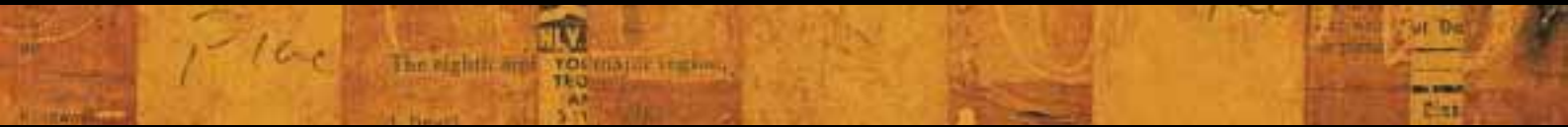


chapter nine

SYSTEM CAPABILITY AND QUALITY



INTRODUCTION

Diversity of tertiary education is essential to attracting and retaining a broad range of learners and developing a culture of lifelong learning. The challenge for the tertiary education sector is to meet the needs of learners of all ages, ethnicities, abilities and educational backgrounds and be able to operate effectively while using resources efficiently.

This chapter outlines the scale and variety of tertiary education providers in this country and summarises their governance, financial performance and human resources. While much of the emphasis is on public institutions, there is also information on private providers and industry training organisations.

This chapter also looks at the contributions made by national agencies in supporting the quality of tertiary education and training in New Zealand, including the work of quality assurance agencies and government agencies.

TERTIARY EDUCATION PROVIDERS

The diversity of the tertiary sector is evident in the mix of providers that make it up: public tertiary education institutions (TEIs), private training establishments (PTEs) and other providers. In addition, employers provide industry-related training and training in the workplace.

There are four kinds of TEIs – universities, polytechnics, colleges of education and wānanga. Another 16 tertiary education providers, known as ‘other’ tertiary education providers (OTEPs), also deliver programmes of national significance and receive government funding.

There are about 900 PTEs which cater for a range of learners. Registered PTEs must meet financial, educational and management quality requirements set by the New Zealand Qualifications Authority (NZQA) to provide some safeguards for learners. They must also meet the financial and management requirements set by the Tertiary Education Commission (TEC). Some PTEs are funded by the government for the delivery of foundation-type programmes, some receive industry training funding while others receive tuition subsidies through the Student Component of the Integrated Funding Framework, and some receive no Crown funding at all. In all, nearly 250 PTEs received government funding in 2003 through the Student Component, while about 300 received funding through Youth Training and Training Opportunities, two of the largest foundation-type programmes funded by the TEC. Many of those that receive no funding are English language schools that cater for full fee-paying international students. Others offer training for specific employers on a full cost-recovery basis.

There is also considerable formalised training activity in the workplace. Some of this is funded as part of the government’s Industry Training Strategy, while the rest is supported by business. Many medium-sized and large firms and organisations carry out corporate training within New Zealand.

Thus, there is a diverse range of avenues open to learners to enhance their skills and build on their qualifications throughout their working lives.

THE SCALE OF THE TERTIARY EDUCATION SECTOR

The eight universities enrolled about 34 percent of all formally enrolled students throughout 2003, compared with 36 percent in 2002. Most universities are large institutions. Massey University had over 40,000 students enrolled during 2003 or 23,343 equivalent full-time students (EFTS)¹. The University of Auckland’s roll was around 33,000 students in 2003 or 27,205 EFTS. The smallest of the universities, Lincoln University, had just over 4,000 students enrolled or 3,382 EFTS in the year.


Institutes of technology and polytechnics accounted for 40 percent of all enrolled students throughout 2003, compared with 35 percent of all students throughout 2002. They also vary greatly in size and in their focus. UNITEC Institute of Technology had nearly 16,000 students or 10,437 EFTS. The Western Institute of Technology in Taranaki had a little over 3,000 students or 1,919 EFTS during 2003. Telford Rural Polytechnic was the smallest polytechnic in equivalent full-time student terms, with 1,046 EFTS in 2003.

In the institutes of technology and polytechnics, the number of students enrolled has increased significantly while the increase in EFTS has been proportionally less. This reflects an increased offering of community-based courses of short duration in this provider group. This change in course mix means that the institutes of technology and polytechnics are now the largest provider group in terms of the number of people enrolled, but universities are still the largest provider group in terms of EFTS.

PTEs are the third largest provider group in the tertiary education sector. They provide learning for around 14 percent of enrolled tertiary education students.

Enrolments at the three public wānanga grew by 47 percent between 2002 and 2003. The wānanga enrolments in 2003 were around 150 times the level of 1994. The wānanga play a significant role in Māori tertiary education by offering learning in a way that specifically caters for the educational and cultural needs of Māori.

¹ The numbers of EFTS used in the analysis for this chapter are those which are recognised in the TEIs’ audited annual reports. These EFTS numbers are those that align with the income and expenditure reported in the financial statements in the annual reports. Factors such as income being recognised ahead of meeting the funding criteria and the reporting of EFTS equivalents for programmes for domestic students funded other than through the Student Component mean that the number of EFTS reported in the annual report may not always reconcile with numbers reported to the Ministry of Education in the statistical collections.



Throughout 2003, the four colleges of education enrolled 2.9 percent of students in the tertiary sector. They are more uniform in size, ranging from nearly 6,000 formally enrolled students at Christchurch College of Education (3,203 EFTS) to fewer than 1,500 students (1,089 EFTS) at Dunedin College of Education.

Some tertiary education providers operate from several sites, which means that the number of providers is less than the number of locations at which students may attend courses.

PUBLIC PROVIDERS – TERTIARY EDUCATION INSTITUTIONS

The majority of formal enrolments in tertiary education are at public tertiary education institutions (TEIs) – universities, polytechnics, colleges of education and wānanga. Collectively, the TEIs represented 87 percent of total enrolments throughout 2003.

UNIVERSITIES

Universities offer students the highest level of academic endeavour and the opportunity to pursue disciplines from undergraduate level to advanced postgraduate study and research. Universities are characterised by a wide diversity of learning and research opportunities intended to foster the ability of learners to think critically and independently.

As specified in the Education Act 1989, universities:

- are primarily concerned with advanced learning and the development of intellectual independence
- research and teach in a way that is closely interdependent and meets international standards
- are a repository of knowledge and expertise, and
- accept a role as critic and conscience of society.

The full list of universities in 2003 was as follows:

- Auckland University of Technology
- Lincoln University
- Massey University
- The University of Auckland
- The University of Canterbury
- The University of Otago
- The University of Waikato, and
- Victoria University of Wellington.

INSTITUTES OF TECHNOLOGY AND POLYTECHNICS

Institutes of technology and polytechnics have traditionally specialised in vocational training. That role has expanded over the last 15 years to meet the increasingly diverse needs of learners and the economy. Many polytechnics and institutes of technology offer degrees and are involved in research activities, particularly applied research and research in technological areas.

In 2003, the 20 polytechnics and institutes of technology in New Zealand were:

- Aoraki Polytechnic
- Bay of Plenty Polytechnic
- Christchurch Polytechnic Institute of Technology
- Eastern Institute of Technology
- Manukau Institute of Technology
- Nelson Marlborough Institute of Technology
- Northland Polytechnic
- Otago Polytechnic
- Southern Institute of Technology
- Tai Poutini Polytechnic
- Tairāwhiti Polytechnic
- Telford Rural Polytechnic
- The Open Polytechnic of New Zealand
- UNITEC Institute of Technology
- Universal College of Learning
- Waiariki Institute of Technology
- Waikato Institute of Technology
- Wellington Institute of Technology
- Western Institute of Technology in Taranaki, and
- Whitireia Community Polytechnic.

COLLEGES OF EDUCATION

Colleges of education provide training and research mostly related to early childhood, compulsory and post-compulsory education. Increasingly, these colleges also offer other programmes in addition to teacher education, for instance business and social work qualifications.



PRIVATE TRAINING ESTABLISHMENTS (PTEs)

A major shift over the last 10 years has been the development of the private tertiary education sector. PTEs emerged originally in response to specific community and industry needs, and now offer students nationally recognised courses and qualifications. In 2003, there were just over 900 PTEs registered with NZQA.

The private education sector is very diverse and provides targeted programmes in specialised niche areas not always covered by larger public institutions, catering for many different groups and in many different locations. PTEs offer work-related programmes, foundation-type learning and employment-related courses in areas such as hospitality, tourism, agriculture, electrotechnology and computing. The private sector also provides most of the theology-related studies. Programmes in the private sector range from Training Opportunities/Youth Training courses through to certificate and diploma courses to bachelors degrees and masters qualifications. Four PTEs offered postgraduate teaching in 2003, while there were 17 providers where the highest level of teaching was bachelors degrees.

The PTE sub-sector is constantly evolving in response to demand. In 2003, 98 new private providers were registered for the first time. During 2003, 229 PTEs were approved for government funding in the form of tuition subsidies under the Student Component and access to student loans and allowances. A moratorium on new PTEs obtaining access to tuition subsidy funding imposed from 24 July 2001 was lifted in January 2003, but replaced by a cap on the number of places that could be funded. At the same time, the rate of subsidy paid to PTEs was reduced by 9.5 percent, deducting a notional capital component from Student Component funding rates.

A number of PTEs cater specifically for Māori or Pasifika people. Among registered PTEs in 2003, 161 identified themselves to NZQA as Māori providers and 29 identified as having an explicit Pasifika focus. Identification as a Māori or Pasifika provider means that a PTE adopts a specific focus in its organisation and/or in the education it delivers to Māori or Pasifika students.

PTEs have been credited with a substantial share of the recent major increase in tertiary education participation rates. This rise has been achieved by bringing into tertiary education many in the community who have desired an alternative to the typical TEI structure. Over the course of 2003, about 60,000 students enrolled in PTEs, which represented 14.5 percent of all tertiary sector enrolments.

MANAGEMENT ISSUES FOR PTEs

In July 2001, the government placed a moratorium on the growth of private providers. In effect no new PTEs, new qualifications or significant alterations of existing qualifications offered by existing private providers, or new sites or providers starting distance delivery of qualifications, were recognised for tuition subsidy funding under the Student Component, or for access to the student allowances and loan schemes. Growth within the sector continued during this period even with the moratorium in effect.

In 2002, the government introduced a cap of \$146 million per year on tuition subsidies for enrolments at PTEs to take effect from 2003. Under the cap, PTE enrolments were limited to the number of EFTS the provider had in 2001. This cap replaced the July 2001 moratorium as funded enrolments from 2003 were linked to the qualifications offered by each PTE in 2001. Under the new cap, if a PTE had enrolments in approved qualifications that were not funded, the students in those qualifications would be eligible for support under the Student Loan Scheme and student allowances. As part of the new policy, the government created a contestable Strategic Priorities Fund (SPF) of \$17 million. The SPF was designed to focus any new enrolment growth in the PTE sector on areas closely aligned with the Tertiary Education Strategy (TES) and the Statement of Tertiary Education Priorities (STEP). At the same time, the government also reduced the funding rate for PTEs by 9.5 percent to reflect the fact that there is a notional capital component in EFTS-based government funding for tertiary education. The owners of PTEs are expected to provide the capital funding for their organisations and have ownership of the assets if they cease trading and are wound up. Thus, the government considers it is not appropriate for the Crown to contribute to the formation of capital in PTEs.

During 2002, the government imposed additional student fee protection requirements on PTEs. These requirements strengthened the obligation of PTEs to manage student fee income in such a way as to ensure that students' fees are protected in the event that a provider ceases to offer a qualification or ceases trading while students are still enrolled.

INDUSTRY TRAINING ORGANISATIONS (ITOs)

Industry training is designed and driven by industry. At the end of 2003 there were 43 industry training organisations (ITOs) around the country, established by particular industries or groups of industries.

ITOs facilitate workplace learning for trainees in employment, by:

- setting national skill standards for their industry
- providing information and advice to trainees and their employers
- developing appropriate training arrangements for their industry
- arranging training that is appropriate for their industry which will lead to qualifications recognised on the National Qualifications Framework
- moderating the assessment of training within their industry against the established national standards
- monitoring training quality, and
- providing leadership to industry on skill and training needs.

The roles of ITOs are defined in more detail in the Industry Training Act 1992 and the Industry Training Amendment Act 2002.

Industry training concentrates on workplace learning that raises skills and boosts competitive advantage for business. Industry Training can be on-job or off-job through a registered training provider, or a combination of both. On-job training can take a number of forms. The learning can be self-paced, or the training can be delivered by an experienced staff member or an external trainer. Some businesses run formal training sessions, while others train staff on-job. Often, the relevant ITO will provide training guides and resources.

ITOs implement the government’s Industry Training Strategy. Industry training is jointly funded by the government through the Industry Training Fund, and by industry, through financial and in-kind contributions. In 2003, industry contributed \$41.6 million in cash to industry training, representing 30 per cent of the total cost.

The 43 ITOs at the end of 2003 were:

- Agriculture Industry Training Organisation
- Apparel and Textile Industry Training Organisation
- Aviation, Tourism and Travel Training Organisation
- Boating Industries Association of New Zealand
- Building and Construction Industry Training Organisation
- Building Services Contractors of New Zealand
- Community Support Services Industry Training Organisation
- Electricity Supply Industry Training Organisation
- Electrotechnology Industry Training Organisation
- Fire and Rescue Services Industry Training Organisation
- Forest Industries Training and Education Council
- Funeral Service Training Trust of New Zealand
- Hospitality Standards Institute
- InfraTrain New Zealand Ltd
- Joinery Industry Training Organisation
- Leather Industry Training Organisation
- Master Plumbers, Gasfitters & Drainlayers NZ
- New Zealand Ambulance Education Council
- New Zealand Commercial Road Transport Industry Training Organisation
- New Zealand Engineering, Food and Manufacturing Industry Training Organisation
- New Zealand Equine Industry Training Organisation
- New Zealand Extractive Industries Training Organisation
- New Zealand Flooring Industry Training Organisation
- New Zealand Furniture Industry Training Organisation
- New Zealand Hairdressing Industry Training Organisation
- New Zealand Horticulture Industry Training Organisation
- New Zealand Industry Training Organisation
- New Zealand Journalists’ Training Organisation
- New Zealand Local Government Association
- New Zealand Motor Industry Training Organisation
- New Zealand Painting Contractors Association of Employers





- New Zealand Retail Meat Industry Training Organisation
- New Zealand Seafood Industry Council Limited
- New Zealand Sports Turf Industry Training Organisation
- Pharmacy Industry Training Organisation
- Plastics and Materials Processing Industry Training Organisation
- Power Crane Association of New Zealand
- Printing and Allied Industries Training Council
- Public Sector Training Organisation:
- Real Estate Institute of New Zealand
- Retail Training New Zealand
- Sport Fitness and Recreation Industry Training Organisation, and
- Te Kaiawhina Ahumahi

FLEXIBLE AND ONLINE LEARNING

e-Learning (electronic learning) is learning that is delivered through or supported by the use of digital tools. It typically involves some form of interaction between the teacher and the learners, often online. e-Learning opportunities are usually accessed through the internet, though other technologies, such as CD-ROM, are also used in e-learning.

A primary benefit of e-learning is that it improves the flexibility of teaching and learning and is a means of overcoming barriers to learning, as it can meet diverse individual needs and accommodate various individual circumstances. It is, therefore, becoming one of the main ways of enabling open, flexible and distance learning in New Zealand and many other countries.

e-LEARNING'S ROLE IN TERTIARY EDUCATION IN NEW ZEALAND

e-Learning will help the tertiary education sector to contribute to national development goals. In particular, it will help respond to the challenges of globalisation, accelerating technological change and a networked knowledge society. e-Learning has a key role to play in enabling the education system to be more responsive to the needs of learners, education providers and society as a whole.

For individual learners, e-learning can improve the access, quality and relevance of education in a number of ways. It can:

- connect learners with an almost limitless range of information
- improve information literacy
- increase flexibility as to where, when and how people learn, and
- provide new ways in which learners can manage their own learning experiences.

For providers of tertiary education, e-learning extends their reach to a larger and more diverse group of students. To a large extent, this is because e-learning is relatively unconstrained by time and geography. More flexible learning opportunities allow more New Zealanders to undertake study suited to their needs and circumstances. Another major benefit is that the networked education system, facilitated by e-learning, allows ready access to worldwide knowledge, opportunities and educators.

For a knowledge society – a networked, information-rich environment with a knowledge-based economy – information literacy is becoming increasingly critical. Networked environments enhance these skills through use in context. e-Learning is, therefore, seen by many as a natural and important learning pathway for people of today, equipping them to become adaptable lifelong learners.

ACHIEVEMENTS

A paper, *Highways and Pathways: Exploring New Zealand's e-Learning Opportunities*, was published by the Ministry of Education in 2002 and was developed by a group of 10 e-learning experts from the tertiary education sector. The group was convened by the Ministry to advise on how the issues of e-learning in the tertiary education sector should be addressed.

The recommendations of the group were adopted by the government and the current activities initiated by the Ministry of Education that have followed this report are outlined below.

In addition to initiatives taken by government agencies, tertiary education organisations have continued to expand their e-learning knowledge, expertise and provision. In many cases, this has involved entering into new and promising collaborative arrangements.

INTERIM TERTIARY E-LEARNING FRAMEWORK

The Ministry of Education and the National Library have worked with other government agencies and representatives from the tertiary education sector to develop an Interim Tertiary e-Learning Framework for the period between 2004 and 2007.

The framework sets a strategic direction that will help to coordinate effort and maximise the benefits for everyone involved in e-learning in the tertiary sector. The framework was developed through cooperation between government agencies, e-learning experts and sector representatives.

The framework identifies seven key action areas that need to be addressed at a national level. These provide a framework for a more detailed e-learning action plan, which was being developed over the course of 2004. The action areas are as follows:

- development of a vibrant, inclusive ‘community of practice’, through which practitioners are able to share e-learning information and experiences in a collegial manner
- reliable research into e-learning in the New Zealand context
- professional development for staff in tertiary organisations
- adoption of relevant technical and design standards for e-learning developments
- development of appropriate legal and policy frameworks for electronic rights management
- development of qualifications and credentialing frameworks that recognise flexible learning pathways, and
- exploration of new e-learning opportunities for marginalised learners.

The Ministry of Education will coordinate the development of the action plan, in partnership with the tertiary education sector. To assist in this development, a representative body for tertiary e-learning will be established.

The Interim Tertiary e-Learning Framework will eventually be superseded by an integrated, pan-sector e-learning strategy that will encompass the school and early childhood sectors as well as the tertiary education sector.

e-LEARNING COLLABORATIVE DEVELOPMENT FUND (eCDF)

The eCDF is a fund to support collaborative initiatives that are concerned with developing the e-learning capability of New Zealand’s tertiary education organisations. The fund, \$28 million over the years 2003 to 2007, is administered by the TEC.

e-LEARNING RESEARCH FUND

The Tertiary e-Learning Research Fund is a contestable fund that will commission research on the current e-learning context and the impact of e-learning on tertiary learners, teachers and organisations.

e-LEARN – NEW ZEALAND’S TERTIARY e-LEARNING PORTAL

e-Learn is a tertiary e-learning web portal intended to support development of an inclusive e-learning community of practice. The benefits of such a community include reduced duplication of effort in developing e-learning, sharing expertise and ensuring that developments in e-learning are coherent and well considered.

e-LEARNING STANDARDS DEVELOPMENT

The Ministry of Education, in consultation with the tertiary education sector and other government agencies, is taking a role in the development of New Zealand standards. These standards are required to ensure quality and interoperability within e-learning practices and systems. The priority is for New Zealand’s tertiary education sector to decide on which international standards to adopt or adapt, and to decide on mechanisms for encouraging compliance.

STRATEGIC DEVELOPMENTS IN THE TERTIARY EDUCATION SECTOR

CASE STUDY

COLLABORATING FOR EFFICIENCY

A collaborative project undertaken by four university libraries exemplifies the cooperation and collaboration theme that runs through the Tertiary Education Strategy 2002/07.

The four universities, Auckland University of Technology (AUT), the University of Waikato, Victoria University of Wellington and the University of Otago, established the CONZULSys consortium with the vision of developing and using ‘the best enabling technologies in a pioneering collaboration which will enhance the innovative delivery of library and information resources to the New Zealand tertiary learning and research community’.

The goals of the cooperative approach were to:

- strengthen resources by working together
- achieve pricing and cost control benefits through being part of a larger group, and
- manage risk better by acting collectively.

The partners recognised that they were working towards a long-term goal and savings would not be immediately apparent.

The major benefits expected from this approach were:

- interoperability between library systems
- reduced maintenance of interfaces
- better knowledge by systems staff and better use of that knowledge
- better service to users at other universities, and
- improved disaster recovery.

By the beginning of 2003, the four universities had committed to the consortium approach and had agreed a cost-sharing model. In February, contracts were signed with the software supplier, Endeavor Information Systems Inc, and the hosting supplier (that also provided the hardware), Datacom Systems Ltd, following a rigorous selection process focused on determining the most appropriate mix of hosting infrastructure and software.

The success of the implementation of this project was based on the development of complete trust between the personnel in the four universities and trust in the coordination and planning role of CONZULSys. It also depended on establishing clearly the roles between Endeavor, Datacom and CONZULSys and setting up clearly defined support structures and communication protocols.

A commitment by all partners to creating a working solution was a necessary condition for the success of a complex project that involved four universities and two suppliers which were working in two countries in three time zones.

Between January and July 2003, the complex infrastructure at Datacom was in place and the AUT, Waikato and Otago libraries had implemented the Voyager software. By December 2003, all of the operational procedures and systems were bedded in at all four university sites and Victoria had also implemented Voyager.

The university libraries involved in this project have a commitment to the goal of working collaboratively. With the four universities now having used the consortium's solution for some time, cost savings will be able to be identified. In a country the size of New Zealand and with the requirement by students and staff for constant access to the most up-to-date information, a project such as this, which cuts down repetitive spending and enables the sharing of knowledge and technology, is extremely positive.

THE CAPABILITY OF TERTIARY EDUCATION INSTITUTIONS

New Zealand's TEIs are major organisations with the universities having annual incomes ranging from \$72 million to \$506 million and the average income for polytechnics being around \$41 million. Public providers are also significant employers; those located in provincial centres may be one of the largest employers in their region. Collectively, the public providers have income totalling over \$3.1 billion and combined assets worth over \$5.2 billion.

As Crown entities listed in the fourth schedule of the Public Finance Act 1989, TEIs are required to follow standard public sector financial accountability processes and are required to report under Part V of that Act.

The public, and students in particular, expect that institutions will not only deliver excellent education outcomes, but that they will be properly organised to make the best use of public resources. Responsible use of public resources is a statutory requirement for TEIs. Public providers also need to be able to react quickly to changes in their communities and to the educational demands of students and potential students. This requires a balance of input from those who understand educational outcomes and can deliver those outcomes, and those who are able to structure and manage an organisation to ensure ongoing viability.

GOVERNANCE AND MANAGEMENT IN TEIs

THE ROLES AND FUNCTIONS OF COUNCILS

The governing body of a TEI is its council, which carries responsibility for ensuring the effective management of the institution and for planning its future development. It has ultimate responsibility for all the affairs of the institution. While a council determines the overall strategic direction of an institution, the chief executive is responsible for the executive management of the institution and its day-to-day direction. The chief executive is employed by the council to implement its decisions and is answerable to the council for his or her performance.

Councils are entrusted with public funds and have, therefore, a particular duty to fulfil the highest standards of governance at all times. Some of the functions of a council under section 180 of the Education Act 1989 are as follows:

- to appoint a chief executive and monitor and evaluate his or her performance
- to prepare, negotiate and adopt a charter for the institution
- to adopt a profile for the institution
- to ensure that the institution is managed in accordance with its charter and profile, and
- to determine the policies of the institution in relation to the implementation of its charter, the carrying out of its profile, and, subject to the State Sector Act 1988, the management of its affairs.

The duties of TEI Councils, as specified in the legislation, include to:

- strive to ensure that the institution attains the highest standards of excellence in education, training and research
- acknowledge the principles of the Treaty of Waitangi
- encourage the greatest possible participation by the communities served by the institution in order to maximise the educational potential of all members of those communities. Particular emphasis is placed on those groups in those communities that are under-represented among the students of the institution
- ensure that the institution does not discriminate unfairly against any person
- ensure that the institution operates in a financially responsible manner that results in the efficient use of resources and maintains the institution's long-term viability, and
- ensure that proper standards of integrity, conduct and concern for the public and the wellbeing of students attending the institution are maintained.

The Education Standards Act 2001 extended the functions and duties of TEI councils to make explicit the requirement to ensure that their institutions operate in a financially responsible manner, using resources efficiently to maintain long-term viability. The Act also provides a monitoring and intervention regime based on assessment of the level of risk to the operation and long-term viability of an institution. The regime includes, as a first step in risk monitoring, the right of the Ministry of Education to impose more frequent and in-depth reporting. This stage could be followed by appointment of a Crown observer to a council. The Act also grants the Minister the power to dissolve a council and appoint a commissioner, should an institution's viability be seriously threatened.

COUNCIL MEMBERSHIP

The Education Act 1989 states that a council must consist of between 12 and 20 members and must include the chief executive of the institution, staff and student representatives and representatives from both employers' and workers' organisations, as well as four ministerial appointees.

The other members could include representatives of local iwi, representatives of particular regions, and members of professional or farming groups or local authority representatives. Some councils provide for a certain number of council members to be co-opted if required. Other councils, particularly universities, have a court of convocation, generally comprising graduates of the institution, which elects some council members.

Councils are essentially representative in nature. However, the representative model alone does not necessarily provide the balance of skills that may be required for good governance. Ministerial appointments, therefore, play an important role in ensuring that a council has a sufficient number of members with the range of expertise required under the Education Act 1989 to protect the government's interest. They also help to ensure that a council reflects its wider community.

Nominees for ministerial appointments to TEI councils are interviewed to ascertain their knowledge of the tertiary sector and to identify any previous governance experience.

All ministerial appointments are considered by a Cabinet committee, and a consultation process enables further consultation with other members of Cabinet and key stakeholder groups.

The government has also sought to make clearer the specific expectations that it holds of both institutions and members of their governing bodies. The Associate Minister of Education (Tertiary Education) issued a statement of expectations of TEI council members in 2001.

The Minister expects TEI council members to ensure that the institution undertakes sound strategic and business planning in accordance with its charter, and that the council appropriately directs the chief executive and holds him or her accountable for performance. Council members are also expected to ensure that the institution adopts sound organisational and financial management practices to safeguard and enhance the country's investment in the institution. Councils are expected to ensure that the institution adopts a sound risk management strategy for all facets of its activities.

Council members should also encourage the institution to explore ways in which greater cooperation and collaboration with other tertiary institutions can be achieved to the benefit of all institutions involved. Consistent with the government's strategic priorities, institutions should also be working towards raising the educational achievement of disadvantaged groups in society. Finally, council members are expected to declare any potential conflicts of interest and participate in annual performance appraisals.

GOVERNANCE TRAINING

The government recognises the public interest in the ongoing viability of public tertiary education institutions. To assist institutions to develop good governance practices, the Ministry of Education's Tertiary Advisory Monitoring Unit (TAMU) has continued to develop and deliver seminars for council members in conjunction with Institutes of Technology and Polytechnics of New Zealand (ITP New Zealand). Seminars are both delivered on an open basis and individually tailored to specific needs of individual TEIs.

FINANCIAL MANAGEMENT OF TEIs

The financial health of TEIs has improved significantly in the four years since 2000. This section provides an overview of their performance and explores some of the reasons for the improvement.

OPERATING SURPLUSES

There are three major reasons why TEIs should maintain a minimum operating surplus of at least 3 percent of income over the long term:

- Reinvestment of surpluses enables future delivery capability to be maintained or enhanced.
- Depreciation allowances are often inadequate for full replacement of existing assets due to factors such as the rate of technology development.
- Operating surpluses provide institutions with a safety margin and allow the institution a strategic response if there are adverse changes in the operating environment.

Successful institutions will be in a position to build their delivery capacity and thus increase their asset holdings over time. For this reason, the measurement of surplus as a proportion of income is considered to be an appropriate indicator for TEIs. By contrast, commercial organisations distribute cash dividends in order to optimise asset holding levels and meet the rates of return expected in investment markets; they report their surplus as a proportion of assets. A surplus as a proportion of income also reflects the ability of an institution to structure its costs in a system with fixed funding rates³.

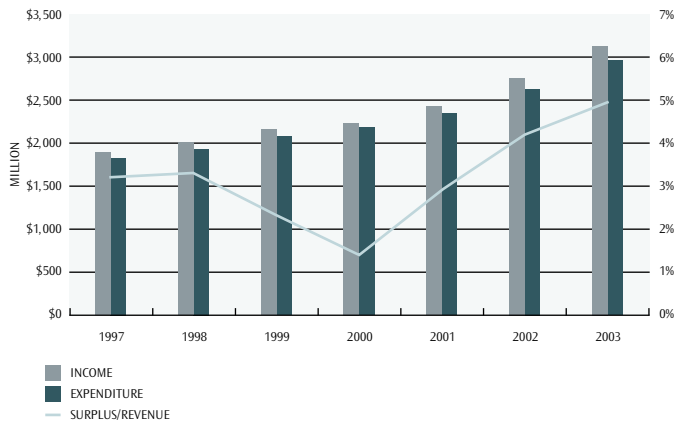
The TEI sector's operating surplus in 2003 was \$169 million before non-recurring and unusual items⁴. This represented 5.4 percent of income. With the inclusion of non-recurring and unusual items, the operating surplus for the total sector in 2003 was \$155 million (5 percent of income), compared with a result of \$114 million (4.2 percent of income) in 2002 and \$69 million (2.9 percent of income) in 2001. The 2003 result represented an increase of 35 percent on 2002 and a rise of 158 percent over the years since 1997.

The total income of TEIs was \$3.12 billion in 2003, up 13.7 percent on 2002, while expenditure was \$2.95 billion. The following graph shows that the growth in both income and expenditure has been particularly strong since 2000, with the surplus growing as a percentage of income since that year.

³ Changes in student numbers tend to have a low influence on TEI revenue *per domestic student* (even if total revenue is affected). However, the growing significance of international students is increasingly changing the operating environment for many TEIs. This issue is discussed in more detail later in this chapter.

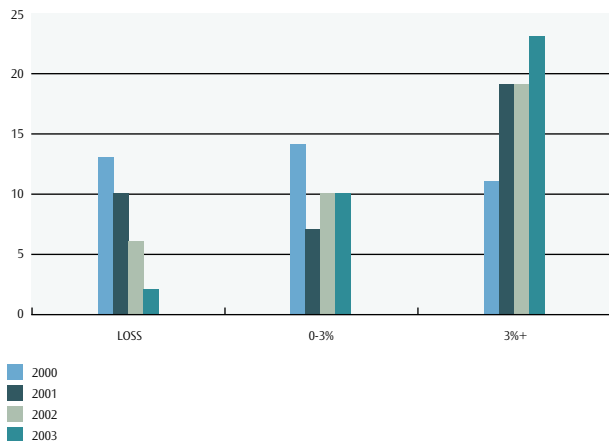
⁴ The financial statements do not exclude non-recurring and unusual items from the reported surplus as the financial reporting standards allow reporting of extraordinary items below the line in only very rare circumstances. For analysis purposes, and especially looking at trends over time, it was useful to identify one-off items that would materially impact on trend analysis. Such items include legal claim payouts, redundancies and large gains or losses on asset sales or revaluations.

FIGURE 9.1: TEI INCOME, EXPENDITURE AND NET SURPLUS AS A PERCENTAGE OF REVENUE 1997-2003



Two of the 35 TEIs recorded net operating deficits⁵ in 2003, compared with six of the 35 TEIs in 2002 and 10 of the 36 TEIs in 2001⁶. In 2003, a greater number of institutions reached the recommended minimum 3 percent threshold for surplus as a percentage of income, with 23 institutions achieving this target, compared with 19 institutions in 2002 and 18 in 2001. The highest return on income was recorded by Tairāwhiti Polytechnic at 31 percent, while Aoraki Polytechnic and Telford Rural Polytechnic achieved surpluses over 20 percent.

FIGURE 9.2: NUMBER OF TEIs REPORTING LOSSES AND SURPLUSES OVER THRESHOLD 2000-2003



⁵ Net of unusual and non-recurring items.

⁶ Wanganui Regional Community Polytechnic (WRCP) reported a loss in the 2001 year. WRCP ceased operations at the end of March 2001 and was merged with Universal College of Learning. Wellington Institute of Technology (WelTec) reported a loss in the 2001 year, which was largely attributable to a merger with the Central Institute of Technology (CIT) in the previous year.

The strongest performing sub-sector in terms of operating surplus is the wānanga, while the polytechnics have made significant improvements in each of the last three years.

TABLE 9.1: TEIs' NET RETURN ON INCOME 2000-2003

Sub-sector type	2000	2001	2002	2003
Universities	2.2%	3.4%	3.1%	3.8%
Polytechnics	-1.7%	0.9%	3.3%	5.3%
Colleges of Education	5.8%	3.6%	2.9%	1.6%
Wānanga	4.0%	8.2%	22.6%	15.7%
All TEIs	1.4%	2.9%	4.2%	5.0%

INCOME

The largest component of the revenue of TEIs was provided by the Crown through tuition subsidies⁷. The total tuition subsidy revenue for TEIs amounted to \$1.49 billion, which represented a rise of 18 percent on 2002 and an increase of 51 percent since 1997. Other government revenue (excluding government-funded research contracts) contributed \$90 million. Government revenue represented 51 percent of the total income for TEIs, which was an increase on the proportion in 2002 of 49 percent, reversing the recent trend in TEIs that has seen the government provide a diminishing share of revenue. The most significant change has occurred in the polytechnic and wānanga sub-sectors.

Domestic student fees contributed \$531 million to TEI income in 2003, compared with \$529 million in 2002 and \$529 million in 2001. The income generated from domestic student fees represented 17 percent of the total revenue for TEIs in 2003, compared with 19 percent in 2002 and 22 percent in 2001. In nominal terms, domestic student fee income has remained very static over the past three years while declining as a proportion of total income. The average fee⁸ per domestic equivalent full-time student (EFTS) fell from \$3,123 to \$2,523 (including GST) between 2002 and 2003, reflecting the government's fee stabilisation policy and increased enrolments in courses offered at zero fees.

⁷ While this statement is true of the sector as a whole, there are examples of TEIs where Crown revenue is significantly less than 50 percent.

⁸ Calculated by dividing TEI-reported domestic fees income by reported domestic EFTS, and adjusting to include GST.

Fees paid by international students contributed \$373 million to TEI income, compared with \$262 million in 2002 and \$153 million in 2001. The rise in international fee revenue in the TEIs was 42 percent between 2002 and 2003 and international fee revenue increased by 351 percent since 2000. As a proportion, international fee revenue represented 12 percent of total TEI income in 2003, 10 percent in 2002 and 6 percent in 2001. A very high rate of growth in international student fees income has occurred each year since the end of the Asian currencies crisis in 1998.

Revenue generated from research contracts undertaken by the TEI sector amounted to \$266 million (representing 9 percent of total income), compared with \$235 million in 2002. This represented an increase of 13 percent. Research contracts brought in \$221 million in 2001. Although research contract revenue has been growing steadily, the proportion of total income has remained constant at around 9 percent since 1998. In the universities, however, research contract revenue represented 14 percent of total revenue in 2003, up from 13 percent in both 2002 and 2001.

FIGURE 9.3: TOTAL TEI SECTOR SOURCES OF INCOME 2000-2003

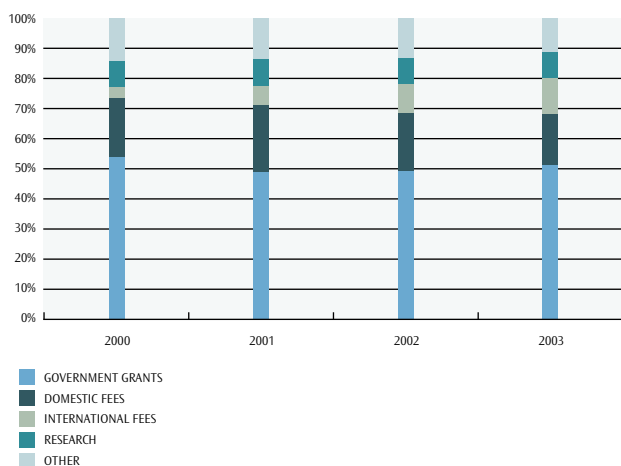
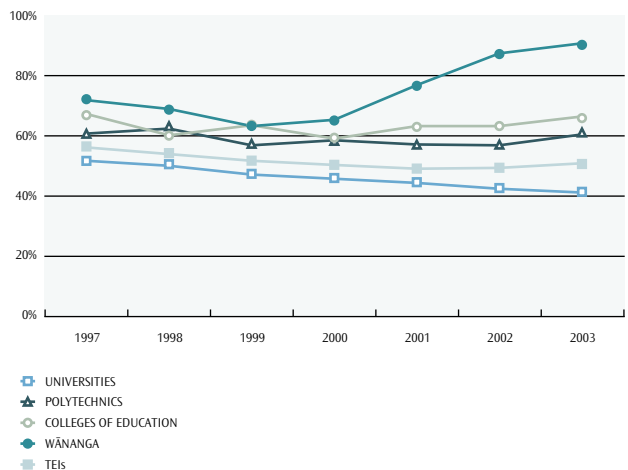


FIGURE 9.4: TEIs' PROPORTION OF INCOME DERIVED FROM GOVERNMENT REVENUE 1997-2003



The university sub-sector had the highest proportion of TEI income in 2003 at 62 percent, although this was 3 percentage points below the universities' 2002 share of the total. The wānanga rose 2 percentage points and now generate 7 percent of the total TEI income. The polytechnics also gained 2 percentage points, but the colleges of education declined by 1 percentage point. In the last four years, the most significant increase in share of income has occurred from the wānanga sub-sector with a movement from 1 percent of total income in 2000 to 7 percent in 2003. The most significant reduction in share of income over this period occurred from the universities with a movement from 68 percent of total income in 2000 to 62 percent in 2003.

FIGURE 9.5A: TOTAL INCOME BY SUB-SECTOR 2003

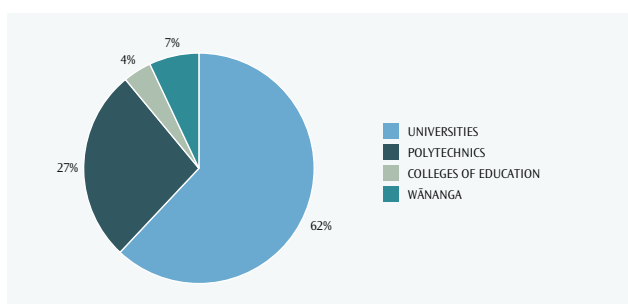
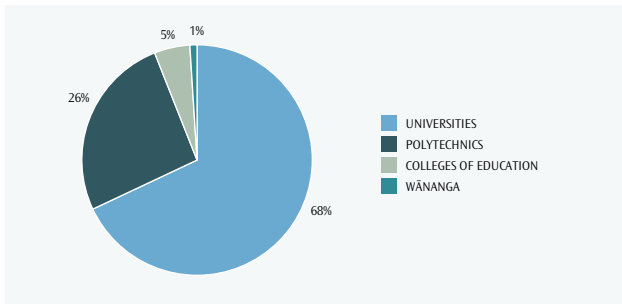


FIGURE 9.5B: TOTAL INCOME BY SUB-SECTOR 2000



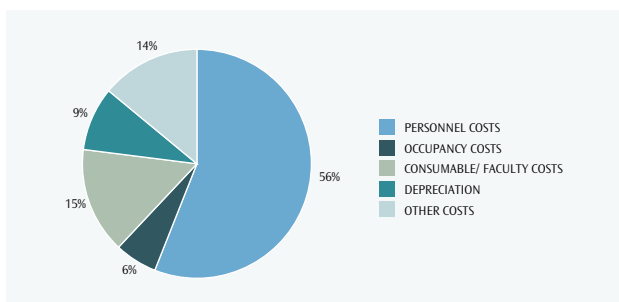
EXPENDITURE

The total expenditure by TEIs has increased in nominal terms each year. The total expenditure of TEIs in 1997 was \$1.81 billion and rose to \$2.95 billion in 2003. This represents a 63 percent increase over that period. Expenditure by TEIs rose 12.7 percent between 2002 and 2003. The cost increases are mainly attributable to the growing number of students being taught, but other causes include inflation, wage growth and new technology.

Figure 9.6 illustrates the major cost components of TEIs. At 56 percent of the total, personnel costs are the dominant component of expenditure in the sector. This is not surprising given the service nature of tertiary education. These proportions have remained relatively constant over time.

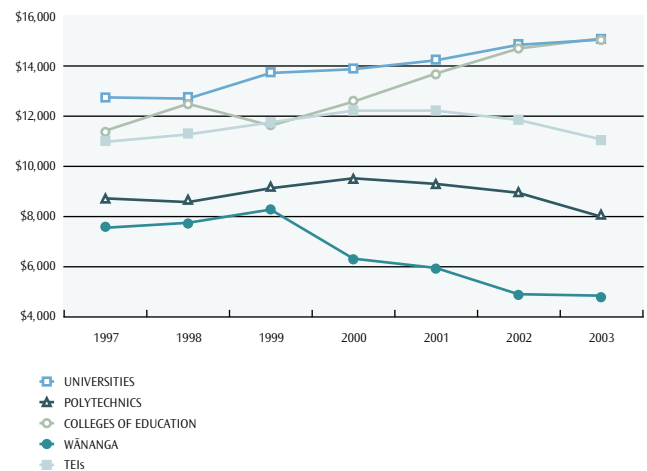
Personnel costs represent 38 percent of the total expenditure in the wānanga sub-sector, which is a considerably lower proportion than for the other TEIs. In the wānanga, the cost component that is higher than the other sub-sectors is consumable and faculty costs at 34 percent of total expenditure. This differing cost structure reflects the fact that the wānanga have a high number of courses delivered by distance mode, which allows greater student to teacher ratios but involves greater costs in terms of learning materials and learning technologies.

FIGURE 9.6: TOTAL TEI EXPENDITURE BY COMPONENT 2003



The trends in average total expenditure per EFTS for the sector from 1997 to 2003 are illustrated in the following graph. This measure varies widely across the sector with the difference being attributable to a variety of factors. For instance, different types of courses require differing resourcing⁹. The level of such activities as trading or commercial research also contributes to the differences. As student numbers have risen and as different types of courses have been developed, the cost per EFTS in the sector as a whole has dropped since 2000. The average total expenditure per EFTS for the TEI sector was \$11,064 in 2003, compared with \$11,846 in 2002 and \$10,913 in 1997. Costs per EFTS once again reduced in both the polytechnics and wānanga, reflecting an ongoing trend over the past three years. The reduction in costs per EFTS coincides with an increase in EFTS per staff member, which is partially attributable to providers in these groups offering more short courses and more distance learning.

FIGURE 9.7: AVERAGE TOTAL EXPENDITURE PER EFTS IN TEIs BY SUB-SECTOR 1997-2003



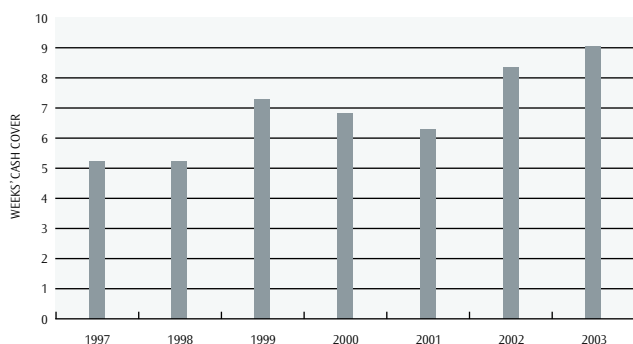
SECTOR LIQUIDITY

The levels of cash, bank deposits and readily liquefiable assets (liquidity) held by institutions constitute an important indicator of financial health and viability. These factors provide a buffer against variability in performance. The liquidity holding also represents the capacity for an institution to invest when significant strategic repositioning is required. The operating cash surpluses of TEIs are generally significantly lower than purely commercial organisations. As a result, financing through borrowing may not be a viable option for TEIs.

⁹ In addition to the required level of overall resource input, the type of resource input also affects expenditure levels through differing GST deductibility. For example, courses with high proportions of personnel resource inputs have less GST deductible than courses with high course material requirements.

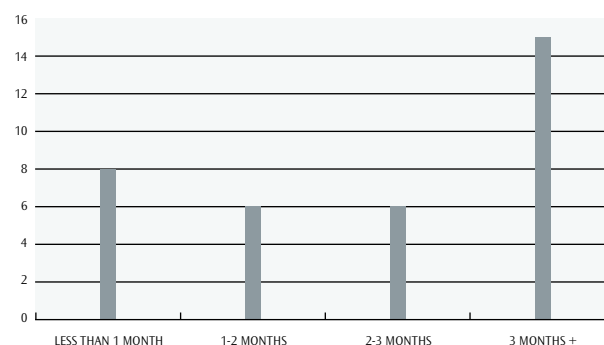
The cash¹⁰ holdings of TEIs are represented as a percentage of the year's operating cash disbursements¹¹. Liquidity can also be measured by counting the number of average weeks' operating cash disbursements held by the organisation in cash. Cash holdings at the end of 2003¹² were \$467 million which represented 17 percent of the year's operating cash disbursements, or nine average weeks' operating cash disbursements. This level of liquidity indicates that, on average, institutions have a reasonable capacity to cope with unexpected increases in expenditure or reductions in income, and some capacity for strategic investment. The following graph illustrates that the trend has been for an increasing liquidity level over the past seven years, although the level has been variable over this time.

FIGURE 9.8: CASH COVER AS THE NUMBER OF AVERAGE WEEKS' OPERATING CASH DISBURSEMENTS 1997-2003



Liquidity levels at the end of 2003 were quite varied across the sector as the following graph indicates. A liquidity level of one month's average operating cash disbursements is seen as the minimum target for prudent operation. Operating at this level, however, leaves little capacity for strategic investments or for dealing with unexpected adverse events.

FIGURE 9.9: NUMBER OF TEIs WITHIN LIQUIDITY RANGES 2003



The working capital ratio (defined as current assets divided by current liabilities) provides another measure of liquidity of an institution. This provides a snapshot of an institution's current assets maturing within one year against its short-term obligations maturing within one year. A ratio of less than 100 percent means an institution is relying on cash flow from operations and external sources to settle its short-term debts.

The working capital ratio for TEIs at the end of 2003 was 107 percent. The corresponding figures for 2002 and 2001 were 98 percent and 88 percent, respectively. This was the first time since 1997 that the working capital ratio increased two years in a row, and the first time since 1999 that the year-end position was above 100 percent. The improvement in the overall sector result was heavily influenced by the very high ratios in the wānanga and the improving performance of the polytechnics. The universities have continued to report a working capital ratio of less than 100 percent.

TABLE 9.2 WORKING CAPITAL RATIO BY SUB-SECTOR 1997-2003

Sub-sector type	1997	1998	1999	2000	2001	2002	2003
Universities	88%	84%	102%	86%	74%	84%	82%
Polytechnics	132%	121%	103%	89%	95%	101%	125%
Colleges of Education	212%	194%	197%	173%	159%	157%	161%
Wānanga	107%	157%	192%	666%	459%	287%	410% ¹³
All TEIs	103%	97%	105%	94%	88%	98%	107%

CAPITAL EXPENDITURE AND ASSET LEVELS

The capital development programmes of a TEI are largely constrained by cash reserves. Increased capital requirements¹⁴ occur as a result of factors such as increased student numbers, replacement of obsolete teaching technology and the need to modernise systems, plant and buildings. Significant variations from year to year can be expected in capital expenditure. The monetary value of capital assets also increases through inflationary factors, which are reflected in rising prices of capital inputs and revaluation of existing assets. Total fixed

¹⁰ Includes cash, short-term cash investments, long-term investments easily converted to cash (eg government bonds and marketable shares) and access to pre-approved credit lines, less overdrafts.

¹¹ Operating cash disbursements are total cash outgoings during the year less payments for capital items and debt repayments.

¹² Year-end cash holdings are typically at the lowest point because most of the year's courses have been concluded. Some income items, such as student fees, are typically received at the start of a course and amortised over its duration.

¹³ The high level of working capital of the wānanga reflects receipts of capital injections during 2003.

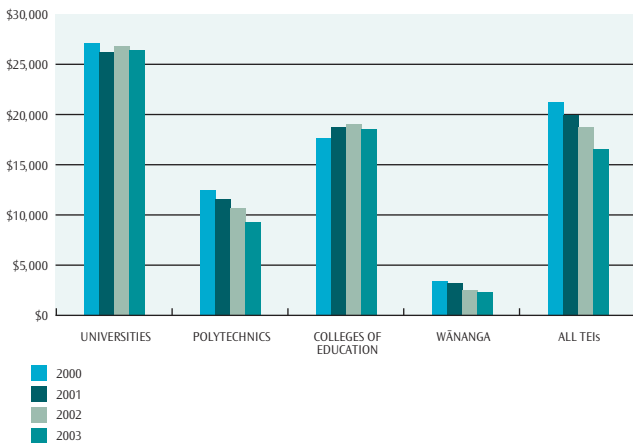
¹⁴ Recent developments in learning delivery modes, such as e-learning and marae-based programmes, can lead to lower capital requirements on a per student basis. These learning modes are expected to play an increasing role in tertiary education, and therefore slow down the growth in capital needs.

assets in the TEI sector grew by 30 percent between 1997 and 2003. Over this period, the total capital expenditure for each of the years ranged between 1.5 and 2.0 times the depreciation expense in that year. In 2003, capital expenditure was 1.7 times depreciation.

Total capital expenditure¹⁵ by the TEI sector in 2003 was \$438 million, which was considerably higher than the previous two years (\$354 million in 2002 and \$334 million in 2001). Annual capital expenditure rose by 24 percent between 2002 and 2003, and by 69 percent between 1997 and 2003. The level of capital expenditure on a per EFTS basis varied widely across the sector, with the highest being \$3,748 per EFTS at the University of Auckland and the lowest \$178 per EFTS at Telford Rural Polytechnic.

The level of fixed assets on a per EFTS basis is very different among the sub-sectors, as illustrated by the following graph. There are many factors that influence the variation in fixed asset levels between institutions, such as the age of the institution¹⁶, the availability of cash surpluses to invest in capital, the level of research activity undertaken by the institution and the actual capital requirements of the programmes delivered.

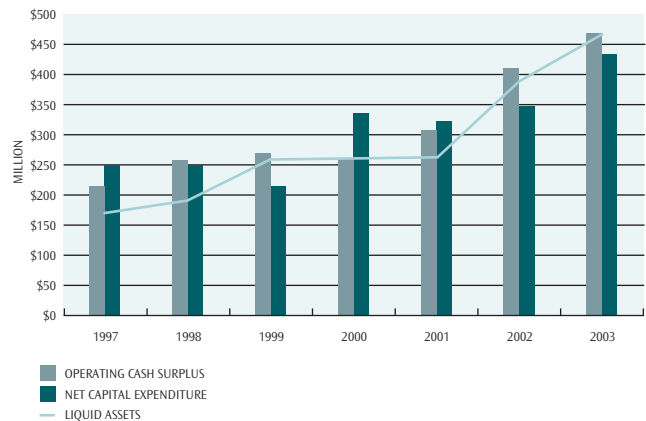
FIGURE 9.10: FIXED ASSETS PER EFTS BY SUB-SECTOR 2000-2003



¹⁵ Cash payments for fixed assets, determined through the Statement of Cash Flows.
¹⁶ Older institutions, with appropriate cash management strategies, have had more time to accumulate assets than more recently established institutions.

The relationship between cash surpluses and capital expenditure is illustrated in the following graph. The operating cash surplus¹⁷ represents the cash available for capital expenditure generated during the year, and the net capital expenditure¹⁸ represents the cash used for capital. Operating cash surpluses not used for capital expenditure result in increased liquidity levels for the following year, and capital expenditure greater than operating cash surpluses reduces liquidity levels¹⁹.

FIGURE 9.11: OPERATING CASH SURPLUS, NET CAPITAL EXPENDITURE AND LIQUID ASSETS OF TEIs 1997-2003



OVERALL SECTOR FINANCIAL PERFORMANCE

The performance of the sector can be summarised by comparing the actual results against minimum thresholds covering the following key areas in Table 9.3.

TABLE 9.3: FINANCIAL PERFORMANCE OF TEIs IN KEY INDICATORS 2000-2003

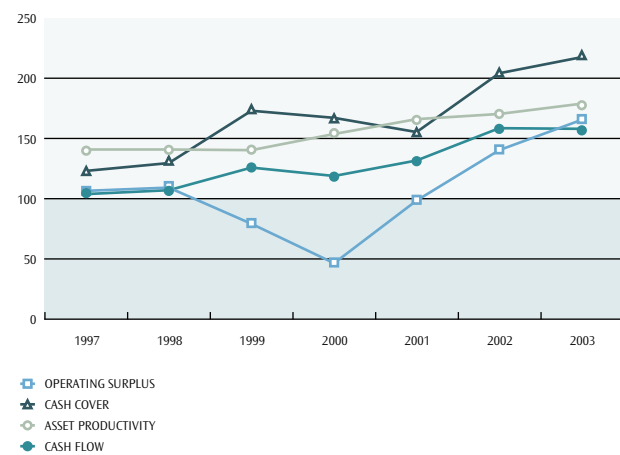
	Threshold	2000	2001	2002	2003
Operating surplus					
Operating surplus after abnormal as a percentage of revenue	3%	1.4%	2.9%	4.2%	5.0%
Cash cover					
Liquid funds as a percentage of annual cash operating outgoings	8%	13.3%	12.4%	16.3%	17.3%
Asset productivity					
Income over net assets	40%	61.6%	66.5%	68.3%	71.6%
Cash flow					
Operating cash surplus as a percentage of total cash disbursements	11%	13.2%	14.4%	17.3%	17.3%

¹⁷ Total cash receipts from operating activities less total cash disbursements from operating activities.
¹⁸ Cash payments for fixed asset purchases less cash receipts from fixed asset sales.
¹⁹ Liquidity may also be affected by borrowings or equity injections from the Crown, although internally generated cash is the major driver when amalgamating the whole TEI sector.



Unless there is a reason to the contrary in a particular case, the threshold is seen as the minimum required for a prudent operation. The sector averages are above the threshold in all four key measures, having improved across all four measures two years running. The following graph converts the thresholds to a base of 100 and compares the actual against that base.

FIGURE 9.12: KEY FINANCIAL PERFORMANCE INDICATORS FOR TEIs 1997-2003



IMPACT OF INTERNATIONAL STUDENTS ON FINANCIAL MANAGEMENT

INCREASING GLOBALISATION OF THE TERTIARY SECTOR

Globalisation is becoming an increasingly important facet of the tertiary education sector. Connections with international environments are important as tertiary students learn to operate in what is now a global work environment and prepare for living and working in an increasingly complex world. In addition, a strong international dimension enriches education through exposing students to different perspectives and provides them with a much more diverse range of cultural experiences. One of the ways in which tertiary education providers give effect to the need for globalisation is through enrolling international students in New Zealand.

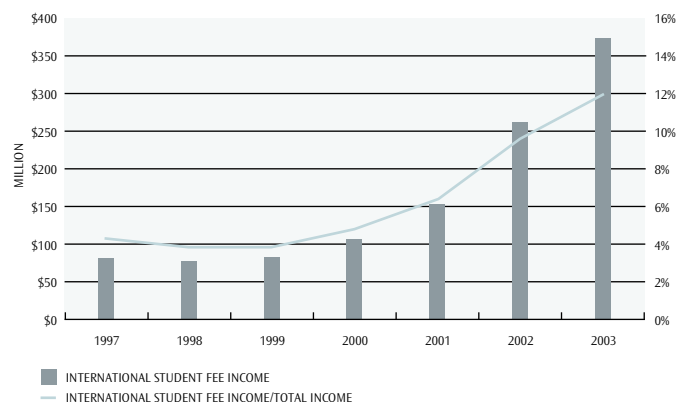
International student enrolments in TEIs have increased markedly in recent years. The international dimension of the tertiary education sector presents some unique opportunities and risks. The following analysis of international student data provides an overview of these features.

INTERNATIONAL STUDENT NUMBERS AND IMPACT ON INCOME

Growth in international student numbers in TEIs has been very strong in recent years. The TEIs reported nearly 30,000 international EFTS in 2003, a 32 percent increase over 2002. The number of international EFTS in 2003 was more than four times that of 1997. As a proportion of the total number of EFTS enrolled at TEIs in 2003, international EFTS represented 11 percent in 2003, compared with 10 percent in 2002 and 7 percent in 2001.

As would be expected, the high growth in international student numbers has resulted in a high growth of income from this source. International student fee income since 2000 has become a significant proportion of total income. The following graph illustrates the trends in international student fee income.

FIGURE 9.13: TEI TOTAL INTERNATIONAL STUDENT FEE INCOME IN NOMINAL TERMS AND AS A PERCENTAGE OF TOTAL INCOME 1997-2003

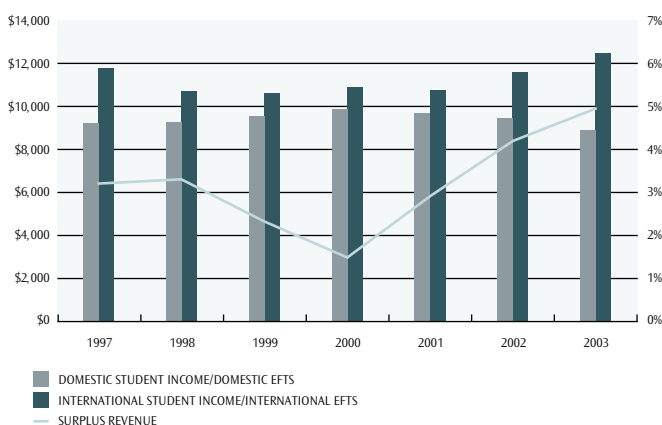


REVENUE FROM INTERNATIONAL STUDENTS

The international student market is very different from that for domestic students. The government has stabilised fee levels for domestic students since 2001, whereas tertiary institutions participate in a competitive market for international students. It is a market characterised by an emphasis on quality, with fee levels often regarded as a secondary factor.

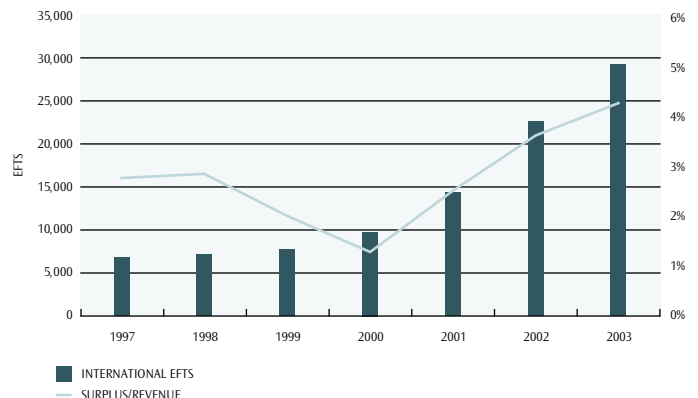
Figure 9.14A compares the average fee per international EFTS with the average revenue from fees and tuition subsidy for each domestic EFTS, while Figure 9.14B plots the number of international EFTS in the TEIs against surplus as a percentage of total revenue. In 2003, the average revenue per international EFTS was \$12,443 (GST excl.), while for domestic students, fees plus Student Component tuition subsidy represented \$8,896 (GST excl.) per EFTS. This compares with an average revenue of \$11,569 per international EFTS and \$9,424 per domestic EFTS in 2002. The difference in revenue between domestic and international students has been increasing in each of the last three years. Figure 9.14A also shows that the increasing difference between domestic and international revenue per EFTS coincided with the increase in international EFTS and, consequently, with the rise in operating surplus as a percentage of revenue. The data suggests that the rise in international students has produced very favourable financial outcomes for the TEI sector, particularly since 2000. While the analysis does not factor in the higher costs incurred by TEIs in managing their international student programmes, as these elements are not readily identifiable in the financial statements of TEIs²⁰, the high degree of correlation does suggest that higher fee income from international students is one of the major contributing factors to the improved financial performance.

FIGURE 9.14A: TEI INTERNATIONAL AND DOMESTIC STUDENT INCOME PER EFTS AND SURPLUS AS A PERCENTAGE OF INCOME 1997-2003



²⁰ Higher costs are attributable to each international student, when compared with each domestic student, due to factors such as extra-curricular support, pastoral care and more intensive teaching and support. In general, institutions analyse costs at the level of departments or subject faculty, which make no distinctions between domestic and international students.

FIGURE 9.14B: TEI INTERNATIONAL STUDENT EFTS AND SURPLUS AS A PERCENTAGE OF INCOME 1997-2003



MANAGING OPPORTUNITIES AND RISKS

The growing significance of international students in recent years appears to have brought about a positive financial outcome for TEIs. The nature of the international student market, however, means that the income derived from international students may tend to be less stable than that from domestic students. Student numbers can be abruptly affected by a variety of factors outside the provider’s control. Exchange rate movements can add another element of risk to a provider’s revenue from international students.

Increasing the diversity of an institution’s international student population is seen as a means of managing the risks to TEIs. Drawing international students from a broad range of countries and regions is considered desirable in that it provides a buffer against an economic down-turn in a given country. If a TEI’s international students study a diverse range of qualification levels and subject fields, the risks of changes in the international student market are further reduced.

Another means of increasing stability in international student numbers is to have a high proportion of students participating in multi-year programmes as opposed to programmes of short duration. In addition, a mix of programme durations is desirable as lower-level programmes of short duration have the potential to stair-case to multi-year programmes. For instance, the increasing proportion of international students studying at degree level suggests that a significant number of international students studying English for Speakers of Other Languages (ESOL) progress to study in other subject fields at New Zealand institutions.

Chapter 3 of this report provides a detailed profile of international students enrolled in the New Zealand tertiary education sector. This analysis shows that, while New Zealand has drawn international students from a wide range of countries and while some TEIs have encouraged enrolments from diverse countries, most of the recent expansion in the numbers of international students is attributable to the growth in the total international student numbers from China. In terms of the level of study, participation by international students in TEIs covers a reasonably broad range. There is also a broad range of subject fields being studied by international students, although nearly half of the students are studying management and commerce disciplines.

LONGER-TERM FINANCIAL TRENDS BY SUB-SECTOR

The following sections explore the key financial trends over the past few years for each of the four sub-sectors within the public TEI sector.

UNIVERSITY TRENDS

- The universities reported 124,621 EFTS in 2003, compared with 116,654 in 2002 and 104,203 in 1997. This represents an increase of 7 percent since 2002 and an increase of 20 percent since 1997.
- Between 2002 and 2003, international EFTS increased by 39 percent while domestic EFTS increased by only 2 percent. International EFTS now account for 17 percent of total EFTS in the university sector.
- The university with the highest proportion of international EFTS was Lincoln University with 47 percent. The lowest was the University of Otago with 11 percent.
- The operating surplus (before unusual and non-recurring items) as a proportion of income grew from 3.3 percent in 2002 to 3.8 percent in 2003, which is above the TAMU guideline of 3 percent.
- Since 1997, the operating surplus has ranged between 2.2 percent and 3.8 percent of income. However, since 2001, the university operating surplus has been consistently above 3 percent.
- Two of the eight universities (the University of Otago and the University of Canterbury) had operating surpluses (before unusual items) of less than 3 percent, compared with five universities in 2002.
- Total income of the university sub-sector was \$1.94 billion in 2003, compared with \$1.79 billion in 2002, which represented an increase of 9 percent. The major contributing factors to this increase across the universities were international student tuition fees, which rose by 50 percent, and government funding, up by 6 percent from 2002.

- Government income as a percentage of total income has been declining since 1997, reducing from 52 percent in 1997 to 41 percent in 2003. In contrast, the increasing international student numbers have resulted in total student tuition fees, as a percentage of total income, increasing from 22 percent in 1997 to 32 percent in 2003.
- Total expenditure increased by 8 percent between 2002 and 2003. The major contributory factor to this increase was total personnel costs, which rose by 10 percent over this period.
- Personnel costs per EFTS in 2003 varied widely across the universities.
- Liquidity levels across the sector remained constant at 13 percent of annual cash disbursements in 2002 to 13 percent in 2003 (seven weeks' cover).
- Working capital across the sub-sector decreased from 84 percent in 2002 to 82 percent in 2003.

INSTITUTE OF TECHNOLOGY AND POLYTECHNIC TRENDS

- The number of EFTS places in polytechnics and institutes of technology rose by 28 percent in 2003 and by 67 percent over the seven years since 1997.
- Growth in domestic EFTS was very strong in 2003, being 29 percent higher than in 2002. Domestic EFTS in 2002 were 11 percent higher than in 2001.
- International EFTS were 17 percent higher than in 2002, with growth not being as strong as in previous years. International EFTS represented 9 percent of the 2003 total.
- Non-formal community education enrolments increased as a proportion of the total. In 2003, this type of course accounted for 25 percent of the total EFTS, compared with only 5 percent in 2000.
- The growth in student numbers translated to a strong surplus for the polytechnic sub-sector. An operating surplus after abnormal items of 5.3 percent was significantly greater than the 3.3 percent achieved in 2002.
- Two polytechnics recorded deficits in 2003, while five polytechnics recorded deficits in 2002, and eight recorded deficits in 2001. It should be noted, however, that no mergers or closures occurred in 2003. Such events have had a greater impact on previous years' results.
- A surplus above the TAMU recommended threshold of 3 percent or more was achieved by 14 of the 20 polytechnics. In 2002, 11 polytechnics had surpluses of 3 percent or more.

- Income per EFTS reduced by 7 percent while expenditure per EFTS reduced by 10 percent. This reflects the increased proportion of informal community education programmes that are funded at lower rates.
- The student to academic staff ratio increased markedly in 2003 to 21.4 for every FTE staff member. This ratio was 17.3 in 2002, 15.5 in 2001 and 14.1 in 1997. Much of the rise is attributable to the expansion in community education enrolments in the last three years.
- The liquidity level was 21 percent of annual cash disbursements, which is 11 average weeks' cover, compared with 18 percent in 2002 and 13 percent in 1997.
- Expenditure on assets in 2003 was 1.4 times depreciation, and was 2 percent lower than in 2002.

COLLEGE OF EDUCATION TRENDS

- The number of EFTS places in the colleges of education in 2003 rose by 4 percent or approximately 300, compared with a rise of less than 1 percent or approximately 50 in 2002.
- Over the period 1997 to 2003, there was growth of 12 percent in the number of EFTS places.
- International EFTS represented 4 percent of the total EFTS places in the colleges of education. Although this was a smaller proportion than other provider groups, the number of international EFTS in the colleges was more than six times the volume of 2000.
- The colleges' operating surplus (before unusual and non-recurring items) as a proportion of income was 1.6 percent, compared with 2.9 percent in 2002, 3.6 percent in 2001 and 1.9 percent in 1997. The operating surplus has been reducing steadily since 2000, although this is at a similar level to 1997.
- There was a 46 percent increase in income in the colleges over the period from 1997 to 2003, translating into a 30 percent increase in income per EFTS. This reflects an increase in research and support services over this period.
- Liquidity levels increased slightly from 25 percent of annual cash disbursements in 2002 to 27 percent in 2003. Liquidity levels were strong, however, being approximately 3.5 times the TAMU recommended minimum of 8 percent.
- Capital expenditure in 2003 was less than the depreciation expense, contributing to a reduction in fixed assets per EFTS from \$19,011 in 2002 to \$18,465 in 2003.

WĀNANGA TRENDS

- In 2003, enrolments at the wānanga increased by approximately 16,000 EFTS. This compares with an increase of approximately 13,500 EFTS between 2001 and 2002.
- With more than 34,000 EFTS, Te Wānanga o Aotearoa (TWOA) was the largest TEI by some margin. The next largest TEI was the University of Auckland with approximately 27,000 EFTS.
- The wānanga sub-sector had an operating surplus (before unusual and non-recurring items) as a proportion of income of 16 percent, compared with 23 percent in 2002.
- Government income as a proportion of total income has been consistently rising since 1999, and was 90 percent in 2003. In nominal terms, the total income from student fees in 2003 was less than 2002, despite the significant increase in EFTS. This can be attributed to TWOA's policy of zero fees during the first year of study.
- Income per EFTS reduced by 9 percent, which reflects an increasing proportion of the EFTS being funded at a lower rate and students enrolling in zero fees courses.
- Personnel costs were a very low proportion of the overall cost structure, standing at 40 percent of the total costs excluding depreciation. At 36 percent, consumable faculty costs were a very high proportion of this total. The high concentration on distance education in the sub-sector means course material costs can be expected to be a significant component of these costs.
- Fixed assets per EFTS have declined consistently in the wānanga since 2000 as the number of EFTS has grown. In 2003, this indicator stood at around \$2,300 per EFTS. Although current asset holdings in part reflect the lower capital needs of distance delivery, capital levels are likely to increase following the Waitangi Tribunal settlement with Te Whare Wānanga o Awanuiarangi.
- Liquidity holdings in the wānanga were strong at approximately 19 weeks' average cash disbursements. Liquidity in the wānanga sector has been particularly high over the past three years as a result of strong operating surpluses, capital injections and treaty settlements.
- This sub-sector had a very high EFTS to FTE academic staff ratio of 48, largely reflecting distance delivery modes of delivery at TWOA in particular. This ratio has been increasing consistently since 1999, and is a very significant factor in the low personnel costs.

THE TERTIARY EDUCATION WORKFORCE

The calibre of the staff in tertiary education providers has a major bearing on the learning experiences of students and on their motivation to keep learning. It is vital for New Zealand's emerging knowledge society that it can call on highly qualified tertiary educators who are able to impart knowledge well. From a financial management perspective, personnel costs represent more than 50 percent of the sector's total expenditure.

Early in 2003, the staffing sub-group of the Collaborating for Efficiency²¹ work programme published its report on opportunities to improve the efficiency of the management of staffing resources through greater collaboration. The report highlighted the importance of academic staff in delivering educational outcomes. The report also noted that efficient utilisation of this resource is a key means of controlling the overall costs of delivery.

It is necessary to consider the range of educational outcomes sought in order to understand efficiency of staffing. The staffing sub-group report identified that there is value in the sharing of information in order to establish best practice benchmarks, although a common and robust basis of determining staffing workloads is required.

This section provides an overview of the tertiary workforce by examining:

- trends in full-time equivalent (FTE) academic and non-academic staff numbers in TEIs, and student to staff ratios over the period from 1997 to 2003²², and
- the tenure, gender and roles of the staff in 2003, using data from the annual Ministry of Education surveys of TEIs and PTEs²³.

FULL-TIME EQUIVALENT STAFFING 1997-2003

TEIs reported that they employed 28,338 FTE staff over the course of 2003, compared with 25,786 in 2002. This represents a 10 percent increase between 2002 and 2003. During 1997, the TEIs employed 22,056 FTE staff; the result in 2003 represented an increase of 28 percent since 1997.

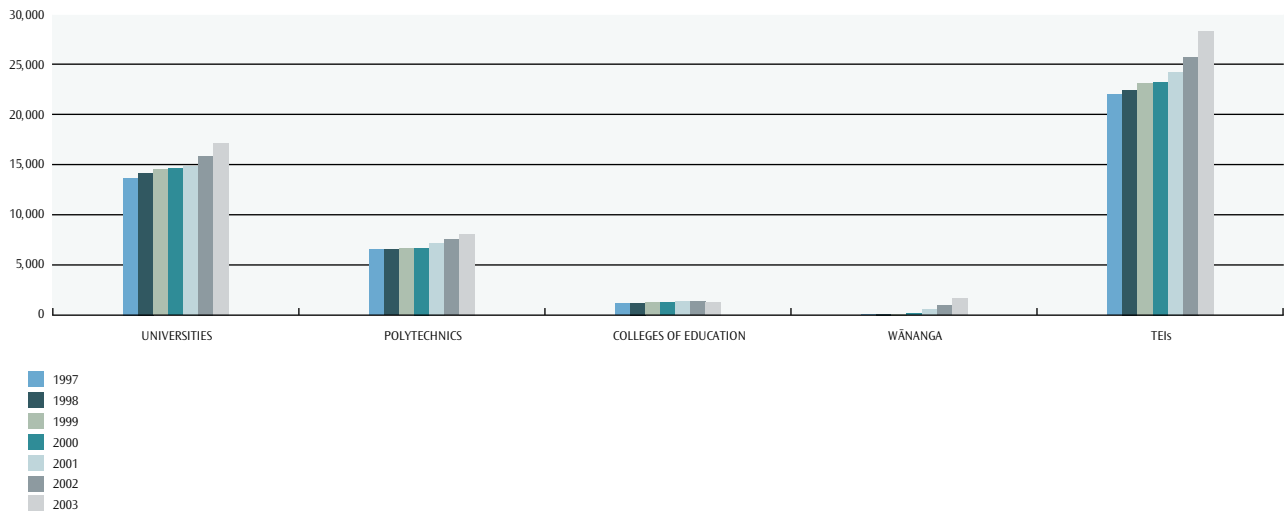
Both in terms of staff numbers and as a percentage, the most significant change in 2003 occurred in the wānanga sub-sector. The total numbers of FTE staff in the wānanga grew from 995 in 2002 to 1,720 in 2003, an increase of 73 percent. The staffing increase in the wānanga, however, was in line with the increase in EFTS which was 76 percent between 2002 and 2003. The universities have increased staffing numbers steadily in each year since 1997, with 25 percent growth between 1997 and 2003. Staffing levels in the polytechnics grew by 15 percent between 1997 and 2003, and in the colleges of education by 14 percent. For the universities and colleges of education, the growth of staffing levels over the 1997 to 2003 period was similar to the growth in EFTS (EFTS growth being 20 percent and 12 percent respectively). By contrast, the polytechnic sub-sector growth in EFTS between 1997 and 2003 was 67 percent, compared with 24 percent growth in staff FTEs. A higher number of students per total staff FTE in the polytechnic sub-sector is consistent with significant changes that have occurred over this period in delivery methods, programme types and educational outcomes in the polytechnics, and most recently the increase in short course offerings in this sub-sector. The change may also reflect improved efficiency.

²¹ The website of the Ministry of Education's Tertiary Advisory Monitoring Unit (TAMU) contains reports from the Collaborating for Efficiency sub-groups. www.minedu.govt.nz/goto/TAMU.

²² The Ministry of Education collects FTE academic and non-academic staff numbers in TEIs. FTE is the cumulative total of staff over a year, which accounts for staff working part of a year and varying levels of part-time.

²³ The Ministry of Education collects snapshot data each year on staff employed in the tertiary education sector. The data includes public TEIs (polytechnics, universities, colleges of education and wānanga). It also includes other tertiary education providers in receipt of a Ministry of Education grant, PTEs receiving funding through tuition subsidies and/or with courses approved for student loans and allowances, and other PTEs registered with NZQA.

FIGURE 9.15: TOTAL FTE STAFF EMPLOYED IN TEIs BY SUB-SECTOR 1997-2003

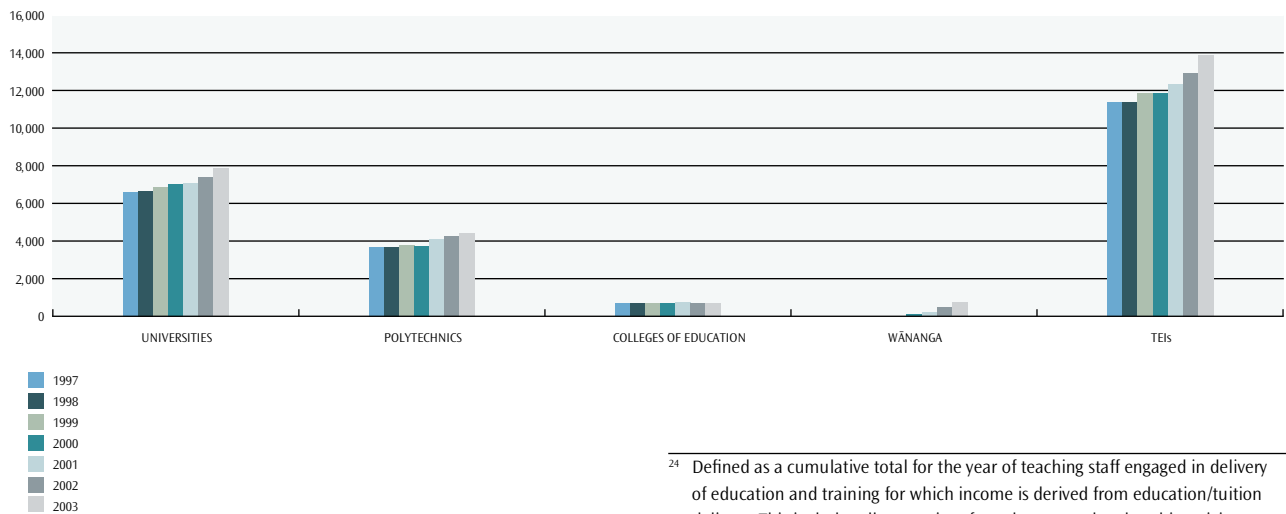


ACADEMIC/TUTORIAL STAFF

The TEI sector employed a total of 13,846 FTE academic/tutorial²⁴ staff during 2003, compared with 12,929 during 2002. This represents an increase of 7 percent between 2002 and 2003, and an increase of 23 percent between 1997 and 2003. Growth in academic/tutorial staff has been most pronounced since 2000, reflecting the strong growth in student numbers since that year. Again reflecting very strong growth in enrolments, the academic

staffing level in the wānanga sub-sector increased from 515 to 797, or by 55 percent, between 2002 and 2003. Academic staffing in the wānanga increased more than sixfold between 2000 and 2003²⁵. Between 1997 and 2003, academic staff increased by 23 percent in the universities and 11 percent in the polytechnics, while the number of academic staff has remained very static in the colleges of education with a rise of just 4 percent over the seven-year period.

FIGURE 9.16: FTE ACADEMIC STAFF EMPLOYED IN TEIs BY SUB-SECTOR 1997-2003



²⁴ Defined as a cumulative total for the year of teaching staff engaged in delivery of education and training for which income is derived from education/tuition delivery. This includes all categories of employment related to this activity, eg part-time staff, short-term contractors, casual tutors.

²⁵ There is insufficient disaggregated data from wānanga before 2000 to determine growth between 1997 and 2003.

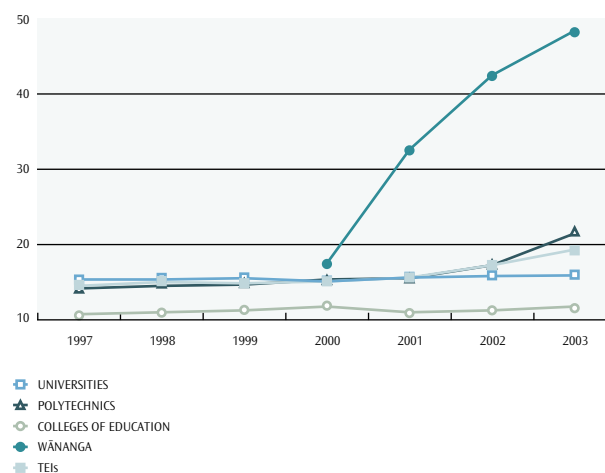


EFTS TO ACADEMIC FTE RATIO

The student to academic staff ratio provides an indicator of average class size. It is only a broad indicator of efficiency and does not take account of differences in learning support needs, qualifications or delivery methods. Therefore, comparisons between the ratios at individual institutions or sub-sectors must be made with caution. Variations in ratios will occur naturally because of the size of institutions enabling varying economies of scale, the types of programme offered²⁶, the types of students taught, delivery methods used and the duration of the programme offered. The main value gained from analysing this ratio is to gain an understanding of what changes over time have occurred within a provider or sub-sector.

The EFTS to academic FTE ratio was 19.3 for every FTE academic staff member in 2003 for the TEIs as a whole, compared with 17.2 in 2002 and 14.6 in 1997. This represents an increase of 12 percent between 2002 and 2003, and a 30 percent increase between 1997 and 2003. The most significant change in the EFTS to academic FTE ratio over the period 1997 to 2003 occurred in the wānanga sub-sector with an increase from 17.4 in 2000 to 48.2 in 2003. The ratio increase in the wānanga has occurred because the major part of EFTS growth in the wānanga sub-sector is attributable to enrolments in courses delivered by distance modes. Between 2002 and 2003, the EFTS to academic FTE ratio in the polytechnic sub-sector increased 24 percent. This ratio has increased 52 percent over the seven-year period since 1997. An increasing number of enrolments in non-formal community courses in the polytechnics is one of the factors in the increasing ratio, although a rise in provision of courses provided by distance modes is also an influence. In the universities and colleges of education, the EFTS to academic FTE ratio remained relatively constant between 1997 and 2003, although in both sub-sectors the ratio has increased slightly over the seven-year period.

FIGURE 9.17: EFTS PER ACADEMIC FTE IN TEIs BY SUB-SECTOR 1997-2003



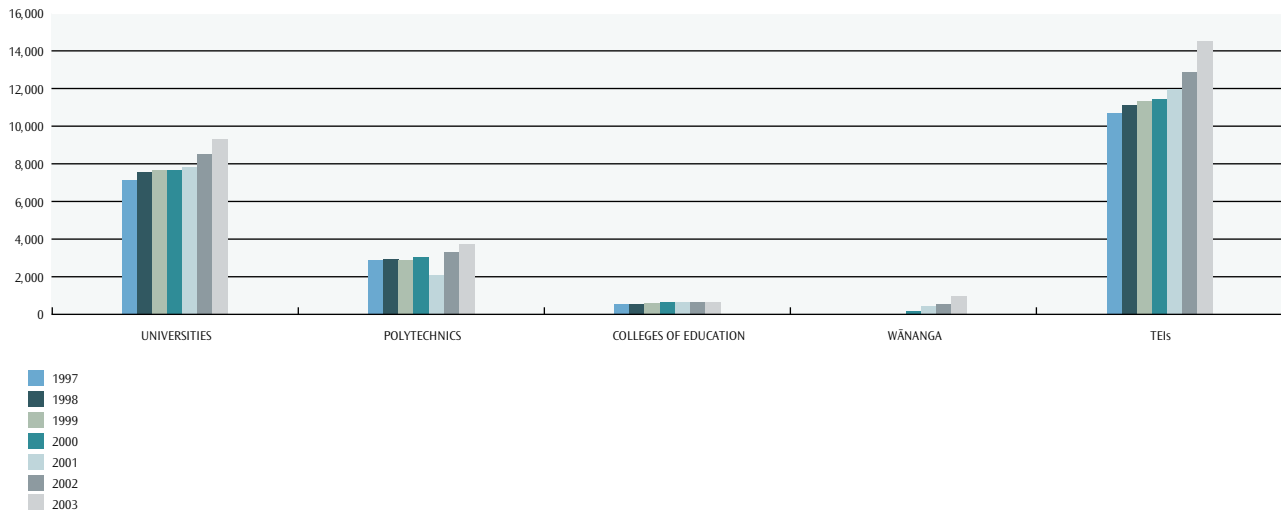
NON-ACADEMIC EXECUTIVE AND SUPPORT STAFF

Non-academic²⁷ executive and support staff employed by the TEIs totalled 14,492 during 2003, compared with 12,857 during 2002. The rate of growth in executive and support staff is considerably higher than academic staff. The level of non-academic staffing increased by 13 percent between 2002 and 2003 and 33 percent since 1997, compared with 7 percent and 23 percent, respectively, for academic staff. The executive and support staffing level in the wānanga sub-sector increased 92 percent between 2002 and 2003, and increased more than tenfold between 2000 and 2003.

²⁶ One example is trades programmes with high health and safety risks requiring smaller groups in order to provide adequate supervision, although there are many reasons for varying class sizes in other disciplines.

²⁷ The residual of total staff FTEs not meeting the criteria for academic staff.

FIGURE 9.18: FTE NON-ACADEMIC STAFF EMPLOYED IN TEIs BY SUB-SECTOR 1997-2003

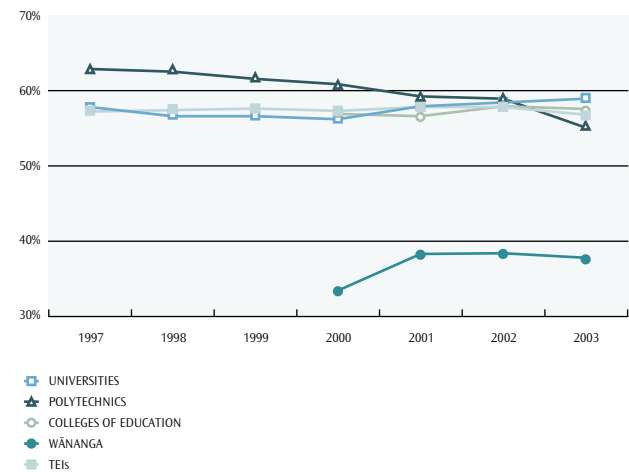


PERSONNEL COSTS

Personnel costs in TEIs amounted to \$1.7 billion in 2003, 56 percent of all expenditure. This compared with \$1.5 billion in 2002 and \$1.3 billion in 2001, which represented 57 percent of all expenditure in both years. There was an increase of 11 percent in total personnel expenditure between 2002 and 2003, and an increase of 62 percent between 1997 and 2003.

Personnel costs form the largest budget item in the TEI sector. As a proportion of total costs, personnel costs ranged from 56 to 61 percent in the years between 1997 and 2002. Between 2002 and 2003, this proportion fell slightly from 57 percent to 56 percent. In large part, this fall was because of the low personnel cost to total cost ratio in the wānanga and because of the increasing size of that sub-sector as a proportion of the whole. Over the seven-year period, the proportion of total costs made up by personnel costs has consistently fallen in the polytechnics from 63 percent in 1997 to 56 percent in 2003. This reflects an increasing number of enrolments in non-formal community courses. By contrast, personnel costs as a proportion of total costs have been more constant in the universities.

FIGURE 9.19: PERSONNEL COSTS AS A PERCENTAGE OF TOTAL COSTS 1997-2003



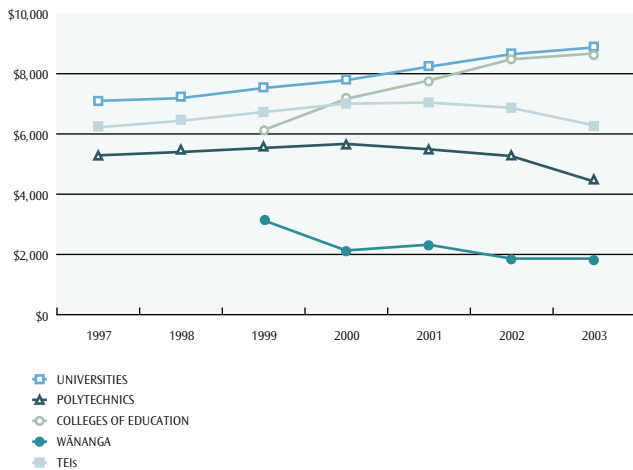
PERSONNEL COSTS TO EFTS RATIO

Unsurprisingly, there is a high degree of variation between the sub-sectors in the personnel costs to EFTS ratio²⁸, reflecting the different nature of their activity. The trends reflect a consistent reduction in personnel costs per EFTS since 2000 in the TEIs, the wānanga and polytechnics influencing the overall sector trend. The lower costs reflect the increasing number of EFTS for each FTE staff member, as those sub-sectors increase their teaching in distance education, e-learning, community education and other non-traditional modes.

²⁸ Total personnel costs include non-academic staff, and therefore this ratio does not provide a cost measure of direct teaching resources for each EFTS.



FIGURE 9.20: PERSONNEL COSTS TO EFTS RATIO IN TEIs 1997-2003



GENDER, POSITIONS, FULL-TIME/PART-TIME

The following sections provide an analysis of the tenure, gender, status, ethnic group and age of tertiary education staff²⁹.

TENURE

In 2003, the majority of academic staff at TEIs were employed on a full-time basis, with 60 percent of the staff in this category. The proportion of staff employed full-time has dropped since 1997 when 64 percent of the staff in TEIs were full-time. At 67 percent of the total, the proportion of male academic staff employed full-time was considerably higher than the 53 percent of female staff. The wānanga had the highest proportion of full-time academic staff; 80 percent of the total were full-time, while only 56 percent of the academic staff in polytechnics were full-time. In fact, the majority (52 percent) of female academic staff in the polytechnics were employed on a part-time basis. In the government-funded PTEs, 66 percent of academic staff were employed on a full-time basis with 72 percent of male staff and 61 percent of female staff working full-time.

Amongst executive and support staff, there was a higher proportion of staff employed on a full-time basis in nearly all groups of staff. In total, 69 percent of executive and support staff were employed on a full-time basis with 74 percent of male and 67 percent of female staff working full-time.

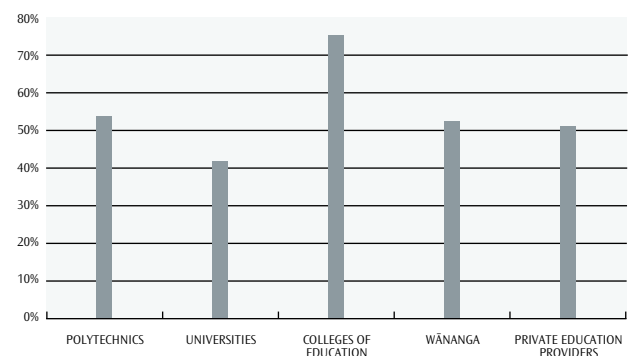
TABLE 9.4: TOTAL STAFF BY TENURE AND SUB-SECTOR 2003

Sub-sector type	Male	Female	Total
Polytechnics			
Percentage full-time	66%	53%	58%
Percentage part-time	34%	47%	42%
Universities			
Percentage full-time	67%	54%	62%
Percentage part-time	33%	46%	38%
Colleges of Education			
Percentage full-time	82%	62%	66%
Percentage part-time	18%	38%	34%
Wānanga			
Percentage full-time	82%	82%	82%
Percentage part-time	18%	18%	18%
Private Education Providers			
Percentage full-time	73%	67%	70%
Percentage part-time	27%	33%	30%

GENDER AND STATUS

Women accounted for 54 percent of the total staff in TEIs and 56 percent of the total staff in government-funded PTEs. For academic staff, however, men accounted for the majority of academic staff in TEIs at 52 percent of the total. The universities had the lowest proportion of women on the academic staff with 42 percent of the total. In other sub-sectors, women accounted for 50 percent or more of the academic staff, with colleges of education having the highest proportion at 76 percent.

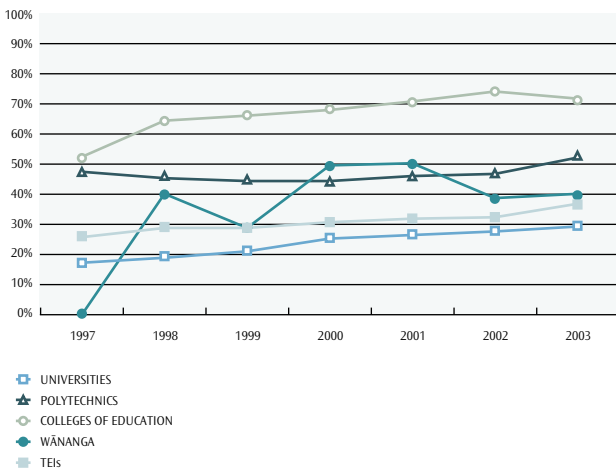
FIGURE 9.21: PERCENTAGE OF FEMALES AMONG ACADEMIC STAFF 2003



²⁹ This analysis is based on the 2003 headcount snapshot data and the 2001 Census.

In 2003, women were under-represented among the senior academic positions³⁰ in the universities and wānanga. In the TEIs as a whole, women accounted for only 36 percent of the senior academic positions. Figure 9.22 illustrates the proportions of women in senior academic positions in the four TEI sub-sectors. While there was a small downturn in the colleges of education in 2003, this ratio has shown an increasing trend in all sub-sectors over the period 1997 to 2003.

FIGURE 9.22: PERCENTAGE OF FEMALES AMONGST SENIOR ACADEMIC STAFF 1997-2003



The low representation of women in senior positions in the universities is also apparent in the Human Rights Commission's publication *New Zealand Census of Women's Participation in Governance and Professional Life*. The Commission surveyed the eight universities to find out how many women have the status of professor or associate professor. The results of this survey show that 200, or 15.8 percent, of the 1,264 professors and associate professors were women. The university with the highest proportion of women was Auckland University of Technology, where 29.4 percent of the 34 professors and associate professors were women. At the University of Waikato, the figure was 20.7 percent of 87, while at the University of Canterbury only 6, or 4.5 percent, of the 133 professors and associate professors were women.

ETHNIC GROUP AND AGE

Additional information on tertiary teaching staff can be drawn from the 2001 Census. In that Census, 13,941 individuals identified themselves as tertiary teaching professionals.

According to the 2001 Census, the majority of teaching staff (82 percent) were of European ethnicity, compared with 84 percent in the 1996 Census. In 2001, Māori, Pasifika and Asian people represented 8.6 percent, 1.5 percent and 5.7 percent, respectively, of tertiary teaching professionals. In each case, the proportion was significantly lower than the corresponding proportion in the student population.

At the time of the 2001 Census, tertiary teaching professionals were most commonly between 40 and 49 years of age (31 percent). Twenty-seven percent were aged between 50 and 59, 23 percent were aged between 30 and 39 and 11 percent were aged between 25 and 29. Census data shows that the gender balance was more even among younger tertiary teaching professionals, which may indicate a cohort effect, with large groups of younger women now moving through the teaching profession.

CAPABILITY AND CAPACITY IN THE PTE SUB-SECTOR

The PTE sub-sector has developed and is constantly evolving to meet diverse educational needs. PTEs give learners an alternative to traditional educational institutions, and many offer specialised work-related programmes. There is a significant emphasis among the PTEs on Māori and Pasifika students and in 2003, 161 registered private providers self-identified as Māori and 29 as Pasifika.

The role of the PTEs complements that of TEIs. PTEs have been key contributors to the substantial increase in student participation rates in recent years. By 2001, Māori enrolment numbers in PTEs were similar to those of polytechnics and the enrolments of Pasifika peoples in PTEs were approximately 90 percent of those in polytechnics.

The following are regarded as strengths of the PTE sub-sector:

- the ability to cater for niche areas in education provision
- the provision of an alternative to mainstream options, and
- the ability to provide education in locations where TEIs are not operating and where it may not be financially viable for them to do so.

³⁰ Senior academic positions include deans/heads of school, heads of department/faculty, principal and senior lecturers.



FINANCIAL VIABILITY OF PTEs

In a Ministry of Education study, financial information was collected from all PTEs receiving funding through the Student Component. Accounts were received from 219 PTEs with financial year-ends occurring within the 2003 calendar year. The analysis shown in the following table sets out the average key financial indicators for PTEs and compares these with the TEIs.

TABLE 9.5: COMPARISON OF PTE FINANCIAL PERFORMANCE WITH THAT OF TEIs 2003

Key Performance Indicator	PTE Average 2003	TEI Average 2003
Pre-tax surplus after abnormals as a percentage of total revenue	2.6%	5.0%
Liquid funds as a percentage of annual cash operating outgoings	14.4%	17.3%
Revenue as a proportion of net assets	3.22	0.72
Operating cash surplus as a percentage of total cash disbursements	10.0%	17.3%
Personnel cost as a percentage of total costs	36.5%	56.4%
Current ratio	103.5%	106.6%
Quick ratio	186.2%	168.6%
Equity as a percentage of total assets	48.3%	82.9%

The performance of the group of organisations reviewed was very diverse. There were many PTEs that met the Ministry of Education's financial management benchmarks. At the same time, for each benchmark, there was a significant number of PTEs that did not meet the guideline. A number of the organisations reviewed did not meet any of the four guideline benchmarks.

The diversity is illustrated by considering the ratio of operating surplus to revenue. On average, the PTEs reviewed had a surplus of 2.6 percent of revenue, just lower than the benchmark 3 percent. This figure was lower than the 5 percent recorded by the TEIs in 2003. More than 60 percent of the PTEs analysed returned a surplus in excess of the benchmark of 3 percent, while nearly a third of those in the sample earned a surplus in excess of 10 percent of revenue. On the other hand, about 20 percent of the organisations reviewed had an operating deficit in the year. In 2002, the average pre-tax surplus of PTEs was 7 percent of income, which was nearly double the surplus ratio of TEIs in that year.

The same diversity of performance characterises the other benchmarks. For instance, the average operating cash surplus as a percentage of total cash disbursements for the group of PTEs reviewed was above the benchmark of 8 percent (equivalent to one month's cash cover). Around 40 percent of the group did not meet the benchmark, while a small number had no effective cash cover.

Table 9.6 below groups the PTEs according to their size and looks at the key financial indicators in each group.

TABLE 9.6: EFFECT OF SIZE OF PTE ON ITS FINANCIAL PERFORMANCE 2003

Key Performance Indicator	Total revenue less than \$1 million	Total revenue \$1 million or more
Number of providers	118	101
Pre-tax surplus after abnormals as a percentage of total revenue	4.4%	2.5%
Personnel cost as a percentage of total costs	51.1%	35.0%
Operating cash surplus as a percentage of total cash disbursements	8.6%	10.2%
Current ratio	124.1%	101.2%
Quick ratio	199.5%	184.5%
Equity as a percentage of total assets	69.3%	43.6%
Term liabilities to fixed assets	18.1%	33.4%
Capital expenditure to depreciation	1.95	2.00

Note: This table classifies PTEs according to whether their total revenue is less than or greater than \$1 million.

The following points emerge from the results of PTEs shown above and from other analyses of PTE financial performance:

- Those PTEs with less than \$1 million total revenue improved their surplus performance from 3 percent of revenue in 2002 to 4 percent in 2003. The performance of those PTEs with more than \$1 million total revenue declined with surplus in 2003 being 2.5 percent of revenue, compared with 10 percent in 2002. Equity as a percentage of total assets invested in the business is around 70 percent for PTEs with revenue of less than \$1 million, while the equivalent value is approximately around 45 percent in PTEs where revenue exceeds \$1 million. This implies the level of risk is balanced through changes in funds committed by the shareholders.
- Personnel costs are approximately 15 percent higher in relation to total expenditure in the small PTE group.
- On average, shareholder loans to the business are significant for providers in the group of small providers, but very small in the group of large providers.
- As EFTS growth from 2001 has consolidated, financial viability has improved in cases where education and business processes have been improved.
- A number of PTEs are a part of a larger group of companies or trusts and are very strong financially when the finances of the whole group are taken into account. In the current year, there is evidence of business refinancing to strengthen financial viability.

INTERNATIONAL STUDENTS

One of the most significant factors affecting PTEs in 2003 was the reduction in the number of international students studying the English language in New Zealand. Statistics New Zealand’s March 2004 annual survey of English language providers showed a fall of 30 percent in the numbers of English language students from 71,503 to 50,594.

A decline was experienced in numbers of students from nearly all the countries from which New Zealand language schools recruit students. In particular, there were significant falls in recruitment from the countries where there have been large numbers of English language students in recent years. There were falls in the numbers of students from China (a fall of 9,000 students or 30 percent), Japan (2,000 students or 14 percent) and Korea (4,500 or 36 percent).

PTE QUALITY AUDIT OUTCOMES

In December 2003, there were 907 PTEs registered with NZQA. Of the 907 PTEs, 161 self-identified as Māori providers and 29 as Pasifika providers. There were 331 PTEs that were signatories to the Ministry of Education’s *Code of Practice for the Pastoral Care of International Students (COP)*. Fifty-two percent of the 331 providers were English language schools.

Once registered, PTEs are audited by NZQA to ensure that they meet the requirements of the Qualifications Authority’s *Quality Assurance Standard for Ongoing Registration and Accreditation of PTEs*. Following the quality audit, NZQA renews the registration of a PTE for an appropriate period. The length of the registration period reflects the confidence that NZQA has in the quality systems of the individual provider, with those PTEs with the strongest systems being granted an audit cycle of three years.

Table 9.7 shows the audit outcomes for the 907 PTEs across various sub-sectors of PTEs. The 907 include new providers who are audited six months after they have been registered by NZQA.

The results can be used to compare the weighted average audit outcome for each category of provider³¹.

- All providers 1.55 years
- Māori providers..... 1.37 years
- Pasifika providers..... 1.40 years
- All COP signatories 1.55 years
- English language schools..... 1.38 years

A comparison of audit outcome data for the last three years shows a shift from the one year and less categories towards two and three-year audit outcomes. This trend reflects improvements found in subsequent audits of PTEs which received one-year cycles in their first audit.

TABLE 9.7: NZQA PTE AUDIT OUTCOMES 2003

Audit Outcome	All PTEs		Māori PTEs		Pasifika PTEs		All COP Signatories		English Language Schools	
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
Less than 1 year	29	3.2%	13	8.1%	1	3.4%	11	3.3%	9	5.2%
New	87	9.6%	5	3.1%	1	3.4%	59	17.8%	45	26.2%
1 year	397	43.8%	84	52.2%	18	62.1%	135	40.8%	73	42.4%
2 years	311	34.3%	51	31.7%	7	24.1%	94	28.4%	31	18.0%
3 years	83	9.2%	8	5.0%	2	6.9%	32	9.7%	14	8.1%
Total	907	100%	161	100%	29	100%	331	100%	172	100%

Source: New Zealand Qualifications Authority.

³¹ These average outcomes exclude new providers which are subject to an initial six-month quality audit following registration.



GOVERNANCE AND MANAGEMENT ISSUES FOR INDUSTRY TRAINING ORGANISATIONS

The TEC³², in partnership with ITOs, provides a performance measurement system designed to provide the information required to monitor the outcomes of industry training and allow the government to track progress over time.

The document *Moving Forward: Skills for the Knowledge Economy* outlined the government's decisions arising from the Review of Industry Training. The review confirmed the direction of the Industry Training Strategy and the role of ITOs in the wider tertiary education sector.

During 2003, a number of initiatives arising from the review were implemented, some of them given effect in the Industry Training Amendment Act 2002. These initiatives are intended to improve outcomes and further strengthen the industry training system.

The changes that affected governance and management in ITOs included:

- A new statutory role for ITOs was introduced to provide strategic leadership on skill and training matters relating to their industries.
- Access to industry training funding for training above level 4 on the NQF was confirmed, thereby extending the ability of ITOs to meet the current and future needs of industry and employees within industry.
- A new statutory requirement for ITOs was introduced to develop arrangements for the collective representation of employees in the governance of their organisations.
- The charters and profiles processes were introduced, which require TEOs, including ITOs, to report information on governance and management structures.
- There was substantial growth in industry training from 107,000 trainees in 2002 to 127,000 in 2003, with a participation target of 150,000 industry trainees in 2005.
- The government decided to move to a single Standard Training Measure (STM) rate for all ITOs over the next three years, which will provide financial certainty and stability for ITOs.

QUALITY ASSURANCE IN TERTIARY EDUCATION IN NEW ZEALAND

High-quality qualifications and study programmes are a key requirement for students in the tertiary education sector. This section looks at the central role of national quality assurance agencies in tertiary education.

KEY COMPONENTS OF THE CURRENT SYSTEM

Quality assurance of tertiary education in New Zealand is intended to provide a minimum standard for the quality of the learning outcomes for students. It focuses on the systems and processes that support delivery of learning by tertiary education providers.

Only those tertiary education courses, qualifications and providers that have been quality assured by a quality assurance body are able to access government funding, including Student Component funding, industry training funding, access to student loans and allowances, and Training Opportunities, Youth Training and Skill Enhancement funding.

One of the mechanisms for managing quality is the New Zealand Register of Quality Assured Qualifications. The Register was developed by NZQA in association with the tertiary education quality assurance bodies and after consultation with the sector. The Register imposes certain common standards on qualification development and nomenclature: each qualification has an assigned level (1 to 10); an outcome statement for the whole qualification and each of its components; a credit value (120 credits is equivalent to one year of full-time study); and a title consistent with other qualifications on the Register. The public face of the Register is the KiwiQuals website. The site, www.kiwiquals.govt.nz, will enable users to search and compare all quality-assured qualifications in New Zealand.

Quality assurance agencies decide whether tertiary providers, qualification developers and the programmes they deliver meet appropriate quality standards. There are currently two quality assurance agencies:

- the New Zealand Qualifications Authority (NZQA), and
- the New Zealand Vice-Chancellors' Committee (NZVCC).

NZQA has delegated some of its powers to the Institutes of Technology and Polytechnics of New Zealand (ITP New Zealand) to be operated through the Institutes of Technology and Polytechnics Quality (ITP Quality), and to the Association of Colleges of Education in New Zealand (ACENZ) to be operated through the Colleges of Education Accreditation Committee (CEAC).

³² On 1 January 2003, the Tertiary Education Commission (TEC) assumed the functions of Skill New Zealand.

COLLEGES OF EDUCATION ACCREDITATION COMMITTEE (CEAC)

The Association of Colleges of Education in New Zealand (ACENZ) holds delegated authority from NZQA for the approval and accreditation of non-degree programmes offered by the colleges of education.

CEAC carries out this function for the association. The association seeks to ensure the quality of programmes offered by the colleges and to promote exemplary academic quality assurance through the operation of the committee.

Colleges are required to have in place a quality management system which documents the policies, procedures and review mechanisms for the ongoing oversight, maintenance, development and delivery of their academic work.

The committee's approval and accreditation processes are based on the quality management systems of the colleges and their capacity to deliver their programmes and qualifications. Some of these will be based on unit standards from the NQF.

CEAC's systems for its operation as a delegated authority are audited by NZQA.

NEW ZEALAND VICE-CHANCELLORS' COMMITTEE (NZVCC)

NZVCC derives its authority from the Education Act 1989. It provides quality assurance for university qualifications through its Committee on University Academic Programmes (CUAP). NZVCC also has standing committees on copyright, university libraries, graduate employment, information technology, international policy, research, scholarships, and staff relations. A sub-committee of CUAP deals with university entrance matters. University quality systems are independently audited through the New Zealand Universities Academic Audit Unit (NZUAAU).

THE COMMITTEE ON UNIVERSITY ACADEMIC PROGRAMMES (CUAP)

The Committee on University Academic Programmes (CUAP) is a standing committee of the NZVCC that considers academic matters across the university system. These include: inter-university course approval and moderation procedures; advice and comment on academic developments; the encouragement of the coherent and balanced development of curricula; and the facilitation of credit transfer between qualifications.

The committee exercises the statutory responsibilities of NZQA, within policy determined by the Authority, to establish criteria for validating and monitoring university qualifications. It approves new qualifications in the university system. It also nominates university representatives to panels convened by NZQA and has responsibility for oversight of inter-university subject conferences. Its membership includes representation of other tertiary education interests and the student body.

The CUAP's sub-committee on university entrance coordinates advice on the common standard of entrance to universities. The sub-committee also regulates discretionary entrance and coordinates the evaluation of overseas qualifications for the purposes of admission to university.

THE NEW ZEALAND UNIVERSITIES ACADEMIC AUDIT UNIT (NZUAAU)

NZUAAU was established by the NZVCC to carry out academic quality audits of all the universities. The unit also identifies and disseminates information on good practice in developing and maintaining quality in higher education and publishes reports and monographs. The unit maintains professional relationships with all other quality assurance bodies working in tertiary education in New Zealand, and with similar agencies internationally.

During the first half of 2003, the unit distributed a new academic audit manual compiled for use in its third cycle academic audits of New Zealand universities. The focus of audits is on teaching quality, programme delivery and the achievement of learning outcomes. The first audit of the cycle – that of Massey University – was conducted by the unit during the second half of the year.

By the end of 2003, the document *New Zealand Universities and Te Tiriti o Waitangi* was published by the unit. The document sets out principles applicable to tertiary education arising from the articles of Te Tiriti, includes samples of good practice templates in government and educational publications as well as good practice and provides a possible framework for use in university self-review.

INTER-INSTITUTIONAL QUALITY ASSURANCE BODIES CONSULTATIVE GROUP

The Inter-Institutional Quality Assurance Bodies Consultative Group has been established by NZQA as a forum for quality assurance bodies. This group brings together all the quality assurance oversight bodies of NZQA, the NZVCC, ITP New Zealand and ACENZ. The aim is to provide a system-wide focus on the quality of tertiary education provision and qualifications.

The group provides a constructive and useful forum for quality assurance bodies. It also provides a mechanism for cross-sector initiatives. In the past, these have included establishing working groups to provide input into the policy development relating to the New Zealand Register of Quality Assured Qualifications and credit recognition and transfer.

GOVERNMENT AGENCIES SUPPORTING TERTIARY EDUCATION

A number of government agencies provide policy development, funding, support, administration and advice to assist the tertiary education sector. This section looks at the government agencies involved in such support for the tertiary education sector.

THE TERTIARY EDUCATION COMMISSION

The Tertiary Education Commission (TEC) Te Amorangi Mātauranga Mautā, is a Crown entity established under the provision of the Education (Tertiary Reform) Amendment Act 2002. The Commission is made up of a board of seven commissioners led by the Acting Chair, Kaye Turner.

The TEC funds all post-compulsory education and training offered by universities, institutes of technology and polytechnics, colleges of education, wānanga, private training establishments, foundation education agencies, industry training organisations and adult and community education providers.

The TEC is responsible for:

- implementing the government’s Tertiary Education Strategy 2002/07 and giving effect to the Statement of Tertiary Education Priorities (STEP)
- allocating \$2.4 billion annually to tertiary education organisations according to a new integrated funding framework
- building the capability and capacity of tertiary education and training to contribute to national economic and social goals
- advising government on policies, priorities and sectoral performance, and
- negotiating a system of charters and profiles to steer the tertiary education system.

The staff of the TEC are organised into five groups:

The Strategy and Research Group works with the Ministry of Education and others, including the sector, to recommend and evaluate strategies and plans that give effect to the STEP and achievement of the TES.

The Policy and Advice Group works with the Ministry of Education and other government agencies to ensure that policy and strategic initiatives for the tertiary education sector are achievable and aligned with legislation, regulatory frameworks and government policy.

The Steering and Investment Group works with sector and TEC staff to deliver effective systems, funding instruments and investment mechanisms to ensure value and effective steering.

The Liaison and Development Group works with the sector and other communities of interest (nationally and locally) to deliver accessible, relevant, capable and excellent tertiary education.

The Corporate Services Group works with the TEC to ensure that resources and organisational capability support the achievement of the TEC’s strategic direction and business objectives.

MINISTRY OF EDUCATION


The Ministry of Education provides policy advice to the government on all aspects of education from early childhood and compulsory education to post-compulsory education and training. The main units of the ministry supporting the tertiary education sector are:

- Data Management and Analysis Division
- Māori Tertiary Education
- Tertiary Advisory Monitoring Unit
- Tertiary Education Learning Outcomes Policy
- Tertiary Education Regulatory and Resourcing Policy
- Tertiary Information Systems and Sector Liaison, and
- Tertiary Sector Performance Analysis and Reporting.

The Data Management and Analysis Division is part of the Ministry of Education’s Strategic Information and Resourcing Group. It is responsible for enrolment projections, financial forecasting and processing of data from tertiary education providers.

The Māori Tertiary Education Unit advises the government on matters in tertiary education as they relate to Māori learners and their communities. The unit has specific policy responsibilities regarding Mātauranga Māori and kaupapa Māori tertiary provision as well as supporting the Crown and iwi Māori relationship. The unit also maintains a link between the Ministry’s Group Māori and other tertiary education teams.





The Tertiary Advisory Monitoring Unit (TAMU) monitors the viability of tertiary institutions, provides early warning of potential risks and takes intervention measures in the event of poor financial performance. The unit also has responsibility for the ownership monitoring of four Crown education agencies (NZQA, the TEC, the New Zealand Teachers Council and Career Services Rapuara).

Tertiary Education Learning Outcomes Policy undertakes policy work across the tertiary sector, focused on building improvements in the education delivered by the sector. Its focus covers skill development, quality in tertiary education, adult and community education and the interface between tertiary education and schools and industry.

Tertiary Education Regulatory and Resourcing Policy advises government on the policies related to the resourcing of tertiary education. It also develops policy on student support.

The role of the Tertiary Information Systems and Sector Liaison Unit is to ensure that information is collected from tertiary education providers within specified timeframes and with minimal cost to providers. This unit is also responsible for managing the liaison between tertiary providers and the government agencies that work in tertiary education. It also ensures that the tertiary education information systems of these agencies are coordinated. The unit also takes leadership in the development of the tertiary education web portals and it has facilitated the development and implementation of the government's e-learning strategy.

The Tertiary Sector Performance Analysis and Reporting team was established to conduct analysis of trends in tertiary education with a view to providing the evidence base for shaping policy in tertiary education and in order to provide the government, the sector and the public with in-depth analysis of the performance of the tertiary education sector.

THE NEW ZEALAND TEACHERS COUNCIL

The New Zealand Teachers Council is a Crown entity established under the Education Standards Act 2001 with responsibility for:

- providing professional leadership in teaching
- promoting best practice and professional development
- maintaining a register of teachers and determining policies under which teachers are registered and maintain registration
- approving registrations and issuing practising certificates and limited authorities to teach
- establishing policy for removal from the register, deciding whether a teacher's name should be removed from the register, and informing school boards of trustees of the names of teachers with cancelled registrations or limited authorities to teach
- ensuring that teachers are satisfactorily trained through the approval of teacher education providers and programmes
- exercising disciplinary functions relating to teacher misconduct and incompetence, and
- promoting and sponsoring research.

CAREER SERVICES

Career Services Rapuara was established in 1990 to provide information, advice and guidance services that are designed to help people make informed career choices.

Effective career information, advice and guidance provide a link between education, the labour market and the skills, interests and abilities of New Zealanders. Career Services' work includes:

- developing and providing career information
- providing individuals with advice on how to best use career information
- providing career guidance services, and
- developing and enhancing the skills of individuals and organisations that facilitate career information, advice and guidance for others.

To enhance access to career information, advice and guidance, Career Services has developed three vehicles for delivery – via the internet, telephone and face-to-face. This allows individuals to access Career Services in a manner that best matches their needs.

Through KiwiCareers, an internet-based career information and guidance system, Career Services:

- encourages industry, employment and education organisations to provide relevant career-related information via the internet
- provides a portal system to internet-based career information produced by other organisations
- produces information on trends within the labour market and education sector
- provides an online guidance programme so individuals can explore career options and plan their career in a safe environment, and
- promotes the use of the KiwiCareers internet site by career information providers and seekers.

The *Take-off to Tertiary* section on the Career Services website complements KiwiCareers by providing advice to those considering entering tertiary education.

These two internet services have now been complemented by Pathfinder, a website designed to help people plan their careers.

CareerPoint, a freephone career information and advice service, provides a free career information and advice service which can be accessed by telephone, email or fax. Career advice is provided by CareerPoint's trained career information specialists.

Career Services has a network of 16 CareerCentres located throughout the country. These centres provide a range of services, including individually tailored assistance with planning careers, and training influences within schools and the community on career-related matters.

MINISTRY OF SOCIAL DEVELOPMENT

The Ministry of Social Development (MSD) is responsible for providing strategic leadership in the areas of social development and social policy, and the delivery of social services, in particular income support.

Financial support is provided to students by StudyLink, a service of MSD. StudyLink is responsible for the administration and delivery of student loans, student allowances and other income support to students while they are studying, and income support for students unable to find employment during vacation breaks. This includes assessing entitlements, making payments, and maintaining of partnerships with key stakeholders, including other government agencies, tertiary providers and student groups.

StudyLink operates a call centre, a centralised processing centre and six outreach sites in the main centres of New Zealand. Campus-based services are coordinated and delivered by the outreach sites.

INLAND REVENUE

Inland Revenue is responsible for the assessment and collection of student loan repayments once loans have been transferred for collection. Inland Revenue also determines entitlement to interest write-offs for full-time, full-year students and low-income students as well as a base interest write-off or reduction for other eligible borrowers.

In addition, Inland Revenue is responsible for the Student Loan Scheme Act 1992 and the annual regulations made under that Act which set the interest rates, the full interest write-off threshold for low-income students and the repayment threshold.