This chapter provides an overview of the financial performance of New Zealand's public tertiary education institutions (TEIs) in 2004 in the context of past trends and results. In December 2004, there were 829 private training establishments (PTEs) registered with the New Zealand Qualifications Authority (NZQA). This chapter also considers the situation of the PTE sector by analysing the results of a sample of providers. It also reports on how the PTEs are managing quality by looking at the trends in the results of the quality audits of PTEs conducted by NZQA.

THE FINANCIAL PERFORMANCE OF TEIs

Introduction

The financial performance of TEIs, and consequently their financial health, has improved significantly in the last five years. The improvement in the overall financial situation can be seen in Figure 3.1, which compares the position in 2000 with that in 2004. Figure 3.1 summarises the strategic financial position of the TEIs measured against benchmarks for four key dimensions of financial performance: cash liquidity, surplus as a percentage of revenue, asset productivity and net operating cash flow. The actual results are compared with the minimum thresholds expected by the Ministry of Education's Tertiary Advisory Monitoring Unit. Unless there is a reason in a particular case, the threshold is seen as the minimum required for the prudent operation of the organisation.

The most significant developments over this period have been the strengthening of liquidity and operating surpluses. Both are needed to enable a TEI to sustain its educational and financial capability by providing funds for:

- reinvestment of surpluses to enable delivery capability to be maintained or enhanced for the future, and
- a cash safety margin which allows the institution to respond to adverse changes in the operating environment.

It is, however, significant that the operating surplus rate in 2004 was somewhat lower than that of 2003. The expectation is that surplus as a percentage of revenue will decline again in 2005, as international student numbers begin to turn down and in response to changes in the funding system.

TEIs have relatively low levels of debt, although this is slowly increasing, with equity declining steadily by around 1 percent a year as a percentage of total assets.

The income of TEIs

The income of TEIs continued to grow in 2004 but at a markedly lower level than for the previous two years; it was in fact the lowest rate of increase since 2000. Costs followed a similar trend.

### TABLE 3.1: FINANCIAL PERFORMANCE OF TEIs 2000 AND 2004

<table>
<thead>
<tr>
<th>Performance</th>
<th>Benchmark</th>
<th>Performance in 2000</th>
<th>Performance in 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid assets</td>
<td>12.0%</td>
<td>13.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Surplus assets</td>
<td>3.0%</td>
<td>2.4%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Productivity</td>
<td>40.0%</td>
<td>53.0%</td>
<td>55.0%</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>11.0%</td>
<td>13.0%</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

It should be noted that, in this chapter, all financial data for the sector as a whole includes provisional results for Te Wānanga o Aotearoa, which at the time of preparation of this text had not received its final audit report.
Income across the TEI sector was reasonably diversified. The largest single component of TEI revenue was provided by the government through tuition subsidies. This amounted to $1.52 billion in 2004, an increase of 55 percent since 1996. Other government revenue (including Performance-Based Research Fund (PBRF) allocations but excluding government-funded research contracts) contributed some $87 million in 2004. Overall government funding in 2004 was at a similar level to 2003 in dollar terms, following two years of significant growth. Government revenue represented 48 percent of the total income of the TEIs in 2004. This was a reduction from the previous year’s figure of 51 percent and represented the lowest proportion since 1996.

Total student tuition fees accounted for approximately 29 percent of income in 2004. Domestic student fees contributed $549 million in 2004, up from $531 million in 2003 and $529 million in 2001. This represented 16 percent of total TEI income, down from 17 percent in the previous year and a high of 24 percent in 2000. In part, this fall reflects the government’s fee stabilisation policies and in part, the impact of discounting, ie fee-free courses. In nominal terms, domestic student tuition fee income has remained relatively static over the past three years, while declining as a proportion of total income.

Fees paid by international students continued to increase, reaching $432 million in 2004, compared with $373 million in 2003, $262 million in 2002 and $153 million in 2001. There has been a sixfold increase since 2000. International fee revenue represented 13 percent of total income in 2004, 12 percent in 2003, 10 percent in 2002 and 6 percent in 2001. Some 76 percent of the international student tuition fee income was generated by the university sub-sector.

Other activities, including contract research, generated some 23 percent of income. Revenue generated from research contracts undertaken by the TEIs amounted to $310 million or 9.3 percent of income. Research contracts brought in $196 million in 2000. The university sub-sector accounted for 99 percent of this research income.

**Income by sub-sector**

Figure 3.6 shows the proportion of total income derived from government for the sector as a whole, for the institutes of technology and polytechnics (ITPs) and for the universities. Figure 3.7 shows the split of total sector income by sub-sector.
The university sub-sector had the highest proportion of TEI income in 2004 at 65 percent. This was an increase of three percentage points from the previous year. The wānanga dropped one percentage point to 7 percent of total TEI income. The ITPs and colleges of education (CoEs) each declined by one percentage point. In the last five years, the most significant increase in share of income has been in the wānanga whose share rose from 1 percent of total income in 2000 to 7 percent in 2003 and 6 percent in 2004. The most significant reduction in share of income over this period occurred in the universities, with a movement from 68 percent of total income in 2000 to 65 percent in 2004.

The university sub-sector

The total revenue of the universities in 2004 was $2.14 billion, a 10 percent (or $200 million) increase over 2003. The annual rate of growth in income of the universities has increased significantly since 2000. Figure 3.8 illustrates the trend in the rate of income growth of the universities and compares that trend with the ITPs and with the TEIs as a whole.

Of the total income of the universities, revenue from the government and students was $1.5 billion in 2004, up 7 percent from 2003. The major factor in the growth in education revenue in 2004 was a 19 percent, or $52 million, rise in international student fees. Domestic student fees grew by $21 million, or 6.3 percent. By contrast, government revenue grew by 5.7 percent, or $45 million.

In 2004, other revenue (trading and miscellaneous) grew by 14 percent, or $37 million, to $307 million. This category accounts for about 14 percent of the total revenue of most universities.2 This growth continued past trends.

During the last five years, the huge rise in international student fees, the constant rise of research revenue, and government domestic fee policies have changed the character of university sub-sector revenue. Over this period, government revenue grew by $137 million, or 22 percent, in part because of rising funding rates. In comparison, international student revenue increased by $285 million, or 86 percent, and research revenue grew by $124 million, or 39 percent. Over the period 2000 to 2004, domestic student tuition fee revenue increased by just $5.9 million or 1.7 percent, influenced by government policy on maintaining the affordability of tertiary education. As a percentage of total revenue, domestic student tuition fee revenue has declined markedly from 23 percent in 2000 to 17 percent in 2004.

The trends since 1996 are quite marked and shown in Figure 3.9. The three major changes have been a decrease in government funding as a proportion of total revenue by some 27 percent,

2 Note, however, that for Lincoln University and the University of Otago this category of revenue accounted for 31 percent and 20 percent respectively of total income.
offset by increases of 57 percent in external research contract income and 63 percent in tuition fee income. The latter particularly reflects the international student contribution.

In 2004, the reliance on government education subsidies for each institution is broadly similar, with the marked exception of Lincoln University. The university sector average in 2004 was 39 percent of total income from government funding. The University of Canterbury had the highest reliance at 45 percent of its total income, whereas Lincoln University received only 20 percent of its income from tuition subsidies.

The ITP sub-sector

In the ITPs, revenue has increased progressively over the 1998 to 2004 period, with significant increases in 2002 and 2003. This trend mirrors the increase recorded in enrolments in non-formal courses over that time. In 2004, revenue growth fell sharply – to 4.4 percent, following growth of nearly 20 percent in 2003, 15 percent in 2002 and 12 percent in 2001.

Fees contribute about 30 percent of ITPs’ total revenue, slightly more than the average for the universities. There is significant variation among ITPs in the reliance on fees. Over 45 percent of Unitec New Zealand and Whitireia Polytechnic’s revenue is sourced from student fees, whereas Southern Institute of Technology, Aoraki Polytechnic and Telford Rural Polytechnic all earn less than 15 percent of their income from fees. All three have fee-free policies.

There is still a heavy reliance on government Student Component funding within the sub-sector. Around 60 percent of revenue is from this source (compared with 39 percent for the universities).

Four ITPs receive over 75 percent of their income from government funding. Other income sources are relatively limited and only account for 10 percent of total revenue.

2004 saw a decrease in non-formal education in the ITPs, both in the number of equivalent full-time student (EFTS) places and as a proportion of total enrolments. In 2004, this category of programmes accounted for approximately 17 percent of domestic EFTS, compared with 25 percent in 2003.

The expenditure of TEIs

The total expenditure of TEIs has increased in nominal terms each year. The total expenditure of TEIs in 1997 was $1.8 billion and rose to $3.2 billion in 2004. This represents an 84 percent increase over that period, while enrolments – measured by EFTS – increased by 69 percent over the same time. While the increase in volume is a major driver of cost increases, other causes include inflation, wage growth and new technology.

Figure 3.10 illustrates the major cost components of TEIs. At 56 percent of the total, personnel costs are the dominant component of expenditure in the sector. This is not surprising, given the service nature of tertiary education. These proportions have remained relatively constant since 1996.

There are variations in the proportion of spending devoted to personnel by sub-sector, ranging from 59 percent in the university sub-sector to 54 percent in ITPs and 41 percent in the wānanga. The wānanga sub-sector’s proportion is lower than that of the other sub-sectors but it increased significantly in 2004, driven by the decisions to support growth in the previous year.
The wānanga have a high number of courses delivered through distance learning, which allows greater student to teacher ratios, but involves greater costs in terms of learning materials and learning technologies.

The trends in average total expenditure per EFTS for the sector from 1997 to 2004 are illustrated above. This measure varies across the sector with the difference being attributable to a variety of factors. For instance, different types of courses require differing resourcing. The level of such activities as trading or commercial research also contributes to the differences. As student numbers have risen and as different types of courses have been developed, the cost per EFTS in the sector as a whole has fluctuated. The average total expenditure per EFTS in 2004 increased, after two years of decline, to $12,064. This result in 2004 was almost identical to the figures for 2000 and 2001.

ITP personnel costs averaged 55 percent of that sub-sector’s total costs in 2004, although four ITPs were over 60 percent and three less than 40 percent. The historic average has been closer to 60 percent. The lower average personnel cost percentage in 2004 partially reflects the sub-sector’s greater reliance on contracting for educational delivery, as well as the influence of a relatively low teaching component in the non-formal courses.

The operating surplus of the TEIs

The total income of TEIs was $3.3 billion in 2004, up 7 percent on 2003, while expenditure was $3.2 billion, leaving a surplus of $132 million. Figure 3.13 shows that the growth in both income and expenditure has been particularly strong since 2000, with the surplus growing as a percentage of income since that year.
sector in 2003 was $220 million, an increase of $56 million on 2003 and the highest in dollar and percentage terms since 1996. The 2003 result represented an increase of 35 percent on 2002 and a rise of 158 percent since 1997.

Six of the 35 TEIs recorded net operating deficits in 2004, an increase from two in the previous year. In 2004, 21 institutions reached the recommended threshold of 3 percent for surplus as a percentage of income, compared with 23 in 2003, 19 in 2002 and 18 in 2001.

### TABLE 3.2: NUMBER OF TEIs REPORTING LOSSES AND SURPLUSES 2001-2004

<table>
<thead>
<tr>
<th>Surplus as a percentage of revenue</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 percent</td>
<td>18</td>
<td>19</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>0-3 percent</td>
<td>7</td>
<td>10</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Deficit</td>
<td>10</td>
<td>6</td>
<td>2</td>
<td>6</td>
</tr>
</tbody>
</table>

Although two of the wānanga were in deficit, the overall result was driven significantly by the operating loss of Te Wānanga o Aotearoa.

### TABLE 3.3: TEIs’ NET RETURN ON INCOME 2000-2004

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities</td>
<td>2.2%</td>
<td>3.4%</td>
<td>3.1%</td>
<td>3.8%</td>
<td>4.3%</td>
</tr>
<tr>
<td>ITPs</td>
<td>-1.7%</td>
<td>0.9%</td>
<td>3.3%</td>
<td>5.3%</td>
<td>4.8%</td>
</tr>
<tr>
<td>CoEs</td>
<td>5.8%</td>
<td>3.6%</td>
<td>2.9%</td>
<td>1.6%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Wānanga</td>
<td>4.0%</td>
<td>8.2%</td>
<td>22.6%</td>
<td>15.7%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>All TEIs</td>
<td>1.4%</td>
<td>2.9%</td>
<td>4.2%</td>
<td>5.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

The increase in operating surpluses in the ITP sub-sector since 2001 can be explained by the significant increase in international students and enrolments in non-formal courses. The latter are now reducing as a result of changed funding policies.

The surplus for the ITPs was $33 million in 2004, or 4.8 percent of total revenue. This is down noticeably from 2003, when surpluses were 7.7 percent of revenue, but it is still above the recommended threshold. Of the total ITP sector, six had surpluses under the threshold.

### Cash flows

Net operating cash flows in the sector decreased slightly between 2003 and 2004, from $468 million to $442 million. This was primarily driven by a decrease in the universities from $291 million to $282 million and a wānanga decrease from $49 million to $13 million. Net investing cash flows (capital expenditure and purchase of investments) in the sector were $442 million, up from $430 million in 2003. In the university sector, the result was $309 million in 2004, $18 million more than that in 2003 ($291 million).

The sector’s net financing cash flow was $43 million, an increase from $39 million in 2003. For the universities, the result was $39 million, up from $12 million in 2003. This reflects a greater degree of debt financing within the sector. Indeed over the period from 1996 to 2004, 2004 produced the highest level of debt financing secured in one year.

### Sector liquidity

The levels of cash, bank deposits and readily liquefiable assets (liquidity) held by institutions constitute an important indicator of financial health and viability. These factors provide a buffer against variability in performance. The liquidity holding also represents the capacity for an institution to invest when significant strategic repositioning is required. The operating cash surpluses of TEIs are generally significantly lower than those of purely commercial organisations. As a result, financing through borrowing may not be a viable option for TEIs.

![FIGURE 3.14: CASH COVER BY THE NUMBER OF AVERAGE MONTHS’ OPERATING CASH DISBURSEMENTS 1997-2004](image)

3 This result was ‘skewed’ by the accounting treatment of the merger of the Auckland College of Education with the University of Auckland. Using the ‘before abnormals’ figures largely eliminates this distortion.

4 Net capital expenditure is cash expenditure for fixed asset purchases less cash receipts from fixed asset sales.
The cash holdings of TEIs are represented as a percentage of the year’s operating cash disbursements. Figure 3.14 shows this as operating months’ cover, i.e., the number of average months’ operating cash disbursements held by the organisation in cash. Liquidity levels at the end of 2004 were not particularly varied across the sub-sectors in 2004. A liquidity level of one month’s average operating cash disbursements is seen as the minimum target for prudent operation. The major change over the period has been the very high wānanga liquidity which went to some nine months’ cover in 2002. This reflected the start of the Treaty of Waitangi capital settlement process as well as the beginning of a major surge in enrolments. In 2004, that level returned to something closer to the rest of the sector.

Cash holdings at the end of 2004 were $589 million, which represented 20 percent of the year’s operating cash disbursements, or 10 average weeks’ operating cash disbursements. The increase of some $90 million in 2004 gave TEIs another week’s cover. On average, therefore, institutions have a reasonable capacity to cope with unexpected increases in expenditure or reductions in income, and some capacity for strategic investment.

In 2004, the university sub-sector improved its cash cover from the 1.6 months achieved in 2003 to 2.0 months. The cash cover in 2004 for the ITP sub-sector was three months. This compares with cash cover of 2.5 months in 2003 and 1.5 months in 2002. A total of eight TEIs, including two universities, had less than 1.5 months. The wānanga sector continued to reduce its overall liquidity with the ratio halving in 2004 from 2003. That still provided just less than two months’ cover.

The working capital ratio for TEIs at the end of 2004 was 107 percent, the same as in 2003. This is the best since 1999. The university sector had a ratio of 89 percent, an improvement from 2003. The ITP sub-sector had a ratio of 123 percent, similar to 2003, and the wānanga had a ratio of 182 percent, down from some 400 percent in 2004.

The main working capital liabilities drivers have been:

- increasing employee liabilities
- use of cash reserves to fund capital developments
- accounts payable increasing faster than receivables, and
- increases in fees received in advance of teaching being delivered.

Driven by rising international student EFTS in particular, increases in fees in advance have created liabilities (obligations to students) but also boosted year-end cash holdings. For example, Auckland University of Technology’s fees in advance recorded in 2004 (for 2005) were 9 percent of revenue for 2004, Lincoln University had 7 percent and Massey University 4 percent. This trend was not limited to the university sub-sector. Manukau Institute of Technology had fees in advance of 8 percent. The highest percentage was at Unitec New Zealand with 16 percent.

**Capital expenditure and asset levels**

In 2004, the fixed assets of the TEIs increased in value by some 25 percent, compared with 2003 to reach $5.1 billion. Total equity in the sector was $4.97 billion. The capital development programmes of a TEI are largely constrained by cash reserves and, for those with sufficiently strong performance, the ability to borrow. Increased capital requirements occur as a result of factors such as increased student numbers, replacement of obsolete teaching technology and the need to modernise systems, plant and buildings. Significant variations from year to year can be expected in capital expenditure. The monetary value of capital assets also increases through inflationary factors, which are reflected in rising prices of capital inputs and revaluation of existing assets. Since 1996, capital expenditure for each of the years ranged between 1.5 and 2.0 times the depreciation expense in that year. For six of the nine years since 1996, it has been 1.6 or 1.7. In 2004, capital expenditure was 1.6 times depreciation.

Total capital expenditure by the TEI sector in 2004 was $446 million, which was considerably higher than the previous two years ($354 million in 2002 and $334 million in 2001). The...
The tertiary education sector

level of capital expenditure on a per EFTS basis varied widely across the sector, with the highest being $3,748 per EFTS at the University of Auckland and the lowest $178 per EFTS at Telford Rural Polytechnic.

The level of fixed assets on a per EFTS basis is very different among the sub-sectors, as illustrated in Figure 3.16. There are many factors that influence the variation in fixed asset levels among institutions, such as the age of the institution, the availability of cash surpluses to invest in capital, the level of research activity undertaken by the institution and the actual capital requirements of the programmes delivered.

![FIGURE 3.16: FIXED ASSETS PER EFTS BY SUB-SECTOR 1997-2004](image)

The fixed asset ratio\(^6\) for ITPs has declined over the last few years, largely because of the growth in non-formal education, which tends not to require corresponding increases in fixed assets. The universities remain the most asset-intensive and are actually increasing the margin from other sectors.

The relationship between cash surpluses and capital expenditure (CAPEX) is illustrated in Figure 3.17. The operating cash surplus represents the cash available for capital expenditure generated during the year, and the net capital expenditure represents the cash used for capital. Operating cash surpluses not used for capital expenditure result in increased liquidity levels for the following year, while capital expenditure greater than operating cash surpluses reduces liquidity levels.

In 2004, liquidity strengthened. Net cash from operating was almost exactly that required for capital development. For the first time since 1996, the overall liquidity level was significantly higher than the capital expenditure.

![FIGURE 3.17: OPERATING CASH SURPLUS, NET CAPITAL EXPENDITURE AND LIQUID ASSETS OF TEIs 1996-2004](image)

### Borrowing by TEIs

The sector overall has borrowed only lightly. Total debt is around 5 percent of equity plus debt and the overall ratio of equity to assets is over 80 percent, although dropping slowly. The fall in the ratio of equity to assets is driven by a few highly-geared institutions.

### Table 3.4: Gearing Ratios 1996, 2000, 2003 and 2004

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>2000</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross interest cover(^7) (EBITDA/interest)</td>
<td>35.3</td>
<td>12.0</td>
<td>56.9</td>
<td>35.8</td>
</tr>
<tr>
<td>Gross debt to gross debt plus equity</td>
<td>1.8%</td>
<td>4.0%</td>
<td>3.7%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Total equity to total assets</td>
<td>91.9%</td>
<td>86.3%</td>
<td>87.7%</td>
<td>82.3%</td>
</tr>
</tbody>
</table>

### The Performance of PTEs

This section reports on an analysis of the financial performance of a sample of some 200 PTEs. In some cases, the data for 2004 is compared with results for 2001. As a result of mergers and closures of some providers, the 2001 set of PTEs is not the same as the 2004 sample, so direct comparisons of absolute numbers over time are not possible. In addition, some PTEs have financial years that do not coincide with the calendar year. As a result, this analysis uses actual results for January to August 2004 and forecast data for the period September to December 2004.

Trends noted in this paper for 2004 must therefore be considered...

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\(^6\) Defined as land and buildings, plant and equipment including information technology and library assets.

\(^7\) EBITDA means ‘earnings before interest, taxation, depreciation and abnormal items’. This is a measure of the underlying operational earnings of an entity.
tentative and will need to be reassessed when all actual full-year results are available.

In 2004, the total revenue received by the PTEs in the sample was expected to reach $482 million. Overall government funding under the Student Component received by the PTEs in the sample was around 26 percent – a figure that has remained reasonably steady since 2001.

In 2004, expenses were expected to be around 91 percent of revenue. A corresponding figure for 2003 was 93 percent in 2003, which compares with 87 percent in 2001. Increases in income tend to be followed by a similar rate of increase in expenses – reflecting the large variable component of service delivery.

The total pre-tax surplus of the PTE sub-sector declined in 2002 and 2003, with a particularly sharp drop in 2003. Most PTEs forecast a rebound in surplus in 2004, with the aggregate surplus of the sample PTEs expected to reach around $45 million.

In 2004, the total asset value of the PTEs examined was forecast to be $307 million. Asset values over the sector as a whole rose to a peak in 2002 and fell in 2003. There has, however, been a favourable trend for equity to increase each year from 2001 when it averaged 28 percent to a forecast average of 53 percent in 2004.

The level of reinvestment by providers is another pointer to their position. Generally, a provider will reduce reinvestment compared with depreciation if cash resources become constrained or if it considers that the risk in the market faced by the enterprise is too high. The number of providers with a capital investment to depreciation ratio of less than 1 has been increasing each year from 2001 to 2004. It is estimated that about 60 percent of the PTEs reinvested at less than the rate of their depreciation in 2004. The constrained operating environment is further suggested by a steady decline in dividends and loans to shareholders, which dropped from 6 percent of revenue in 2001, to 3 percent in 2004.

Table 3.5 groups PTEs into those with revenue above and below $1 million. Those above $1 million are more profitable and have lower personnel costs as a proportion of revenue. Both groups appear to have, on average, acceptable operating positions. In general, smaller PTEs have less equity than larger PTEs and are carrying higher liabilities.9

<table>
<thead>
<tr>
<th>TABLE 3.5: PTE FINANCIAL PERFORMANCE INDICATORS 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key indicators – averages for PTEs in 2003</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>Total PTEs</td>
</tr>
<tr>
<td>Average revenue per provider</td>
</tr>
<tr>
<td>Average pre-tax surplus (deficit) to total revenue</td>
</tr>
<tr>
<td>Personnel costs as a percentage of total revenue</td>
</tr>
<tr>
<td>Average working capital ratio10</td>
</tr>
<tr>
<td>Average quick ratio11</td>
</tr>
<tr>
<td>Average equity as a percentage of total assets</td>
</tr>
<tr>
<td>Average capital investment to depreciation</td>
</tr>
</tbody>
</table>

Over the period 2001 to 2004, there has been a trend towards fewer small PTEs and concentration of revenue into larger providers. Forty-seven percent of the PTEs now account for more than 89 percent of sector revenue.

<table>
<thead>
<tr>
<th>TABLE 3.6: PROPORTION OF PTEs IN EACH REVENUE SIZE GROUP 2001-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue size</td>
</tr>
<tr>
<td>Under $1 million</td>
</tr>
<tr>
<td>Over $1 million</td>
</tr>
</tbody>
</table>

The quick ratio measures the ability of an organisation to pay bills as they fall due. As a rule, organisations should ensure that this ratio is at least 1. There is an encouraging trend for the number (and proportion) of PTEs with a quick ratio of less than 1 to reduce over time. At the end of 2004, however, there were at least 35 providers receiving government funds that are not expecting to meet the quick ratio benchmark in 2004. Of those with a quick ratio of less than 1, seven receive more than $1 million in government funding.

Five providers that will not meet the benchmark also have negative operating cash flow. Operating cash flow is a particularly important factor as it is from this that organisations fund

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8 All dollar amounts are GST exclusive.

9 Some providers use a shareholders’ current account to increase the amount of funds on hand.

10 Current assets/current liabilities.

11 (Current assets less prepayment less inventory and shareholders’ current assets)/current liabilities less employee entitlements less student fees in advance less other funding in advance less shareholders’ current liabilities).
activities in cash terms. Of the 14 providers with negative cash flow in the 2004 sample, three receive more than $1 million in government funding.

Overall, the position of PTEs is stable or improving. This improvement may reflect better management practices, improvement in conditions from 2004 and rationalisation or restructuring of the least viable providers.

PTE QUALITY AUDIT OUTCOMES

In December 2004, there were 829 PTEs registered with NZQA. Of the 829 PTEs, 149 self-identified as Māori providers and 27 as Pasifika providers. There were 313 PTEs that were signatories to the Ministry of Education’s Code of Practice for the Pastoral Care of International Students (COP) and, of these, 48 percent were English language schools.

Once registered, PTEs are audited by NZQA to ensure that they meet the requirements of the Quality Assurance Standard for Ongoing Registration and Accreditation of PTEs. Following the quality audit, NZQA renews the registration of a PTE for an appropriate period. The length of the registration period reflects the confidence that NZQA has in the quality systems of the individual provider, with those PTEs with the strongest systems being granted an audit cycle of three years.

Table 3.7 shows the audit outcomes for the 829 PTEs across various sub-sectors of PTEs. These PTEs include new providers who are audited six months after they have been registered by NZQA.

The results can be used to compare the weighted average audit outcome for each category of provider.12

- All providers: 1.63 years
- Māori providers: 1.46 years
- Pasifika providers: 1.56 years
- All COP signatories: 1.57 years
- English language schools: 1.47 years

A comparison of audit outcome data for the last three years shows movement from the one year or less category towards two- and three-year audit outcomes. This trend reflects improvements found in subsequent audits of PTEs that received one-year cycles in their first audit.

<table>
<thead>
<tr>
<th>Audit outcomes</th>
<th>All PTEs</th>
<th>Māori PTEs</th>
<th>Pasifika PTEs</th>
<th>All COP signatories</th>
<th>English language schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>43</td>
<td>5%</td>
<td>9</td>
<td>6%</td>
<td>2</td>
</tr>
<tr>
<td>1 year</td>
<td>359</td>
<td>43%</td>
<td>77</td>
<td>52%</td>
<td>13</td>
</tr>
<tr>
<td>2 years</td>
<td>312</td>
<td>38%</td>
<td>53</td>
<td>35%</td>
<td>8</td>
</tr>
<tr>
<td>3 years</td>
<td>115</td>
<td>14%</td>
<td>10</td>
<td>7%</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>829</td>
<td>100%</td>
<td>149</td>
<td>100%</td>
<td>27</td>
</tr>
</tbody>
</table>

12 These average outcomes exclude new providers, which are subject to an initial six-month quality audit following registration.