

Budget Policy Statement 2013

We are about to commence the 2013 Budget Process, so I thought it would be opportune to discuss some of the challenges ahead as we progress towards achieving our vision to be New Zealand's defining university and a world leader in higher education and scholarship.

The key to success is to be financially sustainable, and I wanted to give you an overview of where our revenue and costs are headed so that we continue to meet this goal.

Our biggest funder, is the Government, though part of our Road to 2020 strategy is to diversify our revenue base and move away from reliance on Government funding. We are partly down that track and I will talk about this later.

Presently we are developing our investment plan which is the key document necessary to secure funding for the university over the next two to three years. As part of this process the Government through the TEC provides its expectations of universities and we are required to explain how we will best achieve them. I thought I would give you a quick outline of these expectations as they are important for Massey and for New Zealand's future.

- The first is that Maori and Pasifika learners participate and achieve at all levels at least on par with other students. Our new Kia Marama strategy builds on the successes we have had in this area.
- The second is excellence and distinctiveness of institutional mission – that is universities need to focus on institutional strengths and support performance and quality and
- The third is to be active and successful in knowledge transfer from research activities and linkages with industry. The focus is to increase the impact universities can have on New Zealand's development, through knowledge exchange, collaboration, research and commercialisation strategies.

All three of these expectations are well covered in the Road to 2020 and its sub-strategies. The academic reform programme across all colleges is key to achieving this as is the implementation of the recently released research strategy. The formation of a new College of Health and Institute of Education position Massey not only at the forefront of research and scholarship but shows Massey's distinctiveness in terms of driving both economic growth and relevance to the new New Zealand.

Though we are well aligned to the Government's and TEC's expectations of Universities there are a number of new challenges on the horizon for Massey as the Government is not only reducing its funding in real terms for student programs, but it is also reprioritising the existing funds amongst tertiary education providers.

You will be aware that in the Government's budget this year there wasn't an across the board increase for universities though universities are facing increasing costs yearly. This is likely to continue into the future as the Government grapples with its budgetary problems.

Modest increases were targeted at Science and Engineering. At best this will mean about a \$1Million increase for Massey next year. It is not much when you realise that Massey has a total cost base of around \$440 Million and this will increase with inflation. Insurance costs alone are expected to increase by another half a million dollars next year.

Another concern is the introduction of the new performance linked funding policy which has the potential to reduce funding for universities. This new measure is based on Educational Performance Indicators relating to course and qualification completion, student progression and student retention. The formula does not appear to adequately address the fact that Massey has a large number of students enrolled in distance learning and there are many factors relating to course non-completion that are outside Massey's control. If TEC does not recognise, and make appropriate adjustment for these factors then it is likely that the gains from Science and Engineering will be more than lost through the introduction of performance linked funding.

PBRF changes are another challenge. Before I progress, thank you to everyone involved in ensuring that the portfolios submitted for the PBRF are the best possible. This puts Massey in the most advantageous position for securing future funding. As you will be aware, the rules around the PBRF assessment are changing and the impact on Massey's revenue stream is yet to be known.

As I mentioned earlier, our strategy is to be less reliant on Government revenue and hence we need to keep growing our international and commercial revenue to replace Government funding. Being connected and growing our partnerships with private sector organisations and other education providers, nationally and internationally, is the key to generate research and tuition income from a much broader base.

The challenge is to grow these revenues at a greater rate than the costs are increasing.

This is something that we have been incredibly successful in achieving in the past. If you have had a chance to read the budget highlights attached to the VC's e-log in May then you will have noted that since 2008 Massey has only had a 3.3% increase in its total funding from Government, whereas Massey's costs have been increasing close to that percentage each year.

Last year, we got an extra \$1.2 M from Government but our costs rose \$9.8M. We managed to turn this around by increasing our revenue and controlling our costs with the result that we made a surplus of \$7.6M. This is still outside the TEC's specified target, which would require a surplus of \$13M, but it is still very commendable.

Surpluses are very important as we need them to reinvest in our capital programme each year. We don't retain any of these surpluses, we reinvest them in IT and buildings that make the university both a good place to work and to study. It also means we are less exposed to external risks as we have more capability to adjust to economic shocks. We are more resilient. If something happens we don't have to slash budgets as Otago has done recently.

Hence, the challenge for Budget 2013 is to build on the positive work that has been done over recent years as part of the Road to 2020 strategy so that Massey continues to be both successful and resilient to the changing economic environment.

With the Government changes, it's a measure more difficult this year to obtain financial sustainability but it is achievable if we continue to grow our revenue and be both strategic and mindful in our expenditure decisions.

These are things that I would like you to be thinking about when you are putting your budgets together this year.

Please think about ways you can grow your revenue base, Massey is known for being creative and innovative and this is a key to our future success.

In relation to expenditure decisions, being strategic is about placing our capital investment and our operational expenditure into areas that provide the greatest alignment to our Road to 2020 goals. This means that we will each need to be thinking about where Massey gets the highest return for its expenditure and stop doing things that are low priority.

It is always easy to increase what we do, and forget that when we do this, if we have limited resource, we must stop doing some things that don't add a lot of value. I would like you to think about the services we provide in terms of their priority and ask the question as to whether there are some these services that add little value and can be discontinued.

Being mindful is about making considered decisions when we incur expenditure. As you know Massey has been progressing a significant programme to make savings in our procurement. The main saving however is not from negotiating a lower price for the same goods or services from a supplier, the main saving is by being mindful about the choices that we make, and just like with growing revenue it's about being creative and innovative in how we do things around here.

For example, we have completed procurement contracts to leverage the number of bed nights and receive great rates for hotel accommodation. Being mindful about the expenditure, is not only ensuring that we use those suppliers but considering whether we need to travel at all. Massey has some great video-conferencing facilities and these need to be considered too. If we do travel, then taking best value fares rather than flexi fares may be a great option.

By being mindful about what we choose to purchase and how we purchase it is a painless way to make savings.

Similarly the redesign of processes can achieve business efficiencies. You are in a unique position to recognise what works, what doesn't and what can be done better. We must aim to get the best value we can so that income is freed up to use in the areas that count – the areas that grow our reputation and income by boosting our teaching and research capability and the successes that flow from that.

I invite you individually and collectively to engage with me to consider new ways of doing things which we could work together to achieve. Send me an email if you would like to take up that offer, as I would love to hear your ideas. Thank you to everyone working across the university on the twenty-seven different procurement initiatives which are presently underway.

Everyones efforts will help Massey not only to be financially sustainable but will underpin its success as the engine of the new New Zealand.

Thank you