



MASSEY UNIVERSITY

2011 Budget Policy Statement

March 2010

Executive Summary

The Budget Policy Statement (BPS) outlines the fiscal parameters and new investment priorities that will guide the preparation of Budget 2011.

Consistent with the 2010 budget cycle the BPS is being presented in the early part of 2010 to provide sufficient time to undertake the necessary planning before the commencement of the 2011 financial year. Between now and August the Senior Leadership Team will be finalising budget decisions, for presentation to Council in October.

The 2011 University Budget is again set against a challenging external environment. While most commentators agree that the worst of the recession is over, there are a number of structural issues that will continue to shape the New Zealand economy over the next decade. Despite this, the Government has signalled that it is seeking to restrain public spending.

The challenge for Massey University is to continue to position itself to capitalise on emerging opportunities. A key component of our strategy remains to not only do activities better, but differently, so that money can be freed up and applied to activities that advance the strategy. This will involve shifting funding to priorities consistent with the 2020 plan. In addition we will be actively targeting opportunities to grow additional revenue to support our strategic objectives.

The key financial targets for Budget 2011 are to generate a surplus of between three and four percent to fund future capital investment and capital expenditure of \$60 million to enable priority infrastructure, equipment and information technology investment to be made.

As part of the budget process proposals that will advance each big goal, consistent with themes of creativity, agri-food and innovation are invited.

To meet these funding targets Budget 2011 will: target new revenue opportunities specifically in commercial opportunities, through Massey University Foundation initiatives, and growth in international students; reprioritise resources identified during the reorganisation of our structure; commence a rationalisation of our academic programmes and papers; and use

the proceeds realised as part of an asset divestment programme for reinvestment into high priority capital areas.

Massey's Operating Environment and Fiscal Position

The Government's 2010 Budget signalled some significant changes in the future funding for universities. While some of the changes affected Budget 2010 the full impact on the amount of direct government funding Massey receives will be felt in Budget 2011. Significant changes include a nil increase in student funding together with the disestablishment of the Priorities for Focus Funding, the Tripartite Adjustment Fund, Special Supplementary Grants, Refugee Study Grants and Academic Migrant Grants funding.

The current indications from the Government are that there will be limited new spending in the Government's 2011 budget. Consistent with the Government's 2010 Budget, low-value government spending will be stopped and the reprioritisation of existing expenditure will be a priority.

The recently released Tertiary Education Strategy (TES) is also likely to have a significant affect on Massey. The TES highlights that while there is increasing demand for tertiary education, the Government's fiscal situation means that clear choices need to be made about the priority of funding. The Government's goals of improving qualification completion rates for under 25 year olds and Level Four and above, now announced, will place pressure on our extramural enrolments.

The TES identifies that there will be an emphasis on Māori and Pasifika students in the tertiary education sector, which is consistent with our existing strategies. The TES also identifies the need for innovation to improve productivity growth and the need for tertiary institutions to work closely with business. Massey is well placed to meet these challenges because of our links with stakeholders and a can do attitude. We need to ensure that this is translated into associated funding.

The Government's move to effectively cap student numbers in 2010 means that Massey will need to actively manage enrolments. The Road to 2020 identifies the need to take a more strategic approach to enrolment management. As part of this approach we are improving the integration of student-focused

planning, marketing, recruitment, promotional events, information and advice, with academic planning, delivery and administration functions across the University under a Service Leadership model.

As previously signalled an Enrolment Management Plan (EMP) is being developed for the number of students (and EFTS) the University wants to have in each of its academic programmes on each campus and delivered by distance over time.

While Massey has been able to historically generate small operating surpluses, due to the effect of carrying a significant number of unfunded domestic students and no increases in government funding, it will be increasingly difficult to meet the Government's 3% operating surplus and the University Council's target of a 4% operating surplus.

Collectively these factors mean that Massey will need to carefully manage the competing demands of students, staff and other stakeholders, while ensuring long-term capability is maintained.

As shown in Figure 1 the majority of Massey's revenue is generated from government EFTS funding, domestic and international student fees, research and performance based research funding. With a limit to government funded EFTS, signals of no inflation adjustments for the existing student funding and increased contestability for PBRF funding, the need to diversify and grow our revenue base is paramount.

This will be achieved by building on the work of the Massey Foundation, developing a commercial business unit and increasing our international student numbers. While growth in domestic student numbers is limited there remains significant growth potential for international students.

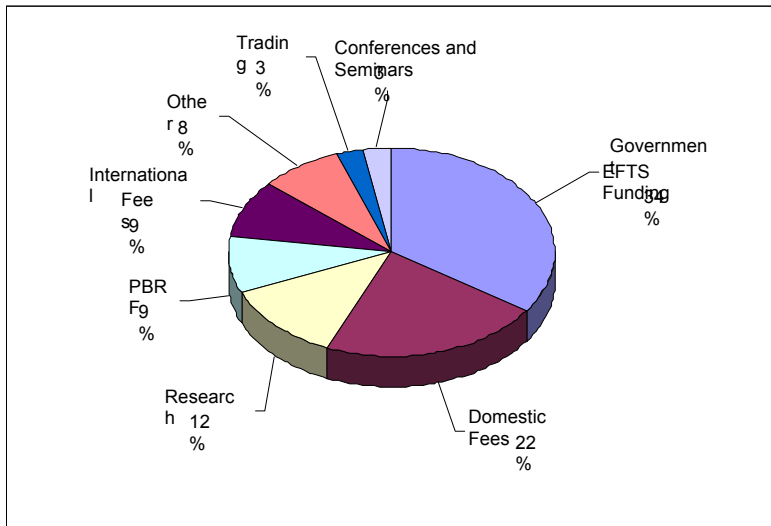


Figure 1 2010 Revenue Composition

As shown in Figure 2 the majority of Massey expenditure is used for paying staff and maintaining our asset base. If we are to improve the fiscal position both of these areas will require careful examination.

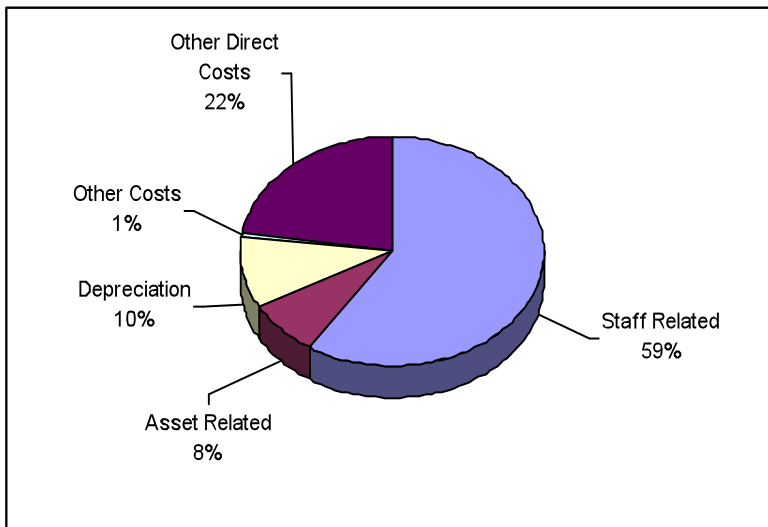


Figure 2 2010 Expenditure Composition

Our long-term financial goals remain as follows:

- Financial stability through the generation of an annual surplus of a minimum 4% of revenue, consistent with Council’s operating surplus target. An annual surplus at this level will allow the University to invest in a range of priority areas and allow for prudent borrowing.

- By generating a 4% surplus we will be able to build strong reserves that will allow for investment and which provides a buffer against external shocks.
- Management of long-term debt. Funding new capital investment solely from cash reserves will not be sufficient and prudent borrowing will be required. With a billion dollars of assets the University has a strong asset base to borrow against, but currently inadequate surpluses to service borrowing costs.
- Diversifying income streams from non-state sources. While recognising the importance of Government funding, Massey will ensure that it has a diverse range of income sources to draw on.
- Adopting a comprehensive approach to the management of University real estate. This will focus on addressing deferred maintenance, rationalising the University asset portfolio and providing high quality spaces and buildings for our staff and students.
- A prudent approach to financial management that recognises managers who achieve contribution targets, while incentivising managers to exceed contribution targets. This will be achieved by allowing departments to retain a percentage of the EFTS contribution that exceeds agreed - contribution targets. The percentage will be agreed as part of the budget process.
- Closely examining contribution margins.

Underpinning the strategic approach to financial management will be an improved financial discipline. This will focus on improving the transparency and timeliness of reporting and investing in new opportunities consistent with 2020.

2011 Investment Priorities

Against this challenging fiscal position, Massey needs to establish the funding priorities for Budget 2011. Funding to meet these priorities will be sourced from both re-allocating existing expenditure and new expenditure.

The Road to 2020 sets out Massey's long-term strategic plan. The vision for Massey is to be acknowledged as New Zealand's defining university and as a world centre of tertiary learning.

Integral to the plan were six big goals of: research and scholarship; teaching and learning; connections; responsibility; generating income; and enabling excellence. Budget 2011 is designed to support each of the six big goals.

Research and Scholarship. Massey is a research-led university and is committed to providing an environment where excellent research is the norm. We intend to excel in all areas of research undertaken by the University and become world-leading in our areas of specialisation.

To meet our goals we will need to produce an environment where research and scholarship can thrive, standards are constantly being enhanced, there is support for cross-disciplinary work and the very best researchers are encouraged to reach their potential. Every researcher needs to feel they are part of a community dedicated to producing work that makes a difference to New Zealand and the world.

In terms of research, the Government's Research, Science and Technology strategy, has signalled greater contestability based around platform delivery. This coupled with a real risk of tightening of private and public sector investment in research will place pressure on Massey to ensure we maintain, let alone grow, our research income.

Other universities are investing heavily in postgraduate research scholarships and there is pressure on Massey to ensure adequate investment is made in this area to remain competitive in the PBRF allocations. This also applies to our staff with increasing competition from New Zealand universities for top research staff.

The above factors mean that Massey must continue to pursue research excellence consistent with the goals in the University's draft research strategy.

Building on the 2020 strategy, as part of the budget process, proposals will be invited that advance Massey's ability to form research partnerships both

nationally and internationally, our ability to attract and retain top post graduate research students, the achievement of the PBRF strategy by 2012 and our ability to increase our external research revenue.

Teaching and Learning. Massey has developed a distinctive model of teaching and learning which, through a strong commitment to skills, lifelong learning and access, has served many generations of learners from all backgrounds in New Zealand and overseas. This commitment will continue.

Already a leader in tertiary teaching, as demonstrated by the number of awards won by staff and the hosting of the National Centre for Tertiary Teaching Excellence (Ako Aotearoa), Massey wants its teaching to be defined by learner-focused research-informed learning; ongoing innovation in curriculum content, teaching, assessment and modes of delivery; constructive engagement with students with high levels of retention and progression to postgraduate study.

Massey intends to transform the learning experience of students. Massey's academic portfolio is currently being reviewed to ensure it is strategically positioned to deliver nationally relevant and internationally regarded academic programmes. Our challenge in the years ahead is to examine the Massey approach to teaching and learning to ensure it meets the needs of our different learning communities that make up the University in the 21st century.

Massey is in a position to define open and blended learning in New Zealand and possibly within the Asia-Pacific Region. Excellence in open and blended learning can be used as a platform for collaboration with other providers and industry, nationally and internationally.

Building on the 2020 strategy, as part of the budget process, proposals will be invited that advance implementation of the Academic Reform Project. Proposals that support investment in the information technology infrastructure and support the International Office operations are also a priority.

Connections. Massey University has a reputation for working closely with its many stakeholders and is determined to further develop these links, through a strategy of active engagement.

Massey makes a highly significant contribution to New Zealand and internationally through its academic programmes and research. The University will continue to enhance its contribution to the national network of educational and research provision, and international education, through collaborative relationships with industries, communities and other providers within and beyond New Zealand.

Massey's importance within New Zealand needs to be matched by its ability to bring together talented staff and students from around the world and, in turn, ensure there are opportunities for staff and students to learn and work in other countries. Massey needs to be a welcoming, diverse, international university that is acknowledged as a world centre of tertiary learning.

Building on the 2020 strategy, as part of the budget process, proposals will be invited that advance our reputation and raises our profile amongst prospective students and staff and our alumni. Proposals will also be invited that support engagement with Iwi, Māori professional organisations and Māori educational interests to enhance Māori student participation and completion rates.

Responsibility. As New Zealand's defining university, Massey has a responsibility to act in ways consistent with building a future for the nation. This responsibility relates to social, economic, cultural, and environmental issues. Staff and students need to see themselves as part of an institution that takes these responsibilities seriously in its own activities and provides opportunities to make a positive contribution to issues of concern. Much of this work is undertaken through our research, teaching, and connections with stakeholders but we can do more. It is important that Massey be seen to lead on issues where it has identified strengths and that its expertise is available to decision makers.

At this time, Massey has identified one area in particular - of over-arching concern: sustainability. As a university with relevant expertise in science, business and social science, Massey is well placed to build on its leadership in developing a sustainable future.

Our decision to make a contribution to building a sustainable future will have implications for our research and our teaching programmes as well as our connections with stakeholders.

Building on the 2020 strategy, as part of the budget process, proposals will be invited that integrate sustainability into Massey’s teaching and research programmes. Proposals will also be sought which incorporate a ‘best practice’ approach to sustainability in the planning and operation of all University surpluses.

Generating Income. An ambitious strategy has been set for the University that aims to see Massey acknowledged as New Zealand’s defining university and as a world centre of tertiary learning. This will require a substantial increase in surpluses.

To implement the developments outlined in the University’s long-term strategy will cost \$400 million over 10 years from a variety of sources including state funding, earned income, and private funding. Effective surplus generation is needed to provide Massey with the freedom to pursue its goals and chart an independent course for the future.

Building on the 2020 strategy, as part of the budget process, proposals will be invited that advance, assist with and rationalise our asset base and implement Massey’s asset management plan to ensure we optimise the use of our assets. Proposals that generate additional surplus for the University will also be sought.

Enabling Excellence. To achieve the ambitious goals in the University’s long-term strategy, we need to create an innovative culture that embraces change, delivers tangible results, and brings the University community together in a drive to make Massey New Zealand’s defining university. The University needs to provide a supportive environment that encourages a “can-do” and “does-do” attitude. To reinforce the kind of culture we mean to develop at Massey, it is imperative that we have an atmosphere of trust where staff understand the strategy and are enabled to work out what is needed. Leadership is to be encouraged throughout all units across the institution.

Building on the 2020 strategy, as part of the budget process, proposals will be invited that advance, continue to improve the information services for teaching, research and support services, with investment consistent with the Information

Services Strategic Plan. Proposals will also be sought that enable professional development opportunities for academic and general staff to be expanded.

2011 Budget Parameters

Budget 2010 targets a surplus of between three and four percent. Together with accumulated depreciation this will be used to fund future capital investment.

\$60 million of capital expenditure has been identified to enable priority infrastructure, equipment and information technology investment to be made.

Projects that were funded as part of the new initiatives programme in Budget 2010 will be funded in Budget 2011, subject to satisfactory financial performance and key performance indicators being met.

The funding will be sourced from new revenue opportunities specifically in commercial opportunities, through the Massey University Foundation, and growth in international students; reprioritisation of resources identified during the reorganisation of our structure; rationalisation of our academic programmes and papers; and use the proceeds realised as part of an asset divestment programme for reinvestment into high priority capital areas.

2011 Budget Process

Consistent with a strategic approach to Budget 2011, the budget process commences with the Budget Policy Statement. By the end of May, detailed guidelines for the preparation of Budget 2011 will be available. The starting point will be the 2010 approved budget adjusted for any previously approved changes.

The budgeting model will be transparent and incentivise the preferred strategic positioning of the University, as well as profitable revenue generation and fiscal prudence, within a capped EFTS funding environment. This will be based on a model that positions the Colleges as profit centres. In turn, all revenue that is generated through College activities, together with the associated costs, will be attributed to the budget units that earned that revenue. Transparent overhead contributions to the central University will be established as will key expenditure lines within annual budgets.

During June detailed budgets will be prepared. This will include members of the Senior Leadership Team developing proposals for new expenditure consistent with the priorities for each big goals outlined in the BPS.

During July and August, the Assistant Vice-Chancellor (FISC) will undertake a detailed scrutiny of the proposed budgets. This will include discussions with budget managers to align proposed budgets with the 2020 priorities and fiscal targets. It is expected that final budget decisions will be taken in late August.

Obtaining quality performance information will be an important part of Budget 2011. Budget managers will be expected to clearly describe what the intended or likely impacts of their proposed budget will be, in terms of measurable indicators of immediate outcome or likely impacts. This information will be an integral part of the preparation of the 2011 Annual Plans.

Conclusion

During the previous 18 months Massey has made significant progress towards delivering on the Road to 2020 goals. While much has been achieved, much remains to be done. This BPS sets out the key priorities and funding priorities that will underpin Budget 2011.

Consistent with the Road to 2020, Budget 2011 is designed to build on our existing initiatives. We will meet the challenges inherent in the current economic situation by maximising opportunities to increase surpluses continuing to scrutinise all expenditure and spending in areas that will enable us to invest in high priority areas consistent with being New Zealand's defining university.