Business Model Review Final report

1st November 2023

THE UNIVERSITY OF NEWCASTLE AUSTRALIA

Newcastle & Nous Group

Executive summary

This report explores business model risks and potential opportunities.

This report outlines key findings from the Business Model Review (the Review) undertaken by Nous Group in September-October 2023. It outlines a set of key risks to Newcastle's financial sustainability identified through the Review, work already in train that serves to mitigate these risks, and additional opportunities the University can consider to address residual risks. The Review is intended as an input to SEG and Council considerations about adjustments to the University's business model to ensure financial sustainability, and as an input to future strategic planning processes.

The University has and is performing relatively well in a challenging market …

Universities across Australia are facing significant challenges. The sector was in a difficult position going into the pandemic, with flattening domestic demand, shifts in funding for education, increasingly competitive and limited research funding environment, and ever greater reliance on cross-subsidisation from international students. The pandemic, rapid cost of living increases and record low unemployment have resulted in a system-wide shock. In particular, there are marked differences in expectations about the delivery of teaching and learning, intense competition for students, and universities are under significant financial pressure.

The University has been a relatively strong player for much of the last decade. A leader in equity and diversity, it has also been a leader in research income growth, particularly in industry linked research. It has consistently been the university of choice for students in each of its core regions, and while it is under significant financial pressure and is expected to deliver a deficit in 2023, the projected shortfall is one of the smallest of NSW and ACT universities.

… but financial sustainability is under threat

While the University has many strengths, there are also longer-term issues that need to be addressed. EBITDA has been in decline since well before the pandemic and is long-term unsustainable. Concerningly, student growth has been well below comparator universities for an extended period, and student revenues have been increasing more slowly than staff costs. While research income has grown, so too has the level of cross-subsidisation required, so that the University's success in research has been further eroding overall margins. Population growth and demographic change is expected to see a moderate rise in student age groups, however low participation rates and variable program margins mean that the University's finances will continue to be under substantial pressure.

The Accord process should provide some assistance, but it will delay, rather than remove, risks.

There have been multiple significant shifts in policy over the last fifteen years, with no clear and consistent agenda for how the higher education sector should best contribute to the economy and society. The University Accord process is clearly indicating change in this regard, and key elements of this should play out in the University's favour.

In particular, to date the Accord process has indicated a strong focus on equity and diversity, both as a social good and as a means to lift workforce participation and industry productivity. There are also clear signals about better connecting the University and VET sectors in more flexible and responsive ways. Newcastle is already a leader in equity and diversity and, given demographics and socioeconomics in its regions, the University is ideally placed to benefit from these changes. Similarly, the University has demonstrable strengths in industry linked research which should be of continued benefit.

Given the timing of the Accord and other reviews it is likely that the 2024-25 Budget will include changes to funding and policy settings. This would then see benefits begin to flow to the University from 2025 onwards.

(Continued overleaf)

Executive summary

The outcomes from the Accord are likely to be a net positive for the University. However, the Accord is unlikely to fully address a range of risks and vulnerabilities the University is facing. In particular, benefits in terms of improvements in funding are likely to delay when some risks will materialise, rather than remove the risk entirely.

It should also be noted that Australia has experienced more rapid changes of political leadership over the last 10-15 years than has historically been the case, as well as major swings in education policy. It would be prudent for the University to address underlying risks and take full advantage of any benefits that should arise from the Accord.

Given the timing of Accord announcements and the risks outlined in this report, the University would likely benefit from:

- Taking a tactical approach to improving short term delivery, until the Accord outcomes are clear
- Concurrently progressing plans to address longer term risks that will be beneficial regardless of the outcomes of the Accord, to best position the University for long term sustainability
- Once policy and funding changes from the Accord have been announced, develop longer term strategies that maximise the value of new policy and funding arrangements and address underlying risks to the business model.

Four key risks and one overarching meta-risk have emerged through the Review

The review has identified the following risks:

- **Risk 1 | Value proposition for studying at the University.** There is a risk that the overall value proposition for studying at the University of Newcastle will become (and potentially already is) insufficient to attract the number and diversity of students required to be long term sustainable.
- **Risk 2 | Research impact limitations.** While many aspects of the University's research are strong, there is a risk that impact across the University's regions will become constrained due to a lack of focus in research activity, overreliance on a small number of key researchers, and variable ability to leverage external funds.
- **Risk 3 | Workforce capacity and capability.** On average, staff activity levels and outputs are demonstrably lower than many peers, which will increasingly add pressure on costs and financial performance.
- **Risk 4 | Adequacy of key assets.** Key assets, including buildings and systems, are increasingly becoming outdated and no longer fit-for-purpose. In addition to driving costs, this will likely impact the University's brand as a quality institution and employer and detract from student attraction and retention.

In combination, the above result in one overarching meta risk:

- **Risk 5: Sustainability as a comprehensive, research-intensive university.** Being a comprehensive, research-intensive university may become unaffordable, as the low margins available through undergraduate domestic students become insufficient to cross-subsidise research and cover increasing staff costs.

A range of initiatives are already in train that aim to mitigate these risks to various extents. The Review has identified additional opportunities that the University can consider to further mitigate risks and address financial sustainability.

Summaries of findings for each risk, together with existing mitigations, gaps and further opportunities for consideration are outlined on the following pages.

Summary assessment of risks to Newcastle's business model.

#	Risk	Risk rating	Indicative mitigation rating through current / planned initiatives (out of 100)	Indicative financial impact (per annum)[1]
1	**Value proposition for studying at the University** | There is a risk that the overall value proposition for studying at the University of Newcastle will become (and potentially already is) insufficient to attract the number and diversity of students required to be long term sustainable.	High	60	**Revenue Potential** $55 – 85 m
2	**Research impact limitations** | While many aspects of the University's research are strong, there is a risk that impact across the University's regions will become constrained due to a lack of focus in research activity, overreliance on a small number of key researchers, and variable ability to leverage external funds.	Medium	70	**Cost Saving** $8 – 24 m **Revenue Potential** $2 m
3	**Workforce capacity and capability** | On average, staff activity levels and outputs are demonstrably lower than many peers, which will increasingly put pressure on costs and financial performance.	High	50	**Cost Saving** $42 – 63 m
4	**Adequacy of key assets** | Key assets, including buildings and systems, are increasingly becoming outdated and no longer fit-for-purpose. In addition to driving costs, this will likely impact the University's brand as a quality institution and employer and detract from student attraction and retention.	High	50	**Cost Saving** $15 – 20 m
5	**Sustainability as a comprehensive, research-intensive university** | Being a comprehensive, research-intensive university may become unaffordable, as the low margins available through undergraduate domestic students become insufficient to cross-subsidise research and cover increasing staff costs.	High	50	**Revenue & Cost** (NA – overlaps with above)

1. See appendix A1 for an overview of the estimated financial impact calculations.

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Business Model Review Report and Actions Taken Table

Recommendations from the Business Model Review Report

Compared to Actions Taken by the University

Risk Identified in Report	Indicative Financial Impact per annum Identified in Report	Comparative Actions Taken by University
Value proposition for studying at the University	**Revenue Potential** $55 –85 m	The University has adopted a range of initiatives to ensure an ongoing strong value proposition for our students, with increased student numbers and revenue recorded in 2025.
Research impact limitations	**Cost Saving** $8 –24 m **Revenue Potential** $2 m	The University has not pursued specific initiatives in this area. Rather the focus has been on strengthening research grant applications.
Workforce capacity and capability	**Cost Saving** $42 –63 m	The University pursued the Business Improvement Program to achieved savings of approximately $20m.
Adequacy of key assets	**Cost Saving** $15 –20 m	The University has continued to address space utilisation to ensure efficient use of space and associated costs. A procurement program was also undertaken in 2025 to retender a range of major services to achieve cost savings of approximately $8m.
Sustainability as a comprehensive, research-intensive university	**Revenue & Cost** (NA –overlaps with above)	The University will remain a comprehensive, research-intensive university for our regions, and has focused on prioritising research of value to our regions and ensuring sustainability by actions such as removing duplication in courses and removing courses (7 in 2026), with sustained low interest and enrolments from students.