transfer the assets MIT is disposing of, and the time since the assets transferred to MIT

It took a long time to transfer the assets to MIT – so MIT held them for less time than expected

17. Cabinet established the Crown asset transfer and disposal policy in March 2010. In July of that same year MIT applied to have the Crown assets it managed transferred into its legal ownership. MIT had managed these assets since 1990.
18. A Memorandum of Understanding (MoU) setting out the terms of the asset transfer process was signed by MIT in May 2013. However, this was not countersigned by the Crown due to the ramifications to MIT of the collapse of Mainzeal. As a consequence of the collapse, MIT indicated that it needed time to re-assess its strategic capital asset plan. The TEC supported this deferment while MIT dealt with more urgent financial and strategic issues.
19. A revised MoU was finally signed by MIT and the Crown in March 2016. The process to obtain the clearances from the respective authorities, which was somewhat protracted, followed and the assets were finally transferred into MIT's legal ownership in September 2018.
20. It took over eight years from MIT's asset transfer application in July 2010 to the final transfer of the assets in September 2018. Had the Crown signed the initial transfer MoU in June 2013, and the transfers had been completed in a timeframe comparable to that taken to implement the final 2016 MoU, then the assets may have transferred by 2015 and the five year consideration would have expired sometime in 2020 rather than in 2023.
21. Furthermore, when Cabinet approved the five year constraint in 2010 it was advised that transfers would take up to three years at the most. Given the transfer process took eight years it would appear that Cabinet would have normally (i.e. in the absence of the Mainzeal collapse and delays in central government transfer approval processes – both factors beyond MIT's control) have expected the five year constraint to have expired. This consideration alone presents a reasonably compelling case for MIT to retain the full net proceeds of disposal.
22. Amidst the eight year transfer period MIT, in 2017, refreshed its campus masterplan. This was in recognition that the 2010 campus masterplan and vision for Otago was now outdated and a new plan was needed to reduce the MIT property footprint, improve overall property utilisation and realise proceeds of disposal of surplus property for reinvestment.

Criteria iii: Whether MIT is overcapitalised

By our assessment MIT is not overcapitalised

23. The TEC has applied the tests for overcapitalisation (covering working capital and asset turnover ratios) to historical financial information and future forecasts provided by MIT. These are the same tests the TEC has used in assessing previous applications by TEIs that have applied to retain the full net proceeds of sale of a Crown-owned asset. The results of these tests indicate that MIT is not overcapitalised.
24. In recent years MIT has identified that **s 9(2)(i)** of capital expenditure would be required at its Otago campus to ensure a safe operating environment for staff and students. However, due to its high debt repayments and interest payments, MIT has not been able to fund this expenditure. As a result MIT has had very low capital expenditure relative to its asset depreciation costs.

Criteria iv and viii: Whether the retained funds will be used in capital projects that are of value to the educational activities of MIT, and evidence of supporting Business Cases

MIT provided evidence (including business cases) that the funds sought will be used in capital projects of value to its educational activities

25. MIT plans to use the proceeds from the sale of part of its Otarā campus to fund a range of capital projects totalling some **s 9(2)(i)**. Specifically it has identified:
- a. the fit-out and purchase of plant, teaching/learning equipment and simulation technology at its new TechPark campus at Manukau (\$10.8 million) - with this being the priority recipient of the \$6.1 million discretionary funds it is seeking to retain;
 - b. the upgrade of the remaining Otarā campus (approximately **s 9(2)(i)**) to accommodate some of the transferred schools and services from the areas to be vacated; and
 - c. the forced relocation of its International Maritime School to new premises together with the upgrade of its learning simulator (**s 9(2)(i)**).
26. MIT has provided the TEC with a business case relating to the TechPark campus project and a migration masterplan, a project report for the Otarā refurbishment and migration of school and service units, and details regarding the relocation of its Maritime School.
27. The objective of the TechPark campus is to deliver a new centre of excellence for Engineering and Trades education in Manukau in conjunction with MIT's chosen development partner. MIT will move its trade disciplines from a collection of outdated buildings in Otarā to its new TechPark campus with modern, fit-for-purpose facilities, aligned to industry practice and emerging technologies. This will revitalise MIT's trades offerings and enable it to attract new strategic partnerships and gain industry recognition. The physical space is also expected to provide an engaging and user-friendly experience and will bring together all of MIT's Engineering and Trades schools³ under one roof for the first time since it was founded almost 50 years ago.
28. The TechPark campus is located near a public transport hub (rail and bus) and the existing Manukau Tertiary Centre (MTC) in Manukau where MIT's School of Business and School of Nursing and Health Studies is located. It is being developed in partnership with construction and property development company Haydn & Rollett Ltd, which will own the building. MIT will take up a thirty-year lease on the facility once it is completed in late 2020.
29. MIT continues to deliver on a planned series of upgrades to the Otarā campus in order to accommodate the migration of the rest of its schools, the remaining central service units and the library from the part that has been sold. The effect of this will be to reduce MIT's Otarā footprint, improve overall property utilisation, and increase financial efficiency. The remaining campus in Otarā North will be MIT's cultural heart focused on foundation learning, cultural competency, languages, and its pathways centre⁴.
30. The existing lease of the Maritime School in Auckland city ends in December 2020. MIT has received confirmation from the lessor that this cannot be extended and is therefore investigating options for either a new site, or the possibility of incorporating it into its Manukau footprint.

³ Building and Civil Construction, Engineering, Plumbing and Gas fitting, Refrigeration, Electrical, Automotive.

⁴ Pathways are a range of programmes that enable students to experience MIT learning either at school or on one of MIT campuses.

31. MIT has provided an assurance it is investing the proceeds of disposal in projects of educational value, which have gone through a rigorous evaluation and approval process.

Criteria v: Whether MIT continues to meet the Government's Capital Asset Management (CAM) expectations

MIT continues to meet CAM expectations

32. MIT is required to have an independent assessment of the maturity of its asset management systems in response to a Cabinet requirement to improve CAM across the sector. MIT has undertaken independent assessments in 2013, 2015 and 2017, with annual self-assessments in the intervening years and in 2019.

33. The recommended level for asset management maturity in the TEI sector is "core"⁵ on the asset management framework for the state sector and Crown entities. The last independent assessment in 2017 determined MIT to be at an "intermediate" level of maturity, which comfortably exceeds the recommended level. This has been confirmed in its most recent self-assessment in 2019.

34. In the independent assessment report in 2017, the assessor reported that there was evidence of continued investment in asset management and asset management improvement activities, and that MIT has recognised the importance and value of robust capital asset management as a core business process. Recent examples of tangible improvements in its asset management include an improved timetabling system to support broader asset utilisation goals and the implementation of an asset management solution to help with ongoing maintenance of assets and forward planning.

35. MIT is an excellent performer in the CAM space and easily exceeds minimum requirements.

Criteria vi: Whether MIT remains a viable operation

MIT remains a financially viable operation with a high level of educational performance

36. MIT is the third largest ITP with net assets of just under \$237 million. MIT's annual revenue has stabilised at around \$100 million from a high of \$114 million in 2016. Government funding accounts for just under 50 percent of this revenue. Of the rest, domestic and international fees provide 34 percent, and external research and other revenue 18 percent. These percentages are about average for the ITP sector. Personnel costs are the biggest expenditure item for MIT, being around 62 percent of total expenditure.

37. Since 2010, MIT's financial performance has been inconsistent, with four of the nine years (mainly the later years) showing deficits. This is mainly due to falling revenue as a result of decreasing domestic enrolments, which has only been partially offset by increasing international enrolments. Despite this, MIT's operating margins have been healthy, averaging around 11 percent during this period which compares favourably with the sector average of around 9 percent for the same period. Net cash flows from operations have always been positive, averaging around \$11 million per annum over this period. This has been possible due to MIT ensuring that every reduction in revenue has been matched by comparable cost savings. These savings have averaged around \$10 million annually.

38. Operationally MIT has shown an ability to scale down capital expenditure in periods when operational cash flow and profitability are lower. On several occasions MIT has concurrently run deficits while improving its net cash position, which has been applied to debt reduction. This ability means MIT's performance needs to be viewed over a multi-year period, rather than just the last few years.

⁵ "Core" is a range of 45-60 on a scale of 0-100. "Intermediate" is a range of 65-80. MIT has achieved a score of 65.

39. Since the completion of the MTC building in 2014, MIT has resisted using its borrowing facility to fund any new large projects, and has focused on reducing its previous borrowing through its internal cash flows. To date this has resulted in MIT operating within a constrained capital budget, and spending only on those capital works critical to ensuring a safe operating environment for staff and students.
40. A further reason for MIT not spending on capital projects was the prohibitive costs of bringing some of the buildings on the land sold to MHUD up to standard, with some buildings (e.g. A Block) estimated to cost up to \$12 million due to factors such as asbestos contamination, seismic strengthening, heating and ventilation upgrades. This has forced MIT to permanently close some buildings, or whole floors of buildings, leading to very poor asset utilisation at its Otara campus, where most of the buildings date back to the 1970s and 1980s.
41. MIT has maintained a consistently high level of educational performance. Since 2016, it has maintained a NZQA external evaluation and review (EER) status of Category 1 (Highly Confident in the educational performance, and Highly Confident in the capability in self-assessment). This is the highest possible level on the EER scale.
42. On TEC's Financial Monitoring Framework (FMF), MIT has registered a **§ 9(2)(i)** since 2016 (previously **§ 9(2)(i)** due to its net borrowing situation and falling profitability. This situation required the appointment of an independent financial advisor in 2014 following the collapse of Mainzeal. However, the situation at MIT has now improved to the extent that the position of the independent financial advisor has recently been disestablished. The FMF risk rating is also expected to **§ 9(2)(i)** with the repayment of debt, which has improved the financial viability and sustainability of MIT's operations.
43. MIT remains viable and has performed favourably when benchmarked against other ITPs. It is budgeting to deliver approximately **§ 9(2)(i)** in capital projects over the next two years to ensure its strong performance in the sector continues into the future.
44. Usually economic factors such as the present shortage of skilled vocationally trained staff and an increasing pipeline of school student numbers translate into increased ITP student numbers. However, the COVID-19 related shutdown of tertiary institutions and the impact of border controls on the enrolment of international students could delay any such increase in student numbers. But, the anticipated increase in unemployment following COVID-19 has the potential to translate to higher enrolments as part of a natural economic cycle. This would contribute to improving MIT's financial performance and offset any immediate COVID-19 related losses.

Criteria vii: The financial implications for MIT and the Crown

Our assessment of the financial implications for MIT and the Crown, MIT's investment in the assets and its current financial situation, support MIT's retention of the sought funds

THE AMOUNT REPRESENTED BY THE 20 PERCENT

45. The 20 percent of net proceeds equates to \$6.1 million based on a sale value of \$30.8 million⁶ and relates to property sold to MHUD within five years of its transfer from the Crown. In order to complete the sale to MHUD in a timely manner, MIT agreed to pay the 20 percent to the Ministry of Education (MoE) on settlement, to be held by MoE pending a decision by Joint Ministers on MIT's application to retain this discretionary portion of the proceeds.

⁶ The total value of the property sold to MHUD was \$43 million as it also included land always held in MIT's title.

HAS MIT CONTRIBUTED TO THE VALUE OF THE ASSET?

46. MIT estimates it has spent around \$7 million for general minor works⁷ on its Otago campus (in particular, the disposed part) since 2013. A conscious decision was made not to overspend on building works due to the age and condition of the buildings and the prohibitive costs to bring them up to modern safety and teaching standards. The buildings were of diverse types, old, fragmented and with complex maintenance issues that had the potential to blow out any remediation costs. MIT would have been unable to fund any such cost overruns due to its constrained capital budget.
47. The business-as-usual running costs of the Otago campus for property and campus works (excluding Motor Vehicles and Furniture) is around \$2.2 million per annum. Annual depreciation for buildings prior to the sale was \$7.2 million, of which the Crown buildings portion was \$2 million.
48. From the information submitted by MIT, and discussions with MIT's Chief Financial Officer, the TEC is satisfied that MIT made investments in the disposed buildings comparable to the quantum of the discretionary funds it is seeking to retain. MIT's investments were necessarily cautious given the highly problematic nature of a number of the buildings and it was forced to shut down some buildings that were not economical to remediate. Granting approval for MIT to retain the discretionary proceeds of sale could be viewed as a form of compensation for taking on the maintenance burden of such problematic assets from the Crown.

MIT'S CURRENT FINANCIAL SITUATION

49. Based on recent audited results, MIT has achieved a group deficit of \$5 million for the 2019 financial year. The original 2020 budget provided to TEC indicated a lower deficit of \$2.6 million⁸ due to savings in interest costs, personnel costs and faculty support costs. Following the COVID-19 situation MIT has reforecast an even lower deficit of \$2.4 million largely due to the impact of the guaranteed government subsidies. MIT under every scenario continues to project a healthy EBITDA⁹ of close to \$10 million.
50. MIT has an existing borrowing consent (the consent) with a current limit of \$50 million. This consent expires on 31 December 2022. MIT's plans indicate a need for up to s 9(2)(i) of in-year borrowing until 2022 to complete its planned capital projects. Therefore the consent expiry matches with MIT's plans. MIT will also look to reduce the limits of the consent accordingly. MIT's forecasts signal that it will be debt free by 2023. As at 31 December 2019 MIT had no bank borrowings, but this is expected to change as MIT starts to spend on its capital projects.
51. MIT forecasts it will continue to be a financially viable organisation where its core teaching and learning operations will show positive EBITDAs.

OTHER POTENTIAL PRIORITIES FOR THE CROWN

52. In the context of the wider Education portfolio, the TEC believes that the capital projects funded out of the net sale proceeds are of value, and will enhance the educational activities of MIT. These projects also have the potential to improve learning opportunities for students from disadvantaged socio-economic backgrounds. MIT's strategic goals of reducing its property footprint, improving overall property utilisation, and realising proceeds of surplus property for reinvestment in educational initiatives will also be fulfilled. Investment in achieving these outcomes merits support.

⁷ Low value building works or infrastructure (consented and non-consented), including repair, refurbishment and interior fit out.

⁸ Following the COVID-19 situation the original budget may not hold true.

⁹ EBITDA – Earnings before interest, taxes, depreciation and amortisation.

Conclusions and advice on MIT's request

53. Under the assessment framework, the TEC considers that the reasons to support MIT's request to retain the full net proceeds include:

- disposing of assets it no longer needs is consistent with the effective and efficient management of its assets;
- ten years have elapsed since MIT applied for the transfer of the Crown-owned assets that it had managed since 1990 and four years have elapsed since MIT signed the MoU for the process to transfer the assets. At all times MIT has, in parallel, constantly re-assessed the ongoing need for the assets taking into account its evolving situation as required under the Crown asset transfer and disposal policy;
- the three-year period it took to agree the MoU was largely due to MIT requiring time to address the fallout from the collapse of Mainzeal, which was beyond its control, and to reassess its financial and strategic plans for the future. Had it not been for this delay and some delays in the asset transfer clearance process, the Otago campus may have transferred in time for MIT to have retained the full net proceeds of sale as of right;
- MIT is not overcapitalised;
- the retained proceeds will be invested in capital projects, which provide value to the educational activities of the institution;
- MIT continues to exceed the minimum CAM expectations, with plans for further improvements in place;
- MIT remains a financially viable organisation in terms of its ability to meet its operational commitments and services, and manage its current and future debt profile and financial risks; and
- MIT has made reasonable investments in its Otago campus given its circumstances and has maintained the assets to standards required to provide safe teaching services.

54. On 1 April 2020, as a transitional step to the establishment of a unified vocational education system, all ITPs became subsidiaries of the NZIST. All assets and liabilities of MIT will be fully incorporated into the NZIST at the end of December 2022, unless NZIST elects to consolidate certain assets or subsidiaries earlier.

55. The likely consequence of not agreeing to allow MIT to retain the full net sale proceeds is that MIT will need to increase its borrowing up to around **s 9(2)(i)** to complete its capital programme instead of the lower figure of **s 9(2)(i)**. This will incur higher interest costs, which could further reduce MIT's operating margins and require the borrowing consent to be extended for a further one to two years.

Consultation

56. The TEC has consulted with the MoE and the Treasury in the preparation of this briefing. Both the MoE and Treasury support the TEC's recommendation for MIT to retain the full net proceeds. The MoE is also satisfied that the process to assess MIT's application has been followed as set out in the Crown Asset Transfer and Disposal policy and the subsequent decision by Joint Ministers.

Appendix A: Framework to Assess and Decide on Applications to Retain the Full Net Proceeds from the Sale of Assets, Sold Within Five Years of their Transfer from the Crown

The framework of criteria below applies to applications by tertiary educational institutions (TEIs) for the retention of the final 20 percent of net sale proceeds, or part thereof, where assets are sold within five years of their transfer into TEI title.

Requests will be treated consistently and in accordance with the principles underpinning the TEI Crown Asset Transfer and Disposal Policy.

Requests will be assessed against the following criteria:

- i. the time since the asset transferred;
- ii. the time taken to transfer the asset the TEI is disposing of since:
 - a. the TEI applied for the transfer of Crown assets;
 - b. the time the TEI signed the Memorandum of Understanding (MoU) for the transfer process;
- iii. whether the TEI is overcapitalised;
- iv. whether the TEI has demonstrated that the retained earnings will be used in capital projects that are of value to the educational activities of the institution;
- v. whether the TEI continues to meet the government's CAM expectations;
- vi. whether the TEI remains viable; and
- vii. the financial implications for the TEI and the Crown:
 - a. the amount the 20 percent represents;
 - b. the level of investment the TEI has contributed to the value of the asset, including clear evidence of this investment;
 - c. the TEI's current financial situation; and
 - d. other potential priorities for the Crown.
- viii. A business case aligned with Treasury's Better Business Case framework to demonstrate the value of the capital project(s) the full net proceeds would be invested in, including the benefits of investing the additional 20% (this would apply where the net proceeds are expected to be more than \$1 million – *i.e. where 20% is \$200k or more*).

Appendix B: MIT's Otago campus site

Properties disposed of are highlighted in yellow.

Properties that were previously in the Crown's title and part of the disposal are denoted by an orange star. Other properties were all in MIT's title.

Otago campus to be retained is highlighted in red.

