

Aide-Memoire: Updated ITP forecasts

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills
From:	Tim Fowler, Chief Executive, Tertiary Education Commission
Date:	21 June 2024
Reference:	AM-24-00494

Purpose

1. This paper provides you with Te Pūkenga's latest view on what former institute of technology and polytechnic (ITP) business divisions could be financially sustainable by 1 January 2026 if they were to be re-established as individual institutions.

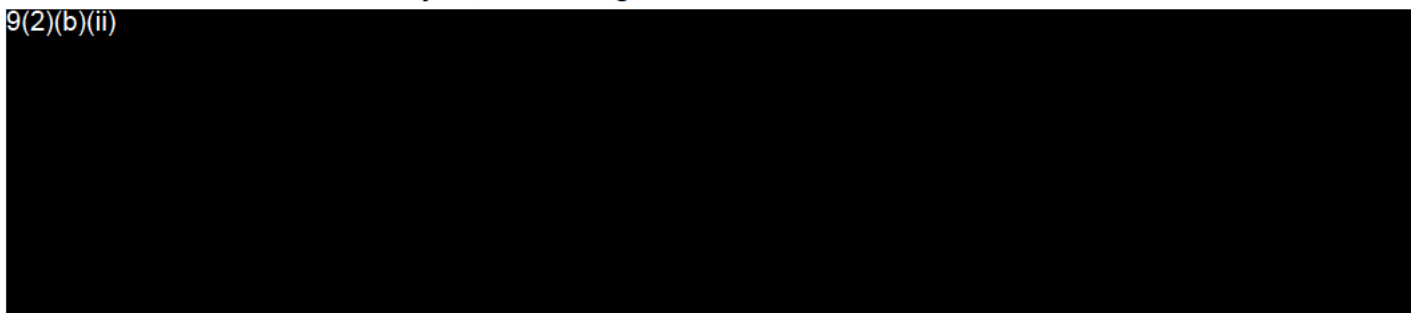
Background

2. We provided you with comprehensive advice on the future financial performance of Te Pūkenga's former ITP business divisions on 11 June 2024 (AM-24-00390 refers). Subsequent to that analysis, you requested Te Pūkenga undertake further work alongside the specialist advisors to form a position on what former ITPs could potentially be financially sustainable by 1 January 2026 as individual institutions.
3. The presentation attached to this paper represents Te Pūkenga's most recent analysis. This work was sent to you by Te Pūkenga on 18 June 2024, building off the earlier financial modelling undertaken during May 2024.
4. The updated forecasts largely utilise the same assumptions from the earlier modelling. However, they now also incorporate the announcements from Budget 2024. As with the previous forecasts, a return to the old funding system is assumed and both domestic and international enrolments are forecast to increase over the next four years.

ITPs which are considered to potentially be viable by 1 January 2026

5. Based on the latest analysis, Te Pūkenga has concluded that:

9(2)(b)(ii)



The TEC's view

6. Our comprehensive advice on the modelling assumptions and process, as well as the changes required to return the ITP sector to a financially sustainable position is outlined in AM-24-00390.
7. Based on the updated information provided by Te Pūkenga, the TEC agrees with the assessment that Ara and Open Polytechnic will be financially viable by 2026 and should be able to be re-established as independent institutions.
8. For the 9(2)(b)(iii) ITPs that Te Pūkenga has assessed as having a pathway to financial viability, we broadly agree that these entities have the potential to be viable by 1 January 2026 although this will be dependent on the changes that can be made over the next 18 months and future enrolment patterns. We consider there are three key risks surrounding the forecasts. This includes:
 - **Domestic EFTS** are forecast to increase across all ITPs over the 2024 to 2028 period. For some ITPs (e.g. EIT and SIT), extremely strong growth in domestic EFTS is forecast. Domestic EFTS in the ITP sector closely follow the unemployment rate. With the unemployment rate expected to increase further in 2025, this may support ongoing domestic enrolment growth in that year. However, the unemployment rate is then expected to fall over the 2026 to 2028 period which would suggest a decline in overall domestic enrolments across the ITP sector. Given domestic EFTS have also been trending downwards since 2010 in the ITP sector, we consider there is a risk that the optimistic growth forecasts are not achieved which would result in performance being worse than expected.
 - **International EFTS** are forecast to increase strongly across all ITPs over the 2024 to 2028 period. We assess that there is considerable room for international enrolments to increase in the ITP sector and that ambitious targets can be achieved. We do note, however, that for some ITPs (e.g. SIT, NMIT, Wintec), full-fee international EFTS are expected to more than double. While possible, there is a risk that the more aggressive of the forecast growth rates are not achieved, and overall financial performance is worse than expected.
 - **Expenditure** is forecast to remain relatively fixed despite the forecast growth in enrolments. The high fixed cost structure results in nearly all of the increase in enrolment revenue becoming increased profitability. There is a key risk for some ITPs that even if the optimistic enrolment growth forecasts can be achieved, expenditure will be higher than forecast and profitability lower.
9. We consider that without intervention or other mitigations being implemented, the likelihood of the 9(2)(b)(iii) ITPs reporting surpluses by 2026 is uncertain. A long overdue cost-out exercise is required to be progressed at pace. To support this work, the TEC has recently written to Te Pūkenga under section 332 of the Education and Training Act requiring it to obtain specialist help. We have had strong and supportive engagement from Te Pūkenga's leadership for this work and expect the work to plan and implement cost savings will begin in the first week of July 2024.
10. This work is being undertaken for all ITPs, including the 9(2)(b)(iii) that currently have no pathway to financial viability. For these entities, considerable change to their cost base, academic offering, and staffing and property requirements will be necessary to move towards financial sustainability. The scale of change required for some ITPs is likely to mean that fewer programmes are offered (particularly face to face), there are fewer delivery sites, and greater levels of vocational education and training are picked up by other parts of the tertiary sector.
11. This work will proceed with speed and will be closely followed by a governance group set up specifically for the purpose. There is, however, no guarantee that such changes will result in financially sustainable operations. The work will be ongoing over 2024 and 2025. In 2025, as this work progresses, we will be able to provide a better view of which entities we consider could

be financially sustainable on 1 January 2026 and which may need further work or funding. Entities that are not viable at the end of 2025 would have to be sufficiently recapitalised on establishment to ensure they have time to move towards a financially sustainable position.

Next steps

12. We understand you wish to forward this paper and the attached presentation to the Minister of Finance for her information.



Tim Fowler

Chief Executive

Tertiary Education Commission

21 June 2024

Hon Penny Simmonds

Minister for Tertiary Education and Skills

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