

## AN OVERVIEW

Government spending on tertiary education increased in the year ended June 2006. Total government expenditure on tertiary education, including operating and capital expenditure, was \$4,046 million in 2006. As a percentage of gross domestic product, both total expenditure and operating expenditure increased in 2006. Total tertiary education expenditure accounted for 2.6 percent of gross domestic product while operating expenditure accounted for 1.9 percent.

The number of equivalent full-time student places funded by government decreased between 2004 and 2005. This is the first decrease in recent years and comes after a slowdown in growth in 2004. Despite the latest decrease in student numbers, government spending on tuition subsidies continued to increase in 2005, due to an increase in the base funding rates.

In 2005, the average domestic fee per equivalent full-time student increased for the second consecutive year, following two years of decreases. The latest increase reflected the transition from the fee stabilisation scheme to policies that will allow some modest fee increases. It also reflects a move away from enrolments in low or zero fee courses. There was a slowdown in international student enrolments in 2005, and as a result total international fees revenue decreased from 2004 to 2005.

## LOOKING TO 2006

A number of government initiatives were introduced in 2006 and new proposals were announced that will affect the way that the tertiary education sector is funded.

Additional student component funding was provided for in Budget 2006 for the next four years and the 2006 base rates were increased.

Funding was also made available in Budget 2006 to increase the number of Modern Apprenticeships over the next four years and to increase the size of the Industry Training Fund.

The Performance-Based Research Fund is also to receive additional funding over the next four years and in 2010 the annual value of the fund will be \$226 million.

The government has committed further funding for the Learning for Living initiatives.

## FOREWORD

Government support for tertiary education takes a variety of forms and reflects the diversity of learners and their needs. Taken as a whole, these different approaches enable learners of all backgrounds and abilities to have multiple points of entry into tertiary learning. They help to ensure that tertiary-level learning is available in workplaces and through small, community-based, private providers as well as through major tertiary institutions, such as universities and institutes of technology.

During 2005, government funding included:

- student component funding, which provides funding for teaching and learning by subsidising enrolments in approved qualifications
- community education grants, which provide funding for adult and community education courses through tertiary providers, schools and other agencies
- funding for industry training and Modern Apprenticeships
- funding for transition, pre-employment, life and job skills programmes, including Training Opportunities, Youth Training and Skill Enhancement
- funding for research, distributed through the Performance-Based Research Fund
- funding for research, appropriated through Vote Research, Science and Technology
- funding for centres of research excellence
- funding to help build the capability of providers, including the Quality Reinvestment Programme and e-Learning Collaborative Development Fund
- special supplementary grants designed to direct funding to particular groups or for particular tertiary education services
- student loans, which provide funding for eligible students to assist with the cost of tuition fees, course-related expenses and living costs
- student allowances to assist students from low-income families with living expenses
- training benefits and training incentive allowances
- tertiary education Top Achiever Doctoral Scholarships, Enterprise Scholarships, New Zealand Scholarships and Step Up Scholarships.



## Tertiary education sector capability

### GOVERNMENT FUNDING OF THE TERTIARY EDUCATION SYSTEM

Total government spending on tertiary education through Vote Education and Vote Social Development increased in the 2006 fiscal year. In 2006, total expenditure on tertiary education, including operating and capital expenditure, was \$4,046 million. This is an increase of 6.6 percent on the total expenditure of \$3,795 million in 2005.

Government funding figures in this section are inclusive of goods and services tax, where applicable, and refer to the fiscal year, that is, the year ended 30 June.

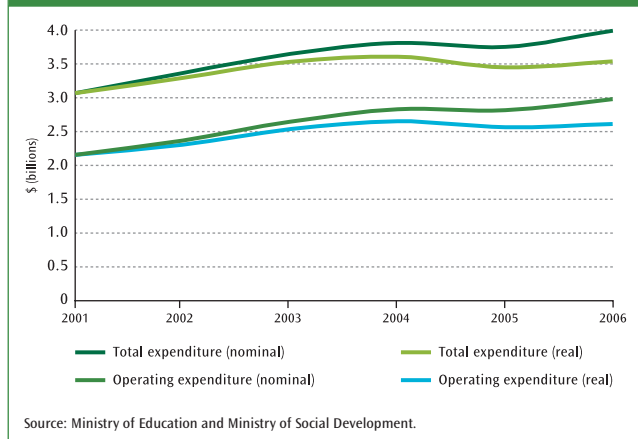
The analysis of government expenditure in this section excludes operating expenditure on the Student Loan Scheme. In 2005/06, operating expenditure on the Student Loan Scheme was \$1,756 million, compared with \$435 million in 2004/05 and \$156 million in 1999/2000. However, operating expenditure in 2005/06 includes a one-off write-down of \$1,412 million in the fair value of the Student Loan Scheme. This write-down occurred as a result of a change in accounting policy that coincided with the government's shift to make student loans interest-free for those resident in New Zealand. The large size of this one-off expenditure item makes comparing trends in government expenditure difficult. Therefore, all operating expenditure on the Student Loan Scheme has been omitted from this analysis. More detail on the operating expenditure on the Student Loan Scheme can be found in the *Student Loan Scheme Annual Report 2005/06*.

Government's operating expenditure on tertiary education totalled \$2,982 million in 2006, compared to operating expenditure of \$2,816 million in the previous year, an increase of 5.9 percent. Capital expenditure increased by 8.7 percent to a total of \$1,064 million in 2006, largely as a result of increased spending of 7.9 percent on student loans.

Between 2001 and 2006, government operating expenditure on tertiary education increased by 38 percent, from \$2,154 million to \$2,982 million. In real terms<sup>1</sup> this amounted to an increase of 21 percent.

The graph which follows traces the trends in government tertiary education expenditure over the last six fiscal years in both real and nominal terms.

Figure 15.1: Government spending (June years) on tertiary education

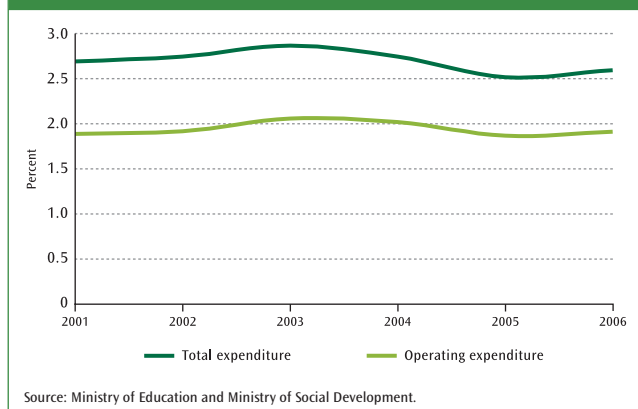


#### Notes:

1. Operating expenditure on student loans is not included.
2. Real expenditure is expressed in 2001 dollars.

As a percentage of gross domestic product, both total tertiary education expenditure and operating expenditure increased in 2006 after decreasing for the previous two years. The latest increase was the result of increased government spending on tertiary education as well as weaker growth in gross domestic product. In 2006, total expenditure was 2.6 percent of gross domestic product and operating expenditure was 1.9 percent of gross domestic product.

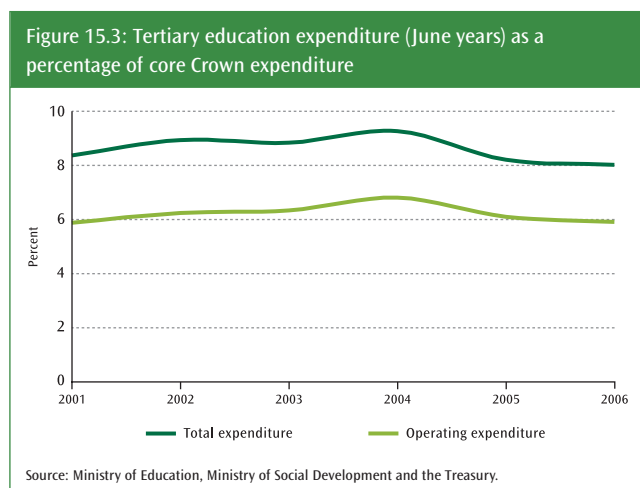
Figure 15.2: Government tertiary education expenditure (June years) as a percentage of gross domestic product



As a percentage of core Crown expenditure, both total tertiary education expenditure and operating expenditure decreased in 2006 for the second consecutive fiscal year. This was the

<sup>1</sup> The Consumers Price Index (CPI) has been used to calculate the increase in real operating expenditure.

result of core Crown expenditure increasing at a faster rate than tertiary education expenditure. As a percentage of core Crown expenditure in 2006, total expenditure was 8.0 percent and operating expenditure was 5.9 percent.



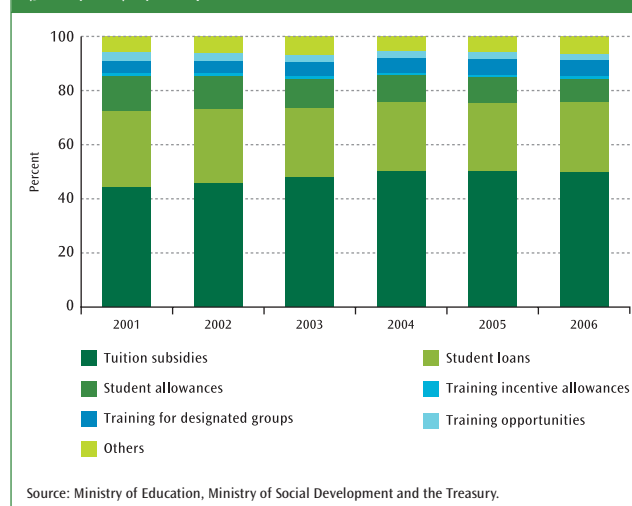
The major items in the government's tertiary education expenditure between July 2005 and June 2006 were:

- \$2,019 million (50 percent of the budget) for tuition subsidies to fund student places at tertiary education providers<sup>2</sup>
- \$1,046 million (26 percent) for student loans
- \$354 million (8.8 percent) for student allowances
- \$245 million (6.1 percent) for other programmes, including industry training and programmes such as Youth Training, Modern Apprenticeships, Gateway and Skill Enhancement
- \$89 million (2.2 percent) for Training Opportunities, and
- \$32 million (0.8 percent) for training incentive allowances.

The remaining 6.5 percent of the tertiary education budget funded a variety of activities including Unemployment Benefit Training,<sup>3</sup> centres of research excellence, and administrative support provided by the New Zealand Qualifications Authority, Career Services rapuara, the Tertiary Education Commission, the Ministry of Social Development and the Ministry of Education.

The proportion of government tertiary education expenditure spent on tuition subsidies has stabilised at around 50 percent between 2004 and 2006, following a period in which subsidies increased.

**Figure 15.4: Percentage of government tertiary education expenditure (June years) by component**



Notes:

1. From 2004 to 2006, funding allocated to the Performance-Based Research Fund was included in the 'tuition subsidies' category.
2. Training for designated groups includes the Industry Training Fund, Modern Apprenticeships, Skill Enhancement, Youth Training, Gateway and second-chance education.
3. Other items include funding for Unemployment Benefit Training, tertiary scholarships, capital contributions, centres of research excellence, tertiary education strategic change and administrative support provided by the New Zealand Qualifications Authority, Career Services rapuara, the Tertiary Education Commission, and the Ministries of Social Development and Education.

The biggest share of Crown expenditure is on tuition subsidies. In absolute terms, tuition subsidies had the most growth over the five years to 2006, rising by \$657 million (or 48 percent). From 2001 to 2006, student loans increased by \$178 million (21 percent); industry training, Modern Apprenticeships and pre-employment programmes increased by \$98 million (67 percent). Over the same period, spending on student allowances fell by \$37 million (or 9.4 percent), training opportunities by \$5 million (or 5.2 percent) and training incentive allowances by \$4 million (10 percent).

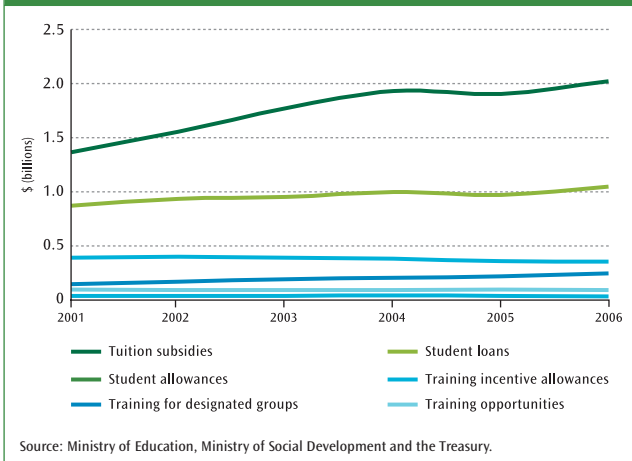
<sup>2</sup> Funding allocated to the Performance-Based Research Fund has been included in the tuition subsidy from 2004 to 2006.

<sup>3</sup> Unemployment Benefit Training replaced Community Wage Training in 2002.



## Tertiary education sector capability

Figure 15.5: Government expenditure on tertiary education (June years) by component



### Notes:

- From 2004 to 2006, funding allocated to the Performance-Based Research Fund was included in the 'tuition subsidies' category.
- Training for designated groups includes the Industry Training Fund, Modern Apprenticeships, Skill Enhancement, Youth Training, Gateway and second-chance education.

## GOVERNMENT-FUNDED PLACES AND TUITION SUBSIDIES

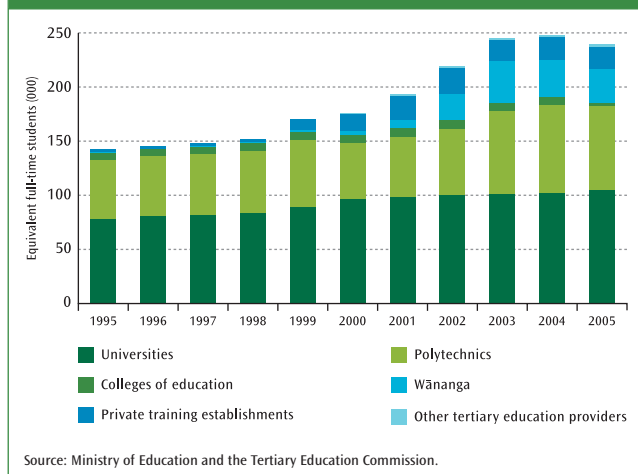
The largest component of government expenditure in tertiary education is distributed via the student component through equivalent full-time student-based tuition subsidies. Tuition subsidies are a contribution towards the cost of tertiary-level learning outcomes, but they do not cover the full cost of tuition. The balance of the cost is normally paid by students by way of a student tuition fee. The equivalent full-time students and the funding expenditure quoted in this section refer to the years ended December.

Tuition subsidies are paid for domestic, enrolled students who were studying for approved qualifications offered by recognised tertiary education providers, including registered private providers. Tuition subsidies are allocated to tertiary providers based on the numbers of equivalent full-time students in various categories and levels. Courses with higher teaching costs receive higher levels of funding, as do students studying at degree level and above, who attract a research top-up.<sup>4</sup> The number of government-funded equivalent full-time students is a key determinant of the total level of tuition subsidies distributed to tertiary providers.

## Government-funded places

Between 2004 and 2005, the number of student places funded by government decreased by 3 percent, from 247,279 to 239,770 equivalent full-time student units. This is the first decrease in recent years and follows a slowdown in the growth of student places in 2004. The number of student places increased by 12 percent from 2002 to 2003. From 1995 to 2005, the number of students increased by 69 percent, from 142,278 to 239,770 equivalent full-time student units.

Figure 15.6: Government-funded places by sub-sector



Note: Care should be taken in comparing data from 2000 onwards with data from years prior to 2000 because of a change in the way funding was delivered from 2000.

Three key factors contributed to the slowdown in the rate of growth of government-funded student places in 2004 and the subsequent decrease in 2005. Firstly, the government's Managing Growth policy, which was introduced in 2004, limited growth in the number of domestic government-funded students at tertiary education institutions. In 2005, funding was restricted to the 2004 actual equivalent full-time student units plus 15 percent or 1,000 student units, whichever was greater. Adjustments to the Managing Growth provisions enable tertiary education institutions to exceed the growth rate limit on student places where it is in the national interest, and fiscally neutral or beneficial to the government on a longer-term basis. Additionally, from 1 September 2005, no funding was provided for any growth in certificate and diploma qualifications above 200 equivalent full-time student units in any rolling 12-month period.

<sup>4</sup> Research top-ups are being phased out over the period 2004 to 2006.

Secondly, the strong growth in student numbers experienced by wānanga from 2000 onwards came to an end in 2003. Wānanga student numbers fell by 18 percent between 2003 and 2005, from 38,355 to 31,334 equivalent full-time students. A key contributor to this decline was the fall in enrolments at Te Wānanga o Aotearoa.

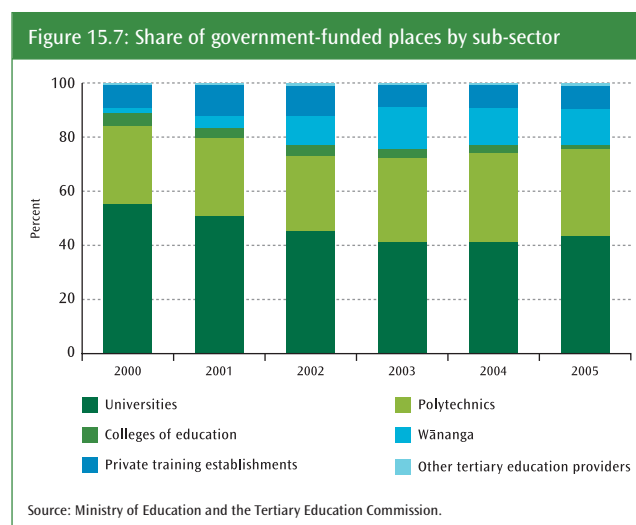
Thirdly, the number of government-funded students in community education decreased between 2003 and 2005 after two years of substantial growth. In 2004, the government introduced moves to cap the number of community education-funded places in tertiary education institutions, in response to the large growth in this area over the preceding two years. As a result, the number of community education students decreased by 52 percent, from 20,357 to 9,751 equivalent full-time student units, between 2003 and 2005.

At a sub-sector level, universities were the only tertiary education institutions to experience growth in the number of government-funded students. Between 2004 and 2005, government-funded places in universities increased by 1.5 percent, from 102,761 to 104,349 equivalent full-time students. However, this increase was due to the inclusion of students from the Auckland College of Education from 1 September 2004 and the Wellington College of Education from 1 January 2005 following their respective mergers with the University of Auckland and Victoria University of Wellington. Consequently, total student numbers at colleges of education fell by 50 percent, from 7,345 to 3,687 equivalent full-time students.

The number of equivalent full-time students at polytechnics declined for the first time since 2000. Between 2004 and 2005, the government-funded places at polytechnics fell by 3.8 percent from 80,358 to 77,338 equivalent full-time students. A funding cap on private training establishments restricted growth in their government-funded student numbers to 0.5 percent over the same period, from 20,466 to 20,575 equivalent full-time students. From 2004 to 2005, other tertiary education providers had strong growth of 45 percent in government-funded equivalent full-time students, from 1,715 to 2,486.

While the growth of government-funded equivalent full-time students at polytechnics and wānanga since 2000 has changed the shape of the tertiary sector as a whole, since 2003 there has been relatively little change in the share of funding in these sub-sectors. Universities had the largest proportion of government-

funded equivalent full-time students in 2005 with 44 percent, down from 55 percent in 2000. Polytechnics' share of total equivalent full-time students was 32 percent (up from 29 percent in 2000), followed by wānanga with 13 percent (up from 1.6 percent in 2000), private training establishments with 8.6 percent (down from 8.8 percent in 2000), and other tertiary education providers with 1 percent.



### Tuition subsidies in 2005

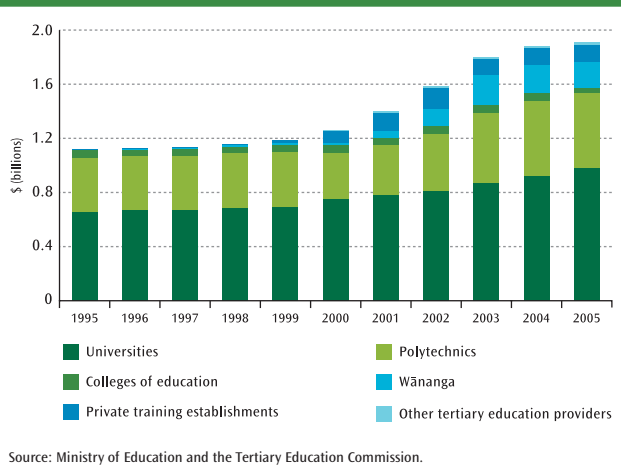
Government expenditure on tuition subsidies continued to increase in 2005, despite a decrease in the number of equivalent full-time students. This increase in tuition subsidies was due to a 3.2 percent increase in base funding rates. Between 2004 and 2005, spending on tuition subsidies increased by 1.7 percent, from \$1,877 million to \$1,909 million. As shown in Figure 15.8, growth in overall tuition subsidy funding has slowed considerably over the last two years, compared with the period from 2001 to 2003, when annual growth was between 11 percent and 14 percent.

In the figures below, tuition subsidies from 2001 to 2003 are inclusive of fee stabilisation special supplementary grants. Also from 2004, Performance-Based Research Fund payments are included in the tuition subsidies category. All tuition subsidies in this section are inclusive of goods and services tax.



## Tertiary education sector capability

Figure 15.8: Tuition subsidies by sub-sector



Source: Ministry of Education and the Tertiary Education Commission.

Note: Care should be taken in comparing data from 2000 onwards with data from years prior to 2000 because of a change in the way funding was delivered from 2000.

From 2004 to 2005, tuition subsidies increased for universities by 6.9 percent, from \$9,180 million to \$9,809 million. This increase was a result of higher tertiary funding rates, and the effect of the mergers of Auckland College of Education with the University of Auckland and Wellington College of Education with Victoria University of Wellington. Consequently, there was an offsetting decrease in total funding of 48 percent for colleges of education as a result of the mergers.

After four years of significant growth, funding for student tuition subsidies at polytechnics decreased from 2004 to 2005 by \$2.8 million, or 0.5 percent. Prior to this, funding increased at polytechnics by 8 percent from 2003 to 2004, an increase of \$42 million, and by 26 percent between 2002 and 2003, an increase of \$108 million.

For the second consecutive year, tuition subsidy funding for wānanga decreased by 7 percent as a result of a significant fall in the number of equivalent full-time students. There was a decrease in tuition subsidies at Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiarangi in 2005.

Private training establishments experienced an increase of 7.7 percent in tuition subsidies between 2004 and 2005. An increase in the number of equivalent full-time students and the increase in funding rates were the key reasons for this increase.

## Average subsidies per student

Between 2004 and 2005, average tuition funding per equivalent full-time student for tertiary education organisations increased by 4.9 percent, from \$7,590 to \$7,963. The average tuition subsidies in this section are inclusive of goods and services tax.

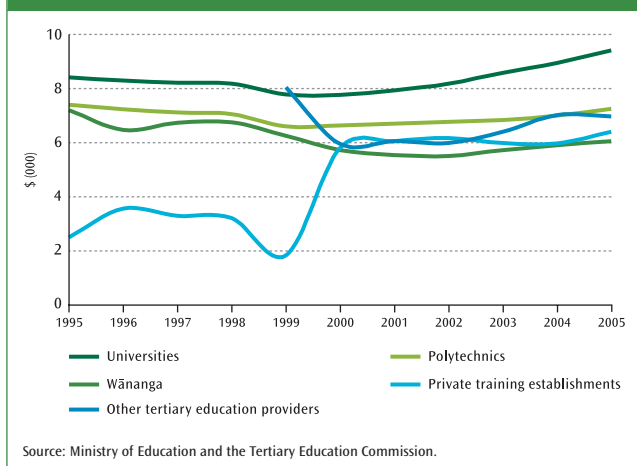
On a per equivalent full-time student basis, the actual average tuition subsidy achieved depends on a number of factors. Two of these are the level of the tuition funding rates and the mix of the enrolments in the various funding categories. If there is a shift of enrolments into the lower-funded categories, then the average funding per equivalent full-time student unit may decline, even when funding rates rise. For example, since 2000, the average equivalent full-time student subsidy in tertiary education institutions has increased by 11 percent, compared to actual increases in the base funding rates of more than 15 percent.

At the sub-sector level, universities had the largest tuition subsidy increase between 2004 and 2005, on a per equivalent full-time student basis. Over this period, the average tuition subsidy increased by 5.2 percent, from \$8,934 to \$9,401. Along with an increase in funding rates, universities benefited from the continued reallocation of funding from research top-ups to the Performance-Based Research Fund. Although top-ups were received by providers in all the sub-sectors, universities received 99 percent of the payments from the Performance-Based Research Fund in 2005.

Between 2004 and 2005, the average tuition subsidy in polytechnics increased by 3.4 percent, from \$7,000 to \$7,237. Before 2004, the average subsidy per equivalent full-time student in polytechnics had remained at a similar level, due to a significant increase in enrolments in lower-funded categories. However, with a stabilisation in the proportion of enrolments in lower-funded categories between 2003 and 2005, the majority of the increase in base funding rates flowed through to the average tuition subsidy in 2005.

At wānanga, the average tuition subsidy increased by 2.7 percent from \$5,892 in 2004 to \$6,053 in 2005. By comparison, the increase in the funding rates was 3.2 percent. In private training establishments, the average tuition subsidy increased by 7.2 percent between 2004 and 2005, from \$5,966 to \$6,394.

Figure 15.9: Average tuition subsidy per equivalent full-time student by sub-sector



Note: Care should be taken in comparing data from 2000 onwards with data from years prior to 2000 because of a change in the way funding was delivered from 2000.

### Government funding for different subject areas and levels of qualification

As mentioned in the student component analysis in the previous sections, government funding of tertiary education providers varies for the different subject areas.

- Category A includes funding for courses in the arts and social sciences.
- Category J includes funding for law and commerce courses and was introduced in 2004.
- Category K is funding for community education and was introduced in 2005.

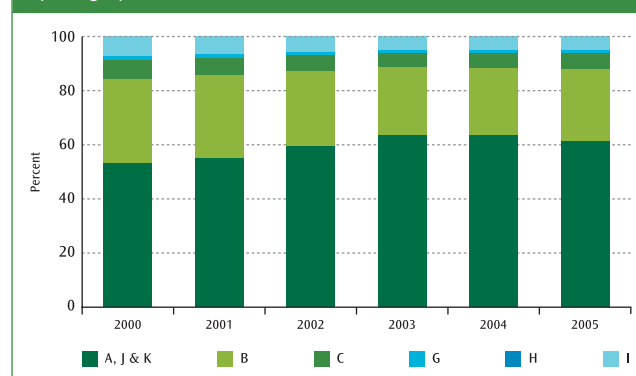
Previously, funding in categories J and K were part of category A. For the purpose of analysing trends, funding in categories J and K are combined with category A.

From 2004 to 2005, the combined number of government-funded equivalent full-time students for categories A, J and K courses decreased from 63 percent to 62 percent of total government-funded equivalent full-time students in tertiary education institutions. This decrease was partly as a result of a decrease in community education students and comes after a period of significant increases, from 2000 to 2004, in the proportion of A, J and K students from 53 percent to 63 percent.

Category B courses are funded at a higher level to support the higher cost of teaching subjects such as sciences, computing, trade training, nursing and fine arts. From 2000 to 2003, category B funding decreased from 31 percent to 25 percent of total government-funded equivalent full-time students in tertiary education institutions. However, since 2003 category B student places remained relatively unchanged at 25 percent of subsidised equivalent full-time students.

In 2005, another 12 percent of government-funded student places in tertiary education institutions were in the other cost categories (C, G, H, I) which subsidise degree-level students studying engineering, architecture, health-related fields and teacher education.

Figure 15.10: Government funding in tertiary education institutions by category



The funding categories can also be disaggregated by the level of the qualification being studied:

- A1, B1, C1, I1, J1, K are for courses in non-degree qualifications.
- A2, B2, C2, G2, H2, I2, J2 are for undergraduate degree courses.
- A3, B3, C3, G3, H3, I3, J3 are for taught courses for postgraduate degrees.
- A4, B4, C4, G4, H4, I4, J4 are for postgraduate research-based degrees.

The higher the level, the higher is the rate of funding, with level 1 categories being the lowest funded. The funding categories at levels 2, 3 and 4 have a research top-up payment attached to them to fund the research activities of the provider and to acknowledge the requirement, set out in section 254(3)(a) of the



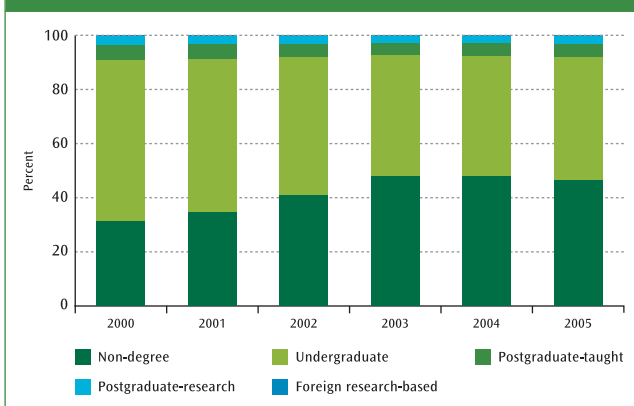
## Tertiary education sector capability

Education Act 1989, that teaching of students at degree level be largely conducted by those active in research.

In 2005, 20 percent of research top-up funding was distributed through the Performance-Based Research Fund. In addition, the government also subsidises the tuition of international research-based degree courses but at a relatively low rate, to reflect the contribution of the work of international research students to New Zealand's national research and development output.

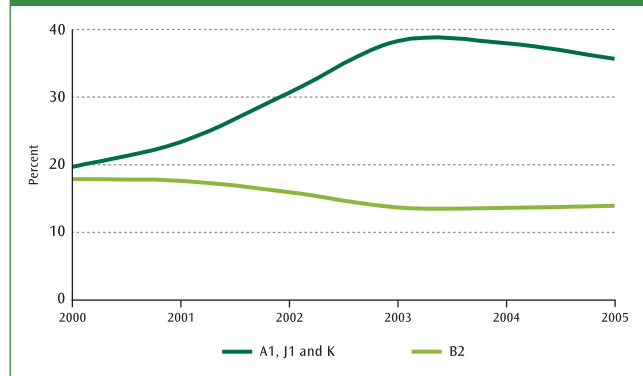
Forty-six percent of equivalent full-time students at tertiary education institutions in 2005 were enrolled at the non-degree level, down from 48 percent in 2004. This compared with a proportion of 32 percent in 2000. The falls since 2003 have ended the trend towards a higher proportion of funding at the non-degree level.

Figure 15.11: Government funding in tertiary education institutions by qualification level



Disaggregating the government funding by subject area and level of qualification allows for a more detailed analysis of expenditure trends. Figure 15.12 shows that, after three years of significant increases, the proportion of A1, J1 and K funding, the lowest-funded sub-categories, in tertiary education institutions declined to 36 percent of total equivalent full-time students in 2005. A1, J1 and K funding had grown from 20 percent in 2000 to a peak of 38 percent in 2003. After falling as a proportion of total equivalent full-time students between 2000 and 2003, B2 funding has stabilised at 14 percent over the last two years.

Figure 15.12: Tuition subsidies in tertiary education institutions by funding category



## Funding trends for private training establishments

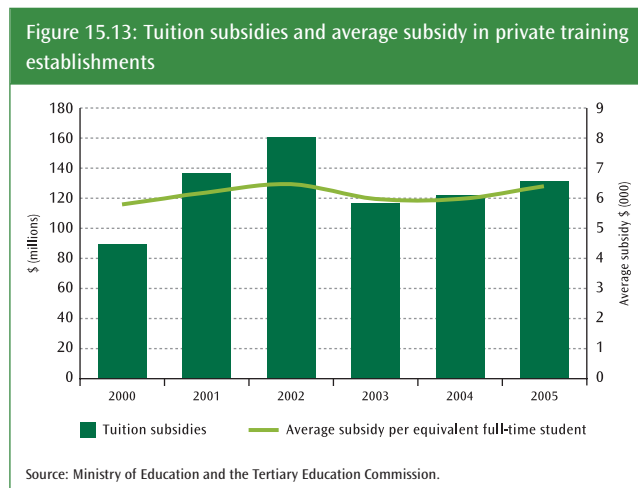
Since 1992, government funding has been available for registered and accredited private training establishments. These private providers receive government funding through a variety of mechanisms:

- industry training
- Training Opportunities
- Youth Training
- Skill Enhancement
- other targeted training programmes, and
- tuition subsidies for qualifications at, or equivalent to, National Qualifications Framework level 3 or above.

Initially, only a small, capped funding pool was available for tuition subsidies at private training establishments. In 1999, the government decided that private training establishments were to be funded at the same rate as tertiary education institutions, with all eligible enrolled students being funded. This resulted in a substantial increase in total funding distributed to these providers from \$7 million in 1998 to \$156 million in 2002. In response, in 2001 the government imposed a moratorium on new private training establishments receiving student component funding and those offering new qualifications. This allowed for some growth in existing providers.

In 2003, the government ended the moratorium and introduced a number of new funding initiatives for private training establishments. The total amount of government funding available from the student component was capped at \$146 million in 2003, \$150 million in 2004 and \$155.1 million in 2005. A new fund was established, the Strategic Priorities Fund, that was designed to focus the delivery of programmes in priority areas of tertiary education, as identified in the tertiary education strategy. This new fund operated within the existing cap and allowed some growth for existing providers in areas well aligned to the strategy and the statement of tertiary education priorities. In addition, new providers could apply to the fund to receive student component funding. In 2005, \$9.8 million was allocated to a total of 87 programmes via the Strategic Priorities Fund. This was a decrease of 40 percent from the previous year when the allocation was \$16.4 million.

A total of 219 private training establishments received \$132 million in tuition subsidies for 20,575 equivalent full-time student places in 2005, at an average subsidy of \$6,394. This compared with 2004, when private training establishments received tuition subsidies of \$122 million for 20,466 equivalent full-time student places, at an average subsidy of \$5,966 per place. These tuition subsidies included funding provided through the Strategic Priorities Fund from 2003 to 2005.



### Funding for research<sup>5</sup>

The Education Act 1989 states that the teaching of degrees must be substantially conducted by people active in research. Government funding of research is currently in a transition period, where the funding that was previously distributed through the student component in the form of a tuition subsidy research top-up, for students at degree level and above, is being transferred to the Performance-Based Research Fund.

In 2004, 10 percent of the money generated from the research top-ups for degree-based enrolments was transferred to the Performance-Based Research Fund. In 2005, this figure rose to 20 percent, and is rising to 50 percent in 2006 and 100 percent in 2007. In addition, the government has allocated additional money to be placed into the fund.

Funding under the Performance-Based Research Fund is determined by a mix of peer assessment and performance indicators. It takes account of researcher quality, research degree completions, and external research income earned. In 2005, approximately \$43.5 million was distributed to 25 participating tertiary education organisations through the fund. More detail on the fund and the reasons for its creation are included in chapter 12 of this report.

The value of enrolments-based top-ups to tertiary education institutions in 2005 was \$114 million. This compared to \$116.4 million in 2004, \$118.8 million in 2003 and \$101 million in 2000.

In addition, funding of \$2.7 million was provided in 2005 to subsidise the costs of international research-based students enrolled at New Zealand tertiary education providers. This compared to \$2.6 million in 2004, \$2.1 million in 2003 and \$1.5 million in 2002.

The government also provides funding to centres of research excellence. The centres are inter-institutional research networks focused on areas of acknowledged research strength and areas important for New Zealand's future development. The centres provide funding to encourage researchers from several institutions to work together on a commonly agreed research plan. In 2005, the government allocated \$23.9 million to centres of research excellence, compared to \$23.0 million in 2004 and \$21.9 million in 2003. More detail on these centres can be found in chapter 12 of this report.

<sup>5</sup> More detail on research funding is in chapter 12.



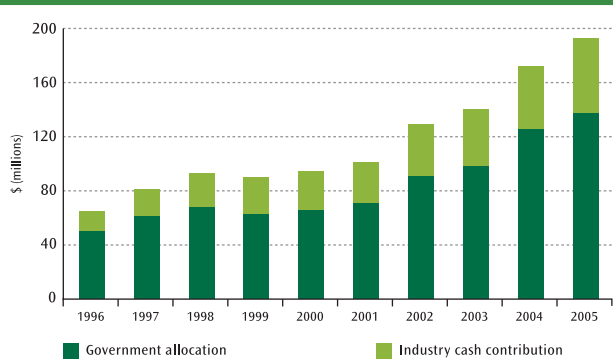
## Tertiary education sector capability

### Funding for industry training and Modern Apprenticeships

Industry training is jointly funded by government and industry. Government's contribution is made through the Industry Training Fund, with industry contributions being in cash or in kind. Employees may bear some of the costs, by meeting some proportion of the training fees or accepting a lower rate of pay as part of the training arrangement.

During 2005, the government invested \$137.3 million in industry training, compared with \$125.4 million in 2004 and \$65.9 million in 2000. Industry's investment was \$55.5 million in cash in 2005, compared with \$46.6 million in 2004 and \$27.9 million in 2000. However, research indicates that the reported cash contribution by industry almost certainly understates its actual contribution. In addition, industry non-cash investment is likely to exceed this cash contribution.

Figure 15.14: Industry and government contributions to the cost of industry training



Source: Ministry of Education and the Tertiary Education Commission.

In January 2001, the government implemented a national programme of Modern Apprenticeships to extend the benefits of formal, structured workplace learning to young people aged 16 to 21 years.

Government expenditure on Modern Apprenticeships in 2005 was \$30 million, supporting 8,390 Modern Apprenticeships. This compared with funding of \$25 million supporting 7,175 Modern Apprenticeships in 2004.

Figure 15.15: Modern Apprenticeship fund size and number of trainees



Source: Ministry of Education and the Tertiary Education Commission.

### Funding for targeted training programmes

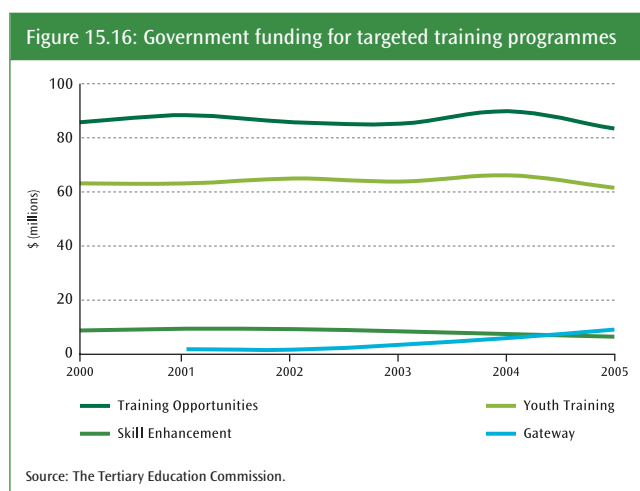
The government provides funding to tertiary education organisations and secondary schools for running a number of targeted training programmes. The targeted training funding quoted in this section is inclusive of goods and services tax.

Training Opportunities is a labour market programme targeted at the long-term unemployed with no or low qualifications. It aims to provide trainees with foundation skills that will enable them to move into employment and/or higher levels of tertiary education. In 2005, a total of 315 secondary and tertiary providers received government funding of \$83 million, compared with 2004, when 368 providers received \$90 million. Government funding for Training Opportunities includes payments made to providers as well as payments made to trainees.

Youth Training provides foundation and vocational skills training to young trainees with no or low qualifications, enabling them to move into employment and/or higher levels of tertiary education. In 2005, a total of 279 providers received funding of \$61 million, compared with 2004, when 315 providers received \$66 million. Government funding for Youth Training includes payments made to providers as well as payments made to trainees.

Skill Enhancement is a vocationally focused training programme aimed at providing young Māori and Pasifika peoples with National Qualifications Framework qualifications at level 3 and above. In 2005, a total of 50 providers received funding of \$6.4 million; in 2004, 59 providers received \$7.5 million.

Gateway is designed to broaden educational options for senior secondary school students by offering them structured workplace learning. The Gateway programme was launched in 2001 for decile 1 to 5 schools. In 2005, it was expanded to decile 6 schools and approximately 5,800 students participated in the programme. Between 2004 and 2005, funding for the Gateway programme increased by 54 percent, from \$5.9 million to \$9.0 million.



### Special supplementary grants

Special supplementary grants provide additional funding for tertiary education institutions to be used for specific purposes. Special conditions and requirements are applied to the use of the grants and the council of an institution must ensure that the grant is used only for its stated purpose. If an institution is assessed as not having met the funding requirements, money can be recovered the following year.

In 2005, these special grants were used mostly to supplement institutional funding to support services for students with specific needs, such as students with disabilities, Māori and Pasifika students, and teacher education initiatives. Funding to offset the costs to providers of fee stabilisation was also delivered as special supplementary grants from 2001 through to 2003.

Grants for tertiary students with disabilities are paid to institutions as a bulk grant of \$32.18 for each domestic equivalent full-time student. This is to assist in the provision of additional support for students whose support needs are high in terms of costs. In 2005, tertiary education institutions received

gross funding (before repayments) of \$7.1 million for students with disabilities. In 2004, the net amount of funding delivered (after repayments) was \$6.9 million, in 2003 \$5.9 million and in 2002 \$5.3 million.

The Māori and Pasifika special supplementary grants are provided in order to support initiatives in institutions that are designed to increase and improve the retention and completion rates of these students. The government has announced that from 2008, the Māori and Pasifika grants will be retargeted, with a two-year transition period in 2006 and 2007. From 2008, tertiary education institutions will determine their own appropriate target groups on the basis of socio-economic disadvantage. Funding will also be linked to equivalent full-time student enrolments and completions, and there will be higher funding rates for postgraduate, degree and diploma-level study and no funding for sub-diploma-level study. For 2006 and 2007, funding will still be linked to Māori and Pasifika enrolments. However, the rates will change with higher rates for postgraduate, degree and diploma-level study and no funding for sub-diploma-level study. See [www.tec.govt.nz](http://www.tec.govt.nz) for more detail on these changes.

Currently, Māori and Pasifika special supplementary grants funding to providers is set at a rate of \$145 per equivalent full-time student for postgraduate courses, \$130 for degree courses and \$125 for non-degree courses. In 2005, tertiary education institutions received gross funding (before repayments) of \$6.4 million distributed through these grants. In 2004, the net funding (after repayments) allocated for these grants was \$6.3 million, in 2003 \$6.6 million and in 2002 \$5.9 million.

### TRENDS IN STUDENT FEES

In 2005, the average domestic fee per equivalent full-time student increased by 6.6 percent, from \$2,750 to \$2,933. In 2004, the average domestic fee increased by 2.9 percent and, in 2003, it fell by 14 percent. The increase in 2005 reflected the transition from the fee stabilisation scheme (which froze fees between 2001 and 2003) to the fee and course costs maxima, annual fee movement limit and postgraduate fee increase limit schemes, which allowed limited increases in fees. It also reflects the move away from enrolments in low or zero fee courses.

The fees quoted in this section are inclusive of goods and services tax. The average fee is calculated by dividing total domestic fee



## Tertiary education sector capability

revenue (excluding goods and services tax) by the total number of domestic equivalent full-time students funded by the Ministry of Education. An adjustment is then made for the goods and services tax.

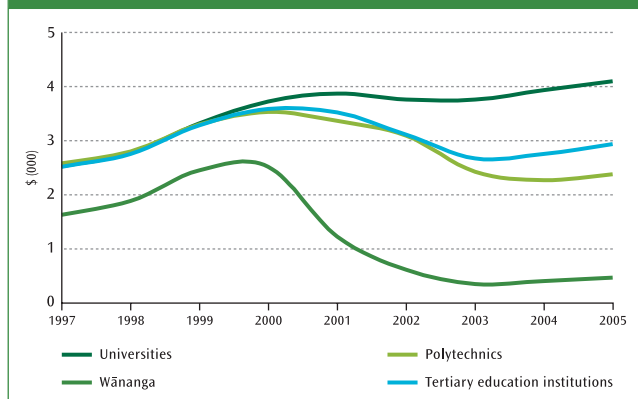
The purpose of the fee and course costs maxima and annual fee movement limit schemes is to restrain the increase in tuition fees and provide certainty for undergraduate students in terms of the cost of their programme of study. Under the fee and course costs maxima policy, a set of tuition fee maxima that providers could charge domestic undergraduate students was introduced. Under the annual fee movement limit, providers with fees below the maxima were allowed to increase their fees by up to 5 percent or to the relevant maximum, whichever was the lesser. In exceptional circumstances a provider could ask for an exemption from the annual fee movement limit and increase fees up to a maximum of 10 percent.

In 2004, providers with fees above the maximum were required to freeze their fees and from 2005 they were required to lower their fees progressively towards the maximum. The postgraduate fee increase limit scheme allowed for domestic postgraduate fees to rise by up to \$500 per equivalent full-time student unit in any one year. In exceptional circumstances a provider could ask for an exemption from the \$500 limit.

Between 2004 and 2005, the average domestic tuition fee per equivalent full-time student in universities increased by 4.2 percent, from \$3,933 to \$4,097. Over the same period, the average fee increase in colleges of education was 6.2 percent, from \$2,646 to \$2,809. Wānanga students had a 16 percent rise from 2004 to 2005 in their average tuition fee, from \$405 to \$468. This followed a 17 percent rise from 2003 to 2004. The large increase in the average tuition fee is a result not of substantial increases in the actual fees charged to students, but of a significant reduction in the proportion of equivalent full-time students in low or zero fee courses.

Between 2004 and 2005, the average tuition fee charged to polytechnic students increased by 4.8 percent, from \$2,267 to \$2,376. This increase comes after four consecutive years of decreases in the average polytechnic fee. Between 2000 and 2004, this fee dropped by 36 percent as a result of an increasing number of discounted or zero fee courses being offered by polytechnics, particularly community and short courses with no fees.

Figure 15.17: Average domestic tuition fees in tertiary education institutions

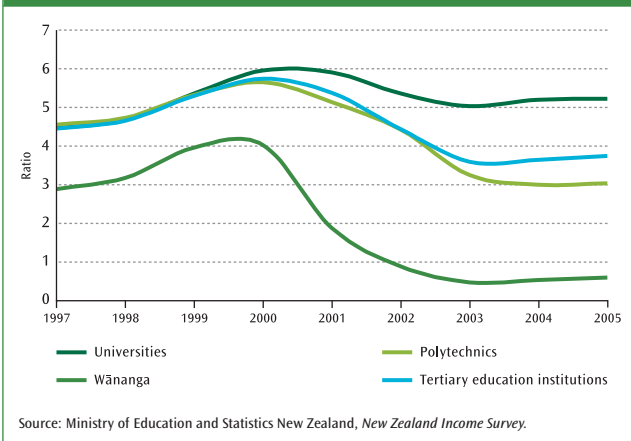


To show how the affordability of fees has changed for students over time, the average domestic tuition fee is expressed as a ratio of the average weekly income for employed people. This is the average weekly income for employed people and includes income from wages/salaries, self-employment and government transfers.

This ratio shows how many weeks of average weekly income it would take to pay for the average tuition fee. For example, the value of 5.7 in 2000 for tertiary education institutions indicates that it would take 5.7 weeks of the average weekly income to pay for the average tuition fee in tertiary education institutions.

Between 2000 and 2003, the ratio was falling across tertiary education institutions, indicating an increase in the affordability of tertiary education for students. However, between 2003 and 2005, the ratio increased in all tertiary sub-sectors. This was because the increase in average tuition fees outpaced the growth in average weekly income. However, in 2005 it was still well below the 2000 ratio.

Figure 15.18: Domestic tuition fee ratio by sub-sector



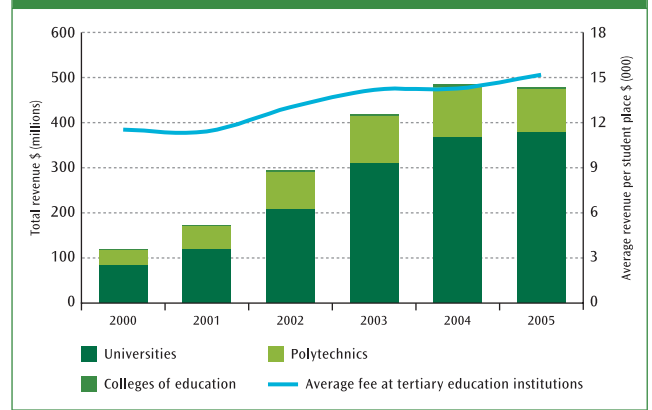
### International student tuition fees

International student enrolments have become a major source of revenue for the tertiary education sector, especially for universities and polytechnics. Colleges of education have, however, only modest numbers of international students, while wānanga have not enrolled any international students.

In this section international tuition fees are exclusive of goods and services tax.

Between 2000 and 2005, international students in tertiary education institutions trebled from 10,347 to 31,577 equivalent full-time students. There was, however, a slowdown in international student enrolments in 2005 causing them to fall from the previous year, in terms of equivalent full-time students, by 7.2 percent. As a result, total international fees revenue decreased between 2004 and 2005, falling by 1.4 percent, from \$486 million to \$479 million. A 13 percent decrease in international fee revenue at polytechnics was the key reason for this decrease.

Figure 15.19: International fees revenue and the average fee in tertiary education institutions



### COMBINED TUITION REVENUE

By combining the tuition revenue from government subsidies, domestic student fees and international student fees, a fuller picture of the trends in tuition funding at tertiary education institutions can be identified. Figure 15.20 illustrates the recent changes in the combined tuition revenue for domestic and international students in tertiary education institutions.

The revenue in this section is exclusive of goods and services tax.

Between 2000 and 2005, the combined tuition revenue in tertiary education institutions increased by 5.9 percent, from an average of \$9,723 to \$10,296. Most of this increase came between 2004 and 2005, when the combined tuition revenue per equivalent full-time student increased by 5.5 percent or \$534.

At the sector level, universities had the largest growth in combined tuition revenue. From 2000 to 2005, the combined tuition revenue of universities increased by 22 percent, from \$10,218 to \$12,432. The key drivers of this increase were the higher funding rates and an increase in the average international fee per equivalent full-time student. An increase in the average domestic fee from 2004 to 2005 also contributed to this revenue growth.

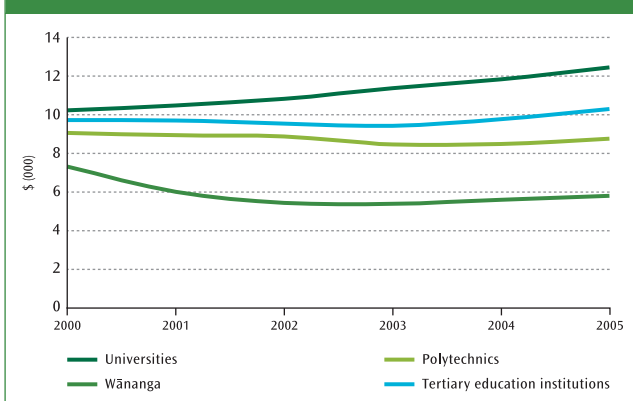
The increase in combined tuition revenue per equivalent full-time student was more modest for colleges of education. Between 2000 and 2005, the combined revenue in colleges increased by 13 percent, from \$8,739 to \$9,858. The increase in the funding rates was the key reason for this increase.



## Tertiary education sector capability

Polytechnics and wānanga both experienced a decrease in their combined tuition income between 2000 and 2005. In polytechnics, the combined revenue decreased by 3.4 percent, from \$9,055 to \$8,745 per equivalent full-time student. In wānanga, the combined revenue decreased by 21 percent, from \$7,317 to \$5,797 per equivalent full-time student. The factors that contributed to these falls were an increase in the proportion of enrolments in low-cost courses leading to a reduction in the average tuition subsidy and a move to zero or discounted domestic fees. However, the lowest point may have been reached, as the combined revenue per equivalent full-time student increased for both polytechnics and wānanga between 2004 and 2005.

Figure 15.20: Combined tuition revenue in tertiary education institutions



### Notes:

1. Revenue is exclusive of goods and services tax.
2. Combined funding per equivalent full-time student is calculated by combining government tuition subsidies with domestic and international tuition fees and then dividing by the sum of government-funded equivalent full-time students and international equivalent full-time students.

While the trend of the average combined tuition revenue is mainly driven by the tuition revenue from domestic students, tuition revenue from international students is higher and thus plays a key role in increasing the tuition revenue of tertiary education providers. In 2005, the average tuition revenue per domestic equivalent full-time student was \$9,849, compared to \$15,165 for every international equivalent full-time student.

## INTERNATIONAL COMPARISONS

Fair comparisons of the funding of tertiary education are difficult to make for a number of reasons. Countries have different definitions of what tertiary education is, they face different cost structures and there are also complications with the conversions to a common currency.

The Organisation for Economic Co-operation and Development (OECD) provides the most reliable source of standardised international comparisons. It uses purchasing power parities<sup>6</sup> to make a comparison between the relative levels of tertiary education funding in member countries. The use of purchasing power parities is complex and caution should be exercised when making comparisons. The index used in the OECD's comparisons is a gross domestic product purchasing power parities index measuring the prices of goods and services produced in each economy. However, as some sectors such as education may have quite different cost structures, these differences may not be included in the index.

In all OECD international comparisons, tertiary education is defined according to the International Standard Classification of Education level. The levels of tertiary education include levels 5A (bachelors, honours, masters, postgraduate certificates and diplomas), 5B (diplomas, national diplomas) and 6 (doctorates). The classification level 5A is labelled by the OECD as tertiary-type A education. Classification level 5B is labelled as tertiary-type B. In New Zealand, tertiary education has traditionally been measured as formal study, regardless of the classification level.

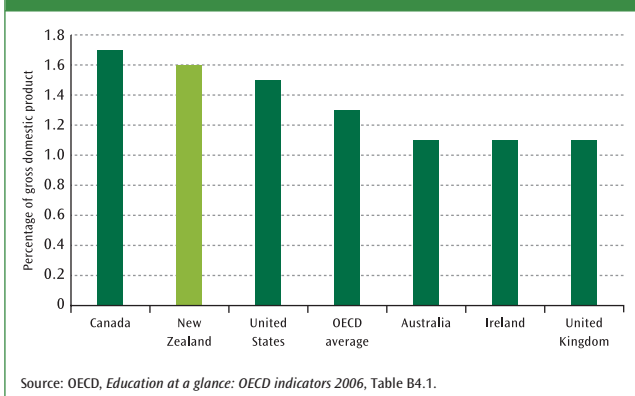
The tertiary education sector as reported in OECD comparisons excludes enrolments in level 1 to 4 certificates and hence represents only about 50 percent of the students measured in New Zealand education statistics. For this reason, the reports only reflect New Zealand's investment in the higher tertiary education sector. The remainder of the sector is reported as post-secondary, non-tertiary in OECD comparisons. For this reason, funding figures presented earlier in this chapter may be different from those presented in these international comparisons.

The New Zealand government spends above the OECD average on higher tertiary education, expressed as a percentage of gross domestic product. New Zealand ranked sixth equal among OECD countries, with spending at 1.6 percent of gross domestic product in 2003. This compared with the OECD country average of 1.3 percent. As New Zealand has a high rate of participation in post-

<sup>6</sup> Purchasing power parities (PPPs) are the currency exchange rates that equalise the purchasing power of different currencies. This means that a given sum of money, when converted into different currencies at the PPP rates will buy the same basket of goods and services in all countries. In other words, PPPs are the rates of currency conversion that eliminate the differences in price levels among countries. Thus, when expenditure on GDP for different countries is converted into a common currency by means of PPPs, it is, in effect, expressed at the same set of international prices so that comparisons among countries reflect only the difference in the volume of goods and services purchased.

secondary, non-tertiary education, it is probable that its ranking would improve further if this was taken into account.

Figure 15.21: Government spending on tertiary education in 2003 for selected OECD countries

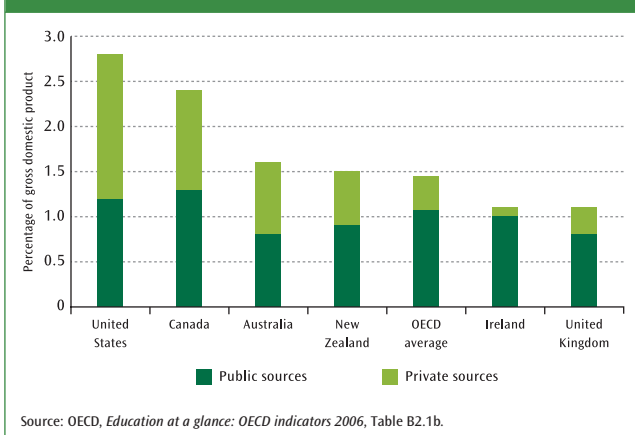


Notes:

1. Government spending includes direct public expenditure on tertiary institutions plus public subsidies to households (including those for living costs).
2. The year of reference for Canada's figure is 2002.

The government expenditure on tertiary education providers as a percentage of gross domestic product is below the OECD average. In 2003, New Zealand spent 0.9 percent of gross domestic product on tertiary education providers, compared with the OECD average of 1.1 percent. However, once student fees are added to government funding of tertiary education providers, the total funding as a proportion of gross domestic product is above the OECD average.

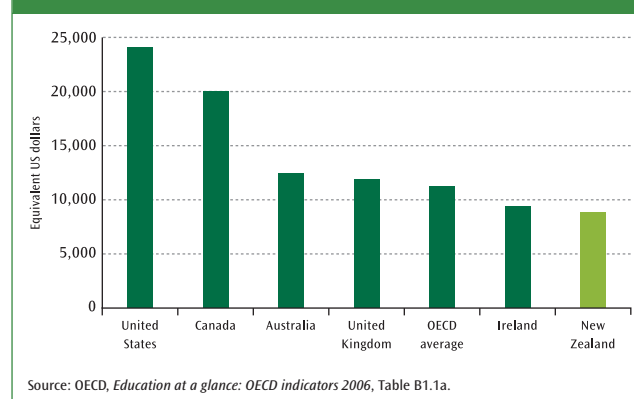
Figure 15.22: Expenditure on educational institutions in 2003 for selected OECD countries



Note: The year of reference for Canada's figure is 2002.

A comparison of annual expenditure on tertiary institutions per student shows that New Zealand ranks 18 out of 28 OECD countries in this area. This puts it below the United States, Australia and the United Kingdom. Annual government and private spending on tertiary institutions was US\$8,832 per student in 2003, on a purchasing power parity basis, compared with the OECD average of US\$11,254 per student. Because of the index measurements used to obtain these comparisons caution should be exercised in viewing these results, as they reflect the cost structure of entire economies rather than the education cost structures of member countries. Additionally, lower annual expenditure does not necessarily lead to lower achievement as the efficiencies of the tertiary education system need to be taken into account.

Figure 15.23: Annual expenditure per student in tertiary education institutions in 2003 for selected OECD countries



Notes:

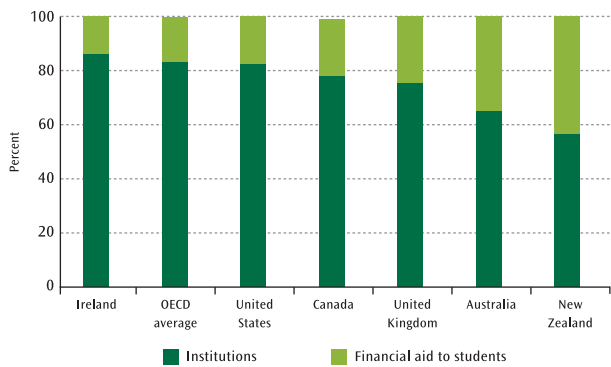
1. This figure expresses annual expenditure on tertiary institutions per student in equivalent US dollars converted using purchasing power parities, based on full-time equivalents.
2. Annual expenditure includes government and private spending on tertiary institutions.
3. The year of reference for Canada's figure is 2002.

In New Zealand, subsidies to students account for 43 percent of government spending on tertiary education, the highest of all OECD countries. OECD countries spend, on average, 17 percent of their public budgets for tertiary education on subsidies to students. This high proportion in New Zealand is intended to maintain the diversity and open access of the New Zealand tertiary education system. Subsidies to students are important, in order to provide students with access to tertiary education, regardless of their financial situation. It should also be noted that a proportion of the financial aid to students goes directly to institutions, for example, tuition fees paid through student loan borrowing.



## Tertiary education sector capability

Figure 15.24: Distribution of government spending on tertiary education in 2003 for selected OECD countries



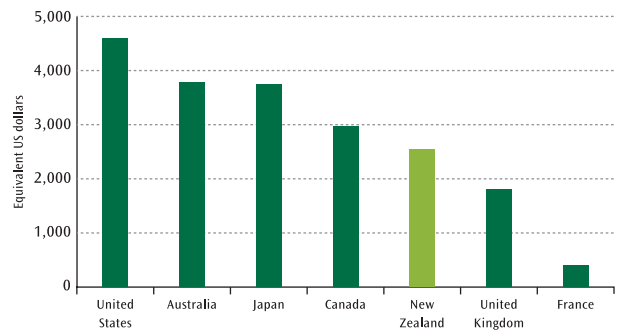
Source: OECD, *Education at a glance: OECD indicators 2006*, Table B5.2.

### Notes:

- Financial aid to students includes the following categories: grants/scholarships; public student loans; family or child allowances contingent on student status; public subsidies in cash or in kind, specifically for housing, transportation, medical expenses, books and supplies, and social, recreational and other purposes; and interest-related subsidies for private loans.
- The year of reference for Canada's figure is 2002.

Large differences can be observed among OECD countries in the average tuition fees charged by tertiary-type A institutions. There are no tuition fees charged by public institutions in seven OECD countries. By contrast, one-third of countries have annual tuition fees for domestic students charged by public institutions that exceed US\$2,000. New Zealand public institutions charged an average annual fee of US\$2,538 for tertiary-type A programmes.

Figure 15.25: Annual average tuition fees in 2003 for selected OECD countries



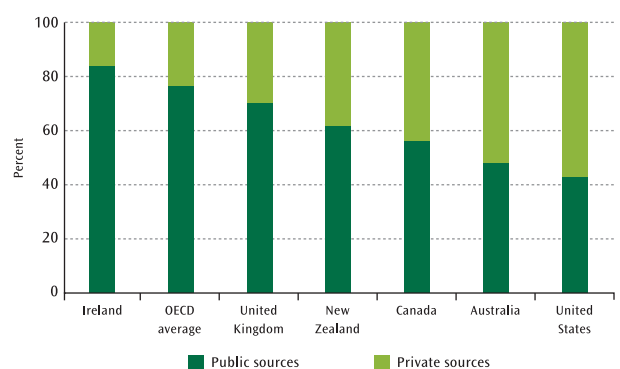
Source: OECD, *Education at a glance: OECD indicators 2006*, Table B5.1.

### Notes:

- This figure expresses annual average tuition fees per student in equivalent US dollars converted using purchasing power parities.
- Amounts of tuition fees should be interpreted with caution as they result from the weighted average of the main tertiary-type A programmes and do not cover all institutions.
- Fees are for public institutions only.

In New Zealand, private expenditure accounts for 39 percent of total expenditure on tertiary education, the sixth highest proportion of all OECD countries. Private expenditure accounts for, on average, 24 percent of total expenditure on tertiary education in OECD countries.

Figure 15.26: Proportions of public and private expenditure in 2003 for selected OECD countries



Source: OECD, *Education at a glance: OECD indicators 2006*, Table B3.2b.

### Notes:

- Private spending includes all direct expenditure on educational institutions, whether partially covered by public subsidies or not.
- The year of reference for Canada's figure is 2002.

## INVESTING IN KNOWLEDGE AND SKILLS IN 2006

A number of government funding approvals were made in 2005 and these will impact on the provision of tertiary education in 2006 and, in some cases, in out-years. The following is a summary of the main initiatives launched:

- From 1 April 2006, the government introduced interest-free student loans for borrowers living in New Zealand for six months or more, whether they are studying or not. This initiative is designed to cut the costs of tertiary study for many people.
- From 1 January 2006, there will be increased student allowances for students with separated parents and for students with siblings who are also studying, through increased annual discounting of the parental income for these students. Students will also be able to earn up to \$180 per week (gross), before their student allowances entitlement is affected. Previously the limit was \$135 a week.
- From 1 January 2006, up to 500 bonded merit scholarships will be available each year to New Zealand's most academically capable students. The \$3,000 government contribution per academic year for tuition fees will be available from the student's second year of study for up to four years.
- The Medical Trainee Intern Allowance for sixth-year medical students will be increased from \$10,000 to \$26,756.
- The government's Managing Growth policy was introduced in 2004, to enable sound fiscal management of student component funding, and to ensure that annual funded growth in tertiary education at the provider level is fiscally sustainable. The managing growth rate limit for tertiary education institutions for 2006 is based on 15 percent growth or 1,000 equivalent full-time student units, whichever is the greater.
- Additional funding of \$99.6 million over the next four years was provided by the government to continue the rolling funding triennium for the student component. A baseline increase of 2.6 percent on student component funding rates was made for 2006.
- The government provided additional funding of \$6 million over four years to increase the number of Modern Apprenticeships by 500, to a total of 9,000 by December 2006. An additional \$31.6 million of funding over four years will also be provided to increase the size of the Industry Training Fund. This will support business-skill needs and productivity and help improve skill capacity in industries generally. Also, government funding of \$36.2 million will be provided in 2006 for sub-degree papers.
- The government has increased the Industry Training Fund by a further \$6.4 million (goods and services tax exclusive) over the next four years for the delivery of foundation learning that will be embedded within industry training provision, working initially with two to three industry training organisations.
- An additional \$74.1 million is to be added to the Performance-Based Research Fund pool over the next four years, with the total annual value increasing to \$226 million (excluding goods and services tax) by 2009/10.
- The government has committed \$51 million (goods and services tax exclusive) over the next four years to the Learning for Living initiatives as the next step towards building access to high-quality educational provision for all people lacking foundation literacy, language and numeracy skills.