Tertiary Education Commission
Te Amorangi Mātauranga Matua

Aide-Memoire: Update on Unitec's Business Transformation Plans

To:	Hon Steven Joyce, Minister for Tertiary Education, Skills and Employment
From:	Tim Fowler, Chief Executive, Tertiary Education Commission
Date:	17 June 2015
Reference:	AM/15/00464

Purpose

1. The purpose of this briefing is to update you on Unitec's Transformation Programme Business Case.

Background

2. The Unitec Chair and senior management attended the TEC Board meeting last week and presented their Transformation Programme Business Case.

3. We are aware that you were briefed by the Unitec Chair much earlier in the process of developing the Business Case, so this note provides an update.

4. This strategy has now been further developed, and is more of an institution transformation strategy, but still proposes using the surplus property assets to part-finance the transformation programme.

5. Unitec is involved in the Auckland Unitary Plan process as it seeks to change the designation of its surplus property so that it can be developed and sold for other uses – given its location relatively close to central Auckland, on good transport links, and in an existing residential neighbourhood, residential property is the most likely end use.

6. In 2014, Unitec had 7000 SAC EFTS or 12% of the SAC funded students in the ITP sector, making it the largest ITP both by funding and number of students. Unitec also attracts more international students than any other ITP with 1900 international EFTS in 2014. Unitec is forecasting to deliver 7300 EFTS in 2015 and receive total SAC funding of around $68M. Over the past three years Unitec has made a small surplus. Unitec's net assets were $242M in 2014. Course completion rates are above average in the sector, but qualification completion rates are slightly below sector averages.

7. Unitec has significantly under-delivered over the past three years. In 2014, Unitec was funded for 8000 EFTS but delivered only 7000 EFTS, resulting in a funding recovery of over $5M. Consequently, Unitec's funding for 2015 was reduced by $2.5M. Unitec is forecasting being on-track to deliver over 99% of its SAC funded EFTS in 2015. However, as Unitec has had a slow start to the first half of the year, there is some risk with this forecast.

The Transformation Case remains essentially similar, but the detail has been fleshed out further

8 The focus of the strategy is as follows:

- **better meeting labour market needs** through changing the mix of provision and course content to better meet Auckland labour market demands. Unitec has undertaken research about Auckland labour market trends and engaged with employers and industry about its future needs. Areas where there are increasing demands are design, construction, health care (particularly community health care), and IT; programmes are being refocused to meet these needs. In addition, closer connections are being built with industry to ensure graduates are more work-ready through internships; workplace projects; academic staff placements in industry; and industry engagement in the content of programmes.

- **modernising teaching and learning** –many of Unitec's current educational models are outdated, and do not meet the educational needs of learners nor industry outcomes. Unitec is seeking to modernise through greater use of blended learning including: on-line learning which can be done outside of the campus and outside of campus hours; work placements; project style learning; and less of the traditional lecture-based learning. Unitec has started to develop a range of refreshed curriculum offerings for different programmes. It has also developed a number of proto-type technology-enabled teaching spaces which allow for new pedagogical approaches. There is also a programme of academic development in place.

- **workforce development strategy** – linked to the above, Unitec will upskill the academic staff and create closer links with industry (through a programme of industry sabbaticals , projects between industry and academic staff, placements in industry for staff and students, and formal staff exchanges with industry).

- **a property strategy** - which looks to modernise property to support modern learning, provide efficiency gains, and sells surplus assets to enable the transformation strategy and the campus redevelopment and consolidation. Unitec has a very large property holding as it purchased the former Carrington Hospital site next to the Unitec campus in the early 1990s. The site is underutilised, and many buildings are in poor condition. Unitec is looking to consolidate property holdings and sell surplus property to reinvest in its development to better meet the future educational needs. A change in the Auckland Unitary plan is required to zone surplus property for different purposes. Unitec is actively engaged in the submissions and hearings process currently underway.

- while undergoing change, **continue to operate as a good business.** A key part of the strategy is becoming more efficient in delivery, and thereby releasing funds to contribute to the redevelopment costs. Efficiency gains are particularly focussed on property utilisation, reductions in maintenance, and staffing efficiency gains through blended learning. At present Unitec is below average in some of the sector efficiency measures, especially those associated with property, so there is room for improvement.

9. A substantial programme business case has been developed to support this strategy. It contains full implementation plans, and a programme management function is being established to assist the Council and senior management team in implementing the strategy. This is a very significant programme of work and it will take considerable commitment from the Council and leadership team over the next 10 years to achieve.

10. To some extent work has already commenced. Various prototypes of new teaching pedagogies have been in place since the beginning of 2015; development of new programme curriculum is well underway; staff training to enable teaching in modern learning

environments has commenced; and plans are well underway for the first stage of the construction elements of the programme (the redevelopment of the central hub).

Next Steps for Unitec and Officials

11. Unitec commissioned Deloitte to undertake an Independent Quality Assurance (IQA) of the programme business case. This work is underway, and due to be reported to the Unitec Council later in June. We have had an initial debrief from Deloitte, and we expect that the IQA will flush out minor issues and therefore only minor changes to the Business Case will be made.

12. Unitec is not looking at significant increases in EFTS and revenue to support its transformation strategy. Its financial forecasts indicate a slight decline in EFTS in the 2015-2017 financial years 9(2)(b)(ii) and 9(2)(i) [redacted] Although this forecast may seem modest in relation to growth in the Auckland population, it is still a challenging target given current sector trends.

13. In order to facilitate the next steps of the implementation of the transformation strategy, Unitec will be seeking a borrowing consent. This statutory power sits with the Secretary of Education (with preparatory work delegated to the Chief Executive of the TEC). The consent is required to provide a borrowing facility in order to finance the development of new buildings, before sale of surplus property occurs; and to smooth out the lumpy nature of this expenditure and revenue. Unitec has started work with TEC staff and the Ministry of Education on the borrowing consent. While this piece of work is at an early stage, it will need to be approached with considerable care due to the size of the borrowing facility (initial indications are that it will be a facility of up to [redacted]), and the uncertainties related to realisation of property assets.

14. Disposal of property assets also requires the permission of the Secretary of Education. Work is underway to establish a streamlined programme of disposals (rather than an asset-by-asset basis) that facilitates for these approvals, and therefore the disposal of assets in a planned manner. This will enable Unitec to consolidate on the main site, and release surplus assets for development and sale.

Risks of the Programme

15. There are a number of risks associated with the programme:

- **a very critical part of the strategy is related to staff changes –** this includes upskilling staff, changes in the way they work, and reductions in staff to student ratios. This is required not only to deliver on the transformation of programme delivery, but also to increase efficiency (as measured in the Transformation Business Case by EBITDAR), part of which is used to finance the capital developments. Unitec does sit at the lower end of the spectrum on some of the efficiency measures relating to staff (and property related measures), thus there is scope for improvement. However, this is a significant part of the programme, and could cause disruption to staff over a number of years. Unitec are looking to improve its HR development resources to manage these changes – this will also require strong organisational leadership.

- **the progress of the Auckland Unitary Plan is critical** – changes in the zoning of land used by Unitec will be a critical element in releasing capital from asset sales in order to re-invest in the transformation programme. Land is currently zoned for educational purposes, and Unitec is looking for changes in zoning to allow other uses – residential in particular. Early in the Unitary Plan process, local residents expressed concerns publicly about the increase in residents and the pressure this would put on local infrastructure and the loss of amenity of the open land on the Unitec site. Unitec has engaged expert advisors to work on its submissions in the Unitary Plan process. Unitec has also been in discussions with Iwi with a view to exploring potential development partnerships. Additionally, Unitec has made linkages with housing officials within MBIE and has outlined their development plans to them. MBIE officials were broadly supportive of the development plans and saw a fit with the plans and the wider Auckland housing development plans.

- **the size of the borrowing requirement** – 9(2)(b)(ii) and 9(2)(j) [redacted] However, [redacted] is the maximum Unitec indicates it requires – debt is more likely to be structured as a facility that can be drawn upon as required to balance out the timing of new builds, with sales of surplus property. In addition, they have been fairly conservative in their estimates and significant head-room is being built in. We have asked for further information to allow better assessment of the risk profile, and options for the mitigation of risk. This includes: timing of asset realisation; sequencing the process into stages which allow for an assessment of costs and benefits before proceeding to the next stage; reducing the maximum borrowing requirement; and risk management mitigations to better manage cash flow e.g. early realisation of some assets.

Further Information

16. We will provide you with a further briefing once the IQA is completed and the Transformation Programme Business Case revised in light of any recommendations from the IQA.

Tim Fowler

Chief Executive, Tertiary Education Commission

17 / 06 / 2015

Hon Steven Joyce

Minister for Tertiary Education, Skills and Employment

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Tertiary Education Commission
Te Amorangi Mātauranga Matua

Memorandum

To: Graeme Cahalane, Manager Monitoring and Crown Ownership

From: [redacted] Senior Business Analyst

Date: 09 October 2015

File: A944255

Subject: **Unitec Institute of Technology (Unitec) Application for Consent to Borrow**

Purpose

1. This memorandum recommends that you advise the Secretary for Education to approve a new Consent to Borrow (consent) to Unitec. This consent will replace the existing consent with a maximum limit of $25 million that was granted by the Secretary on 30 March 2015. The existing consent expires on 31 March 2016.

2. The new consent will enable Unitec to implement its Whole of Organisation Transformation Programme (WOTP) comprising [redacted] of capital investment for core facilities redevelopment, system upgrades and replacement of major assets. Other additional transformation costs will include [redacted], which involves professional services, severance and retention costs

3. Tertiary Education Institutions (TEIs) are required to obtain written consent from the Secretary for Education under Section (194(4)(d) of the Education Act 1989) to borrow or raise money.

Unitec seeks to borrow [redacted] over a 10 year term for its transformation programme

4. The application for a new consent is for a period of ten years, expiring 31 March 2025 with a maximum limit of [redacted]. The limit is set to manage a borrowing peak up to [redacted] and maintain between the debt facility limit and projected borrowing levels, a contingency buffer for unexpected cash flow fluctuations.

5. Unitec will progressively raise their debt from its current level of $13 million (as at December 2015) to slightly above [redacted] by 2022, and then reduce the facility to around [redacted] by 2024.

6. [redacted]

9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted]

7. During the initial period of borrowing, Unitec's financial performance after all one-off costs will reflect deficits, which peak at [redacted] in 2017 (the high point of the campus consolidation programme). However the EBITDA[1] (also excluding one-off transformation costs and gains/losses in asset transactions) will remain above [redacted] positive throughout this period. Unitec expects to start showing net surpluses from 2021.

8. 9(2)(j) [redacted]. Student volumes are initially projected to fall, before reaching or exceeding current volumes by 2019.

9. Unitec has prepared a detailed Programme Business Case (PBC) that has been provided to the TEC and the Ministry of Education Tertiary Education Group. The business case has been prepared following Treasury's Better Business Case guidelines.

10. Further supporting information relating to transformation modelling assumptions, the building and land disposal programme, financial projections, financial covenants, funding patterns and specific sensitivity analyses have also been provided. The TEC has also engaged extensively with Ministry officials in respect of the borrowing application throughout the assessment stage and the establishment of borrowing covenants. We have also facilitated direct meetings with the Unitec CFO and their financial consultants (PwC) when required. In addition Unitec has given a number of presentations to TEC, Ministry and Treasury agencies describing the WOTP and the rationale for doing it.

9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted]

11. 9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted] Unitec has [redacted]

12. Unitec is looking to overcome these shortcomings by moving to new areas of teaching and exiting areas that are now irrelevant or becoming irrelevant. The WOTP looks to leverage off a property strategy and move towards a forward looking learning environment. It will also look at facets such as experience and fit-for-purpose of teaching staff to achieve their objectives.

13. Unitec's current teaching models are in many cases irrelevant to the changing technology-led environment. The transformed Unitec will see industry-based clusters created, more partnerships with industry, flexibility in curriculum and provision of a portfolio aligned to current and future industry needs. This redevelopment of teaching and learning models is expected to result in substantial workforce efficiency gains. The first phase of this change is already underway

14. 9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted]

[1] Earnings Before Interest, Tax, Depreciation and Amortisation

15. The WOTP involves considerable risk due to the many streams of change involved in parallel (people, property, programmes, teaching and learning models). However Unitec has identified risk mitigation strategies to ensure its financial position is not compromised during the transformation.

A fit-for-purpose campus is a key enabler of Unitec's transformation strategy

16. Unitec's challenge is to effectively configure a fit-for-purpose, smaller footprint at its Mt Albert Campus. 9(2)(g)(i) [redacted] The property strategy will divest the land at the northern end of the campus to fund development of the southern end and consolidate the Unitec campus spaces.

17. The PBC envisages that the WOTP would take 10-20 years to fully implement. Unitec will need to borrow money during the initial transition until the land for disposal is made ready, to provide an income stream to fund capital needs. The project will be done in phases with the first phase being the campus consolidation. Initial enabling projects already underway include prototype classrooms, shared workplace environments, collaborative classrooms and decanting.

The building and land disposal programme is complex and has many dependencies

18. Unitec's MT Albert Campus consists of 177 buildings over 53 hectares. 5 major buildings on this site are below 33% of NBS[2] in their seismic assessment. These were originally built for health use. Upgrade costs of them alone will cost over $80 million. There is also a lot of deferred maintenance on buildings on this campus and many with seismic compliance in the mid-60% of NBS range. This is not ideal for a tertiary institution.

19. Most of the land earmarked for disposal is owned by Unitec. They surround two lots of land occupied by the Waitemata DHB-Mason Clinic and Taylors Laundry. [redacted] 9(2)(b)(ii) and 9(2)(j) [redacted] 9(2)(b)(ii) and 9(2)(j) [redacted] The sales values are benchmarked against comparable properties in Auckland and based on 2013 values, which have since improved significantly.

20. The land sales considered in the WOTP are limited to the land designated as "residential" in the masterplan and do not capture possible sales of land for road widening or sale of open space to Council or for other commercial development. Unitec has therefore been conservative in its estimates of sale proceeds. In a worst-case scenario much of this land could be added to the portfolio for disposal.

9(2)(j), 9(2)(b(ii) and 9(2)(g)(i) [redacted]

22. Unitec is also engaging with the Auckland Council regarding the zoning and re-designation of land on the Mt Albert Campus through the Auckland Unitary Plan. This process is proceeding positively and good progress is being made on the heritage assets making them more optimistic that modelled proceeds will be achieved. Unitec has also

[2] National Building Standard

been afforded a dedicated team from Auckland Council to work with them on the details, so that planned time-tables will be achieved.

The transformation programme requires substantial capital commitments

23. Core campus consolidation involves new builds, renovations and extensions on the southern side of the campus covering 8 hectares. This involves 9(2)(b)(ii) and 9(2)(j) [redacted] of capex. In their business case Unitec have indicated a number of developments such as, a commercial innovation park, parking buildings and student accommodation. These developments would be carried out by third parties who expect to raise their own capital. It is possible that some type of joint-venture arrangements could be used where Unitec provides the land and a commercial partner provides the capital for property development. Any borrowing by the developer would be secured over the development (not the land) and would be non-recourse to Unitec.

24. Consolidation and land preparation for sale will also require full or partial demolition of a number of buildings and Unitec is working on a plan to obtain demolition consents for these.

25. The capex programme (including consolidation and land preparation for sale) will be done in 10 tranches[3]. A summary of the capex programme is provided below.

9(2)(j), 9(2)(b(ii) and 9(2)(g)(i) [redacted]

Major project renewals relate to major project assets and relate mostly soft fit-out renewals. Programme development relate to the investment required in developing or purchasing new programme content.

Unitec's rationale for borrowing is based on its ability to capitalise on the release of potential value of its existing assets, and not growth in EFTS.

25. The WOTP described in the business case is a significant strategic initiative that involves major investment in building and systems infrastructure up-front. The size and urgency of the identified infrastructure projects require high levels of capital expenditure over the next 7 years 9(2)(j), 9(2)(b(ii) and 9(2)(g)(i) [redacted].

[3] Refer to Building and Land Disposal presentation made to Government agencies on 26th May 2015 for details.

26. 9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted] Hence these aspects also require addressing. Any funds generated is also required to address the reframing of the workforce, redevelopment of teaching and learning models and programmes, replace major assets as they become obsolete and maintain business-as-usual capex.

27. Unitec is also not in a position (as all TEIs are) to encumber current students with the full costs of building or renewing long-term infrastructure assets given the need to maintain affordable tertiary education for students. Utilisation of long-term borrowing achieves the objective of spreading capital costs to ensure affordability.

28. Unitec is however in the unique position of being able to release excess land owned by them for sale. This will go towards part-funding their capex programme and repaying debt sooner. This is a mitigating factor when assessing a borrowing request of this extent. However land disposal cannot occur up-front due to the need for Unitec to vacate these properties and consolidate elsewhere on the Mt Albert campus before preparing these properties for sale.

29. Unitec's projections of financial performance, cash flow and financial position over the next ten years have been prepared, together with their long term capital plans. These indicate that the business case is financially sustainable, including the prudent use of debt facilities to help fund the investment required.

30. Unitec's Council has approved this transformation programme and the business case and is working closely with the senior management team to ensure full transparency and good governance.

31. Unitec's financial modelling shows that the WOTP is affordable. Modelling has been done incorporating conservative revenue assumptions (e.g. sale proceeds) and reasonable growth assumptions. Risk mitigation strategies have been identified to ensure financial viability and financial sustainability throughout the investment period. 9(2)(b)(ii) and 9(2)(j) [redacted] being less constrained in international EFTS growth targets, adjusting the timing of capital projects and bringing forward the timing of land sales. These have been modelled in sensitivity analyses in the business case.

Unitec's key assumptions supporting the business case and borrowing application are reasonable and modest

32. Unitec's borrowing application has been supported by a long term financial model which relies on the following key assumptions:

    a. 9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted]

    It is the view of TEC's investment team that they expect EFTS to grow in the future as Unitec is starting from an already reduced base and due to the changes being done to the curriculum and teaching models. New programmes recently introduced have also been quite successful. Unitec is also a major provider in the nursing area, which is expected to enjoy continued success and possibly growth.

b. 9(2)(j), 9(2)(b(ii) and 9(2)(g)(i) [redacted]

EFTS growth in this area has been much higher than forecast in the past few years. Hence the forecast could be easily achieved and even exceeded.

c. SAC price changes are assumed to be 1% from 2017. These increases however are related to mix-of-provision impacts and not volume impacts.

d. 9(2)(j), 9(2)(b(ii) and 9(2)(g)(i) [redacted]

[redacted]

f. 9(2)(j), 9(2)(b(ii) and 9(2)(g)(i) [redacted]

g. 9(2)(b)(ii) and 9(2)(j) [redacted]

h. Interest rates on debt is estimated to be between 6.1% and 6.4%, while deposit rates are estimated to be between 3.6% and 3.9% during this period.

Unitec's financial modelling using these assumptions and the assumptions relating to capital expenditure, transformations costs and land sales indicate that the 10-year capital programme is affordable with debt remaining comfortably within requested borrowing limits. Unitec has indicated that even if planned targets and assumptions are not achieved or underachieved, mitigation strategies will be implemented to ensure they remain within projected debt levels, although repayment of debt may take longer.

33. Unitec also modelled a downside scenario to demonstrate risk mitigation. This scenario is a combination of - reduced domestic EFTS, flat international EFTS, no SAC price growth and only 75% of the FTE reductions achieved and combined with the mitigation of deferring capital expenditure. This demonstrated the robustness and flexibility of the financial modelling done in the business case. Unitec has indicated that in a real-life situation it would do more than simply deferring capex and would combine it with accelerated land sales and/or maybe stopping parts of the capex programme.

EBITDAR[4] is used as a key basis for establishing Unitec's borrowing covenants

[4] **EBITDAR** – Earnings excluding one-off and non-recurring items, restructuring costs, interest and other financing costs, tax, depreciation and amortisation costs. R - Restructuring costs include redundancy/retention and costs directly associated with the transformation project (to the extent not capitalised). One-off and non-recurring costs are described in the Programme Business Case and include asset write-offs & impairments, accelerated depreciation & amortisation associated with the campus redevelopment, gains on asset sales, consultants' costs, running costs of the property SPV and project management. Borrowing, establishment, commitment and line fees will be treated as interest expenses consistent with the programme business case.

34. The key financial information from Unitec's business case modelling supporting the borrowing application is provided below.

9(2)(j), 9(2)(b(ii) and 9(2)(g)(i)

[redacted]

35. Unitec is using EBITDAR rather than net surplus as one of the key metrics in establishing financial covenants for their borrowing. Unitec's view is that this is the best measure of earnings and cash flow to finance large capital and change programmes. This is slightly different to the commonly used EBITDA metric, in that it includes an "R" component that relates to one-off costs directly associated with the transformation programme.

36. Unitec note that since these (R component) are the costs associated with the building of the new transformed organisation, and they be viewed as investments for the future rather than one-off costs incurred during normal operations. Since relevant accounting standards do not permit capitalisation of such costs, there is the need to separate them. Most importantly it will be impossible for Unitec to proceed with the WOTP if these costs are covered within EBITDA. Unitec have also assured us that this treatment is commonly used in commercial contexts. The details of these costs are provided below.

9(2)(j), 9(2)(b(ii) and 9(2)(g)(i)

[redacted]

37. Our research has indicated that the EBITDAR earnings measure is commonly used where entities:

a. have large amounts of fixed assets that are subject to heavy depreciation charges;

b. require big upfront investments or infrastructure;

c. have a significant amount of debt financing.

38. Essentially it is a way to evaluate a company's performance without having to factor in financing decisions and accounting decisions. It is a measure of an entity's underlying profit potential as it excludes the cost of such one-off investments. The EBITDAR margin minimizes the non-operating effects that are unique to every company and gives investors a way to focus on operating profitability as a singular measure of performance. For these reasons, given Unitec's unique situation, this metric has been accepted as a basis for establishing the financial covenants.

39. A set of breach and monitoring covenants have been developed with Unitec and their financial consultants (PwC) and adjusted as necessary with Ministry's input that will provide adequate comfort that financial risk relating to the borrowing is sufficiently monitored.

40. The covenants provide Unitec flexibility to implement its plans and surety regarding borrowing facilities available. They also recognise the value of surplus assets available and the significant one-off and non-recurring costs to be incurred.

It is a long programme and involves risks that are being suitably managed

41. Given the complex nature of the WOTP, this programme is not without significant risk. Of the risks identified in the PBC the following risks are considered important to consider:

  a. **Leadership** – A lack of commitment at any stage of the WOTP by the Unitec's Council and/or Senior Management Team would result the some of the key aspects of the transformation not being achieved. Evidence to date suggests that the CEO and the Council are fully engaged in the process and especially by the CEO, by his constant presence in engagement with the TEC and other senior agencies' officials.

  b. **Reframing of the workforce** – This is one of the first major change actions. Not achieving the desired outcomes of this exercise will reduce the profitability of the transforming Unitec and hence the ability to continue with the capex programme and repay debt according to plan. Unitec have taken the lead on this aspect and the first phase relating to the reframing of the workforce is already underway.

  c. **Failure of the Auckland Unitary Plan to deliver expected outcomes** – Not being able to obtain the required changes to existing planning designations (zoning, heritage etc.), will not prevent, but could delay Unitec's plan to re-purpose the excess land and sell it and hence affect its cash flows. Unitec have assured us that they are working closely with Auckland Council and that this is reciprocated by having a dedicated team from Auckland Council working with them. These are encouraging signs.

  d. 9(2)(j), 9(2)(b(ii) and 9(2)(g)(i) [redacted]

e. **Timing of capital projects** – Any delays to projects could derail the Unitec's planned debt repayment programme and delay the benefits of the WOTP. Unitec has assured us that the capital programme has a number of logical break points and specific projects could be delayed to reduce net debt.

f. **International EFTS growth not achieved** - International fee revenue is a major component of Unitec's revenue streams (around 20%). Unitec believe that this level of revenue can be sustained and even increased in the future. Hence this becomes an important source of revenue to sustain the transformation. Any downward movement can mean that profitability is affected and net debt levels adversely affected. We have however seen internal EFTS growth being much higher than forecast in the last few years with growth between 13-15%. Hence this may not be a major risk going forward.

The Leadership Team will also maintain a list of risks to the business, employees and the programme. They will review those risks with the Council on a quarterly basis to ensure an ongoing focus.

The benefits of the transformation programme are substantial and will be measured and monitored

44. This planned programme of work (WOTP) is expected to result in the following key benefits:

    a. Long term educational sustainability;

    b. Better outcomes for students;

    c. Increased appeal of Unitec offerings;

    d. Better fit of staff with contemporary learning models;

    e. Long term financial sustainability.

45. This is expected to be evidenced in Unitec by:

    a. The portfolio of offering by Unitec being aligned with employer/citizenship needs ensuring the outcomes favoured by students (employability, relevance etc.) are achieved;

    b. Resulting in an effective applied blended learning model being successfully implemented that involves formal on-campus learning combined with online learning, work-based learning and independent learning;

    c. Having an excellent Infrastructure that enables the new learning and business models to function efficiently and in a cost effective way;

    d. Positioning Unitec to be able to grow and diversify revenue streams by increasing enrolled EFTS (International, domestic SAC, domestic private funded) and generate new profitable income sources through joint ventures and service-based offerings leveraging core capabilities;

    e. Ensuring Unitec can operate in a financially sustainable manner, using its resources and enabling the achievement of learning targets;

f. Ensuring a unique and strong Unitec Brand which will enable Unitec to sustain its revenue earning capacity for the long-term;

g. Being a great place to learn and work that is able to attract quality students and staff for the long–term.

h. Increasing income generation and improving staff cost effectiveness resulting in better operating margins.

46. Unitec has provided in the PBC details of their benefits realisation plan which includes the aspects of governance and responsibilities, how it will be managed, the processes involved, how they will be measured, the delivery of benefits and the resources to undertake the benefits realisation.

Recommendations

47. It is recommended that you:

a. **note** that an assessment of the borrowing application has been completed reaching the conclusion that consent should be provided.

b. **note** the existing conditions (see schedule attached) of the borrowing consent of the maximum [redacted] facility for the purpose of funding its Capital Investment programme to 2024.

c. **recommend** to the Secretary for Education that Unitec should receive consent to enter into borrowings not exceeding [redacted] on the terms and conditions as set out in the letter to VUW and the associated conditions schedule.

[redacted]

Senior Business Analyst

Monitoring and Crown Ownership

Tertiary Education Commission
Te Amorangi Mātauranga Matua

Tertiary Education Report: Unitec Institute of Technology (Unitec) Borrowing Consent Application

Date:	12 October 2015	**TEC priority:**	Medium
Security level:	In Confidence	**Report no:**	B/15/00717
		Minister's office No:	

Action Sought

	Action sought	Deadline
Hon Steven Joyce Minister for Tertiary Education, Skills and Employment	**Note** that Unitec intends to fund its Whole of Organisation Transformation Programme through a combination of borrowing, asset disposal and free cash flow in accordance with section 192 of the Education Act 1989. **Note** that the Tertiary Education Commission considers it appropriate to grant Unitec consent to borrow up to a maximum of [redacted] between 2015 and 2024. **Note** that the Ministry of Education Tertiary Education Group is currently assessing Unitec's borrowing application and TEC's recommendation to grant a Consent to Borrow to Unitec.	At your earliest convenience
Enclosure: No	**Round Robin:** No	

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st contact
Graeme Cahalane	Manager Monitoring and Crown Ownership	[redacted]		✓
[redacted]	Senior Business Analyst, Monitoring and Crown Ownership	[redacted]		

The following departments/agencies have seen this report

☐ CERA ☐ DPMC ☐ ENZ ☐ ERO ☐ MBIE ☒ MoE ☐ MFAT

☐ MPIA ☐ MSD ☐ NZQA ☐ NZTE ☒ TEC ☐ TPK ☐ Treasury

Minister's Office to Complete:	☐ Approved	☐ Declined
	☐ Noted	☐ Needs change
	☐ Seen	☐ Overtaken by Events
	☐ See Minister's Notes	☐ Withdrawn

Comments:

Recommendations

Hon Steven Joyce, Minister for Tertiary Education, Skills and Employment

It is recommended that you:

1. **note** that Unitec intends to fund its Whole of Organisation Transformation Programme through a combination of borrowing, asset disposal and free cash flow in accordance with section 192 of the Education Act 1989.

2. **note** that the Tertiary Education Commission considers it appropriate to grant Unitec consent to borrow up to a maximum of [redacted] between 2015 and 2024.

3. **note** that the Ministry of Education Tertiary Education Group is currently assessing Unitec's borrowing application and TEC's recommendation to grant a Consent to Borrow to Unitec.

Lara Ariell

Acting Chief Executive, Tertiary Education Commission

12 October 2015

Hon Steven Joyce

Minister for Tertiary Education, Skills and Employment

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Purpose

1. This paper updates you on Unitec's recent borrowing application to support their Whole of Organisation Transformation Programme (Programme). The aim of the Programme is "a financially sustainable and exceptional applied education institution". Unitec will fund the Programme through a mixture of free cash flow, land disposal and borrowing.

2. Unitec is required to obtain written consent from the Secretary of Education under section 192(4)(d) of the Education Act 1989 to borrow or raise money.

Unitec seeks to borrow 9(2)(b)(ii) and 9(2)(j) [redacted] over a 10 year term

3. The maximum borrowing limit requested in the application is 9(2)(b)(ii) and 9(2)(j) [redacted] over a term of 10 years. Actual maximum borrowing however is not expected to exceed 9(2)(b)(ii) and 9(2)(j) [redacted] at any one time. The balance is being retained for flexibility and as contingency to manage any liquidity requirements that may emerge after other mitigations. Total borrowing is projected to reduce to around 9(2)(b)(ii) and 9(2)(j) [redacted]. Debt repayment is expected to accelerate after this.

4. 9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted]

7. Total capital expenditure relating to the Programme is projected to be 9(2)(b)(ii) and 9(2)(j) [redacted] over a 10 year period for core facilities development, system upgrades and replacement of major assets. Additional transformation costs include 9(2)(b)(ii) and 9(2)(j) [redacted] (professional services, severance and retention costs). These are all treated as unusual and non-recurring costs for the purposes of setting the borrowing covenants.

8. 9(2)(j), 9(2)(b)(ii) and 9(2)(g)(i) [redacted]

The Transformation Programme and its Benefits

9(2)(g)(i) [redacted]

9. 9(2)(g)(i) [redacted]

10. 9(2)(g)(i) [redacted]

Partnership with industry will help define the curriculum

11. Unitec is looking to overcome these shortcomings by moving to new areas of teaching and exiting areas that are now irrelevant or are becoming irrelevant.

12. Unitec's current teaching models are outdated and in many cases irrelevant to the changing technology-led environment. The transformed Unitec will see industry-based clusters created, more partnerships with industry, flexibility in curriculum and provision of a portfolio aligned to current and future industry needs. This redevelopment of teaching and learning models is also expected to result in substantial workforce efficiency gains. The first phase of this change is already underway.

A fit-for-purpose campus is a key enabler

13. The Programme looks to leverage off a property strategy and move towards a forward looking learning environment. It will also look at facets such as experience of teaching staff resources and making them fit-for-purpose to achieve their objectives.

14. Unitec's challenge is to effectively configure a fit-for-purpose, smaller footprint at its Mt Albert Campus. Unitec's existing Mt Albert campus is run down, earthquake prone and spread-out, resulting in a major disconnect between physical spaces. Current space utilisation is low (25%) and incurs high operating costs.

15. The property strategy will divest the land at the northern end of the campus to fund development of the southern end and consolidate the Unitec campus.

It is a long programme of work and involves risk

16. The Programme Business Case envisages that the Programme would take 10-20 years to fully implement. Unitec will initially need to borrow money during the initial transition until the land for disposal is made ready, to provide an income stream to fund capital needs. The project will be done in phases with the first phase being the campus consolidation. Initial enabling projects already underway include prototype classrooms, shared workplace environments, collaborative classrooms and decanting.

17. 9(2)(g)(i) [redacted]

18. The Programme involves considerable risk due to the many streams of change involved in parallel (people, property, programmes and teaching and learning models). However Unitec has identified risk mitigation strategies to ensure its financial position is not compromised during the transformation.

Approval of Borrowing Application

19. Unitec has proactively engaged with the TEC and the Ministry of Education's Tertiary Education Group both before and during the application process to ensure the agencies involved remain well informed.

20. A detailed Programme Business Case following Treasury's Better Business Case (BBC) guidelines has been prepared and provided by Unitec, supporting the application. Further supporting information relating to transformation modelling assumptions and results, the building and land disposal programme, financial projections and financial covenants, and funding patterns have also been provided. The application assessment process by the TEC also involved face-to-face meetings with senior finance personnel at Unitec and their financial consultants.

21. The TEC has now agreed the financial covenants to be applied to the borrowing application with Unitec and a draft schedule of borrowing conditions has been forwarded to the Ministry with supporting information. Ministry staff and the TEC are engaging with Unitec to obtain further clarification relating to some aspects of liquidity in the business case. Once this is satisfactorily concluded, the borrowing consent is expected to be approved by the Ministry.