

Lincoln University Governance Oversight Group: Report to the Minister from the Chair

To:	Hon Chris Hipkins, Minister for Education
From:	Murray Coppersmith Chair of the Lincoln University Governance Oversight Group
Date:	29 March 2021
Title:	Report to the Minister from the Lincoln University Governance Oversight Group Meeting for March 2021 reporting purposes

Purpose

1. This report updates you on progress of the Lincoln University (Lincoln) *Moving Forward Programme* following the Lincoln Governance Oversight Group (GOG) meeting held on 2 March 2021.

Background

2. The role of the Lincoln GOG is to monitor progress against the Crown Funding Agreement (CFA) signed between the Crown and Lincoln in December 2019 and to ensure the Moving Forward Programme is a success.
3. The key Crown investment outlined in the CFA is an \$80 million contribution toward the rebuild of science facilities at Lincoln's main Te Waihora campus. These construction projects are accompanied by six research and educational initiatives (*the New Ways of Operating or NWOO projects*), which are, collectively, known as the "*Moving Forward Programme*".

Key points

4. Following the March 2021 meeting, the key points are:
 - As indicated in my previous report, at this meeting the GOG considered and endorsed updates to the performance targets in the CFA to reflect changed circumstances arising from the COVID-19 pandemic, as well as to populate performance measures that were not able to be set at the time the CFA was signed.
 - I am satisfied that achievement of the revised targets will ensure that Lincoln maintains a sound financial performance and position and that the objectives of the Moving Forward Programme will be achieved.
 - COVID-19 had a significant, adverse impact on Lincoln's international enrolments and financial indicators for 2020. However, strong domestic enrolments, as well as decisive and early action to reduce costs mean that Lincoln achieved a very satisfactory financial performance for the year.
 - The 2020 surplus before interest income and depreciation was \$11.5m (\$2.7m better than forecast) and the operating surplus before unusual and non-recurring items was \$1.7m (\$1.7m better than the breakeven forecast).

- The 2021 budget assumes a continuation of strong domestic enrolments but low international enrolments in Semester 1 and s9(2)(j) of the 2019 number in Semester 2. Indications are that Semester 1 targets will be exceeded.
- The 2021 budget shows a surplus before interest income and depreciation of s9(2)(j) and an operating deficit before unusual and non-recurring items of s9(2)(j). Lincoln has sufficient financial resilience to absorb this performance. Strong Semester 1 domestic enrolments, as well as higher than expected section sales from Lincoln's property joint venture with Ngai Tahu, provide some upside to the 2021 budget.
- I continue to be satisfied with the planning and actions Lincoln management have underway to mitigate the impacts of COVID-19 on their financial situation under these extraordinary circumstances.
- Preliminary site works have commenced on the Science North project. Good progress is also being made in the value engineering process to ensure the build remains within budget. This will continue as part of the detailed design which is due to be completed by the end of April 2021.
- The Science South project is now well advanced, with occupation scheduled for June 2021. Projected final costs are s9(2)(j) lower than budget.
- Other elements in the Campus Development Programme are on track.

December 2020 quarterly monitoring report – COVID-19 has impacted on international EFTS and financial performance

5. Lincoln's quarterly monitoring report for the period October to December 2020 is attached. It shows 8 of 26 indicators are 'off target' – 5 of the indicators are red and 3 are amber. The adverse indicators are attributable to the impact of COVID-19 on international enrolments and academic research activity. The remainder of the indicators were noted as 'on target'. The adverse indicators are expected as performance is measured against targets set pre-COVID-19.

Update to CFA targets and NWOO project plans to reflect current outlook

6. The GOG considered and endorsed updates to the CFA targets to reflect the impact of the COVID-19 pandemic, as well as to set targets for some performance measures that were not able to be set at the time the CFA was signed. A complete set of targets, including the revised targets is attached.
7. These targets will be reported against in the quarterly monitoring reports starting from the first quarter of 2021.
8. The GOG also endorsed amendments to two of the NWOO project plans to reflect updated timelines. The underlying plans have not been changed.

Draft 2020 financial performance

9. Lincoln reacted early and decisively in 2020 to the impact of the COVID-19 pandemic on performance. As a result, and despite full-fee international income falling by 17%, a very satisfactory performance was achieved for the year:
 - The surplus before interest income and depreciation was \$11.5m (\$2.7m better than forecast); and
 - The operating surplus before unusual and non-recurring items was \$1.7m (\$1.7m better than the breakeven forecast).
10. Lincoln incurred one-time change costs of \$3.3m from implementation of the cost reduction programme, as well as \$0.7m of demolition costs. As a result, the university recorded an overall net deficit before asset revaluations of \$2.0m. The changes to the cost base made in 2020 position Lincoln well moving into what will be a challenging 2021.

2021 Budget

11. The 2021 Budget assumes s9(2)(j) domestic EFTS (s9(2)(j) higher than 2019) and s9(2)(j) international EFTS (s9(2)(j) lower than 2019). Comparison is made to 2019, being the last pre-COVID year.
12. The international EFTS budget assumes low new to Lincoln enrolments for Semester 1 and that new to Lincoln enrolments for Semester 2 are at s9(2)(j) of 2019 levels.
13. These assumptions result in a 2021 Budget revenue of s9(2)(j) lower than 2019), but lower costs mean that:
 - The budget surplus before interest income and depreciation is s9(2)(j); and
 - The operating deficit before unusual and non-recurring items is s9(2)(j).
14. Lincoln has sufficient financial resilience to absorb this performance.

2021 Semester 1 enrolments

15. Lincoln has reported significant growth in new domestic EFTS in 2021, with total domestic EFTS up by 35% compared to a year ago. Although international EFTS are down by 45%, the strong growth in domestic students has resulted in overall EFTS being up 7% compared to a year ago. This growth is well above budgeted levels and suggests there may be some upside to the 2021 budgeted deficit.

Campus Development Programme

The campus redevelopment programme is on track

16. Preliminary site works have commenced on the Science North facility. Work is progressing well on the value engineering work to align overall project cost with budget, while maintaining a healthy project contingency. Detailed design is scheduled for completion in April with Lincoln approval of the design in May.
17. The remainder of the campus redevelopment plan is on track. The Sports and Recreation centre redevelopment is complete and the Science South facility, which will contain modern teaching and research spaces, is expected to be completed by June

2021. Science South project costs are now expected to be s9(2)(j) lower than budget.

Next meeting

18. The next GOG meeting will be held in April 2021. I will provide an update to you on the outcomes of our discussions following that meeting.



Murray Coppersmith

Chair, Lincoln University Governance Oversight Group

29 March 2021