ITP 2016 Financial Performance

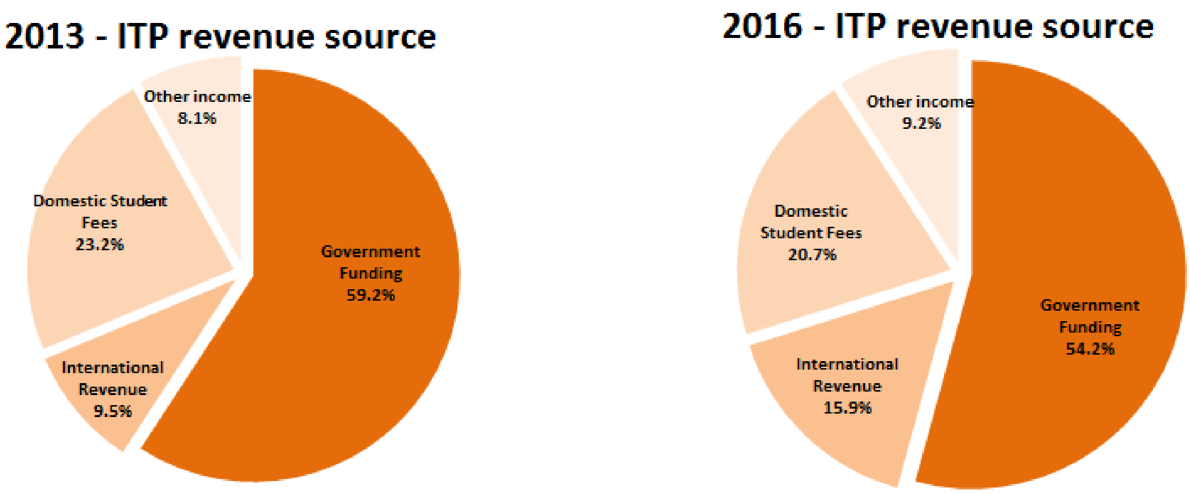
There was an overall decline in financial performance in 2016 for the institutes of technology and polytechnics (ITP) sector. This document provides an overview of financial performance of the ITP sector in 2016 and key trends over recent years.

Please note: TEC will publish 2017 financial information by August 2018 when all ITPs have provided us with final audited numbers.

Overall revenue in the ITP sector increased in 2016

Despite a decline in domestic student revenue and government funding, overall revenue for ITPs increased by 1.1 percent in 2016. This was largely driven by an 11 percent increase in revenue from international student fees. Since 2013, international student revenue has risen by more than $80 million and now represents over 15 percent of the ITP sectors' revenue (Figure 1).

Figure 1 – ITP revenue by source



ITPs have lower revenue diversification than universities. ITPs are particularly exposed to changes in domestic student numbers and government funding. Increased international income has helped mitigate this issue over recent years. However, reliance on international income carries risk – it can be influenced by external factors such as changes in the global economic environment and individual countries' immigration settings and related policy decisions.

ITP expenditure also increased in 2016

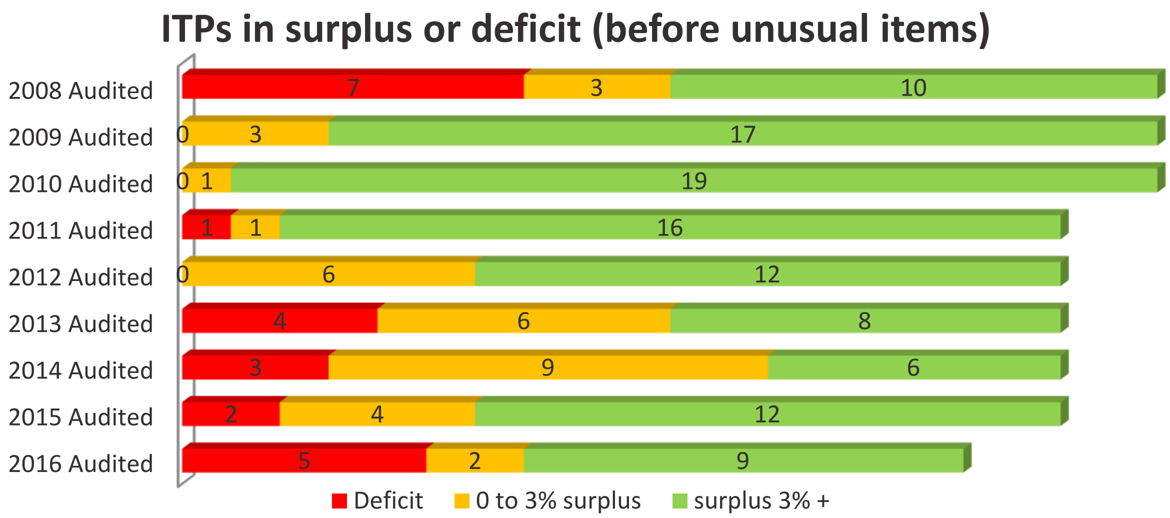
Total expenditure increased by 3 percent in 2016, outstripping inflation. Personnel expenditure remains the largest expenditure category at 59 percent of total expenditure. This has increased from 53 percent of total expenditure in 2013. TEC's analysis suggests that this is because ITPs attempts to constrain non-personnel expenditure have generally been effective.

Overall pattern is one of declining profitability

Despite increased revenue, the ITP sector's operating profitability (net operating surplus before abnormals) in 2016 declined by just over $20 million compared to 2015 – from $43.7 million to $23.3 million.

Five ITPs recorded a deficit in 2016. Nine ITPs recorded a surplus of more than 3 percent (the level considered as 'low risk' on the TEC's Financial Monitoring Framework) and two ITPs recorded a surplus of between 0 and 3 percent (Figure 2). Operating results ranged from a deficit of 13.3 percent (Tai Poutini Polytechnic) to a surplus of 6.6 percent (Ara Institute of Canterbury).

Figure 2 – The number of ITPs in surplus or deficit[1]

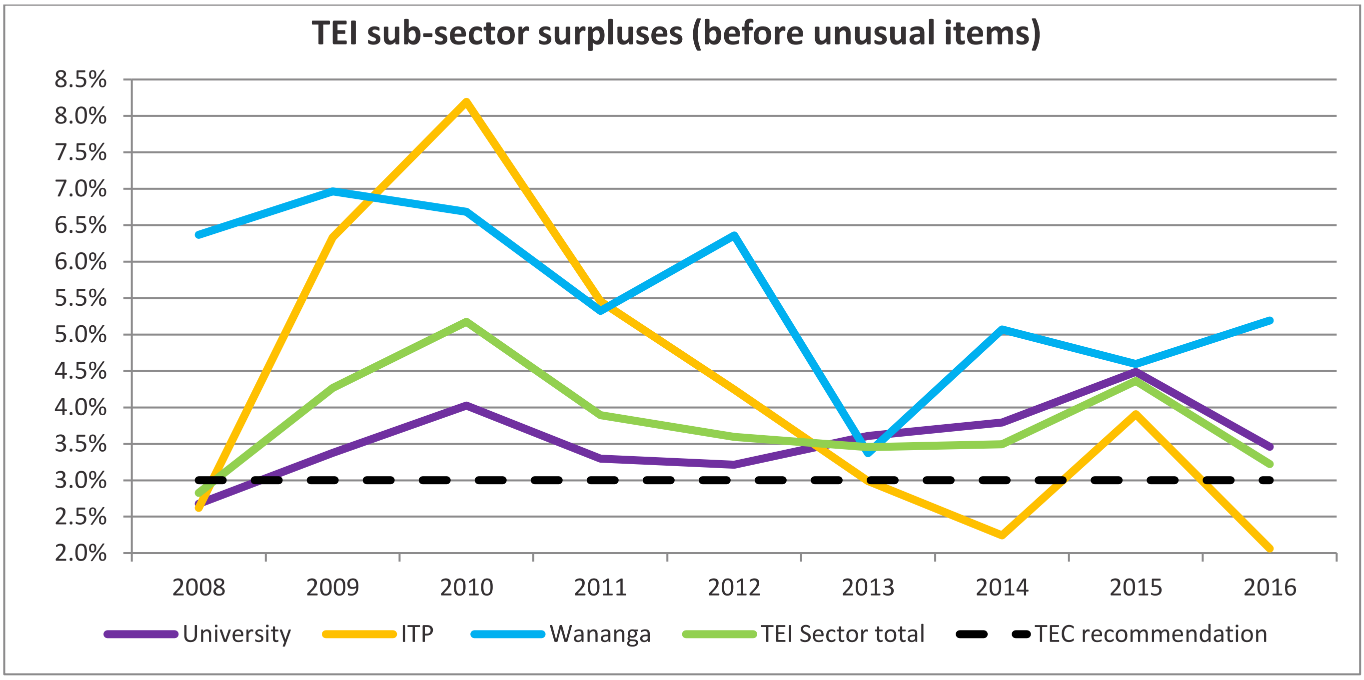


This overall decline in ITP sector profitability continues a trend seen since 2010, which was only temporarily reversed in 2015. The 2015 reversal in profitability can be attributed to strong growth in international revenue, (which increased by $45 million between 2014 and 2015) and some institutions posting one-off results which were not repeated.

Other TEI subsectors have also had declining or volatile profitability but to a much lesser extent than the ITP sector (Figure 3). The ITP sector decline is more marked due to the high base in 2008 and 2009. The high base is attributable to the relatively large increase in the number of domestic students (and related funding) – in part, due to more people choosing to study following the global financial crisis.

[1] Note 2011 saw a reduction in the number of ITPs from 20 to 18 due to mergers. There was a further reduction from 18 to 16 in 2016, again due to mergers.

Figure 3 – Subsector surpluses, 2008-2016



Value of assets has increased over recent years

While ITP sector profitability has declined, ITPs' total assets have continued to increase in value. This is largely due to an increase in the value of land and building assets, which were valued at $1.8 billion in 2016, up from $1.5 billion in 2013. Cash and liquid assets have remained largely stable – increasing slightly from $260 million in 2013 to $264 million in 2016.

Value of borrowing has also increased

Over the same period, ITP private-sector debt (including finance leases) has more than quadrupled from $27.4 million in 2013 to $110.6 million in 2016. Increasingly, ITPs are using finance leases and borrowing to fund major capital works and transformational programmes. This debt is concentrated in a subset of ITPs, with four currently borrowing between $11.8 million and $43.4 million each.

For most ITPs, increasing financial pressure is the trend

In summary, ITP financial performance between 2012 and 2016 has been affected by:

- declining government funding and fewer domestic students
- an increasing focus on growing international student numbers and international revenue
- declining profitability and an increase in deficits
- larger ITPs increasing debt levels to fund major capital works and transformation programmes.

We expect 2017 audited results to follow the recent trend of declining financial performance and increased financial pressure for many ITPs.

The table below provides a summary of the key financial metrics for the ITP sector for the 2013 to 2016 period.

ITP sector summary financial performance	2013 Audited ($m)	2014 Audited ($m)	2015 Audited ($m)	2016 Audited ($m)	Change 2015-2016 (%)
Total Income	1,056.5	1,072.5	1,119.6	1,131.5	1.1%
Total Government Funding	625.4	618.2	619.2	613.9	(0.9%)
Total International Income	99.9	116.5	161.6	180.0	11.4%
Total Domestic Fees and Charges	245.1	234.3	239.4	233.7	(2.4%)
Total Other Income	86.0	103.5	99.4	103.9	4.5%
Total Expenditure	1,027.9	1,048.4	1,075.8	1,108.1	3.0%
Net surplus before unusual items	31.6	24.1	43.7	23.3	(46.7%)
Net surplus (before unusual items) ratio	3.0%	2.2%	3.9%	2.1%	(46.2%)
Net surplus after unusual items	15.2	15.3	39.4	26.4	(33.1%)
Net surplus (after unusual items) ratio	1.4%	1.4%	3.5%	2.3%	(34.3%)
Total liquid assets	260.4	272.6	306.5	264.5	(13.7%)
Liquid funds ratio	27.0%	27.6%	30.9%	25.5%	(17.6%)
Net cashflow from operations	108.1	136.8	142.3	88.0	(38.1%)
Net cashflow from operations %	111.2%	113.8%	114.4%	108.5%	(5.2%)

Further information

Detailed financial information on individual ITPs and other TEIs can be found on the TEC website.

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