

# 14 THE PERFORMANCE OF PUBLIC TERTIARY EDUCATION INSTITUTIONS

## AN OVERVIEW

In 2008, the financial performance of public tertiary education institutions<sup>1</sup> was similar to that achieved in 2007. The institutions collectively met three out of four benchmarks set for prudent operation of a tertiary education institution, compared to four in 2007. The aggregate operating surplus decreased from 3.4 percent of revenue to 2.8 percent – slightly below the benchmark of 3 percent. Net cash flow also declined slightly from 17 percent to 16 percent but was above the benchmark of 11 percent. The working capital ratio – which gives a snapshot of an institution's current assets maturing within one year against its short-term obligations maturing within one year – increased from 103 percent to 104 percent, compared to a benchmark of 100 percent. The liquid assets measure – liquid funds as a percentage of annual operating cash outgoings – also rose to 20 percent, compared to a benchmark of 9 percent.

These results were 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 Programme, which was designed to help institutions move to a more sustainable business model.

There was considerable variation among the tertiary education institutions, while some recorded very strong performance, the number of institutions with an operating deficit increased in recent years. Nine of the 31 institutions had an operating deficit in 2008, compared to seven in 2007 and none in 2003.

Overall, the universities experienced a slight decline in financial performance in 2008. For the first time since 2001, two universities recorded an operating deficit. Collectively, the surplus of the eight universities was 2.7 percent of revenue, compared to 3.7 percent a year earlier and to the benchmark of 3 percent. The net cash flow and working capital ratio of the universities also declined in 2008, while the value of liquid assets rose.

The financial performance of the polytechnics in 2008 was very similar to that achieved in 2007. Among the polytechnics, financial performance was influenced by funding provided through the Quality Reinvestment Programme. There was a slight improvement in the value of liquid assets, the working capital ratio and net cash flow, while the operating surplus declined slightly. The largest operating surplus, 13 percent of revenue, was reported by the Southern Institute of Technology, while the largest operating deficit, 12 percent, was reported by Tairāwhiti Polytechnic. Seven of the 20 polytechnics recorded an operating deficit, compared to four in 2007.

Another notable feature of 2008 was the continued improvement in financial performance of the wānanga after several years of declining performance. In particular, Te Wānanga o Aotearoa has improved its performance significantly since 2004. This institution recorded a surplus of 4 percent of revenue in 2008, compared to an operating deficit of 13 percent in 2006. In part, the healthy performance of the three wānanga was due to high earnings from interest.

1. In 2008, there were 31 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.



## 2009 YEAR

In August 2009, the government introduced the Education (Polytechnics) Amendment Bill to enable the implementation of new governance arrangements in institutes of technology and polytechnics. The bill aims to reduce the size of polytechnic councils, changes the way in which council members are appointed and strengthens the rights of the Tertiary Education Commission and the Minister for Tertiary Education to intervene in polytechnics that have financial or educational difficulties. The proposed arrangements aim to improve the governance capability and effectiveness of polytechnic councils and to allow the Crown to respond to risks faced by polytechnics.

One of the effects of the recession has been to change patterns of demand for tertiary education. In 2009, the number of equivalent full-time student places has risen in polytechnics and universities, as young people find it more difficult to gain employment. One of the most interesting features has been a shift in the type of enrolments in polytechnics: the number of students has fallen, but the equivalent full-time student load has risen, implying a shift to more full-time study.

Budget 2009 saw maintenance for 2010 of many of the funding changes proposed by the previous government in its 2008 budget. However, the new government signalled a number of changes to funding from 2010. These changes, described elsewhere in this report, will place financial pressures on some institutions.

# IN 2008

## FINANCIAL PERFORMANCE WAS SIMILAR TO 2007

## STRATEGIC FINANCIAL POSITION OF TERTIARY EDUCATION INSTITUTIONS<sup>2</sup>

Across all tertiary education institutions in 2008, there was an improvement in the working capital ratio and liquid assets, while the net cash flow and operating surplus declined. While some institutions faced financial difficulties, in aggregate the tertiary education sector met three of the Tertiary Education Commission's benchmarks for prudent operation. Before the recent improvements, the financial performance of public tertiary education institutions declined between 2004 and 2006 in all four of the key indicators used to monitor performance.

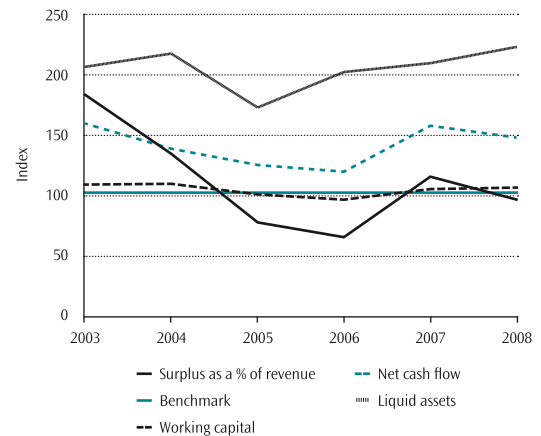
### Strategic financial position of tertiary education institutions in 2008:

Tertiary Education Commission benchmark	100	
Liquid assets	220	(207 in 2007)
Working capital	104	(103 in 2007)
Net cash flow	145	(155 in 2007)
Surplus as a % of revenue	94	(113 in 2007)

**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.

Figure 14.1: Strategic financial position of tertiary education institutions



## STRATEGIC FINANCIAL POSITION OF UNIVERSITIES

In 2008, the strategic financial position of universities weakened slightly, with three out of the four key indicators used to monitor performance declining. For the first time, the operating surplus was below the Tertiary Education Commission's benchmark, while the working capital ratio remained just below the benchmark.

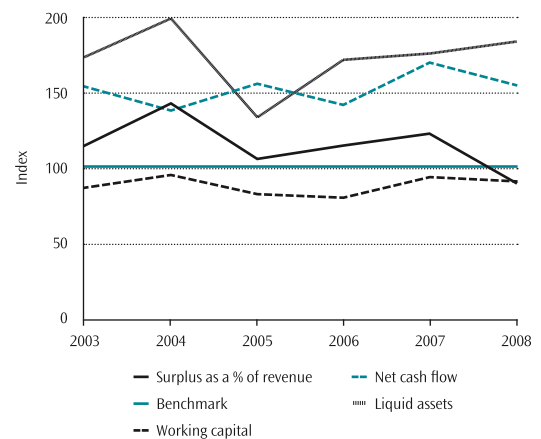
### Strategic financial position of universities in 2008:

Tertiary Education Commission benchmark	100	
Liquid assets	183	(175 in 2007)
Working capital	90	(93 in 2007)
Net cash flow	154	(169 in 2007)
Surplus as a % of revenue	89	(122 in 2007)

**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.

Figure 14.2: Strategic financial position of universities



## STRATEGIC FINANCIAL POSITION OF POLYTECHNICS

The strategic financial performance of polytechnics remained relatively stable in 2008. The operating surplus declined slightly from 2007 and remained below the Tertiary Education Commission's benchmark, while the other three key indicators all improved slightly and remained above the benchmark.

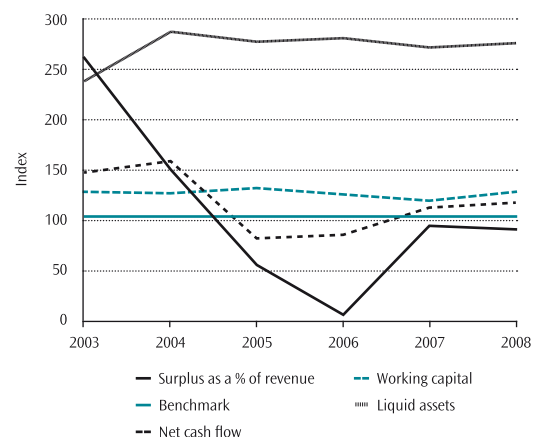
### Strategic financial position of polytechnics in 2008:

Tertiary Education Commission benchmark	100	
Liquid assets	272	(268 in 2007)
Working capital	125	(116 in 2007)
Net cash flow	115	(109 in 2007)
Surplus as a % of revenue	87	(91 in 2007)

**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.

Figure 14.3: Strategic financial position of polytechnics



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

**STRATEGIC FINANCIAL POSITION OF WĀNANGA**

The improvement in the strategic financial position of wānanga evident since 2006 continued in 2008. Three of the four key indicators improved in 2008, with liquid assets in particular now well above the Tertiary Education Commission’s benchmark. For the first time since 2003, the surplus as a percentage of revenue was above the benchmark.

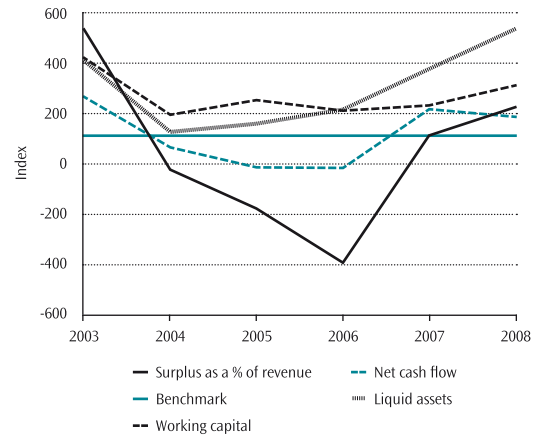
**Strategic financial position of wānanga in 2008:**

Tertiary Education Commission benchmark	100	
Liquid assets	525	(366 in 2007)
Working capital	301	(221 in 2007)
Net cash flow	176	(206 in 2007)
Surplus as a % of revenue	212	(101 in 2007)

**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.

**Figure 14.4: Strategic financial position of wānanga**



**STRATEGIC FINANCIAL PERFORMANCE OF TERTIARY EDUCATION INSTITUTIONS IN 2008**

In 2008, wānanga exhibited the best performance in each of the four key financial indicators.

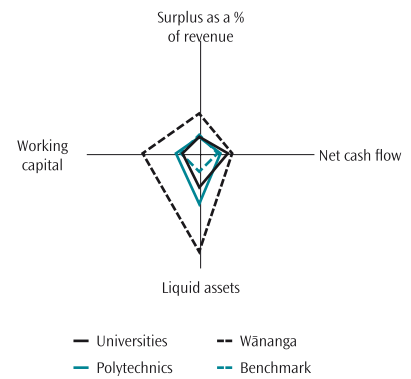
**Strategic financial position of tertiary education institutions in 2008:**

	Surplus	Liquid assets	Working capital	Net cash flow
Benchmark	100	100	100	100
Universities	89	183	90	154
Polytechnics	87	272	125	115
Wānanga	212	525	301	301

**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:** Tertiary Education Commission.

**Figure 14.5: Strategic financial performance of tertiary education institutions in 2008**



**REVENUE AND EXPENDITURE**

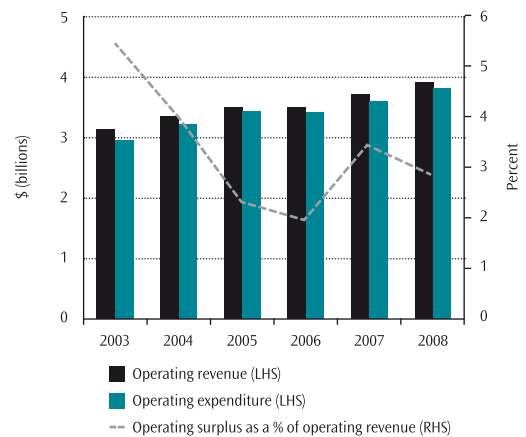
The increase in operating revenue of \$197 million in 2008 was smaller than the increase in operating expenditure of \$213 million. As a result, the operating surplus for tertiary education institutions declined.

**Operating revenue and expenditure of tertiary education institutions in 2008:**

Operating revenue	\$3.9 billion	(up 5.3% on 2007)
Operating expenditure	\$3.9 billion	(up 5.9% on 2007)
Operating surplus as a % of operating revenue	2.8%	(3.4% in 2007)

**Source:** Ministry of Education and Tertiary Education Commission.

**Figure 14.6: Income, expenditure and operating surplus of tertiary education institutions**



### FINANCIAL HEALTH

In 2008, 17 institutions had an operating surplus that exceeded the Tertiary Education Commission's benchmark of 3 percent of revenue. This compares to 14 institutions in 2007 and 13 in 2000. Nine institutions – two universities and seven polytechnics – had an operating deficit in 2008, compared to six in 2007.

#### Distribution of tertiary education institutions' operating surplus as a percentage of total revenue in 2008:

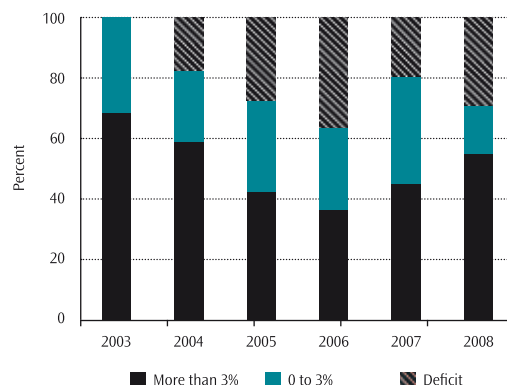
More than 3%	55%	(45% in 2007)
0 to 3%	16%	(36% in 2007)
Less than 0% (deficit)	29%	(19% in 2007)

**Notes:**

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

Source: Ministry of Education and Tertiary Education Commission.

Figure 14.7: Distribution of tertiary education institutions' operating surplus as a percentage of income



### SOURCE OF REVENUE

The largest component of the revenue at tertiary education institutions is government funding via Vote Education. At \$1.97 billion this represented 50 percent of all revenue in 2008, compared to 47 percent in 2005. Domestic fee revenue was 17 percent of total revenue in 2008, similar to what it was in 2007. As a result of dropping international student enrolments, international fee revenue has fallen from a high of 13 percent of total revenue in 2004 to 8.0 percent in 2008. Research income increased to 11 percent of total revenue in 2008.

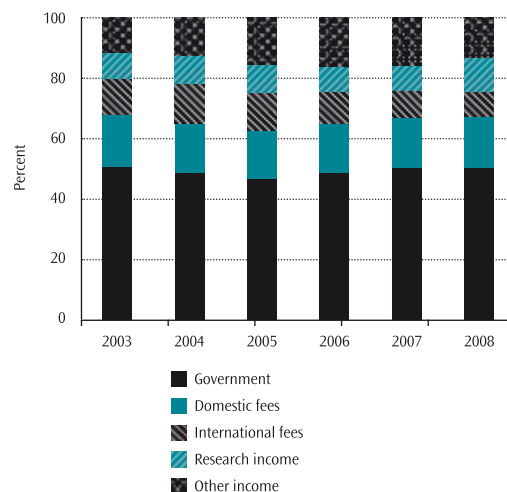
#### Distribution of tertiary education institutions' revenue by source in 2008:

Government	50%	(50% in 2007)
Domestic student tuition fees	17%	(17% in 2007)
International student tuition fees	8.0%	(8.9% in 2007)
Research income	11%	(8.4% in 2007)
Other income	13%	(16% in 2007)

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

Source: Ministry of Education and Tertiary Education Commission.

Figure 14.8: Distribution of tertiary education institutions' income by source



### DISTRIBUTION OF REVENUE BY SUB-SECTOR

The universities earn the largest share of the \$3.9 billion revenue of the sector – 71 percent in 2008, 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.

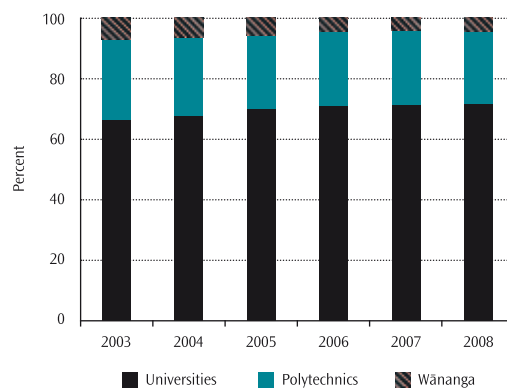
#### Distribution of tertiary education institutions' revenue by sub-sector:

	2003	2007	2008
	Percentages		
Universities	66	71	71
Polytechnics	27	25	24
Wānanga	7.1	4.2	4.4

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

Source: Ministry of Education and Tertiary Education Commission.

Figure 14.9: Distribution of tertiary education institutions' income by sub-sector



## GOVERNMENT FUNDING

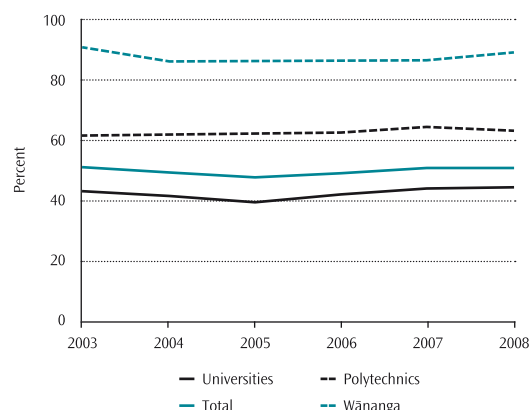
Figure 14.10: Proportion of income derived from government (Vote Education)

Different types of tertiary education institutions have greater or lesser reliance on government education funding. In the universities, government education funding was 44 percent of total operating revenue in 2008, compared to 88 percent in the wānanga and 63 percent in the polytechnics. The low dependence of the universities on government funding reflects their capacity to raise revenue from research contracts and from international student enrolments. However, in the universities and polytechnics, the percentage of government revenue has risen as international student numbers have fallen and as government funding has increased.

#### Percentage of tertiary education institutions' revenue sourced from Vote Education by sub-sector in 2008:

Total	50%	(50% in 2007)
Universities	44%	(44% in 2007)
Polytechnics	63%	(64% in 2007)
Wānanga	88%	(85% in 2007)

Source: Ministry of Education and Tertiary Education Commission.



## EXPENDITURE BY COMPONENT

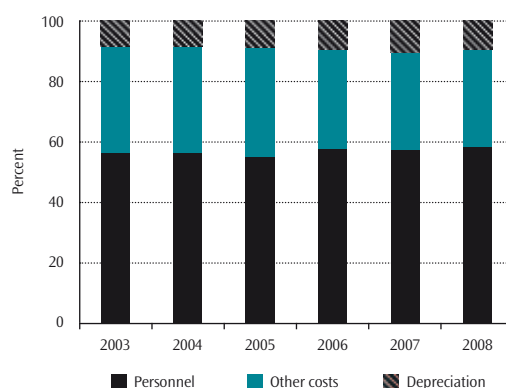
Figure 14.11: Tertiary education institutions' expenditure by component

Tertiary education institutions spent \$3.8 billion in 2008. 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 2005 (when the share was 55 percent).

#### Distribution of expenditure by tertiary education institutions by component in 2008:

Personnel costs	58%	(57% in 2007)
Other costs	32%	(32% in 2007)
Depreciation	10%	(11% in 2007)

Source: Ministry of Education and Tertiary Education Commission.



## EXPENDITURE PER STUDENT

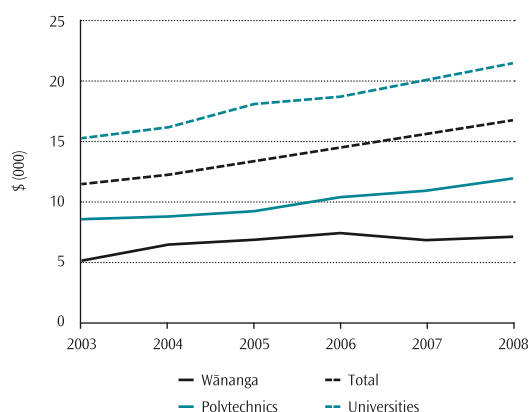
Figure 14.12: Expenditure per equivalent full-time student by sub-sector

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 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 2008:

Total	\$16,700	(up 8.5% on 2007)
Universities	\$21,400	(up 8.0% on 2007)
Polytechnics	\$11,800	(up 9.7% on 2007)
Wānanga	\$6,990	(up 4.3% on 2007)

Source: Ministry of Education and Tertiary Education Commission.



**CASH COVER**

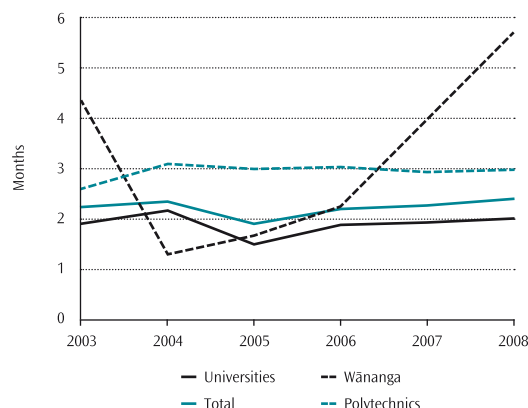
**Figure 14.13: Cash cover by average monthly operating cash disbursements**

One important indicator of the financial viability of an institution is cash cover, which is 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 2008:**

Total	2.4 months	(2.2 in 2007)
Universities	2.0 months	(1.9 in 2007)
Polytechnics	2.9 months	(2.9 in 2007)
Wānanga	5.7 months	(4.0 in 2007)

Source: Ministry of Education and Tertiary Education Commission.



**WORKING CAPITAL RATIO AND CASH COVER**

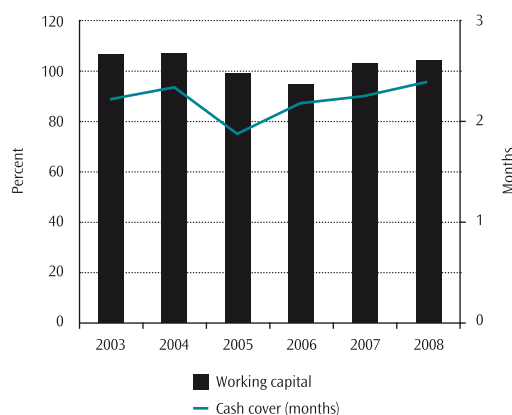
**Figure 14.14: Working capital and cash cover of tertiary education institutions**

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 2008:**

Working capital ratio	104%	(103% in 2007)
Cash cover	2.4 months	(2.2 in 2007)

Source: Ministry of Education and Tertiary Education Commission.



**VALUE OF FIXED ASSETS**

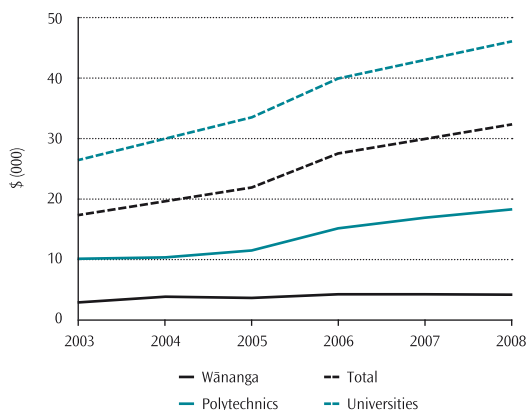
**Figure 14.15: Fixed assets per equivalent full-time student by sub-sector**

In nominal terms, assets per equivalent full-time student have risen sharply in the public tertiary education institutions since 2003. 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 2008:**

Total	\$32,058	(up 8.0% on 2007)
Universities	\$45,784	(up 7.7% on 2007)
Polytechnics	\$17,954	(up 8.2% on 2007)
Wānanga	\$3,872	(down 0.9% on 2007)

Source: Ministry of Education and Tertiary Education Commission.



## CAPITAL EXPENDITURE

In 2008, the aggregated net capital expenditure of tertiary education institutions exceeded the operating cash surplus. This was a reversal of the position in 2007, when capital expenditure in tertiary education institutions was less than the operating cash surplus generated. It means that institutions are drawing on their financial reserves to improve their assets.

### Operating cash surplus, net capital expenditure and liquid assets of tertiary education institutions in 2008:

Operating cash surplus	\$545 million	(down 0.7% on 2007)
Net capital expenditure	\$572 million	(up 29% on 2007)
Liquid assets	\$676 million	(up 13% on 2007)

Source: Ministry of Education and Tertiary Education Commission.

Figure 14.16: Operating cash surplus, net capital expenditure and liquid assets of tertiary education institutions

