

CREDIT OPINION

5 August 2024

Update



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RATINGS

University of Tasmania

Domicile	Australia
Long Term Rating	Aa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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University of Tasmania (Australia)

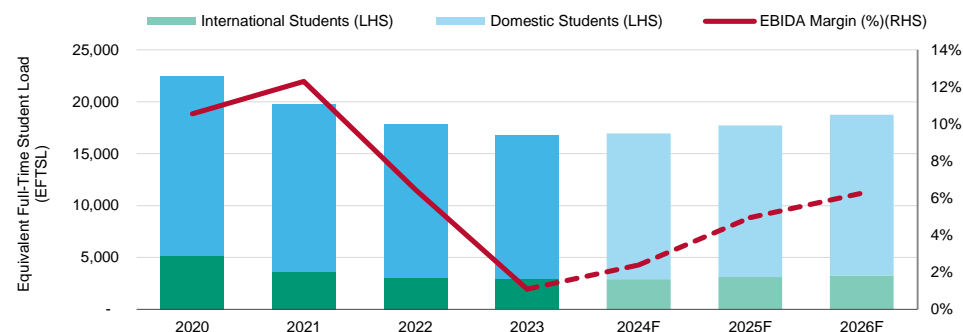
Update following outlook change to negative

Summary

The [University of Tasmania's](#) ('UTAS' 'the University', Aa2 negative) credit profile reflects its strong financial resources and liquidity and modest leverage compared to its peers, notwithstanding a prospective structural weakening of intrinsic financial strength that has driven a revision of the outlook to negative from stable. The University's strategic position and niche offering in the state of Tasmania ('the State', [Tasmanian Public Finance Corporation](#), Aa2 Stable), as well as the supportive institutional framework for Australian universities through close ties with the Government of Australia ('the Commonwealth', Aaa Stable) provide further support for the credit. A challenging operating environment drove a narrowing of EBIDA margins to 1.1% in fiscal 2023 (fiscal year ended 31 December), significantly below the historical average of 9.9% recorded in the preceding five-year period, correspondingly weakening the University's debt service coverage ratio¹ (DSCR) to 0.5x--in other words, net operating income was insufficient to cover interest payments--from an average of 9.8x between 2018 and 2022.

Exhibit 1

EBIDA margins will progressively increase as overall student enrollments steadily recover over the next three years and cost inflation pressures abate



Sources: University of Tasmania, Moody's Ratings

Credit strengths

- » Strong institutional framework and funding support
- » Distinctive research capabilities and operating ties with the State and Commonwealth

Credit challenges

- » Weak EBIDA margins and debt service coverage, reflecting elevated operating costs and weak demographics that increase reliance on interstate and international students
- » Risk associated with the planned relocation of the Sandy Bay Campus; albeit partly mitigated by strong cash and investments

Rating outlook

The rating outlook is negative, reflecting uncertainties surrounding the effectiveness of the University's cost stabilization measures and the revival of enrollment trends amid a lackluster global and Australian economic outlook.

Factors that could lead to an upgrade

Notwithstanding the execution risks faced by UTAS in rebuilding its operating margins, a sustained recovery in EBIDA margins to a level above 5% by end 2025 would likely result in the outlook returning to stable.

While the negative outlook indicates an upgrade is unlikely in the near term, over time we could upgrade the ratings in the event we saw a material increase in UTAS' holdings of total cash and investments that bolster its liquidity profile, and a sustained improvement in the University's EBIDA margins, which could stem from effective cost controls and robust revenue growth.

Factors that could lead to a downgrade

Downward pressure on the ratings would be driven by a significant deterioration in financial performance, reflected in: sustained lower EBIDA margins, which could arise from the ineffectiveness of efforts to control costs and recover revenue; materially higher levels of total adjusted debt beyond our projections, which could arise from delays, cost overruns or risk management practices proving less effective than assumed in delivering the Southern campus transformation plans; and/or a deterioration in UTAS' internal liquidity levels.

We could downgrade the rating if we believe there is a reduced likelihood of extraordinary financial support from the Commonwealth or if the creditworthiness of the Australian sovereign weakens.

Key indicators

Exhibit 2

University of Tasmania Year ended 31 December

As of 31 December	2021	2022	2023	2024F	2025F	2026F
Operating Revenue (AUD'000) [1]	693,991	678,533	674,662	703,087	741,741	772,853
EBIDA Margin (%)	12.3%	6.5%	1.1%	2.4%	5.0%	6.3%
Total Cash and Investments (AUD'000)	507,162	676,521	526,224	478,021	442,199	441,584
Total Cash and Investments to Operating Expenses (x)	0.76	0.97	0.71	0.63	0.57	0.55
Total Cash and Investments to Total Adjusted Debt (x)	1.89	1.26	1.00	0.90	0.79	0.84
Annual Debt Service Coverage (x)	7.65	3.82	0.50	1.16	2.53	3.34

Operating revenue is net of scholarship expenses and is adjusted to smooth investment returns. 2024F-2026F denotes Moody's forecasts and not the view of the issuer

Sources: University of Tasmania, Moody's Financial Metrics and Moody's Ratings estimates

Detailed credit considerations

University of Tasmania's ratings combine: (1) a baseline credit assessment ('BCA') of a1, and (2) a high likelihood of extraordinary support from the Commonwealth in the event of acute liquidity stress.

The University's ratings are influenced by its strong standalone credit profile (reflected in the a1 BCA) which is underpinned by strong financial resources and liquidity metrics and modest leverage; albeit this is partly offset by elevated cost pressures and softer enrollments.

Baseline credit assessment

Strong institutional framework and funding support

UTAS benefits from a stable institutional framework for higher education in Australia, including secure funding levels and strong oversight. Both the Commonwealth and state governments play important roles in the governance of Australia's public universities, which are established under state legislation and remain statutory authorities of the states.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Under this framework, UTAS receives secure and predictable grants from the Commonwealth, with around 68.5% of 2023 operating revenues coming from government transfers and grants; a figure we expect to remain above 65% for the foreseeable future.

In contrast to its domestic peers, UTAS continues to benefit from a strong level of capital funding support from government, which reflects its very close ties to the Commonwealth and the State, which also incorporates the University's role in state policy implementation, including its role as the sole source of state-trained nurses, doctors and teachers.

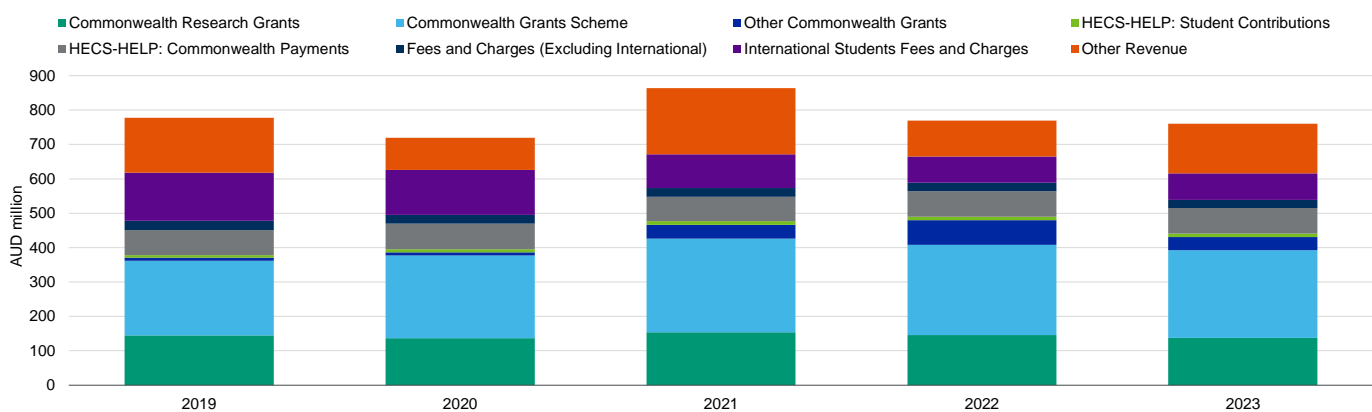
The University has also received capital grants from the Commonwealth to fund its large capital spending program. The Commonwealth government also monitors the financial performance of universities, focusing on operating results, liquidity and capital management.

The State provides funding support to the University through research and capital grants, and nominates two of the 13 members in the University's Council², each of whom must not be a student or member of the academic staff or professional staff and of whom at least one must be a graduate of the University in accordance with the University of Tasmania Act 1992³.

State oversight of UTAS also includes the Tasmanian Auditor-General conducting the annual statutory audit of the University's financial statements and the need to obtain written approval from the State Treasurer to exercise its power to borrow money.

Exhibit 3

Commonwealth funding (including Higher Education Contribution Scheme⁴ (HECS) revenues) remain a significant portion of UTAS' total revenue base



Unadjusted revenue. Other revenue include investment income

Sources: University of Tasmania, Moody's Ratings

The Australian government continues to strengthen its investment in higher education, evidenced by the Universities Accord⁵ which targets to increase the tertiary attainment rate for working age Australians from currently around 60% to at least 80% by 2050. To facilitate this reform, an investment of AUD1.1 billion is committed over the next five years. While the overall government spending on tertiary education could increase if the Accord is implemented, it's uncertain what UTAS will receive in terms of higher funding support as the new funding models for education and research are still in the development phase.

If fully implemented as proposed, we expect the Accord could weaken universities' governance and operating conditions, which would be credit negative⁶. However, the Accord poses no immediate credit concern on UTAS given the implementation of the proposals will take some time.

We expect that the Commonwealth will remain a key supporter of the university sector, given the sector's importance to the national and regional economies and government policy goals.

Distinctive research capabilities and operating ties with the State and Commonwealth

As the sole university located on the island state of Tasmania, UTAS plays a unique role in government operations and public policy formulation. This is exemplified by the responsibilities it undertakes on behalf of the state, such as conducting reviews and research proposals on issues such as state law reforms under the aegis of the Tasmania Law Reform Institute Renewal Agreement. During the

COVID-19 pandemic, UTAS played a pivotal role in the developing of Tasmania's response, including the secondment of 30 full-time staff to the state and formulating the Premier's Economic and Social Recovery Advisory Council.

UTAS' close ties with the government extend to management of fisheries and biohazards, highlighting the diverse and unique partnership between UTAS and the state. It stands as the second largest employer in the state, trailing only the Tasmanian government, and is the sole provider of state trained nurses, doctors and teachers.

UTAS also exhibits an excellent record of predictable Higher Education Research Data Collection (HERDC) reportable research income from the Federal Government, predominantly through competitive grants, combined with consistent block grant funding from government to support research and research training. Importantly, the University's research funding model is not reliant on cross-subsidization of international students, and as such remained strong during the pandemic.

Complementing its local and regional position, UTAS has achieved national and international recognition for its niche research capabilities in specialized areas including agriculture, marine and maritime studies, as well as Antarctic research, providing important sources of diverse revenue and boosting its global reputation.

The state's unique geographic locations plays an important part in this research specialization, with Hobart serving as Australia's gateway to Antarctica and the Great Southern Ocean. The University is home to the Australian Maritime College (AMC) and the Institute for Marine and Antarctic Studies (IMAS) which allows it to achieve a distinctive level of integration with government agencies such as the Australian Antarctic Division (AAD) and the Commonwealth Scientific and Industrial Research Organization (CSIRO).

The collaboration includes the Antarctic Gateway Partnership⁷, a Commonwealth funded initiative that aims to reinforce Tasmania's recognition as a global leader in Antarctic and Southern Ocean science and as a gateway for Antarctic research, education, innovation and logistics.

With these developments UTAS will continue to maintain high levels of cooperation with government agencies and serve an important role in the fulfillment of national strategic priorities in the Australian Antarctic Strategy and 20 Year Action Plan to advance Australian interests in Antarctica.

This bespoke relationship with all levels of government and government agencies, combined with its distinct offerings, will continue to solidify the University's unique social, economic and political position and enhance its appeal to both domestic and international students.

Weak EBIDA margins and debt service coverage, reflecting elevated operating costs and weak demographics that increase reliance on interstate and international students

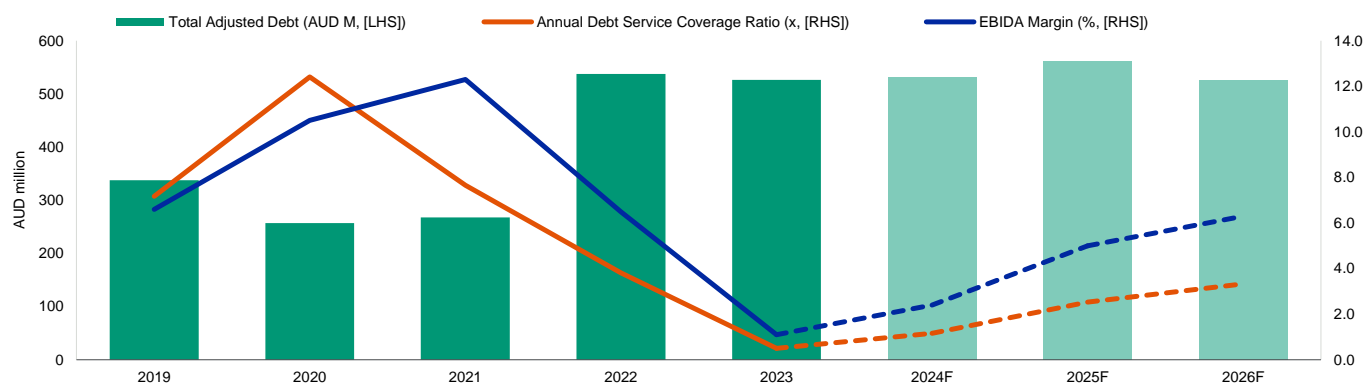
A challenging operating environment in 2023 drove the deterioration in the University's operating margins, largely driven by a 6.6% decline in domestic student enrollment, reflecting low unemployment and escalated cost of living pressures that have raised the opportunity cost of pursuing higher education in Australia, exacerbated by changes to Australia's migration policy that saw a slowdown in visa processing that led to slight 1.1% decline in international student numbers.

Elevated inflation pressures, particularly wages and salaries on the completion of wage negotiation agreements - AUD460.3 million in 2023, up from AUD432.9 million in 2022 - prompted UTAS to implement various costs management initiatives, including managing payroll through natural attrition and streamlining administrative and governance processes, as well as targeting the sale of non-core assets to strengthen liquidity in the short term.

We project EBIDA will recover to 2.4% in 2024 (from 1.1% in 2023) before increasing to 5.0% in 2025 and stabilizing in the mid-to-high single digits over the medium-term; lower than similarly rated domestic peers reflecting the University's higher cost base and multi campus operating model⁸. This partly reflects cost stabilization measures as well as an expected recovery in domestic and international enrollments over the next 2-3 years. We understand Semester 1 2024 domestic enrollments increased around 10%.

Exhibit 4

International and domestic enrollments will experience steady growth over the next 2-3 years supporting the recovery in margins and debt affordability



Sources: University of Tasmania, Moody's Ratings

Similarly, our central scenario forecasts a marked improvement in UTAS' annual debt service coverage ratio, improving to 1.2x in 2024, 2.5x in 2025 and 3.3x in 2026. By 2026, these levels are consistent with an equivalent Aa outcome for sub-factor 5.2 under our Higher Education Methodology, compared with 0.5x in 2023 which reflects an equivalent outcome of Ba.

Despite the sustained reversal of the deterioration in intrinsic financial strength suggested by our forecasts, our negative outlook reflects uncertainties surrounding the effectiveness of the University's countermeasures to stabilize costs and revive enrolment growth, especially given the lackluster global and Australian economic outlook over the next two to three years.

The University had a AUD2.5 million net liability for unfunded superannuation liabilities⁹ as at 31 December 2023, which is also included in our total adjusted debt calculations.

Risks associated with the planned relocation of the Sandy Bay Campus; albeit partly mitigated by strong cash and investments

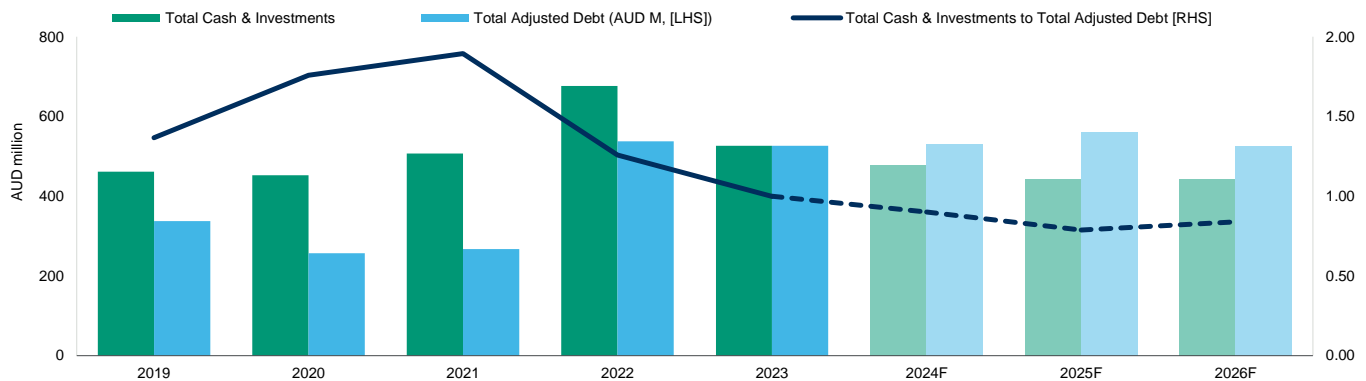
The AUD368 million Northern Transformation (both Inveresk and Cradle Coast campuses) is expected to be completed in the second half of 2024 and will leave UTAS well positioned to focus on its ongoing southern campus program. The University has a strong track record and well-established protocols in managing large capital spending programs, with the majority of projects over the past 10 years delivered on time and on budget.

While UTAS retains strong wealth metrics, we expect its' risk management culture and framework will be of increasing importance as it proceeds with the southern campus program, amidst a challenging fiscal and macroeconomic landscape as well as emerging social risks as it manages the shift from Sandy Bay to the Hobart CBD over time.

Our central scenario assumes total adjusted debt will likely rise over the next 3-4 years as the University makes progress on the southern campus program projects. We expect this will be reflected through a modest increase in UTAS' stock of debt borrowings or a partial shift to a capital-lite strategy via a potential sale and leaseback of some southern campus program properties with long term rental leases. The ongoing monetisation of surplus non-core assets within the broader southern campus program plan remains a part mitigant for a higher debt burden (see exhibit 5).

Exhibit 5

Strong government support underpinned the Northern Campus Transformation and enables capacity to fund the southern campus transformation



Sources: University of Tasmania, Moody's Ratings

The University's ongoing commitment to maintaining robust risk management practices and a proven track record of strong risk management culture is a positive indicator in our assessment of UTAS' ability to navigate and mitigate potential risks effectively.

Exhibit 6

Risk of delays and overruns for UTAS' capital plans are managed by a dedicated project team assigned to each build

Project Managers	Project Teams	Contract Management	Change Management
» Dedicated Project Managers responsible to monitor project delivery	» Project Team for North and South meet on a weekly basis	» Legal contracts in place for all architect and construction firm engagements	» Buildings are delivered during semester break to minimise disruption
» Each project is supported by the Transformation team, including (i) Legal (ii) Finance (iii) Change Management (iv) Comms & Engagement	» Constant monitoring of emerging risks via Status Reports	» Formal contract review process managed by Legal and Procurement Teams	» Early engagement of staff and students in technical working groups guide building designs
	» Key issues documented in Briefing Papers for Transformation Working Group review and approval	» Quantity Surveyor actively engaged in each project from early stage to monitor costs	» Prototype office established in Burnie and planned for Launceston and Hobart
			» Weekly engagement with staff leadership via University Strategic Forum

Sources: University of Tasmania, Moody's Ratings

We note growing social risks amid some community resistance to the eventual decant, and sale, of the Sandy Bay campus. While this may delay or result in a modification to the overall southern campus program, we consider the University is well placed to managed these risks.

Extraordinary support considerations

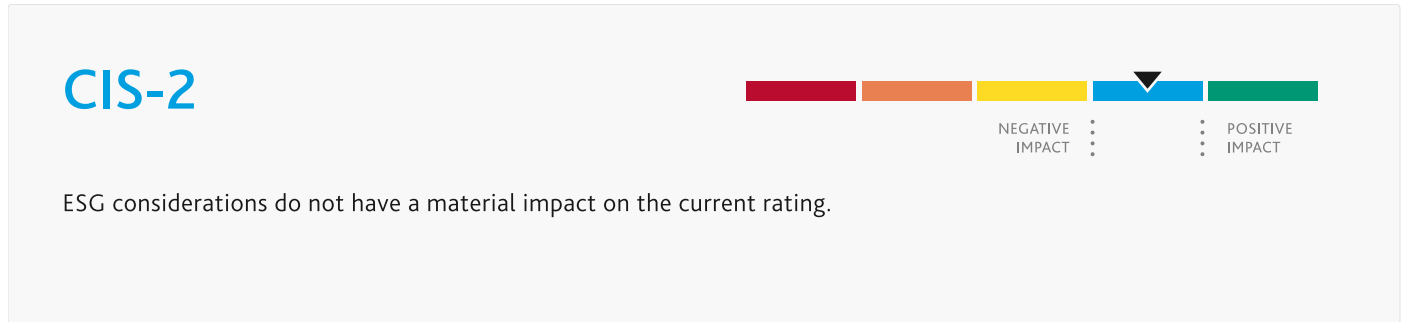
We take into account a high likelihood of extraordinary support from the Government of Australia, which reflects our assessment of the risks posed to the Commonwealth's financial reputation if the University were to experience acute liquidity stress. We also factor in a very high default dependence level to reflect the relatively large proportion of revenue derived from Commonwealth grants.

ESG considerations

University of Tasmania's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score

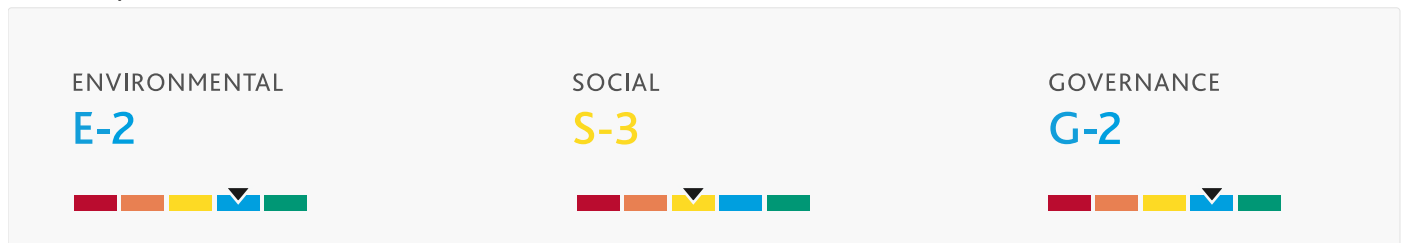


Source: Moody's Ratings

The University of Tasmania's **CIS-2** ESG Credit Impact Score indicates that ESG considerations are not material to the rating.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The University of Tasmania's **E-2** reflects the absence of meaningful risks across all environmental factors that we monitor. Environmental issues and sustainability are a key element in the University's mission and forms one of the six core outcome measures embedded in UTAS' Strategic Plan 2019-2024. The Plan includes actions and research on responsible use of agricultural resources and sustainable management of ecosystems, reducing carbon emissions and preserving oceans, promoting sustainable fisheries and aquaculture, as well as reducing waste and pollution. The state's unique geographical location as Australia's gateway to Antarctica and the Great Southern Ocean combines with the university's Australian Maritime College (AMC) and Institute for Marine and Antarctic Studies (IMAS) to consolidate a distinctive level of integration with government and government agencies, such as the Australian Antarctic Division (AAD) and the Commonwealth Scientific and Industrial Research Organization. Consistent with its focus on researching physical climate risk and environmental sustainability, the University's investment funds have fully divested all fossil fuels and have a clear mandate to invest in climate friendly industries of the future. UTAS' issuance of a green bond further reflects their emphasis on environmental sustainability.

Social

While the **S-3** social IPS reflects long-term demographic risks that are common to the Australian higher education sector, such risks are more pronounced for the University relative to its peers on the mainland given its relatively small domestic catchment that has traditionally increased its reliance on interstate and international students. Consistent with the Strategic Plan, UTAS has focused student recruitment strategies with distinctive offerings which centers on market diversification and online offerings (UTAS has the 4th largest online offering in Australia). Partly offsetting this, UTAS benefits from its role as a key tool to develop and implement state policy, conducting reviews and research proposals for law reform as well as various partnerships including management of fisheries and biohazards.

Governance

The University of Tasmania's **G-2** governance IPS indicate that governance risks are not currently material to its credit profile. It is full aligned with the general standards of governance and the robust institutional framework for the higher education sector in Australia, recognizing the Commonwealth and state governments play important roles in legislating and monitoring governance of the sector. Data transparency is very high, with all material legislation, University statutes and policies published on its website, along with capital plans and accounts. UTAS is exposed to extensive governance, procurement and execution risks as it progresses on its Northern and Southern campus transformation plans. In mitigation of these risks, UTAS has established a good record in delivering projects on time and on budget which are underpinned by robust governance and risk management processes with oversight at the highest levels of the university, including projects being managed by dedicated steering committees chaired by the Vice-Chancellor. Nevertheless, the effectiveness of ongoing measures to reverse the recent deterioration in its financial performance could weigh on our broader assessment of governance going forward.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Profile

Founded in 1890, UTAS is the sole provider of higher education located in the state of Tasmania and was established in its current form under the University of Tasmania Act 1992 following integration with the Tasmanian State Institute of Technology in Launceston which became the Newnham Campus. In 1995, a new campus at Burnie on the North-West Coast was opened, which later became known as the Cradle Coast Campus.

The university is world renowned for its research at the Institute for Marine and Antarctic Studies (IMAS) in Hobart, and the Australian Maritime College (AMC) in Launceston. UTAS' key areas of distinction are in marine and freshwater biology (ranked fourth globally) as well as fisheries and oceanography (ranked seventh globally), which are underpinned by Tasmania's geographic proximity to the Great Southern Ocean and the Antarctic. This positions UTAS as a global polar research hub.

UTAS' 2019-2024 Strategic Plan is centred on six key outcomes¹⁰ that are structured to make an impact for and from Tasmania. The Strategic Plan noted more than half the university's students were not 'school leavers' and had to balance study alongside work and other commitments. Concomitantly, UTAS and state government recognized the state's decentralised population and the need to deepen collaboration with schools as well as enhance the university's regional access, improve pathways and tailor offerings (e.g., short-courses and associate degrees).

During the pandemic, it became apparent that the Strategic Plan addressed many of the challenges faced as a result of COVID, with the university well-placed to accelerate the rollout of the strategy, including making UTAS a more differentiated offering that is easier to navigate, supported by a simpler organization.

UTAS Sydney campus includes the Rozelle campus, offering nursing, paramedic and health management education, all in partnership with local hospitals and health service providers. It occupies space, owned by Sydney Local Health District, in part of Callan Park.

Rating methodology and scorecard factors

In the case of the UTAS, the scorecard matrix generates an estimated BCA of a2 which close to the BCA of a1 assigned by the rating committee.

The principal methodologies used in these ratings were Higher Education Methodology published in July 2024 and Government-Related Issuers Methodology published in January 2024. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

The Scorecard-Indicated Outcome, which generate estimated BCAs from a set of qualitative and quantitative credit metrics, are tools used by the rating committee in assessing Higher Education stand-alone credit quality. The credit metrics captured by these tools provide a good statistical gauge of stand-alone credit strength, and, in general, higher ratings can be expected among issuers with the highest scorecard-estimated BCAs. Nevertheless, the scorecard-estimated BCAs do not substitute for the rating committee's judgments regarding individual BCAs, nor is the scorecard a matrix for automatically assigning or changing these assessments.

Exhibit 9

University of Tasmania

As of 31 December 2023 and Moody's Forward View

Scorecard Factors and Sub-factors	2023		2024F	
	Value	Score	Value	Score
Factor 1: Scale (15%)				
Adjusted Operating Revenue (USD Million)	448	A	463	A
Factor 2: Market Profile (20%)				
Brand and Strategic Positioning	A	A	A	A
Operating Environment	Aa	Aa	Aa	Aa
Factor 3: Operating Performance (10%)				
EBIDA Margin	1%	Ba	2%	Ba
Factor 4: Financial Resources and Liquidity (25%)				
Total Cash and Investments (USD Million)	359	Aa	315	Aa
Total Cash and Investments to Operating Expenses	0.7	A	0.6	A
Factor 5: Leverage and coverage (20%)				
Total Cash and Investments to Total Adjusted Debt	1.0	Aa	0.9	A
Annual Debt Service Coverage	0.5	Ba	1.2	Baa
Factor 6: Financial Policy and Strategy (10%)				
Financial Policy and Strategy	A	A	A	A
Scorecard-Indicated Outcome		a2		a2
Assigned BCA		A1		A1

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt (issued or proposed) after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

2024F denotes Moody's forecasts and are not the view of UTS

Sources: Moody's Ratings, University of Tasmania

Ratings

Exhibit 10

Category	Moody's Rating
UNIVERSITY OF TASMANIA	
Outlook	Negative
Baseline Credit Assessment	a1
Issuer Rating	Aa2
Senior Unsecured -Dom Curr	Aa2

Source: Moody's Ratings

Endnotes

- [1](#) As measured by EBIDA relative to interest expense and scheduled principal payments.
- [2](#) The governing body of the University.
- [3](#) The Act also establishes that before making an appointment to the Council, the Minister of Education and the Council must give public notification of the vacancy, consult with each other about any intended appointment and assess the balance of skills and experience, regional representation and an appropriate gender balance.
- [4](#) A HECS-HELP loan is a non-interest bearing loan from the Commonwealth, available to domestic students are enrolled in Commonwealth supported places (CSP) and is used to pay the student contribution amount for the degree.
- [5](#) See [Australian Universities Accord Final Report Document](#). The report includes 29 key findings and 47 detailed recommendations covering 29 topics.
- [6](#) See more details in our recent publication: [Accord reforms will weaken operating conditions and governance for universities](#).
- [7](#) Key objectives of the Partnership include: a) Developing an innovative, next-generation, polar autonomous underwater vehicle to acquire high resolution data under sea ice and ice shelves; b) Providing a near real-time sea ice charting service to vessels operating in the East Antarctic and conducting research to support sea ice forecasting; c) Advancing our understanding of how the oceans melt Antarctic ice shelves, and quantifying present and future Antarctic Ice Sheet mass loss and its contribution to sea-level rise; d) Building our understanding of environmental controls on marine life, ranging from pelagic microbes to benthic communities using various sampling platforms, lab-based microbial culture experiments, habitat and life history assessments of mesopelagic, and regional process studies; and e) Assessing the contribution of the Antarctic Ice Sheet to sea level since the Last Glacial Maximum (~20,000 years ago) via geophysical observations and modelling.
- [8](#) As the sole university's in the state, UTAS is required to have a broad course offering and different campus options for students. Its campuses are located in Hobart, Launceston and the Cradle Coast, and it has a small presence in Sydney.
- [9](#) Compared to international peers, Australia provides some of the strongest support for unfunded superannuation liabilities, where the unfunded liability is fully covered by the Commonwealth (78%) and the rest by the states (22%), consequently removing universities' funding obligations for legacy unfunded superannuation liabilities.
- [10](#) Educational Attainment, Health, Economic Performance, Social Inclusion, Cultural Participation and Environmental Sustainability.

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