Key financial performance indicators for public tertiary education institutions

In 2009 financial performance improved compared to the previous year with an increase in operating surplus and working capital as well as an increase in liquid assets and net cash flow.

Indicator Description
Key financial performance indicators for tertiary education institutions – operating surplus; liquid assets; working capital; and net cash flow.

Why This Is Important
The operating surplus of an institution provides it with the opportunity to invest or reinvest funds in further teaching, research and student learning and to provide something of a safety margin against budget variations and other untoward events. It is helpful to express the operating surplus (or deficit) as a percentage of income, to give the return on income or operating margin.

The public tertiary education sector typically produces a relatively low return on income. The level of return varies according to many institutional circumstances, including capitalisation levels, depreciation levels, the extent of plant or equipment leasing, development strategies and...
overall efficiency of operation. Generally, however, an operating surplus of 3% or more is regarded by the Ministry of Education as an indicator of adequate financial health.

Liquid assets, working capital, and net cash flow are also important indicators of the financial health and viability of tertiary education institutions. Liquid assets, which include the level of cash, bank deposits and readily liquefiable assets held by tertiary institutions, provides a buffer against variability in performance. Working capital ratio is defined as current assets divided by current liabilities. A ratio of less than 100% means an institution has fewer current assets than current liabilities. Thresholds for cash cover and work capital of 9% and 100% respectively are seen as the minimum required for prudent operation.

Net cash flow is the amount of cash that a tertiary institution has left over after it has paid all of its expenses, including investments. If a tertiary institution is spending so much cash, it should have a good reason for doing so and it should be earning a sufficiently high rate of return on its investments. A cash flow of 11% is regarded as a minimum threshold.

How We Are Going

After having decreased strongly between 2003 and 2006, the operating surplus as a percentage of tertiary education institution revenue lifted again in 2007. In 2008, the operating surplus for tertiary institutions was 2.8% and below the 3% threshold. One year later, in 2009, the operating surplus is back above the recommended 3% threshold (4.4%).

There are a number of important factors which contributed to the decline between 2003 and 2006. One reason was the fall-off in international student numbers, with a 15% reduction from 2004 to 2005. Another important factor was the 30% decrease in enrolments at wānanga since 2004. In addition, in the institutes of technology and polytechnics, changes to limit the amount of community education funded through the student component of the funding system also had the effect of reducing surpluses.

Tertiary education institutions have exceeded the recommended thresholds for net cash flow and liquid asset in each of the last ten years. In addition, tertiary education institutions remained above the thresholds for working capital in the last 3 years.

Tertiary education institutions have relatively low levels of debt, while the overall ratio of equity to assets is 84%.
Where To Find Out More

Tertiary education institutions’ income is generated principally from Government tuition subsidies, domestic and overseas student fees, and research. The following indicators contain information showing trends relating to these individual sources of tertiary sector income:

- Participation rates in tertiary education
- International students enrolled in tertiary education
- University contract research income
- Government funding of tertiary education.

References