

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

To:	Hon Jan Tinetti, Minister of Education
From:	Murray Coppersmith Chair of the Lincoln University Governance Oversight Group
Date:	19 July 2023
Title:	Report to the Minister from the Lincoln University Governance Oversight Group Meeting for March 2023 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 28 June 2023. This meeting was held via video link.

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 June 2023 meeting, the key points are:
 - All but eight of indicators in the Quarterly Monitoring Report to March 2023 are shown as green. Eight indicators are amber.
 - Four of the amber indicators relate to the volume and mix of certain categories of domestic and international EFTS for 2023.
 - Overall, domestic EFTS are expected to be well above the Moving Forward target for 2023. However, within the overall total, undergraduate domestic EFTS are expected to be slightly below target, while postgraduate domestic EFTS are expected to be well above target.
 - International EFTS at both undergraduate and postgraduate level are expected to be below the Moving Forward target for 2023. This reflects the ongoing impact of border restrictions being more severe than was expected when the targets were set in early 2021. While below the Moving Forward target for 2023, full year international EFTS are expected to be well ahead of budget.
 - Two of the financial indicators, the Operating Surplus Margin and the Net Cash Flow from Operations Margin, are also reported as amber. These were green in the previous scorecard. However, the actual metrics for these indicators are only just below the CFA targets. The amber status is not of immediate concern.

- Two of other the NWOO Projects, Blended and Online Delivery and the Children's University, were previously rated amber. These are now rated green, as are all of the other NWOO projects.
 - The Project Progress indicator relating to campus infrastructure upgrades (heating and decarbonisation) is amber. The amber status reflects a delay in commencing some of these projects following unsuccessful initial procurement activity due to limited engagement by potential contractors. This situation has been remedied but will put commencement and completion of some projects back a few months. There are also some additional costs, but most of these can be met from savings elsewhere. This has no adverse impact on the wider campus development programme.
 - Overall, I am satisfied that the Moving Forward Programme is tracking to plan.
 - There were strong semester 1 enrolments for 2023, with positive variances for both domestic and international ETS. In aggregate, semester 1 EFTS are 137 (12%) above budget. This is a very good performance in the context of the challenges faced by the wider university sector where overall domestic EFTS are down sharply.
 - Financial performance over the first four months of the year is ahead of budget.
 - A full year reforecast shows financial performance slightly below budget, with an expected breakeven result at the level of surplus after depreciation and interest. Year-end cash balances are expected to be 9(2)(b)(ii), which is 9(2)(b)(ii) higher than budget.
 - This is a good result given the performance of the wider university sector.
 - The Campus Development Programme is running on time and within budget.
 - Six projects, with an aggregate cost of \$24.5m are complete. These were on time and at a total cost lower than budget.
 - The largest of the campus development projects, the Waimarie facility (previously referred to as Science North), is nearly complete. Some parts of the facility will be available for use in semester 2 and the official opening is scheduled for 27 September 2023. The aggregate cost will be within the budget of 9(2)(b)(ii). This result is a very significant achievement given that planning and construction was over the period of the pandemic, as well as a period adversely impacted by disrupted supply chains and cost escalation.
 - There are some cost pressures within the decarbonisation sub-programme (aggregate forecast cost of 9(2)(b)(ii)), but these can be offset by other savings, including an expected saving of 9(2)(b)(ii) on the demolition of the Burns building.
5. Overall, I am of the view that Lincoln is trading well and taking the necessary steps to ensure that the Moving Forward Programme can be implemented successfully.

March 2023 quarterly monitoring report – some indicators continue to be amber but, overall, the Moving Forward Programme is tracking to plan

6. Lincoln's quarterly monitoring report for the period ended 31 March 2023 is attached. The report shows 16 of 24 indicators are 'on target'. Eight indicators are amber, of which four relate to EFTS volumes.
7. Overall, 2023 domestic EFTS are budgeted to be above the CFA target (budget of 2,060 v CFA target of 1,992). However, within the overall total, undergraduate domestic EFTS are budgeted to be 63 EFTS (4.0%) below target and postgraduate domestic are budgeted to be 131 EFTS (32%) above target.
8. International EFTS at both undergraduate and postgraduate levels are expected to be below the CFA target for 2023. This reflects the ongoing impact of border restrictions being more severe than was expected when the CFA targets were revised in early 2021 – disruption at that time impacts on the pipeline of EFTS for multi-year programmes in subsequent periods. While below the CFA target for 2023, full year international EFTS are expected to be ahead of the 2023 budget.
9. Two of the financial indicators, the Operating Surplus Margin and the Net Cash Flow from Operations Margin, are also reported as amber. These were green in the previous scorecard. However, the actual metrics for these indicators are only just below the CFA targets. The amber status is not of immediate concern, particularly in view of the challenges the university sector is facing, and that Lincoln is managing these well.
10. The indicator for research revenue which was previously amber is now green based on expected research revenue for 2023.
11. The CFA includes a target for the University's Employer Ranking published annually as a component of the annual QS World University Rankings. This is based on an employer survey undertaken annually by QS. The latest results of this ranking were published in late 2022, using data from 2021. The CFA target for Employer Ranking for 2022 was 8.5, which was the score achieved in the results published in 2021. In the latest ranking Lincoln's Employer Ranking score has fallen to 5.9, meaning that the indicator is reported as amber. This is a strongly lagged indicator and the University is working through the reasons for the lower score. By way of contrast, Lincoln ranked in the top 50 of all universities for the Employment Outcomes metric also published in the QS World University Rankings.
12. The Project Progress indicator relating to campus infrastructure upgrades (heating and decarbonisation) is amber. The amber status reflects a delay in commencing some of these projects following unsuccessful initial procurement activity due to limited engagement by potential contractors. This situation has been remedied but will put commencement and completion of some projects back a few months. This has no adverse impact on the wider campus development programme. There are likely to be higher costs for some of the elements of this programme, but Lincoln has other areas of cost saving which will substantially offset the higher costs. The net variation is not material.
13. Two of the NWOO Projects, Blended and Online Delivery and the Children's University, were previously rated amber. All NWOO Projects are now rated as green.
14. Overall, I am satisfied that the Monitoring Report indicators shown as amber do not reflect a material risk to the Moving Forward Programme which, on the whole, continues to track to plan.

Semester 1 EFTS are well up on both last year and budget

15. Semester 1 EFTS are well ahead of last year and budget for both domestic and international EFTS:

		Semester 1 EFTS				
		2022 Actual	2023 Actual	2023 Budget	Variance v Budget EFTS %	
International						
	New	45.6	118.8	107.9	10.9	10%
	Returning	84.0	103.7	77.0	26.7	35%
		129.6	222.5	184.9	37.6	20%
Domestic						
	New	434.5	476.3	454.9	21.4	5%
	Returning	502.9	564.4	486.4	78.0	16%
		937.4	1,040.7	941.3	99.4	11%
Total		1,067.0	1,263.2	1,126.2	137.0	12%

16. Overall, Semester 1 international EFTS are 38 (20%) ahead of budget and 93 (72%) ahead of last year. There are positive variances across both new and returning EFTS.
17. Semester 1 domestic EFTS are 99 (11%) ahead of budget and 103 (11%) ahead of last year. There are positive variances across both new and returning EFTS.
18. This is an extremely good result, especially in view of trends in the wider university sector.

April 2023 YTD Actual Results – although early in the year, actual results for the first four months are ahead of budget

19. Strong semester 1 enrolments, as well as lower than budgeted operating expenditure, have resulted in favourable financial performance for the first four months of 2023. The favourable variances are partly offset by lower research revenue and lower net revenue from the property Joint Venture, reflecting a slowing of the property market.

\$'000	Year to Date April 2023		
	Actual	Budget	Variance
Surplus before Depn & Interest	9(2)(b)(ii)		
Surplus after Depn & Interest	9(2)(b)(ii)		

Results exclude one-off items such as demolition costs, impairment and revaluations

20. The impact of the year-to-date actual performance on the likely full year result is reflected in the 2023 reforecast (see next section of my report).

2023 3+9 Reforecast – the full year reforecast, which incorporates actual results for the first quarter, shows a result slightly lower than budget

21. The 3+9 reforecast assumes a continuation of the positive variance on student enrolments seen in semester 1.

Full Year EFTS	2023			2022	
	3+9 F'Cast	Budget	Variance	Actual	Variance
Domestic	2,257	2,058	199	2,048	209
International	631	576	55	468	163
Total	2,888	2,634	254	2,516	372

22. Domestic EFTS are expected to be 199 (9.7%) ahead of budget for the full 2023 year and 209 (10.2%) ahead of last year. A contributor to this result is the continuation of fee waivers for taught post-graduate programmes.
23. International EFTS are expected to be 55 (9.5%) ahead of budget for the full 2023 year and 163 (35%) ahead of last year. This growth represents further steps in the recovery from the pandemic.
24. Current trends in semester 2 enrolments indicate that the 3+9 reforecast volumes remain a reasonable estimate of the full-year out-turn. This would be a very good result, given trends in the wider university sector.
25. The 3+9 reforecast financial performance incorporates a number of positive and negative variance relative to budget, but the overall result shows a slightly lower operating performance.

\$'000	3+9 F'Cast	Budget	Variance
Surplus before Depn & Interest	9(2)(b)(ii)		
Surplus after Depn & Interest			

Results exclude one-off items such as demolition costs, impairment and revaluations

26. Key features of the reforecast relative to budget are:
- The positive impact of higher EFTS volume is partly offset by higher fee waivers (for domestic EFTS) and a change in international EFTS mix towards lower fee programmes
 - SAC revenue is expected to be 9(2)(b)(ii) higher than budget – Lincoln has received confirmation of this additional funding from the TEC
 - Net revenue from the Property Joint Venture is expected to be 9(2)(b)(ii) lower than budget (this net revenue is deferred into subsequent years, rather than a permanent reduction)
 - The underspend in operating costs over the first part of the year is assumed to fully reverse over the remainder of the year
 - Depreciation will be higher than budget due to higher property values arising from the asset revaluation at the end of 2022
 - Interest income will be higher due to higher interest rates and higher cash balances.

27. Year end cash is expected to be ^{9(2)(b)(ii)}, which is ^{9(2)(b)(ii)} higher than budget.
28. The overall result expected for the year is sound, especially in the context of wider sector pressures.

Campus Development Programme – the Waimarie project will be completed on time and within budget, but cost pressure are building on some projects

29. Overall, the campus development programme is running to schedule and close to budget. This is an extremely good outcome in the current environment given high inflation and that the sector is experience supply chain issues.
30. Two substantial projects, Science South and Sport & Recreation are complete (aggregate cost of ^{9(2)(b)(ii)}) and have been closed out, as have four smaller projects (aggregate cost of ^{9(2)(b)(ii)}). The total cost of all of these projects is less than budget.
31. The largest of the campus development projects, the Waimarie facility (previously referred to as Science North), is nearly complete. Some parts of the facility will be available for use in semester 2 and the official opening is scheduled for 27 September 2023. The aggregate cost will be within the budget of ^{9(2)(b)(ii)}. This result is a very significant achievement given that planning and construction was over the period of the pandemic, as well as a period adversely impacted by disrupted supply chains and cost escalation.
32. Work is also progressing on other demolition or refurbishment projects, the electrical and heating system upgrades, improved carparking and premises for Lincoln Agritech.
33. The estimated cost of the bundle of infrastructure projects has increased by ^{9(2)(b)(ii)} (^{9(2)(b)(ii)}) from the original budget of ^{9(2)(b)(ii)}. The cost increase arises from a combination of general inflationary pressure, more detailed project scoping and changes to regulatory requirements. The increased cost can be absorbed by favourable cost variances on other projects and a likely saving of ^{9(2)(b)(ii)} in the cost of the Burns building demolition.
34. Lincoln is monitoring the impact of inflation on cost inputs on a project-by-project basis.
35. Lincoln's Property Director and Programme Control Group are monitoring the risks across the campus development programme actively.
36. GOG will receive a further update on this at its next meeting in September 2023.

Next meeting

37. The next GOG meeting will be held in September 2023, around the time of the official opening of the Waimarie facility. I will provide an update to you on the outcomes of our discussions following that meeting.



Murray Coppersmith

Chair, Lincoln University Governance Oversight Group

19 July 2023