

Aide-Memoire: Unitec Institute of Technology 2018 Annual Report

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive - Delivery, Tertiary Education Commission
Date:	31 May 2019
Reference:	AM-19-00704

Purpose

1. You have received the Unitec Institute of Technology (Unitec) 2018 annual report for tabling in the House. This paper provides you with an overview of the 2018 performance of Unitec.
2. We recommend that you release this aide-memoire once it has been considered by you, with information under the heading “Current Issues” withheld as the release of the information would be likely to unreasonably prejudice the commercial position of the person who supplied or who is the subject of the information.

Background

3. On 23 July 2018, you announced that you were dissolving the Unitec Council and appointing Murray Strong as Commissioner to address Unitec’s financial difficulties.
4. On 23 August 2018, you announced a no-interest, \$50 million concessionary loan would be provided to Unitec to enable it to continue operating. The loan provided certainty to students and staff while Unitec worked to secure its long term financial viability, and participate in your Reform of Vocational Education.
5. Unitec’s financial difficulties were in part due to declining enrolments, a costly transformation programme, and poor governance. However, Unitec serves a growing Auckland catchment area and holds significant surplus assets which can be sold, and therefore has a clear path to recovery.
6. Without financial support Unitec would have been forced to close in September 2018, which would have jeopardised the investment of time and money by its students and staff. In 2018, Unitec provided education and training to approximately 17,000 students, and employed over 1,000 staff.

Chair and Chief Executive update

7. The Commissioner, Mr Murray Strong, and the Interim Chief Executive, Ms Merran Davis, have focused on 2018 as a period of unprecedented change and challenge. Specific areas highlighted include:
- The Interim Chief Executive and the Commissioner’s report note that a return to surplus before depreciation and amortisation costs is forecast for 2020.
 - It is pleasing that the report makes mention that staff engagement is high. The report notes that “positive sentiment towards executive leadership and change management increased by 31 percent and 18 percent respectively”.
 - Out of the 4,684 students who graduated in 2018, 85 percent entered further study or work. 80 percent of employed graduates are in employment relevant to their areas of study.

Statement of Service Performance

8. Unitec’s Statement of Service Performance (SSP) includes performance indicators relating to their 2018 Investment Plan:
- Progression rates in Student Achievement Component (SAC) Levels 1 to 4 showed an overall decrease in all priority groups. A component of the reduced student levels can be attributed to the strong, broadly-based economic growth throughout New Zealand, and particularly within the Auckland region. International student numbers have also been affected by immigration changes.
 - Conversely, progression has increased in Levels 1 to 3 for Māori and Pasifika learners, although they still remain below target. This is an area for focus and more targeted support in 2019.
 - The overall qualification completion rate (SAC) decreased to 52% in 2018, a 5% decrease from 2017 and well below the expected target of 74%. All target groups experienced a decrease (Māori, Pasifika and Under 25).
 - Course completion rates (SAC) for 2018 were 77%, below the 80–84% target.
 - There was a significant decrease in Youth Guarantee qualification completion rates which fell from 71% in 2017 to 50% in 2018.
9. Unitec’s SSP also includes comments relating to:
- The need to address the decline in performance of all the priority groups and the Student Net Promoter Score was one of the major drivers for developing the Renewal Plan. This resulted in the reorganisation of the Unitec operating structure to better align and support the student journey, with a focus on priority groups.
 - Unitec’s focus on the communities they serve was strengthened as a key part of the Renewal Plan midway through 2018 and this has led to a significant increase in the number and quality of community engagements onsite and offsite.
 - Although there has been a decrease in the total number of students receiving individual career advice and general counselling, in line with the overall decline in EFTS, the number of students using health services and attending career workshops has increased.

Financial Performance

10. Unitec's 2018 financial statements received an unmodified opinion from Audit New Zealand, which states that the financial statements of the Group:

- fairly reflect Unitec Group's financial position as at 31 December 2018; and
- fairly reflect Unitec Group's financial performance and cash flows for the year then ended 2018; and
- the statement of service performance presents fairly the Group's service performance achievements measured against the proposed outcomes described in the investment plan for the year ended 31 December 2018.

11. Summary metrics from the consolidated financial statements are presented in the table below:

Annual Report Consolidated Group Financial Results	2018	2018	2017
\$000	Audited	Budget	Audited
Government Revenue (excluding fees free)	\$49,784	\$58,783	\$55,230
Fees Free Revenue	\$4,500	\$0	\$0
Domestic Student Fees	\$24,830	n/a	\$25,300
International fees	\$30,494	n/a	\$34,992
Total Revenue	\$121,569	\$133,654	\$128,426
Personnel Expenditure	\$93,545	\$99,444	\$99,151
Total Expenditure	\$151,612	\$154,904	\$160,230
Net Surplus/(deficit)	(\$29,059)	(\$18,589)	(\$30,739)
Surplus/(deficit) to revenue (%)	(23.9%)	(14.2%)	(23.9%)
Net Operating Cashflows	(\$19,412)	(\$7,066)	(\$9,294)
Operating Cash flows (%)	85.0%	95.2%	93.6%
Total Assets	\$290,451	\$278,959	\$396,182
Total Equity	\$237,384	\$242,649	\$242,487
Staffing FTE	966	n/a	1,052
Total EFTS to Total Staff FTE ratio	7.8:1	n/a	8.:1
Total EFTS to Teaching Staff FTE ratio (academic & tutorial)	17.6:1	n/a	15.6.0:1

Current issues

12. Current issues and concerns regarding the performance of Unitec are outlined below.

Crown concessionary loan

13. In 2018, Cabinet agreed to provide a \$50 million no-interest concessionary loan to Unitec to support it through its acute, short-term cash flow problems. Unitec drew down \$35 million of this loan in 2018/19 with the final \$15 million due to be drawn down in 2019/20.
14. We are currently in discussion with the Commissioner of Unitec about the need for all of the remaining \$15 million of funding to be drawn down. We are also engaging closely with him and the independent financial advisor on agreeing the repayment conditions for the Crown concessionary loan. The repayment plan is based on Unitec's property strategy, which was finalised in April 2019.

Unitec renewal plan

15. In response to its financial issues and lower enrolments, Unitec implement a renewal plan in 2018 to right-size the institution. The focus was on cost-reduction and restructuring to a sustainable model including significant programme rationalisation. Cost savings of around \$15 million were achieved in 2018 with a further \$15 million budgeted for in 2019.
16. Semester one 2019 EFTS are 5.6% below budget, S 9(2)(ba)(ii) [REDACTED]
17. Throughout the renewal plan, the Commissioner and Unitec leadership team have focussed strongly on making the changes people-led, improving communication with staff, and lifting staff morale. Over the past year, Unitec has regularly measured staff engagement and confidence in the leadership team, and the results have improved significantly.

Unitec External Evaluation Review

18. On 11 April, NZQA published Unitec's External Evaluation and Review (EER) report, which saw Unitec's EER downgraded to a Category 3 - Not Yet Confident in educational performance and Not Yet Confident in capability in self-assessment.
19. The EER report was relatively negative in places, especially with regards to governance, management and compliance accountabilities. It did note that since the Commissioner was appointed and a new executive management team put in place, progress towards achieving educational goals is being made but needs to be further secured and embedded throughout the organisation. Despite the rating, Unitec did well in some areas especially graduate outcomes and employer satisfaction as well as international student support and educational success.

20. S 9(2)(ba)(i) [REDACTED]

21. S 9(2)(ba)(i) [REDACTED]

TEC monitoring arrangements

22. In response to these issues, TEC has increased monitoring and engagement in place, which includes:

- a. Fortnightly engagements with the Commissioner and regular engagement with the independent financial advisor;
- b. Receipt of detailed monthly financial information;
- c. Quarterly reporting as part of the Crown loan agreement; and
- d. Attendance of the Commissioner advisory committee meetings and receipt of all papers.



Gillian Dudgeon

Deputy Chief Executive, Delivery

31 May 2019

Hon Chris Hipkins

Minister of Education

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Mr Murray Strong
Commissioner
Unitec Institute of Technology
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Victoria Street West
AUCKLAND 1142

Dear Mr Strong

Thank you for submitting the Unitec Institute of Technology (Unitec) 2018 annual report. I have now presented this to the House.

I enjoyed reading about Unitec's achievements and success in 2018. In particular, the increase of enrolments in the Unitec Pathways College, where secondary school students enrolled in vocational pathways rose by 49 percent. It is pleasing to see that the dedication of Unitec's staff contributes to the success of 4,684 learners graduating, with 85 percent of those graduates entering further study or work.

I also note that in 2019 Unitec is continuing to implement changes through the Renewal Plan in an effort to address performance challenges and to better support academic delivery and student success.

I acknowledge that 2018 has represented a period of uncertainty for Unitec and the wider ITP sector and I encourage you to continue your positive engagement with the TEC and Ministry of Education going forward.

Finally, I wish to congratulate Unitec on the achievements it has delivered in a number of areas during 2018.

Yours sincerely

Chris Hipkins
Minister of Education

c.c. Merran Davis, Interim Chief Executive