



ITP Roadmap 2020: Financial Modelling FAQ's

This document answers Frequently Asked Questions in relation to the ITP Roadmap 2020 modelling of the impact on ITP finances of various different future scenarios

Why did TEC commission the modelling?

The modelling was commissioned to inform the scale and scope of the problem definition of the ITP Roadmap 2020 project.

We commissioned KPMG to develop the model and undertake the modelling based on our assumptions in order to better understand the potential financial impacts on ITPs of various scenarios. The modelling is designed to give a better understanding of what the overall financial position of the ITP sector might be between now and 2022. An independent consulting firm was used to ensure a level of independence to the modelling.

How will TEC use the modelling?

The modelling will be used to inform the thinking of possible changes to the ITP sector as part of later phases of the Roadmap project. It will help define the scale and shape of the financial challenges that the sector may face in the next five years and assists in the determining the need for change. It is important to note that the principal perspective this modelling provides is at the sector level, rather than in relation to individual ITPs.

Are there any limitations to the model?

There are some limitations to the model:

- › All assumptions are applied at a high level and to all ITPs equally;
- › Modelling is based on indicative 2017 results, meaning most known 2018 events are not reflected, particularly student volumes currently visible across the ITP sector;
- › The modelling is based on data classified and submitted by individual ITPs;
- › In most cases, there is no adjustment to reflect one-off events; and
- › The model does not reflect the potential changes individual ITPs may make in the face of challenging financial performance, beyond adjusting staffing levels to maintain a consistent staff to student ratio.

Where can I find a detailed analysis of the modelling?

An analysis of each of the scenarios as well as some high level conclusions can be found in the Summary Findings Report

Why haven't you shown which ITP is which in the results?

The modelling is high level and applied to all ITPs equally, so the individual results cannot be considered a definitive assessment of each ITP's financial position. The modelling outputs are valuable and important at a sector level, rather than for each individual ITP. As such, the report has anonymised each ITP and we will not be releasing individual ITP results of the modelling.

What assumptions were used in the model?

The table below shows the assumptions used in each of the scenarios modelled.

	Base	All upsides	Downside (domestic only)	All downsides	Base with efficiency gains
Domestic EFTS	No change	Plus 2.0% p.a.	Minus 2.0% p.a.	Minus 2.0% p.a.	Same as Base
International EFTS	-2.5% one off in 2019 then flat	no change	Same as base	-7% one off in 2019 then flat	Same as Base
Govt. tuition funding per EFTS	No change	Plus 1.5% p.a. from 2020	Same as Base	Same as Base	Same as Base
Annual Maximum Fee Movement	Plus 2.0% p.a.	Same as Base	Same as Base	Same as Base	Same as Base
Staff Costs per FTE	Plus 2.0% p.a.	Same as Base	Same as Base	Plus 3.0% p.a.	Same as Base
Capex	Equal to depreciation in previous year	Same as Base	Same as Base	Same as Base	Same as Base
Faculty support	Plus 2.0% p.a.	Same as Base	Same as Base	Same as Base	One-off 2.5% decrease in 2020
Occupancy and property costs	Plus 2.0% p.a.	Same as Base	Same as Base	Same as Base	One-off 2.5% decrease in 2020
Depreciation rate	Based on historical	Same as Base	Same as Base	Same as Base	Same as Base
Interest income on cash	FY18-19: 2.0%, FY20: 2.7%, FY21: 3.4%, FY22-onwards: 3.7%	Same as Base	Same as Base	Same as Base	Same as Base
Finance costs on term debt	2.0% margin on interest rates	Same as Base	Same as Base	Same as Base	Same as Base
Academic FTEs	Constant EFTS / FTE ratio	FTE number maintained	Same as Base	Same as Base	Same as Base
Non-academic FTEs	Constant EFTS / FTE ratio	FTE number maintained	Same as Base	Same as Base	FTE number maintained and then one-off 5.0% decrease in FTEs in 2020

How were the assumptions developed?

The assumptions were developed to balance some historical trends, the most likely policy and environmental settings, and some possible movements in key areas such as EFTS. We have taken a conservative approach to downward movements in order to avoid over-estimating impacts.

More details as to the assumptions applied to each scenario can be found in the Summary Findings Report.

What if these assumptions don't apply to my organisation?

With any modelling of this nature applied to multiple organisations, the assumptions will not apply uniformly in every case. In some instances individual ITPs could be more, or less, impacted than the assumptions suggest.

While individual results inform the overall sector position and the scenario analysis, the model is not a definitive assessment of how an individual ITP is going to perform financially over the coming years. Rather, the modelling demonstrates the level of impact that may occur in certain circumstances applying to the sector as a whole.

How are recent policy announcements around post-study immigration visa rules reflected in the model?

The model assumptions take a conservative approach to the impacts of the recent announcement and consultation regarding potential changes to post-study work visa rights for international students. We are undertaking separate analysis to assess the potential impact of these changes on international student numbers and international fees revenue should they proceed as announced. We will share this with the sector in due course.

How have Fees-Free funding and impacts been reflected in the model?

Because Fees-Free tertiary education is a new initiative, the impacts are unknown at this stage. Therefore, we have not reflected any adjustments to student fees or government funding for Fees-Free payments in this modelling.

Why doesn't the model reflect changes that ITPs may make in response to challenging financial performance?

Because the model is high level, it is difficult to incorporate the many and various ways ITPs, as autonomous institutions, may respond to periods of reduced profitability or challenging financial performance. Therefore, the financial impacts of such responses have been excluded, other than to adjust the staffing FTE and personnel expenditure movements to maintain existing staff to student ratios under some of the scenarios.

Who should I contact for more information?

If you would like to discuss the modelling in more detail, or have any questions, please contact us via email ITPRoadmap@tec.govt.nz and one of the project team will be in touch.



We ensure New Zealand's future success.