



# CHAPTER FOURTEEN

THE PERFORMANCE OF PUBLIC TERTIARY EDUCATION INSTITUTIONS // 171-177

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## AN OVERVIEW

The collective financial performance of the public tertiary education institutions<sup>1</sup> has declined since 2004 as the operating environment has changed. The aggregate operating surplus fell to 1.9 percent of revenue – below the benchmark of 3 percent. At the same time, while the indicators of liquidity and cash flow remained above the benchmark set for prudent operation of a tertiary education institution, both worsened in 2006, for the second year in a row.

In large part, this decline in financial performance reflected factors such as the continued reduction in international student enrolments, increases in the costs faced by institutions and the slowdown in the growth of enrolments in the wānanga. These were all factors that made the operating environment more difficult.

There was considerable variation among the tertiary education institutions, with some recording very strong performance, while 12 of the 33 institutions had an operating deficit in 2006, compared to nine in 2005, six in 2004 and none in 2003.

Overall, the universities performed more strongly than the other sub-sectors. They experienced a relatively smaller decline in international students and their income was more diversified than that of the other sub-sectors. The universities' collective surplus – 3.3 percent of revenue – was above the benchmark.

By contrast, the polytechnics experienced a fall in income as international enrolments dropped, as they experienced the effects of changes made to community education funding in 2005 and 2006 and as they moved to reposition their provision. While income fell, the polytechnics' costs continued to rise, with cost per student increasing by 14 percent as they shifted out of shorter courses and as they experienced the effects of the reduction in international students. Their combined operating surplus in 2006 was less than 1 percent of revenue, compared to 1.6 percent in 2005, 4.4 percent in 2004 and 7.7 percent in 2003. Seven of the 20 polytechnics recorded an operating deficit.

Capital expenditure in the tertiary education institutions exceeded the operating cash surplus generated from operations for the second year running, leading to a reduction of cash reserves.

## THE 2007 YEAR

The half-year financial reports of tertiary education institutions give an idea of the likely financial performance of institutions during 2007.

The new investment system for tertiary education – which will be phased in from 2008 – is expected to stabilise the operating environment for tertiary education institutions. However, as institutions prepare themselves to move to this new system, many will continue to struggle financially. Around half of the polytechnics are forecasting either a deficit or to break even in 2007, while two universities expect a deficit. While the wānanga have lifted their performance, this sub-sector still faces challenges.

The weaker financial performance is expected to lead to a further run-down of cash reserves.

ANALYTICAL TABLES: An associated set of tables on financing performance of tertiary education institutions; is available on the Education Counts website, Tables FNP1-4. Detailed technical information on the data presented here can be found in chapter 18.

1. In 2006, there were 33 public tertiary education institutions; however, to allow comparisons to be made over time the data from the colleges of education has been merged with that of the universities in this chapter unless otherwise stated. In January 2007, the last two colleges of education, the Christchurch and Dunedin Colleges of Education, merged with the University of Canterbury and the University of Otago, respectively.

**STRATEGIC FINANCIAL POSITION<sup>2</sup>**

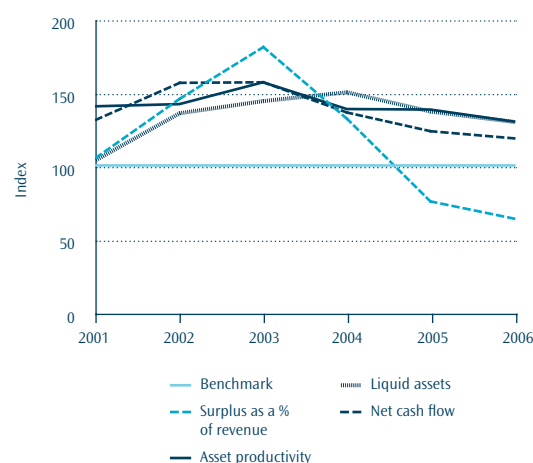
The financial performance of the public tertiary education institutions improved between 2000 and 2004, but there was a reversal in 2005 and 2006, with performance falling on all four of the key indicators used to monitor performance. In terms of surplus as a percentage of revenue, the performance of the institutions was lower than the Tertiary Education Commission's benchmark for prudent operation.

**Strategic financial position of tertiary education institutions, 2000 to 2006:**

|   |     |               |
|---|-----|---------------|
| Tertiary Education Commission benchmark | 100 |               |
| Liquid assets                           | 130 | (137 in 2005) |
| Asset productivity                      | 130 | (138 in 2005) |
| Net cash flow                           | 118 | (123 in 2005) |
| Surplus as a % of revenue               | 63  | (75 in 2005)  |

**Note:** The performance data has been scaled to form an index. The Tertiary Education Commission benchmark for prudent operation has been scaled to 100.

Figure 14.1// Strategic financial position of tertiary education institutions



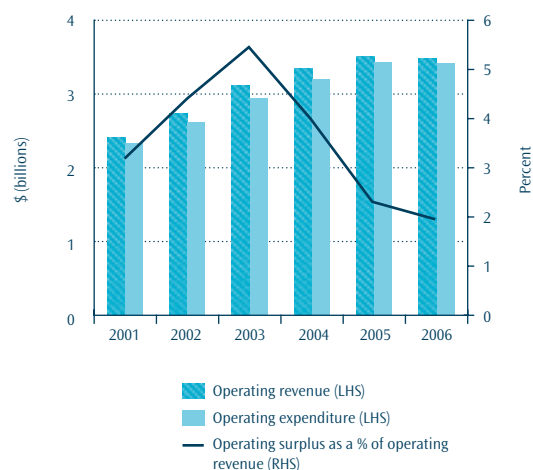
**REVENUE AND EXPENDITURE**

Figure 14.2// Income, expenditure and operating surplus of tertiary education institutions

While the operating revenue of the tertiary institutions fell by \$0.02 billion in 2006, expenditure decreased by less, meaning that the operating surplus fell.

**Operating revenue and expenditure of tertiary education institutions in 2006:**

|   |        |                     |
|---|--------|---------------------|
| Operating revenue                             | \$3.5b | (down 0.6% on 2005) |
| Operating expenditure                         | \$3.4b | (down 0.2% on 2005) |
| Operating surplus as a % of operating revenue | 1.9%   | (2.3% in 2005)      |



**FINANCIAL HEALTH**

Figure 14.3// Distribution of tertiary education institutions' operating surplus as a percentage of income

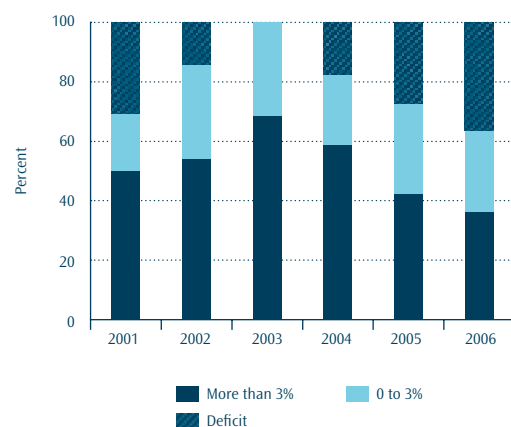
In 2006, 12 institutions had an operating surplus that exceeded the Tertiary Education Commission's benchmark of 3 percent of revenue. This compares to 14 in 2005 and 13 in 2000. Twelve institutions had an operating deficit in 2006, compared to nine in 2005.

**Distribution of tertiary education institutions' operating surplus as a percentage of total revenue in 2006:**

|                        |     |               |
|------------------------|-----|---------------|
| More than 3%           | 36% | (42% in 2005) |
| 0 to 3%                | 27% | (30% in 2005) |
| Less than 0% (deficit) | 36% | (27% in 2005) |

**Notes:**

- Figures may not add to 100 percent due to rounding.
- This measure treats the colleges of education as separate from the universities.



2. All figures quoted in these highlights are exclusive of goods and services tax.

**SOURCE OF REVENUE**

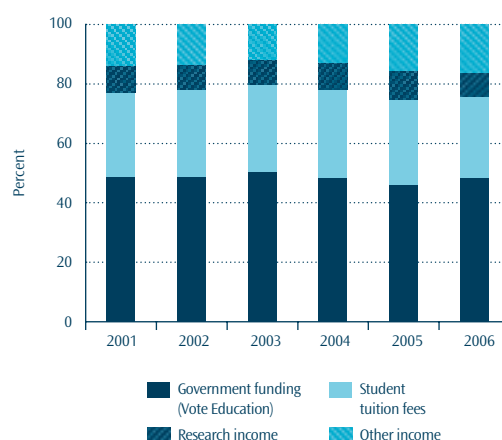
The largest component of the revenue at tertiary education institutions is government funding via Vote Education – at \$1.7 billion this represented 48 percent of all revenue in 2006, compared to 49 percent in 2001.

**Distribution of tertiary education institutions' revenue by source in 2006:**

|                 |      |               |
|-----------------|------|---------------|
| Government      | 48%  | (46% in 2005) |
| Student fees    | 27%  | (29% in 2005) |
| Research income | 8.0% | (10% in 2005) |
| Other income    | 16%  | (16% in 2005) |

**Note:** Figures may not add to 100% due to rounding.

Figure 14.4// Distribution of tertiary education institutions' income by source



**DISTRIBUTION OF REVENUE BY SUB-SECTOR**

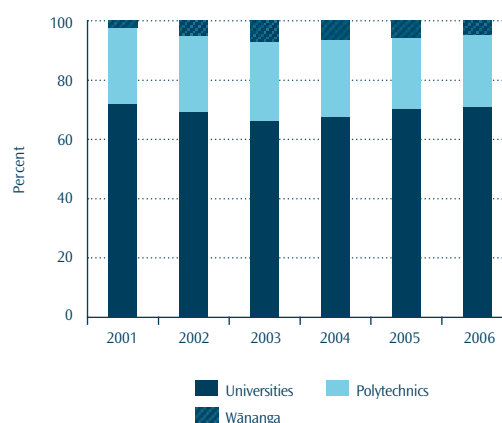
The universities earn the largest share of the \$3.5 billion revenue of the sector – 71 percent in 2006, compared to 66 percent in 2003. The universities' share has grown since 2003 as the growth in polytechnics and wānanga has slowed.

**Distribution of tertiary education institutions' revenue by sub-sector in 2006:**

|              |      |                |
|--------------|------|----------------|
| Universities | 71%  | (70% in 2005)  |
| Polytechnics | 24%  | (24% in 2005)  |
| Wānanga      | 4.5% | (5.7% in 2005) |

**Note:** Figures may not add to 100% due to rounding.

Figure 14.5// Distribution of tertiary education institutions' income by sub-sector



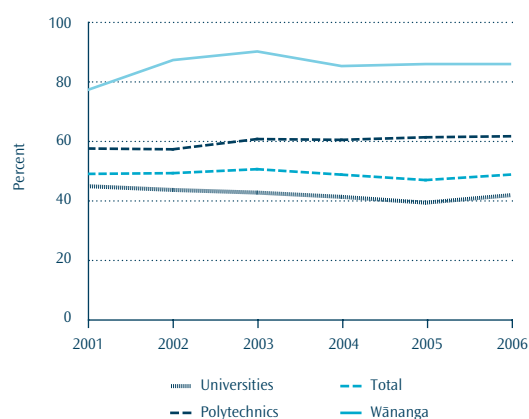
**GOVERNMENT FUNDING**

Different types of tertiary education institutions have greater or lesser reliance on government funding. In the universities government funding was 41 percent in 2006, compared to 86 percent in the wānanga and 62 percent in the polytechnics. The low dependence of the universities on government funding reflects their capacity to raise revenue from research contracts and from the fact that a larger number of international students are enrolled at universities.

**Percentage of tertiary education institutions' revenue sourced from Vote Education by sub-sector in 2006:**

|              |     |               |
|--------------|-----|---------------|
| Total        | 48% | (46% in 2005) |
| Universities | 41% | (39% in 2005) |
| Polytechnics | 62% | (61% in 2005) |
| Wānanga      | 86% | (86% in 2005) |

Figure 14.6// Proportion of income derived from government (Vote Education)



**EXPENDITURE BY COMPONENT**

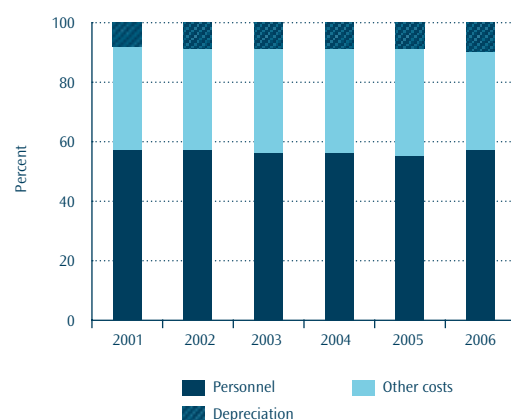
Figure 14.7// Tertiary education institutions' expenditure by component

Tertiary education institutions spent \$3.4 billion in 2006. At 58 percent, personnel costs represent the largest component of the expenditure of tertiary education institutions – reflecting the fact that tertiary education is a service industry. The share has increased slightly since 2000 (when the share was 57 percent).

**Distribution of expenditure by tertiary education institutions by component in 2006:**

|                 |      |                |
|-----------------|------|----------------|
| Personnel costs | 58%  | (55% in 2005)  |
| Other costs     | 33%  | (36% in 2005)  |
| Depreciation    | 9.6% | (8.8% in 2005) |

Note: Figures may not add to 100% due to rounding.



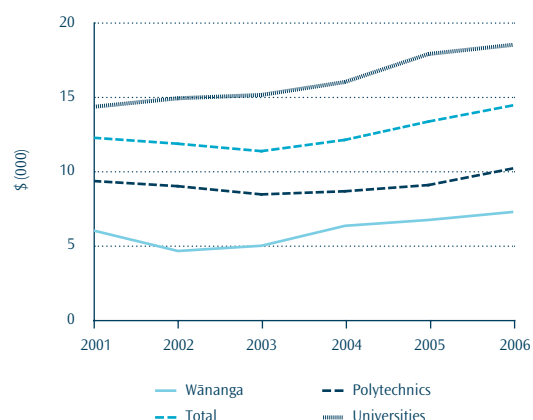
**EXPENDITURE PER STUDENT**

Figure 14.8// Expenditure per equivalent full-time student by sub-sector

Expenditure per equivalent full-time student has increased in all sub-sectors since 2003, whereas it had fallen between 2000 and 2003. Expenditure per student is greatest in the universities, reflecting the requirement of universities to maintain research capability and also the breadth of the activities of the universities.

**Expenditure per equivalent full-time student by sub-sector in 2006:**

|              |          |                   |
|--------------|----------|-------------------|
| Total        | \$14,470 | (up 8.5% on 2005) |
| Universities | \$18,535 | (up 3.5% on 2005) |
| Polytechnics | \$10,235 | (up 14% on 2005)  |
| Wānanga      | \$7,308  | (up 8.5% on 2005) |



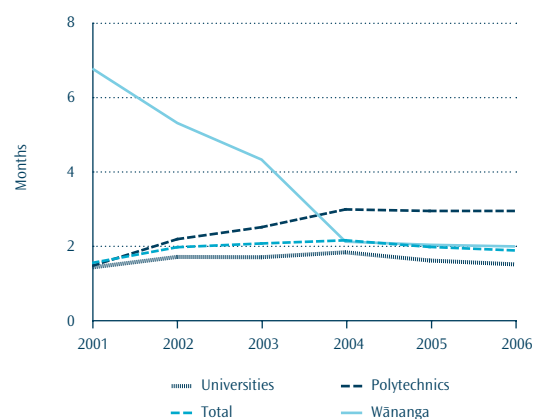
**CASH COVER**

Figure 14.9// Cash cover by average monthly operating cash disbursements

One important indicator of the financial viability of an institution is cash cover – measured in the number of months of operating cash disbursements held by the organisation. A liquidity level of one month's average operating cash disbursements is seen as the minimum target for prudent operation.

**Cash cover (in months) by sub-sector in 2006:**

|              |            |               |
|--------------|------------|---------------|
| Total        | 1.9 months | (2.0 in 2005) |
| Universities | 1.5 months | (1.6 in 2005) |
| Polytechnics | 3.0 months | (3.0 in 2005) |
| Wānanga      | 1.9 months | (2.0 in 2005) |



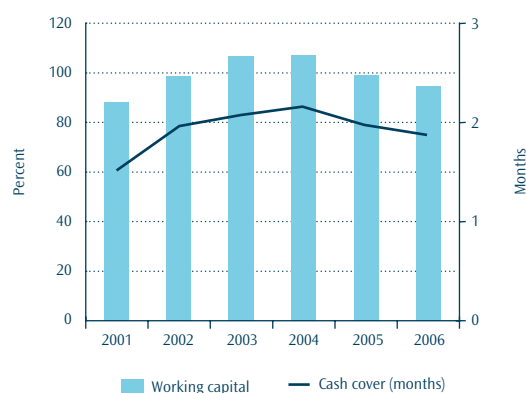
**WORKING CAPITAL RATIO AND CASH COVER**

Figure 14.10// Working capital and cash cover of tertiary education institutions

The working capital ratio gives 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 to settle its short-term debts.

**Working capital and cash cover in tertiary education institutions in 2006:**

|                       |             |               |
|-----------------------|-------------|---------------|
| Working capital ratio | 95%         | (99% in 2005) |
| Cash cover            | 1.86 months | (2.0 in 2005) |



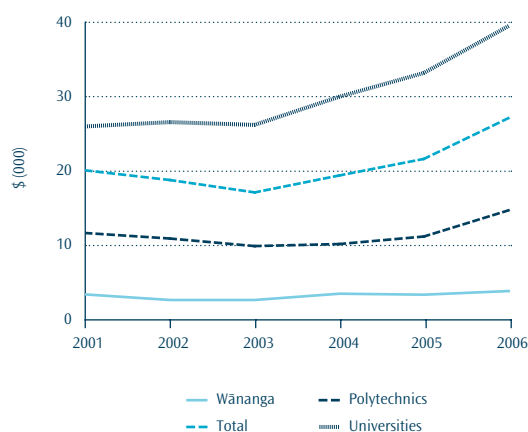
**VALUE OF FIXED ASSETS**

Figure 14.11// Fixed assets per equivalent full-time student by sub-sector

In nominal terms, assets per equivalent full-time student have risen sharply in the public tertiary education institutions since 2002. The universities have the highest level of assets per student, in part reflecting the cost of the research infrastructure they manage. The assets value of the three wānanga remained lower than that for other types of institutions.

**Fixed assets per equivalent full-time student by sub-sector in 2006:**

|              |          |                  |
|--------------|----------|------------------|
| Total        | \$27,190 | (up 27% on 2005) |
| Universities | \$39,547 | (up 20% on 2005) |
| Polytechnics | \$14,758 | (up 35% on 2005) |
| Wānanga      | \$ 3,891 | (up 20% on 2005) |



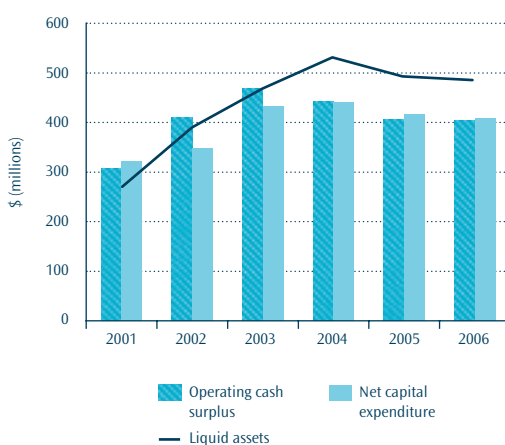
**CAPITAL EXPENDITURE**

Figure 14.12// Operating cash surplus, net capital expenditure and liquid assets of tertiary education institutions

In 2005 and 2006, capital expenditure in tertiary education institutions exceeded the operating cash surplus generated. When capital expenditure is greater than operating cash surplus, it means that the institutions are financing their capital expenditure by reducing liquidity levels.

**Operating cash surplus, net capital expenditure and liquid assets of tertiary education institutions in 2006:**

|                         |               |                     |
|-------------------------|---------------|---------------------|
| Operating cash surplus  | \$403 million | (down 0.7% on 2005) |
| Net capital expenditure | \$408 million | (down 1.8% on 2005) |
| Liquid assets           | \$485 million | (down 1.5% on 2005) |



**THE FINANCIAL PERFORMANCE OF PRIVATE TRAINING ESTABLISHMENTS**

Figure 14.13// Private training establishment revenue by source

It is useful to consider the performance of public tertiary education institutions alongside data on private training establishments.

Data on the financial performance of 410 private training establishments – representing more than 67,000 enrolments and 47,000 equivalent full-time students – shows that:

- these organisations collectively generated an operating surplus of more than \$33 million or 3.1 percent of revenue
- their liquid assets as a percentage of operating cash outflows was 21 percent
- their asset productivity was 155 percent
- their net cash flow as a percentage of cash applied to operating activities was 8 percent, and
- the ratio of equity to assets is around 35 percent while total debt is around 26 percent of debt plus equity.

Government funding represented 31 percent of these organisations' total income, with fees – from domestic and international students – providing 38 percent.

Source: Tertiary Education Commission.

