



Tertiary Education Report: Lincoln University and the University of Canterbury Partnership Proposal: next steps

Date:	15 February 2019	TEC priority:	Medium
Security level:	In Confidence	Report no:	B-19-00082
		Minister's office No:	TR/19.0015

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p>discuss with officials the options to respond to the Lincoln University and the University of Canterbury partnership proposal, including legislative options to implement the proposal, if you wish to proceed.</p> <p>agree that the Tertiary Education Commission does not proactively release this briefing as it would unduly prejudice negotiations between the Crown, the University of Canterbury and Lincoln University. The TEC will consider releasing the briefing, with redactions as appropriate, once decisions on the future of Lincoln University have been made.</p>	As soon as possible
Enclosure: No	Round Robin: No	

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

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT							
<input type="checkbox"/> DPMC	<input type="checkbox"/> MPI	<input type="checkbox"/> ENZ	<input type="checkbox"/> ERO	<input type="checkbox"/> MBIE	<input checked="" type="checkbox"/> MoE	<input type="checkbox"/> MFAT	
<input type="checkbox"/> MPP	<input type="checkbox"/> MSD	<input type="checkbox"/> NZQA	<input type="checkbox"/> NZTE	<input checked="" type="checkbox"/> TEC	<input type="checkbox"/> TPK	<input checked="" type="checkbox"/> Treasury	

- Minister's Office to Complete:**
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| <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 checked="" type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments:

Recommendations

Hon Chris Hipkins, Minister of Education

It is recommended that you:

1. **discuss** with officials the options to respond to the Lincoln University and the University of Canterbury partnership proposal, including legislative options to implement the proposal, if you wish to proceed.
2. **agree** that the Tertiary Education Commission does not proactively release this briefing as it would unduly prejudice negotiations between the Crown, the University of Canterbury and Lincoln University. The TEC will consider releasing the briefing, with redactions as appropriate, once decisions on the future of Lincoln University have been made.

AGREED / NOT AGREED



Tim Fowler

Chief Executive
Tertiary Education Commission

15 February 2019



Hon Chris Hipkins

Minister of Education

24 / 2 / 19

Purpose

1. The purpose of this paper is to provide an assessment of the partnership proposal submitted by the University of Canterbury (UC) and Lincoln University (Lincoln) and to enable a discussion on next steps. This includes consideration of the legislative options that could be implemented should you decide to proceed with the partnership proposal.

Background

2. UC and Lincoln submitted a proposal for a partnership between the two institutions to you on 21 December, 2018. This followed discussions with Lincoln earlier in 2018 about the possibility of a merger with another institution to strengthen Lincoln's capacity and capability, and ensure that the land-based sector is better serviced by the university sector.
3. We provided you with an initial overview of the partnership proposal, and an assessment of the costs and benefits on 20 December 2018, based on a presentation from UC and Lincoln on the draft proposal (AM-18-00968 refers).

The proposal: summary of analysis

Lincoln and UC have proposed a partnership structure rather than a full merger...

4. The partnership structure would require the creation of a new legal entity with one Council and management team, and a single balance sheet. However, it would enable UC and Lincoln to operate as two separate universities for academic purposes. This is similar to international federation models such as the University of London, or the state university systems in the United States. It is a greater degree of integration than just shared services arrangements. A detailed assessment of the proposal is provided in Appendix A.
5. The proposed benefits of the partnership are:
 - increasing the land and food sector work force – although the partnership is only expected to deliver a small number of additional enrolments, UC and Lincoln believe a partnership will give both institutions more certainty about meeting their current aggressive student growth forecasts, including more post-graduate students;
 - new joint multi-disciplinary programmes which build on the strengths of each university;
 - a better student experience by upgrading and modernising facilities and teaching practice at Lincoln, as well as the ability for students to undertake courses from both Lincoln and UC as part of their programmes;
 - significantly more sector-focussed and cross disciplinary research;
 - financial stability for Lincoln; and
 - savings in back office services by combining these services.

...but they have requested significant Crown support to implement the partnership...

6. As part of the partnership proposal, Lincoln and UC have requested Crown support of between \$124 million and \$161 million to support its implementation. The majority of funding is to upgrade and refurbish Lincoln's campus, but it also includes funding for transition costs, upgrades to IT systems, and the equalisation of salary rates. We believe, however, that the costs are over estimated and that there are further savings which could be achieved.
7. Since the partnership proposal was submitted, the proposed approach to the Lincoln/AgResearch Joint Facility project has changed. Lincoln and AgResearch are now exploring options to develop the joint precinct in stages, with AgResearch proceeding with the

initial precinct developments immediately and Lincoln to follow at a later date. The partnership proposal only took the Joint Facility development into account partially, as UC was not privy to all of the detail about the project. The property and campus redevelopment aspects of the partnership proposal will need to be reconsidered given this change.

...and we do not believe it achieves the best outcome for the tertiary system

8. We have been advised that discussions between Lincoln and UC were difficult. In some sense, both are reluctant partners and this proposal is a compromise option, albeit for different reasons. UC, for example, perceives significant risk associated with taking on Lincoln and seems to see little additional value to its own operations. This risk explains the significant request for Crown support. Lincoln on the other hand still appear to be wedded to remaining a standalone entity operating in a similar manner to present arrangements and therefore would not consider more radical change options, such as a full merger.
9. Recent engagement has resulted in mixed messages from UC about its ongoing support for the proposal. There appears to be some hesitancy from UC to go ahead with the proposal at a lower level of support. On the other hand, it is keen to pursue a relationship with Lincoln, rather than face the risk of other universities building a relationship with Lincoln “in their own backyard”.
10. Section 9(2)(g)(i) [REDACTED] Section 9(2)(g)(i) [REDACTED] It would allow greater opportunities for co-teaching, a different distribution of teaching between the two campuses to enable the best use of specialist facilities and expertise, less administrative overheads, and increased opportunities for asset realisation. We continue to believe a full merger would deliver the best outcomes for students, researchers, industry and the tertiary education system. Furthermore, it would be able to be implemented under existing legislation. However, it may be difficult to achieve without the support of both parties. Section 9(2)(g)(i) [REDACTED] Section 9(2)(g)(i) [REDACTED]
11. Overall, the costs of the proposal significantly outweigh the proposed benefits. The biggest benefit from the partnership appears to be ‘de-risking’ Lincoln. However, the level of Crown support requested is likely to be far more than any Crown support that would be required to ensure Lincoln’s educational and financial viability as a standalone entity.

Options for proceeding with the proposal

12. We would recommend that you do not approve the proposal in its current form. We consider there are three options available to you on how to proceed:

Decline this proposal and continue with the status quo

13. Given the significant cost to the Crown, you could simply decline the proposal and continue with the current arrangements. This would mean both UC and Lincoln would continue on their own paths.
14. Lincoln’s focus would be on its campus redevelopment and its need to grow enrolments. The scale of its redevelopment and its success in growing enrolments would determine Lincoln’s future viability and sustainability. However, given its redevelopment strategy is only currently being developed and agreed (following recent decisions regarding the Joint Facility) it is hard to make a judgement on future risks. Nevertheless, Lincoln remains very small in comparison to other providers, with relatively poor facilities and a need to deliver more modern teaching and learning. As a result, we would continue to have significant concerns about its future financial sustainability.
15. UC would continue along its recovery path, with enrolments continuing to grow strongly and its campus re-build nearing completion. Its future focus would be on its Kia Tōpū strategy (its newly

developed strategy for the future of food and food security), which could see UC gain enrolments at the expense of Lincoln, undermining Lincoln's future viability further.

16. Lincoln and UC may consider working together on shared back-office services and continue to increase joint-research efforts. However, given the limited management capacity **Section 9(2)(g)(i)** at Lincoln, it is hard to see it being able to take on a major shared services initiative as well as the campus redevelopment. Lincoln's senior management team is considerably reduced in strength at present.
17. This option does not rule out consideration being given to a merger in future. Both UC and Lincoln have a new Chancellor and Vice-Chancellor in place for 2019 and this may present an opportunity to revisit previous views around a full merger. As noted above, we continue to believe a full merger would deliver the best outcome. In effect the savings would be greater, and the costs of integration lower.

Decline this proposal and revert to the previously proposed Expression of Interest process

18. When you agreed in August 2018 to UC and Lincoln working together to develop a merger or partnership proposal, you noted that you reserved the right to undertake the previously proposed Expression of Interest (EOI) process if the UC and Lincoln proposal was not acceptable to you. The Lincoln Council also resolved to participate and co-operate in an EOI process with other New Zealand universities if the UC and Lincoln proposal was not accepted by you.

19. **Section 9(2)(g)(i)**

20. **Section 9(2)(g)(i)**

21. The EOI approach would also put some competitive tension in the process and is more likely to lower the amount of Crown support requested. It may also deliver different and more innovative proposals which have greater benefits for students and the sector.

Continue to work with LU and UC on developing this proposal in the short-term

22. Our recommended option is that you ask UC and Lincoln to further refine the proposal, and we continue to negotiate with both parties. In particular, we suggest you ask them to undertake a more robust assessment of the property assets in conjunction with Lincoln's new campus redevelopment plans, and look at other ways of making savings and efficiency gains in academic delivery.

23. A clear signal about the excessive Crown support requested, as well as the potential option of reverting to an EOI process, would also be important. In effect, this would be like moving to the next stage of the business case development process, in which initial assumptions are further researched and refined. A further deadline for this would be useful in order to ensure that the parties remain focussed on this work.

24. This approach has an element of negotiation in it, and officials would need to work closely with UC and Lincoln to help set more realistic expectations of Crown support. As discussed above, it is unclear how UC in particular would react to the idea of significantly lower Crown support given the risks it sees associated with Lincoln. As part of the negotiations, we could continue to explore the possibility of a full merger being considered further.

25. Changes to legislation could be developed and introduced alongside those associated with your vocational reform changes. This would demonstrate commitment to change and create a deadline for UC and Lincoln. A discussion of the legislation options available to you is below.

26. If an acceptable proposal was still not able to be developed and agreed, you would still have the option of going to an EOI process or continuing with the status quo. We suggest a deadline of the end of May 2019, as this will mean that you still have options to include the necessary legislative provisions in the Vocational Education Legislation Bill.

Options assessment

27. An assessment of the three options is summarised in the table below.

	Decline and remain with the status quo	Decline and go to an EOI process	Negotiate and refine the current proposal
Sector skills and capability	No change to current plans	Possible increase	Some increase
Increased research	No change to current plans	Possible increase	Some increase
Cost to the Crown	None at this stage, but Crown risk exists in the future if Lincoln comes under financial pressure	Less than the current proposal due to competitive pressure	High, but may be able to be lowered
Opportunities for students	Nothing new	Possible improvement	Some improvement
Institutional viability - UC	Strong	Strong – but perhaps some increased competition from others	Strong
Institutional viability - LU	Concerns remain	Improved with a partner or a merger	Strong
Implementable	No change required at this stage	Stakeholder concerns likely	Considerable effort required by both parties

Legislative options for implementation

Legislative change is required to give effect to the partnership proposal...

28. We have received initial legal advice on whether the proposal can be implemented through existing legislation. This analysis indicates that the existing provisions in the Education Act 1989 (the Act) only go some of the way towards implementing this proposed new structure. For all of the proposal to be implemented, legislative change is required. In particular, legislation would be required to:

- enable the establishment of the proposed governance structure;
- exempt UC and Lincoln (or other the institutions) from some provisions in the Act that apply to all universities e.g. the constitution of councils, and the requirement for each institution to have a balance sheet and provide an annual report; and
- enable UC and Lincoln (or other relevant institutions) to transition from the current arrangements to the proposed governance structure, and to provide for future changes e.g.

away from a partnership back to component parts, or to a merged university (although section 164 of the Act would still be applicable).

...and legislative change could be generic or specific...

29. Generic legislation could be in the form of permissive provisions that would enable two or more universities to enter into a federation arrangement (as per the arrangements under this proposal) following the Governor-General making an Order in Council on the written recommendation of the Minister. Before you could make such a recommendation, the legislation could specify that you must consult with stakeholders and each relevant council. This process is similar to the disestablishment of an institution or merger under current provisions (section 164). Such generic provisions would enable other universities to enter into federation arrangements in the future.
30. Alternatively, Parliament could pass legislation that specifically relates to the UC and Lincoln proposal. That legislation would have to deal with any inconsistencies between the specific legislation and the existing Act or clearly specify that, if there are any inconsistencies, the specific legislation applies. Arguably, specific legislation could come into force more quickly as the need for an Order in Council and additional consultation on the proposal would be unnecessary.
31. The advantage of generic provisions is that they enable other universities to enter into similar arrangements in the future. Also, due to the lack of specificity, the generic provisions could be drafted and introduced into the House before any negotiations between UC and Lincoln have been concluded. However, such generic provisions may not be viewed favourably by other universities (and stakeholders), which may result in significant submissions from other universities and stakeholders during the Select Committee process.
32. Specific provisions are somewhat out of step with general approaches to legislation for particular institutions. Specific legislation could only really be introduced after the completion of negotiations between UC and Lincoln. Otherwise, it is likely that the legislation would be opposed by both institutions and their supporters through public submissions processes.

...and the provisions could be included in a bill with other changes to the Education Act proposed for 2019 or in a separate piece of legislation...

33. If included in a bill with other changes to the Act (such as the bill relating to changes to the ITP sector), decisions on the provisions would need to be made over the next few months to be introduced with those changes. Currently, it is expected that a bill relating to changes to the ITP sector will be passed by late December 2019. If generic provisions relating to the federation of universities were included in that bill, then, following the enactment of the legislation, the proposed consultation/Order in Council process could only occur after that date. This means that the implementation of the proposal could occur in 2020 or before the 2021 academic year commences.
34. A summary of these different approaches is included in a diagram in Appendix B.
35. UC and Lincoln's proposal seems to imply that Parliament would pass legislation focussed on this proposal alone, rather than incorporate the changes into other amendments to the Act being planned. Therefore, a date of 2021 for commencement is included in the proposal. However, UC and Lincoln did not take account of the changes to the Act that you are proposing in 2019, so this could be implemented earlier.
36. If you decide to proceed with the proposal, or even negotiate on this proposal, it would be sensible to develop draft legislation, as both parties would need to be comfortable with it. Universities NZ is also likely to have views if the provisions could be applied to other universities in future (i.e. under the generic enabling provision option).

Next steps

37. We recommend that you discuss the various options with officials.

38. If you agree with our recommendation to the refine/negotiate option, then we would:

- outline a negotiating strategy for dealing with Lincoln and UC over the next few months. This would include particular areas for further work by Lincoln and UC, options to increase benefits, and refining the costs. We would recommend consulting the Minister of Finance on this as he was involved in the original proposal and given the proposal has significant fiscal impacts.
- draft a formal letter for you to send to Lincoln and UC responding to the proposal. This would include expressing some support for the proposal, but indicating that the costs are too high and that you would expect further work to be done on refining the costs, particularly around the costs associated with rebuilding and refurbishing Lincoln's campus. It would also be worth reminding both parties about the next steps that the Lincoln Council agreed to, if an acceptable proposal could not be developed.
- develop, in conjunction with the Ministry of Education (MoE), draft legislative changes so that we are better prepared to implement the proposal if agreement can be reached.

39. If you want to update Cabinet on the progress of this proposal, officials can develop an appropriate Cabinet paper or talking points for an oral update to Cabinet.

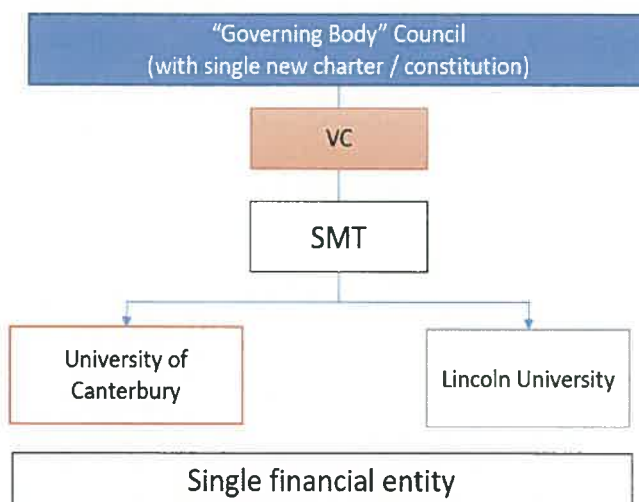
40. The proposal has been considered by the Ministry of Business, Innovation and Employment (MBIE), the Ministry for Primary Industries (MPI), the Treasury and MoE. The Treasury and MoE have been consulted on this briefing.

Appendix A: Assessment of the proposal

41. The partnership proposal submitted is a high-level analysis. In business case terms it would be considered more of a strategic assessment, rather than a comprehensive business case. This largely reflects the time UC and Lincoln had available to produce the proposal given your request that it was submitted by the end of 2018.

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

42. Lincoln and UC have proposed a partnership structure, rather than a full merger. The diagram below illustrates the proposed new structure.



43. The key elements of the proposed partnership are:

- the creation of a new entity with a single governance structure i.e. one Council;
- one Vice-Chancellor and senior management structure;
- 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.

44. 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 its own academic board.

The proposal is loosely based on a “federation” model

45. 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 that each have 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 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.

A traditional merger was not investigated in detail in the proposal

46. A full merger was not considered in any detail in the proposal despite your original letter explicitly requesting UC and Lincoln to consider a full merger as an option. It was dismissed by the institutions as part of the long-list of options (page 26 of the appendices) on the following grounds:
- Inconsistency with the Lincoln Transformation Board report – this advocated for Lincoln to remain as a stand-alone entity, if possible (but encouraged greater partnerships and collaboration).
 - Not acceptable to key stakeholders – we are aware that there are mixed views on this matter, and it is unclear which stakeholders found it unacceptable.
 - Does not retain Lincoln’s brand and identity – however, this is inconsistent with the situation pre-1990 when Lincoln was a college of UC, and where it still had its own strong brand and identity.
47. Section 9(2)(g)(i) we have been advised that Lincoln was not prepared to consider a merger as a serious option. Lincoln were concerned that any merger would have simply resulted in a ‘takeover’ by UC. UC has indicated that a merger, even with Lincoln’s brand and identity protected, would result in greater savings than the proposed structure. In particular, it would allow greater opportunities for co-teaching, a different distribution of teaching between the two campuses to enable the best use of specialist facilities and expertise, less administrative overheads, and increased opportunities for asset realisation.
48. We believe a merger would deliver the best outcomes for New Zealand, including that it would have been able to be implemented under existing legislation. However, it may be difficult to achieve without the support of both parties. UC has noted that it has no interest in a merger if Lincoln does not want to merge.

Benefits of the Proposal

Leveraging each other’s strengths underpins the proposal

49. 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 UC side, this includes its scale, financial strength, back office and student services, its relationships with research partners, and its wide range of disciplines which could be applied in the land-based sectors. The institutions already have relationships at a research and teaching level. Being within 20 kilometres of each other is also seen as critical to achieving the collaboration benefits.
50. Overall, there is a lot of good thinking and supporting information in the proposal. However, our assessment is that much of the thinking is unrefined and difficult to test. Much of the proposal also seems to be based on UC’s Kia Tōpū strategy. As part of its strategy, 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. Although UC plan to implement the Kia Tōpū strategy whether the partnership goes ahead or not, it believes it is far more likely to succeed in a partnership with Lincoln where it can leverage off its research expertise and industry links.
51. The proposal also acknowledges the findings and recommendations of Lincoln’s Transformation Board report.

The partnership is only expected to result in a small increase in student numbers

52. The proposal forecasts considerable increases in student numbers from a combined 17,500 EFTS in 2019 to over 21,600 EFTS in 2026 – an increase of 24% or over 4,100 EFTS. However, two-thirds of the growth is from UC’s student growth projections, a small proportion of which relates to the UC Futures programme (500 EFTS) and the remaining due to its Kia Tōpū strategy (around 2,400 EFTS or 56% of the overall growth). We have little detailed information with which to be able to assess the achievability of the Kia Tōpū strategy EFTS projections at this stage.

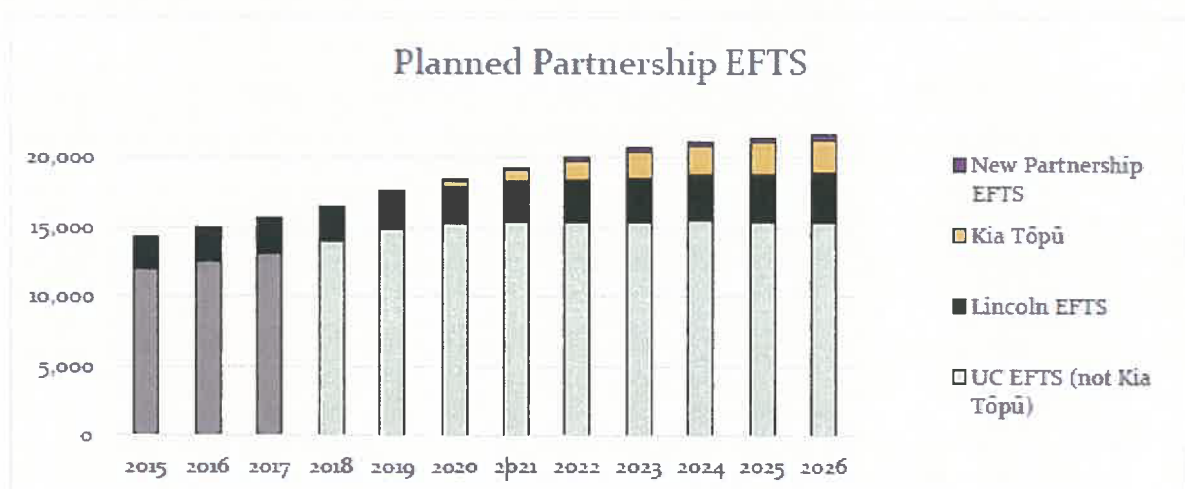
53. Lincoln’s current growth projections account for around one-quarter of the total increase (around 1,000 EFTS) and, in our view, remain optimistic. Overall, given the current demographic trends and the labour market, and the difficulty of recruiting students wanting to work in the land-based sector in recent years, the partnership EFTS forecasts look very challenging.

54. The partnership itself is only expected to generate 38 additional EFTS in 2020, gradually increasing to 350 EFTS per annum by 2026. However, UC and Lincoln suggest the partnership will also ‘de-risk’ the aggressive growth forecasts for each institution. It is not clear how this ‘de-risking’ will occur and the extent to which the partnership underpins the Kia Tōpū strategy or Lincoln’s growth.

55. The proposal outlines a number of new initiatives which will contribute to the overall increase in EFTS including:

- A new joint post-graduate school of around Section 9(2)(b)(ii) S9(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 access each other’s research facilities; and
- Increased use of micro-credentialing.

56. The following graph shows the composition of the planned partnership EFTS growth.



Government funding for a programme to underpin EFTS growth is sought

57. One of the big challenges that educational providers have faced is attracting students to study in land-based sector subject areas. The proposal seeks \$6 million of funding for a programme to attract students to study subjects related to the land-based sector. UC and Lincoln envisage this as similar to the engineering E2E initiative undertaken by the TEC in collaboration with IPENZ to attract students into tertiary study in engineering. MPI, the TEC, Lincoln, UC and

other tertiary providers will need to discuss this in more detail, and work with relevant industry bodies on how this could be achieved.

Increased industry-focussed research

58. The proposal outlines a range of significant new national research projects developed to address national and governmental priorities. This includes a strengthened Bio-Protection Centre of Research Excellence (CoRE), which Lincoln currently hosts, and two new CoREs – ^{S9(2)(b)(ii)} Section 9(2)(b)(ii)

59. The proposal also looks to implement a new way in which the two universities work with CRIs. This builds on the joint work Lincoln has developed with AgResearch and its 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 should enable a greater range of research to be undertaken. This increased level of research is built into the financial models which, if funded by the relevant funders (e.g. MBIE), will add around \$10 million in additional annual contribution to the partnership by 2026.

60. While the proposal suggests that by combining skills and capabilities the new organisation would be able to attract more government and commercial funding, it also seeks specific research funding outside of the standard processes e.g. \$4 million for a demonstration farm from MPI.

Combining back-office services achieves some savings

61. The proposal expects that there will be \$28 million of savings over the seven years to 2026 (approximately \$5 million in annual terms) by combining back-office services e.g. finance, HR, student administration, IT, libraries, and facilities management. 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.

62. A number of Lincoln's core systems will also 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. However, the analysis undertaken in the development of the proposal indicated that there was significant unbudgeted expenditure required to maintain and upgrade Lincoln's current systems.

63. With other mergers we normally expect to see savings associated with academic delivery too e.g. programme development, scheduling, quality and actual delivery. Given this proposal continues to have two separate academic systems, such savings are not included. However, it does allow for the development and implementation of updated teaching and learning technology at Lincoln e.g. better IT-enabled teaching spaces which will allow for more blended learning and delivery across sites.

The proposal is expected to increase financial sustainability for both institutions

64. 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. Indeed, the proposal essentially suggests the biggest benefit from the partnership is 'de-risking' Lincoln and both institutions ambitious enrolment targets.

65. Overall, the partnership is expected to deliver an additional \$25 million net contribution through teaching activities and \$13 million through research activities over the 2019 to 2026 period, in addition to the \$28 million in savings achieved through sharing back-office services.

Crown financial support

A high level of Crown support is requested

66. The proposal requests Crown support for the partnership of between \$124 million and \$161 million. This is comprised of:

- \$42 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)(b)(ii)

- \$28 million in costs to urgently upgrade Lincoln's IT systems that has not been provided for in Lincoln's capital programme. This seems high in comparison to other IT system changes and the size of the university. However, we are aware that a number Lincoln's IT systems are in urgent need of investment.
- \$79 million - \$116 million to upgrade and refurbish Lincoln's buildings and infrastructure to bring them up to a higher building standard (to 67% of code) and to modernise them to a similar standard of UC's buildings. This is net of already planned capital expenditure by Lincoln.
- \$18 million for the transition and partnership implementation costs¹.

67. The above figures are offset by the by the \$66 million achieved through savings, increased student numbers and increased research revenue. This results in the \$123 million to \$161 million request for Crown support.

We believe some of the figures are overly pessimistic and inflated

68. In most cases the proposal includes little supporting detail. The most well-developed analysis is of the IT system change requirements.

69. Our biggest concern centres around the \$79 million to \$116 million requested to upgrade Lincoln's buildings and infrastructure. The approach to assessing the property upgrade costs looked at all buildings. A full upgrade of all of Lincoln's facilities will not be needed. Many of the buildings are only being used temporarily as Lincoln replaces and upgrades buildings damaged by the earthquakes and would be demolished at the end of this period, rather than being upgraded. While difficult to assess at this point, it does not take into account any of the new facilities that will be put in place through the Joint Facility project or its alternative in whatever form it takes.

70. Furthermore, no facilities or space utilisation review has been undertaken e.g. centralised scheduling, matching the teaching day to that of UC (8am to 6pm) given Lincoln currently only teach 9am to 3pm. There are indications that facilities at Lincoln could be used more efficiently. Further savings could also 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

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

programme. Although we understand that Lincoln is against anything that would result in less teaching being undertaken on the Lincoln campus.

71. The request for funding also appears to be inconsistent with Lincoln's campus development strategy, as set out in the recent Joint Facility Implementation Business Case, which indicated that it had sufficient funding to upgrade the buildings they needed to over the next 10 years (given that a number of existing buildings would be replaced by the Joint Facility). However, it may be that UC is applying a higher standard to facilities requirements and that Lincoln was not planning on upgrading all buildings to 67% of code or fully modernising facilities.
72. We are also concerned that transition costs are high compared with the various ITP mergers undertaken in recent years.

The link to the Joint Facility project is not clear

73. The proposal does not discuss the Joint Facility project in any detail. This is not surprising given the current state of the project, and because UC had limited access to project documentation. Previously, UC has indicated that it would like the project ring-fenced and any additional costs, beyond the existing budget, underwritten by the Crown. However, UC has also indicated that it sees this proposal as inclusive of the Joint Facility funding and development.
74. Initial indications from Lincoln are that it is reviewing and reconsidering its approach to the replacement and upgrading of facilities given AgResearch's proposal to build its own building on the former Joint Facility site. A range of options are being considered to stage the development. However, we have not yet had the opportunity for detailed discussions with Lincoln on its plans. Whatever approach Lincoln decides to take, concerns remain around its capability to implement a major facilities redevelopment programme as they have little experience or expertise in this.
75. It would be sensible for Lincoln to develop an integrated campus development strategy to determine the best way forward along with the potential costs and involve UC in this process. This would allow the \$85 million set aside for the Joint Facility project to be pooled with any capital support for the partnership (as well as the existing resources of both organisations). This could include:
- the Joint Facility alternative;
 - a space utilisation review to ensure Lincoln's assets are being used optimally;
 - considering the need to repair and upgrade other parts of Lincoln's campus; and
 - examining the most efficient utilisation of assets between the two campuses.

The proposal suggests a range of funding mechanisms

76. The proposal suggests that Crown support could be provided through a mix of funding mechanisms:
- Capital grants – these would be subject to a funding agreement, with appropriate accountability arrangements;
 - Increases in the SAC funding rate for agricultural courses or programmes with an agricultural component (i.e. an agricultural commerce degree). The SAC funding rate for agriculture last received a targeted increase in 2017 (it increased a total of 51% between 2014 and 2017) to ensure tuition subsidy rates were more closely aligned with the relative costs of delivery. Of course, any further increase would have significant fiscal impacts given a range of other tertiary providers also offer courses in this funding category.
 - Specific funding e.g. seed funding for the establishment of the post-graduate school; specific research funding.

Appendix B: Legislative options

77. The different approaches to legislation are set out below.

