

INTRODUCTION

Government support for tertiary education takes a variety of forms and reflects the diversity of learners and their needs. During 2004, government funding included:

- tertiary education subsidies, which provide funding for teaching and research by subsidising enrolments in approved qualifications
- community education grants, which provide funding for adult and community education (ACE) courses through tertiary providers, schools and other agencies
- funding for industry training and Modern Apprenticeships
- funding for transition, pre-employment, life and job skills programmes, including Training Opportunities, Youth Training and Skill Enhancement
- funding for research, distributed through the Performance-Based Research Fund (PBRF)
- funding for research, appropriated through Vote Research, Science and Technology
- funding for Centres of Research Excellence (CoREs)
- student loans, which provide funding for eligible students to assist with the cost of tuition fees, course-related expenses and living costs
- student allowances to assist students from low-income families with living expenses
- training benefits and training incentive allowances
- tertiary education Top Achiever Doctoral Scholarships, Enterprise Scholarships, New Zealand Scholarships and Step Up Scholarships
- tertiary education scholarships for Māori and Pasifika students, and
- special supplementary grants (SSGs) designed to direct funding to particular groups or for particular tertiary education services.

Taken as a whole, these initiatives enable learners of all backgrounds and abilities to have multiple points of entry into tertiary learning. They help to ensure that tertiary-level learning is available in workplaces and through small, community-based, private providers as well as through major tertiary institutions, such as universities and institutes of technology and polytechnics (ITPs).

GOVERNMENT FUNDING OF THE TERTIARY EDUCATION SYSTEM

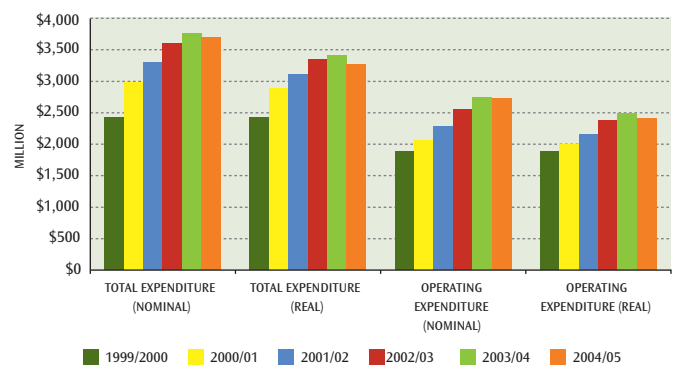
Total government spending on tertiary education (through Vote Education and Vote Social Development) decreased in the 2004/05 fiscal year. In 2004/05, the government's total expenditure on tertiary education, including operating and capital expenditure, was \$3,700 million, a decrease of 1.7 percent on total expenditure of \$3,765 million in 2003/04.

The government's operating expenditure on tertiary education totalled \$2,721 million in 2004/05, compared with operating expenditure of \$2,745 million in 2003/04, a decrease of 0.9 percent. Capital expenditure decreased by 4.1 percent to total \$979 million in 2004/05, largely as a result of decreased spending of 2.8 percent on student loans.

Between 1999/2000 and 2004/05, government operating expenditure on tertiary education increased by 44 percent, from \$1,887 million to \$2,721 million. In real terms,¹ this amounted to an increase of 27 percent.

The graph below traces trends in government tertiary education expenditure over the last six fiscal years in real and nominal terms.

FIGURE 6.1: GOVERNMENT SPENDING ON TERTIARY EDUCATION 1999/2000-2004/05



Source: Ministry of Education and Ministry of Social Development

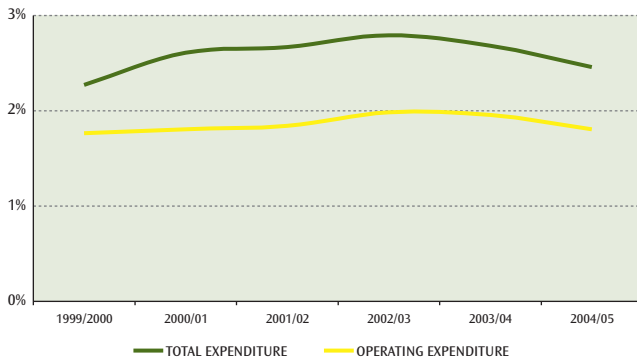
As a percentage of Gross Domestic Product (GDP), both total tertiary education expenditure and operating expenditure increased in the period between 1999/2000 and 2002/03, before falling slightly over the next two fiscal years. In 2004/05, total expenditure was 2.5 percent of GDP and operating expenditure was 1.8 percent of GDP.

¹ The Consumers Price Index (CPI) has been used to calculate the increase in real operating expenditure.



The tertiary education sector

FIGURE 6.2: GOVERNMENT TERTIARY EDUCATION EXPENDITURE AS A PERCENTAGE OF GDP 1999/2000-2004/05



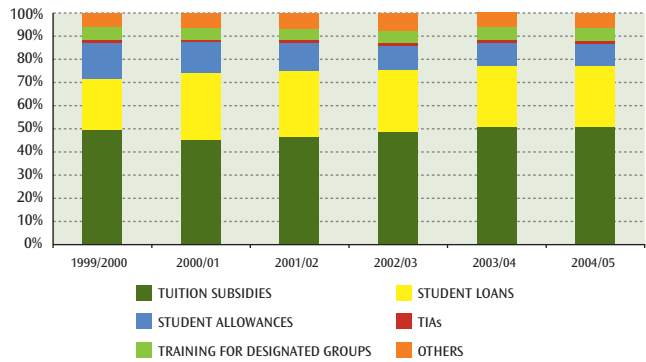
Source: Ministry of Education, Ministry of Social Development and The Treasury

The major items in the government's tertiary education expenditure between July 2004 and June 2005 were:

- \$1,882 million (51 percent of the budget) for tuition subsidies to fund student places at tertiary education providers (TEPs)²
- \$969 million (26 percent) for student loans
- \$359 million (10 percent) for student allowances
- \$218 million (6 percent) for other programmes,³ including industry training and programmes such as Youth Training, Modern Apprenticeships, Gateway and Skill Enhancement, and
- \$36 million (1 percent) for training incentive allowances (TIAs).

The remaining 6 percent of the tertiary education budget funded a variety of activities including Unemployment Benefit Training,⁴ community education, and administrative support provided by the New Zealand Qualifications Authority (NZQA), Career Services rapuara, the Tertiary Education Commission (TEC), the Ministry of Social Development (MSD), and the Ministry of Education.

FIGURE 6.3: PERCENTAGE OF GOVERNMENT TERTIARY EDUCATION EXPENDITURE BY COMPONENT 1999/2000-2004/05



Notes:

- 1 In 2003/04 and 2004/05, funding allocated to the PBRF was included in the 'tuition subsidies' category.
- 2 Training for designated groups includes the Industry Training Fund, Modern Apprenticeships, Skill Enhancement, Youth Training, Gateway, and second-chance education.

Source: Ministry of Education and Ministry of Social Development

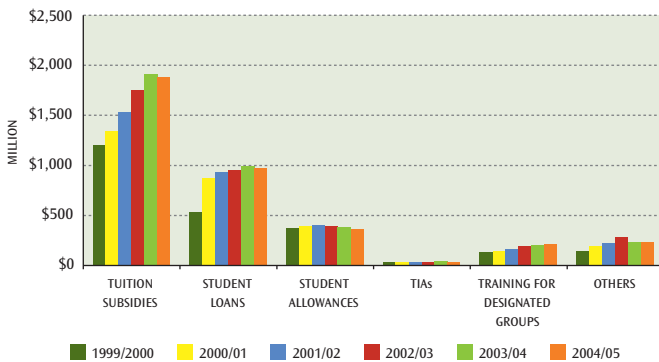
The biggest share of Crown expenditure is on tuition subsidies. In absolute terms, tuition subsidies had the most growth between 1999/2000 and 2004/05, rising by \$679 million (or 56 percent). Student loans grew by \$435 million (81 percent), industry training, Modern Apprenticeship and pre-employment programmes increased by \$84 million (62 percent), and TIAs by \$1 million (4 percent). Spending on student allowances fell by \$17 million (or 4 percent).

2 Funding allocated to the PBRF has been included in the tuition subsidy category in 2003/04 and 2004/05.

3 In 2004/05, government expenditure of \$92 million was provided for Training Opportunities, \$64 million for Youth Training and \$27 million for Modern Apprenticeships.

4 Unemployment Benefit Training replaced Community Wage Training in 2001/02.

FIGURE 6.4: GOVERNMENT EXPENDITURE ON TERTIARY EDUCATION BY COMPONENT 1999/2000-2004/05



Notes:

- 1 In 2003/04 and 2004/05, funding allocated to the PBRF was included in the 'tuition subsidies' category.
- 2 Money appropriated for student loans is largely capital expenditure (87.2 percent) and partly a Provision for Doubtful Debts (12.8 percent), which is treated as an operational expense in the current year.
- 3 Training for designated groups includes the Industry Training Fund, Modern Apprenticeships, Skill Enhancement, Youth Training, Gateway, and second-chance education.
- 4 Other items include items such as funding for the Unemployment Benefit Training, community education, tertiary scholarships, capital contributions, education research initiatives, tertiary education strategic change and administrative support provided by NZQA, Career Services rapuara, the TEC, the Ministry of Social Development and the Ministry of Education.

Source: Ministry of Education and Ministry of Social Development

GOVERNMENT-FUNDED PLACES AND TUITION SUBSIDIES⁵

The largest component of government expenditure in tertiary education is distributed via the Student Component through equivalent full-time student (EFTS)-based tuition subsidies. Tuition subsidies are a contribution towards the cost of tertiary-level learning outcomes, but they do not cover the full cost of tuition. The balance of the cost is normally paid by students by way of a student tuition fee. Tuition subsidies are paid for domestic, enrolled students who were studying for approved qualifications offered by recognised TEPs, including registered private providers. Tuition subsidies are allocated to tertiary providers based on the numbers of EFTS in various categories and levels. Courses with higher teaching costs receive higher levels of funding, as do students studying at degree level and above, who attract a research top-up.⁶ The number of government-funded EFTS is therefore a key determinant of the total level of tuition subsidies distributed to tertiary providers.

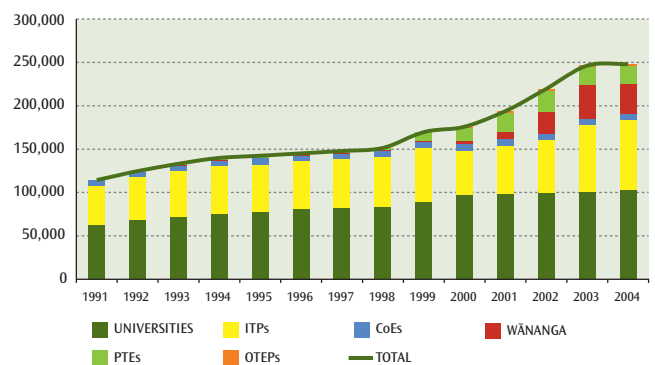
⁵ The total number of EFTS and the total funding quoted in this section are calculated on an academic year basis.

⁶ Research top-ups are being phased out over the period 2004 to 2006.

Government-funded places

Between 1991 and 2004, the number of EFTS places funded by government increased by 117 percent, from 114,110 to 247,733. Between 2003 and 2004, the number of EFTS increased by 0.7 percent, from 246,055 to 247,733. This compares with a much higher growth rate in EFTS of 12 percent between 2002 and 2003.

FIGURE 6.5: GOVERNMENT-FUNDED EFTS BY SUB-SECTOR 1991-2004



Note: Care should be taken in comparing data from 2000 onwards with data in years prior to 2000 because of a change in the way that funding was delivered from 2000.

Source: Ministry of Education and Tertiary Education Commission

Three key factors contributed to the slow-down in the rate of growth of government-funded EFTS in 2004. Firstly, the government's Managing Growth policy limited the growth in domestic government-funded EFTS at tertiary education institutions (TEIs); their 2004 EFTS total was restricted to their 2003 actual EFTS plus 15 percent or 1,000 EFTS, whichever was greater.⁷

Secondly, the strong growth in EFTS experienced by wānanga between 2000 and 2003 ended, with EFTS falling by 6.9 percent in 2004, from 38,355 to 34,634.⁸

Finally, the number of EFTS in funding classification 5.1, community education, decreased in 2004, after two years of substantial growth. In 2004, the government introduced moves to cap the number of classification 5.1 places, in response to the large growth in this classification over the preceding two years. As a result, the number of 5.1 EFTS decreased by 9.5 percent, from 20,367 to 18,423, between 2003 and 2004.

At the sub-sector level, ITPs experienced the highest growth rate in government-funded EFTS. Between 2003 and 2004, government-funded EFTS in ITPs increased by 8.5 percent, from

⁷ The adjustments to the Managing Growth provisions enable TEIs to exceed the growth rate limit on EFTS places where it is in the national interest, and fiscally neutral or fiscally beneficial to the government over time.

⁸ A fall in enrolments at Te Wānanga o Aotearoa was the key contributor to this decline.



The tertiary education sector

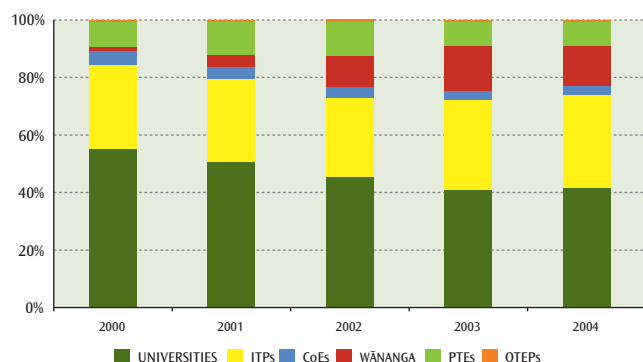
76,296 to 80,802. The number of EFTS at universities continued a trend of relatively modest growth over time. Between 2003 and 2004, EFTS at universities grew by 1.6 percent, from 101,192 to 102,761. However, part of this increase was due to the inclusion of EFTS from the Auckland College of Education following its merger with the University of Auckland on 1 September 2004.⁹ If these EFTS are excluded, the growth rate in university EFTS was 0.6 percent between 2003 and 2004.

Total EFTS at colleges of education (CoEs) fell by 9.6 percent, from 8,121 to 7,345, although this decrease was a result of the merger of the Auckland College of Education with the University of Auckland.¹⁰ A funding cap on private training establishments (PTEs) restricted growth in their government-funded EFTS to 0.9 percent, from 20,321 to 20,507, during this period.

Although universities had the largest proportion of government-funded EFTS in 2004, this share has been falling over time.

In 2000, 55 percent of government-funded EFTS were in universities; in 2004 this figure was 41 percent. ITPs' share of total EFTS in 2004 was 33 percent (up from 29 percent in 2000), followed by wānanga with 14 percent (up from 1.6 percent in 2000), PTEs with 8.3 percent (down from 8.8 percent in 2000), and other tertiary education providers (OTEPEs) with 0.7 percent.

FIGURE 6.6: SHARE OF GOVERNMENT-FUNDED EFTS BY SUB-SECTOR 2000-2004

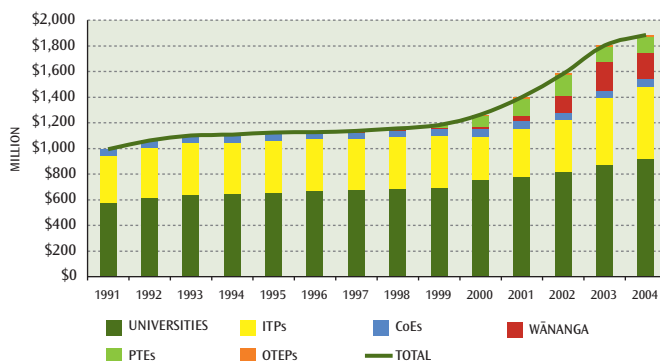


Tuition subsidies in 2004¹¹

Spending on tuition subsidies continued to increase in 2004, due to an increase in base funding rates and slightly higher EFTS numbers overall. However, compared with the period between

2001 and 2003, the rate of growth in spending was more modest. Between 2003 and 2004, spending on tuition subsidies increased by 4.5 percent, from \$1,802 million to \$1,883 million. This compares with a growth in tuition subsidies of 14 percent between 2002 and 2003.

FIGURE 6.7: TOTAL EFTS-BASED TUITION SUBSIDIES BY SUB-SECTOR 1991-2004



Notes:

- 1 Tuition subsidies are inclusive of GST.
- 2 Tuition subsidies include EFTS-based tuition subsidies delivered through the Student Component, base grants, fee stabilisation SSG, and PBRF allocations in 2004.
- 3 Care should be taken in comparing data from 2000 onwards with data in years prior to 2000 because of a change in the way that funding was delivered from 2000.

Source: Ministry of Education and Tertiary Education Commission

At a sub-sector level, between 2003 and 2004, ITPs had the largest growth in funding for student tuition subsidies, an increase of 8.5 percent or \$44 million. The rate of growth in funding for ITPs was 28 percent between 2002 and 2003, an increase of \$115 million.

Tuition subsidy funding for universities increased by 5.7 percent between 2003 and 2004. This increase was a result of increases in tertiary funding rates, along with a modest increase in EFTS and the merger of Auckland College of Education with the University of Auckland on 1 September 2004. As a result of the merger, all the EFTS that were consumed at the Auckland College of Education after this date were allocated to the university sub-sector.

CoEs had a decrease in total funding of 6.9 percent, although the decrease was a result of the merger of the Auckland College of Education with the University of Auckland.

As a result of a significant fall in EFTS at Te Wānanga o Aotearoa, tuition subsidy funding for wānanga fell by 6.9 percent between

9 There were 3,162 EFTS overall at the Auckland College of Education in 2004. Of these, 972 were attributed to the University of Auckland and 2,190 to Auckland College of Education as a CoE.

10 If the Auckland College of Education had not merged with the University of Auckland, then government-funded EFTS at the CoEs would have risen by 2.4 percent between 2003 and 2004.

11 In this section, tuition subsidies are inclusive of GST.

2003 and 2004. This compares with a 66 percent increase in funding between 2002 and 2003.

PTEs experienced an increase of 4.4 percent in tuition subsidies between 2003 and 2004. A modest increase in EFTS, along with increases to tertiary funding rates led to the increase in tuition subsidies.

Average subsidies per EFTS¹²

Between 2003 and 2004, average tuition funding per EFTS for tertiary education organisations (TEOs) increased by 3.7 percent, from \$7,325 to \$7,600. On a per EFTS basis, the actual average tuition subsidy per EFTS place achieved depends on a number of factors, including the level of tuition funding rates and the mix of enrolments in the various funding categories. If there is a shift of enrolments into lower-funded categories, then the average funding per EFTS may decline, even if the funding rates in each category rise. For example, since 2000, the average per EFTS subsidy in TEIs has increased by just 5.7 percent, compared with actual increases in base funding rates of more than 12 percent.

On a sub-sector level, universities experienced the largest per EFTS tuition subsidy increase between 2003 and 2004. Over this period, the average tuition subsidy increased by 4.1 percent, from \$8,576 to \$8,930. Along with an increase in funding rates, universities benefited from the reallocation of funding from research top-ups to the PBRF.¹³

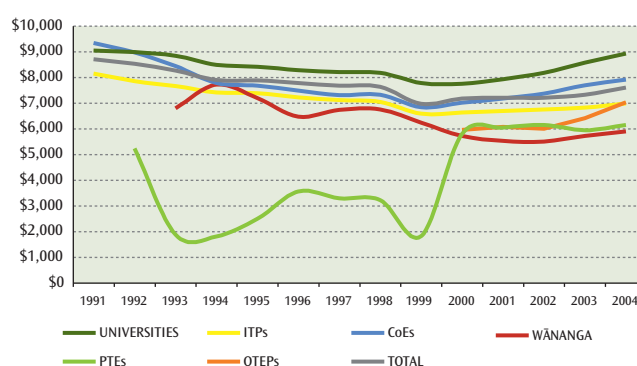
Between 2003 and 2004, the average tuition subsidy in ITPs increased by 2.5 percent, from \$6,824 to \$6,992. Previously, increases in the average subsidy per EFTS had been limited in ITPs, as a result of a significant increase in the proportion of lower-funded categories.¹⁴ However, with a stabilisation in the proportion of enrolments in lower-funded categories between 2003 and 2004, the majority of the increase in base funding rates flowed through to the average tuition subsidy. As only two ITPs out of a possible 20 participated in the PBRF, the rise in the average subsidy per EFTS was reduced somewhat due to the reallocation of 10 percent of the research top-up portion of Student Component funding to the PBRF.

Between 2003 and 2004, the per EFTS tuition subsidy in CoEs increased by 2.9 percent, from \$7,687 to \$7,910. This rise was broadly in line with the increase in base funding rates of 3 percent.

The average subsidy at wānanga increased by 3.1 percent, from \$5,717 to \$5,892. The reason for the slight margin above the increase in funding rates was a reduction in the proportion of enrolments in courses in lower-funded categories.

In PTEs, the average tuition subsidy increased by 3.5 percent between 2003 and 2004, from \$5,945 to \$6,153. This compares with the increase of 3 percent in funding rates.

FIGURE 6.8: AVERAGE TUITION SUBSIDIES PER EFTS BY SUB-SECTOR 1991-2004



Notes:

- 1 Tuition subsidies are inclusive of GST.
- 2 Tuition subsidies include EFTS-based tuition subsidies delivered through the Student Component, base grants, fee stabilisation SSG, and PBRF allocations in 2004.
- 3 Care should be taken in comparing data from 2000 onwards with data in years prior to 2000 because of a change in the way that funding was delivered from 2000.

Source: Ministry of Education and Tertiary Education Commission

Government funding for different subject areas and levels of qualification

As mentioned in the Student Component analysis, government funding is provided to tertiary education providers in different funding categories for different subject areas. Category A includes funding for courses in the arts, social sciences and community education. Category J includes funding for law and commerce courses and was introduced in 2004. Previously these EFTS were part of Category A. For the purpose of analysing trends, these two categories of EFTS were combined in 2004. Between 2000 and 2004, the combined government-funded EFTS for Category A and J courses increased significantly from 53 percent to 64 percent of total government-funded EFTS in TEIs. However, the proportion of A and J EFTS stabilised at 64 percent between 2003 and 2004, partly as a result of the decrease in community education EFTS.

¹² The average tuition subsidies in this section are inclusive of GST.

¹³ Although top-ups were received by providers in all the sub-sectors, universities received 95 percent of the payments from the PBRF in 2004.

¹⁴ For example, between 2002 and 2003 the per EFTS average subsidy increased by just 1.1 percent, despite funding rates increasing by 4.5 percent.

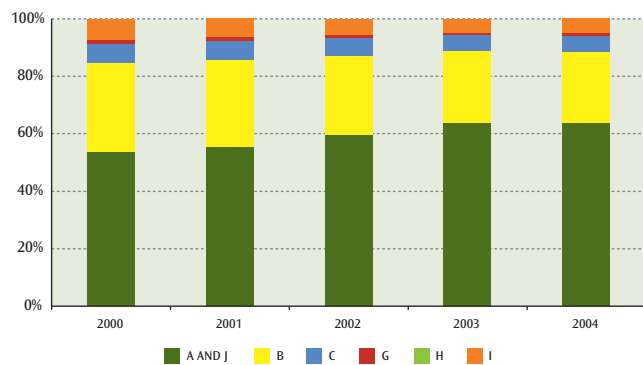


The tertiary education sector

Category B courses are funded at a higher level to support the higher cost of teaching subjects such as sciences, computing, trade training, nursing and fine arts. Between 2000 and 2004, Category B EFTS decreased from 31 percent to 25 percent of total government-funded EFTS in TEIs. However, Category B EFTS stabilised at 25 percent of subsidised student places between 2003 and 2004.

In 2004, another 11 percent of government-funded EFTS in TEIs were in other cost categories (C, G, H, I), which subsidise degree-level students in such subjects as engineering, architecture, health-related fields and teacher education.

FIGURE 6.9: GOVERNMENT-FUNDED EFTS IN TEIs BY FUNDING CATEGORY 2000-2004



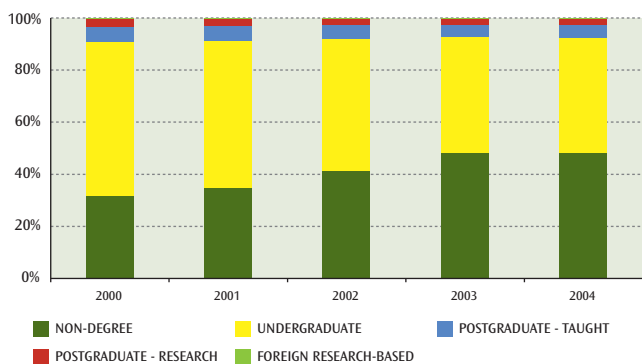
The funding categories can also be disaggregated by the level of the qualification being studied. Categories A1, B1, C1, I1, J1 are for courses in non-degree qualifications; categories A2, B2, C2, G2, H2, I2, J2 are for undergraduate degree courses; A3, B3, C3, G3, H3, I3 and J3 are for taught courses for postgraduate degrees while A4, B4, C4, G4, H4, I4, J4 are for postgraduate research-based degrees. The higher the level, the higher is the rate of funding, with the level 1 categories being the lowest funded. The funding categories at levels 2, 3 and 4 have a research top-up payment attached to them to fund the research activities of the provider and to acknowledge the requirement¹⁵ that teaching of students at degree level be largely conducted by those active in research. In 2004, 10 percent of research top-up funding was distributed through the PBRF. In 2005, this figure rises to 20 percent, 50 percent in 2006 and 100 percent in 2007. In addition, the government also subsidises the tuition of international research-based degree courses but at a relatively low rate, to reflect the contribution of the work of international research

¹⁵ The requirement is set out in section 254(3)(a) of the Education Act 1989.

students to New Zealand's national research and development output.

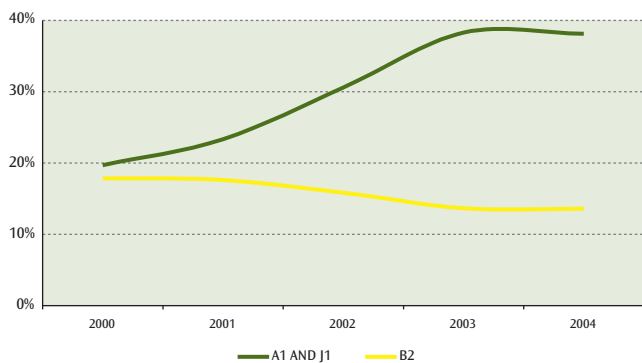
In 2004, the proportion of EFTS at the non-degree level at TEIs was 48 percent, the same as in 2003, but compared with a proportion of 32 percent in 2000. The stability between 2003 and 2004 ended a trend towards a higher proportion of EFTS at this level.

FIGURE 6.10: GOVERNMENT-FUNDED EFTS IN TEIs BY LEVEL 2000-2004



Disaggregating EFTS data by subject area and level of qualification allows for a more detailed analysis of funding trends. Figure 6.11 shows that, after three years of significant increases, the proportion of A1 and J1 EFTS (the lowest-funded sub-category) in TEIs stabilised in 2004 at 38 percent of total EFTS, having grown from 20 percent in 2000. Similarly, after falling as a proportion of total EFTS between 2000 and 2003, B2 EFTS stabilised at 14 percent in 2004.

FIGURE 6.11: PERCENTAGE OF GOVERNMENT-FUNDED EFTS IN TEIs IN THE A1, J1 AND B2 FUNDING SUB-CATEGORIES 2000-2004



Funding trends for PTEs

Since 1992, government funding has been available for registered and accredited PTEs. These private providers receive government funding through a variety of mechanisms:

- Industry Training
- Training Opportunities
- Youth Training
- Skill Enhancement
- Other targeted training programmes, and
- Tuition subsidies for qualifications at, or equivalent to, National Qualifications Framework (NQF) level 3 or above.

Initially, only a small, capped funding pool was available for tuition subsidies at PTEs. In 1999, the government decided that PTEs were to be funded at the same rate as TEIs, with all eligible enrolled students being funded. This resulted in a substantial increase in total funding distributed to PTEs from \$7 million to \$156 million between 1998 and 2002.

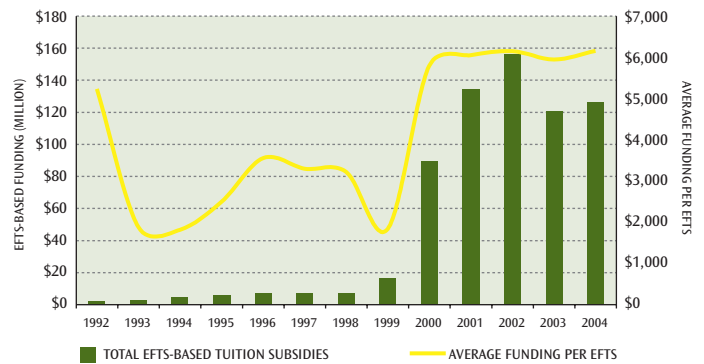
In response, in 2001 the government imposed a moratorium on new PTEs receiving Student Component funding and PTEs offering new qualifications. This allowed for some growth in existing providers.

In 2003, the government ended the moratorium and introduced a number of new funding initiatives for PTEs. The total amount of government funding available from the Student Component was capped at \$146 million in 2003 and \$150 million in 2004. A new fund was established, the Strategic Priorities Fund (SPF), which was designed to focus the delivery of programmes in priority areas of tertiary education, as identified in the Tertiary Education Strategy (TES). This new fund operated within the existing cap and allowed some growth for existing providers in areas well-aligned to the TES and the Statement of Tertiary Education Priorities (STEP). In addition, new providers could apply to the fund to receive Student Component funding. In 2004, \$16.4 million was allocated to a total of 82 PTEs via the SPF. This was an increase of 40 percent from SPF funding of \$11.7 million in 2003.

A total of 236 PTEs received \$126 million in tuition subsidies¹⁶ for 20,507 EFTS places in 2004, at an average subsidy of \$6,153. This compares with 2003, when PTEs received tuition subsidies of \$121 million for 20,321 EFTS places, at an average subsidy of \$5,945 per place.

¹⁶ The tuition subsidies include funding provided through the SPF in 2003 and 2004.

FIGURE 6.12: TOTAL EFTS-BASED TUITION SUBSIDIES AND AVERAGE TUITION SUBSIDIES PER EFTS IN PTEs 1992-2004



Source: Ministry of Education and Tertiary Education Commission

Funding for research

The Education Act 1989 states that the teaching of degrees must be substantially conducted by people active in research. Government funding of research is currently in a transition period, where the funding that was previously distributed through the Student Component in the form of a research top-up for the tuition subsidy of degree-level and above students is being transferred to the PBRF.

In 2004, 10 percent of the money generated from degree-based enrolments was transferred to the PBRF. In 2005, this figure will rise to 20 percent, 50 percent in 2006 and 100 percent in 2007.¹⁷

Funding under the PBRF is determined by a mix of peer assessment and performance indicators. It takes account of researcher quality, research degree completions, and external research income earned. In 2004, approximately \$18.1 million was distributed to 23 participating TEOs through the PBRF. More detail on the PBRF and the reasons for its creation are included in Section 4 of this report.

The value of the enrolment-based research top-ups in 2004 was \$129.5 million. This compared with \$132.6 million in 2003, \$121.0 million in 2002 and \$113.6 million in 2000.

In addition, funding of \$2.6 million was provided in 2004 to subsidise the research costs of international research-based students enrolled at New Zealand tertiary education providers. This compared with \$2.1 million in 2003, \$1.5 million in 2002 and \$1.4 million in 2001.

¹⁷ In addition, the government has allocated additional money to be placed into the PBRF.



The tertiary education sector

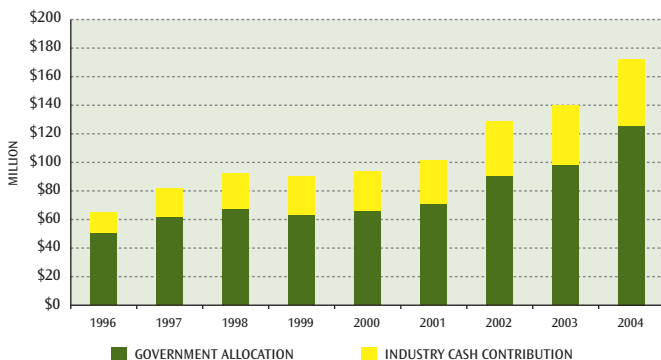
The government also provides funding to CoREs. The CoREs are inter-institutional research networks focused on areas of acknowledged research strength and in areas important for New Zealand's growth. The CoREs provide funding to encourage researchers from several institutions to work together on a commonly agreed research plan. In 2004, the government allocated \$23.0 million to CoREs, compared with \$21.9 million in 2003. More detail on CoREs can be found in Section 4 of this report.

Funding for industry training and Modern Apprenticeships

Industry training is jointly funded by government and industry. Government's contribution is made through the Industry Training Fund, with industry contributions being cash or in kind. Employees may bear some of the costs, by meeting some proportion of training fees or accepting a lower rate of pay as part of the training arrangement.

During 2004, the government invested \$125.4 million in industry training, compared with \$98.5 million in 2003, \$90.6 million in 2002 and \$71.1 million in 2001. Industry's investment was \$46.6 million in cash in 2004, compared with \$41.6 million in 2003.¹⁸

FIGURE 6.13: INDUSTRY AND GOVERNMENT CONTRIBUTIONS TO THE COST OF INDUSTRY TRAINING 1996-2004



Source: Ministry of Education and Tertiary Education Commission

In January 2001, the government implemented a national programme of Modern Apprenticeships to extend the benefits of formal, structured workplace learning to young people aged 16 to 21 years.

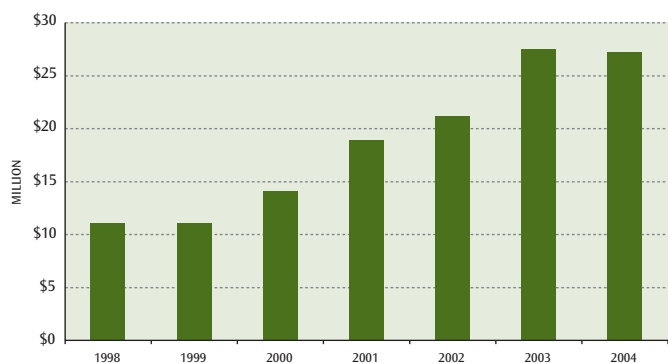
Government expenditure on Modern Apprenticeships in 2003/04 was \$22.6 million, supporting 6,074 Modern Apprentices. In

2004/05, funding of \$26.9 million was provided for Modern Apprenticeships, designed to provide 8,500 places annually.

Other tertiary education providers

In 2004, 15 other tertiary education providers (OTEPS) were funded by grants approved by the Minister of Education under section 321 of the Education Act 1989. Many of these providers also receive tuition subsidies under the Student Component. In total, approximately \$27.2 million was provided in 2004 to these OTEPS: \$14.6 million through grants and contracts and \$11.8 million through tuition subsidies. This compared with funding of \$27.5 million in 2003 and \$21.2 million in 2002.

FIGURE 6.14: GOVERNMENT FUNDING FOR OTHER TERTIARY EDUCATION PROVIDERS 1998-2004



Source: Ministry of Education and Tertiary Education Commission

Special supplementary grants

Special supplementary grants (SSGs) provide additional funding for TEIs to be used for specific purposes. Special conditions and requirements are applied to the use of the grants and the council of an institution must ensure that the grant is used only for its stated purpose. If the TEIs are assessed as not having met the funding requirements, money can be recovered the following year.

In 2004, these special grants were used mostly to supplement institutional funding to support services for students with specific needs, such as tertiary students with disabilities, Māori and Pasifika students, and teacher education initiatives. Funding to offset the costs to providers of fee stabilisation was also delivered as an SSG in 2001, 2002 and 2003.

¹⁸ Research indicates that the reported cash contribution by industry almost certainly understates its actual cash contribution.

SSGs for tertiary students with disabilities are paid to TEIs as a bulk grant of \$29.25 for each domestic EFTS, to assist in the provision of additional support for those whose support needs are high cost. In 2004, TEIs received gross funding (before repayments) of \$7.2 million. In 2003, the net amount of funding delivered (after repayments) was \$5.9 million, in 2002 \$5.3 million and in 2001 \$4.6 million.

The Māori and Pasifika SSG is provided in order to support TEIs in initiatives that are designed to increase and improve the retention and completion rates of these students.¹⁹ Funding to providers is set at a rate of \$145 per Māori/Pasifika EFTS for postgraduate courses, \$130 for degree courses and \$125 for non-degree courses. In 2004, TEIs received gross funding (before repayments) of \$7.5 million distributed through the Māori and Pasifika SSG. In 2003, the net funding (after repayments) allocated was \$6.6 million, in 2002 \$5.9 million and in 2001 \$4.3 million.

TRENDS IN STUDENT FEES

Domestic student tuition fees²⁰

In 2004, the average domestic fee per EFTS²¹ in TEIs increased by 2.7 percent, from \$2,673 to \$2,745. This compared with a decrease of 14 percent in 2003. The increase in 2004 reflected the transition from the fee stabilisation scheme (which froze fees between 2001 and 2003) to the fee and course costs maxima (FCCM), Annual Fee Movement Limit (AFML) and Postgraduate Fee Increase Limit (PFIL) schemes, which allowed limited increases in fees. The fall in average fees in 2003 was largely attributable to an increase in enrolments in lower-cost courses, along with an increase in providers charging zero or discounted fees.

The purpose of the FCCM and AFML schemes is to limit the increase in tuition fees and provide certainty for undergraduate students in terms of the cost of their programme of study. Under the FCCM, a set of maximum levels of tuition fees that providers could charge domestic undergraduate students was introduced. Under the AFML, providers with fees below the maxima were allowed to increase fees by up to 5 percent or to the relevant

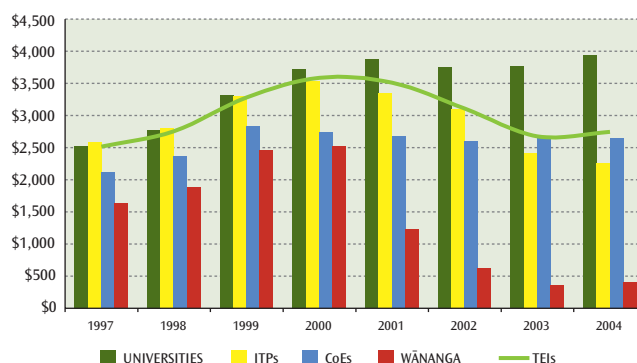
maximum, whichever is the lesser.²² In 2004, providers with fees above the maxima were required to freeze their fees and from 2005 will have to lower their fees progressively towards the maximum. The PFIL scheme allowed for domestic postgraduate fees to rise by up to \$500 per EFTS unit in any one year.²³

Between 2003 and 2004, the average domestic tuition fee per EFTS for university students increased by 4.8 percent, from \$3,755 to \$3,934. In CoEs, the average fee increase was a more modest 0.6 percent, from \$2,640 to \$2,646.

Wānanga students had a 17 percent rise in average fee from \$348 to \$405 between 2003 and 2004. The large increase in the average tuition fee is not a result of substantial increases in the actual fees charged to students, but is a result of a significant reduction in the proportion of EFTS in low or zero fee courses, especially at Te Wānanga o Aotearoa.

The average fee charged to ITP students has fallen considerably since 2000. Between 2000 and 2004, this fee dropped by 36 percent, from \$3,530 to \$2,254. The fall in the polytechnic fee is a result of an increasing number of discounted or zero fee courses being offered by ITPs, and, in particular, the prevalence of community and short courses with no fees.

FIGURE 6.15: AVERAGE DOMESTIC TUITION FEES PER EFTS IN TEIs 1997-2004



To show how the affordability of fees has changed for students over time, the average domestic tuition fee is expressed as a

19 The government has announced that from 2008 the Māori and Pasifika SSG will be retargeted, with a two-year transition period in 2006 and 2007. From 2008, TEIs will determine their own appropriate target groups on the basis of socio-economic disadvantage. Funding will also be linked to EFTS enrolments and completions, and there will be higher funding rates for postgraduate, degree and diploma-level study and no funding for sub-diploma-level study. For 2006 and 2007, funding will still be linked to Māori and Pasifika enrolments. However, the rates will change with higher rates for postgraduate, degree and diploma-level study and no funding for sub-diploma-level study. See www.tec.govt.nz for more detail on these changes.

20 The fees quoted in this section are inclusive of GST.

21 The average fee is calculated by dividing total domestic fees revenue (excluding GST) by the total number of domestic EFTS funded by the Ministry of Education. An adjustment is then made for GST.

22 In exceptional circumstances a provider could ask for an exemption from the AFML and increase fees up to a maximum of 10 percent.

23 In exceptional circumstances a provider could ask for an exemption from the \$500 limit.

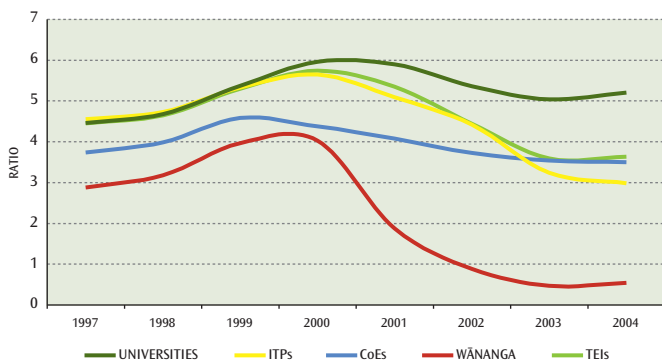


The tertiary education sector

ratio of the average weekly income²⁴ for employed people. This ratio shows how many weeks of average weekly income it would take to pay for the average tuition fee. For example, the value of 4.4 in 1997 for TEIs indicates that it would take 4.4 weeks of the average weekly income to pay for the average tuition fee in TEIs.

Between 1997 and 2000, the ratio was rising across TEIs, indicating a decrease in the affordability of tertiary education for students. However, between 2000 and 2003, the ratio fell in all tertiary sub-sectors, indicating that tertiary education was becoming more affordable for students during this period, especially in ITPs and wānanga. In 2004, the ratio increased slightly in universities and wānanga as the increase in average tuition fees outpaced the growth in average weekly income.

FIGURE 6.16: AVERAGE TUITION FEE PER EFTS EXPRESSED AS A RATIO OF AVERAGE WEEKLY INCOME IN TEIs 1997-2004



Source: Ministry of Education and Statistics New Zealand, *New Zealand Income Survey*

International student tuition fees²⁵

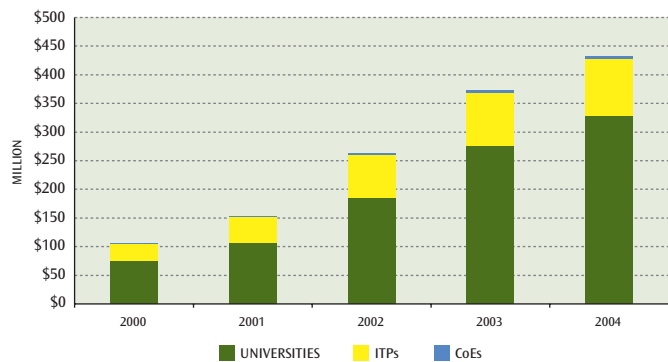
International student enrolments have become a major source of revenue for the tertiary education sector, especially for universities and ITPs.²⁶ Between 2000 and 2004, international student EFTS in TEIs increased by 229 percent, from 10,347 to 33,990. Over the same period, total international fee revenue in TEIs increased by 307 percent, from \$106 million to \$432 million. As a result of these increases, international student fee revenue has increased from 4.8 percent of total TEI revenue in 2000 to 12.9 percent in 2004.

²⁴ This is the average weekly income for employed people and includes income from wages/salaries, self-employment, and government transfers.

²⁵ In this section international tuition fees are exclusive of GST.

²⁶ CoEs have only modest numbers of international students, while wānanga have not enrolled any international students.

FIGURE 6.17: INTERNATIONAL FEE REVENUE IN TEIs 2000-2004



COMBINED TUITION REVENUE PER EFTS²⁷

By combining the revenue from tuition subsidies and domestic and international student tuition fees, a complete picture of the trends in the funding of tuition-related activities at TEIs can be identified. Figure 6.18 shows the combined tuition revenue per EFTS (domestic and international) in TEIs between 2000 and 2004.

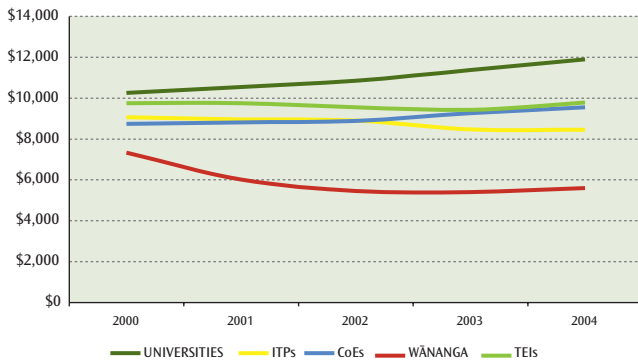
Between 2000 and 2004, the combined tuition revenue per EFTS in TEIs increased by 0.4 percent, from \$9,740 to \$9,777. At the sub-sector level, universities had the largest growth in combined tuition revenue per EFTS. Combined tuition revenue increased by 16.0 percent, from \$10,247 to \$11,885. The key factors in this rise were an increase in funding rates and an increase in the average international fee per EFTS. An increase in average domestic fees in 2004 was also a contributor.

The increase in combined tuition revenue per EFTS was more modest for CoEs. Between 2000 and 2004, the combined revenue increased by 9.1 percent, from \$8,739 to \$9,538. An increase in funding rates was the key reason for this increase.

ITPs and wānanga both experienced a decrease in their combined income per EFTS between 2000 and 2004. In ITPs, the combined revenue per EFTS decreased by 6.7 percent, from \$9,056 to \$8,451. In wānanga, the combined revenue per EFTS decreased by 23.5 percent, from \$7,317 to \$5,597. The factors that contributed to this fall were an increase in the proportion of enrolments in low-cost courses leading to a reduction in the average tuition subsidy and a move to zero or discounted domestic fees. ITPs were able to offset this decrease partly through increasing the average international tuition fee per EFTS over the period.

²⁷ The revenue in this section is exclusive of GST.

FIGURE 6.18: COMBINED TUITION REVENUE PER EFTS IN TEIs 2000-2004



Notes:

- 1 Revenue is exclusive of GST.
- 2 Combined funding per EFTS is calculated by combining government tuition subsidies with domestic and international tuition fees and then dividing by the sum of government-funded EFTS and international student EFTS.

FUNDING INITIATIVES FOR 2004

During 2004, the government invested in a number of new initiatives and approaches to improve the quality and responsiveness of New Zealand's tertiary-level learning outcomes system and access to learning. The following is a summary of the majority of the initiatives launched during 2004.

5.1 Community education funding

The government announced a reduction in the funding rate for 5.1 community education EFTS, along with a cap on the EFTS that TEIs can claim. This will result in savings of \$198.1 million over the period 2003/04 to 2007/08. The purpose of this adjustment is to ensure both the quality of the educational spend and greater fiscal certainty in the Student Component aspect of 5.1 funding.

Student Component funding rate changes in 2007

Funding of \$99.4 million in operating expenditure and \$36.7 million in capital expenditure over the next four years (2004/05 to 2007/08) was provided to roll out the funding triennium for the Student Component for one further year. The government has agreed to an increase set at the rate of the Consumers Price Index (indicatively 2.1 percent). Funding is for the 2007 academic year.

Increasing student allowances parental income thresholds

A total of \$222.7 million over four years (2004/05 to 2007/08) was allocated to increase the student allowances parental income

thresholds from 1 January 2005 and then adjust the thresholds annually for inflation. The increase in student allowances parental income thresholds was intended to allow greater numbers of people to access either full or abated allowances.

Skill NZ Learning Champions

A total of \$56.9 million was appropriated over four years for an initiative that expands the tripartite Skill New Zealand initiative to create greater awareness of industry training and workplace learning. The initiative is to establish a two-year pilot project in 2005 and 2006 to identify and train 100 Learning Champions from work sites to encourage and facilitate further education and training in the workplace.

Additional funding for Modern Apprentices

The government provided additional funding of \$56.9 million over four years to increase the number of Modern Apprentices to 8,000 by June 2006. It will fund 500 Modern Apprentices over and above the 7,500 already budgeted for. This will support business skill needs and productivity and help improve skill capacity in industries generally.

Foundation learning for adults

A total of \$4.7 million was allocated by the government over two years (2004/05 to 2005/06) to help improve the quality of teaching and learning in literacy, numeracy and language for adults and add to knowledge of ways to reduce the barriers to access for foundation learning. It involves research and development projects and trialling of learning progressions.

Strengthening the contribution of ITPs

The government provided additional funding of \$21.5 million for four years (2004/05 to 2007/08) to enhance the capability of ITPs to transfer knowledge and technical expertise into industry and provide high-quality, relevant education and training to students.

This will be done by creating a fund to support engagement with businesses and industry. Under this initiative, ITPs would negotiate Industry Engagement Plans of one to three years' duration with the TEC, outlining how they intended to engage, or expand their engagement, with business and industry groups relevant to their charters. They would be funded on the basis of their achievement of agreed milestones.