

Aide-Memoire: WAIKATO INSTITUTE OF TECHNOLOGY 2018 Annual Report

To:	Hon Chris Hipkins, Minister of Education
From:	Gillian Dudgeon, Deputy Chief Executive, Delivery
Date:	20 June 2019
Reference:	AM-19-00790

Purpose

1. You have received the Waikato Institute of Technology (Wintec) 2018 annual report for tabling in the House. This paper provides you with an overview Wintec's 2018 performance.
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 likely unreasonably prejudice the commercial position of Wintec.

Background

3. After a period of reasonable surpluses Wintec, in 2018 has moved into a small deficit position just below break-even and not achieved its budget target. End of year debt levels increased by 65 percent to \$30.4 million.
4. Property, plant and equipment and intangible assets have been revalued upwards by \$7.5 million during 2018. This balance sheet movement that management has limited influence over appears as part of comprehensive income. When assessing operational performance this is normally excluded.
5. Internationalisation is one of Wintec's key strategies delivering both onshore and offshore programmes. International EFTS are dominated by China and India markets. Total EFTS has continued to grow over the past four years, although 2018 has seen a slight slowdown. Wintec delivers teaching offshore in places such as China, Saudi Arabia and Thailand.
6. Wintec is operating under an Acting Chief Executive

Chair and Chief Executive update

7. The Chair, Mr Barry Harris, and the Acting Chief Executive, Mr David Christiansen, have focused on 2018 as year full of highlights reflecting a sustained focus on performance and outcomes despite the difficult operating environment they were operating in. Specific areas highlighted include:
 - Student volumes have been maintained and efforts have focussed on improving learner outcomes and ensuring graduates are well-trained.

- Wintec achieving 100.8 percent of their core funding allocation in 2018.
- The work occurring across the organisation to enhance education for students and industry, an example of this being Wintec receiving accreditation for its physiotherapy school.
- The professionalism of staff at all levels of the organisation during somewhat distracting times, and the energy and focus they continue to put into getting the best results for students and stakeholders.

Statement of Service Performance

8. Wintec's Statement of Service Performance (SSP) includes performance indicators relating to their 2018 Investment Plan:
- A total of 4,025 EFTS were delivered for 2018, resulting in the achievement of 100.8 percent of their funding allocation.
 - Successful course completion for Levels 3 and 4 SAC funded students improved in 2018 to 81 percent and 83 percent respectively over the previous years. Information for Levels 1 and 2 were not reported.
 - The 71% student retention is consistent with previous years, albeit slightly below the target set for 2018 (72 percent). Information for Levels 1 and 2 were not reported.
 - The decline in Youth Guarantee (YG) delivery continues, from 174 EFTS in 2016 to 129 EFTS in 2017 and only 49 EFTS delivered in 2018. This reflects a nationwide trend where restrictive entry requirements limits the intake of potential students.
 - The explanation for this decline is that YG provision is mainly at Levels 1 and 2, with only limited provision at Level 3. With many school leavers having already obtained NCEA Level 2, they are ineligible for YG funding. In addition, the introduction of fees-free education at Levels 3 and above, may have further reduced the appeal of YG funding for eligible students.
9. Wintec's SSP highlights the following initiatives implemented to create a supportive environment and achieve improved outcomes for Māori and Pasifika students:
- Te Kete Kōnae (TKK), which utilises best practice to engage with students on their education journey, by providing peer support structures, dedicated learning advisors and acknowledging the physical, spiritual, whanau and social dynamics of students and staff members.
 - Kaiāwhina Network, targeted at providing support and guidance to Māori students to assist them to understand issues that may be affecting their learning and ensure they connect with the most appropriate support at Wintec or within the community.
 - Continuation of Te Ngāwhā Whakatupu, the capability framework launched in 2014 and designed to guide staff to build Māori cultural competency.

Financial Performance

10. Wintec's 2018 financial statements received an unmodified opinion from Audit New Zealand, which states that the financial statements of the Group:
- fairly reflect Wintec Group's financial position as at 31 December 2018; and
 - fairly reflect Wintec 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)	\$45,373	\$46,861	\$46,086
Fees Free Revenue	n/a	n/a	n/a
Domestic Student Fees	\$16,004	n/a	\$17,625
International fees	\$17,472	n/a	\$16,760
Total Revenue	\$108,643	\$113,683	\$105,156
Personnel Expenditure	\$67,142	\$66,168	\$61,257
Total Expenditure	\$109,634	\$111,638	\$102,669
Net Surplus/(Deficit)	(\$991)	\$2,045	\$2,236
Surplus/(deficit) to revenue (%)	(0.9%)	1.8%	2.1%
Net Operating Cash flows	\$3,738	\$12,256	\$7,607
Operating Cash flows (%)	103.6%	112.0%	108.0%
Total Assets	\$216,055	\$212,454	\$196,822
Total Equity	\$150,000	\$147,031	\$144,367
Staffing FTE	776	n/a	763
Total EFTS to Total Staff FTE ratio	8.3:1	n/a	8.5:1
Total EFTS to Teaching Staff FTE ratio (academic & tutorial)	n/a	n/a	n/a

12. In 2018, Wintec achieved a net deficit of \$0.99 million (negative 0.9 percent). This is three percent lower than the 2017 result. Revenue and expenses both increased in 2018, but the change in expenditure was more than twice the change in revenue.
13. Total revenue has increased by \$3.5 million (3.3 percent) mainly due to higher international fees. Total expenditure increased by \$7.0 million (6.8 percent) due to higher personnel costs.
14. Wintec's total assets have increased by \$19.2 million as a result of asset revaluations, intangible assets under development and a slightly higher receivables balance at the end of the year.
15. As at 31 December 2018, Wintec had private sector borrowing of \$30.4 million under a borrowing consent approved by the Secretary for Education.
16. Wintec Group consists of Wintec and its 13 subsidiaries, which are involved in education, research, consultancy, training and business incubator activities. These entities are all incorporated in New Zealand with the exception of Mondragon Wintec SA LLC and Wintec KSA Ltd which are incorporated in Saudi Arabia. These subsidiaries provide education services to Saudi students.

Current issues

17. Current issues and concerns regarding the performance of Wintec are outlined below.

TEC monitoring arrangements

18. Wintec currently operates with a borrowing consent (Consent) issued in 2015, which expires in 2024. **S 9(2)(ba)(i)**

19. Year-end borrowing levels in 2015, 2016, 2017 and 2018 were \$24.8 million, \$18.7 million, \$18.3 million and \$30.4 million respectively. Meanwhile Wintec's capital expenditure has notably decreased from the high levels in 2013 (\$19.8 million) and 2014 (\$21.5 million) to an average of just above \$11 million for the period 2015 to 2018. **S 9(2)(ba)(i)**

20. **S 9(2)(ba)(i)**

21. **S 9(2)(ba)(i)**



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

20 June 2019

Hon Chris Hipkins

Minister of Education

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Mr Barry Harris
Chair
Waikato Institute of Technology
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HAMILTON 3240

Dear Mr Harris

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

It was pleasing to read of Wintec's achievements and successes in 2018, including the steady successful course completion for all SAC funded students, and the consistent student retention rates. Of particular note was the dedicated activities supporting Māori learners which have contributed to increases in Māori student course completion rates; Level 3 and above reporting a five percent increase, and Level 4 and above up four per cent from 2017 actuals.

I was also interested to read of the opening of the new physiotherapy school and the launching of new degrees in Media Arts for careers in the creative industries.

I acknowledge that 2018 has represented a period of uncertainty for the ITP sector especially during the investigation into matters pertaining to the former Chief Executive. I am pleased to see Wintec is now working through the follow-up actions as recommended by the assurance work carried out by Audit New Zealand. I also encourage you to continue your positive engagement with the TEC and Ministry of Education going forward.

Finally, I wish to congratulate Wintec on a productive year and on the achievements delivered in a number of areas.

Yours sincerely

Chris Hipkins
Minister of Education

CC David Christiansen, Acting Chief Executive