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Tertiary Education  
Commission  
Te Amorangi Mātauranga Matua



## Aide-Memoire: Lincoln University and the University of Canterbury Partnership Proposal

<b>To:</b>	Hon Chris Hipkins, Minister of Education
<b>From:</b>	Gillian Dudgeon, Deputy Chief Executive – Delivery, Tertiary Education Commission
<b>Date:</b>	20 December 2018
<b>Reference:</b>	AM-18-00968

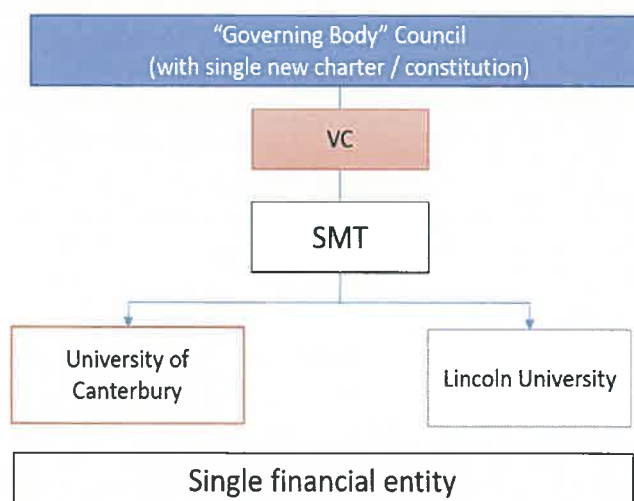
### Purpose

1. The purpose of this aide-memoire is to provide you with an initial overview of the Lincoln University (Lincoln) and University of Canterbury (UC) partnership proposal due to be submitted to you on Friday 21 December, 2018. Lincoln and UC presented to officials on the details of the proposal on Friday 14 December, 2018. The information obtained from this presentation forms the basis of this aide-memoire.
2. We recommend you do not proactively release this aide-memoire at this stage to enable the two partners to carry on, without prejudice or disadvantage, their development of the proposal (including managing any employment issues/negotiations).

### The Partnership Proposal

#### Lincoln and UC are proposing a partnership, not a traditional merger

3. Instead of a full merger, Lincoln and UC have proposed a partnership structure. The diagram below illustrates the proposed new structure.



4. The key elements of the proposed partnership are:
  - To create a new entity with a single governance structure i.e. one Council;
  - One Vice-Chancellor and senior management team;
  - A single balance sheet and profit and loss statements;
  - Combined back-office and student support services;
  - Ability for collaborative teaching and course cross-crediting;
  - Retention of the Lincoln brand, identity and culture; and,
  - A collaborative research programme between UC, Lincoln, Crown Research Institutes (CRIs) and other partners.
5. Both universities would continue to be recognised as separate institutions for academic purposes (e.g. for granting degrees, international rankings) and each institution would continue to have their own academic boards.

**The proposal is loosely based on a “federation” model**

6. University federations are relatively common – for example, United States state universities (e.g. California or Texas), and the University of London. These are groups of universities with their own individual brand, but with a single high-level governance structure, and with “principals” at each major campus. In these models, the individual universities are quite large and numerous – for example, the University of London has 18 member institutions and 120,000 students. Individual institutions tend to have their own support services, but policies and strategy are set centrally.

**Legislative change would be required to give effect to the UC/Lincoln proposal**

7. We have received some initial legal advice on whether the proposal can be implemented through existing legislation. This analysis indicates that existing legislative provisions could only go some of the way towards this proposed new structure. For all of the proposal to be implemented, legislative change would be required. The formal proposal from UC and Lincoln assumes that legislative change would be needed. We will obtain further detailed advice once the final proposal is received.
8. Implementing the proposal could be in the form of permissive provisions that would allow universities to enter into a federation arrangement like this, following stakeholder engagement, and an Order-in-Council similar to the merger provisions. Such provisions could be introduced alongside other changes to the Education Act 1989.
9. The proposal assumes that the partnership would not be implemented until 2021 because of the need for legislation. They seems to be assuming that this would be one-off legislation – rather than it being incorporated into other planned changes to the Education Act 1989. However, some elements of the proposal could be implemented before then e.g. joint courses or shared back office services.

**A traditional merger was not investigated in detail in the proposal**

10. A full merger was not considered in any detail in the draft proposal that we have seen. We have been advised that Lincoln was not prepared to consider this as a serious option. Lincoln were concerned that any merger would have simply resulted in a “takeover” by UC. However, a merger would effectively result in the same situation as the pre-1990 arrangements. Before then, Lincoln was a college of UC, but it had a separate identity, culture and brand within. We believe there would be significant advantages of this approach, including that it would have been able to have been done under existing legislation.

## Benefits of a Partnership

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### Leveraging each other's strengths underpins the proposal

11. The proposal is based upon leveraging the strengths of each organisation. From the Lincoln side, this includes its expertise in the land-based sectors and its relationship with CRIs at Lincoln. From the Canterbury side, this includes its scale, financial strength, back office services and student support, and its wide range of disciplines which could be applied in the land-based sectors. That both institutions already have an existing relationship and are within 20 kilometres of each other is also seen as a key benefit.
12. Much of the proposal seems to be based on UC's Kia Tōpū strategy (its newly developed strategy for the future of food and food security). UC has undertaken considerable research and stakeholder engagement to identify the types of skills (and therefore jobs) the land-based sector will require to meet future challenges, and is in the process of designing courses and programmes to meet these skill gaps and new types of jobs.
13. The proposal also acknowledges the findings and recommendations of Lincoln's Transformation Board report.

### The proposal forecasts increased student numbers

14. The proposal forecasts considerable increases in student numbers meaning more skilled and capable people available to the land-based sectors.
15. Essentially, the forecasts combine Lincoln's 10-year growth projections, the current UC student growth projections, and the expected growth related to the Kia Tōpū strategy, as well as further initiatives driven by the partnership. Given UC's much bigger size, most of the growth appears to be driven by UC's existing growth projections and the Kia Tōpū initiative, rather than the partnership itself. The proposal forecasts EFTS of 22,000 by 2026 compared to combined EFTS of 16,500 in 2018 – an increase of over 33%.
16. The proposal outlines a number of new initiatives which will drive an increase in EFTS including:
  - A new joint post-graduate school of around Section 9(2)(b)(ii)
  - New joint multi-disciplinary programmes which build on the strengths of each university and the requirements of industry e.g. agricultural engineering programmes;
  - Students will be able to undertake courses from both Lincoln and UC as part of their programmes; and,
  - Increased use of micro-credentialing.
17. UC and Lincoln are aiming to ensure programmes are more attractive to students, particularly urban students, to increase numbers. They also appear to be engaging closely with industry to develop the types of programmes needed in the land-based sector.
18. We have not yet seen the detail behind the growth forecasts, so are unable to make any judgements about how realistic they are. However, given the current demographic trends and the labour market, and the difficulty of recruiting students wanting to work in the land-based sector in recent years, they look very challenging.

### **Combining back-office services leads to savings**

19. The proposal expects there will be \$28 million of savings over seven years (approximately \$5 million in annual terms) by combining back-office services e.g. finance, HR, student administration, IT, libraries, and facilities management.
20. UC and Lincoln indicate that savings are smaller than would normally be expected as both universities are running lean services due to restructuring and cost containment initiatives implemented since the 2010/11 Canterbury earthquakes.
21. It is also noted that a number of Lincoln's core systems will need to be upgraded in the near future e.g. finance systems and student management systems. As a result, there will likely be some costs avoided by Lincoln combining with UC.

### **Increased industry-focussed research**

22. The proposal builds on the joint work Lincoln has developed with AgResearch and their existing collaborative relationships with CRIs and other partners, including being part of Blinc Innovation (formerly the Lincoln Hub). Bringing in a wider range of disciplines from UC enables a greater range of research to be undertaken. Greater levels of research are built into the financial models.

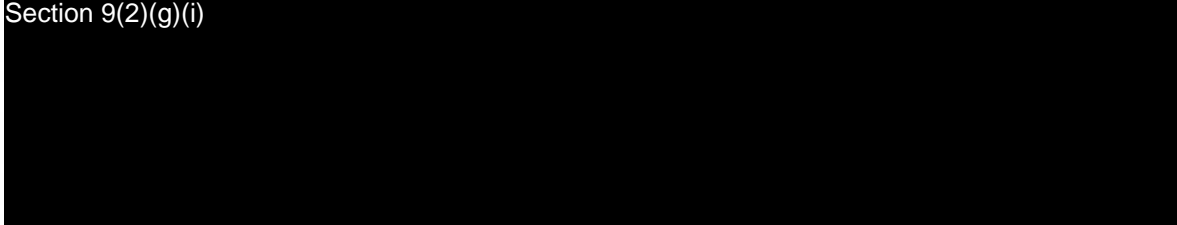
### **Increased financial sustainability for both organisations**

23. The combined balance sheet, plus savings, means that the combined organisation will be in a better financial position than otherwise. This addresses a key risk from the Crown's perspective, given our concerns around Lincoln's long-term sustainability.
24. Detailed financial forecasts will be included in the final proposal. However, it should be noted that the modelling was undertaken on the basis of the Joint Facility project with AgResearch proceeding as originally planned. We will analyse these in detail once the final proposal is received and provide further advice in early 2019.

## **Crown support requested**

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### **A high level of Crown support requested**

25. The proposal requests Crown support for the partnership of between \$123 million and \$161 million. This is comprised of:
  - \$40 million to align the costs escalation factors in the Lincoln 10-year model. UC is of the view that Lincoln has used unreasonably low assumptions for CPI and staff costs escalations, and higher than expected growth for Student Achievement Component funding rate increases. UC's view is that Lincoln's financial forecasts look overly optimistic due to these factors. Thus, they are seeking Crown funding to manage these risks.
  - Section 9(2)(g)(i)  

  - \$28 million in costs to urgently upgrade Lincoln's IT systems, which has not been provided for in Lincoln's capital programme.

- \$80 million - \$120 million to upgrade Lincoln's buildings and infrastructure to bring them up to a higher standard. This is net of already planned capital expenditure by Lincoln. At this point, it is not clear as to whether this standard would be related to the Building Act standards or a modernisation.
  - \$20 million for the partnership transition costs<sup>1</sup>.
26. Some of these amounts will be offset by savings, and increased return from higher student numbers and increased research revenue. This results in the \$123 million to \$161 million request for Crown support.
27. The proposal does not discuss the Joint Facility project in any detail, given the current state of the project, and because UC has had limited access to project documentation. Previously, UC has indicated that they would like this ring-fenced and any additional costs, beyond the existing budget, underwritten by the Crown.

### How real as these numbers?

28. At this point we do not have any detailed information on which to assess these numbers. We hope that additional detail will be available in the proposal and through further discussions with both institutions.
29. Our initial views are that:
- We are doubtful that a full upgrade to all of Lincoln's facilities will be needed, given that even under this proposal, the student numbers are considerably lower than those used when Lincoln's original master plan was developed. Furthermore, they do not appear to have taken into account any new facilities associated with the Joint Facility project (in whatever form it takes).
  - A facilities utilisation review has not been undertaken e.g. centralised scheduling, matching the teaching day to that of UC (8am - 6pm) given Lincoln currently only teach 9am to 3pm. There are indications that facilities at Lincoln could be used more efficiently.
  - Transition costs are high compared to the various ITP mergers done in recent years.
  - Further savings could be made with more radical integration proposals e.g. teaching Lincoln's commerce undergraduate programmes at the UC campus for all or part of their programme.
30. We sense that UC are being extremely cautious and see a great deal of risk associated with Lincoln's operations and financial position. Section 9(2)(g)(i)

## Conclusion

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31. On the surface, it seems that the proposal meets most of the objectives you set out in your 21 August 2018 letter to UC and Lincoln, albeit to varying degrees (and excluding delivery of the Joint Facility given recent events).

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<sup>1</sup> The Toi Ohomai merger, including project management, redundancies and systems integration, cost around \$6 million - \$8 million.

32. The partnership is looking to considerably boost teaching and research in the land-based sector, more than Lincoln and UC could probably do on their own. It also preserves and strengthens key elements of Lincoln. Finally, UC and Lincoln firmly believe a co-operative partnership between themselves delivers much better outcomes than a merger or partnership with any other institution.
33. However, we believe not all of the benefits of integration have been explored, and the costs of the proposed partnership are extremely high. The proposed benefits of the partnership and the associated high level of cost needs to be assessed against the potential of these benefits not occurring and the risks to the Crown of Lincoln remaining a standalone institution.

## Next steps

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34. The proposal is expected to be sent to you on Friday, 21 December 2018. We will complete a detailed analysis of the proposal, including around cost implications, and provide you with more comprehensive advice in early 2019. This will include recommendations on next steps.



**Gillian Dudgeon**

Deputy Chief Executive – Delivery

Tertiary Education Commission

20 December 2018



**Hon Chris Hipkins**

Minister of Education

31 / 12 / 18