

## Tertiary Education Report: Report to Ministers from the Lincoln University Governance Oversight Group – September 2022 meeting

<b>Date:</b>	20 October 2022	<b>TEC priority:</b>	Medium
<b>Security level:</b>	In Confidence	<b>Report no:</b>	B-22-00640
		<b>Minister's office No:</b>	

ACTION SOUGHT		
	Action sought	Deadline
<b>Hon Chris Hipkins</b> Minister of Education	<p><b>note</b> that the Lincoln University Governance Oversight Group met on 20 September 2022 and the Chair of the Governance Oversight Group's report to Ministers is attached.</p> <p><b>forward</b> this briefing and the Chair's report to the Minister of Finance for his information.</p>	As soon as practicable
<b>Enclosure:</b> Yes	<b>Round Robin:</b> No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
s9(2)(a)	Principal Advisor	s9(2)(a)	[REDACTED]	✓
Gillian Dudgeon	Deputy Chief Executive, Delivery	s9(2)(a)	[REDACTED]	

### THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

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

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 Withdrawn |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

## Recommendation

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**Hon Chris Hipkins**, Minister of Education

*It is recommended that you:*

1. **note** that the Lincoln University (Lincoln) Governance Oversight Group (GOG) met on 20 September 2022 and the Chair of the GOG's report to Ministers is attached.
2. **forward** this briefing and the Chair's report to the Minister of Finance for his information.
3. **agree** that the Tertiary Education Commission proactively release this briefing and the Chair's report with commercially sensitive information withheld to allow Lincoln to carry on without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

s9(2)(a)

**Gillian Dudgeon**

Deputy Chief Executive, Delivery  
Tertiary Education Commission

20 October 2022

s9(2)(a)

**Hon Chris Hipkins**

Minister of Education

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**Hon Grant Robertson**

Minister of Finance

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*This is an encouraging update, however we will need to maintain close monitoring of Lincoln's medium to longer term position. Asset sales are an appropriate "reset" initiative but not a strategy for long-term viability. CH.*

## Background

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1. In November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln University (Lincoln) to support the rebuild of its science facilities [CAB-19-MIN-0583], as part of its wider campus redevelopment and transformation programme – *Moving Forward*.
2. A funding agreement was signed between the Crown and Lincoln outlining the terms under which the Crown agreed to provide capital funding, and the accountability and reporting mechanisms that were to be put in place. This was signed by the Minister of Finance and the Minister of Education on behalf of the Crown in December 2019 (B-19-01460 refers).
3. Consistent with the Cabinet decision, the funding agreement specified that a Governance Oversight Group (GOG) was to be established. The GOG's role is to ensure that there is strong monitoring and accountability for delivering Lincoln's *Moving Forward* Programme and its proposed benefits, and to ensure that the Programme is being appropriately governed.
4. The Chair of the Lincoln GOG is Murray Coppersmith. In addition to the Independent Chair, the GOG includes:
  - The Chair of the TEC Board – Jenn Bestwick;
  - The Chief Executive of the TEC – Tim Fowler;
  - The Lincoln, Chancellor – Bruce Gemmell;
  - The Chair of Lincoln's Capital Assets Council sub-Committee – Janice Fredric; and
  - The Lincoln Vice-Chancellor – Professor Grant Edwards.

## September 2022 meeting

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5. I attach the latest report from the Chair of the Lincoln GOG and seek your agreement to forward the report to the Minister of Finance. The current report from the GOG Chair takes account of the meeting on 20 September 2022 and any developments since that date.
6. The next GOG meeting will be in December 2022. The GOG Chair will update you following that meeting as required.

# Lincoln University Governance Oversight Group: Report to the Minister from the Chair

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<b>To:</b>	Hon Chris Hipkins, Minister for Education
<b>From:</b>	Murray Coppersmith Chair of the Lincoln University Governance Oversight Group
<b>Date:</b>	14 October 2022
<b>Title:</b>	<b>Report to the Minister from the Lincoln University Governance Oversight Group Meeting for June 2022 reporting purposes</b>

## Purpose

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1. This report updates you on progress of the Lincoln University (Lincoln) *Moving Forward Programme* following the Lincoln Governance Oversight Group (GOG) meeting held on 20 September 2022.

## Background

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2. The role of the Lincoln GOG is to monitor progress against the Crown Funding Agreement (CFA) signed between the Crown and Lincoln in December 2019 and to ensure the Moving Forward Programme is a success.
3. The key Crown investment outlined in the CFA is an \$80 million contribution toward the rebuild of science facilities at Lincoln's main Te Waihora campus. These construction projects are accompanied by six research and educational initiatives (*the New Ways of Operating* or *NWOO projects*), which are, collectively, known as the "*Moving Forward Programme*".

## Key points

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4. Following the September 2022 meeting, the key points are:
  - All but four of indicators in the Quarterly Monitoring Report to March 2022 are shown as green. Four indicators are amber.
  - Three of the amber indicators relate to the volume of certain categories of domestic and international EFTS for 2022.
  - Overall, domestic EFTS are expected to be above target for 2022, but within the overall total, undergraduate domestic EFTS are expected to be 42 EFTS (2.8%) below target (postgraduate domestic EFTS are expected to be above target).
  - International EFTS at both undergraduate and postgraduate levels are expected to be below the Moving Forward target for 2022. This reflects ongoing border restrictions being more severe than was expected when the targets were set in early 2021. While below the Moving Forward target for 2022, expected full year international EFTS are tracking ahead of budget.

- The other amber indicator relates to the timetable for some infrastructure upgrades (heating and decarbonisation). The amber status reflects poor market response to initial procurement activity for some packages of work. Lincoln has worked with a number of potential suppliers which has resulted in a higher level of interest now that the packages have been retendered. The impact is that there may be a three-month delay in completion of some of these packages, but this does not put the wider programme of work at risk.
- The University of Canterbury Partnership, which was previously rated amber is now rated green.
- Actual financial performance for the seven months to 31 July 2022 is tracking ahead of budget. The actual operating surplus (after depreciation and interest) <sup>9(2)(b)(ii)</sup> [REDACTED] better than budget, primarily due to lower costs.
- Cash balances as at 31 July 2022 are <sup>9(2)(b)(ii)</sup> [REDACTED], which is <sup>9(2)(b)(ii)</sup> [REDACTED] higher than budget. The primary reason for this is deferral of some capital expenditure projects. These deferrals do not put any elements of the Moving Forward Programme at risk.
- Lincoln has completed a reforecast of financial performance for 2022, reflecting actual results for the first half year, including actual and expected student enrolments for the remainder of the year.
- The reforecast operating deficit (after depreciation and interest) of <sup>9(2)(b)(ii)</sup> [REDACTED] for the full 2022 year is <sup>9(2)(b)(ii)</sup> [REDACTED] worse than budget. The reduced surplus reflects a deferral of profit from the Property Joint Venture, which will now be reported in 2023, rather than 2022. The reforecast assumes that the positive operating cost variance reverses. It also retains all significant strategic investment items in the budget.
- The Project Status Reports for the NWOO projects show that, other than the Lincoln Connected project, the status of all projects is rated as green. The Lincoln Connected project was rated green as at June 2022 (which is recorded in the Quarterly Monitoring Report noted above), but has since moved to amber, due to delays in staff recruitment.
- Overall, the Campus Development Programme is running on time and within budget. This is an extremely good outcome in the current environment.
- Lincoln has updated its medium-term (to 2031) financial projections. These show a tight, but still positive, surplus and cash position over the next two to three years. The University has a number of options to manage and mitigate financial risks over this period.
- The Science South and Sports & Recreation projects are complete and have been closed out, as have two smaller projects.
- The key risks on the main Science North project relate to supply chain disruption and the impact of escalating materials prices on the main contractor and their subcontractors. Lincoln is taking actions to mitigate these risks, such as early procurement and continues to monitor the risks closely.
- Overall, I am of the view that, given the circumstances of the pandemic, Lincoln is trading well and taking the necessary steps to ensure that the Moving Forward Programme can be implemented successfully.

## June 2022 quarterly monitoring report – the Moving Forward Programme is tracking to plan

5. Lincoln's quarterly monitoring report for the period ended 30 June 2022 is attached. The report shows 21 of 25 indicators are 'on target'. Four indicators are amber, of which three relate to EFTS volumes.
6. Overall, domestic EFTS are expected to be above CFA target for 2022, but within the overall total, undergraduate domestic EFTS are expected to be 42 EFTS (2.8%) below target and postgraduate domestic EFTS are expected to be 180 EFTS (52%) above target.
7. International EFTS at both undergraduate and postgraduate levels are expected to be below the CFA target for 2022. This reflects ongoing border restrictions being more severe than was expected when the targets were set in early 2021. While below the CFA target for 2022, expected full year international EFTS are tracking ahead of budget.
8. This is consistent with the position reported at the end of the previous quarter.
9. The Project Progress indicator relating to campus infrastructure upgrades (heating and decarbonisation) is amber (was previously green). The amber status reflects poor market response to initial procurement activity for some packages of work. Lincoln has worked with a number of potential suppliers which has resulted in a higher level of interest now that the packages have been retendered. The impact is that there may be a three-month delay in completion of some of these packages, but this does not put the wider programme of work at risk.
10. The University of Canterbury Partnership project, which had an amber indicator in the previous quarterly report, is now rated green as four joint programmes have now been submitted to CUAP.
11. Overall, I am satisfied that the Moving Forward Programme is tracking to plan.

## Financial performance to 31 July 2022 – actual results are ahead of budget and last year

12. Lincoln's consolidated financial performance for the seven months to July 2022 was well ahead of budget and last year:

\$'000	Seven Months to 31 July 2022				
	Actual	Budget	Variance	Last Year	Variance
Surplus before Depn & Int	9(2)(b)(ii)	9,309	9(2)(b)(ii)	7,680	9(2)(b)(ii)
Surplus after Depn & Int	9(2)(b)(ii)	1,776	9(2)(b)(ii)	2,126	9(2)(b)(ii)

*Results exclude one-off items such as demolition costs, impairment and revaluations*

13. At the level of surplus before depreciation and interest, the actual surplus of 9(2)(b)(ii) is 9(2)(b)(ii) ahead of budget and 9(2)(b)(ii) ahead of last year.
14. After depreciation and interest, the actual surplus of 9(2)(b)(ii) is 9(2)(b)(ii) ahead of budget and 9(2)(b)(ii) ahead of last year.
15. While actual revenue for the seven months is below budget, this adverse variance has been more than offset by lower costs.

16. Lower revenue arises from lower than budgeted domestic students, lower research revenue, lower trading revenue and lower profit on section sales via the Property Joint Venture with Ngai Tahu.
17. Some of these adverse variances are timing and others are expected to be offset by positive variances in other types of revenue (such as international student fees).
18. Overall, there are no matters of concern in the year-to-date financial results.

### **Full Year Forecast – results expected to be lower than budget, but net variance is all timing**

19. Lincoln has completed a further forecast for 2022, reflecting actual results and enrolments for the half year (6 + 6 forecast):

\$'000	Year Ending 31 December 2022				
	6 + 6 F'Cast	Budget	Variance	Last Year	Variance
Surplus before Depn & Int	9(2)(b)(ii)	16,523	9(2)(b)(ii)	16,787	9(2)(b)(ii)
Surplus after Depn & Int	9(2)(b)(ii)	3,180	9(2)(b)(ii)	4,798	9(2)(b)(ii)

*Results exclude one-off items such as demolition costs, impairment and revaluations*

20. At the level of surplus before depreciation and interest, the forecast surplus of 9(2)(b)(ii) for the full 2022 year is 9(2)(b)(ii) lower than budget and 9(2)(b)(ii) lower than last year actual.
21. After depreciation and interest, the forecast deficit of 9(2)(b)(ii) is 9(2)(b)(ii) lower than budget and 9(2)(b)(ii) lower than last year actual.
22. The forecast assumes that the positive year to date variances in expenditure nearly all reverse in the remaining five months of the year.
23. The overall adverse variance relative to budget is almost entirely due to lower profit from section sales via the Property Joint Venture. This is a timing variance, with the profit budgeted for this year moving to next year. The 6 + 6 forecast for the underlying university, research and trading activities is in line with budget.
24. Overall, the reforecast does not present any additional risks.



## Overall, 2022 EFTS are tracking to forecast with a promising volume of early applications for 2023

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25. The 6 + 6 forecast confirmed the full year view of EFTS made in the earlier 3 + 9 forecast.

26. Semester 2 EFTS are behind for domestic but ahead for international:

		Semester 2 EFTS to 22 Aug 2022		
		Actual	Target	Variance
<b>International</b>	New	46	45	1
	Returning	105	91	14
		<b>151</b>	<b>136</b>	<b>15</b>
<b>Domestic</b>	New	107	148	(41)
	Returning	794	763	31
		<b>901</b>	<b>911</b>	<b>(10)</b>
<b>Total</b>		<b>1,052</b>	<b>1,047</b>	<b>5</b>

27. The shortfall in new domestic EFTS is mostly offset by a positive variance in returning domestic EFTS.

28. Applications for the November Summer School are ahead of expectations.

## Nine Year Financial Forecast – latest update shows some pressure on cash, but the position is manageable

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29. Lincoln completed an update of its 9-year financial projections to December 2031 in August. Key assumptions in the projections include:

- Continuation of the recovery in international EFTS, with total numbers reaching pre-COVID levels by 2028 (at which time international EFTS will represent 34% of total EFTS, a significant reduction in international student dependency when compared to the 44% of total EFTS in 2019).
- Average growth in domestic EFTS of around 40 EFTS per annum from 2022 (compares to actual growth of 546 EFTS over the three-year period 2019 to 2022).
- SAC funding rates increase by 2.75% in 2023, with increases at CPI thereafter, subject to an annual cap of 2.0%.
- Domestic fee rates increase at the same rate as SAC funding.
- International tuition fee increase of 4.9% in 2023, with increases at CPI thereafter.
- Reasonably significant growth in research revenue (from \$37m in 2022 to \$63m in 2031), driven by quality university staff and the Lincoln Agriculture Limited Accelerated Growth Programme.
- Research costs (personnel and operating) also increase, but there is a modest increase in overall research contribution to surplus.
- Trading revenue and non-personnel operating costs increase at CPI, with associated cost increases.

- A small number of additional staff (7.6 FTE) in 2023 linked to strategic initiatives to improve academic, research and learner outcomes.
  - Growth in other academic staff is limited to achieve a target student to staff ratio of 14.8 by 2026.
  - Efficiencies in support staff are assumed to come from economies of scale, automation and other process improvements.
  - Average staff remuneration increases of 9(2)(b)(iii) per annum, with additional increases for academic staff of 9(2)(b)(iii) in each of 2023 and 2024 to correct pay relativities.
  - Staffing efficiencies are needed to achieve the necessary level of surplus margin given the pressure on costs and the constraint on price increases for SAC and domestic tuition fees.
  - Completion of the Property Joint Venture by 2024, with 9(2)(b)(ii) of surplus 9(2)(b)(ii) recorded across 2023 and 2024.
  - A total capital expenditure programme of \$225m over the nine-year period 2023 to 2030.
  - Realisation of 9(2)(b)(ii) from the sale of surplus assets (in addition to the Property Joint Venture).
  - Demolition costs of 9(2)(b)(iii), of which 9(2)(b)(ii) is in 2024, primarily relating to demolition of the Burns building.
  - Receipt in 2025 of the remaining \$5m Crown capital contribution provided for in the Crown Funding Agreement.
30. Based on these assumptions, Lincoln records good levels of surplus before depreciation and interest over the entire projection period, underpinned in 2023 and 2024 by surpluses from the Property Joint Venture. However, increases in depreciation expense as completed campus development projects come into service mean that, at the level of surplus after depreciation and interest, Lincoln has a breakeven or low surplus over the next three years.
31. In aggregate, the assumptions are reasonable. However, the analysis highlights the risks faced by the University. These include:
- Lower domestic EFTS growth.
  - Lower and longer recovery in international EFTS numbers.
  - Achieving the growth in revenue and contribution from research.
  - End to cash flow from the Property Joint Venture.
  - Pressure on staff costs and other operating costs, coupled with constraints on price increases.
32. The projections also show that year-end cash balances remain positive but do fall below the minimum balance of 9(2)(b)(iii) specified in Lincoln's Treasury Policy in 2024 and 2025.

33. The nine-year projection work includes assessment of the impact of a range of mitigation actions Lincoln can take to improve the financial performance and cash position. These include, but are not limited to:
- Deferral of as yet uncommitted capital projects;
  - Operational changes (such as lower growth in staff numbers); and
  - Short-term borrowing facilities.
34. The University is aware of the need to closely monitor risks and take early action, where necessary. It is also committed to working within the existing Treasury Management Policy to maintain a prudent level of liquidity. GOG will oversee Lincoln's performance in this regard.

## **Campus Development Programme – remains on track**

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### ***The campus redevelopment programme is on track, but pressure continues on materials supply***

35. Overall, the campus development programme is running to schedule and within budget.
36. Two substantial projects, Science South and Sport & Recreation are complete and have been closed out, as have two smaller projects (Union Building demolition and landscaping and Hudson Accommodation Refurbishment).
37. Work is also progressing or about to commence on other more modest demolition/refurbishment projects, the electrical and heating system upgrades and improved carparking.
38. There was a poor market response to initial procurement activity for some packages of work for some of the upcoming infrastructure projects. Lincoln has worked with a number of potential suppliers which has resulted in a higher level of interest now that the packages have been retendered. The impact is that there may be delay in completion of some of these packages, but this does not put the wider programme of work at risk.
39. The most significant project, Science North, is progressing well. The expected practical completion date is 24 July 2023 (unchanged from the last report).
40. The Science North project has a remaining unallocated cost contingency of 9(2)(b)(ii), which equates to 9(2)(b)(ii) of remaining overall project costs and 9(2)(b)(ii) of the remaining Design & Build contract cost. 9(2)(g)(i)
41. A key ongoing risk is supply chain issues and materials costs due to the impacts of COVID-19. While these risks lie with the contractor, the project team are keeping close watch. The contractor is working closely with its supply chain and sub-contractors on mitigation strategies for emerging risks. This includes early procurement of some materials which are stored on-site and in an off-site warehouse.
42. Lincoln's Property Director and Programme Control Group are monitoring these risks actively.
43. GOG will receive a further update on this at its next meeting in December 2022.

## **4<sup>th</sup> Instalment of the Crown Funding Agreement Received in June 2022**

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44. Lincoln received the 4<sup>th</sup> CFA instalment of \$60m in June 2022.

### **Next meeting**

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45. The next GOG meeting will be held in December 2022. I will provide an update to you on the outcomes of our discussions following that meeting.

**9(2)(a)**

**Murray Coppersmith**

Chair, Lincoln University Governance Oversight Group

14 October 2022

9(2)(b)(ii)

9(2)(b)(ii)