

Commercial in Confidence

Office of the Minister of Education

Social Wellbeing Committee

## **TAI POUTINI POLYTECHNIC CAPITAL INJECTION AND DEBT WRITE OFF**

### **Proposal**

1. This paper seeks agreement to provide a capital injection of \$8.5 million to Tai Poutini Polytechnic so it can continue to operate, and make operational and educational improvements.
2. This paper also notes that the Tertiary Education Commission will write-off \$24.878 million (GST inclusive) of debt owed by Tai Poutini Polytechnic to the Crown resulting from historical under-delivery as it cannot afford to repay this amount.

### **Executive Summary**

3. Tai Poutini Polytechnic (TPP) is a small polytechnic based on the West Coast. It plays a critical role in the West Coast education network as the only provider of broad-based tertiary education.
4. TPP has long-term governance and management problems which means it is under serious financial strain and there are concerns about the quality of education it provides. These problems led to the appointment of a Crown Manager in December 2016 and a Crown capital injection of \$3.6 million in April 2017. The capital injection was to keep TPP operating and allow the Crown Manager to prepare a business case on the options for delivering high quality vocational education on the West Coast.
5. For a number of years, TPP relied on cross-subsidising its West Coast provision by running programmes outside of the West Coast. However, in 2015 concerns were raised about several courses TPP was running. Following an investigation, TPP was found to be significantly under-delivering the teaching hours it was being funded for. Many of the under-delivered teaching hours were for courses delivered outside of the West Coast that TPP was using to cross subsidise its West Coast provision.
6. Because of the large number of courses and students involved, and that the under-delivery dated back over six years, TPP owes \$21.23 million to the Tertiary Education Commission (TEC). TPP also delivered to fewer students than it was funded for in 2016 accruing a further debt of \$3.65 million. All debt amounts are inclusive of GST.
7. Effectively, TPP is in a receivership situation but the Crown is continuing to provide support because it is critical for tertiary education provision on the West Coast. TPP is unable to meet its current operating costs and will need funding to remain solvent through 2018. TPP will never be in a position to repay the total \$24.878 million owed due to its ongoing deficit position and its small size (TPP's balance sheet is valued at \$12 million which is smaller than the outstanding debt).

8. Financial pressure is not unique to TPP. A number of other institutes of technology and polytechnics (ITPs) are also experiencing difficulties. I have started exploring changes that can be made to the ITP subsector and intend to seek Cabinet agreement to a programme of change for the ITP subsector around March 2018.
9. I received the business case on the future of TPP in November 2017 but have decided to defer a decision on it until the wider ITP sustainability work is more advanced, to ensure any changes at TPP are aligned with the wider direction for ITPs.
10. In order to keep TPP operating while work is advanced on ITP sustainability I am proposing Government provides TPP with a capital injection of \$8.5 million and that this funding would come from [REDACTED] s 9(2)(f)(iv) OIA
11. A capital injection would allow TPP to keep operating into the 2019 academic year and to make improvements to its operations and education provision. If it does not quickly make improvements to its educational quality this will impact learners on the West Coast and decrease the likelihood of a successful transition to a new education model.
12. The money would be provided through a funding agreement between the Crown and TPP. The Minister of Finance and I would approve the conditions of the funding agreement. The Crown Manager would remain in place to ensure progress is made on the education improvements and that the money is used appropriately.
13. As noted earlier, TPP is unable to repay the TEC the \$24.878 million for under-delivery. Because it is now known that the debt will not be recovered it is appropriate to remove it from the accounts before the end of the financial year. The TEC Board intends to write-off this debt but, due to the large amount, the TEC has asked me to bring this to your attention.
14. I will report back to Cabinet in August 2018 to outline the plans for TPP for 2019.

## **Background**

15. TPP is a small polytechnic based on the West Coast. It is the only public tertiary education institute (TEI) based in the region and is the main tertiary partner to the West Coast Trades Academy led by Greymouth High School. The TEC currently purchases around 750 equivalent full-time students (EFTS) per annum from TPP but only 350 of these EFTS are delivered on the West Coast. These EFTS are worth \$4.2 million for the first 6 months of 2018. TPP employs over 100 local staff and has assets worth \$12 million. This includes \$10 million in buildings on land that is not owned by TPP. TPP traditionally ran a significant number of courses outside the region to cross-subsidise the education delivered on the West Coast.
16. People living on the West Coast have particular challenges accessing tertiary education due to the small population spread over a large geographic area. Spanning 600 kilometres in length and 23,000 square kilometres in area, the West Coast is home to only 32,600 people which is less than one percent of New Zealand's population. This is remote even when compared with other regional areas served by polytechnics.

17. There are a very small number of specialist private training establishments operating on the West Coast (covering deep-sea fishing, mine rescue and first aid) and Te Wānanga o Aotearoa delivers Te Reo programmes in the region. TPP therefore plays a critical role in the regional education network as the only provider of broad-based tertiary education.
18. TPP has been having long-term governance and management problems which mean it is under serious financial strain and is no longer viable. The following section explains its financial and educational performance problems and describes the response of the government so far, including the appointment of a Crown Manager in December 2016.

### **Financial and educational performance issues that have emerged at TPP**

*TPP received a capital injection in 2017 to keep operating*

19. In July 2016, an acting Chief Executive was appointed who raised concerns with the cash flow of TPP. A PwC assessment in October 2016 confirmed that TPP would be unable to pay its bills, including wages, by around March 2017. In April 2017, to keep TPP operating Cabinet agreed to a Crown capital injection of \$3.6 million to maintain short-term cash flow [EGI-17-MIN-0062]. TPP has been in deficit for a number of years (in 2017 this was \$3.75 million) and is forecast to continue to be in deficit without major changes to its structure, operating model and funding.

*TPP is unable to repay debt resulting from significant under-delivery of funded teaching hours but continues to operate because it is a critical tertiary education provider on the West Coast*

20. Following complaints about TPP courses, a TEC audit performed in September 2015 revealed there was under-delivery of funded teaching hours at TPP. This led to a review by Deloitte in December 2015 which was widened in March 2016 due to the serious nature of the findings. The investigation ultimately found significant under-delivery in 13 of 14 programmes investigated, with some dating back to 2010. Because of the large number of courses and students involved, and that the under-delivery occurred over six years, TPP owes \$21.23 million to the TEC. All debt amounts are inclusive of GST.
21. There have been a number of other investigations into the operations of tertiary providers (including Western Institute of Technology at Taranaki, Lincoln University's Telford Division, Taratahi Agricultural Training Centre and BEST Pacific Institute of Education). The under-delivery at TPP was by far the largest with the highest previous recoveries being around \$7.6 million.
22. TPP also under-delivered against its allocated funding in 2016 because it provided programmes to fewer students than it was funded for. This led to a further debt of \$3.65 million. For 2017 and 2018, TPP's funding was adjusted regularly to ensure a better match between its funded and actual delivery so further debts do not arise. Improvements to the TEC monitoring processes following these issues at TPP are described in Appendix One.
23. A large portion of the under-delivery related to education delivered outside of the West Coast. Now that the funded teaching hours have been rescaled, this provision no longer provides extra revenue to cross-subsidise TPP's West Coast provision. TPP's West Coast delivery is too small to make it viable as a stand-alone TEI.



24. Effectively, TPP is in a receivership situation but the Crown is continuing to support TPP because it is critical for tertiary education provision on the West Coast. Given TPP only has assets of \$12 million (which is less than the outstanding debt) and is in an ongoing deficit position, TPP will never be able to repay the total \$24.878 million owed.

*NZQA has identified serious educational performance issues at TPP*

25. In late 2017, the New Zealand Qualifications Authority (NZQA) released its External Evaluation and Review results for TPP. The rating was a four – the lowest on the scale – and the first time a polytechnic has received a rating this low. A rating of four means that NZQA is not confident in the provider to self-assess the quality of their programmes.

26. Normally the NZQA places a halt on enrolments following a four rating and the TEC stops purchasing from such providers until they make significant improvements. The Crown Manager has agreed an action plan with the NZQA so it has not placed a halt on TPP's enrolments and the TEC has continued to purchase from TPP in 2018. The NZQA is confident an assessment partnership formed with Southern Institute of Technology (SIT) will ensure acceptable standards are met, at least in the short term and until a new External Evaluation and Review takes place.

*A Crown Manager was appointed to address these concerns and develop a business case for sustainable and quality tertiary education on the West Coast*

27. In December 2016, the then Minister for Tertiary Education, Skills and Employment appointed an independent Crown Manager under s195D of the Education Act to take over the financial management of TPP from the Council. The Crown Manager was asked to prepare a business case on the future strategic options for the delivery of high quality vocational education on the West Coast.

28. The objectives of this appointment were to:

- ensure that vocational education and training remains available on the West Coast
- minimise the disruption to students
- contain, and attempt to reduce, the financial risks.

29. In late 2016 and early 2017, members of the Council resigned, with the exception of the two relatively new Ministerial appointees: Kevin Stratful and Raelyn Lourie. The former Minister then appointed a new Chair (Andrew Robb, the Chair of the West Coast Regional Council) and a further Ministerial appointee (Andy England, the principal of the local high school who works with TPP in the delivery of the successful Trades Academy). The rest of the Council positions remain vacant at this point.

30. The Crown Manager and Acting CE have fully reviewed the financial processes and controls at TPP. In addition to the under-delivery identified by the Deloitte investigation, they found irregular human resource practices, and a lack of control of expenditure

s 9(2)(g)(i) OIA

. A new system of financial controls has now been put in place.

31. During 2017, the new financial controls and operational changes led to savings of approximately \$3.5 million. These initiatives included a reduction in staffing costs of [REDACTED] and operating expenses of [REDACTED]. This included reductions in travel costs, consolidation of delivery sites, and divestment of plant and vehicles. [REDACTED]

**Other institutes of technology and polytechnics are also facing financial pressure so I am exploring ways to improve the sustainability of the subsector**

32. A number of other institutes of technology and polytechnics (ITPs) are under financial pressure. Using current trends the TEC expects 50% of ITPs to be in deficit by 2020, and 80% of ITPs to be in deficit by 2022.<sup>1</sup> This is due to the strong labour market leading to declining enrolments and rising cost pressures. It is also influenced by changes in who ITPs deliver education to, leading to increased competition with other tertiary education providers. Overall, the ITP subsector is in a position where widespread business change is necessary to ensure the ongoing quality, attractiveness and sustainability of its vocational delivery.

33. On 14 February 2018, the Cabinet Social Wellbeing Committee, with Power to Act authorised by Cabinet, invited me to report on a programme of change I am currently developing to make the changes required for the ITP subsector [SWC-18-MIN-0004]. This work will be about ensuring financial sustainability for ITPs as well as improving the subsector's ability to meet diverse learner needs (including upskilling adults in work). I intend to report back to Cabinet around March 2018, where I will outline and make the case for my programme of change and seek Cabinet agreement to the process that will be followed. This change programme may have implications for the governance and organisational structure of a West Coast tertiary education provider.

**I have received the business case on the future of West Coast provision but will defer a decision until the ITP sustainability work is more advanced**

34. I received the business case from the Crown Manager in November 2017, and met with him to discuss it in December 2017. The business case outlines two options for the future structure and ownership of vocational education delivery on the West Coast:

- a regional ownership model which has joint ownership between the Crown and local stakeholders
- a merger with [REDACTED]

35. Both of these options [REDACTED] and involve a number of trade-offs which are best considered in light of wider decisions on the future direction of the vocational education and training system. Therefore, I have decided to defer a decision on the options described in the business case to ensure any changes at TPP are aligned with the wider direction for ITPs.

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<sup>1</sup> If Student Achievement Component and Youth Guarantee revenues do not increase and other funding grows at CPI (2% pa).

**While the ITP sustainability work is developing I expect the Crown Manager to continue making educational and financial improvements at TPP**

36. As noted above, the Crown Manager has already been able to make significant improvements to the financial and operational performance of TPP. The business case describes a number of further actions that will improve the quality and performance of TPP. These are valuable improvements that are consistent with the direction of the wider ITP sustainability work. Proposed actions include:

- ongoing cost control measures
- continuing to work with SIT to improve quality systems and processes to the satisfaction of the NZQA
- improving responsiveness to students and employers on the West Coast, by actively engaging with them and offering a range of programmes designed to meet their needs
- partnering with other providers to deliver courses on the West Coast
- partnering with other ITPs to provide back office services e.g. programme development, student support and corporate support functions
- right-sizing the corporate structure of TPP (especially given the transfer of the Music and Audio Institute of New Zealand to SIT and changes to scaffolding programmes).

37. In light of the poor External Evaluation and Review by the NZQA, it is critical these changes are progressed quickly.

**I propose that Government provides TPP with \$8.5 million to allow them to keep operating into the 2019 academic year and to make the required operational and educational improvements**

38. [REDACTED] s 9(2)(f)(iv) OIA

39. TPP will need funding in addition to the \$4.2 million approved in its 6 month investment plan with TEC to remain solvent and make the required educational improvements to prepare for a merger or transition. I am seeking to drawdown \$8.5 million from [REDACTED] s 9(2)(f)(iv) OIA  
[REDACTED] to allow TPP to continue operating into the 2019 academic year.

[REDACTED] s 9(2)(f)(iv) OIA  
[REDACTED] \$8.5 million is less than 1.7% of the tuition funding provided to the 16 ITPs in 2017. Once student fees, fees-free payments and other income are taken into account, this is under 1% of the ITP subsector's revenue.

40. Table One describes how this funding will be used. A detailed breakdown of each business area is included in Appendix Two. TPP are seeking the first payment of \$3 million as soon as possible, with a second payment of \$3.45 million in June and the third payment of \$2.05 million in December 2018 to set them up for the 2019 academic year.



Table One: Funding required for TPP

Academic Year	(Costs \$000s)	
	2018	2019
Project Management	300	50
HR & Change Management	1,700	50
Staff Development	200	200
Academic	600	100
Systems	500	50
Facilities and Capital	500	
Communications and student assurance	200	
Compliance	200	
Transitional deficit funding and a remote subsidy	2,250	1,600
<b>Total</b>	<b>\$ 6,450</b>	<b>\$ 2,050</b>

**Without additional funding TPP will be unable to operate or make the required operational and educational improvements**

41. If no funding is provided, TPP would need to cease operations as it would not be able to pay its expenses. If only enough funding is provided to cover wages and basic operating costs, the more significant cost reductions (adjustments to corporate structure) and the education quality improvements cannot be made.

42. If education quality is not improved quickly this will:

- impact the ability of TPP to deliver quality education to learners on the West Coast
- disrupt learners who are part-way through their courses and qualifications at TPP
- decrease the likelihood of a successful merger or transition
- undermine the local community's confidence in the government to provide tertiary education that meets its needs.

**There are processes in place to provide accountability for this funding**

43. The Crown Manager would remain in place to ensure progress is made on the educational and operational improvements. If Ministers agree to provide this funding to TPP, any expenditure relating to the funding would require the approval of the Crown Manager.

44. There is an existing funding agreement between the Crown and TPP that was drawn up when the previous capital support of \$3.6 million was paid to TPP in 2017. An amendment can be made to that agreement to cover the additional funding discussed above.

45. The Minister of Finance and I would approve the conditions of the capital injection in the funding agreement between the Crown and TPP. The amended funding agreement would include requirements to use the funding to improve the quality of education provision on the West Coast and the cost effectiveness of TPP. The funding agreement

would include a schedule of activities, associated performance indicators/targets, and outline regular reporting requirements. In addition, performance measures would be updated for the appropriation (this will be included in the Supplementary Estimates).

### **The TEC Board intends to write-off the debt owed by TPP**

46. As noted earlier, TPP is unable to repay the TEC the \$24.878 million for under-delivery. Because this debt is not collectable, the TEC classified this amount as a doubtful debt in its 2016/17 annual accounts. This is also reflected in TPP's annual accounts for December 2017 (which are still awaiting publication following audit). Because it is known that the debt is not able to be recovered, it is appropriate to remove it from the accounts before the end of the financial year.

s 9(2)(f)(iv) OIA

47. [REDACTED] Under s217 of the Education Act assets and liabilities of TPP would revert to the Crown. When this occurred the debt owed would have been written-off.

s 9(2)(f)(iv) OIA

48. [REDACTED] the TEC Board intends to write-off this debt. Because of the size of the debt, the TEC has asked me to inform Cabinet about the write-off.

### **Next Steps**

49. If you agree to the capital injection, officials from the Ministry of Education and the TEC will make arrangements for the funding agreement to be developed. With Cabinet's authorisation, the Minister of Finance and I would approve the final conditions for the funding agreement. The TEC Board will also take the steps required to write-off the TPP's outstanding debt.

50. I will report back to Cabinet in March 2018 outlining my programme of change for the ITP sector and in August 2018 to outline the plans for TPP for 2019 and beyond.

### **Consultation**

51. The Treasury, the Tertiary Education Commission and the New Zealand Qualifications Authority have been consulted. The Department of the Prime Minister and Cabinet has been notified.

### **Financial Implications**

#### *Size of the capital injection*

52. As noted in Table One, \$8.5 million is required to keep TPP operating into the 2019 academic year while it makes the required education improvements to prepare for a merger or transition.

#### *Funding source*

53. [REDACTED]

s 9(2)(f)(iv) OIA



54.

s 9(2)(f)(iv) OIA

### Human Rights

55. There are no direct human rights implications.

### Legislative Implications and Regulatory Impact Analysis

56. There are no legislative implications and a Regulatory Impact Statement is not required.

### Gender Implications

57. There are no direct gender implications.

### Disability Perspective

58. There are no direct disability implications.

### Publicity

59. The TEC, in conjunction with TPP, will develop a communications and stakeholder plan to support the announcement of any financial assistance to TPP. Any announcement would also include decisions on TPP's business case submitted to me last year.

60. The TEC proposes to release the outcomes of an investigation into TPP, undertaken by Deloitte, in conjunction with any financial assistance announcements. This will provide greater detail of the significant under-delivery by TPP over many years.

### Recommendations

61. The Minister of Education recommends that the Social Wellbeing Committee:

a. **note** that TPP has long-term governance and management problems which means it is under serious financial strain and there are concerns about the quality of education it provides

b. **note** that Tai Poutini Polytechnic currently has a Crown Manager and received a capital injection of \$3.6 million in 2017 [EGI-17-MIN-0062]

s 9(2)(f)(iv) OIA

c. **agree** to provide a capital injection of \$8.5 million from [REDACTED] to keep Tai Poutini Polytechnic operating while work continues on the sustainability of institutes of technology and polytechnics and the Crown Manager continues to make operational and educational improvements

s 9(2)(f)(iv) OIA

- d. **approve** the following changes to appropriations, to give effect to the recommendation above:

	\$ million – increase / (decrease)				
<b>Vote Tertiary Education Minister of Education</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22 &amp; Outyears</b>
Non-Departmental Capital Expenditure:					
Support for Tai Poutini Polytechnic	6.450	2.050	-	-	-

- e. **agree** that the changes to appropriations for 2017/18 above be included in the 2017/18 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
- f. **authorise** the Minister of Education and the Minister of Finance to approve the conditions of the capital injection in the funding agreement between the Crown and Tai Poutini Polytechnic
- g. **note** that Tai Poutini Polytechnic is unable to pay its debt of \$24.878 million due to be paid to the Tertiary Education Commission and that the Tertiary Education Commission made provision for this as a bad debt in its 2016/17 financial accounts
- h. **note** that the Tertiary Education Commission Board intends to write-off the \$24.878 million in debt owed to them as Tai Poutini Polytechnic is unable to repay the amount
- i. **invite** the Minister of Education to report back on the future of Tai Poutini Polytechnic in August 2018.

Hon Chris Hipkins  
Minister of Education

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## **APPENDIX ONE: Improvements to the TEC's Monitoring Processes**

1. The TEC has significantly strengthened its monitoring of the tertiary sector since the identification of issues at TPP.
2. TPP's debt to the Crown is due to under-delivery of approved learning hours across a range of programmes. The TEC uses audits to ensure funded delivery and actual delivery are aligned, and it has increased the number of audits it undertakes from 30-40 per year to at least 70. The under-delivery at TPP was first identified during the first TEC audit of TPP in 2015, following the introduction of audits of institutes of technology and polytechnics in 2013.
3. However, the TEC has made a range of other improvements to its monitoring of the tertiary education system to prevent a situation like TPP from occurring again. An independent review of the issues at TPP indicated that, although various issues were identified early, silos within the TEC and a lack of central oversight prevented earlier intervention.
4. As a result, the TEC's audit function has been integrated into its central monitoring team, which now oversees a central risk register. This incorporates all information held by the TEC about at-risk providers, and ensures mitigations are informed by consideration of all relevant facts. The TEC's ability to intervene where issues are identified has also been strengthened.
5. Other improvements made include increasing the flexibility of the TEC's audit and investigation processes, building internal capability and better using intelligence and reviews of system trends to identify and prevent emerging issues early. The TEC is also increasingly focused on educating the sector and building governance capability so that providers can better manage their own performance and compliance.



## APPENDIX TWO: Description of Activities Funded by the Capital Injection

Activity	Comment	Key items of expenditure included
<b>1. Project Management</b>	<ul style="list-style-type: none"> <li>Establishment of Project Management Office</li> <li>Oversight of implementation of improvements</li> <li>Management of the transition to a new structure</li> </ul>	<ul style="list-style-type: none"> <li>Project manager</li> <li>Project management activities</li> <li>Legal advice</li> <li>Consultation with stakeholders</li> </ul>
<b>2. HR and Change Management</b>	<ul style="list-style-type: none"> <li>Change management plan which addresses all the organisational capability and organisational integration issues</li> <li>Implementation of a change management plan</li> <li>Improvement in capability on the West Coast</li> <li>Management of organisational capability and integration issues</li> </ul>	<ul style="list-style-type: none"> <li>Redundancy cost</li> <li>Specialist support as required</li> <li>Additional HR resource</li> <li>Legal advice</li> </ul>
<b>3. Staff Development</b>	<ul style="list-style-type: none"> <li>Increase staff capability on the West Coast, particularly at management level</li> </ul>	<ul style="list-style-type: none"> <li>Costs for staff development programmes</li> </ul>
<b>4. Academic</b>	<ul style="list-style-type: none"> <li>Post External Evaluation and Review improvements implementation</li> <li>Preparation for next External Evaluation and Review</li> <li>Develop academic plan of how programmes will be delivered under a collaborative arrangement</li> <li>Development of collaborative partnerships.</li> <li>Alignment of academic structures to partner ITPs</li> <li>Portfolio harmonisation and flexible delivery options</li> </ul>	<ul style="list-style-type: none"> <li>Additional capacity</li> <li>Specialist contractors</li> <li>Quality support (SIT)</li> <li>Assessment verification and moderation as per External Evaluation and Review requirements</li> <li>Online delivery platform implementation</li> <li>Self-assessment support</li> </ul>
<b>5. Systems Improvements</b>	<ul style="list-style-type: none"> <li>Standardisation of systems and process</li> <li>Evaluation of current systems</li> <li>Data migration to single data storage</li> <li>Feasibility study for outsourcing of systems and back office functions</li> </ul>	<ul style="list-style-type: none"> <li>Systems integration, including data migration</li> <li>Specialist consultant and contractor advice</li> </ul>
<b>6. Facilities and Capital</b>	<ul style="list-style-type: none"> <li>Development of a plan identifying the facilities and equipment necessary to support improvement plan</li> <li>Preparation of the facilities to allow multi user approach</li> </ul>	<ul style="list-style-type: none"> <li>Specialist advice</li> <li>Space reconfiguration</li> <li>Consolidation of sites</li> <li>Legal advice</li> </ul>
<b>7. Communications and Student Assurance</b>	<ul style="list-style-type: none"> <li>Development of a strategic communications plan, which will include how the staff, students, community and iwi will be kept informed of improvement and changes</li> <li>General marketing and promotion</li> <li>Community engagement and communications</li> </ul>	<ul style="list-style-type: none"> <li>Internal and external communications</li> <li>Additional resource – strategic communications</li> <li>Increased short term requirement for pastoral care</li> </ul>