

Tertiary Education Report: Lincoln University Single Stage Business Case for Science North

Date:	2 April 2020	TEC priority:	High
Security level:	In Confidence	Report no:	B-20-00161
		Minister's office No:	

ACTION SOUGHT		
	Action sought	Deadline
Hon Chris Hipkins Minister of Education	agree to endorse Lincoln University's (Lincoln's) Single Stage Business Case for Science North, which will trigger the release of \$5 million in capital funding to Lincoln as per the terms and conditions of the Crown funding agreement; forward this briefing to the Minister of Finance for his consideration and agreement.	As soon as practicable
Hon Grant Robertson Minister of Finance	agree to endorse Lincoln's Single Stage Business Case for Science North, which will trigger the release of \$5 million in capital funding to Lincoln as per the terms and conditions of the Crown funding agreement.	As soon as practicable
Enclosure: Yes	Round Robin: Yes	

CONTACT FOR TELEPHONE DISCUSSION (IF REQUIRED)				
Name	Position	Telephone		1st contact
s9(2)(a)	Principal Advisor	s9(2)(a)	s9(2)(a)	✓
Gillian Dudgeon	Deputy Chief Executive, Delivery	s9(2)(a)	s9(2)(a)	

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT							
<input type="checkbox"/> DPMC	<input checked="" type="checkbox"/> MPI	<input type="checkbox"/> ENZ	<input type="checkbox"/> ERO	<input checked="" type="checkbox"/> MBIE	<input checked="" type="checkbox"/> MoE	<input type="checkbox"/> MFAT	
<input type="checkbox"/> MPP	<input type="checkbox"/> MSD	<input type="checkbox"/> NZQA	<input type="checkbox"/> NZTE	<input checked="" type="checkbox"/> TEC	<input type="checkbox"/> TPK	<input checked="" type="checkbox"/> Treasury	

- 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 Withdrawn |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:

Recommendations

Hon Grant Robertson, Minister of Finance, **Hon Chris Hipkins**, Minister of Education

It is recommended that you:

1. **note** that in November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln University (Lincoln) to support the rebuild of its science facilities [CAB-19-MIN-0583];
2. **note** that Lincoln submitted a Single Stage Business Case for the development of Science North to Ministers in February 2020, which outlines its plans for the development of its main new science facilities, the benefits it will deliver, and its procurement plans;
3. **note** that as agreed in the funding agreement between the Crown and Lincoln, the first instalment of capital funding of \$5 million will be paid to Lincoln following endorsement of the Single Stage Business Case by the Minister of Finance and the Minister of Education;
4. **note** that the Single Stage Business Case has undergone an Independent Quality Assurance assessment by EY, which only identified minor issues;
5. **note** that the impacts of COVID-19 on the project remain unclear, but the strategic case for Science North is strong, and we recommend that Ministers endorse the business case with further analysis to be undertaken as part of the Implementation Business Case;
6. **agree** to endorse the Single Stage Business Case for Science North, which will release the first instalment of capital funding of \$5 million to Lincoln;

Minister of Education

AGREE **DISAGREE**

Minister of Finance

AGREE **DISAGREE**

7. **note** that Lincoln intended to submit an Implementation Business Case to Ministers later in 2020 which will set out the negotiated commercial and contractual arrangements for delivery of the project and confirm that the project is affordable for Ministers to endorse before construction begins;
8. **forward** this briefing to the Minister of Finance for his consideration and decision;
9. subject to the agreement of the Minister of Finance, **sign and send** the attached letter to the Chancellor of Lincoln informing him of Ministerial endorsement of the Single Stage Business Case;
10. subject to the agreement of the Minister of Finance, **sign and send** the attached letter to the Secretary for Education requesting payment of \$5 million to Lincoln;

11. **agree** that the Tertiary Education Commission proactively release this briefing once decisions have been made on Lincoln's Single Stage Business Case, with commercially sensitive information withheld given it may impact on any future procurement processes and to allow Lincoln to carry on without prejudice or disadvantage, negotiations (including commercial and industrial negotiations);

Minister of Education

AGREE / DISAGREE



Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

31 April 2020



Hon Chris Hipkins

Minister of Education

24 / 04 / 2020



Hon Grant Robertson

Minister of Finance

3 / 05 / 2020

Purpose

1. The purpose of this briefing is to provide advice to Ministers on Lincoln University's (Lincoln's) Single Stage Business Case for Science North – Lincoln's main new science facilities.

Background

2. Lincoln submitted a Programme Business Case, *Moving Forward*, in August 2019 outlining its revised plans for rebuilding and repairing its earthquake-damaged facilities and modernising the way it teaches and undertakes research.
3. On 11 November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln to support the rebuild of its science facilities [CAB-19-MIN-0583]. A funding agreement between the Crown and Lincoln, which set out the terms and conditions of Crown support as well as the timing and conditions for payment, was signed in December 2019 (B-19-01460 refers).

Single Stage Business Case for Science North

Lincoln is proposing to build an \$88 million new teaching and research facility...

4. Lincoln submitted a Single Stage Business Case for Science North on 4 February 2020. It builds off the work undertaken in the Programme Business Case and sets out the recommended approach for the development of Lincoln's main new teaching and research facility referred to as Science North.
5. Lincoln is in clear need of new science facilities to replace those damaged in the 2010/11 earthquakes and its redevelopment plans comprise two projects – Science North and Science South. Science South is a \$10 million build which will focus on the disciplines of post farm gate and agricultural science. It is already under development and is expected to be completed next year. Science North will be an \$88 million investment in teaching, research, office and collaboration space for the disciplines of biological heritage and land, water and atmosphere.

...which will deliver a range of benefits to Lincoln as well as the land-based sectors...

6. The development of Science North will assist Lincoln's recovery by replacing earthquake-damaged buildings (particularly the Burns building) with teaching and research spaces that are safe, modern, flexible and future-proofed, and which are attractive to students, staff, researchers and investment partners. The key benefits the Science North project is expected to deliver include:
 - an increased ability for Lincoln to attract and grow talent – both staff and students;
 - improved financial outcomes through operating modern, efficient facilities with a reduced footprint; and
 - a greater return on research and development through enabling increased collaboration and improving connections with industry.
7. Science North will also be a key enabler of Lincoln's New Ways of Operating programme, which aims to transform the way Lincoln teaches and undertakes research, although many of the proposed benefits of Science North are also reliant on the New Ways of Operating programme being a success. The New Ways of Operating programme includes:
 - the expansion of Lincoln's multi-disciplinary Centres of Excellence;
 - the introduction of blended and online learning to existing and new programmes;

- development of a new land-based post-graduate school in conjunction with the University of Canterbury (UC) to create more multi-disciplinary graduates and facilitate more productive and effective collaboration with the Crown Research Institutes (CRIs) at Lincoln;
- the Children's University initiative in partnership with UC; and
- expanding partnerships with key stakeholders such as AgResearch, other CRIs, Ngāi Tahu, and other universities.

...with collaboration at the forefront of the building design...

8. Lincoln is proposing to build a 9,500 square metre teaching and research facility with an estimated cost of \$88.3 million. This will include teaching spaces for both undergraduate and post-graduate students as well as research and collaboration spaces.
9. Science North has been designed to maximise opportunities for collaboration, including provision of innovation space and meeting rooms for staff and post-graduate students, and shared function and meeting spaces. This will support planned educational and research initiatives such as the implementation of the joint post-graduate school with UC and CRIs.
10. Lincoln is also continuing to work closely with AgResearch on their build. AgResearch's facilities will be built directly next to Lincoln's new science facilities on Lincoln land that was acquired by AgResearch to ensure all of the benefits of close collaboration can be achieved. The two institutions are working closely on design to ensure that the buildings complement each other. The success of Science North will not only be dependent on Lincoln's New Ways of Operating programme but also Lincoln and AgResearch identifying new ways of working together to realise the benefits of co-location and collaboration.

...and Lincoln have decided to use a design and build delivery model...

11. Lincoln has been very focussed on ensuring Science North is operational for semester one, 2023, to allow for staff and students to be moved out of the earthquake damaged Burns building and to begin to realise the benefits of the project as soon as possible – particularly increased enrolments. As such, the procurement strategy outlined in the Single Stage Business Case has been heavily driven by this timeline. To have construction completed by the end of 2022, Lincoln would need Ministerial approval of its Implementation Business Case (IBC) by September 2020 which will require negotiated terms with a main contractor to be agreed by around June 2020. This timeframe is very tight and it is likely recent developments relating to COVID-19 will require Lincoln to rethink its approach.
12. Lincoln evaluated a range of procurement options and has concluded that a design and build model best meets its objectives, particularly around cost certainty and the tight timeline. Lincoln plan on implementing it in a two stage process. Earlier this year, Lincoln went to market seeking tenders on non-price attributes to create a shortlist of suppliers. Following the completion of developed design in May/June 2020, the shortlisted suppliers will be invited to submit pricing for the design and build of Science North. Lincoln will then submit an IBC to Ministers for endorsement before appointing a contractor in late 2020. The procurement approach has been externally peer reviewed by specialist procurement advisors and the Ministry of Business Innovation and Employment.
13. Lincoln has opted to implement Science North in one phase to reduce effort around decanting and to reduce any health and safety risks of construction ongoing while other parts of the building are occupied. However, the building is being designed so that it can be built in stages if required.

...and the project is affordable, although COVID-19 does create some uncertainty...

14. The main source of funding for the redevelopment of Lincoln's science facilities is the Crown's \$80 million capital investment. Lincoln also has \$80 million in cash from insurance receipts, and is forecasting ongoing operating surpluses (before the impact of COVID-19) over the forecast period while s9(2)(b)(ii) in asset sales are also included in the projections. Lincoln's cash balance is expected to decline from around \$80 million currently to a low of s9(2)(b)(ii) when construction is expected to be completed. Cash is then expected to increase to around \$60 million in 2028, largely on the back of increased enrolments. The impact of COVID-19 on Lincoln's financial situation is discussed below in paragraph 28.
15. Lincoln has undertaken a range of financial scenarios around lower EFTS growth and capital overruns for Science North. The biggest impact is from lower than expected international enrolment growth and cost overruns on Science North. Nevertheless, under these scenarios cash still remains positive. Lincoln also has an ability to mitigate some of the financial risk, particularly by deferring other projects within its wider campus redevelopment programme. Lincoln will need to undertake additional scenarios on the impact of COVID-19 on its financial position as part of the next stage of the business case process.

...with new governance structures put in place to ensure the project is a success

16. Lincoln has implemented a specific Council sub-committee, the Futures Committee, to oversee the New Ways of Operating programme. This will be complemented by the Capital Assets Committee which will oversee the construction side of the campus redevelopment programme. A Project Control Group (PCG) has also been established to oversee the management and delivery of Science North. The PCG is chaired by an experienced independent industry expert.
17. As required by the funding agreement, a Governance Oversight Group (GOG) has also now been established and will have its inaugural meeting on 1 April 2020. Murray Coppersmith, an ex-partner at PwC, has been appointed as the Independent Chair. The rest of the group is comprised of the Board Chair and Chief Executive of the TEC, as well as the Lincoln, Chancellor, Vice-Chancellor, and Chair of its Capital Assets Committee.
18. The GOG will be keeping a close eye on the overall programme, and especially the development of the IBC. In addition to the 1 April meeting, the GOG is scheduled to meet twice more before the IBC is submitted. The GOG Chair will provide an update to you following each meeting.

Independent Quality Assurance process**EY have undertaken a thorough IQA of the business case...**

19. The TEC commissioned EY to undertake an Independent Quality Assurance (IQA) review of the business case. This involved EY undertaking an interim IQA of the draft business case in December 2019 which provided a range of recommendations for Lincoln to address. EY then undertook a final IQA on the business case submitted to Ministers in February 2020.
20. The purpose of the IQA is to assess the business case against the Treasury's Better Business Case guidance, and provide Ministers with the assurance that there is enough context and information in the business case to make informed decisions. EY use a four-point scale as follows:

Key	Business case rating
	Content appropriate for this stage. No concerns identified
	Content appropriate for this stage. Minor issues/risks identified.
	Weakness in the content for this stage. Moderate issues/risks identified
	Weakness in the content for this stage. Significant risks identified

...and EY has found only minor issues with the business case...

21. Overall, the IQA only found minor issues in the business case. EY made the following assessment for each of the five cases of Lincoln's Single Stage Business Case. The full IQA report is attached to this briefing.

Case	Rating
Strategic Case	Green
Economic Case	Yellow
Commercial Case	Yellow
Financial Case	Green
Management Case	Yellow

...with many of them being able to be resolved as part of the Implementation Business Case...

22. A number of the minor issues identified can be resolved going forward as part of the next stage of the business case process – the development of an IBC. Indeed, as part of the IQA, EY identified a number of key areas Lincoln should focus on and address for the IBC. These include:

- managing the risks of the proposed constrained timelines, particularly for developed design and the procurement of contractors, and ensure it does not compromise quality and costs;
- reviewing the weightings for the evaluation of tenders given its strong focus on cost, which runs the risks that the tender with the lowest price will get the contract potentially at the expense of the team, methodology, or a realistic schedule;
- the need to put sufficient effort, resource and expertise to manage the cost to meet the budget through the next stages of design;
- a strong focus on streamlined and effective stakeholder management and governance with clear role clarity, especially for input providers versus decision makers;
- managing and understanding the impact of COVID-19 on Lincoln's enrolments, finances and the ability of construction contractors to deliver, which will require a range of scenario and sensitivity analysis in the IBC to ensure the project is affordable;
- focusing on providing a comprehensive and completed benefits realisation plan, with appropriate measures, in particular how Science North can contribute to wider government priorities and New Zealand as a whole; and
- a strong focus on risks and risk management, as well as ensuring dependencies are clear and incorporated into the project schedule where relevant.

Our views

We recommend Ministers endorse the business case...

23. Overall, Lincoln has produced a relatively strong business case that meets Treasury's Better Business Case guidelines. The strategic case for Science North remains strong and Lincoln appear to have landed on the right plans for the build, which is affordable, and with a sensible approach to procurement. No issues were found in the IQA that would suggest Lincoln should not proceed going to market for a main contractor and to the next stage of the business case process.

24. As per the funding agreement, endorsement of the Single Stage Business Case is needed for Lincoln to move to the next stage. It will also trigger the release of the \$5 million in capital funding.

...with a key concern the tight timelines...

25. Our biggest concern throughout the business case development process was the very tight timelines being proposed for the procurement process. We have engaged with Lincoln on this issue and will continue to work closely with them to help ensure that these timelines do not adversely affect quality or cost. We believe more contingency needs to be built into the process, especially given recent developments relating to COVID-19. The lockdown will affect not only Lincoln's planning and financial performance but also those of construction companies, contractors, and supply lines.
26. We also have some concerns that Lincoln may not have sufficient resource to deliver on the tight timelines given it has limited senior management depth and is trying to implement a transformation programme alongside a campus redevelopment programme and manage the impacts arising from COVID-19. We should note that we do not consider a short or medium-term delay will make any material difference to the proposed benefits in the longer-term.

...and the impacts of COVID-19 on student numbers and the affordability of the project...

27. Lincoln has the highest percentage of international students of any tertiary education institution with nearly 40% of its EFTS being international. It has also achieved strong growth in international students in recent years which has helped it to report positive financial results. Further growth in international students was expected in 2020 and over the remainder of the forecast period.
28. We have recently engaged with Lincoln on the likely impacts of COVID-19 on international and domestic student numbers. Following the announcement of the lockdown and with the assumption that no additional international students enrol at Lincoln for the rest of 2020, Lincoln has estimated that revenue is expected to be around \$11 million or 9% below budget in 2020. These are just initial estimates and are likely to be further refined over coming months as the impacts become clearer – especially regarding semester two enrolments, impacts on 2021 enrolments, and any wider impacts.
29. Earlier in the year, Lincoln implemented a number of savings and cost-reduction strategies in response to the initial impacts of COVID-19 (e.g. reduced training, no international travel, voluntary reductions in working hours, and reduced use of contractors) and delayed some capital development. It has now also scaled back most business-as-usual capital expenditure. This should help mitigate some of the revenue decline. Lincoln had originally budgeted for an operating surplus of \$4.0 million in 2020 but is now likely to post a small deficit.
30. If the impact of COVID-19 is largely constrained to 2020, which is looking unlikely, then it will not have any material impact on the affordability of the project. Lincoln's central forecast was for cash to fall to a low point of s9(2)(b)(ii). Lincoln therefore has room to manage some downside to this forecast, and it always has the option of borrowing to assist it through the low period until cash begins to build back up. Lincoln also has additional mitigations it can implement, including reducing other capital projects across the campus as well as building Science North in stages.
31. Further analysis will be needed to estimate the financial impact on 2021 and beyond as the COVID-19 situation develops. This includes whether international students can enrol for 2021, the pipeline effect of reduced international students in 2020 but perhaps also changes in international student trends. It also will include the potential for increased domestic enrolments given the forecast increase in unemployment.

...but these issues can be canvassed in the IBC

32. An IBC is required to be endorsed by Ministers before Lincoln can enter into a contract for the design and build of Science North. The IBC will need set out the negotiated commercial and contractual arrangements for delivery of the project and confirm that the project is affordable for Ministers to endorse before construction begins. The impacts of COVID-19 on the project and Lincoln's financial position will need to be comprehensively covered in the IBC.
33. Lincoln has already significantly progressed work on the IBC. It had been hoping to submit this to Ministers by August 2020. However, Lincoln appreciate that with recent developments this will not be able to be achieved. We have recently engaged with Lincoln encouraging them not to rush the process and ensure a high quality business case is produced. Given the current uncertainty, Lincoln will unlikely be able to gain clarity on a number of matters for several months.
34. The IBC will be required to undergo an IQA process and be considered by the GOG before being submitted to you and the Minister of Finance. Endorsement of the IBC will trigger the release of the next \$5 million in capital funding.

Next steps

35. If you agree to endorse the Single Stage Business Case, please forward this briefing to the Minister of Finance for his consideration and endorsement.
36. If the Minister of Finance agrees to endorse the business case, please sign and send the attached letter to the Secretary for Education authorising the \$5 million payment. We have also drafted a letter for you to send to Lincoln's Chancellor informing him of the decision.

Appendix 1: Draft letter to Lincoln

Bruce Gemmell
Chancellor
Lincoln University

By email: bruce.gemmell@lincoln.ac.nz

Dear Bruce

Ministerial endorsement of the Single Stage Business Case for Science North

Thank you for submitting the Single Stage Business Case for Science North in February 2020. It was clear that a significant amount of effort had gone into the development of the business case from Lincoln University (Lincoln) staff and governors.

The Minister of Finance and I have now carefully considered the business case and the results of the Independent Quality Assurance (IQA) report by EY. We are happy with the analysis and information presented, and I am pleased to inform you that we have endorsed the business case. As per the funding agreement between the Crown and Lincoln, Ministerial endorsement triggers the release \$5 million in capital funding to Lincoln to progress to the next stages of the development and the business case process.

I understand Lincoln is working hard on the development of an Implementation Business Case (IBC) and had hopes to submit this to Ministers for consideration in the middle of the year. I appreciate that given recent developments related to COVID-19 these timelines and plans are likely to change. That is the case for many businesses and services operating in New Zealand and to be expected.

I encourage you to think carefully about your timeframes and procurement process to ensure that risks are appropriately managed over these uncertain times and the best outcomes are achieved. I also expect to see a range of financial modelling and scenario analysis as part of the IBC to provide assurances that the project remains affordable.

I understand that this is a difficult time for the university, but the Government remains supportive of the project. There remains a clear need for Lincoln to replace the teaching and research spaces damaged by the earthquake with modern and future-proofed teaching and research facilities which are attractive to students, staff, researchers and investment partners.

I am aware you are working closely with the Tertiary Education Commission and encourage you to continue to do so. I also understand that the Governance Oversight Group has now been established and I await the first report from the Chair at an appropriate time.

I look forward to receiving an IBC from Lincoln on Science North, which has been through an IQA process, once it has been completed.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission

Appendix 2: Draft letter to the Secretary for Education

Iona Holsted
Secretary for Education
Ministry of Education
PO Box 1666
WELLINGTON 6140

Dear Iona

Lincoln University – payment of \$5 million of capital funding

In November 2019, Cabinet agreed to provide up to \$80 million in Crown capital funding to Lincoln University (Lincoln) to support the rebuild of its science facilities (CAB-19-MIN-0583 refers).

As per the funding agreement between the Crown and Lincoln, the first instalment of capital funding of \$5 million is to be paid to Lincoln following Ministerial endorsement of a Single Stage Business Case for Science North. I can confirm that the Minister of Finance and I have now endorsed the Single Stage Business Case which triggers the release of \$5 million in capital funding to Lincoln.

I therefore request that you, as the Secretary for Education, make payment to Lincoln of \$5 million from the Non-Departmental Capital Expenditure appropriation “Support for Lincoln University” in Vote Tertiary Education as soon as possible.

Yours sincerely

Chris Hipkins
Minister of Education

cc. Tim Fowler, Chief Executive, Tertiary Education Commission