Tertiary Education Commission
Te Amorangi Mātauranga Matua

Aide-Memoire: University sector financial update - April 2025

To:	Hon Dr Shane Reti, Minister for Universities
From:	Tim Fowler, Chief Executive, Tertiary Education Commission
Date:	15 April 2025
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Purpose

1. This paper provides you with a financial overview of the university sector. It focuses largely on 2024 unaudited results (which are subject to change as they go through the audit process) and 2025 budgeted performance before looking at 2026 and 2027 forecasts. We also outline our view of the key risks and challenges currently facing the university sector.

2. We recommend that you do not proactively release this aide-memoire given it contains commercially sensitive information which was provided in confidence.

Executive summary

3. The university sector has reported an unaudited surplus of 9(2)(b)(ii) in 2024, which is 9(2)(b)(ii) higher than 2023 and 9(2)(b)(ii) better than budget. It is also significantly higher than the $1 million surplus collectively forecast by the universities in September 2024.

4. Seven out of eight universities reported an unaudited surplus including five of 9(2)(b)(ii) or more. 9(2)(b)(ii)

5. Underlying financial performance remains under pressure. When abnormal items, net trust income, and interest income are removed, the sector reported a deficit of 9(2)(b)(ii). We consider this result is reflective of the pressure facing the sector, notwithstanding that management teams have worked hard to reduce the size of the underlying deficit.

6. For 2025, the university sector had cash (including short-term investments) of 9(2)(b)(ii) at the end of 2024, which is typically the lowest cash point across the year. There are no short-term liquidity concerns for any university.

7. 9(2)(b)(ii)

8. 9(2)(b)(ii)

9. The university sector budgeted for domestic TEC-funded enrolments to grow by 0.9 percent in 2025. Indicative enrolment data shows that DQ3-10 funded EFTS across the university sector are up by 4.0 percent in 2025. 9(2)(ba)(i)

9(2)(ba)(i) 9(2)(f)(iv)

10. The university sector budgeted for full-fee international enrolments to increase by nine percent in 2025. Indicative enrolment information shows that full-fee international EFTS are up by 19 percent which will support overall financial performance. Growth is being driven by increases in Masters level programmes with Bachelors level study remaining flat at a sector level.

11. 9(2)(b)(ii) This is predicated on growth in both domestic and international enrolments and revenue exceeding expenditure growth. This will be a difficult equation to manage, with individual institution performance expectations varying over this period. There remains a considerable number of profitability challenges for the sector and universities will need to revise their forecasts following Budget 2025 announcements on funding rate increases, particularly as the temporary four percent tuition subsidy increase for degree level study that was in place for 2024 and 2025 ends.

12. No universities are considered at risk of imminent failure. However, there are medium-term risks and challenges to the financial position of several universities, which need consideration now. This is particularly the case for 9(2)(b)(ii) We will be revising university risk ratings following receipt of all universities' May 2025 financial reforecasts and will provide a future update in due course.

13. At a sector level, there are six key risks that need to be navigated:

- *Revenue increases being constrained at levels below inflation.*
- *An inability for the TEC to fund all DQ3-10 domestic delivery.*
- 9(2)(f)(iv)
- *The international enrolment recovery is being heavily driven by Masters level study, which has a shorter and more uncertain pipeline.*
- *Cost savings and constrained expenditure forecasts are not achieved.*
- *Capital requirements are unable to be fully funded.*

14. Overall, despite the challenges, the university sector is tracking relatively well. Most universities haven taken encouragement from the strength of 2025 enrolments, 9(2)(f)(iv) 9(2)(f)(iv) . We remain engaged with the sector and will continue to closely monitor progress.

2024 financial performance

The university sector reported a 9(2)(b)(ii) unaudited surplus…

15. The university sector has reported an unaudited surplus of 9(2)(b)(ii) in 2024. The result represents a 9(2)(b)(ii) improvement on budget and 9(2)(b) better than the 2023 result. It is also 9(2)(b)(ii) better than the forecasts provided to us in September 2024, which was for a $1 million surplus. This is a significant turnaround and is based on better-than-forecast results from seven universities. The three universities with over $20 million favourable to forecast differences were 9(2)(b)(ii) . Collectively, these three forecast $15 million in net trust income and reported an unaudited $90 million in net trust income.

16. The large movement between the September 2024 reforecast and 2024 unaudited results is primarily due to higher than forecast non-core income and favourable expenditure variances.

…but the result is being heavily supported by non-core income…

17. Collectively the universities reported 9(2)(b)(ii) in net trust income gains. They also had 9(2) in interest income and balanced favourable and unfavourable abnormal items 9(2) If the 9(2)(b)(ii) surplus is adjusted to remove net trust income and abnormal items, the surplus falls to 9(2)(b)(ii) . If net interest income is also removed, it falls to a 9(2)(b)(ii) deficit. Either adjustment places the sector result at 9(2)(b)(ii) of revenue, from a break-even position.

18. Net trust income and interest income, alongside the higher margin that is obtained from full-fee international students, is continuing to cross-subsidise core activity (the combination of domestic delivery and research delivery).

…with four out of eight universities reporting an underlying deficit…

19. *Table 1* presents the 2024 unaudited results for each university as well as the result excluding net trust income and university advised unusual items to better assess underlying financial performance.

Table 1: Individual university net surplus/deficit, 2024 and 2025 ($ million)

	2024 budget	2024 unaudited result*	2024 unaudited result excl. net trust income and provider advised unusual items	2025 budget	2025 budget variance to 2024 adjusted result
Auckland	9(2)(b)(ii)				
AUT					
Massey					
Waikato					
Lincoln					
VUW					
UC					
Otago					
TOTAL					

** Note: Auckland has released its annual report confirming its $70.1 million result. All other results are unaudited and subject to change as universities go through the audit process.*

…with domestic growth in enrolments exceeding budget…

20. The university sector budgeted for 116,810 domestic-funded EFTS and exceeded this with 118,229 EFTS reported as shown in *Table 2*.

Table 2: EFTS changes between December 2023 and 2024 SDRs

	DQ3-10 EFTS change	DQ3-10 EFTS % change	Full-fee & NZ Aid international EFTS change	Full-fee international EFTS % change	Total EFTS change	Total EFTS % change
Lincoln	444	17.3%	177	32.8%	622	19.9%
Waikato	218	2.6%	663	32.4%	894	8.5%
UC	937	6.0%	39	3.0%	984	5.8%
Auckland	953	3.3%	255	4.5%	1,429	4.0%
AUT	342	2.2%	390	13.5%	713	3.8%
VUW	-37	-0.3%	188	13.1%	152	1.0%
Otago	-324	-1.9%	94	7.3%	-269	-1.4%
Massey	-585	-4.3%	381	14.6%	-299	-1.8%
TOTAL	**1,949**	**1.7%**	**2,187**	**12.3%**	**4,225**	**3.1%**

Note: Total includes DQ-funded, full-fee international, and all other funded EFTS.

21. At an institution level, three universities (VUW, Otago and Massey) reported a decline in domestic TEC-funded EFTS. VUW's 0.3 percent decline was a strong result given it had fallen 15.9 percent from 2021 peaks in the previous two years. This has effectively stabilised earlier declines and established a foundation for growth in 2025. Otago's decline of 1.9 percent is the residual pipeline impacts of soft new enrolments in preceding years. Its 2025 enrolment data shows a much more positive trajectory. Massey's decline of 4.3 percent in domestic EFTS remains a high concern to the TEC, with further declines being reported in 2025. The 2024 decline placed Massey at 20 percent below its 2021 domestic EFTS peak.

…and full-fee international enrolments continued to recover…

22. All universities experienced growth in full-fee international enrolments (including NZ Aid) in 2024. Sector growth was 12.3 percent (including offshore delivery) with delivery occurring to 19,960 EFTS international EFTS, outperforming budget expectations. While growing, international EFTS remain eight percent (1,705 EFTS) below 2019 levels.

23. Over 92 percent of the growth (2,024 EFTS) experienced was in Masters level programmes. This meant that across all other levels of study, international EFTS only increased by 164 EFTS. Within this overall total, Bachelor and Bachelor with Honours qualifications decreased 388 EFTS (or -3.8 percent).

24. Masters level study has risen from just over 21 percent of full fee learners in 2019 (pre-COVID-19) to 41 percent in 2025. All other levels of study remain 23 percent below pre-COVID-19 levels. Excluding offshore delivery, Auckland is the only university ahead of 2019 international EFTS levels. Waikato has more international EFTS than 2019 but this is due to a 602 EFTS increase in offshore delivery.

25. With a growing reliance on Masters levels programmes, universities are going to need a strong new student enrolment pipeline to maintain this growth trajectory given the shorter duration of programmes. This could be challenging in the face of global uncertainty and any changes to immigration policies. While profitable, the composition does make universities more susceptible to an external shock.

…and the sector generated sufficient net cash flows from operations to cover its capital expenditure …

26. The university sector reported cashflow from operations of 9(2)(b)(ii) in 2024, which was materially ahead of budget 9(2)(b)(ii)). The unaudited result equates to a cash flow from operations ratio (cash inflow from operations as a ratio to cash outflow from operations) of 117 percent and is only modestly below the level needed to implement a typical year's capital expenditure plan. While most universities were strong, Lincoln 9(2)(b)(ii)), Otago 9(2) , and VUW 9(2)(b)(ii)) remained below levels that would avoid either a constrained capital expenditure plan, reducing cash balances, or increased borrowing.

27. University sector capital expenditure was 9(2)(b)(ii) below budget with a spend of 9(2) This is closely aligned to net cash flow from operations of 9(2)(b)(ii), and slightly higher than 2023 expenditure of $718 million.

28. Approximately half the sector difference to budget related to Auckland which budgeted 9(2) All other universities were within $20 million of their budgeted capital expenditure. As we have advised you, the sector usually underspends the collective capital expenditure budget it sets. This is due to many factors including projects taking longer than expected to approve and ramp up to meaningful levels of expenditure; delays between commissioning work and making payments on those projects (the expenditure totals are from the statement of cash flows); and some projects being deferred or declined despite making budget.

…and access to cash remains strong across the sector

29. The university sector had cash (including short-term investments) of 9(2)(b)(ii) at the end of 2024, which is typically the lowest cash point across the year due to their cyclical cash flow, along with 9(2)(b)(ii) of trust cash. Six universities also had access to a potential 9(2)(b)(ii) of undrawn borrowings (if borrowing facilities up to consent limits were established). This means the sector had total cash and liquidity facilities potentially available of 9(2)(b)(ii)

Table 3: Total available cash by university, 31 December 2024 ($ millions)

$m	Cash (incl. short-term investments)	Borrowing consent limits	Undrawn consent balances	Total available liquidity
9(2)(b)(ii)				

2025 budgeted performance

The sector has budgeted for an effective break-even result in 2025…

30. The university sector has budgeted for a 9(2)(b)(ii) in 2025 (see *Table 4*) and a 9(2)(b)(ii) excluding abnormal items. Three universities are budgeting for a deficit, and three universities are budgeting for a small surplus under 1 percent of revenue. 9(2)(b)(ii) n)

9(2)(b)(ii)

31. Once a collective gain of 9(2)(b)(ii) in net trust income is removed, the sector has budgeted for an underlying deficit of 9(2)(b)(ii) This would represent a 9(2)(b)(ii) decline in underlying performance when compared to the 2024 unaudited result.

Table 4: 2025 key budgeted metrics ($ millions)

	2025 budget surplus / (deficit)	2025 result excl. net trust income and provider advised unusual items	Net cash flow from operations percentage	Budgeted liquidity as at 31 December 2025
9(2)(b)(ii)				

32. Over recent years, there has been a convergence of budgets being set towards break-even, with 2025 being no different. What we are seeing is that the universities with the stronger 2024 results have budgeted for a softer 2025 result. The May 2025 reforecast will be key to determining how each university is tracking.

…with the increase in expenditure budgeted to exceed revenue growth…

33. The 2025 budgets have been set based on 2.5 percent revenue growth ($124 million) being offset by a 4.7 percent increase in expenditure ($232 million), generating a 2.2 percent gap adversely impacting profitability. With strength being seen in enrolments, we consider it is more likely universities will operate to their expense budgets and target revenue increases as an opportunity to exceed budget, if the growth is able to be funded (either fully or in part).

34. From a revenue perspective, the combination of tuition and research revenues is budgeted to increase by $287 million (or 7 percent) in 2025. The two primary contributors to this are domestic fees (rising by $90 million) and international tuition fee growth (up $175 million). Research remains relatively flat (down $10 million), as does TEC EFTS funding (up $2 million). These revenue increases are offset by a $163 million decline in interest income, net trust income, and other income, a position which is likely to become clearer in May (noting that Auckland does not budget for net trust income, so the sector decline is overstated).

35. Expenditure is budgeted to rise by $232 million (or 5 percent). This is driven by personnel costs increasing by $100 million (4 percent), other expenses increasing by $98 million (6 percent), and depreciation and amortisation increasing by $34 million (6 percent).

… which if delivered show no immediate liquidity concerns…

36. If the sector can deliver on their budgets, it is expecting to generate $628 million from cash flow from operations (in addition to property realisations of $239 million). Concurrently, the budgets allow for $912 million of capital expenditure in 2025. This means that the sector is only expecting a $45 million gap between its primary cash inflows and capital expenditure outflow. If delivered, there is no foreseeable liquidity risks present in 2025.

37. While liquidity remains sufficient across the sector on 2026 to 2027 forecasts, 9(2)(f)(iv) Medium-

9(2)(f)(iv)

…with expectations that domestic enrolments increase in 2025…

38. The university sector budgeted for domestic enrolments to grow by 0.9 percent (approximately 1,100 EFTS) in 2025, as shown in *Table 5*. All universities except Lincoln (which budgeted for a 10.1 percent decline in response to not being funded for over delivery in 2024) and Massey (which budgeted a 5 percent decline due to very soft early enrolments in late 2024), have budgeted for growth ranging from 0.8 percent to 5.3 percent.

…with the indicative enrolment data showing strong domestic enrolments growth…

39. Indicative enrolment data from March 2025 shows that DQ3-10 funded EFTS across the university sector are up by 9(2)(b)(ii) compared to March 2024 (see *Table 5*). All universities are ahead of their DQ3-10 budgeted totals with the sector average being 9(2)(b)(ii) ahead of budget.

Table 5: DQ3-10 funded indicative enrolment data, March 2024 to March 2025

	2024	2025	2024 v 2025 actual % change	2025 budgeted % change
9(2)(b)(ii)				

40. University 2025 funding allocations for DQ3-10 total $1,574 million (excluding any flexible funding), for the delivery of 115,927 EFTS. The sector budgeted for revenue of $1,593 million. With the sector being 9(2)(b)(ii) ahead of 2024, system over-delivery of around 9(2)(b)(ii) likely, unless constrained by other factors. 9(2)(b)(ii)

41. While finalised semester one enrolment information will not be available until after the April 2025 SDR, the indicative enrolment data suggests demand is above budget for all the universities, which creates domestic tuition fee upside to revenue forecasts (if it can be funded). The extent to which it provides TEC EFTS funding upside will be determined by what in-year incremental funding decisions are made.

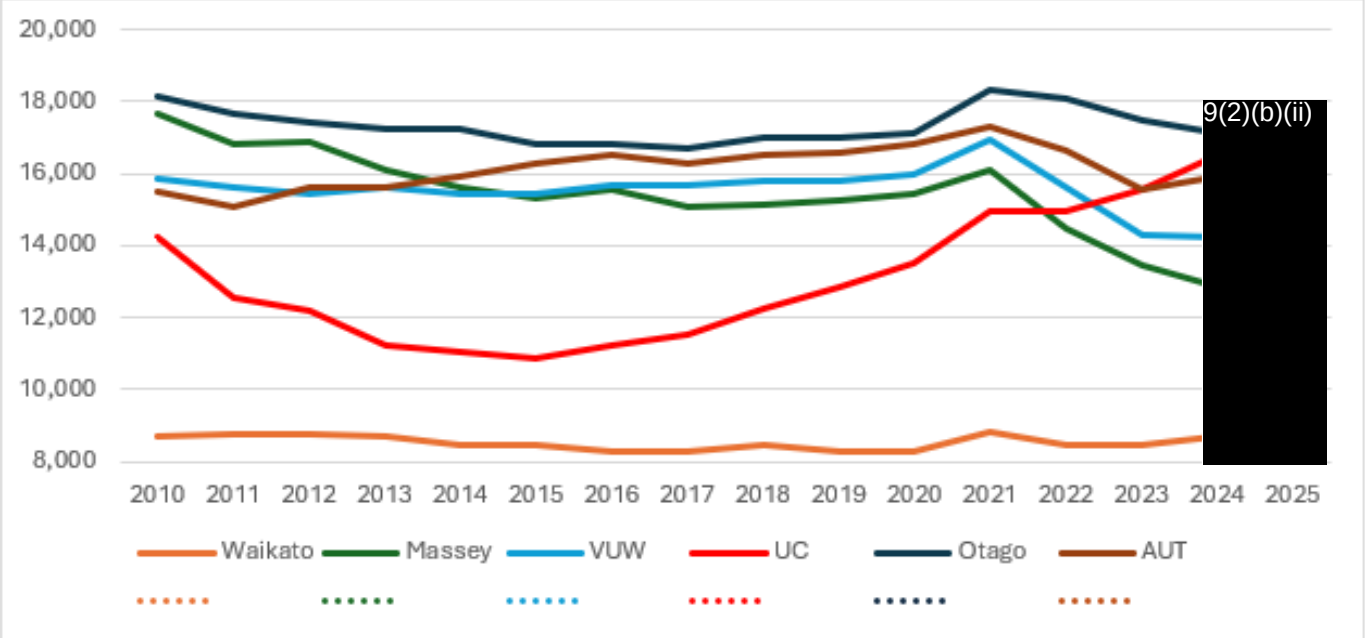
42. For context, the March 2024 indicative SDR represented 99 percent of the volumes reported in the April 2024 SDR. The April 2024 SDR then represented 90 percent of the full year delivery reported in the December 2024 SDR. This shows that while semester two enrolments are important - a significant portion of the years domestic activity is effectively '*locked in'.* This pattern is less relevant with full fee international enrolments, notwithstanding April 2024 volumes remained high at 74 percent of December totals.

…with market share patterns continuing to change…

43. For the last eight years, UC has had the highest DQ3-10 EFTS percentage growth rate of all the larger universities with often a significant gap back to second (see *Figure 1*). This has been a result of the university rebuilding to and then beyond its pre-earthquake enrolment levels.

44. The 2025 early enrolment data shows this gap is closing. 9(2)(b)(ii) [redacted]

Figure 1: 2010 to 2025B, DQ3-10 market share movements (excluding Auckland and Lincoln)



45. While most universities are growing, for the fourth year in a row 9(2)(b)(ii) [redacted]

46. 9(2)(b)(ii) [redacted]

47. 9(2)(b)(ii) [redacted]

…while international enrolments continue to recover strongly…

48. The university sector has budgeted for $100 million (or 17 percent) growth in full-fee international tuition fee income in 2025. For five universities, the budgeted international fee income is an increase of over 20 percent compared to 2024.

49. Indicative enrolment information shows that full-fee international and NZ Aid International EFTS have risen by 9(2)(b)(ii) [redacted]

Table 6: Full-fee international indicative enrolment data, March 2024 to March 2025

	2024	2025	2024 v 2025 actual % change	2024 budgeted % change
Waikato	9(2)(b)(ii) [redacted]			
AUT				
VUW				
Lincoln				
Massey				
Otago				
UC				
Auckland				
TOTAL				

50. Similar to the trends in 2024, 9(2)(b)(ii) [redacted] being experienced is supported by increase in Masters level enrolments. The increase across all other levels of study was only 9(2)(b)(ii) [redacted] Bachelor level international EFTS remained flat at a sector level. The stronger than budgeted full-fee international EFTS growth will help support financial performance across the sector, although the increasing mix of Masters level study needs to be carefully managed.

…but we may not have a better understanding of 2025 full year performance until July 2025

51. Universities are required to provide the TEC with a financial reforecast of 2025 performance and its out-year forecasts at the end of May 2025. These forecasts often carry a higher level of scrutiny and a more informed understanding of current year trajectory. It is not until this point that we will see how enrolment growth is flowing through to financial projections. As we have done since 2020, we will be holding one-on-one sessions with the senior management of each university over June and July 2025 to better understand their financial performance. Given the likelihood that some Budget decisions will amend the strategies of universities, it may take until these June/July meetings before getting a richer view of the 2025 performance outlook, inclusive of any responses the sector has to Budget announcements.

52. While universities will be able to quickly update forecasts for any rate change differential, if future funding departs materially from their expectations, they may need to consider any changes to their respective organisational strategies. Many of the universities have presented forecasts where revenue growth is sufficient to both cover inflation level expense increases and modestly improve profitability. Furthermore, if uncertainty remains with the TEC's ability to fund all domestic enrolment growth (and thereby deliver increased revenues), universities may look to re-orient towards higher international revenue growth to deliver on their plans.

Forecast performance for 2026 and 2027

The sector has forecast a further deficit in 2026 before improving profitability in 2027…

53. As 2025 financial performance becomes clearer, we would expect there to be a number of changes made to outyear forecasts. At this stage, there is a high level of sector uncertainty on

what levels of enrolment demand can be funded by the TEC, and how the Government may approach funding rate increases. Both have large impacts on financial performance. Nonetheless, it is important to consider the information available to us now and *Table 7* sets out the forecast profitability for the 2026 to 2027 period. As there were in 2024, we anticipate there could be some large movements across the sector in later financial returns.

Table7: 2026 and 2027 forecast profitability ($ millions)

	2026		2027	
	Forecast surplus / (deficit)	forecast excl. net trust income and provider advised unusual items	Forecast surplus / (deficit)	forecast excl. net trust income and provider advised unusual items
9(2)(b)(ii)				

54. The 2026 sector forecast shows a 9(2)(b)(ii) including 9(2)(b)(ii) in reported abnormal restructuring costs. With 9(2)(b)(ii) of net trust income removed, financial performance reduces to 9(2)(b)(ii). The 2027 forecast is for a 9(2)(b)(ii) inclusive of net trust income and 9(2)(b)(ii) excluding net trust income and abnormal transactions.

55. 9(2)(b)(ii), 9(2)(f)(iv)

56. 9(2)(b)(ii), 9(2)(f)(iv)

57. The sector's forecasts indicate most, if not all, universities are losing money on a full-costed domestic delivery basis. The sector's cost structure is becoming critically dependent on revenue from full-fee international students and indeed growing this over time.

…with the sector forecasting $1.5 billion of capital expenditure across 2026 and 2027 …

58. The sector is forecasting $757 million of capital expenditure in 2026 and $818 million in 2027. The comparative figures within the 2024 capital intention plans were $866 million and $810 million. Collectively the sector has lowered plans across the last year, and we expect they will continue to refine longer term commitments. We will receive revised capital intention plans in July 2025 which will provide greater visibility to the movements (and after which we will report back to you on the sector's capital plans).

59. The 2027 forecast is for $368 million in cash and $427 million in borrowing for a sector (which excludes Auckland's interest free crown loan, which had a reported 2027 book value of $151

million). The capital expenditure plans being forecast require the sector to undertake net borrowing of approximately $100 million per year.

…but we consider forecasts are likely to change

60. As we highlighted in our recent overview of universities' capital intention plans, we expect adjustments to continue to be made. In particular:

- 9(2)(b)(ii), 9(2)(f)(iv) [redacted]
- 9(2)(b)(ii), 9(2)(f)(iv) [redacted]
- 9(2)(b)(ii), 9(2)(f)(iv) [redacted]

61. Despite capital expenditure budgets and forecasts exceeding financial resources generated in the same period, universities are still unable to do some projects they want or need to do. They face difficult choices around descoping the size of facilities to remain on planned budgets or increasing the budget for capital projects. Several significant seismic related projects (VUW's Kirk redevelopment; portions of Massey Albany campus; UC's biology building; and smaller projects across both Otago and Waikato) remain outside short-term plans as universities grapple with the multiple issues of how to afford the project and whether strengthening or replacement is optimal.

All universities are forecasting strong domestic and international enrolment growth…

62. To deliver on their respective forecasts the sector is forecasting growth in both domestic and international enrolments. *Table 8* presents the forecasts[1]. Total TEC funded and international EFTS are forecast by the universities to grow 9(2)(b)(ii) [redacted] in total. This is approximately 9(2)(b)(ii) [redacted] higher than the previous peak in 2021.

Table 8 – Sector EFTS growth forecasts

EFTS	2025 Budget	2026 Forecast	2027 Forecast	2028 Forecast
TEC funded EFTS	119,322	9(2)(b)(ii) [redacted]		
Domestic growth	1,093			
Domestic growth (%)	0.9%			
International EFTS	21,100			
International growth	2,273			
International growth (%)	12.1%			

63. At an individual university level, growth expectations are relatively consistent at the headline level, although the respective splits between domestic and international EFTS do vary. Across

[1] *AUT forecasts have been increased by 600 to create better consistency with 2024 actual results. An estimate is made for Auckland in the 2028 forecast (mirroring 2027 EFTS growth).*

2026 to 2027 total university growth forecasts cluster to two main groups. 9(2)(b)(ii) [redacted]

…but sector growth spread evenly rarely occurs, placing uncertainty on forecasts…

64. Over the last 20 years, there have only been two years where all universities have seen strong growth. These were 2009 when the university system grew 6.7 percent and in 2021 when the system grew 6.6 percent. Both peaks followed significant economic disruption events (the Global Financial Crisis and COVID-19).

65. When system growth of 0 to 2 percent occurs (as currently forecast), typically most universities will see enrolment growth with two or three experiencing at best flat, if not declining EFTS. If the forecast system growth is 0 to 2 percent across 2026 and 2027, several universities are likely to miss their forecasted growth.

66. The strong growth in 2025 is consistent with a combination of a weak labour market and demographic factors from growing school rolls. Over time the labour market is likely to improve which will likely lead to a softening of this demand source. However, demographic factors from school rolls may cause aggregate forecasts to continue to grow for the rest of this decade. Creating further operational challenge is the feedback from many universities that historically reliable lead indicators for enrolment demand are proving to be less reliable since COVID-19, making planning and forecasting more difficult.

Key sector challenges and risks

67. We do not consider there are immediate risks to the financial viability of any university. However, there are medium-term risks to the financial position of several universities, some of which need consideration now. We have been providing you with visibility of these in our individual university overview briefings and will continue to do so.

68. In our view, the six key sector challenges and risks are:

- ***Revenue rate increases being constrained by the Government and not keeping up with inflation*.** As we have previously reported, a significant gap has opened between Government funding and inflation. This has contributed to overall revenue increasing by less than expenditure and led to worsening financial performance. While the 9 percent increase in DQ Level 7 and above funding rates in 2024 helped to close some of the gap, per learner funding remains well below where it was in 2019 in real terms. This decline is partly reflected in university forecasts, with the sector forecasting funding per EFTS in 2026 to fall 2.3 percent (university estimates range between -4.0 percent to a 4.1 percent increase).

- **Not all DQ3-10 delivery may be funded in 2025 (which has negative impacts across 2026 and 2027).** As you are aware, based on the domestic EFTS strength being experienced in 2025 (and the growth in new enrolments), there is a risk that delivery for many universities will exceed 105 percent of their current funding allocations without favourable in-year additional funding.

- 9(2)(f)(iv) [redacted].

- ***The international enrolments recovery is Masters centric.*** The sector is successfully growing international EFTS, but this growth is primarily in campus-based Masters enrolments. There are three primary risks here:

- *Masters programmes are shorter duration.* The shorter the duration of the programme, the greater the number of new learners needed each year to maintain current volumes.
- *Any adverse immigration setting changes could impact learner demand.* Immigration settings are relatively more favourable for Masters level study than Bachelors (for example long work rights to study period). If this setting changes and there is a behavioural shift in learners, it could impact on the strength of international enrolments that are being felt in the system and the forecast continued growth that universities are expecting.
- *Domestic Masters volume is comparatively small to its international counterpart*. With a comparatively small domestic base, rapid international Masters growth, over 2024 and 2025 has taken several universities to the point where international students are over half of total campus-based masters volumes. Within specific programmes, the percentage is even higher. This could negatively impact on the product offering and experience for both domestic and international students. This may limit the potential for future growth or impact on student satisfaction.

- ***Savings plans and constrained expenditure forecasts are not achieved.*** Universities are collectively forecasting expenditure to increase by 9(2)(b)(ii) and 9(2)(b)(ii) . Universities have budgeted for 9(2)(b)(ii) and forecast 9(2)(b)(ii) . The 2026 gap between expenditure growth and EFTS growth is only 9(2)(b)(ii) indicating growth needs to occur with very limited new resource to assist the delivery of that growth. This may be difficult creating the risk expenditure will be higher than forecast. While inflation has come back from its peaks, it's still in the 2-3 percent range and some collective employment agreement settlements are towards the top of this range. Making additional cost savings is likely to be difficult as most 'low hanging' savings have already been implemented.
- ***Extensive capital requirements are unable to be funded***. There is a risk that the gap between capital expenditure and the level of capital investment required continues to widen, particularly for those universities facing sustainability issues. This may result in certain assets not being able to be used or facilities that are not consistent with learner expectations. This will impact on the attractiveness of some universities relative to others and ultimately impact on revenue. There is also a risk that urgent, unplanned capital expenditure projects emerge that are unable to be funded in a timely manner, which will put pressure on cash reserves and debt balances.

69. The sector's ability to manage and respond to the above risks will determine their overall financial performance. Given the increased level of risk across the sector, there is a greater need for universities to robustly monitor and manage risks. This will require university management to ensure they are regularly updating forecasts, undertaking scenario analyses, and putting clear plans in place to manage downside scenarios, should they occur. University Councils will need to ensure high quality reporting and information is being provided from management, and that risks are being appropriately monitored and managed.

70. It will also require universities to evaluate and respond decisively to key challenges. For many, tough decisions will need to be made around what activity is prioritised and what can be stopped. In addition, institutions will need to continue to examine their strategic direction and associated capital investments, and how they intend to meet the needs of learners, employers, and the communities that they serve. The successful navigation of these issues is necessary to ensure financial sustainability.

Next steps

71. We would like to discuss the contents of this paper and the risks being faced by the university sector as part of your regular officials meeting.

72. We will provide you with our next update once the university financial reforecasts have been received in May 2025 and one on one engagements with universities have occurred over the course of June and July 2025. In this update, we will provide you with an updated risk assessment on each university.

Tim Fowler

Chief Executive
Tertiary Education Commission

15 April 2025

Hon Dr Shane Reti

Minister for Universities

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