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### Tertiary Education Report: Decision on University of Auckland's request to retain 100 percent of the net sale proceeds on disposal of Epsom Campus

Date:	8 January 2020	TEC priority:	Medium
Security level:	In Confidence	Report no:	B-19-01466
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	<p><b>agree</b> that University of Auckland (Auckland University) retains 100 percent of the net proceeds of sale of specified assets transferred to it in 2015 and 2018 at its Epsom Campus.</p> <p><b>forward</b> this submission to the Minister of Finance for his consideration.</p>	At your earliest convenience
Hon Grant Robertson Minister of Finance	<p><b>agree</b> that University of Auckland (Auckland University) retains 100 percent of the net proceeds of sale of specified assets transferred to it in 2015 and 2018 at its Epsom Campus.</p>	At your earliest convenience
Enclosure: No	Round Robin: No	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
Gillian Dudgeon	Deputy Chief Executive, Delivery	s 9(2)(a)	s 9(2)(a)	✓
s 9(2)(a)	Senior Advisor, Monitoring and Crown Ownership	s 9(2)(a)		

- THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT
- DPMC     MPI     ENZ     ERO     MBIE     MoE     MFAT
  - MPP     MSD     NZQA     NZTE     TEC     TPK     Treasury

10 FEB 2020

- Minister's Office to Complete:**
- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

**Comments:**

## Executive Summary

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1. Auckland University has requested the retention of 100 percent of the proceeds from any sale of its Epsom campus (Epsom) prior to July 2023 (letter dated 11 September 2019 to Ministers refers). Epsom assets were transferred from the Crown into Auckland University's legal ownership in two tranches completed in May 2015 and July 2018 respectively. The land in question is now surplus to Auckland University's future needs. This is the third such request made by a TEI<sup>1</sup>. A further request of this nature has also been received from the Manukau Institute of Technology.
2. In establishing the tertiary education institution (TEI) Crown asset transfer and disposal policy, Cabinet agreed that, if a TEI sells a transferred asset within five years of its transfer,
  - 80 percent of the net proceeds being available to the TEI for capital projects to support its educational activities; and
  - the remaining 20 percent being available to the TEI if the Crown agrees the TEI is not overcapitalised and has demonstrated the additional funding will be used in capital projects that are of adequate value to the educational activities of the institution.
3. In 2017 a request was received from Victoria University to retain 100 percent of the net sale proceeds of its Karori campus within five years of ownership transfer. As a result of this, Joint Ministers agreed on a framework they determined was consistent with the principles underpinning the policy, to consider this and future requests from TEIs to retain more than 80 percent of the net proceeds of sale of assets transferred within the previous five years. As a result of a decision by Ministers in June 2018 this framework was further strengthened with additional criteria. The current framework is set out in Appendix A. Officials have assessed University of Auckland's (Auckland University) request against this revised framework.
4. The Tertiary Education Commission (TEC) notes that there are valid reasons for agreeing to Auckland University's request to retain 100 percent of the net sale proceeds. These include the time taken to complete the transfer process, the investment Auckland University has made in Epsom, the fact that the sale proceeds will be invested in activities and resources supporting education, and that Auckland University had stated its intention to vacate Epsom in the long term at the outset of the transfer process in 2012.
5. The TEC considers there to be strong rationale for Auckland University to retain 100 percent of the net sale proceeds from the transferred Epsom properties.
6. The TEC has consulted with the Ministry of Education (MoE) and the Treasury in preparing this briefing.

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<sup>1</sup> The previous requests were by Victoria University of Wellington and Unitec Institute of Technology.

## Recommendations

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**Hon Chris Hipkins**, Minister of Education

*We recommend that the Minister of Education:*

1. **forward** this submission to the Minister of Finance for his consideration.

*We recommend that the Minister of Education and the Minister of Finance jointly:*

2. **note** that the tertiary education institution (TEI) Crown asset transfer and disposal policy (the policy) established by Cabinet in 2009/2010 provides for:
  - a. the legal ownership of Crown assets managed by a TEI to be transferred to that TEI; and
  - b. Crown assets no longer needed by a TEI (at the time of application), to be disposed of, with up to 100 percent of the net proceeds of disposal being available to the TEI for investment in capital projects that support educational activities;
3. **note** that the policy also provides that where a TEI manages an asset, but no longer requires it, and disposes of that asset within five years of transfer, the TEI will be required to pay up to 20 percent of the net proceeds of sale to the Crown;
4. **note** that in 2017, Joint Ministers agreed on a framework against which to assess requests from TEIs to retain more than 80 percent of the net proceeds of sale from assets transferred from the Crown within the previous five years and in 2018 agreed additions to that framework as set out in Appendix A;
5. **note** that Auckland University has requested to retain 100 percent of the net proceeds of the proposed sale of Epsom campus transferred to it from the Crown in 2015 and 2018;
6. **note** that Auckland University has not yet applied for the Secretary for Education's consent to dispose of Epsom campus;
7. **note** that Auckland University is aware that it is required to consult with the Crown prior to a decision being made to dispose of the Epsom Campus, on whether the Crown wishes to acquire Epsom Campus for other education purposes, and agrees to keep an open dialogue while it develops its disposal strategy;
8. **note** that the Tertiary Education Commission (TEC), has assessed Auckland University's request against the framework in Appendix A;
9. **note** that in relation to the framework agreed by Joint Ministers officials consider the reasons to support Auckland University's request include:
  - at the time of its transfer application in 2012, Auckland University clearly stated its intention to relocate all, or part of, its Education faculty from Epsom to its City campus - by realising a fair value for Epsom to fund the transfer to the City campus;
  - more than seven years have elapsed since Auckland University applied for the transfer of the Crown-owned assets that it had managed since 1990 and more than six years have elapsed since Auckland University signed the Memorandum of Understanding (MoU) for the process to transfer the assets;
  - Auckland University is not overcapitalised;
  - the retained proceeds will be used to invest in capital projects that provide value to the educational activities of the University;

- Auckland University continues to comfortably exceed the minimum Capital Asset Management (CAM) expectations;
- Auckland University remains viable in terms of its educational and financial performance;
- Auckland University has invested substantially in maintaining the value of its Epsom campus and continues to do so; and
- Auckland University has confirmed that Business Cases based on Treasury's Better Business Case framework have been prepared, or are being prepared, for projects where the majority of net sale proceeds (91%) are proposed to be invested. The balance is to be invested in minor capital projects supporting educational activities.

10. **note** that the TEC considers there is a compelling case for Auckland University to retain 100 percent of the net proceeds from the sale of these assets, specifically to:

- i. fund the relocation of the Faculty of Education & Social Work (FESW) to the City campus and create new facilities to accommodate it;
- ii. fund FESW's share of the costs of construction of a new Recreation and Wellness Centre at its City campus, which will also be used by FESW; and
- iii. fund a number of other educational initiatives such as:
  - a. the fit out of its relocated Manukau Hub that currently provides teacher education programmes in South Auckland, largely benefiting Maori and Pasifika students;
  - b. investing in a new modern, purpose-built teaching and research campus in Whangarei, Northland (the Tai Tokerau Hub); and
  - c. investing in providing online taught postgraduate programmes in teacher education and social work.

11. **note** that on the basis of information made available to officials, Auckland University satisfies all criteria set out in Appendix A to retain 100 percent of net proceeds of sale from the disposal of the Epsom campus for investing in capital projects that benefit educational outcomes;

12. **agree** that should Auckland University dispose of any of its Epsom campus within five years of its transfer from the Crown, that it retains 100 percent of net sale proceeds for reinvestment in capital assets it has identified that benefit educational outcomes;

**AGREE / DISAGREE**

**Minister of Education**

**AGREE / DISAGREE**

**Minister of Finance**

13. **note** that the Ministry of Education and the Treasury have been consulted in the preparation of this briefing;

14. **note** that, once notified of your above decision and that of the Minister of Finance, we will provide your office with a letter to communicate your joint decision to Auckland University's Vice Chancellor; and

15. **agree** that the TEC releases this report once it has been considered by you, with information on any land values, Auckland University's future financial plans and Auckland University's financial viability information withheld.

**AGREE** / DISAGREE

**Minister of Education**



**Gillian Dudgeon**

Deputy Chief Executive, Delivery  
Tertiary Education Commission

10 January 2020



**Hon Chris Hipkins**

Minister of Education

22 / 1 / 20



**Hon Grant Robertson**

Minister of Finance

9 / 2 / 20

## Purpose

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1. The purpose of this report is to:
  - to provide you with an assessment of Auckland University's request to retain 100 percent of the net proceeds of sale from the disposal of specified assets transferred to it in 2015 and 2018 at its Epsom campus, i.e. within the last five years; and
  - seek your agreement to Auckland University retaining 100 percent of the net proceeds of sale of its Epsom campus.

## The Crown Asset transfer policy incentives institutions to manage their assets effectively and efficiently

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2. In October 2009, Cabinet agreed to establish a policy that would allow tertiary education institutions (TEIs) to obtain the legal title to Crown-owned assets under their management [CAB Min (09) 38/12 refers]. The policy, known as the TEI Crown asset transfer and disposal policy was confirmed by Cabinet in 2010, following refinement of the initial proposals [SOC Min (10) 5/6].
3. The intent of the policy is to, over time, transfer Crown-owned assets managed, used and needed by TEIs into TEI ownership (provided there are no over-riding reasons to retain the assets in Crown title). It also aims to provide incentives for TEIs to identify Crown-owned assets that are no longer needed and reinvest the proceeds from their disposal into capital projects that reflect the TEIs' current and emerging needs.
4. The following principles underpin the policy. Transfers or disposals of Crown-owned assets used by TEIs should:
  - support the Government's goals, as stated in the Tertiary Education Strategy;
  - support TEIs to improve their capital asset management (CAM) and deliver on their investment plans;
  - be fair and transparent;
  - provide incentives for TEIs to make decisions that ensure value for money through effective and efficient management of their assets; and
  - be consistent with TEIs being autonomous and accountable institutions.
5. Where a Crown-owned asset is no longer fit for purpose, or is surplus to a TEI's requirements, the policy provides for its disposal (instead of being transferred). In these circumstances, the policy provides for:
  - 80 percent of the net proceeds being available to the TEI for capital projects to support its educational activities; and
  - the remaining 20 percent being available to the TEI if the Crown agrees the TEI is not overcapitalised and has demonstrated the additional funding will be used in capital projects that are of adequate value to the educational activities of the institution.
6. In finalising the policy in 2010, Cabinet agreed that a "condition on sale" would be attached to all transfers, stating that if a property is transferred to a TEI and the TEI sells that property within five years of the date of transfer, then the TEI must pay up to 20 percent of the net proceeds of the sale to the Crown [SOC Min (10) 5/6 refers].



7. The length of time (five years from the date of transfer) is long enough to prevent gaming and short enough to accommodate genuine changes in the capital needs of institutions. TEIs are able to retain 100 percent of the proceeds where sale of a transferred asset occurs more than five years after its transfer from the Crown.
8. The policy recognises that an asset may become surplus sooner than was expected or as a result of an unforeseen change in a TEI's operating environment. As a result of a request from Victoria University in 2017 to retain 100 percent of the net proceeds of sale of properties transferred from the Crown within the previous five years, Joint Ministers agreed in August 2017 on a framework of criteria to be applied in such cases. This framework was augmented in June 2018 following the consideration of an application by Unitec to retain 100 percent of the net proceeds of the sale of property at its Mt Albert campus. The current framework now reflects the length of the transfer process, the TEI's financial viability and asset management performance, investments in the transferred asset and the need for a business case(s) to demonstrate the value of capital projects the net proceeds would be invested in.
9. The framework is intended to be consistent with the principles underpinning the policy and to ensure that all TEIs are seen to be treated in the same manner if, and when, they make requests to Joint Ministers to retain more than 80 percent of the net proceeds of sale of an asset transferred within the previous five years.
10. It is also intended to encourage TEIs that are continuing to use functional but now sub-optimal or underutilised assets to consider their future at the most opportune time for the institution rather than delaying those decisions until five years had passed. The criteria Joint Ministers agreed for assessing such requests are set out in Appendix A.
11. The disposal Memorandum of Understanding (MoU) agreed between Auckland University and the Ministry of Education (MoE) requires Auckland University to consult with the Crown (MoE), prior to a decision being made to dispose of the Epsom Campus, on whether the Crown wishes to retain the Epsom Campus for other educational purposes. Auckland University is yet to formally begin consultation with the MoE on this, but has acknowledged it is aware of its obligations pursuant to the MoU and of its statutory obligations with respect to the divestment process.

## **Auckland University's request to retain 100 percent of net sale proceeds**

12. On 10 September 2019, Auckland University's Vice Chancellor met with you (Minister of Education) to discuss the retention of proceeds from the sale of the University's Epsom campus. He subsequently wrote to you on 11 September 2019, seeking your agreement to retain 100 percent of the sale proceeds if the sale should occur before May 2020 in regard to the first tranche of title transfers from the Crown in May 2015, or July 2023 in regard to the second tranche of transfers in July 2018. His letter also set out Auckland University's rationale for the proposed divestment of property and the justification for the retention of 100 percent of the net proceeds of sale.
13. The request is in anticipation of Auckland University preparing to dispose of Epsom in the near future. Epsom is currently occupied by the Faculty of Education and Social Work (FESW) and Auckland University has plans to relocate the faculty to its City campus. The land at Epsom will become surplus to its educational requirements once the relocation is completed.
14. Subject to Auckland University Council approval (expected in early 2020) of the funding for FESW's move to City campus, the faculty will move to the City campus in 2023. Design of the works to be undertaken on the various buildings required to accommodate the faculty is well underway with construction expected to commence in 2021 and be substantially completed for the start of the 2023 academic year.



15. The Epsom land covers an area of about 9.7 hectares, which was previously in Crown title and transferred to Auckland University ownership in two tranches in May 2015 (approximately 1.9 hectares) and July 2018 (approximately 7.8 hectares). The split of the Epsom titles into two tranches was mainly dictated by the need to address historic site complications<sup>2</sup>. Had Auckland University not inherited these complications, it is likely the entire campus would have been transferred in 2015.
16. The land transferred from Crown title comprises the core campus at the northern and eastern end of the site and playing fields on the southern end. Appendix B includes a map of the Epsom site showing the Auckland University land to be sold.
17. Auckland University has indicated in its application that it is acutely aware of its obligations to consult with the Crown pursuant to the MoU and land encumbrance, and also of its statutory obligations with respect to any divestment process. Auckland University is also aware of MoE's interest in land at Epsom for schools' purposes. The MoE is currently in the process of finalising its land requirement investigations and will work with Auckland University on any future sale process. These discussions will not influence Auckland University's application to retain 100 percent of net sale proceeds or any application for consent to dispose of Epsom<sup>3</sup>.
18. Auckland University expects strong interest in the property and has been approached by a number of parties already. However a potential buyer has not yet been identified. The Vice-Chancellor's letter of 11 September 2019 to Minister of Education mentioned a potential sale value of 9(2)(j) [REDACTED]. At the last revaluation done in 2016, Epsom land, buildings and plant was valued at 9(2)(j) [REDACTED]. Given the trend of property values in Auckland, we expect the sale price to be at a premium to this now. The University has assured TEC it has undertaken a significant amount of analysis and investigation to understand the value of the campus and has evidence-based valuation advice. According to Auckland University the value of the land and buildings in 2004 was 9(2)(j) [REDACTED].
19. The intent to dispose of this land was clearly signalled in Auckland University's Crown Asset Transfer application, which was lodged in June 2012. The application confirmed that the University's Council had approved a range of specific intentions in relation to the concentration of activities on the City and Grafton campuses. These included the intention to relocate all, or part, of the Education Faculty from Epsom to the City campus subject to realising fair value for Epsom to fund the transfer. Auckland University's plans to now dispose of the land is not unexpected and is in line with original intentions. Other consolidation decisions made were the purchase of the Newmarket site and the exit from the Tamaki campus.
20. Auckland University also signalled its commitment to invest in the City and Grafton campuses as they were set to remain the core focus of teaching and research for the future. Hence the decision to vacate Epsom.

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<sup>2</sup> Heritage requirements for protection of an underground bunker on the property, sharing of playing fields with Auckland Normal Intermediate School, revocation of reserve land status etc.

<sup>3</sup> Auckland University is required to apply to the Secretary for consent to dispose of Epsom under s192(4) of the education Act 1989, prior to disposal.

## **Assessing Auckland University's request against the policy framework**

21. In requesting the retention of 100 percent of the proceeds of the sale of its Epsom campus Auckland University stated that the sale proceeds would be significant (potentially in the order of 9(2)(j) ) and would be used to fund the relocation of the FESW to new and refurbished facilities at the City campus 9(2)(j) , the development of the Manukau Hub 9(2)(j) and creation of a modern purpose-built campus for its Tai Tokerau hub<sup>4</sup> 9(2)(j) . These initiatives are expected to have significant benefits for teacher education, the training of social workers and research in both disciplines. They would also support students from Māori and Pasifika communities who are key education target groups for both the University and the Government.
22. Other initiatives targeted for spending from the sale proceeds of Epsom are the construction of the new Recreation and Wellness Centre at City campus 9(2)(j) that the FESW will share, and the development of taught online postgraduate programmes for education and social work (estimated at \$6 million). The relocation timing is not dependent on the completion of the Recreation and Wellness Centre although it is anticipated that the timing of both will be close. Interim arrangements for access to sport and recreation facilities for FESW will be made if required.
23. The proceeds from the sale of Epsom together with internal cash flows and borrowings will be used to fund Auckland University's capital investment programme over the next 10 to 12 years. The total value of this programme is around 9(2)(j) .
24. If Epsom is not sold until 2023 or later, the University may not be able to fund its full schedule of proposed capital projects in the interim. This may require its Council to prioritise a full or partial relocation of the FESW ahead of other investment proposals. Auckland University also has the option of delaying the sale till after July 2023 if approval for retention of 100% of sale proceeds is not given by the Joint Ministers. A sale after July 2023 allows Auckland University to retain 100 percent of the sale proceeds. A delayed sale will also require re-prioritisation and/or postponement of certain projects in its Long-term Academic and Capital Plan (LTACP).
25. Auckland University's commercial debt was \$52 million as at 31 December 2018 against an existing borrowing consent for \$300 million. This consent expires in 2022. The University is currently in the process of submitting a new borrowing application seeking a new borrowing consent with a maximum limit of 9(2)(j) . The application assumes retention of 100 percent of the net sale proceeds of Epsom.
26. The next section applies the framework as set out in Appendix A to Auckland University's request. The criteria numbering in Appendix 1 are referenced in the following headers.

### **Criteria i and ii: The time taken to transfer the assets Auckland University is disposing of**

27. Auckland University met with the TEC in late 2011 to discuss the process for the transfer and disposal of Crown titled assets and made its formal application for the transfer of Crown-owned land and buildings to Auckland University title in June 2012. Auckland University had managed these assets since 1990.

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<sup>4</sup> For further details see the document "A New Model for Higher Education Collaboration in Northland" enclosed with Vice-Chancellor Auckland University's letter of 12 September 2019 to Minister of Education.

<sup>5</sup> The existing facility is 40 years old and inadequate to cater for the increase in student numbers including those from the Epsom campus. The total cost of the new facility is estimated at 9(2)(j) and the sale of Epsom will provide a contribution of 9(2)(j) .

28. One of the principles of Auckland University's Campus Master Plan at that time was that "as far as possible, teaching and research activities should be concentrated on the City/Grafton campus". The Council also stated the intention to "relocate all, or part, of Education from Epsom to the City campus subject to further work and consultation and to realising fair value from Epsom to fund the transfer to the City campus". Auckland University's Campus Master Plan and Long Term Capital Plan also envisaged the Education College located in Epsom at that time being relocated to the City campus between 2017 and 2021.
29. The University considered that educational performance and outcomes will be enhanced by co-locating the Education College with related faculties. The TEC agreed this was an appropriate objective. TEC also advised Auckland University at the time of its application in 2012 that, should the property be identified for disposal, the University could declare it surplus and seek to retain 100 percent of the net proceeds, subject to an agreed business case. Auckland University decided it would not declare it surplus at the time, as the campus was still in heavy use and it was only in the early stages of developing its property development strategy and was unsure how long it would require the land it was seeking for transfer. The University was also unsure how long the transfer process would take.
30. A MoU was entered into between Auckland University and the Crown setting out the terms of the transfer in July 2013. The transfer of title at Epsom was completed in two tranches in May 2015 and July 2018 respectively. The first tranche included about 20 percent of Epsom and the second tranche the balance. The whole transfer process relating to Epsom has taken over seven years to complete.

### **Criteria iii: Whether Auckland University is overcapitalised**

31. The TEC has applied the tests for overcapitalisation (covering working capital and asset turnover ratios) to historical financial information and future forecasts, which Auckland University has provided. These are the same tests used by TEC in assessing previous applications by TEIs that have sought to retain 100% of the net proceeds of sale of a Crown-owned asset. The results indicate Auckland University would not be considered to be overcapitalised.

### **Criteria iv and viii: Whether the retained funds will be used in capital projects that are of value to the educational activities of Auckland University; and evidence of supporting Business Cases**

32. Auckland University will apply all proceeds from the sale of its Epsom campus towards campus developments in Auckland (City campus and Manukau), Northland and course development. None of the funds will be used to fund ongoing operations. Once Epsom is disposed of, Auckland University will have consolidated into a footprint covering the City campus (the largest) and two smaller campuses at Grafton and Newmarket.
33. The City campus houses most of the University's academic faculties, central service units and central administration offices. Auckland University has planned capital expenditure to the value of close to 9(2)(j) for this campus over the next 10 years.
34. The Grafton campus is the principal location for the Faculty of Medical and Health Sciences and the Liggins Institute. Auckland University has planned capital expenditure to the value of 9(2)(j) for this campus.
35. The Newmarket campus acquired in 2013 houses the Faculty of Engineering in buildings, which have been extensively altered for use as research labs and a large-scale structure testing lab. No further major development projects are planned at Newmarket.



36. Auckland University is also in the process of exiting its Tamaki campus with total withdrawal planned by December 2019.
37. The TEC has been privy to Auckland University's LTACP in the context of considering its proposed borrowing consent request, which provides details of its proposed capital investments for fulfilling its strategic focus, maintenance of existing facilities and improving student and staff experience in a sustainable manner with a mixture of asset sales, debt and operating cash flows.
38. Given Auckland University is investing the net proceeds of the disposal in a number of capital projects of varying sizes, a single business case to explain the value of these investments is not practical. However as per the University's policy all capital projects above \$0.1 million require a business case and those above \$10 million, a full business case in line with Treasury's Better Business Case (BBC) framework.
39. Only three of the projects noted are large enough to pass Auckland University's threshold for a full business case. These are the relocation of the Faculty of Education & Social Work (FESW) to the City campus<sup>9(2)(j)</sup>, the construction of a new Recreation and Wellness Centre at its City campus<sup>9(2)(j)</sup> and the Tai Tokerau project<sup>9(2)(j)</sup>.
40. Auckland University was an early adopter of Treasury's BBC framework, having used it since 2012. A business case for the Recreation and Wellness project has been developed and a copy provided to TEC. The business case covers the key elements of the BBC framework and also includes a report by PricewaterhouseCoopers on the financial model supporting the business case. A business case is currently in development for the FESW relocation (to be ready by early 2020) and a business case will be developed for the Tai Tokerau project. These three projects have an estimated cost of <sup>9(2)(j)</sup>. Of the <sup>9(2)(j)</sup><sup>6</sup> of Epsom disposal proceeds, <sup>9(2)(j)</sup> (91%) is earmarked to fund these projects.
41. Regarding the re-development of its Tai Tokerau campus in the centre of Whangarei, Auckland University has also provided you (Minister of Education) with a copy of a paper submitted to the Government in 2016 on a collaborative proposal to develop this campus. Although Auckland University has moved on from this particular proposal, it is still committed to creating opportunities for learners in Tai Tokerau (Northland).
42. The two other projects to be funded by the proceeds of the Epsom disposal fall below the threshold for BBC type business cases as they will be classified as minor capital expenditure by Auckland University. However Auckland University ensures that all capital projects still follow a stringent process and are aligned with the delegations from the Council and Vice-Chancellor. Of these projects, the Manukau Hub initiative<sup>9(2)(j)</sup> is prompted by Manukau Institute of Technology requesting the vacation of Auckland University's teacher education programmes from its Otara North campus and the development<sup>7</sup> of online taught postgraduate programmes in teacher education and social work<sup>9(2)(j)</sup> to cater for professionals seeking to do post-graduate study while in work.
43. Auckland University has provided assurance it is investing the proceeds of disposal in projects of educational value, which have gone through a rigorous evaluation and approval process.

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<sup>6</sup> The maximum sale proceeds estimated.

<sup>7</sup> Course developments costs are commonly capitalised in the TEI sector.

### **Criteria v: Whether Auckland University continues to meet Capital Asset Management (CAM) expectations**

44. Auckland University is required to have an independent assessment of the maturity of its asset management systems in response to a Cabinet requirement to improve CAM across the sector. Auckland University has had four independent assessments in 2013, 2015, 2017 and 2019 with annual self-assessments in the intervening years.
45. The recommended level for asset management maturity in the TEI sector is “core”<sup>8</sup> on the asset management framework for the state sector and Crown entities. The latest independent assessment in 2019 has determined Auckland University to be at an “intermediate” level of maturity similar to that in 2017, which comfortably exceeds the recommended level.
46. The independent assessor was of the view that “The University of Auckland leads property and asset management practice ahead of many Australian and New Zealand tertiary institutions verified through national and international benchmarking”. The assessor also commented positively on the enthusiastic culture of the staff, the value asset management practice is delivering to the University, the operational readiness in bringing on new assets, and the cross-faculty involvement in utilisation planning and monitoring of utilisation performance. The improvement opportunities reported are expected to be easily addressed, which would push maturity to a higher level.
47. Auckland University is an excellent performer in the CAM space and easily exceeds minimum requirements.

### **Criteria vi: Whether Auckland University remains viable**

48. Auckland University is the largest TEI in New Zealand and has net assets of just over \$3.2 billion. Annual revenue has exceeded a billion dollars since 2014 and was \$1.2 billion in 2018. Government funding accounts for only 39 percent of this. Of the rest, domestic and international fees is 26 percent and external research and other revenue is 35 percent. This demonstrates a good spread of revenue sources, which aids good risk management. Personnel costs is the biggest expenditure for Auckland University being around 53 percent of total expenditure, however this is still below the University sector average of 55 percent and TEI sector average of 56 percent.
49. Liquid assets at the end of 2018 totalled \$119 million and net cash flows from operations have averaged \$200 million per annum over the past four years. Debt has been used sparingly in the past. On TEC's Financial Monitoring Framework (FMF) Auckland University has registered a low risk rating since the introduction of the FMF in 2011.
50. Auckland University ranks within the top 100 universities in the QS World University Rankings and within the top 200 universities in the Times Higher Education World University Rankings<sup>9</sup>. It is ranked the highest among all New Zealand Universities.
51. Auckland University's approach to capital expenditure in the past has been to rely on asset sales and earnings from operations despite having access to a \$300 million borrowing consent since 2011. This approach is now changing given the planned 9(2)(i) capital expenditure programme up to 2028. This programme will now be funded using a combination of debt, earnings from operations and sale proceeds of Epsom.

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<sup>8</sup> “Core” is a range of 45-60 on a scale of 0-100. “Intermediate” is a range of 65-80. Auckland University has achieved a score of 70.

52. 9(2)(ba)(i)

Auckland University's Treasury policy also dictates debt and earnings levels to ensure risk is well managed at all times. FMF calculations based on the forecasts provided also indicate that financial viability and financial sustainability will be maintained at low risk levels.

53. Auckland University is a viable operation and is expected to remain so for the foreseeable future.

### **Criteria vii and ix: The financial implications for Auckland University and the Crown, and evidence of investment in the asset**

#### *The Amount Represented by the 20 percent*

54. The 20 percent of the net proceeds of sale of the land is estimated to be around a maximum of 9(2)(j). However we do not expect settlement to be achieved before May 2020, when 20 percent of the site will be excluded from the retention clause. Hence we estimate the amount represented by the 20 percent clause to be in the 9(2)(j) 9(2)(j) (excluding any sale costs), allowing for a low-range sale value of 9(2)(j).

#### *Has Auckland University Contributed to the Value of the Asset*

55. Auckland University has estimated it has spent \$24.9 million on Epsom since the Auckland College of Education was transferred to Auckland University in 2004. This excludes the annual operating costs such as grounds maintenance and cleaning. Over the past six years alone Auckland University has spent \$8.4 million covering capital costs (\$3.7m), and reactive and proactive maintenance (\$4.7m).

56. Auckland University's LTACP in 2011 indicated \$15 million of spend was scheduled for Epsom up to 2020. All of this was for space consolidation and building maintenance to ensure existing activities can continue satisfactorily in the interim. Space consolidation encompassed moving from smaller perimeter dwelling type buildings to larger central buildings, including demolition and/or mothballing of substandard blocks and refurbishing other blocks (creating a hub etc.). Building maintenance encompassed proactive and reactive maintenance on aging building and plant infrastructure, and renewing and maintaining building envelopes that are in poor condition.

57. The ongoing running costs and maintenance costs of Epsom are approximately \$3.3 million per annum. In an empty state this would reduce to around \$1.2 million. Annual depreciation relating to the property is \$9.7 million.

58. Although the total book value of Epsom campus has increased by 9(2)(j) since 2004, the nature of property values does not allow us to identify with any degree of certainty how much these capital and operating investments have directly contributed to this increase.

59. Attributing the above factors to increases in values separately is not an exact science, although the state of the Auckland property market will have had a major impact on values. However, it is clear that Auckland University has invested to ensure the asset is maintained in a good operational condition.

#### *Auckland University's Current Financial Situation*

60. Auckland University achieved a group surplus of \$80.7 million (6.7% of total revenue) in 2018, an improvement of \$12.9 million compared to 2017. The 2019 budget provided to TEC



indicates a surplus of \$40.5 million excluding Trust income (Trust income for 2018 was \$42 million).

61. Auckland University has an existing borrowing consent with a borrowing limit of \$300 million. As at 31 December 2018, Auckland University had \$52 million of bank borrowings. This Consent expires in 2022. <sup>9(2)(b)(i)</sup>

<sup>9(2)(i)</sup> Actual borrowing is not expected to exceed <sup>9(2)(i)</sup> at any one time, even under a number of adverse risk conditions.

62. Auckland University's draft borrowing application has signalled that Auckland University will be debt free or close to being debt free by 2029.

63. Auckland University forecasts it will continue to be a financially viable organisation, where its core teaching and learning operations will show positive EBITDAs<sup>10</sup>.

#### *Other Potential Priorities for the Crown*

64. Officials are of the consensus that the capital projects funded out of the net sale proceeds are of value to, and enable, the educational activities of Auckland University. These projects also have the potential to enhance learning opportunities for students from disadvantaged socio-economic backgrounds, provide a holistic student experience and improve wellbeing. Investment in achieving these outcomes merits support.

### **Conclusions and advice on Auckland University's request to retain 100 percent of the net proceeds of sale of assets transferred from the Crown in the last five years**

65. Within the assessment framework, officials consider that the reasons to support Auckland University's request to retain 100 percent of net proceeds include:

- disposing of assets it no longer needs is consistent with the effective and efficient management of its assets;
- the intention to dispose of Epsom was signalled at the time of original transfer application in 2012. Auckland University clearly stated it planned to relocate all, or part of, of its Education faculty from Epsom to the City campus by realising a fair value for Epsom to fund the transfer to the City campus;
- over seven years have elapsed since Auckland University applied for the transfer of the Crown-owned assets that it had managed since 1990 and six years have elapsed since Auckland University signed the MoU for the process to transfer the assets, the times at which its ongoing need for the assets have been considered by Auckland University;
- the three-year gap to transfer the second tranche of assets is largely due to the need to resolve historic site complications, which existed prior to Auckland University occupying this site;
- Auckland University is not overcapitalised;
- the retained proceeds will be invested in purposes, which provide value to the educational activities of the institution;
- Auckland University continues to exceed the minimum CAM expectations, with plans for further improvement in place;

<sup>10</sup> EBITDA – Earnings before Interest, Taxes, Depreciation and Amortisation.



- Auckland University still remains a financially viable organisation in terms of its ability to meet its operational commitments and services, managing its current and future debt profile and manage financial risk; and
- Auckland University has made substantial investments in Epsom since its amalgamation and continues to maintain the asset to standards required to provide teaching services.

66. The possible implications of not agreeing to allow Auckland University to retain 100 percent of net sale proceeds are:

Either

- Auckland University could defer the sale until after July 2023, which would then allow it to retain 100 percent of net sale proceeds as of right (during this interim period, it could delay/re-prioritise its capital programme);

or

- Auckland University could proceed with the sale, but delay/re-prioritise specific projects in its capital investment programme.

67. In both above options if Auckland University decides to continue with its planned capital programme, it may need to resort to additional borrowing to fund projects, thereby incurring additional debt servicing costs.

### **Agency Views**

68. The TEC considers that in the context of the overall intent and principles of the government's TEI Crown asset transfer and disposal policy there is a strong case for Auckland University to retain 100% of the net proceeds from the sale of assets at Epsom, which are no longer needed for its educational purposes, and reinvest the funds into capital projects that reflect its current and emerging needs and benefit educational outcomes and/or debt reduction.

69. Auckland University considered its ongoing need for the assets when it applied for their transfer in 2012 and signed a MoU in 2015. While it is less than five years since the University signed the transfer MoU, the University has since the time of its application been clear in its intention to dispose of Epsom around 2021. Throughout this period Auckland University has continued to invest substantially in Epsom preserving and possibly enhancing its value.

70. Auckland University is embarking on a substantial capital investment programme to support its academic aspirations and improve its international standing among peer universities worldwide. Ensuring this is done in a financially sustainable manner is also important. The retention of the total net proceeds of the Epsom will assist in achieving these goals.

71. The TEC has consulted with MoE and the Treasury in the preparation of this briefing. MoE is satisfied that the process to assess Auckland University's application has been followed as set out in the Crown asset transfer and disposal policy and the subsequent decision by Joint Ministers.

## **Appendix A: Framework to Assess and Decide on Requests to Retain More than 80 Percent of Sale Proceeds of Assets Disposed of Within Five Years of Transfer**

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Requests will be treated consistently and in accordance with the principles underpinning the TEI Crown Asset Transfer and Disposal Policy.

Requests will be assessed against the following criteria:

- i. the time since the asset transferred;
- ii. the time taken to transfer the asset the TEI is disposing of since:
  - a. the TEI applied for the transfer of Crown assets;
  - b. the time the TEI signed the Memorandum of Understanding (MoU) for the transfer process;
- iii. whether the TEI is overcapitalised;
- iv. whether the TEI has demonstrated that the retained earnings will be used in capital projects that are of value to the educational activities of the institution;
- v. whether the TEI continues to meet the government's CAM expectations;
- vi. whether the TEI remains viable; and
- vii. the financial implications for the TEI and the Crown:
  - a. the amount the 20 percent represents;
  - b. the level of investment the TEI has contributed to the value of the asset;
  - c. the TEI's current financial situation; and
  - d. other potential priorities for the Crown.
- viii. A business case aligned with Treasury's Better Business Case framework to demonstrate the value of the capital project(s) the full net proceeds would be invested in, including the benefits of investing the additional 20% (this would apply where the net proceeds are expected to be more than \$1m – *i.e. where 20% is \$200k or more*); and
- ix. Clear evidence of the extent to which the TEI has invested in the transferred asset(s).

## Appendix B: Auckland University's Epsom campus site

