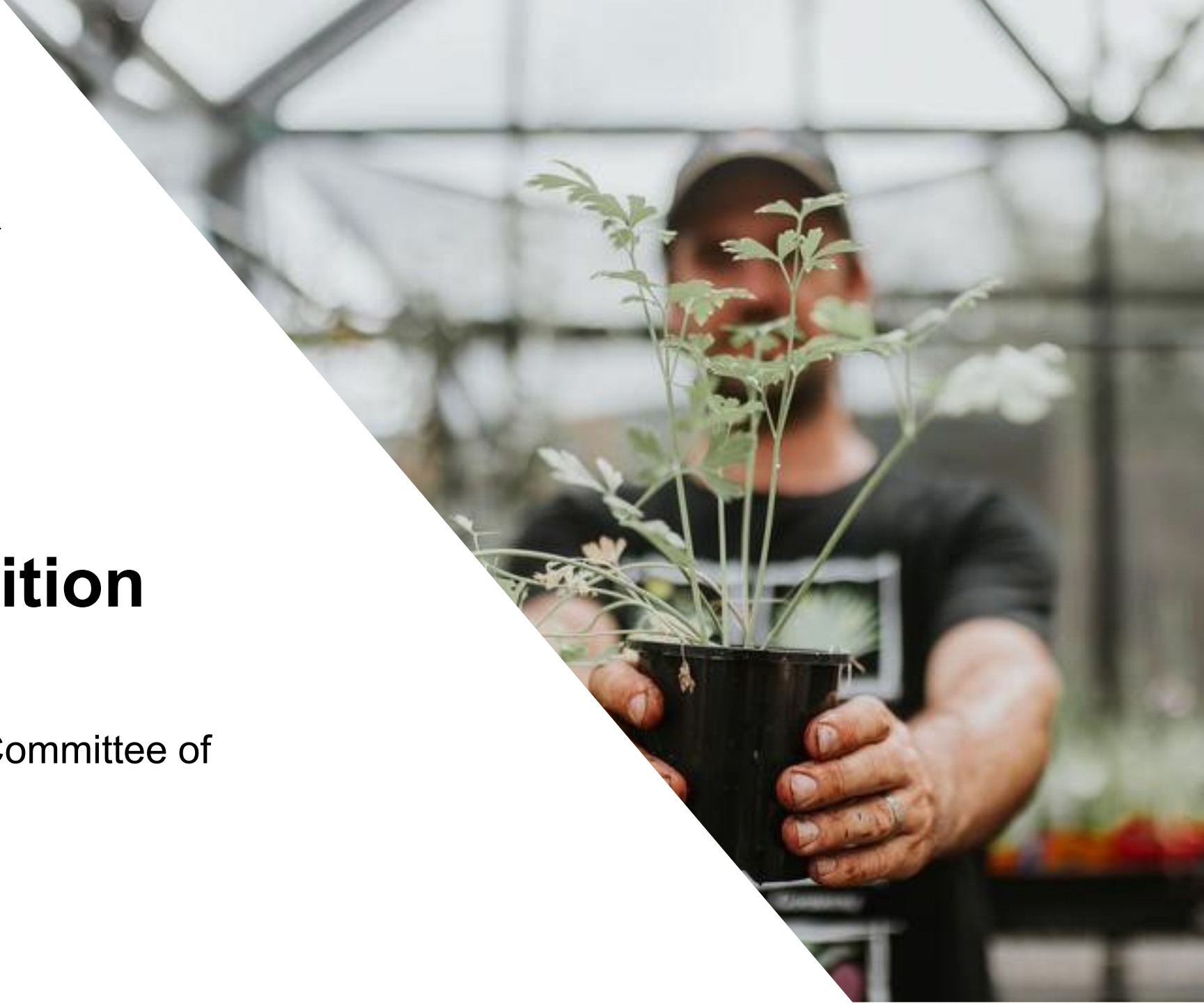


# Financial Position Inquiry

Parliamentary Standing Committee of  
Public Accounts

22 August 2024



A photograph of traditional Indigenous objects. In the foreground, there is a large, shallow, reddish-brown clay bowl filled with a dark, granular substance. To its left, a small, dark, bowl-shaped object with a beaded necklace draped over it sits on a bed of dry grass. In the background, two more woven baskets are visible, one containing dark stones and the other containing white stones. The entire scene is set against a blurred natural background.

## Acknowledgement of Country

We acknowledge the palawa/pakana of lutruwita, the traditional owners of the land upon which we live and work.

We pay respects to Elders past and present as the knowledge holders and sharers. We honour their strong culture and knowledges as vital to the self-determination, wellbeing and resilience of their communities.

We stand for a future that profoundly respects and acknowledges Aboriginal perspectives, culture, language and history.



Australian higher education is going through the largest change since the early 1990s as it transitions from an era of rapid market driven growth to a **managed system with at best low domestic and international growth** in the near term

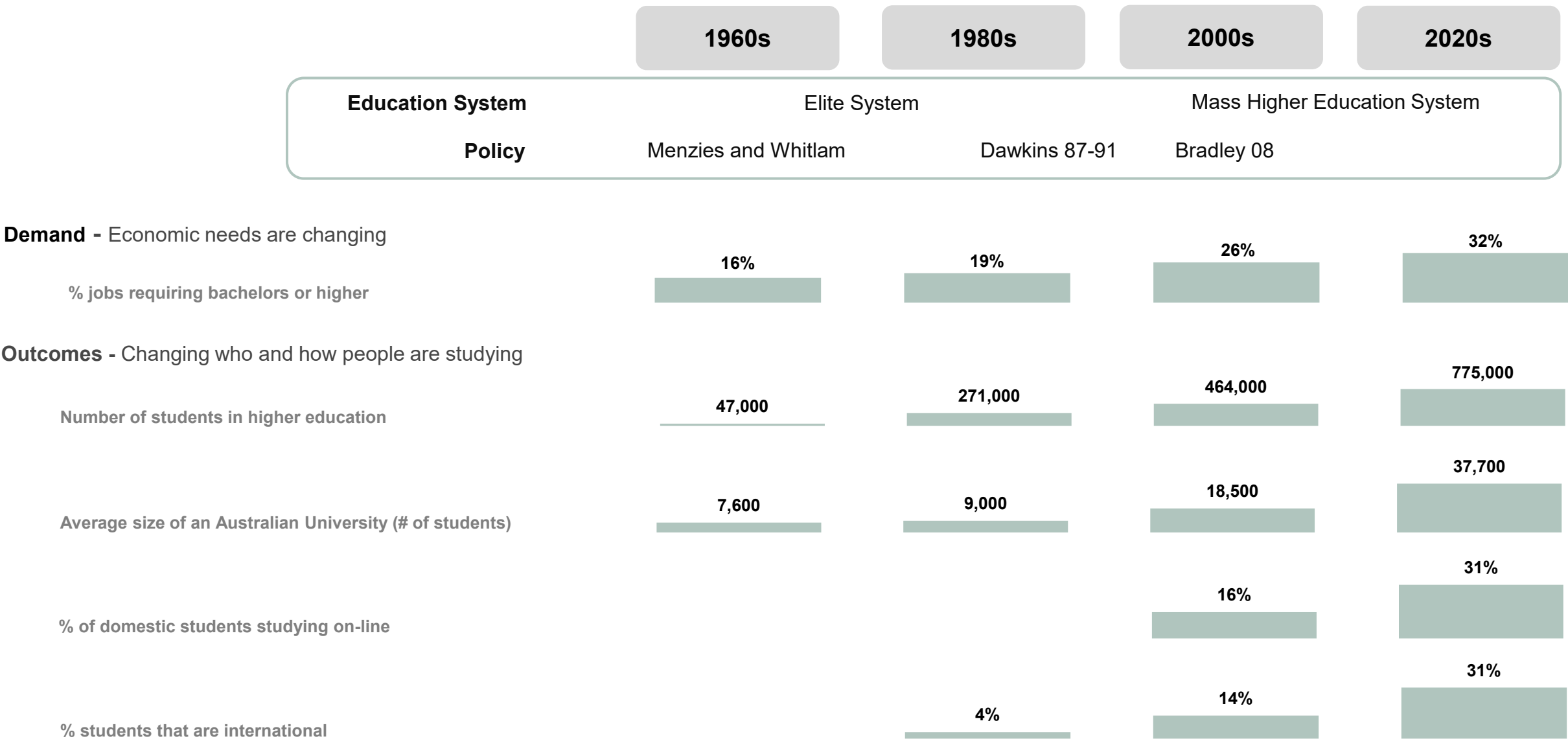
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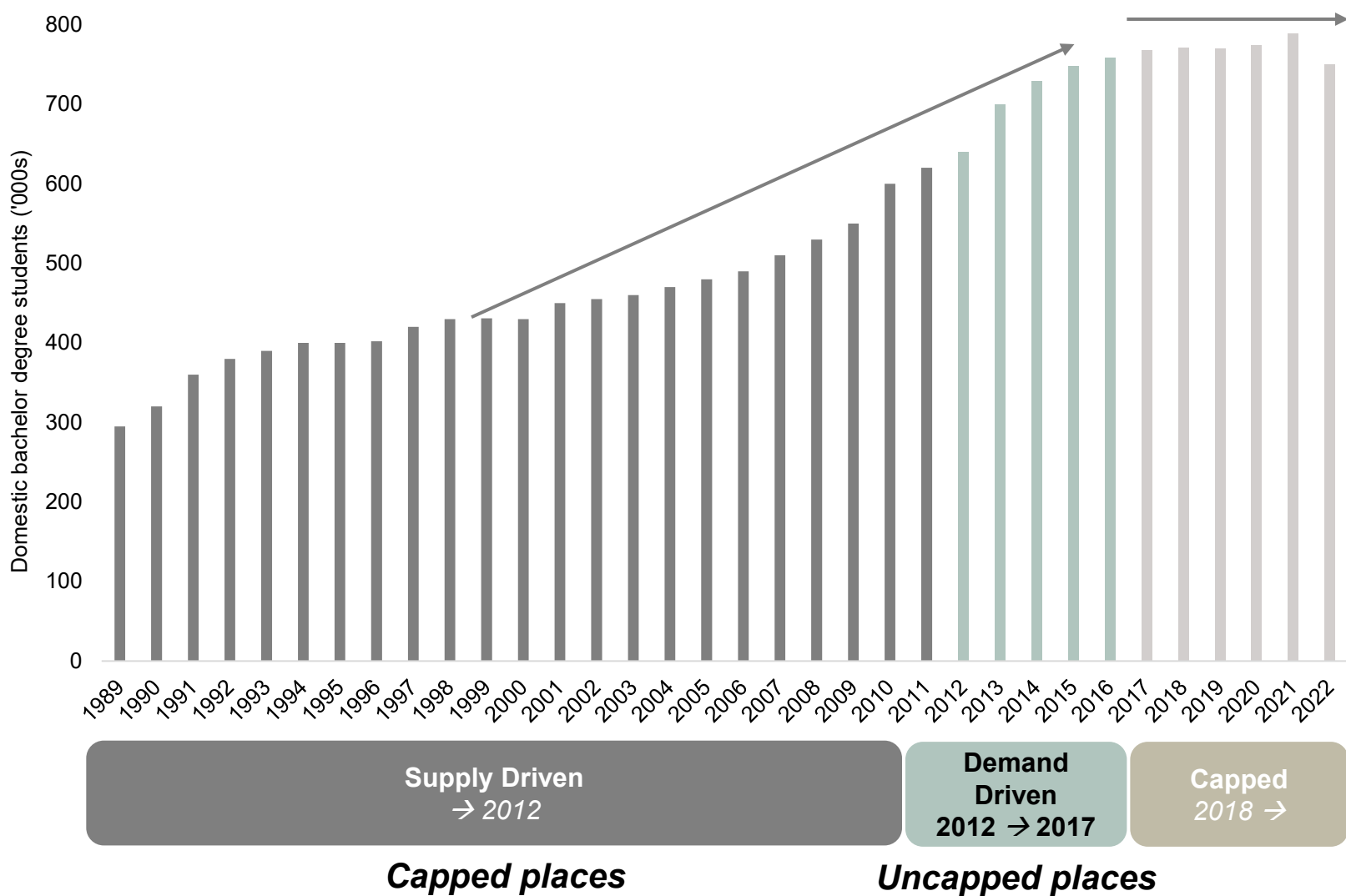
To be a sustainable university delivering the higher education Tasmania needs, **three things are required**: the proposed policy settings in the Accord and Migration Review are supported and Government assistance and unencumbered assets for STEM

# From the late 1980s until today, Australia has moved from an elite to a mass higher education system



# These policy settings drove the rapid growth of domestic students until the government introduced a cap

There was a rapid growth in total numbers of students

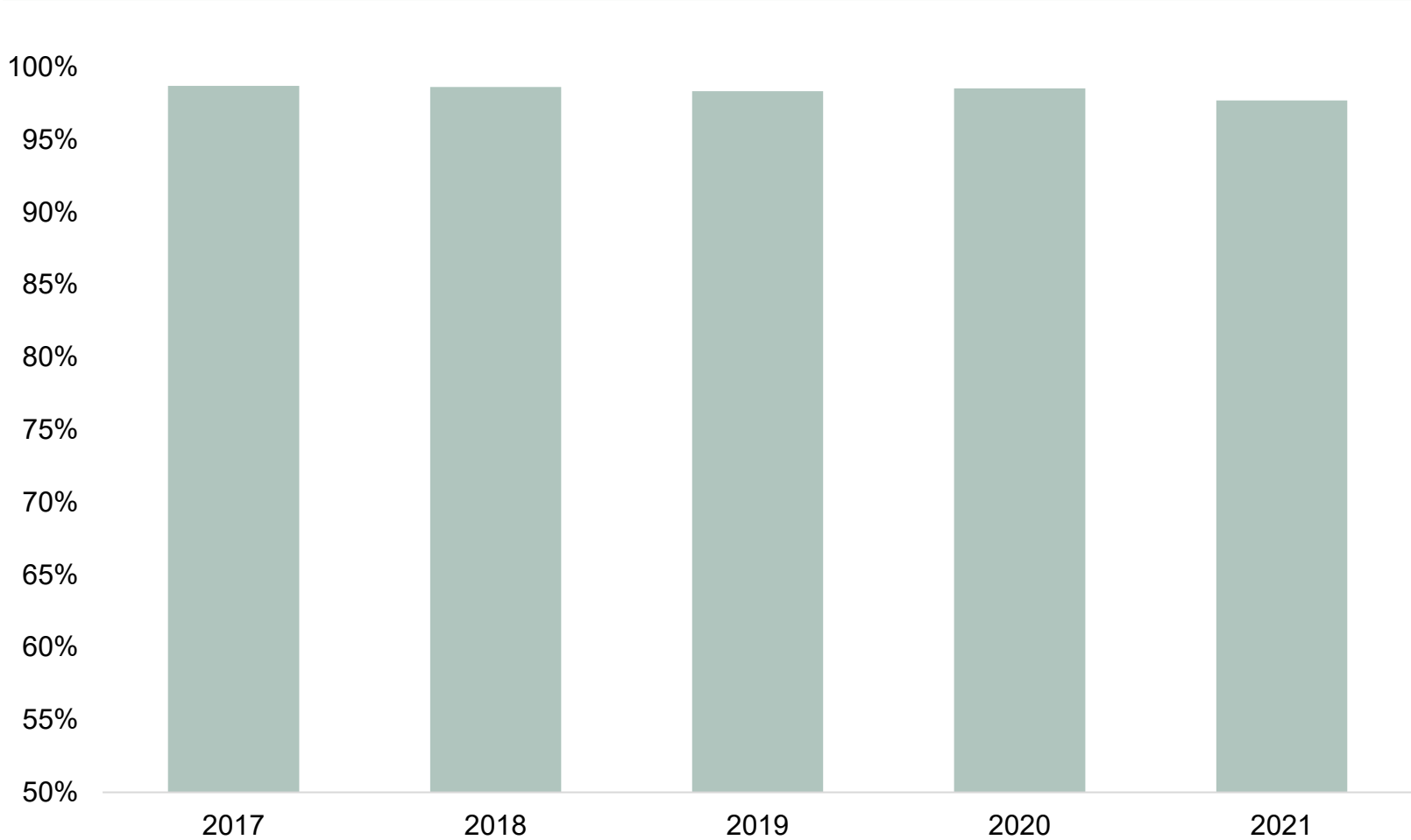


and a significant increase in equity cohorts

- Enrolments of undergraduate students from **low socio-economic background (low SES) rose 55%**
- Indigenous undergraduate student enrolments **more than doubled**
- Enrolments of undergraduate students with a disability **increased by 123%**
- Enrolments of students from regional and remote areas **increased by 50%**

# Even if there weren't caps there is little or no latent demand left because a very high percentage of all students who apply to university get a place these days

National undergraduate offer rates for Year 12 applicants with ATAR of 70 or above

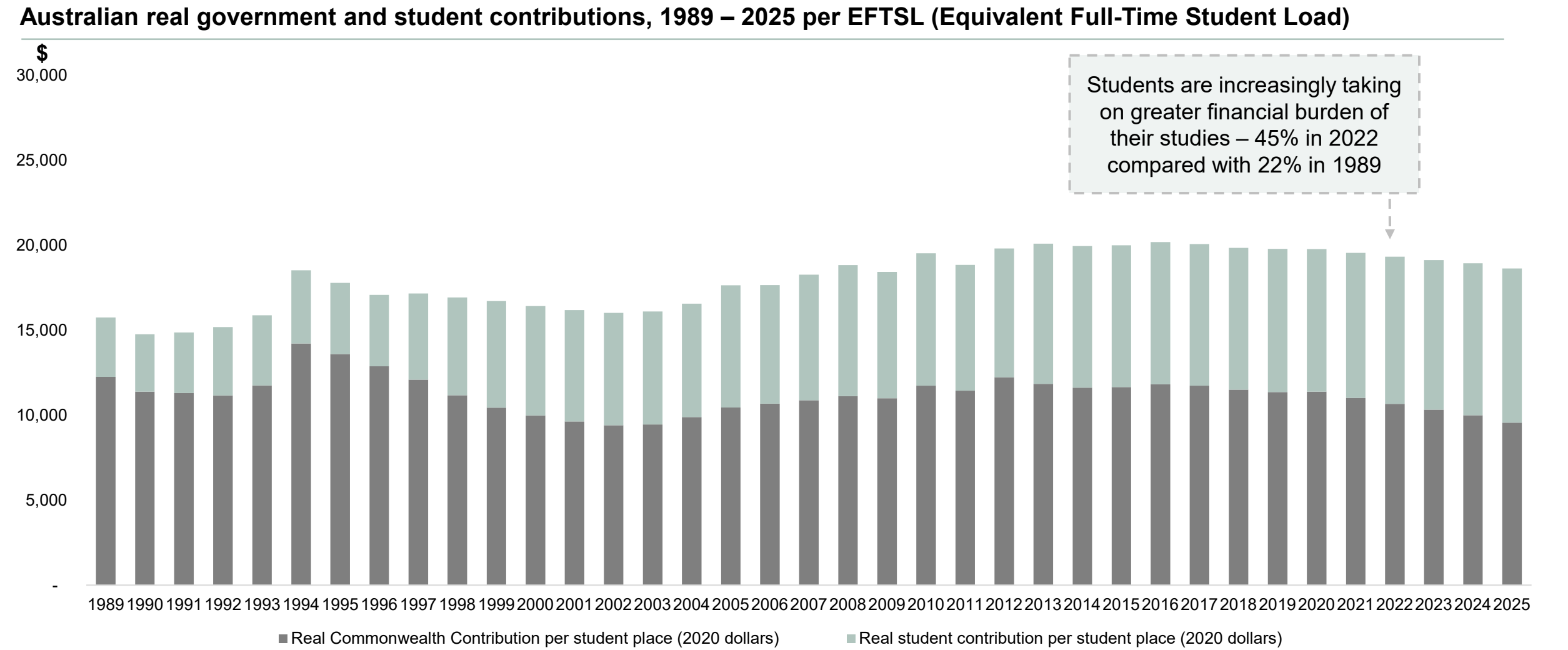


## Downward pressure on student numbers

Since 2018 nationwide school completion rates have fallen significant in inner and outer regional areas nationwide and only held steady in the large cities

A close to full employment economy and skill shortages in trades has provided a compelling alternative to higher education for many

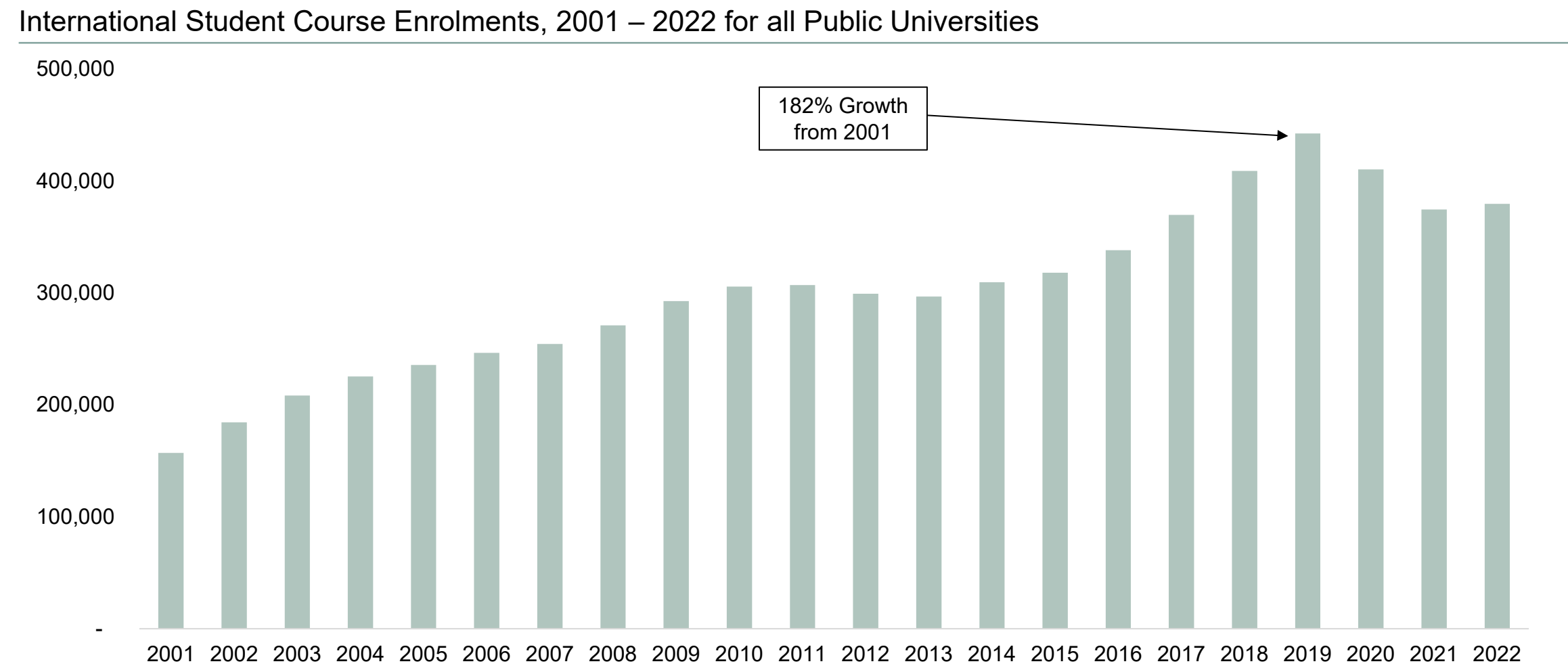
# With this growth came reductions in the amount of funding provided per student with students taking on more of the cost of study



Source: Data from 1989 to 2015 are from UA communications with Department of Education, Skills and Employment (DESE) following the May 2016 Budget. Data for 2016 to 2018 are from Higher Education Support Act (HESA) determinations.  
<https://www.universitiesaustralia.edu.au/wp-content/uploads/2020/11/200917-HE-Facts-and-Figures-2020.pdf>  
<https://www.education.gov.au/higher-education-publications/resources/2019-transparency-higher-education-expenditure-publication>

7

# To cover these increased costs and to fund increased research international student numbers grew significantly over the last 2 decades until very recently

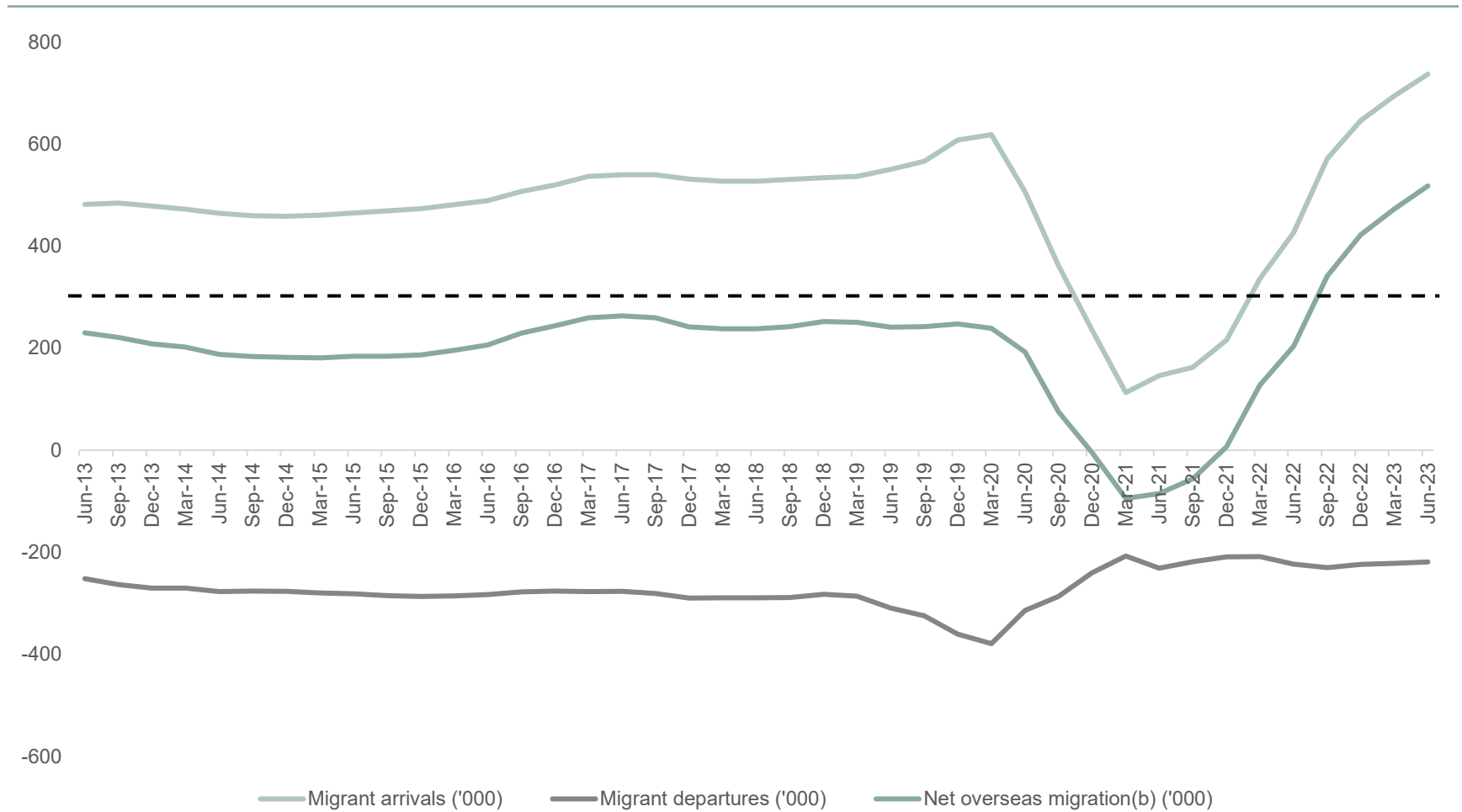


uCube – Higher Education Data Cube, Department of Education, 2001 – 2019.  
Selected Higher Education Statistics 2022 Student Data, Student Enrolments Pivot Table.



However, COVID dramatically reduced international student numbers. They then rebounded nationally, which has led government to need to control them but also to address the two-tier system which has emerged

Net overseas migration for Australia 2013-2023 ('000s)

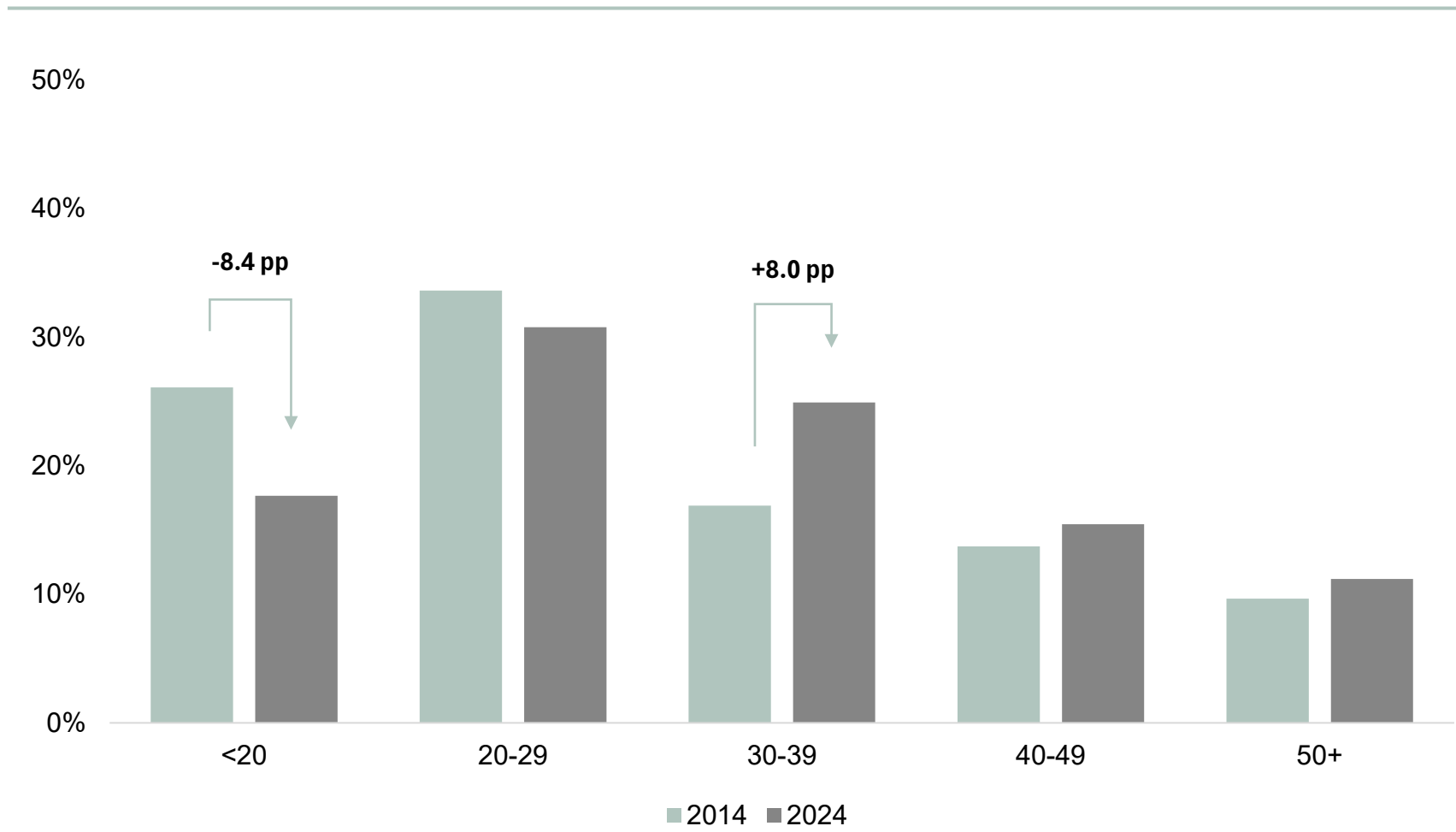


**A two-speed system emerged**

- G5 universities were at advantage from Chinese and Australian policy
- Other universities were disadvantaged
- The late 2023 visa policy changes dramatically reinforced the two-speed system

# As funding per student decreased, we also saw student needs change, requiring more flexibility, which has increased complexity and cost

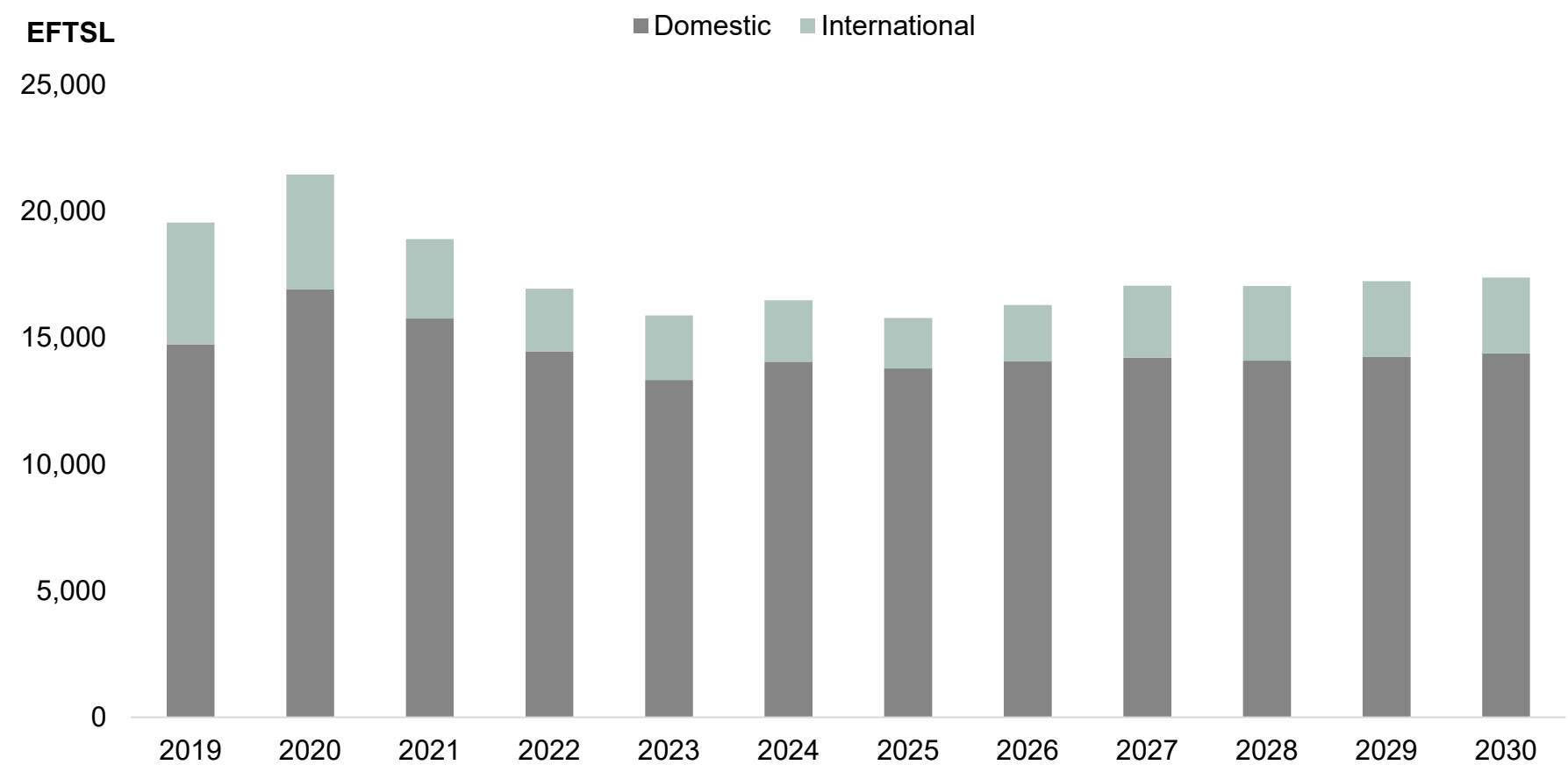
Domestic Commencing Students by age group (2014 vs 2024)



- Average age now >30
- >75% domestic commencing students are online
- Average load/student decreased from 0.64 to 0.55
- Our online maintenance = \$25m per year
- Our campus maintenance = \$15m per year

# Looking ahead we face a very different higher education environment with capped domestic and international student numbers at lower levels than the past but with higher costs to teach

Student numbers through to 2030 if domestic numbers are at approximately today’s level and international student numbers are capped at 2019 levels



## The Accord will redistribute rather than grow funding through to 2030

- Needs based and regional funding will help to better align funding with cost of teaching, but it will largely redistribute existing funding
- The University of Tasmania already receives higher per student funding because of the Higher Education Continuity Guarantee so while funding will be more secure, it won't increase significantly



**Questions**



Australian higher education is going through the largest change since the early 1990s as it transitions from an era of rapid market driven growth to a **managed system with at best low domestic and international growth** in the near term

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These pressures require a **delicate balancing act** to deliver our mission, look after staff and students, and manage our finances. That has meant we cannot generate enough surplus to replenish our assets from our operating funds without compromising our mission

To date we have **replenished our assets with government assistance, innovative finance and the prudent use of debt** overseen by good governance. The current low growth and funding settings means none of those strategies are available to us for further capital replenishment

To be a sustainable university delivering the higher education Tasmania needs, **three things are required**: the proposed policy settings in the Accord and Migration Review are supported and Government assistance and unencumbered assets for STEM



# As the only university in Tasmania, we need to be able to offer what several universities would provide in other states

## Serving Tasmania



### BREADTH OF COURSES

Meeting Tasmanian skill and job needs whilst also offering flexible options to foster increased **access, participation and success**



### RESEARCH

Improving our island's future through growing our **strong base of research excellence**, focussed around creating impact



### REGIONAL DELIVERY

Maintaining a significant presence across Tasmania and creating new campuses that support **access, differentiation, impact** and highly efficient operations

The current funding model is based on the cost of teaching students in an average large metropolitan university.

It does not cover the costs of the uniquely Tasmanian activities nor extra costs of high numbers of equity students.

# As one university for all Tasmanians, we offer a wide and varied curriculum to cover the jobs and skills needs of Tasmania which is very costly

We offered 323 courses in 2024, with two thirds of our students enrolled in just 30 of these



**HIGH VOLUME**

Bachelor of Nursing

1,671 EFTSL

Bachelor of Education (Primary)

499 EFTSL



**MEDIUM VOLUME**

Bachelor of Social Work

183 EFTSL

Bachelor of Laws

107 EFTSL



**LOW VOLUME**

Bachelor of Surveying

18 EFTSL

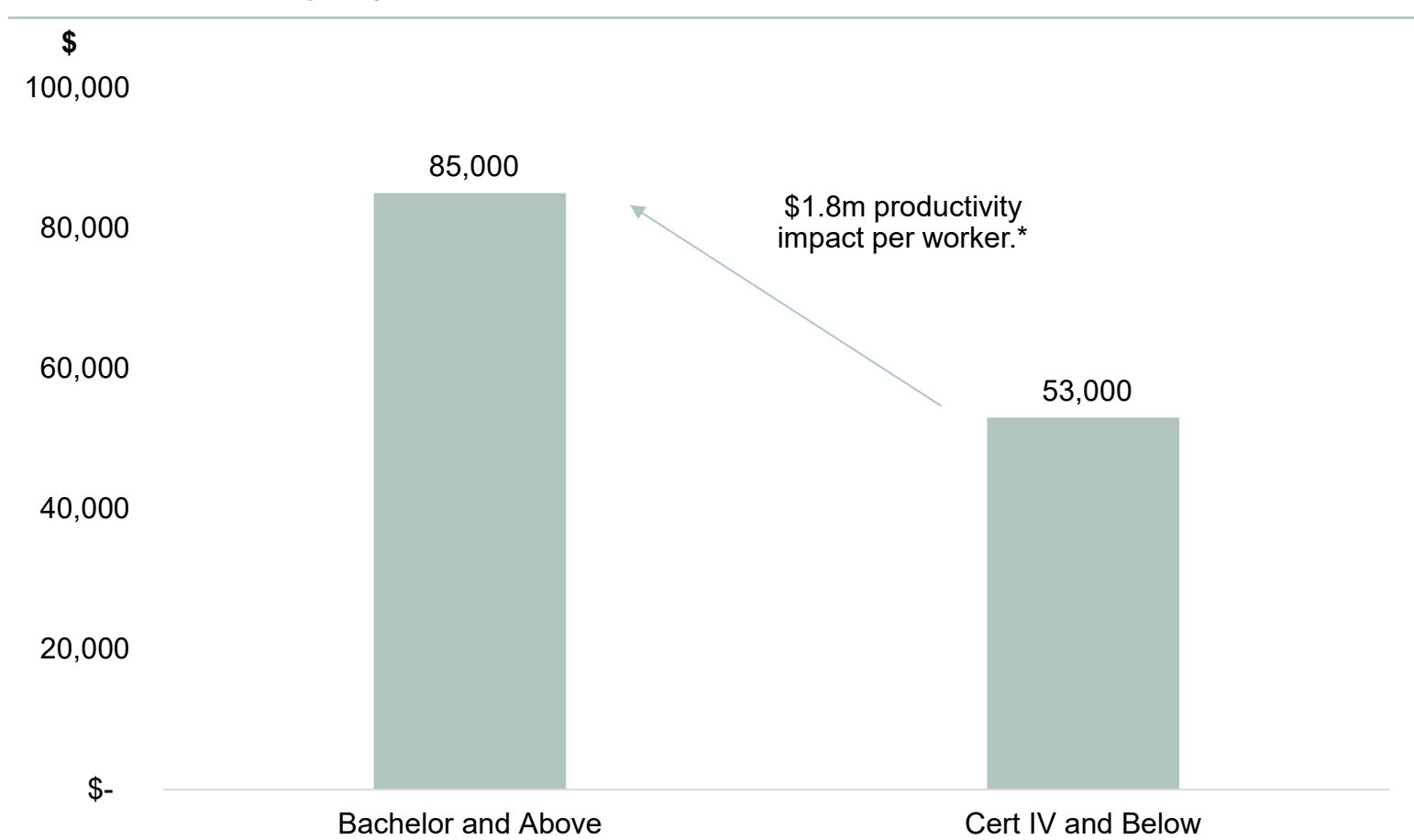
Bachelor of Economics

38 EFTSL



# University education increases earnings potential, leading to greater economic activity and productivity for Tasmania

Median income by highest level of education, 2021

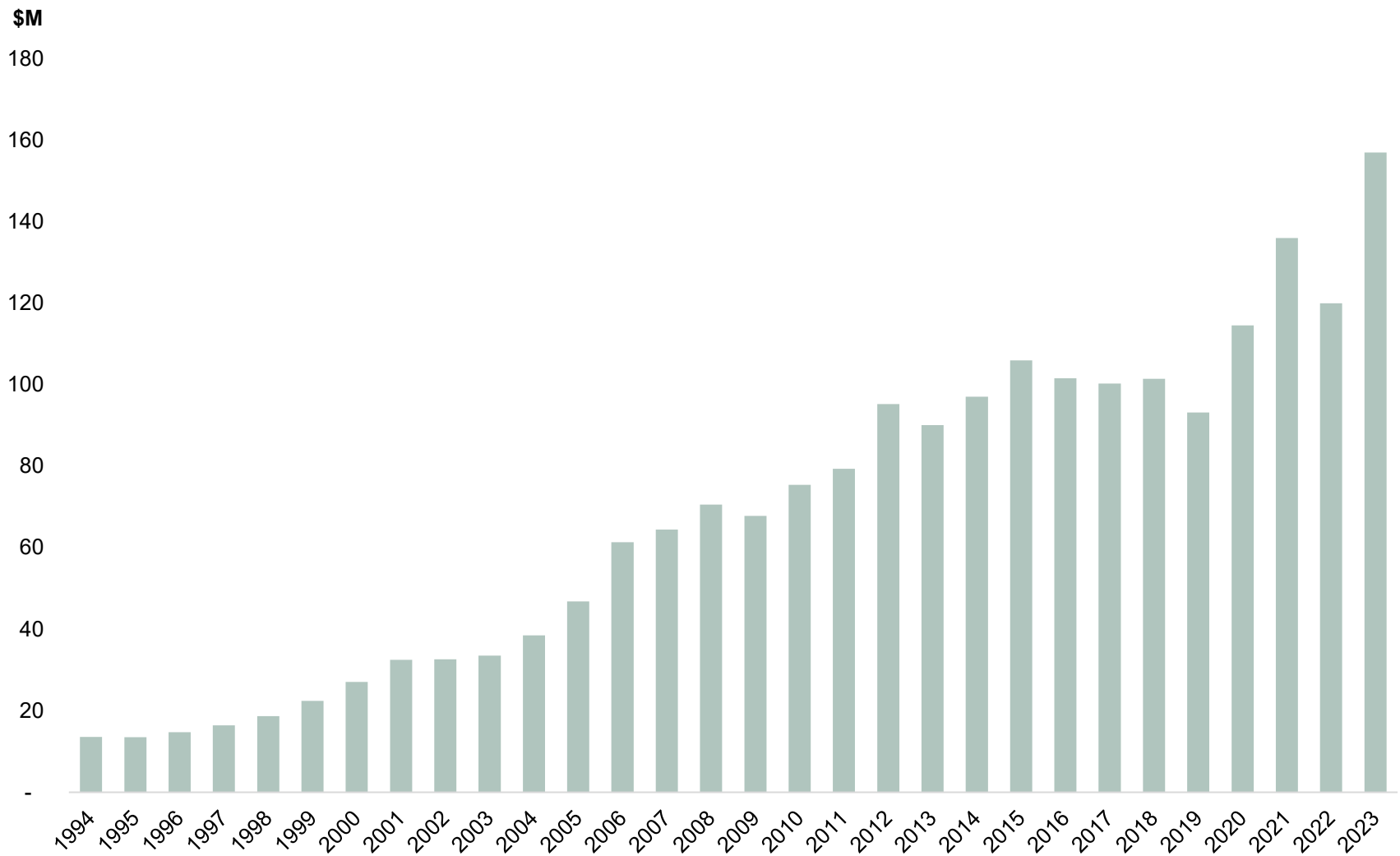


ABS Tablebuilder, 2021 Census, Average Weekly Earnings of Employed Persons by Highest Educational Attainment. As ABS Reports Median income in bands, the median income is calculated by finding the midpoint of all workers in the Labor force, and estimating what percentage through the band the median person would be.  
\*Assuming a discount rate of 7% and Final Savings Rate of 25.66% leading to a 3.89 Economic Multiplier. (World Bank, Australia 2017 – 2021 Final Consumption Rate)



# We have a commitment to deliver research for and from Tasmania which requires support that is not fully funded

University of Tasmania Research revenue 1994 - 2023



Higher Education Research Data Collection (HERDC) <https://www.education.gov.au/resources/research-block-grants> / \*Grattan Institute: The cash nexus: how teaching funds research in Australian universities, A. Norton





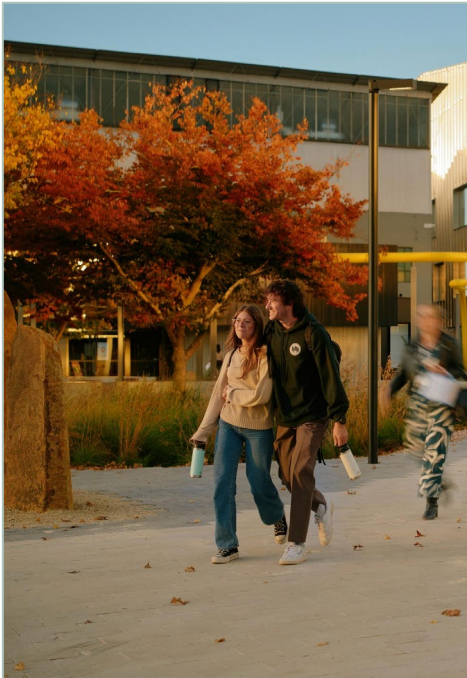
# Regional delivery in Launceston and Burnie comes at an estimated \$40m - \$60m cost, however it also delivers 3 times this in economic benefit to Tasmania

## Serving Tasmania



### INVESTMENT

The University invests from \$40m - \$60m in maintaining our regional presence, offering a breadth of curriculum that provides opportunities to all corners of the state



### ECONOMIC GROWTH

Benefits flow from the increased earnings and therefore spending and taxes from graduates as well as staff located in the regions



### IMPROVED HEALTH

Graduates have better health outcomes, resulting in a lower burden on the hospital system and longer life expectancy



## Questions



Australian higher education is going through the largest change since the early 1990s as it transitions from an era of rapid market driven growth to a **managed system with at best low domestic and international growth** in the near term

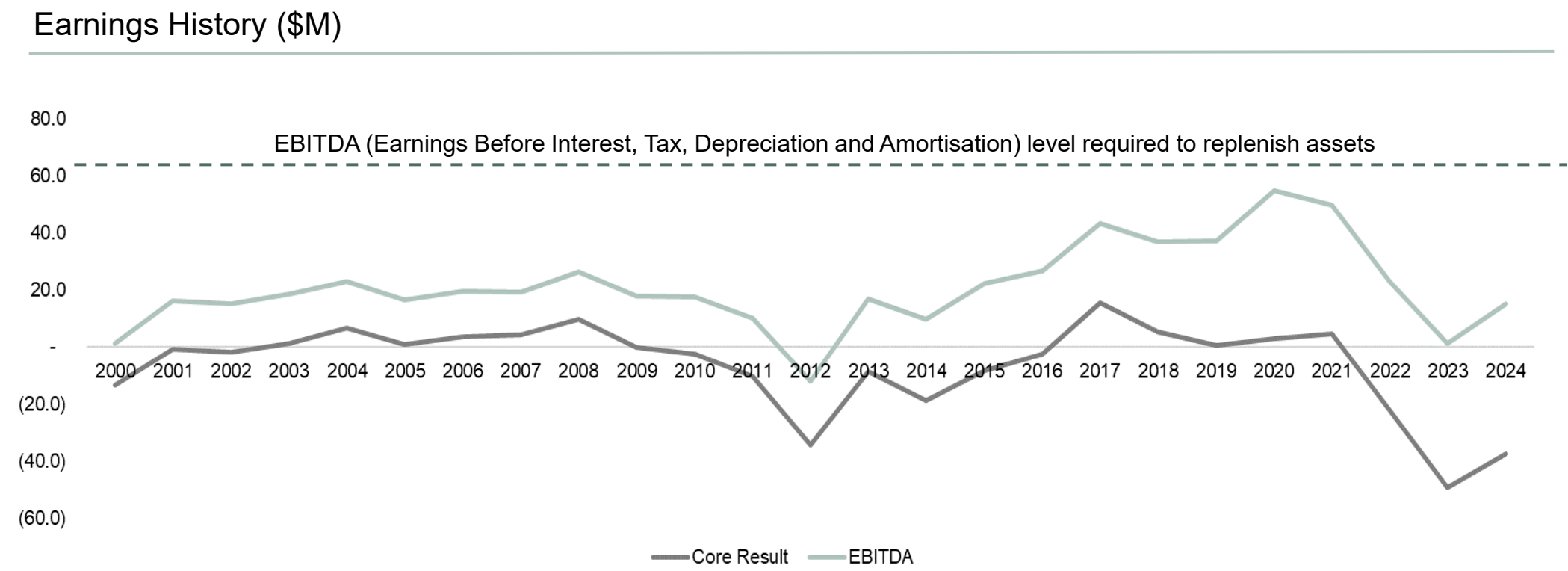
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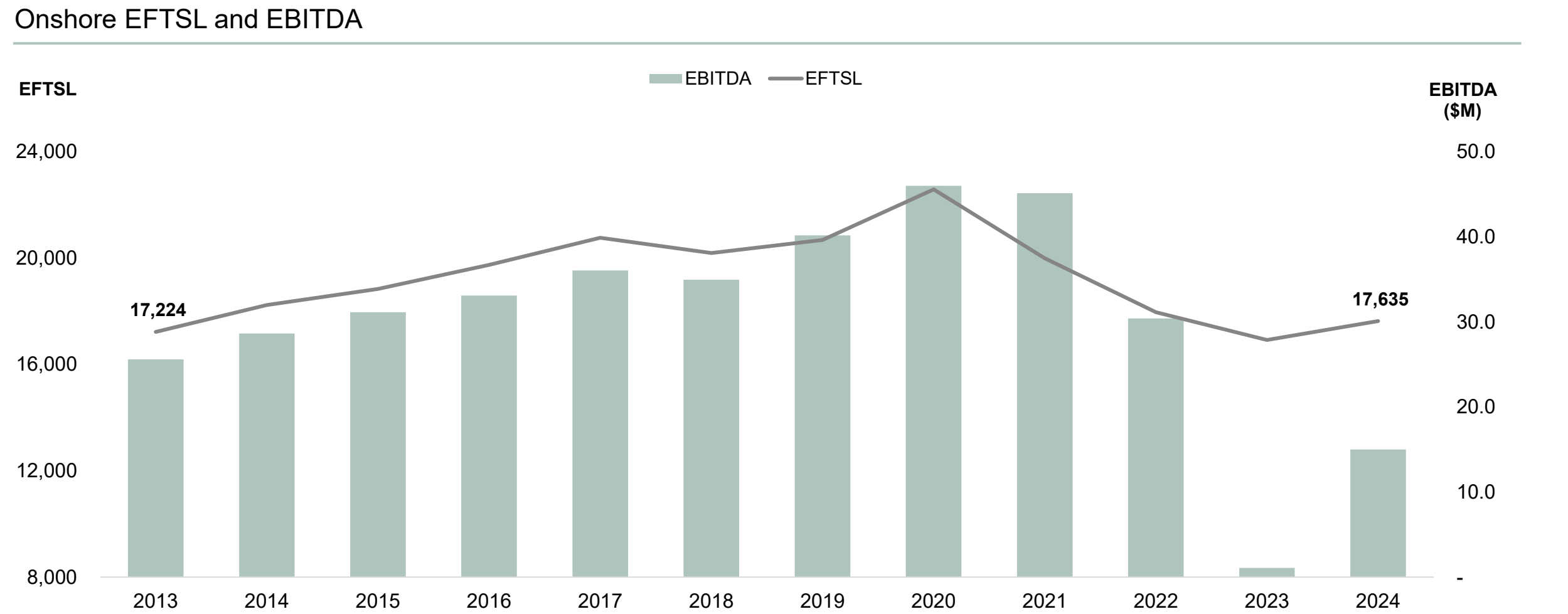
To be a sustainable university delivering the higher education Tasmania needs, **three things are required**: the proposed policy settings in the Accord and Migration Review are supported and Government assistance and unencumbered assets for STEM

**This broad mandate means we cross-subsidise a number of activities, which leads to financial challenges as we have not been funded at a level which enables us to replenish our assets**



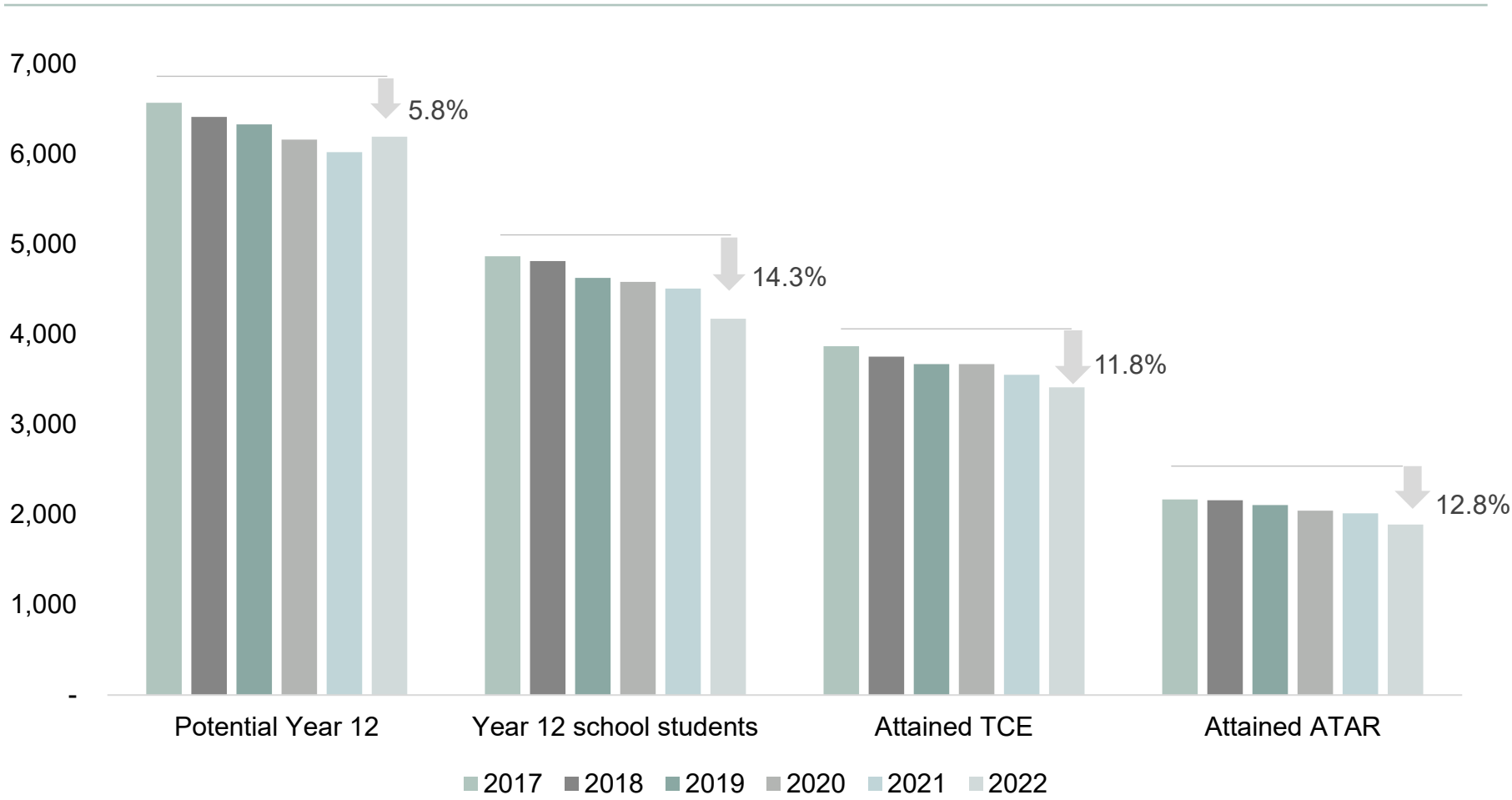
- Each year we have a sustaining capital budget of ~\$30m
- This is considered the absolute minimum spend necessary to maintain our buildings, equipment and systems
- EBITDA needs to contribute the cash to cover this expenditure
- To invest in new assets and systems requires a higher level of cash generation

**Our students drive our financial sustainability, and the profile of our student growth has followed the 10-year trend of the sector due to the policies in place, noting the impact of the pandemic and subsequent migration policy changes**



# An important contribution to this decline has been the decrease in the Tasmanian Year 12 population and with fewer students achieving TCE or ATAR

Number of Tasmanian Year 12 Students, 2017 - 2022



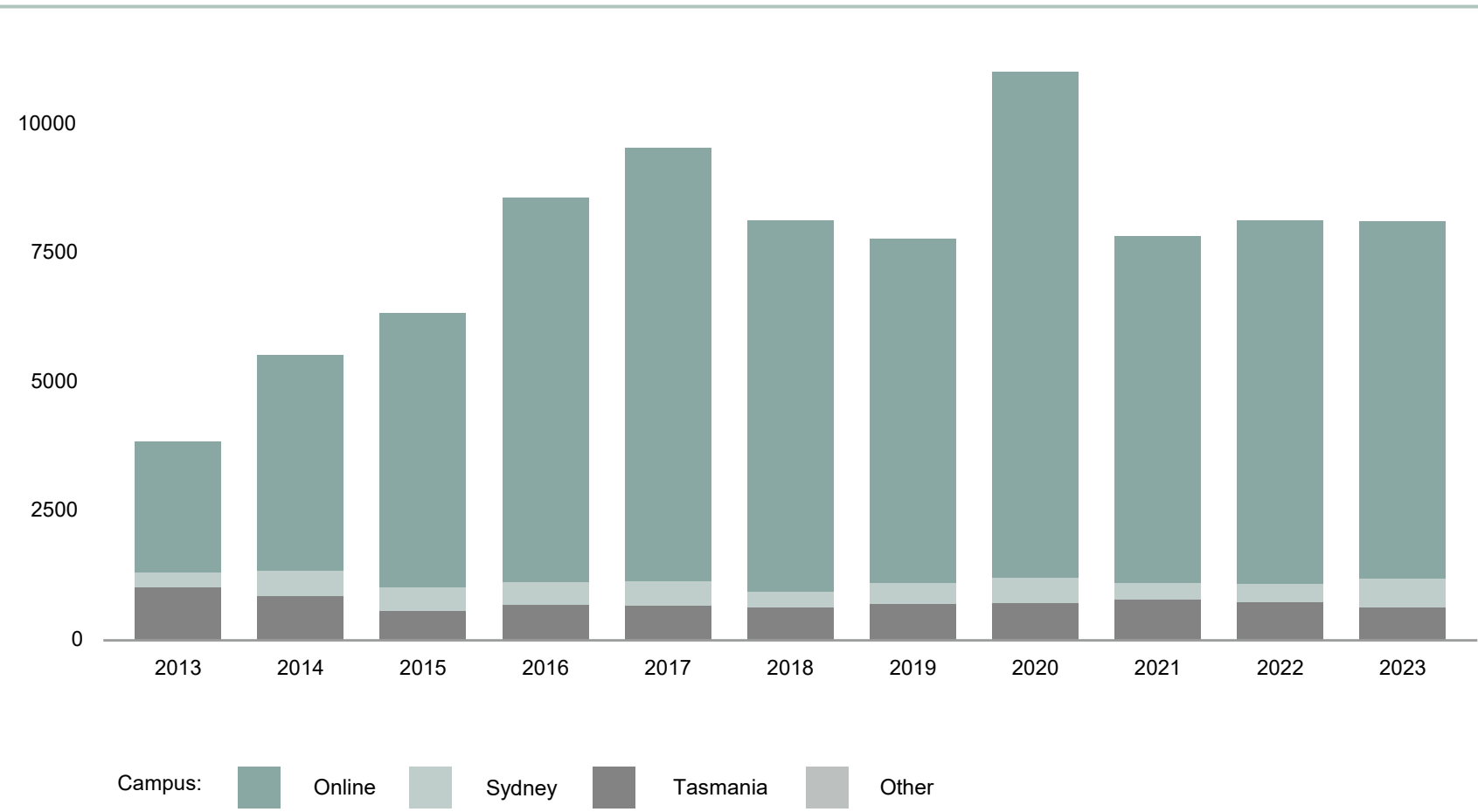
- Between 55% and 60% of potential year 12 students go on to attain a TCE
- Between 2017 and 2022 the potential year 12 population decreased by 378 students
- Over the same period there has been a decrease in actual number of year 12 school students (down 704), number attaining TCE (down 435) and number attaining ATAR (down 277) which is over double the potential population by proportion

TASC Annual Report 2021/22. Note: The potential Year 12 population is based on an age-weighted value using Australian Bureau of Statistics estimates for the number of persons aged 15-19 years in Tasmania in the given year.



# To generate growth, we increased uptake in the interstate market, with substantial growth in interstate students, particularly online, since 2013

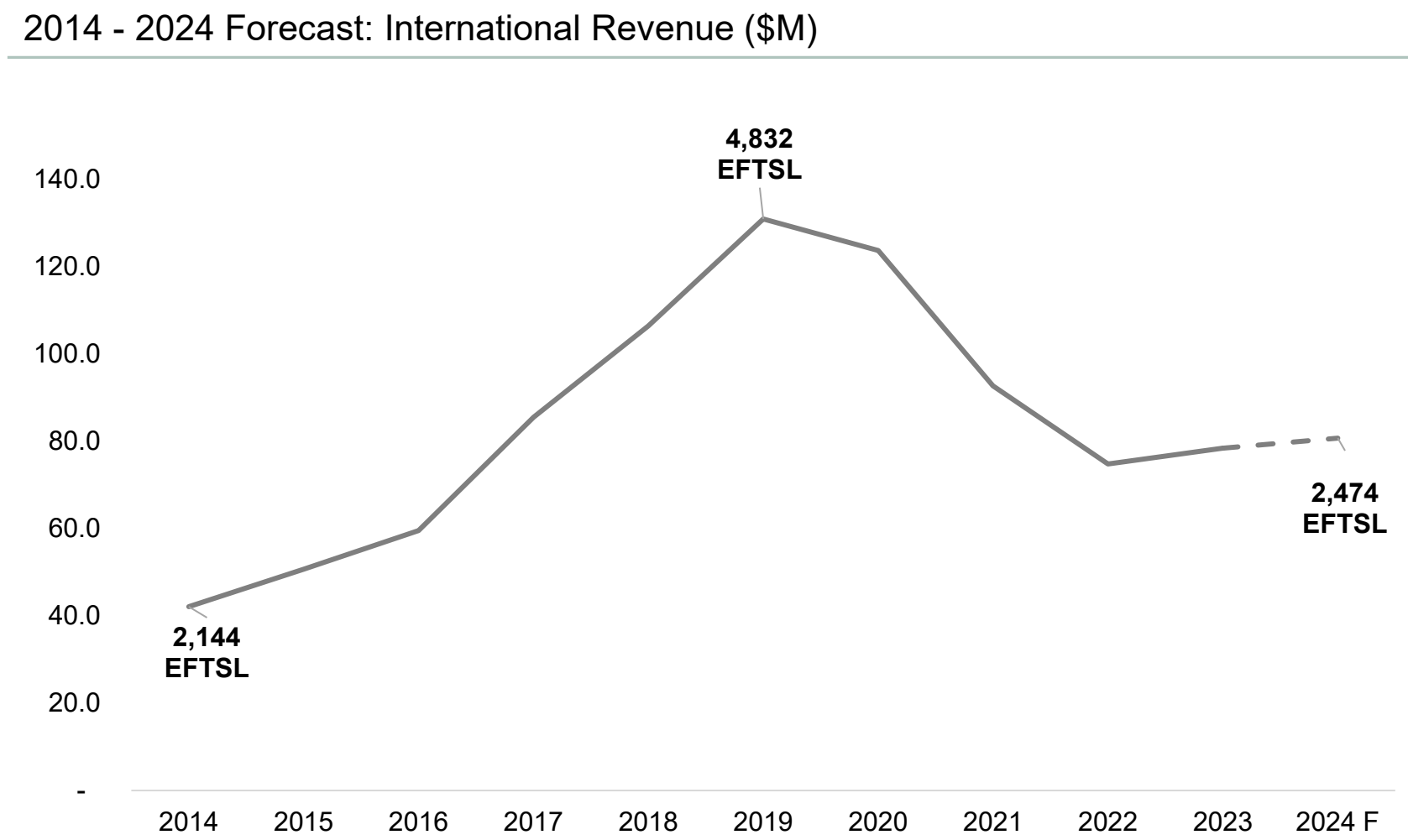
Commencing interstate student enrolments at the University of Tasmania by campus



Enrolments from interstate students were particularly high in 2020 during COVID, with increased uptake in our online course offerings

Source: University of Tasmania Course Enrolments table. Campus defined here based on location that student has most unit enrolments for course in a year. Online students are those studying all units by distance. Students with multiple course enrolments across different groupings are counted in each grouping.

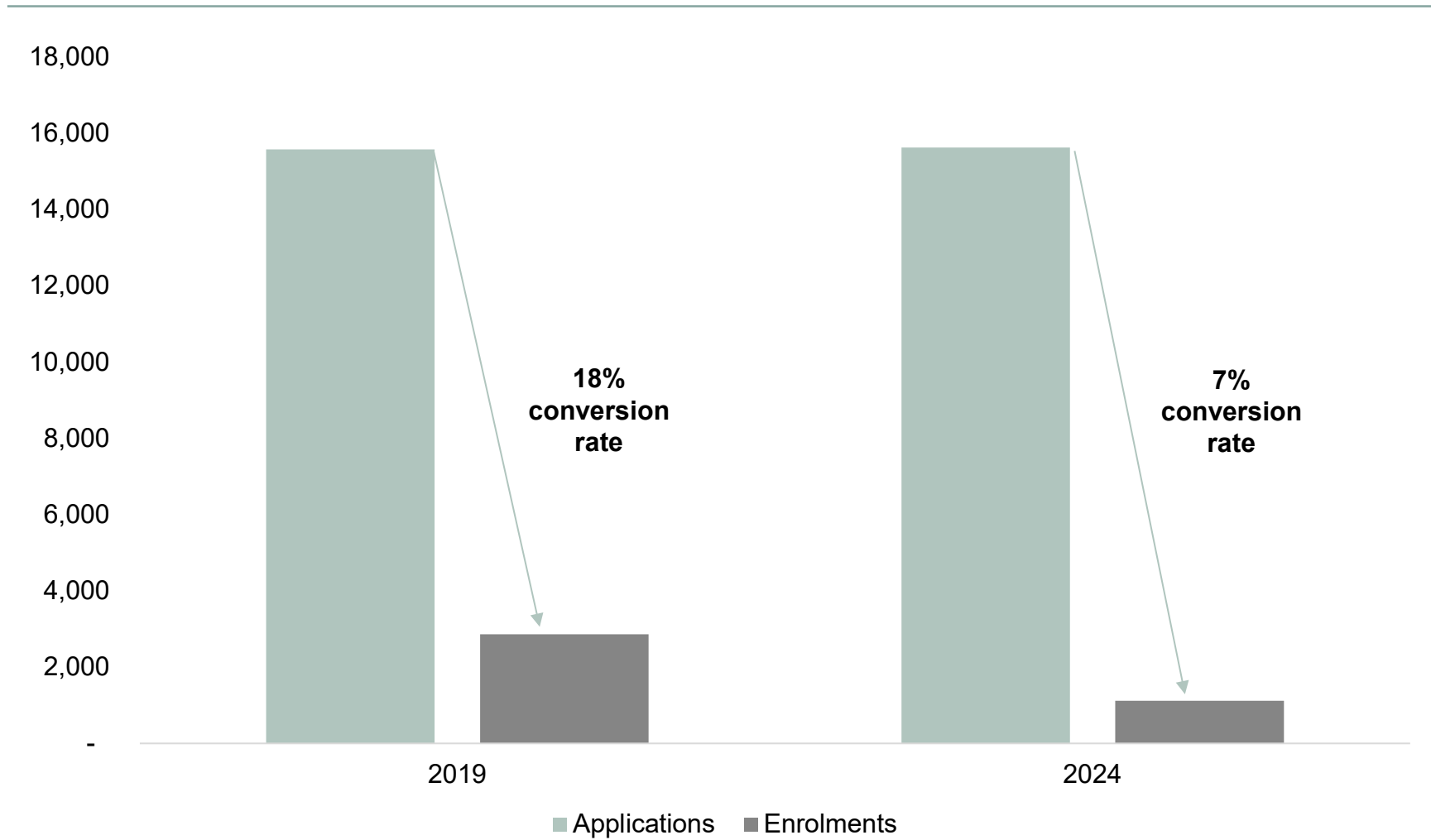
# International students were the main driver of growth from 2014 - 2019, but student numbers have declined because of COVID and migration policy changes in Australia and China



- Impacts on the International Student market:**
- Tasmania no longer enjoys permanent residency benefits over QLD and WA
  - COVID-19
  - Chinese border remain shut
  - Chinese government focus on top 100 universities
  - Increased diversification into more complex countries
  - Increased competition
  - Changes in migration settings and visa processing

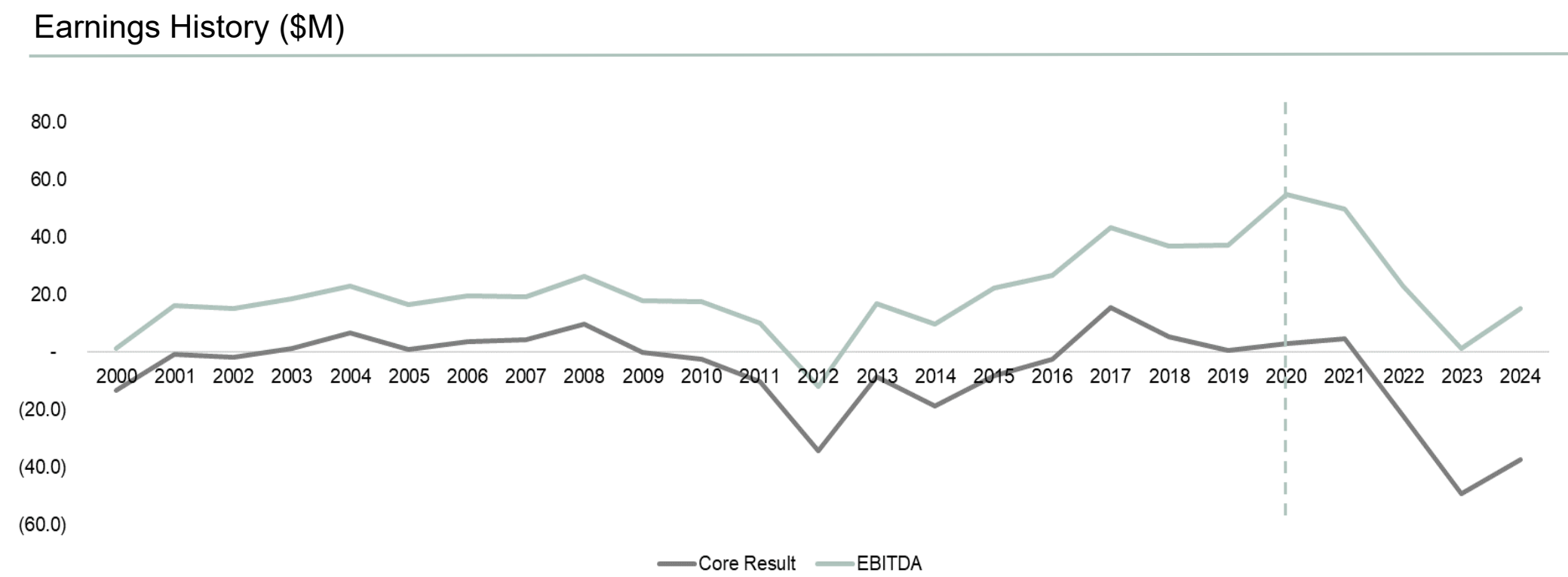
# This has directly impacted us, with interest from international students still strong, but very few of them now getting through the migration process

International applications and enrolments 2024 vs 2019



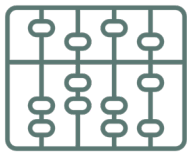
- In total the University has 15,622 applications for the 2024 study year with just 1,117 of these students enrolled to commence their study
- 2,927 international students have applied to the University since January 2024
- In the same period only 38% of these received visa approvals with some waiting months due to slow processing times

**The impact of all of these changing factors, in particular since COVID, has seen the University’s financial results deteriorate, a situation the University has chosen to bear in order to protect staff and students**



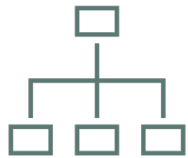
- In 2019 we had an average continuing operating workforce of 2,027 FTE vs 20,681 EFTSL (students)
  - In 2023 we had an average continuing operating workforce of 2,014 FTE vs 16,920 EFTSL (students)
- \* EFTSL excludes offshore students*

**While we have chosen to run at a loss in the short-term so as not to compromise our Tasmanian mission or dramatically reduce staff, we have still had to actively manage our costs**



**2020 - \$30m cut from operating**

- Expenses quarantined
- Salary uplift forgone



**2020 - Voluntary Redundancy Program**

- Early retirement program implemented



**2021 to 2023 - cost constraint**

- 2021/2022 expenses held at 2020 levels
- Inflation pressure
- 2023 - 3% expense saving
- Divisional senior management changes



**2024 - Vacancy Control Program**

- Quota process established
- Vacant positions not automatically refilled
- Operating expense constraint



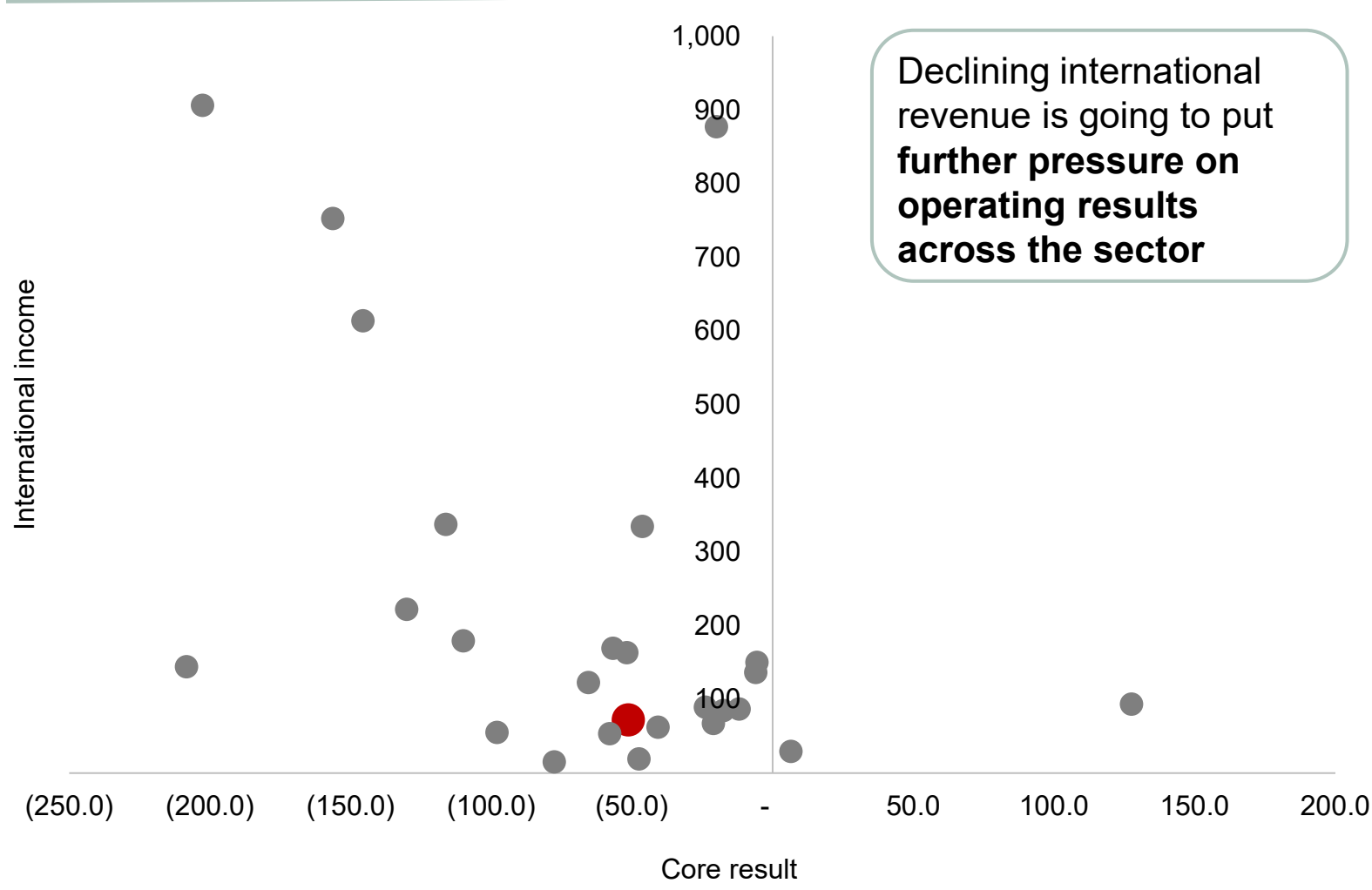
**We budgeted for and delivered a core operating loss of almost \$50m in 2023, aiming to bridge the period to when revenue growth was expected to return**

Consolidated Income Statement \$M		
	2023	2022
Student revenue	397.3	403.6
Research support	47.7	47.2
Other revenue	51.7	47.2
<b>Total Revenue</b>	<b>496.7</b>	<b>498.0</b>
Salaries	333.8	319.1
Other	161.9	148.6
<b>Total Expenses</b>	<b>495.7</b>	<b>467.7</b>
<b>Cash Operating Result (EBITDA)</b>	<b>1.0</b>	<b>30.3</b>
Depreciation	50.3	45.2
<b>Core Operating Result (internal)</b>	<b>-49.3</b>	<b>-14.9</b>
Other core items (eg. Aurora)	-5.5	-4.0
<b>Result from Core Activities (Annual Report)</b>	<b>-54.8</b>	<b>-18.9</b>
Restructuring costs	-9.5	-2.8
Movement in restricted funds	-6.9	4.9
Investment income	30.8	-30.7
Net interest costs	-6.8	-6.9
Capital income	36.8	97.5
<b>Total Consolidated Result</b>	<b>-10.4</b>	<b>43.1</b>

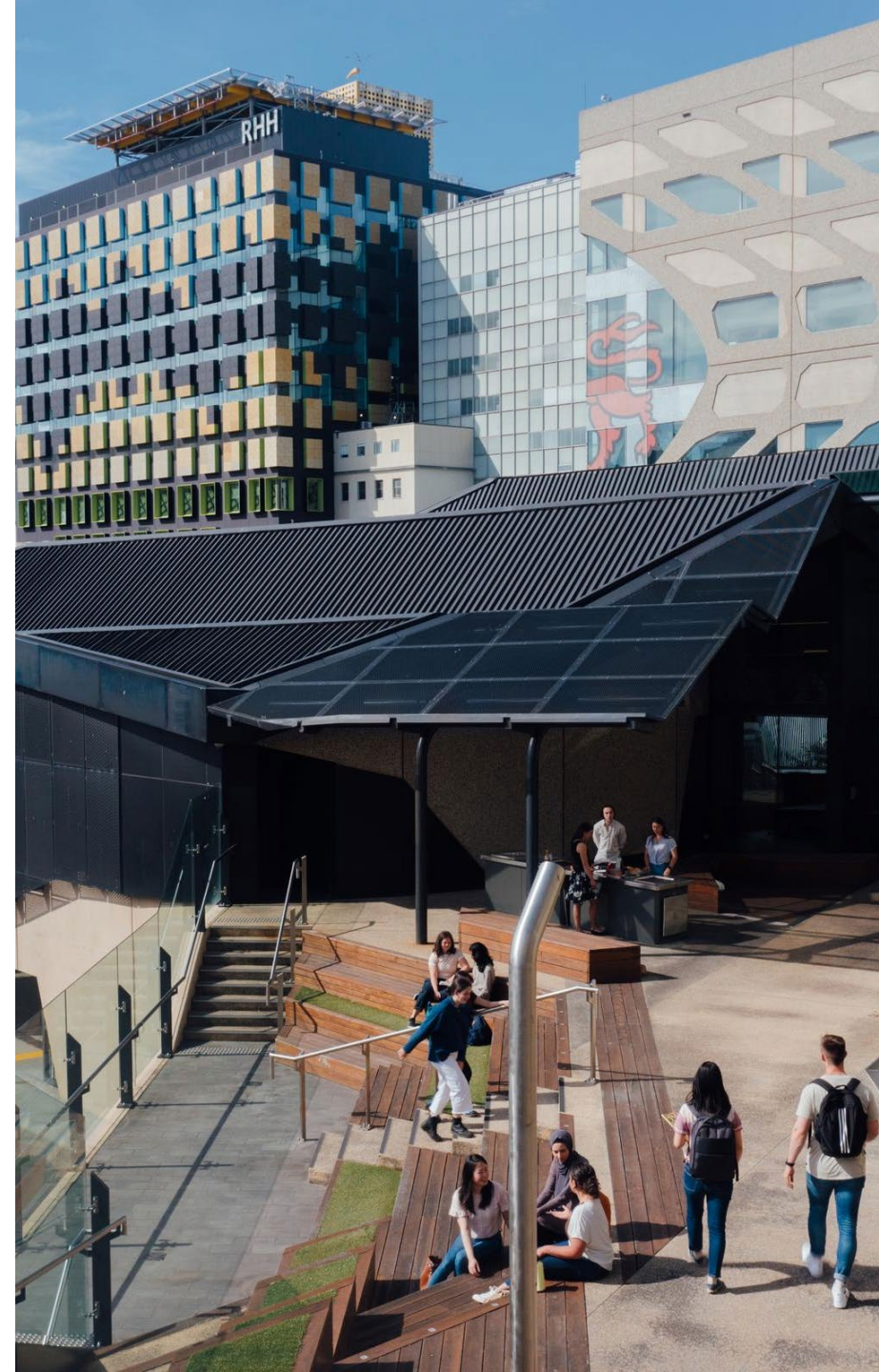


# And we are not alone, 2023 results are quite revealing to the sector challenges being faced

International student income vs core result 2023



Declining international revenue is going to put **further pressure on operating results across the sector**





# With our outlook becoming clearer and significant revenue growth unlikely, we need to carefully plan our path to a long-term financially sustainable future



We need to align our resourcing with an expectation of a lower student profile over the next several years



This will involve a streamlining of some of our curricula offerings and embracing technology



Continue to advocate for the positive outcomes that are the aim of the Higher Education Accord reforms



Gather support for the changes to the international student system critical to support regional Australia and regional universities

## Questions



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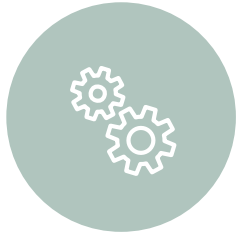
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**Given we don't have operating surpluses to fully fund replenish our assets we have had to use other strategies**



**Government  
Funding**

In support of major  
infrastructure



**Innovative  
Commercial  
Solutions**

Supporting student  
accommodation



**Debt**

Secured low interest  
rates for the long-term

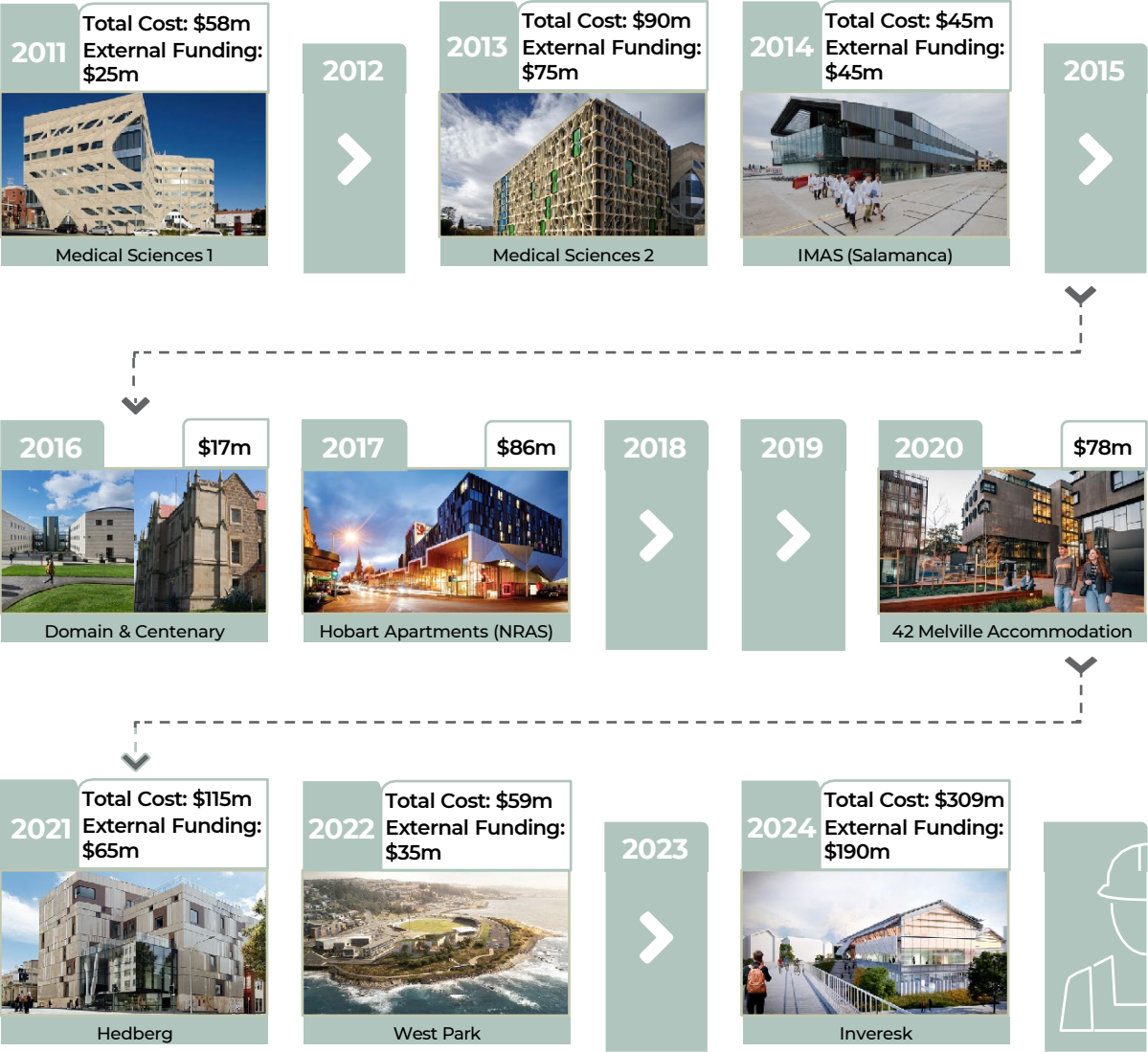


**Monetising  
existing assets**

Utilising what we  
have to benefit the  
future



Over a decade ago, the University embarked on a journey to replenish its post-war building stock, to date, that has required very large contributions from the Federal and State government.



We have a successful history of capital program delivery on time and on budget

Local labour, materials and procurement have been prioritised throughout every project, supporting a pipeline labour force of over 4,500 individuals, including apprentices

The **Northern Transformation Program** is substantially funded by successfully negotiating capital grants from the Federal (\$150m) and State (\$75m) governments.

# Our transition from Newnham to Inveresk is achieving the smaller footprint we need to be vibrant and financially sustainable



The Newnham footprint has been reduced by 43% though better design and utilisation



Sustainability outcomes have been substantially improved in these building for both ongoing and embodied carbon



We have achieved greater visibility and connection to the University by the location

	GFA
<u>Pre-Development</u>	
Newnham & Inveresk	61,291m <sup>2</sup>
<u>Post-Development</u>	
New Inveresk Precinct	35,005m <sup>2</sup>
Percentage Reduction <sup>1</sup>	43%

<sup>1</sup>AMC, Student Accommodation, UniGym, CSAW excluded (will remain at Newnham)





# **We have used creative solutions to help provide the support services students need, with our PBSA agreement delivering 400+ beds for Hobart**

- We licensed our student accommodation to a partner in 2017
- The Hobart City Apartments were constructed based on the value in this deal and were largely paid for by our partner
- The University retains ownership and all operational responsibility, including student related activities and pastoral care.



# **With no further government funding available to continue our capital replenishment, the University raised \$350m via a Green Bond and established a \$50m Overdraft facility, in accordance with our \$400m borrowing limit**

The University received approval from the State Treasurer on 3 April 2021 for an increase of \$200m to our borrowing limit to a total of \$400 million based on:

## **State Government debt conditions**

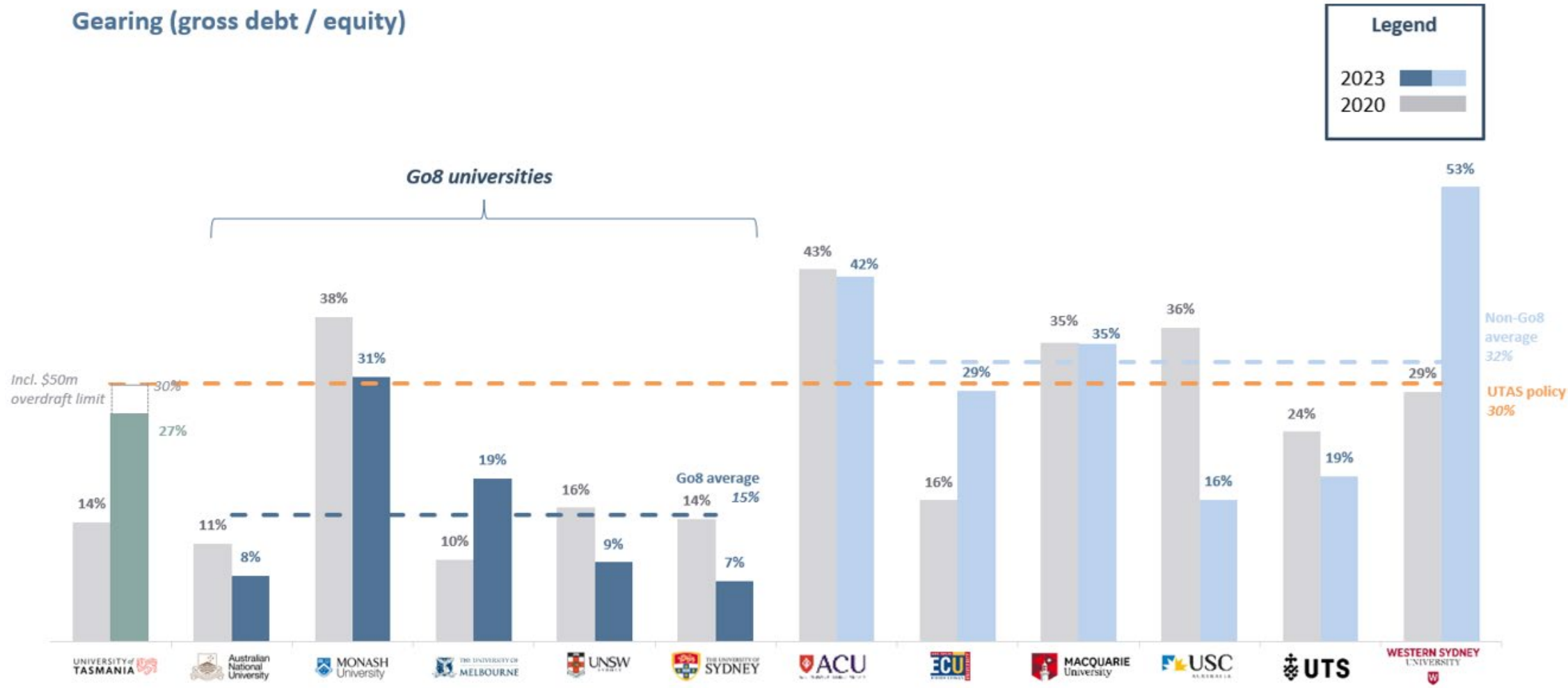
- (1) obtaining and maintaining an investment grade credit rating
- (2) the increase is approved solely for the purposes of the construction of the Southern Infrastructure project
- (3) the \$200 million borrowing facility limit will reduce over time consistent with the maturity profile

## **University compliance**

- We are maintaining an investment grade credit rating with a Moody's credit rating of Aa2 affirmed on 5 August 2024.
- The debt increase of \$200m is being used to fund the Forestry and Timber Yards project, Tarooma project and Philip Smith Centre on the Domain.
- We remain consistent with the maturity profile as detailed and will continue to monitor this throughout the terms of the Green Bonds.

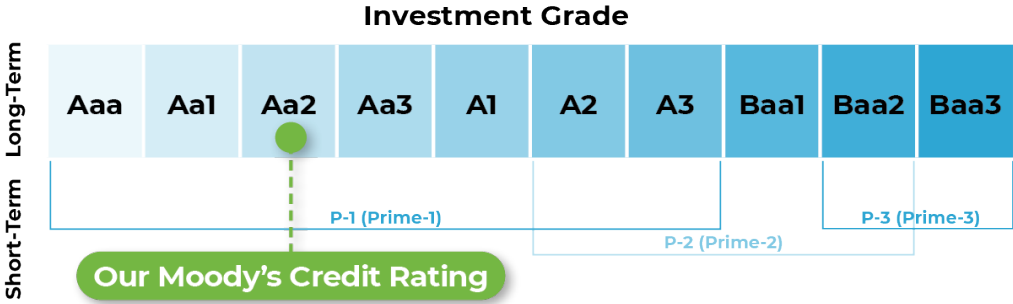
# Comparing our utilised debt to equity ratio of 27% to other universities with issued credit ratings, we are in the middle range of our peers

Gross debt/equity ratio sector comparison of active drawn down debt as at 31 December 2023



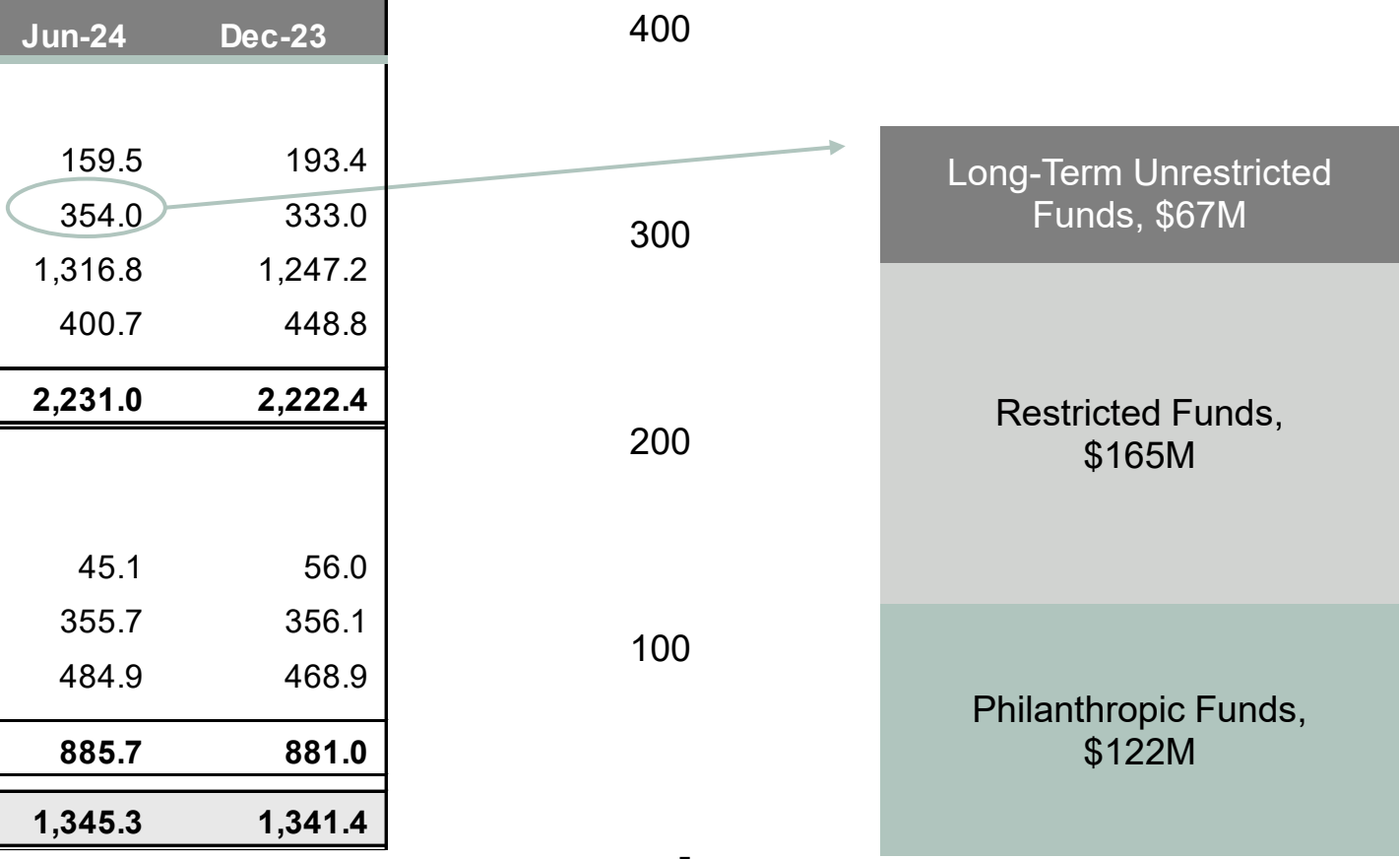
# We have a Aa2 Credit Rating which is 7 notches above our requirement and comparable to our peers.

Our Aa2 rating is 7 notches above the investment grade requirement in our borrowing conditions alongside many of our peers



# Our Balance Sheet remains strong with over \$1.3bn in net assets including \$350m in Investments and \$150m in Cash

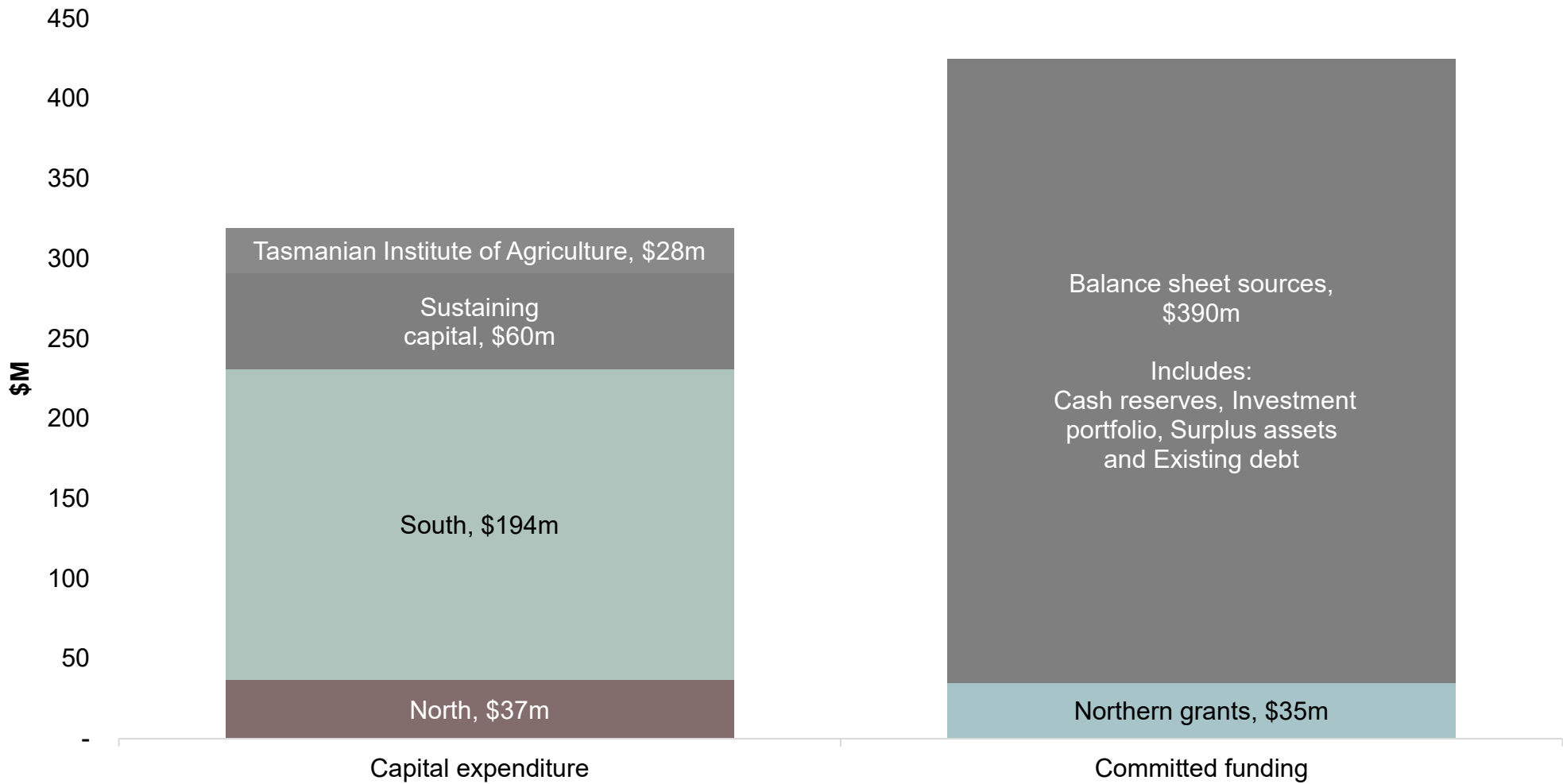
Balance Sheet Consolidated		
\$M	Jun-24	Dec-23
<b>Assets</b>		
Cash	159.5	193.4
Investment Portfolio	354.0	333.0
PPE	1,316.8	1,247.2
Other	400.7	448.8
<b>Total Assets</b>	<b>2,231.0</b>	<b>2,222.4</b>
<b>Current Liabilities</b>		
Trade and Other Payables	45.1	56.0
Borrowings	355.7	356.1
Other	484.9	468.9
<b>Total Liabilities</b>	<b>885.7</b>	<b>881.0</b>
<b>NET ASSETS</b>	<b>1,345.3</b>	<b>1,341.4</b>



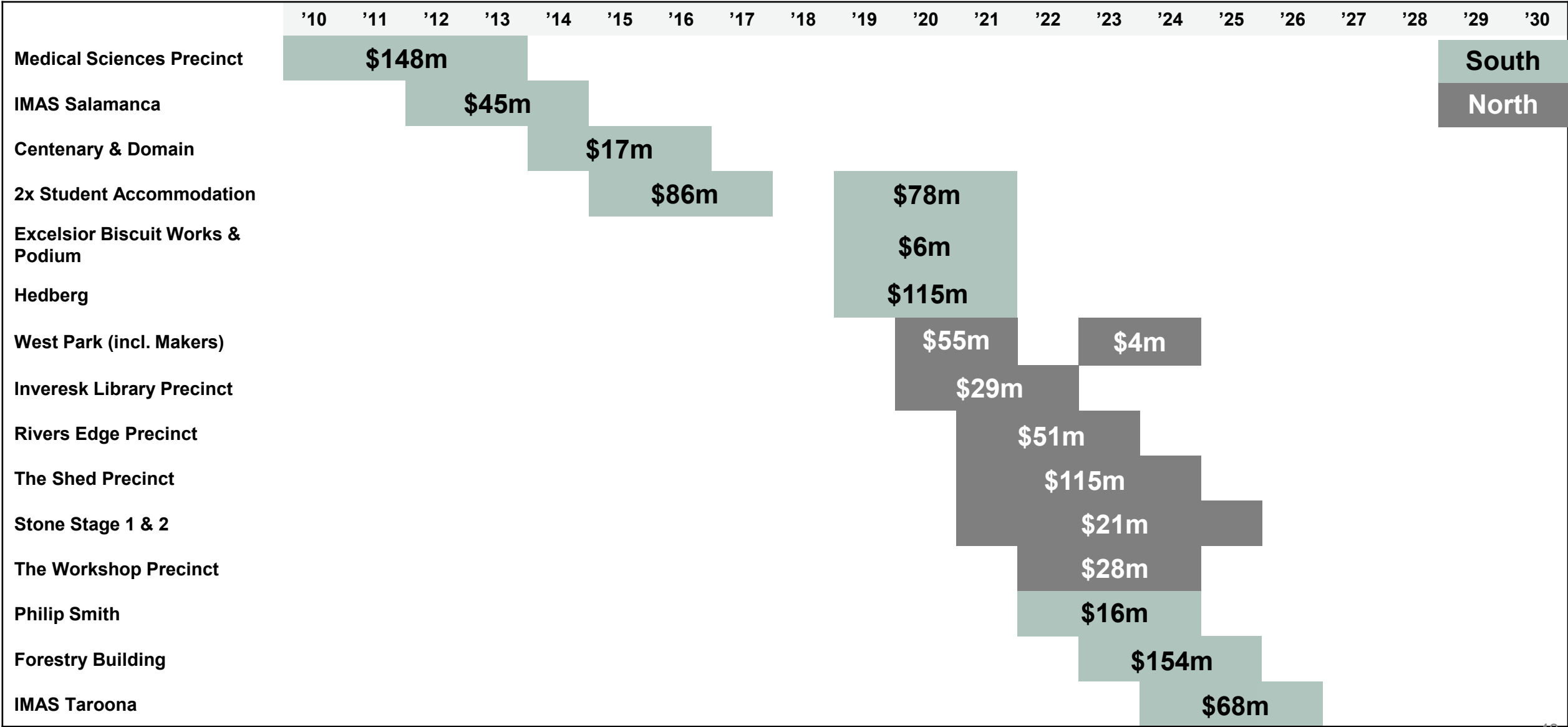


# We have the funding needed to meet our capital commitments and additional funding sources available to manage risks

Funding plan to meet our committed capital expenditure (2024/25)



# While we have been able to deliver capital investment over the last 15 years with the constrained operating surplus, that is about to stop



This kind of long-term planning is carefully governed. The *University of Tasmania Act 1992* establishes Council's responsibilities to act in all matters concerning the University in the way it considers will best advance the interests of the University, including how to finance what is required

### University Council

Empowered by the *Act* to allocate funds and otherwise determine the best use of the University's resources (section 9. 3(b))

- Receives analysis of core and operating result performance (*every Council meeting*)
- Considers financial sustainability and emerging strategic issues (*as required*)
- Approves the University's budget (*annually*)

### Audit and Risk

Provides advice and **makes recommendations to Council** by monitoring the activities and performance of the internal and external audit functions.

- Oversees the production of public accounts, audited by the Tasmanian Audit Office, certified by Auditor General and approved by Council.

### Strategic Resourcing

Provides advice and **makes recommendations to Council** on the strategic and coordinated deployment of physical and financial resources

- Endorses University's Financial Model
- Monitors Financial Outlook, Investments and Budget

## Questions



Australian higher education is going through the largest change since the early 1990s as it transitions from an era of rapid market driven growth to a **managed system with at best low domestic and international growth** in the near term

We are a university with a **broad mission** across teaching, research and regional delivery for Tasmania, which is a high-cost task in the context of how the sector is funded

These pressures require a **delicate balancing act** to deliver our mission, look after staff and students, and manage our finances. That has meant we cannot generate enough surplus to replenish our assets from our operating funds without compromising our mission

To date we have **replenished our assets with government assistance, innovative finance and the prudent use of debt** overseen by good governance. The current low growth and funding settings means none of those strategies are available to us for further capital replenishment

To be a sustainable university delivering the higher education Tasmania needs, **three things are required**: the proposed policy settings in the Accord and Migration Review are supported and Government assistance and unencumbered assets for STEM



**To become a financially sustainable operation we need to see the Accord and Migration Review implemented and for our capital replenishment we need Government investment in STEM and an ability to make a contribution to it**



### Operating Budget

#### Accord

- Growth through pathways
- Needs based funding
- Regional loading

#### International Students

- Economically justified regional allocation



### Capital Replenishment

Government investment in  
STEM

Unencumbered assets to  
contribute to STEM

# Our financial goals support us to deliver our mission for Tasmania and make distinctive contributions from Tasmania

## Thriving Tasmanians

- 80% of the workforce with tertiary qualifications and the skills our state needs
- 90% of children ready for tertiary education
- Healthy life years at the national average
- Dramatically lower levels of inequality

## Thriving Regions

- Distinctive regions with equal social and economic opportunities
- Productivity increased to a level that closes the inequality gap
- Pipeline of innovations from research

## Global contributions to a sustainable world

- World leading progress towards gross zero GHG emissions
- Meeting the global goals for a protected and regenerated natural world
- Leading in climate resilience







UNIVERSITY of  
**TASMANIA** 

**Thank you**