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Chapter 14: The performance of public tertiary education institutions

The financial performance of the public tertiary education institutions¹ recovered somewhat in 2007 after having declined since 2004. For the first time since 2004, the institutions collectively met all four benchmarks set for prudent operation of a tertiary education institution. The aggregate operating surplus rose from 1.9 percent of revenue to 3.4 percent – above the benchmark of 3 percent. Net cash flow strengthened. While the liquid assets measure – liquid funds as a percentage of annual operating cash outgoings – fell to 13 percent, this compares with a benchmark of 12 percent.

This result was achieved despite a difficult operating environment. The reduction in international student enrolments continued while institutions faced increases in costs. The government provided additional support for polytechnics and wānanga through the Quality Reinvestment Fund, which is designed to help institutions move to a more sustainable business model.

There was considerable variation among the tertiary education institutions, with some recording very strong performance, while six of the 31 institutions had an operating deficit in 2007, compared to 12 in 2006, nine in 2005, six in 2004 and none in 2003.

Overall, the universities performed more strongly than the other sub-sectors. Like other sub-sectors, they experienced a further decline in international students (of 18 percent) but their income was more diversified than that of the other sub-sectors. All universities recorded a surplus and collectively, their surplus was 3.9 percent of revenue, compared to 3.1 percent a year earlier and with the benchmark of 3 percent.

The polytechnics had a stronger year than in 2006. The collective surplus, at 2.1 percent of revenue, was below the benchmark 3 percent, but substantially above the figure for the previous year (which was close to zero) and also above the 1.6 percent in 2005, but well down on the 7.7 percent result achieved in 2003, before the government made changes to the funding of community education. In 2007, polytechnic international enrolments dropped by 9 percent, following a 23 percent fall in 2006. In response to the changed operating environment, polytechnics moved

to reposition their provision, supported by the Quality Reinvestment Fund. Polytechnics' costs continued to rise but at a slower rate. Cost per student increased by 5 percent, compared to the 14 percent increase they experienced in 2006 as they shifted out of shorter courses. In 2007, five of the 20 polytechnics recorded an operating deficit, compared to seven in 2006.

Another notable feature of 2007 was the improved performance of Te Wānanga o Aotearoa after several years of substantial rebuilding. This institution recorded a surplus of 4 percent of revenue. One consequence of this return to an operating surplus is that the three wānanga collectively recorded a surplus – 3 percent of revenue – for the first time since 2003.

In 2007, for the first time in three years, capital expenditure in the tertiary education institutions was below the operating cash surplus generated from operations, leading to an increase in cash reserves.

2008 year

In late 2007, the board of the Tertiary Education Commission approved the first 110 investment plans – among them investment plans for the 31 public tertiary education institutions. These plans gave the institutions greater certainty about their funding, and set out expectations for performance. The transition to the new funding system was designed to be relatively smooth. Funding rates were adjusted to take account of inflation. Much of the new tertiary education organisation component funding was influenced by enrolment levels as a transition measure. This would ensure relatively little disruption as institutions worked their way into the new approach. Over time, however, funding will become more attuned to institutions' distinctive contribution and to their performance.

Analytical tables: An associated set of tables on financing performance of tertiary education institutions; is available on the Education Counts website, Tables FNP1-4.

1. In 2007, 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 POSITION²

Figure 14.1: Strategic financial position of tertiary education institutions

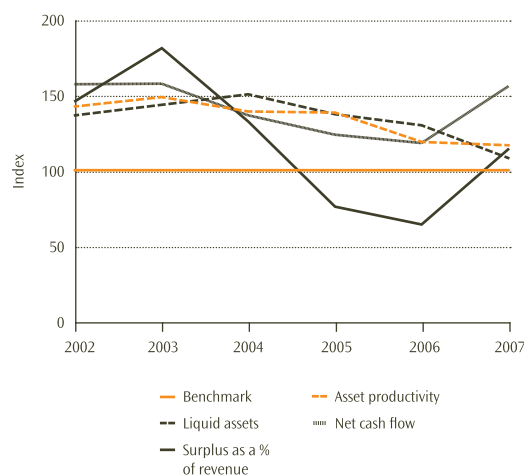
The financial performance of the public tertiary education institutions improved between 2000 and 2003, but there was a reversal between 2004 and 2006, with performance falling on all four of the key indicators used to monitor performance. In 2007, there was a significant improvement in the net cash flow and surplus as a percentage of revenue. While some institutions faced financial difficulties, in aggregate the tertiary education sector met all four of the Tertiary Education Commission's benchmarks for prudent operation.

Strategic financial position of tertiary education institutions in 2007:

Tertiary Education Commission benchmark	100	
Liquid assets	107	(130 in 2006)
Asset productivity	116	(118 in 2006)
Net cash flow	155	(118 in 2006)
Surplus as a % of revenue	113	(63 in 2006)

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

Source: Ministry of Education and Tertiary Education Commission.



REVENUE AND EXPENDITURE

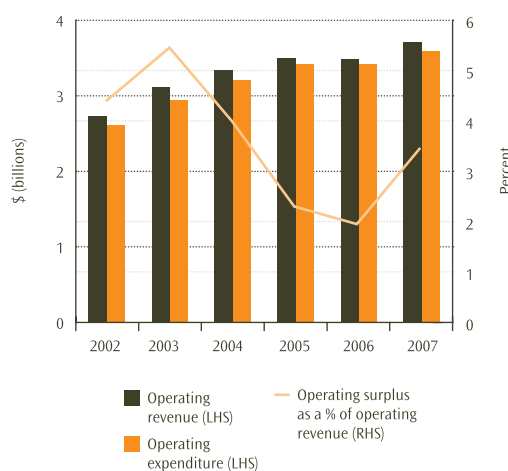
Figure 14.2: Income, expenditure and operating surplus of tertiary education institutions

The increase in operating revenue of \$0.2 billion in 2007 was larger than the increase in operating expenditure. As a result the operating surplus for tertiary education institutions improved.

Operating revenue and expenditure of tertiary education institutions in 2007:

Operating revenue	\$3.7 billion	(up 6.6% on 2006)
Operating expenditure	\$3.6 billion	(up 5.0% on 2006)
Operating surplus as a % of operating revenue	3.4%	(1.9% in 2006)

Source: Ministry of Education and Tertiary Education Commission.



FINANCIAL HEALTH

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

In 2007, 14 institutions had an operating surplus that exceeded the Tertiary Education Commission's benchmark of 3 percent of revenue. This compares to 12 in 2006 and 13 in 2000. Six institutions had an operating deficit in 2007, compared to 12 in 2006.

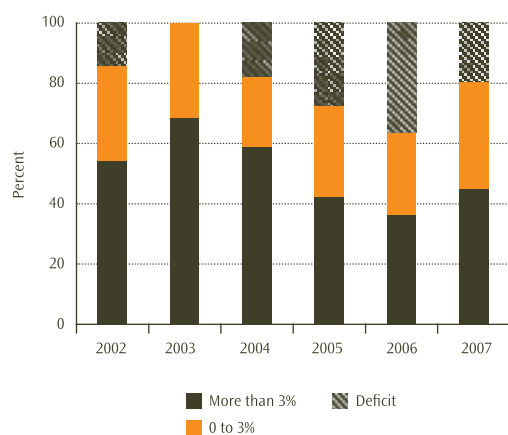
Distribution of tertiary education institutions' operating surplus as a percentage of total revenue in 2007:

More than 3%	45%	(36% in 2006)
0-3%	35%	(27% in 2006)
Less than 0% (deficit)	19%	(36% in 2006)

Notes:

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

Source: Ministry of Education and Tertiary Education Commission.



2. All figures quoted in these highlights are exclusive of goods and services tax. Data for the colleges of education has been included with the universities' data.

SOURCE OF REVENUE

The largest component of the revenue at tertiary education institutions is government funding via Vote Education – at \$1.9 billion this represented 50 percent of all revenue in 2007, compared to 49 percent in 2002. Fee revenue fell from 27 percent in 2006 to 25 percent in 2007, reflecting the fall-off in enrolments by international students.

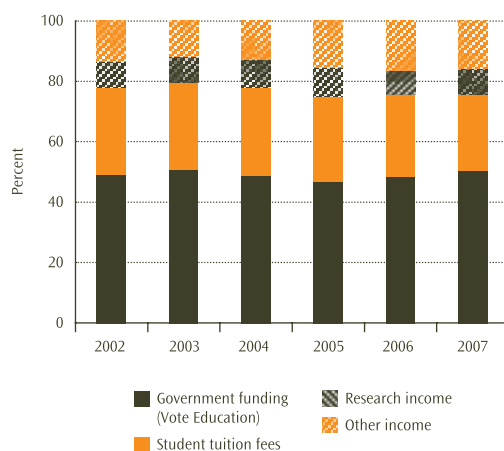
Distribution of tertiary education institutions' revenue by source in 2007:

Government	50%	(48% in 2006)
Student fees	25%	(27% in 2006)
Research income	8.4%	(8.0% in 2006)
Other income	16%	(16% in 2006)

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

Source: Ministry of Education and Tertiary Education Commission.

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 \$3.7 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 and as the Performance-Based Research Fund has been phased in.

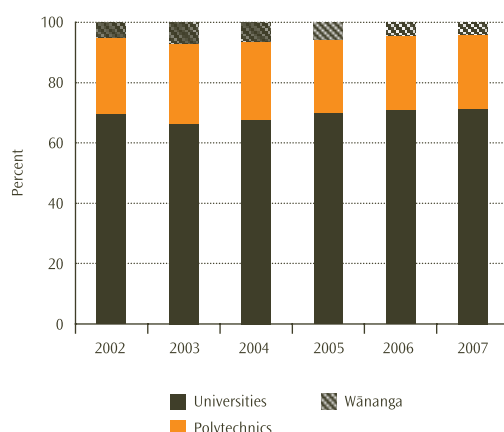
Distribution of tertiary education institutions' revenue by sub-sector in 2007:

Universities	71%	(71% in 2006)
Polytechnics	25%	(24% in 2006)
Wānanga	4.2%	(4.5% in 2006)

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

Source: Ministry of Education and Tertiary Education Commission.

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



GOVERNMENT FUNDING

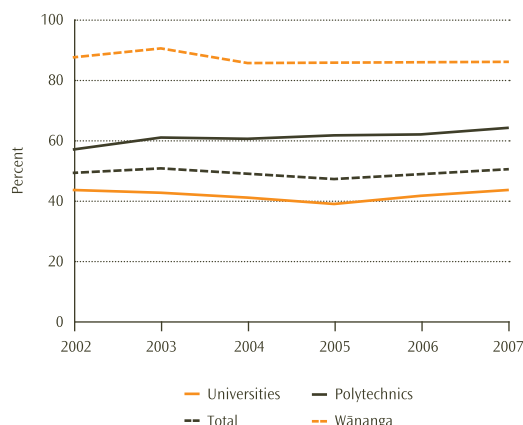
Different types of tertiary education institutions have greater or lesser reliance on government education funding. In the universities government education funding was 44 percent in 2007, compared to 85 percent in the wānanga and 64 percent in the polytechnics. The low dependence of the universities on government funding reflects both their capacity to raise revenue from research contracts and the fact that a larger number of international students are enrolled at universities. However, in the universities and polytechnics, the percentage of revenue has risen as international student numbers have fallen.

Percentage of tertiary education institutions' revenue sourced from Vote Education by sub-sector in 2007:

Total	50%	(48% in 2006)
Universities	44%	(41% in 2006)
Polytechnics	64%	(62% in 2006)
Wānanga	85%	(86% in 2006)

Source: Ministry of Education and Tertiary Education Commission.

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



EXPENDITURE BY COMPONENT

Figure 14.7: Tertiary education institutions' expenditure by component

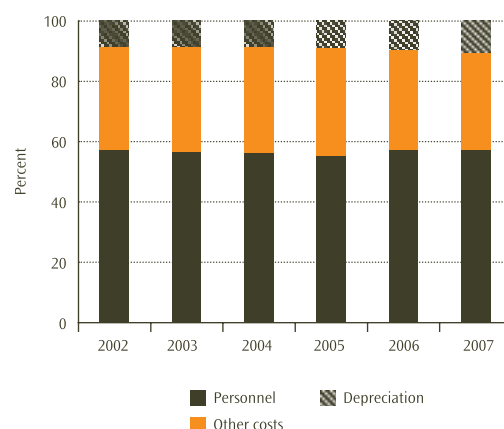
Tertiary education institutions spent \$3.6 billion in 2007. At 57 percent, personnel costs represent the largest component of the expenditure of tertiary education institutions – reflecting the fact that tertiary education is a service industry. The share has increased slightly since 2005 (when the share was 55 percent).

Distribution of expenditure by tertiary education institutions by component in 2007:

Personnel costs	57%	(58% in 2006)
Other costs	32%	(33% in 2006)
Depreciation	11%	(9.6% in 2006)

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

Source: Ministry of Education and Tertiary Education Commission.



EXPENDITURE PER STUDENT

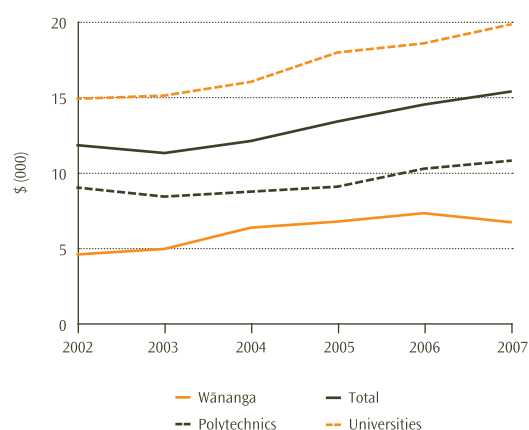
Figure 14.8: Expenditure per equivalent full-time student by sub-sector

Expenditure per equivalent full-time student has increased in all sub-sectors since 2003, whereas it had fallen between 2000 and 2003. However, the fall between 2000 and 2003 was influenced by an increase in the proportion of enrolments in lower-cost courses. Expenditure per student is greatest in the universities, reflecting both the requirement of universities to maintain research capability and the breadth of the activities of the universities.

Expenditure per equivalent full-time student by sub-sector in 2007:

Total	\$15,368	(up 6.2% on 2006)
Universities	\$19,806	(up 6.9% on 2006)
Polytechnics	\$10,784	(up 5.4% on 2006)
Wānanga	\$6,698	(down 8.3% on 2006)

Source: Ministry of Education and Tertiary Education Commission.



CASH COVER

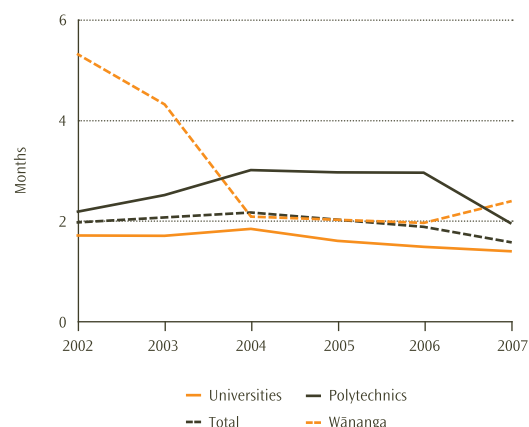
Figure 14.9: Cash cover by average monthly operating cash disbursements

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 2007:

Total	1.5 months	(1.9 in 2006)
Universities	1.4 months	(1.5 in 2006)
Polytechnics	1.9 months	(3.0 in 2006)
Wānanga	2.4 months	(1.9 in 2006)

Source: Ministry of Education and Tertiary Education Commission.



WORKING CAPITAL RATIO AND CASH COVER

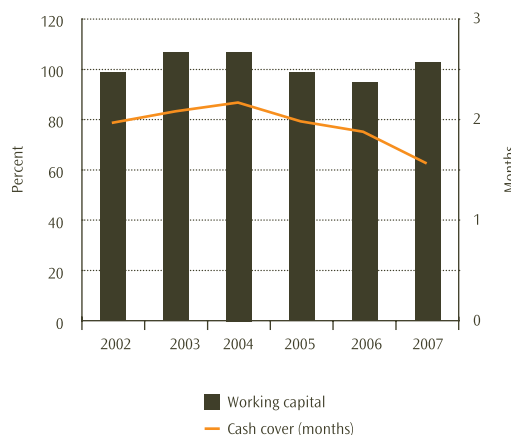
Figure 14.10: Working capital and cash cover of tertiary education institutions

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 2007:

Working capital ratio	103%	(95% in 2006)
Cash cover	1.5 months	(1.9 in 2006)

Source: Ministry of Education and Tertiary Education Commission.



VALUE OF FIXED ASSETS

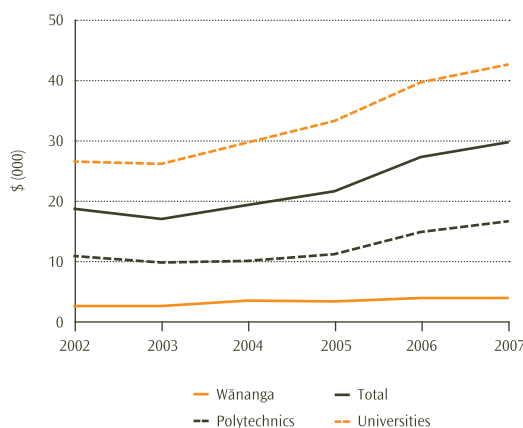
Figure 14.11: Fixed assets per equivalent full-time student by sub-sector

In nominal terms, fixed 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 of other types of institutions.

Fixed assets per equivalent full-time student by sub-sector in 2007:

Total	\$29,674	(up 9.1% on 2006)
Universities	\$42,523	(up 7.5% on 2006)
Polytechnics	\$16,587	(up 12.4% on 2006)
Wānanga	\$3,908	(up 0.4% on 2006)

Source: Ministry of Education and Tertiary Education Commission.



CAPITAL EXPENDITURE

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

In 2007, the operating cash surplus exceeded capital expenditure. This was a reversal of the position in 2005 and 2006 when capital expenditure in tertiary education institutions exceeded the operating cash surplus generated. In these years, the institutions financed their capital expenditure by reducing liquidity levels.

Operating cash surplus, net capital expenditure and liquid assets of tertiary education institutions in 2007:

Operating cash surplus	\$549 million	(up 36% on 2006)
Net capital expenditure	\$445 million	(up 9.0% on 2006)
Liquid assets	\$415 million	(down 15% on 2006)

Source: Ministry of Education and Tertiary Education Commission.

