Tertiary Education Commission
Te Amorangi Mātauranga Matua

Tertiary Education Report: Decision on Unitec New Zealand Limited's application to retain the full net proceeds from the sale of land at its Mt Albert campus in Auckland

Date:	4 May 2021	**TEC priority:**	High
Security level:	In Confidence	**Report no:**	B-21-00013
		Minister's office No:	

Action Sought		
	Action sought	**Deadline**
Hon Chris Hipkins **Minister of Education**	**agree** that Unitec New Zealand Limited retains the full net proceeds of the proposed sale of land at its Mt Albert campus in Auckland, within five years of its transfer from the Crown, with the approval being for approximately $11 million; and **forward** this submission to the Minister of Finance for his consideration.	At your earliest convenience
Hon Grant Robertson **Minister of Finance**	**agree** that Unitec New Zealand Limited retains the full net proceeds of the proposed sale of land at its Mt Albert campus in Auckland, within five years of its transfer from the Crown, with the approval being for approximately $11 million.	At your earliest convenience
Enclosure: No	**Round Robin:** Yes	

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Gillian Dudgeon	Deputy Chief Executive, Delivery	s9(2)(a) [redacted]	[redacted]	✓
s9(2)(a) [redacted]	Senior Advisor, Monitoring and Crown Ownership	s9(2)(a) [redacted]		

THE FOLLOWING DEPARTMENTS/AGENCIES HAVE SEEN THIS REPORT

☐ DPMC	☐ MPI	☐ ENZ	☐ ERO	☐ MBIE	☒ MoE	☐ MFAT
☐ MPP	☐ MSD	☐ NZQA	☐ NZTE	☒ TEC	☐ Te Arawhiti	☒ Treasury

Minister's Office to Complete:	☐ Approved	☐ Declined
	☐ Noted	☐ Needs change
	☐ Seen	☐ Overtaken by Events
	☐ See Minister's Notes	☐ Withdrawn

Comments:

Executive Summary

1. In 2010, when establishing the tertiary education institution (TEI) Crown asset transfer and disposal policy, Cabinet agreed that should a TEI sell a property within five years of its transfer from the Crown, it must pay up to 20 percent of the net proceeds of sale to the Crown (the encumbrance). However, a TEI may retain the full net proceeds of a sale if it satisfies the assessment criteria agreed by Joint Ministers in 2018.

2. In November 2020, Unitec New Zealand Limited (Unitec) submitted its application to the Tertiary Education Commission (TEC) to retain the full net proceeds from the proposed sale of land at its Mt Albert campus in Auckland.

3. Unitec is currently negotiating with the Ministry of Housing and Urban Development (MHUD) on the sale of this land as, under the conditions of a previous sale of land to MHUD in 2018, MHUD has a first right-of-refusal on all subsequent Unitec land sales.

4. Some seven of the nine hectares of land it is seeking to sell were transferred from Crown title into Unitec's legal title in March 2017 and are subject to an encumbrance, which requires Unitec to return up to 20 percent of the net sale proceeds, if sold within five years of transfer. This land surrounds Unitec's present core campus and is currently in use for teaching, administration, sports facilities and car parking.

5. The yet to be agreed settlement price for the total land sale is expected to be at least $67 million. At this price the value of the encumbered land is approximately $55 million and the 20 percent discretionary proceeds requiring approval by Joint Ministers is approximately $11 million.

6. Negotiations between Unitec and MHUD are now progressing well and expected to conclude in the second quarter of 2021. However, 9(2)(i), 9(2)(j) [redacted]

7. Unitec will complete the statutory requirement of obtaining the Secretary for Education's consent for this sale once the negotiations are successfully concluded.

8. The TEC has assessed Unitec's application against the assessment criteria agreed by Joint Ministers in 2018. The TEC considers the application meets the key assessment criteria, in particular: Unitec proposes to use the discretionary proceeds to fund capital projects that are of value to its educational activities; it is not overcapitalised; and meets the minimum Capital Asset Management (CAM) expectations for TEIs. Unitec has also, in the past three years, reduced its financial risk and improved its educational performance. The TEC therefore recommends that Unitec retains the full net proceeds of the sale.

9. Under the terms of Unitec's Crown concessionary loan, Unitec is required to apply a proportion of the total land sale proceeds towards repayment of the loan. This makes the retention of the discretionary proceeds critical to the funding of its required capital works programme.

10. As part of the Reform of Vocational Education, on 1 April 2020 Unitec became a subsidiary of Te Pūkenga – New Zealand Institute of Skills and Technology (Te Pūkenga). Te Pūkenga supports Unitec's application to retain the full net proceeds of the sale of the encumbered land.

11. The TEC has consulted the Ministry of Education and the Treasury in preparing this briefing and both support the TEC's recommendation for Unitec to retain the full net proceeds.

Recommendations

We recommend that the Minister of Education:

1. **forward** this briefing 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 provides for TEIs to apply to have Crown titled assets they manage, to be either:
    a. transferred into their legal title for ongoing educational purposes; or
    b. disposed of, with up to 100 percent of the net proceeds of sale being available to the TEI for investment in capital projects that support educational activities.

3. **note** that where a TEI disposes of an asset within five years of its transfer from the Crown, the TEI is required to pay up to 20 percent of the net proceeds of sale to the Crown, but may retain the full net proceeds of sale if it satisfies assessment criteria agreed by Joint Ministers in 2018;

4. **note** that Unitec New Zealand Limited (Unitec) has applied to retain the full net proceeds from the sale of some seven hectares of land at its Mt Albert campus in Auckland to the Ministry of Housing and Urban Development (MHUD), within five years of its transfer from the Crown, where the above 20 percent equates to some $11 million;

5. **note** that Te Pūkenga – New Zealand Institute of Skills and Technology (Te Pūkenga) supports Unitec's application;

6. **note** that negotiations are still underway between Unitec and MHUD on the details of the land sale, with settlement now likely in the second quarter of 2021, 9(2)(i), 9(2)(j) [redacted]

7. **note** that the Tertiary Education Commission (TEC) has assessed Unitec's application against the framework of assessment criteria agreed by Joint Ministers in 2018 and supports Unitec's application to retain the full net proceeds of sale on the basis that it meets the key assessment criteria, in particular:
    - the retained proceeds will contribute towards completing the building programme required to exit the land previously sold to MHUD in 2018 and the funding of significant deferred maintenance on its campuses;
    - Unitec is not overcapitalised;
    - Unitec continues to meet the recommended minimum Capital Asset Management (CAM) standards for TEIs; and
    - in addition, Unitec has improved its financial and educational performance over the past three years and it is almost five years since the land was transferred to Unitec's legal title.

8. **note** that under the terms of Unitec's Crown concessionary loan, any disposal of assets (including land) requires Unitec to apply a proportion of the proceeds towards the repayment of the loan, which makes its retention of the discretionary proceeds critical to the funding of its required capital works programme;

9. **agree** that should Unitec sell the land at its Mt Albert campus in Auckland to MHUD, within five years of its transfer from the Crown, Unitec retains the full net sale proceeds for investment in capital works it has identified that will benefit educational outcomes;

AGREE / DISAGREE	AGREE / DISAGREE
Minister of Education	**Minister of Finance**

10. **note** that the Ministry of Education and the Treasury have been consulted in the preparation of this briefing and both support the TEC's recommendation for Unitec to retain the full net proceeds;

We recommend that the Minister of Education:

11. **note** that once notified of the decision of Joint Ministers, the TEC will provide your office with a letter to communicate the decision to Unitec; and

12. **agree** that the TEC proactively releases this briefing once it has been considered, with information on Unitec's future financial plans, financial viability information and negotiations with MHUD withheld due to commercial sensitivities, and the contact details of officials also withheld.

AGREE / DISAGREE

Minister of Education

Gillian Dudgeon

Deputy Chief Executive, Delivery
Tertiary Education Commission

4 May 2021

Hon Chris Hipkins	**Hon Grant Robertson**
Minister of Education	Minister of Finance
23 / 05 / 2021	__ __ / __ __ / __ __

Purpose

1. This briefing seeks your agreement to Unitec New Zealand Limited (Unitec) retaining the full net proceeds of the sale of land at its Mt Albert campus in Auckland to the Ministry of Housing and Urban Development (MHUD), within five years of its transfer from the Crown. The relevant discretionary proceeds are approximately $11 million.

Policy background

2. In 2009/2010, Cabinet agreed to a policy that, subject to certain conditions, allows tertiary education institutions (TEIs) to obtain the legal title to assets in Crown title under their management [CAB Min (09) 38/12 and SOC Min (10) 5/6]. The policy also provides incentives for TEIs to identify assets for disposal that are surplus to their requirements.

3. Where a TEI identifies assets for disposal, as part of its asset transfer application, 80 percent of the net proceeds is available to the TEI for capital projects to support its educational activities. The remaining 20 percent is also available to the TEI if the Crown agrees it is not overcapitalised and has demonstrated the funds will be used in capital projects that contribute to the educational activities of the institution.

4. In order to discourage TEIs from circumventing the above requirement, Cabinet also agreed that should a TEI sell a property within five years of its transfer, then the TEI must pay up to 20 percent of the net proceeds to the Crown. This requirement to only pay back up to 20 percent recognises that an asset may become surplus sooner than expected and aims to discourage TEIs from simply delaying the sale of such assets until the five years have elapsed.

5. The policy did not provide a basis to assess applications from TEIs to retain the full net proceeds of sale of properties sold within five years of transfer. In June 2018, Joint Ministers agreed a framework of assessment criteria. This framework, as set out in Appendix A, now provides the basis for a consistent approach to the treatment of all such applications.

Unitec is seeking to retain the full net proceeds of the sale of land at its Mt Albert campus

6. In November 2020, Unitec submitted its application to retain the full net proceeds of the sale of close to seven hectares of land at its Mt Albert campus. This land was transferred to Unitec from the Crown in March 2017 and is subject to an encumbrance, which requires Unitec to return up to 20 percent of the net sale proceeds if sold within five years of transfer. The land is part of some nine hectares of land, which Unitec is currently negotiating to sell to MHUD.

7. The discretionary 20 percent, which Unitec is seeking to retain, is estimated to be worth at least $11 million before disposal expenses, on a minimum sale price of around $55 million for the encumbered land.

Sales negotiations with MHUD have been complex

8. In 2018, Unitec sold the northern precinct of its Mt Albert Campus to MHUD. As part of the sale, it was agreed that if Unitec sought to dispose of further land MHUD would have a first right-of-refusal.

9. In mid-2019, Unitec was approached by MHUD indicating its interest in purchasing more Unitec land for the government's housing programme. Despite protracted negotiations, agreement on a sale price could not be reached and negotiations reached a stalemate by late October 2019.

10. Following this, Unitec proceeded with its campus development renewal strategy, which involved potentially selling off part of this land and/or granting a long-term lease over parts of the land to third parties. On hearing this MHUD informed Unitec that as per Cabinet direction, the Crown (acting through MHUD) intended to make one final purchase attempt by agreement with Unitec on a “willing seller, willing buyer” basis. 9(2)(i), 9(2)(j) [redacted]

11. As a result Unitec paused its campus development strategy and resumed negotiations with MHUD, subject to certain minimum conditions covering car parking fundamental to its on-going viability. The return to negotiations was also subject to a reconfigured land proposal designed to achieve a balance between MHUD's desire to acquire land for housing development and Unitec's need to retain land for its educational and operational needs. This reconfigured proposal was agreed to in principle by MHUD.

12. The land now under negotiation surrounds Unitec's core campus and consists of a mixture of built land, open spaces, reserves and gardens, and storm water ponds. The assets on the land are buildings, housing, classrooms, a trades training facility, offices, sports facilities, a small-animal unit and an early childhood centre. Open spaces are mainly used for Unitec's car parking requirements from both a regulatory and operational perspective. The total land extent is close to nine hectares, with some seven hectares being subject to the Crown encumbrance. Appendix B provides a map identifying the land subject to sale, highlights the land subject to the encumbrance, and shows Unitec's retained campus.

13. Unitec and MHUD are in final negotiations in relation to the terms of sale. The number of outstanding matters has reduced significantly and agreement is likely in the second quarter of 2021. The minimum settlement price for all the land is expected to be around $67 million, with some $55 million relating to the land subject to encumbrance.

14. Once agreement on the sale is finalised Unitec will address the statutory requirement to obtain the Secretary for Education's consent for the sale. This process is managed through the TEC.

15. Like every other TEI, Unitec is feeling the impacts of COVID-19 and the resultant drop in international student enrolments, which has affected its total revenue in 2020. Hence discretionary expenditure for loan repayment and planned capital expenditure remains constrained. As such, the 20 percent of net proceeds (minimum $11 million), which Unitec is seeking to retain, represents valuable funding for its future plans.

We have assessed Unitec's application against the criteria agreed by Joint Ministers

16. The matrix below summarises the TEC's assessment of Unitec's application against the assessment criteria agreed by joint Ministers in 2018. Unitec fully meets six of the eight criteria, is neutral, or partially meets one criteria, and fails one criteria. The TEC recommends therefore that on balance, Unitec retains the full net proceeds of the sale of the encumbered land for investment in capital works it has identified that will benefit its educational outcomes.

Assessment Matrix					
Asssessment Criteria		Comments	Meets criteria	Neutral or partially meets criteria	Does not meet criteria
i.	Time since the assets transferred to WelTec	4 years = 80% of timeframe met			☒
ii.	Time taken to transfer the assets Unitec is disposing since:				
	a. Unitec applied for the transfer of the assets	8 years	☑		
	b. Unitec signed the MoU for the transfer process	6 years	☑		
iii.	Is the TEI overcapitalised	No	☑		
iv.	Whether retained funds will be used in capital projects of value to the TEI's educational activities	Investments identified	☑		
v.	Meets Government's CAM expectations	Meets minimum standard	☑		
vi.	Whether the TEI remains viable	Recently improved	☑		
vii.	Financial implications for the TEI and Crown:				
	a. The amount the 20% represets	>$11m - critical to Unitec	☑		
	b. The level of investment in asset	>$6m	☑		
	c. TEI's current financial situation	Improving viability		☑	
	d. Other potential prioities for the Crown	Not advised		☑	
viii.	Business cases for capital project identified	Provided	☑		

17. The following sections provide a detailed analysis of the TEC's assessment of Unitec's application against each of the assessment criteria agreed by joint Ministers, as set out in Appendix A.

Criteria i and ii: The time since the assets in Crown title transferred and the time taken to transfer the assets Unitec is disposing of

The need to fund the completion of planned capital projects and commence debt repayments motivated Unitec to examine options to raise funds. However the urgency by MHUD to complete the transaction may have prompted Unitec to sell the land earlier than planned, and specifically before the end of the five year encumbrance period.

18. In November 2013, Unitec applied to have the assets in Crown title it managed transferred into its legal title. Unitec had managed these assets since 1990. A Memorandum of Understanding (MoU) setting out the terms of the asset transfer process was signed by Unitec in February 2015. In total it took four years from Unitec's asset transfer application in 2013 to the final transfer of the assets in March 2017.

19. At the time the MoU was signed Unitec also commenced its organisation transformation programme. This included significant planned capital expenditure, to be funded by commercial debt and staggered future sales of the Northern Precinct land at its Mt Albert campus, already in Unitec's legal title, to commercial investors.

20. However, an unforeseen steep decline in student enrolments from 2015 to 2018 resulted in a significant drop in operating revenue and a projected cash shortfall of $50 million for the 2018 and 2019 years. By this time Unitec had also incurred debt of over $100 million, with little chance of completing the planned capital works. Unitec was therefore forced to immediately sell its Northern Precinct (bought by MHUD in 2018) to clear its commercial debt and take on a $50 million interest-free Crown concessionary loan to be repaid within 10 years (by 2028). The loan was to support Unitec's operations and not to fund capital projects.

21. Unitec is still required to complete a number of projects to enable it to exit the Northern Precinct by the end of 2022. The exit is necessary to fulfil the remaining condition of the 2018 sale to

MHUD and for Unitec to receive the final settlement payment, being withheld by MHUD. Therefore Unitec began investigating other land disposal options at its Mt Albert campus, which is now mostly on land transferred from the Crown in 2017. Under its campus development renewal strategy these options included selling or leasing land.

22. However, the requirement by Unitec to transact with MHUD and the urgency on MHUD's part to complete the transaction, 9(2)(i), 9(2)(j) [redacted], has effectively removed other options Unitec may have had, to either delay land sales or lease the land as opposed to selling it. It also removed Unitec's ability to go to market if selling was the preferred option.

Criteria iii: Whether Unitec is overcapitalised

By our assessment Unitec is not overcapitalised

23. The TEC has applied the tests for overcapitalisation (covering working capital and asset turnover ratios) to historical financial information and future forecasts provided by Unitec. The TEC has used these same tests to assess previous applications by TEIs to retain the full net proceeds of sale of an asset transferred from the Crown. The results of these tests confirm that Unitec is not overcapitalised. Any disposal of land also further diminishes the risk of overcapitalisation.

Criteria iv and viii: Whether the retained funds will be used in capital projects that are of value to the educational activities of Unitec, and supporting Business Cases

Unitec has provided evidence that the funds sought to be retained will be used in capital projects of value to its educational activities

24. Unitec plans to use the proceeds from the sale of land at its Mt Albert campus to support the funding of a range of capital projects already underway budgeted at 9(2)(b)(ii) [redacted] The discretionary proceeds subject to the encumbrance will contribute to these capital works, which are:

   a. **Building 108 upgrade project:** Investing 9(2)(b)(ii) [redacted] in the refurbishment of Building 108 to make the building fit for internal occupation and enable fit-out of approximately 30% of the total footprint by replacing the roof and removing asbestos. On completion the building will be water tight, A-rated seismically, and can be fully utilised for Unitec's future needs. Previous occupants (Architecture and Pathways College) will move back into the building.

   b. **School of Creative Industries**: Repurposing and refurbishment costs of 9(2)(b)(ii) [redacted] to provide accommodation for this school currently housed in Northern Precinct buildings that must be vacated by 31 December 2021.

   c. **School of Environmental and Animal Sciences:** Animal Management programmes offered by Unitec are currently being delivered from relocatable buildings on land it is proposing to sell. Unitec is expected to incur costs of 9(2)(b)(ii) [redacted] to relocate this activity within the main campus.

   d. **Deferred maintenance**: Some 9(2)(b)(ii) [redacted] worth of deferred maintenance work is required to be undertaken on its main Mt Albert teaching blocks (Buildings 111, 112, 113, 114 and 115) and the Waitakere Campus over the next three years.

   In addition to these capital projects, the following projects are also planned:

   e. **Trades School, Architecture and Design hub** (estimated commencement December 2021)**:** Unitec's trade school for house building currently occupies land proposed for sale. To accommodate this school within the main campus, and its projected increase in learners, Unitec intends to invest in a further fit-out of Building 108 to provide the required capacity. Building 108 will become a central home for its trades, architecture, design and screen arts teaching. The external façade will also be brought up to Auckland Council building code requirements. The cost of this project is 9(2)(b)(ii) [redacted]

f. **Car Parking**: Some of the land Unitec is negotiating to sell to MHUD is used for car parking. Its loss will result in Unitec having insufficient car parking to meet its operational needs and Auckland Council resource consent requirements. Unitec needs to formulate a viable and cost-effective solution to this problem and is considering whether a car park facility (for which it has existing resource consent) can be built on the retained campus either by Unitec or in conjunction with an industry partner. The estimated cost of such a facility is expected to be in the region of 9(2)(b)(ii) [redacted]

g. **Additional deferred maintenance:** It is estimated that it would cost Unitec some 9(2)(b)(ii) [redacted] to fully address all deferred maintenance issues on its campuses.

25. The TEC has sighted the business cases for Building 108 upgrade and the proposed Building 108 further fit-out, and confirms that the business cases have gone through a rigorous evaluation and approval process. In total these two projects and other capital works underway already amount to 9(2)(b)(ii) [redacted]. If the estimated car parking facility cost was included the total reaches 9(2)(b)(ii) [redacted]. The TEC notes that it is too early to sight a formal business case for Unitec's car parking solution. Deferred maintenance is budgeted as part of regular operating capital.

26. In summary the TEC is satisfied that Unitec is investing the proceeds of sale in approved projects that are of value to the educational activities of the institution. This planned programme of capital works is supported and approved by Te Pukenga.

27. In addition to the above, the terms of the Crown concessionary loan specify that Unitec must apply any asset disposal proceeds towards repayment of the loan according to a prescribed formula. The prescribed obligations under these terms have since been varied with the agreement of the TEC as allowed by the terms. As per the new obligations Unitec will apply approximately $24 million towards repayment of the Crown loan. This will leave approximately $43 million to be applied towards capital projects and makes the retention of the full net proceeds of the land sale critical to the funding of its required capital works programme.

Criteria v: Whether Unitec continues to meet Capital Asset Management (CAM) expectations

Unitec meets the recommended minimum CAM standards

28. Unitec is required to have regular independent assessments of the maturity of its asset management systems. Unitec has undertaken independent assessments in 2013, 2017 with annual self-assessments in the intervening years and in 2019.

29. The recommended level for asset management maturity in the TEI sector is "core" on the asset management framework for the state sector and Crown entities. The independent assessment in 2017 determined Unitec to be at a "core" level of maturity, which met the recommended level. This was re-confirmed in a self-assessment done in 2019[1]. An independent assessment undertaken in 2021 by Te Pūkenga on a sector-wide basis has re-confirmed this same level of maturity for the network.

30. The last independent assessment recognised that asset management systems at Unitec had been under pressure as a result of prioritising the major organisation transformation. However it was acknowledged that once Unitec starts to move away from its period of significant capital investment to a business-as-usual phase, more emphasis could be made in improving its CAM capability. Addressing deferred maintenance in its campuses will be a key component of improving CAM standards.

[1] Institutes of Technology and Polytechnics were given a dispensation from the requirement to undertake an independent CAM assessment in 2019 due to consultation and planning workload associated with the Reform of Vocational Education.

Criteria vi: Whether Unitec is a viable operation

Unitec's financial viability has significantly improved over the past three years and management has completed an academic quality action plan aimed at improving its External Evaluation and Review (EER) rating and is seeing the positive results of this

31. Unitec has net assets of around $219 million. Unitec's annual revenue has gradually reduced from a high point of $124 million in 2016 to around $100 million in 2020 and appears to be stabilising at this level. This is commensurate with the right-sizing that it has undergone since 2018 with total equivalent full-time students (EFTS) reducing from 7,900 in 2018 to around 5,500 in 2020. EFTS are forecast to increase slightly in 2021.

32. From 2011 to 2015 Unitec's financial performance was stable with surpluses being recorded each year. From 2016 Unitec began recording large deficits (2016 - $24.4m, 2017 - $30.7m, 2018 - $29.0m) coinciding with falling enrolments and expenditure relating to the implementation of its transformation project. In response to this poor financial situation, the Council of Unitec was dissolved in 2018 by the Minister of Education and a Commissioner appointed. Unitec was also facing a cash shortfall of close to $50 million over the 2018 and 2019 years, and was given a $50 million interest-free Crown concessionary loan to maintain and improve its financial viability and see it through a transition from its existing state to a "right-sized" and more efficient institution. The Crown loan is to be repaid within 10 years (by 2028).

33. Since 2018 Unitec has implemented changes to address its financial situation and annual deficits have gradually fallen, with an unaudited deficit of $7.7 million reported for 2020. This is expected to remain at a similar level in 2021 at $8.3 million.

34. Although Unitec continues to operate in a deficit situation, it recorded a positive operating margin (EBITDA[2]) in 2019 ($5.3 million). Unitec is also forecasting positive EBITDAs for 2020 ($3.3 million) and 2021 ($4.0 million). This is a significant improvement from the years 2016 to 2018 when large negative[3] EBITDAs were recorded.

35. Like every other TEI, Unitec is also feeling the impacts of COVID-19 and the resultant drop in international student enrolments. This has affected its total revenue in 2020 ($1.8 million less than budget). Although international revenue is expected to decrease further in 2021, this is expected to be offset by higher domestic revenue. However, discretionary funds for loan repayment and planned capital expenditure remain constrained. As such, the discretionary 20 percent of net proceeds (minimum $11 million), which it is seeking to retain, is seen as valuable funding for its modest future plans.

36. Te Pūkenga has also recently implemented a wider treasury management strategy covering inter-group funding. This will enable the shortfall in any subsidiaries' short-term working capital or liquidity requirements to be covered by Te Pūkenga. This provides an additional layer of assurance that any financial risks relating to Unitec can be managed by drawing on the strength of the Te Pūkenga network.

37. Between 2016 and 2018, concerns around the quality of some educational practices at Unitec were brought to the attention of the New Zealand Qualifications Authority (NZQA). A resultant NZQA EER review confirmed a rating of Category 2 for Unitec (a reduction from Unitec's previous Category 1 rating). As a result NZQA decided to bring forward its next review to November 2018 (instead of 2020). At that review Unitec received an even lower EER rating of Category 3. However, NZQA recognised that over the review period, specifically from November 2016 to November 2018, there were significant and ongoing management and staff structural changes at Unitec that had not been completed at the time of the EER on-site visit by NZQA. NZQA also noted that a new Unitec leadership team was formed in July 2018 and at the time of

[2] EBITDA – Earnings before Interest Depreciation and Amortisation.
[3] 2016 (-$6.1m), 2017 (-$16.6m) and 2018 (-$9.7m).

the EER, the team was primarily focused on addressing the financial viability expectations arising from taking on a Crown loan, and that this was appropriate.

38. A further review was undertaken by NZQA in late 2020 and Unitec has now received an improved EER rating of Category 2. Unitec is continuing to work on NZQA's recommendations through an academic quality action plan to further improve its EER rating back to Category 1.

Criteria vii: The financial implications for Unitec and the Crown, and evidence of investment in the asset

The amount represented by the 20 percent

39. The 20 percent of net proceeds of sale of the land is estimated to be around $11 million (on a minimum sale value of $67 million of which $55 million relates to the encumbered land). The land sale details, including the final sale price, are expected to be agreed in the second quarter of 2021.

Has Unitec contributed to the value of the asset?

40. Unitec has invested in the maintenance of the asset as part of its normal asset management programme. This is identified at around $6 million over the last three years.

Unitec's current financial situation

41. Unitec achieved a group deficit of $7.7 million for the 2020 financial year. The original 2020 budget provided to the TEC indicated a much higher deficit of $23.8 million. A similar deficit of $8.3 million is budgeted for 2021. The change is due to increased TEC funding ($4.2 million), expenditure reductions more than offsetting fee and other income revenue reductions ($1 million), and a reduction in depreciation expenses ($8.7 million).

42. Unitec has fully drawn down its $50 million Crown concessionary loan. The loan is interest-free with repayment by no later than 2028. Unitec has plans in place as to how repayments will be made and receiving the full value of the sale will contribute towards a more rapid reduction of this debt.

43. Unitec is gradually moving towards financial stability. Its core teaching and learning operations should show positive earnings given the expected growth in domestic enrolments due to student pipeline increases and the increase in unemployment numbers. Te Pūkenga is also responsible for utilising its scale to support the viability of subsidiaries and the network as a whole.

Other potential priorities for the Crown

44. The TEC's assessment is that the capital investments Unitec proposes to fund out of the net sale proceeds are of value and will enhance the educational activities of Unitec. Unitec's strategic goals of improving overall property utilisation and realising proceeds of surplus property for reinvestment in educational initiatives merit support. These are sound investments with valid priority for Unitec. The TEC is not aware of other Crown priorities that directly compete for these funds.

Consultation

45. The TEC has consulted with the Ministry of Education (MoE) and the Treasury in the preparation of this briefing and both agencies support the TEC's recommendation for Unitec to retain the full net proceeds of the sale of the encumbered land. MoE is also satisfied that the process to assess Unitec's application has been followed as set out in the Crown Asset Transfer and Disposal policy and the subsequent assessment framework agreed by Joint Ministers.

Appendix A: Framework to Assess and Decide on Applications to Retain the Full Net Proceeds from the Sale of Assets Sold Within Five Years of their Transfer from the Crown

The framework of criteria below applies to applications by tertiary educational institutions (TEIs) for the retention of the final 20 percent of net sale proceeds, or part thereof, where assets are sold within five years of their transfer into TEI title.

The framework enables requests to be treated consistently and in accordance with the principles underpinning the TEI Crown Asset Transfer and Disposal Policy.

Requests are 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 assets in Crown title; and
   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;

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, including clear evidence of this investment;
   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 applies where the net proceeds are expected to be more than $1 million – *i.e. where 20% is $200k or more*).

APPENDIX B: Map of Unitec's Mt Albert campus

The map below identifies the land which Unitec proposes to sell to the Ministry of Housing and Urban Development (MHUD) and the reduced campus which it proposes to retain. Note that much of the land to the north, west and south of the campus has already been purchased from Unitec by MHUD.

Key:

- (red) The encumbered land which Unitec proposes to sell to MHUD (where the agreement of Joint Ministers is required for Unitec to retain the final 20% of the net proceeds of sale).
- (orange) The unencumbered land which Unitec proposes to sell to MHUD (Unitec retains the full net proceeds as of right).
- (blue) The reduced campus which Unitec proposes to retain.