

BUDGET POLICY STATEMENT

Massey University has recently released two important documents. The first is our Annual Report showing that the university achieved its budgeted surplus of \$6.8M, being a 1.5% return on revenue.

The continued achievement of our surplus targets has led to the TEC moving us from a medium risk category on their financial risk rating, to a low risk one.

This is significant. It means that the TEC has a high level of confidence in the University around its forecasts and plans. This in turn, leads to less compliance cost for the University.

The second important document is our new strategy “Shaping the Nation, Taking the Best to the World”. It has been compiled after a significant stakeholder consultation and provides a clear path to growth by ensuring that the University continues to expand internationally and continues to achieve excellence in its areas of specialisation.

Of course the ambitious pathway we have set ourselves needs resourcing. To do this we need to make considered choices as to shifting resources against a back drop of environmental change. Financial sustainability will put us in a position of strength to face the future. Surpluses give us freedom, they give us resilience, and they give us funds for investment and growth.

It's important to maintain these surpluses and develop a path to achieve a 3% to 5% surplus on our return over time. This budget policy statement provides the outlook for shaping the 2015 budget, with a view to building on our current sound financial performance.

The university landscape is rapidly changing. We are starting to see internationally focused universities such as Harvard move into distance education, we are seeing innovation in technology that is changing the way we teach, and we are seeing the rapid population growth in Auckland with all the challenge and opportunity that offers.

Though this environment is exciting and Massey is ahead of the change curve in many respects, they are also challenging times.

The global economic environment continues to be uncertain, and together with a strong New Zealand dollar, attracting international students is more difficult. Indications are that the international student numbers in New Zealand have flattened in 2014, and this may continue into 2015. Massey has been growing its international student numbers but these have not lifted to the extent that we had planned.

On the domestic side, when the economy grows, prospective students sometimes choose employment over study.

Universities are, to some extent counter-cyclical, more

protected when the economy contracts, and more exposed (at the margin) when the economy expands. Given that approximately half of Massey's students are studying by distance, and are on average a little older, Massey tends to be more exposed to this risk than other universities.

Coupled with this is a flattening of the domestic "straight from school" market. The babies of the baby boomers are moving through university education now and there is a flattening off of new entrants, though the effect is a little hidden by growth in Auckland. That is to say, there is a small contraction south of the Bombay Hills in numbers of school leavers. Growth in Auckland is good news for our Albany campus, but in the rest of New Zealand it makes the market for students more competitive.

To counter these trends, resources are being placed into a new advertising campaign that aims to grow our domestic base on all three campuses, and other strategies will be implemented to similarly grow our international numbers.

Massey has been affected by the Tertiary Education's Commission's past directive for Massey to reduce its enrolment numbers. The Government needed to constrain student numbers to limit increases in its own student loan liability. This means that presently at Massey there are more numbers graduating than entering the university and hence the overall number of students being taught is lower than last year. This may continue into 2015 and hence we will be

thinking further about how we replace the financial contribution that these students brought to the University.

On the research side, there are also risks. Last year we saw a 10% reduction in research from 2012, this year we are expecting research to contract further, and there are already signals that 2015 could be a tough year for Massey. Recent announcements around CoRES funding is a concern. Some of the past reduction results from changes in institutional arrangements leading to reduced availability of research funds - the merging of MSI to MBIE, being a case in point. This could affect Massey's PBRF performance and also its QS ranking, as the amount of external research completed is one element taken into account in the assessment of rankings. We will need to have a renewed focus on increasing our research outputs to counteract the current contraction.

This year sees the University entering into a new round of negotiation with the Tertiary Education Commission as to its funding over the next two years. Since 2008, Massey has had little increase in its nominal funding and with a constrained Government budget this is likely to continue to be the case.

TEC has indicated that it is changing its approach to funding to what is being referred to as an "investment approach". They consider that they are investing in a student in exchange for an economic return at a later date. If the student does not complete their course then there is no return for the taxpayer on this investment.

TEC have been monitoring Massey's course completion rates for some time, and they have been signalling to the sector where they have cause for concern. The risk for Massey is that if our course completions are below a benchmark we will be penalised in some way and hence it is essential that Massey lifts its course completion rates to 60% and above to avoid possible consequences. I am sure this is already a topic for discussion in each College.

Though we know distance students, in particular, fail to complete courses as a result of life choices, and that Massey performs well in terms of completion rates when compared to similar institutions overseas, the TEC's focus on course completion remains a risk.

This is election year, and each election brings an element of uncertainty. A new Government may bring a new direction, re-election of the National Party will certainly mean continuing constraint on Government funding to universities.

Hence the revenue outlook for 2015 has some risk. We are yet to quantify how that may play out in terms of actual dollars, but we are working on a financial model that will provide us with some scenarios to think about.

No matter what the economic cycle is however, there will always be opportunity. We are already endeavouring to diversify our revenue to reduce the risk of over-reliance on funding one source. The University is doing a lot in this area so I will only touch on a few examples. We have launched

Massey University Worldwide to establish Massey as an international brand and leverage Massey's areas of specialisation. We are already seeing benefits from the formation of the College of Health as the College becomes to be recognised as the preeminent provider of non-medical health programmes in the country. We are developing new degrees that meet market demand. But we need to focus on growing all our revenue lines including consultancy, commercial operations as well as international and domestic student fee revenue.

On the expense side, the environment is also not easy with increases equal to or greater than CPI over many of our cost lines including salaries. We have had, and will continue to have, a bold procurement programme. The programme has helped hold some of our costs in check e.g. \$1.2M in energy savings over two years on the Wellington campus alone.

However as time goes on we have to look at doing things more efficiently rather than just reducing the contract price. We need to stop doing things that don't add a lot of value. This relies on every staff member to contribute ideas and also take action in making these ideas a reality. We also need everyone to continue to make careful choices when expending money to ensure that Massey always receives value for every dollar.

Though this environment is challenging, it has never been easy to make allocation decisions when resources are constrained.

To date we have managed well.

On the capital side we continue to place our resources where they are most needed. For example, we are building the Vet complex – presently estimated to cost \$75M. We are building the accommodation at Albany for students – estimated cost \$26M. And we are refurbishing the library at Wellington - another cost of around \$6M. Again, on the Wellington campus, the School of Public Health refurbishment and seismic strengthening has been recently completed at a cost of around \$9M.

Each year the environment gets more complex. We are in constrained financial times. We need to continue to make considered choices as to where we expend funds, we need to ensure we grow and diversify our revenue streams. We need to continue cost reduction and provide funds for new investment. We do have to make hard choices, but by ensuring we continue to meet budget targets means we preserve our freedom into the future.

We will continue placing our resources in the areas which will best deliver our strategic goals and ensure that Massey Shapes the Nation and takes the Best to the Rest of the World.