Cabinet Paper material
Proactive release

Minister & portfolio	Hon Jan Tinetti, Minister of Education
Name of package	Time-Limited Tuition Subsidy Increase for Degree-Level and Above Tertiary Education
Date considered	26 June 2023
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These documents have been proactively released:

Cabinet Paper: Time-Limited Tuition Subsidy Increase for Degree-Level and Above Tertiary Education
Date considered: 26 June 2023
Author: Office of the Minister of Education

Cabinet Summary: CAB-23-SUB-0269
Date considered: 26 June 2023
Author: Secretary for the Cabinet

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Date considered: 26 June 2023
Author: Secretary for the Cabinet

Briefing Note: Current financial challenges facing the university sector 1312632
Date considered: 16 June 2023
Author: Ministry of Education and Tertiary Education Commission

Draft Cabinet Paper seeking time-limited tuition subsidy increase to support degree level and above delivery 1313091
Date considered: 29 June 2023
Author: Ministry of Education

Information Update: Speaking points for Tuition Subsidy Increase Cabinet Paper 1313316
Date considered: 23 June 2023
Author: Ministry of Education

Material redacted

Some deletions have been made from the documents in line with withholding grounds under the Official Information Act 1982. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

The applicable withholding grounds under the Act are as follows:

Section 9(2)(a)	to protect the privacy of natural persons
Section 9(2)(b)(ii)	to protect the commercial position of the supplier of the information
Section 9(2)(f)(iv)	to protect the confidentiality of advice tendered by Ministers of the Crown and officials
Section 9(2)(g)(i)	to maintain the effective conduct of public affairs through the free and frank expression of opinion

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http://legislation.govt.nz/act/public/1982/0156/latest/DLM64785.html

In Confidence

Office of the Minister of Education

Chair, Cabinet

Time-Limited Tuition Subsidy Increase for Degree-Level and Above Tertiary Education

Proposal

1 This paper seeks Cabinet agreement to use unspent 2022/23 Vote Tertiary Education funding to provide a time-limited increase to tuition subsidies for degree-level and above delivery for 2024 and 2025 and to commission a review of higher education funding.

Relation to government priorities

2 The proposals in this paper directly support the Government's Tertiary Education Strategy and Science, Research and Innovation priorities. Supporting the higher education system to maintain quality and breadth of provision and contribute to the broader research system is key to achieving a range of economic and social wellbeing outcomes.

Background

The university and broader higher education system is facing financial challenges that have been exacerbated by an unexpectedly large decrease in enrolments in 2023

3 The university sector is facing several financial challenges and is forecasting a $62.6 million deficit for 2023, with seven out of the eight universities expecting a deficit. Similar issues are being faced by other higher education providers, in particular Te Pūkenga. These financial challenges are driven by a variety of factors such as revenue increases being constrained, the impacts of COVID-19 on international enrolments, and operational and capital development costs increasing due to high inflation. Similar challenges are being experienced by tertiary providers internationally.

4 These challenges have been compounded in 2023 by an unexpectedly large decline in domestic student enrolments. Across the university sector, domestic enrolments are currently 4 percent lower in 2023 than at the same time in 2022 (which were 4 percent lower than at the same time in 2021). Revenue from domestic students (from tuition subsidies and tuition fees) accounts for more than 50 percent of universities' revenue.

5 Due to high inflation in recent years, per-learner funding for degree-level and delivery is lower in real terms now than in 2019. In addition, the sector has not yet recovered from the decline in international student enrolments associated with COVID-19.

6 While full-fee international enrolments have increased by 38 percent in 2023, they remain well below pre-COVID-19 levels and will take many years to return to that level. This has had a significant impact on overall revenue and profitability.

7 While some institutions are in a stronger financial position than others, in part because they made difficult restructuring decisions during the pandemic, some are now facing the need to make significant structural changes to maintain their financial sustainability. In particular, Victoria University of Wellington (VUW) and the University of Otago (Otago) and Massey University (Massey) are in difficult financial positions due to declining enrolments, with each proposing significant staffing and programme restructuring.

8 Our universities are the core of our higher education system and are a crucial component of our broader research and innovation system. As such, the decline in revenue that results from fewer enrolments in 2023 presents risks to the quality and breadth of higher education available in New Zealand, and to our broader research and innovation system.

9 While some degree of restructuring and adjustment is necessary, I consider that it is important that the Government respond to both the immediate pressures facing the sector and commit to reviewing the higher education funding system, to ensure that it supports a strong higher education system that meets the evolving needs of learners and makes a critical contribution towards New Zealand's research ecosystem.

Budget 2023 provides a significant increase in funding, but funding pressures remain

10 Budget 2023 provided $496.8 million over four years to increase all tertiary tuition and training subsidies by 5 percent for 2024 and subsequent years (and $24.2 million for additional phased increases for te reo and matauranga Māori delivery).

11 Officials estimated this would provide approximately $80 million in additional funding for degree-level and above delivery in 2024 and approximately $315-$320 million over four years. This increase exceeds forecast inflation for the 2024 calendar year (2.8 percent); however, rates would still be around 10 percent lower in real terms than in 2019. Ongoing inflationary pressures are likely to require further increases through future Budgets.

12 In addition, due to enrolments being the key determinant of tertiary education providers' revenue, the system faces additional uncertainty about the funding it might receive in 2024 and 2025.

13 Officials have advised that the drop in enrolments in 2023 means a 2022/23 underspend of around $120 million across the Tertiary Tuition and Training Multi-Category Appropriation and $40 million of Fees-Free Payments funding will otherwise be returned to the centre at the end of June.

14 The Ministry of Education has advised that while its current forecasts indicate a small increase in overall equivalent full-time students (EFTS) in 2024, universities' EFTS levels are currently expected to remain at their current level over the next four years. That level is broadly similar to their pre-COVID volume and reflects the relative long-term stability of university enrolments.

15 Updated forecasts will be generated later in 2023 when Half-Year Economic and Fiscal Update data becomes available. It is possible forecast volume will increase, which may require additional funding from Budget 2024 to meet.

16 The impact of elevated inflation and the speed of the decline from historically high enrolments in 2021 has not been well-anticipated and exacerbates the financial challenges the sector faces. This appears to be leading to some universities proposing changes that may adversely impact on the breadth of their course offerings and research capabilities.

17 It is also important to note that the overall decrease in enrolments has not been felt evenly across the sector – with some significantly below their pre-COVID volumes and the University of Canterbury and Lincoln University reporting increased enrolments in 2023. However, as a whole, the decrease in enrolments presents risks to the financial position and contribution of the sector.

Proposed Approach

I propose a time-limited increase to tuition subsidies for degree-level and above delivery

18 To further support the higher education system to maintain the quality and breadth of its offerings and its contribution to the broader research and innovation system, I propose to increase the Budget 2023 cost adjustment to tuition subsidy rates for degree-level and above delivery by a further 4 percent for two years.

19 This would mean tuition subsidy rates for degree-level and above delivery would be 9 percent higher than their 2023 rates in 2024 and 2025 before returning to being 5 percent higher than the 2023 rates from 2026 (subject to any further increases in future Budgets).

20 The proposed time-limited increase requires an additional $128 million to implement. I propose that this is funded by reprioritising the 2022/23 underspends in Vote Tertiary Education identified above, with $88 million of the cost coming from the Tertiary Tuition and Training MCA underspend and $40 million from the Fees-Free Payments underspends. The remaining underspend of approximately $30 million will be transferred to the Tertiary Education Commission's (TEC's) balance sheet mechanism to allow it to fund almost all currently forecast volume in 2024 and 2025.

21 Officials estimate that increasing tuition subsidies for degree-level and above delivery to 9 percent above the 2023 rates would be spread across providers as shown in the table below.

22 Officials estimate that universities would receive around $70 million of the $82.5 million per annum increase from the Budget 2023 5 percent increase to degree-and-above tuition subsidy rates and an additional $56 million in each of 2024 and 2025 from the proposed further 4 percent increase for those years (approximately 85 percent of the total proposed additional funding of $132 million over those years).

	Estimated degree-level and above funding in 2023		Estimated additional funding from 9% increase in each of 2024 and 2025		Total estimated additional funding in each of 2024 and 2025
	$000	%	Budget 2023 5% increase ($000)	Proposed additional 4% increase ($000)	$000
University of Auckland	375,196.6	22.5%	18,724.2	14,524.7	33,248.9
University of Otago	270,727.4	16.2%	13,536.1	10,500.2	24,036.3

Massey University	166,584.6	10.0%	8,293.9	6,433.8	14,727.7
Auckland University of Technology (AUT)	163,621.8	9.8%	8,157.9	6,328.2	14,486.1
Victoria University of Wellington	162,566.5	9.7%	7,977.1	6,159.9	14,137.0
University of Canterbury	159,564.2	9.6%	7,940.9	6,188.0	14,128.9
University of Waikato	81,604.7	4.9%	4,079.8	3,164.8	7,244.6
Lincoln University	27,437.2	1.6%	1,350.7	1,047.8	2,398.5
Te Pūkenga	186,320.5	11.2%	8,799.2	6,825.7	15,624.9
Wananga	15,102.9	0.9%	720.3	558.8	1,279.1
Other TEOs	59,373.0	3.6%	2,923.9	2,268.1	5,192.0
Total	**1,668,099.4**	**100%**	**82,504.0**	**64,000.0**	**146,504.0**
Two-year total (2024 and 2025 combined)			**165,008.0**	**128,000.0**	**293,008.0**
Note: The above are estimates. Actual allocations and expenditure for 2024 and 2025 will depend on enrolments.					

23 While this increase would provide some temporary relief to providers from the impacts of increased costs and lower enrolments, the scale of financial challenges facing some means the increase is likely to have only a limited impact on change processes already underway.

24 This funding will provide the higher education system with additional support for the next two years, which will allow time to initiate a review of higher education funding as outlined below.

25 I note that providers are autonomous and would still need to make decisions about how best to respond to their financial situation. I expect that the TEC will continue to monitor the impact of any proposed changes and provide me with advice on any potential areas of critical provision that may still be impacted.

26 9(2)(f)(iv) [redacted]

27 [redacted]

28 In addition, I understand that MBIE is intending to assess wider research capability to identify if there are particular concentrations of capability that are not present at other New Zealand universities. If such concentrations are identified, loss of that capability would impact our national research capability and could not easily be replaced by capability at other research institutions.

Longer-term Review of Higher Education Funding

29 Alongside the increase to degree-level and above tuitions subsidies, I propose that Cabinet commit to a review of higher education funding, including the Performance Based Research Fund.

30 The current financial situation for universities as described above points to a need to find a more sustainable funding path, and to look into the way our higher education system is funded and financed.

31 I propose to report back to Cabinet in December 2023 on the scope and approach to the review, including the extent to which it should consider broader legislative and regulatory settings for higher education and alignment to the Government's research, science and innovation priorities, including Te Ara Paerangi – Future Pathways.

32 Officials have advised that such a review would need to be multi-year and undertaken in close collaboration with the sector.

Risks

33 Officials have advised that higher tuition subsidy rates will not eliminate the need for organisational changes at some institutions. Officials have also noted that – in general terms – recent and intended organisational changes across universities reflect their statutory imperative to responsibly manage scarce public resources.

34 9(2)(g)(i) [redacted]

35 Targeting the increase at degree-level and above delivery will also widen the gap between most subsidy rates for sub-degree provider-based delivery and those for degree-and-above delivery. More generally, some providers may object to additional support being targeted at degree-level and above delivery, noting the funding pressures associated with vocational and other sub-degree provision. This risk is mitigated by our significant investments into vocational education (particularly work-based delivery) and support that has been provided to the Wānanga sector.

36 9(2)(f)(iv) [redacted]

37 Whilst I acknowledge these risks, I consider a compelling rationale remains to support the higher education sector to maintain the quality and breadth of their degree-level

and above delivery and to mitigate potential risks to important research capabilities across the sector.

Implementation

38 The increased tuition subsidy rates for degree-level and above delivery will be confirmed in the Determination of the Design of a Funding Mechanism issued by me to the TEC under 409(1)(j) of the Education and Training Act 2020 (the Act) that I expect to finalise in August 2023.

39 In accordance with the Act, changes to existing mechanisms are subject to consultation with the sector. Consultation on proposed changes to the current funding determination for degree-level and above delivery began on Monday 19 June. Subject to Cabinet's approval of the increase proposed in this paper, I intend to re-issue the proposed mechanism for 2024 for consultation with amendments to reflect Cabinet's decision on the additional increase to subsidy rates proposed in this paper.

40 Once the new funding rates are finalised, the TEC will apply the confirmed rates to its funding allocations for 2024 through its business-as-usual processes.

Financial Implications

41 The proposal in this paper does not require new funding. However, it requires Cabinet agreement to the reprioritisation of 2022/23 underspends in Vote Tertiary Education to fund the time-limited increase to tuition subsidy rates.

42 As outlined above, increasing the 5 percent increase to degree-level and above tuition subsidy rates announced in Budget 2023 by an additional 4 percent (to a 9 percent increase) for 2024 and 2025 requires an additional $128.0 million, which will need to spread across the 2023/24, 2024/25 and 2025/26 fiscal years. I propose that the cost be met via $88.0 million from the forecast underspend in the Tertiary Tuition and Training MCA and $40.0 million from the forecast underspend in Fees Free Payments. If not reprioritised, this funding will return to the centre.

43 A time-limited increase will create a drop in funding levels from 2026. This is likely to be before the proposed higher education funding review can be completed and Budget funding may be sought to avoid this return to lower subsidy rates.

Legislative Implications

44 There are no legislative implications from this proposal.

Population Implications

45 This proposal does not target specific population groups; however, supporting out higher education system to maintain the quality and breadth of their provision and mitigate risks to their research capabilities is crucial to ensuring ongoing access to and success in tertiary education opportunities.

46 The proposed funding increase will help higher education providers to better support their learners to succeed, particularly individuals and groups who may be at risk of disengaging from tertiary education, including Māori, Pacific and disabled learners.

47 I note that am also presenting a paper to Cabinet's Social Wellbeing Committee on 28 June 2023 that proposes to provide the TEC with an enhanced ability to co-invest with providers in initiatives that will improve Learner Success, particularly for learners who have traditionally not been well-served by the tertiary education system.

Human Rights

48 There are no direct human rights implications stemming from the policy decisions in this Cabinet paper.

Consultation

49 This paper has been developed by the Ministry of Education in consultation with the Tertiary Education Commission. The Treasury and the Ministry of Business, Innovation and Employment were consulted on the paper and the Department of the Prime Minister and Cabinet was informed of the paper.

Communications

50 I propose to announce the additional 4 percent to tuition subsidies for 2024 and 2025 and as soon as practicable after Cabinet's decisions are confirmed.

51 The TEC will lead communications with the sector, including targeted engagement with universities and other providers of degree-level and above study, including Te Pūkenga and the three wānanga.

Proactive Release

52 I propose to release this paper proactively, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister for Education recommends that the Committee:

1 **note** that the combined effects of the various impacts of COVID-19, high recent inflation and an unexpectedly large decline in domestic student enrolments in 2023 is presenting significant challenges and risks to universities' and other tertiary providers' financial positions, the quality and breadth of their provision and contribution to the broader research, science and innovation system;

2 **note** that Budget 2023 provided funding for a 5 percent increase to all tertiary tuition and training subsidies from 2024, at a cost of $500 million over four years [CAB-23-MIN-0139 – Initiative 14788 refers], but significant risks to the quality and breadth of higher education provision and research capabilities remain;

3 **note** that the following 2022/23 underspend amounts in Vote Tertiary Education have been identified as available for reprioritisation:

	$m increase / (decrease)				
Vote Tertiary Education **Minister of Education**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Non-Departmental Other Expense: Fees-free Payments	(40.000)	-	-	-	-
Multi-Category Expenses and Capital Expenditure: **Tertiary Tuition and Training MCA** *Non-Departmental Output Expense:* Qualification Delivery	(88.000)	-	-	-	-
Total Operating	**(128.000)**	**-**	**-**	**-**	**-**

4 **agree** to provide a further 4% increase tuition subsidies for degree-level and above delivery in 2024 and 2025, at an estimated cost of $128.0 million, funded by reprioritisation of unspent 2022/23 Tertiary Education and Tuition and Fees Free Payments funding resulting from the decline in domestic enrolments noted above;

5 **note** that as the Supplementary Estimates for 2022/23 have been published, no further appropriation changes can be made to 2022/23;

6 **approve** the following changes to appropriations to provide for the decisions in recommendation 4 above, with no impact on the operating balance or net debt:

	$m increase / (decrease)					
Vote Tertiary Education **Minister of Education**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Forecast period total**
Multi-Category Expenses and Capital Expenditure: **Tertiary Tuition and Training MCA** *Non-Departmental Output Expense:* Qualification Delivery	-	32.000	64.000	32.000	-	128.000

7 **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

8 **authorise** the Minister of Finance and Minister of Education to make any necessary additional adjustments to appropriations and/or policy settings to implement the intent of Cabinet's above decisions;

9 **note** that tuition subsidy rates for 2024 will be finalised in the Determination of the Design of a Funding Mechanism under section 409(1)(j) of the Education and Training Act 2020 in August 2023;

10 **agree** that a review of the funding system for higher education be undertaken, with a draft terms of reference and scope provided to Cabinet in December 2023;

11 **note** that, subject to Cabinet's agreement to the above, I propose to announce the additional tuition subsidy increase as soon as practicable after Cabinet's decisions.

Authorised for lodgement

Hon Jan Tinetti

Minister for Education

CAB-23-SUB-0269

Cabinet

Summary

Time-Limited Tuition Subsidy Increase for Degree and above

Portfolio **Education**

This paper seeks agreement to use unspent Vote Tertiary Education funding to provide an increase to tuition studies for degree-level and above in 2024 and 2025. Agreement is also sought to commence a review of higher education funding.

The Minister of Education recommends that Cabinet:

1 note that the combined effects of the various impacts of COVID-19, high recent inflation and an unexpectedly large decline in domestic student enrolments in 2023 is presenting significant challenges and risks to the financial positions of universities and other tertiary providers, the quality and breadth of their provision and contribution to the broader research, science and innovation system;

2 note that Budget 2023 provided funding for a five percent increase to all tertiary tuition and training subsidies from 2024, at a cost of $500 million over four years [CAB-23- MIN-0139], but significant risks to the quality and breadth of higher education provision and research capabilities remain;

3 note that the following 2022/23 underspend amounts in Vote Tertiary Education have been identified as available for reprioritisation:

	$m increase / (decrease)				
Vote Tertiary Education **Minister of Education**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Non-Departmental Other Expense: Fees-free Payments	(40.000)	-	-	-	-
Multi-Category Expenses and Capital Expenditure: **Tertiary Tuition and Training MCA** *Non-Departmental Output Expense:* Qualification Delivery	(88.000)	-	-	-	-
Total Operating	**(128.000)**	**-**	**-**	**-**	**-**

4 agree to provide a further four percent increase to tuition subsidies for degree-level and above delivery in 2024 and 2025, at an estimated cost of $128.0 million, funded by reprioritisation of unspent 2022/23 Tertiary Education and Tuition and Fees Free Payments funding resulting from the decline in domestic enrolments noted above;

5 note that as the Supplementary Estimates for 2022/23 have been published, no further appropriation changes can be made to 2022/23;

6 approve the following changes to appropriations to provide for the decisions in paragraph 4 above, with no impact on the operating balance or net debt:

	$m increase / (decrease)					
Vote Tertiary Education **Minister of Education**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Forecast period total**
Multi-Category Expenses and Capital Expenditure: **Tertiary Tuition and Training MCA** *Non-Departmental Output Expense:* Qualification Delivery	-	32.000	64.000	32.000	-	128.000

7 agree that the changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

8 authorise the Minister of Finance and Minister of Education to make any necessary additional adjustments to appropriations and/or policy settings to implement the intent of the above decisions;

9 note that tuition subsidy rates for 2024 will be finalised in the Determination of the Design of a Funding Mechanism under section 409(1)(j) of the Education and Training Act 2020 in August 2023;

10 agree that a review of the funding system for higher education be undertaken, with a draft terms of reference and scope to be provided to Cabinet in December 2023.

Rachel Clarke
for Secretary of the Cabinet

Hard-copy distribution:
The Cabinet

Cabinet

Minute of Decision

Time-Limited Tuition Subsidy Increase for Degree and above

Portfolio **Education**

On 26 June 2023, Cabinet:

1 **noted** that the combined effects of the various impacts of COVID-19, high recent inflation and an unexpectedly large decline in domestic student enrolments in 2023 is presenting significant challenges and risks to the financial positions of universities and other tertiary providers, the quality and breadth of their provision and contribution to the broader research, science and innovation system;

2 **noted** that Budget 2023 provided funding for a five percent increase to all tertiary tuition and training subsidies from 2024, at a cost of $500 million over four years [CAB-23- MIN-0139], but significant risks to the quality and breadth of higher education provision and research capabilities remain;

3 **noted** that the following 2022/23 underspend amounts in Vote Tertiary Education have been identified as available for reprioritisation:

	$m increase / (decrease)				
Vote Tertiary Education **Minister of Education**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Non-Departmental Other Expense: Fees-free Payments	(40.000)	-	-	-	-
Multi-Category Expenses and Capital Expenditure: **Tertiary Tuition and Training MCA** *Non-Departmental Output Expense:* Qualification Delivery	(88.000)	-	-	-	-
Total Operating	**(128.000)**	**-**	**-**	**-**	**-**

4 **agreed** to provide a further four percent increase to tuition subsidies for degree-level and above delivery in 2024 and 2025, at an estimated cost of $128.0 million, funded by reprioritisation of unspent 2022/23 Tertiary Education and Tuition and Fees Free Payments funding resulting from the decline in domestic enrolments noted above;

5 **noted** that as the Supplementary Estimates for 2022/23 have been published, no further appropriation changes can be made to 2022/23;

6 **approved** the following changes to appropriations to provide for the decisions in paragraph 4 above, with no impact on the operating balance or net debt:

	$m increase / (decrease)					
Vote Tertiary Education **Minister of Education**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Forecast period total**
Multi-Category Expenses and Capital Expenditure: **Tertiary Tuition and Training MCA** *Non-Departmental Output Expense:* Qualification Delivery	-	32.000	64.000	32.000	-	128.000

7 **agreed** that the changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

8 **authorised** the Minister of Finance and Minister of Education to make any necessary additional adjustments to appropriations and/or policy settings to implement the intent of the above decisions;

9 **noted** that tuition subsidy rates for 2024 will be finalised in the Determination of the Design of a Funding Mechanism under section 409(1)(j) of the Education and Training Act 2020 in August 2023;

10 **invited** the Minister of Education to report back to Cabinet by 31 July 2023 on whether there are risks to the capability in the tertiary sector or to the provision of courses on a nationwide basis from the proposed changes by universities noted in the paper under CAB-23-SUB-0269;

11 **agreed** that a review of the funding system for higher education be undertaken, with a draft terms of reference and scope to be provided to Cabinet in December 2023.

Diana Hawker
for Secretary of the Cabinet

Briefing Note: Current financial challenges facing the university sector

To:	Hon Jan Tinetti, Minister of Education		
Date:	16 June 2023	**Priority:**	High
Security Level:	In Confidence	**METIS No:**	MOE 1312632 TEC AM-23-00548
Drafter:	9(2)(a) [redacted]	**DDI:**	9(2)(a) [redacted]
Key Contact:	Katrina Sutich Gillian Dudgeon	**DDI:**	[redacted]
Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of Report

The note provides advice on the current financial challenges facing universities and the benefits and risks of potential options the Government could consider in addressing these challenges, ahead of your discussion with the Prime Minister, Minister of Finance and the Minister of Research, Science, and Innovation on Tuesday 20 June 2023.

Summary

1. The university sector is facing several financial challenges and is forecasting a $62.6 million deficit, with seven out of the eight universities expecting a deficit. These financial challenges are driven by a variety of factors such as revenue increases being constrained, the impacts of COVID-19 on international enrolments, decreased domestic enrolments and high inflationary costs. These issues are negatively impacting on the performance of the entire university sector, however, the impacts are being felt to a greater degree by some universities. This is due to factors both within the universities control and external factors outside their control. Based on current forecasts (which include proposed savings plan), the sector is expecting to return to a $15 million surplus in 2024, with only two universities facing a deficit and a $105 million surplus in 2025 with only one facing a deficit (due to reasons outside the underlying substantive issues discussed in this paper).

2. Individual universities have responded differently to the challenges facing the sector, including approaches to staffing changes. Some universities made changes when COVID-19 first hit, through reducing their headcount, such as the University of Auckland and Lincoln University, and others have more recent taken restructures, such as Auckland University of Technology. In contrast, staffing levels at Victoria University of Wellington and the University of Otago are higher than they were pre-COVID-19 and so they have not benefited from the savings made in many other universities through lower headcount. Alongside declines in domestic enrolments, this is one of the key reasons both universities are now having to undertake widespread restructuring.

3. The Ministry of Education and the Tertiary Education Commission (TEC) consider that there are minimal risks of New Zealand completely losing key subject offerings across the

university sector due to these decisions being taken by institutions, but the TEC will continue to monitor the situation.

4. You have requested advice on the benefits and risks of options, in particular front-loading the cost adjustment to tuition subsidies or increasing debt limits. We have also considered alternative options that could be implemented quickly, with low administrative and compliance costs, and that do not require any new funding. Overall, we consider that any one-off sector wide intervention is likely to have minimal impact on the change processes underway. More targeted interventions are also unlikely to have a desirable impact if they do not come with ongoing funding and are likely to create more risks by delaying changes that need to be made and undermining institutions' own responsibility for ensuring their financial sustainability.

5. While the short-term lay-offs and change processes may have painful to the sector in the short-term, we consider that leaving the universities to address individual issues that have arisen over time to be the best option in the first instance. We do consider there would be merit in a more substantial review of the funding system for higher education, however this would be a significant task that would have both Budget and potentially legislative implications and would need to be considered against other Government priorities after the coming general election

6. We understand that Ministers are interested in options that could be funded within current baselines and note that the forecast 2022/23 underspend within Vote Tertiary Education would be a potential source of time-limited funding. Across the whole vote, we expect there is approximately $120 million available for reprioritisation. If Ministers wished to reallocate some or all of the underspend to support universities, decisions would need to be made by Ministers, and likely Cabinet, before 30 June 2023.

Proactive Release

7. **agree** that this briefing is not proactively released until final decisions have been taken by Ministers on whether support is provided to universities

Agree / Disagree

Katrina Sutich
General Manager, Tertiary Group
Ministry of Education

16/06/2023

Gillian Dudgeon
Acting Chief Executive
Tertiary Education Commission

16/06/2023

Hon. Jan Tinetti
Minister of Education
18/06/2023

Background

1. You have requested advice on the current challenges facing universities and the potential benefits and risks of options the Government could consider to address these challenges.

2. Officials understand that Ministers would like to consider options to alleviate pressure on the universities, with a particular focus of minimising impacts on the network of provision and research capability. Recent commentary on these issues has centred on Victoria University of Wellington (VUW) and Otago University (Otago), although we note that some other universities are also under significant financial pressure, particularly Massey University (Massey).

3. This briefing note has been jointly prepared by officials from the Ministry of Education (the Ministry) and the Tertiary Education Commission (TEC). It is intended to support your meeting with the Prime Minister, the Minister of Finance and the Minister of Research, Science and Innovation on Tuesday 20 June 2023.We therefore recommend you forward this paper to the Prime Minister, the Minister of Finance and the Minister of Research, Science, and Innovation ahead of this meeting.

Timeframes for decision-making

4. We understand that Ministers are interested in options that could be funded within current baselines and note that the forecast 2022/23 underspend within Vote Tertiary Education would be a potential source of time-limited funding.

5. If Ministers wished to reallocate some or all the underspend to support universities, decisions would need to be made by Ministers, and likely Cabinet, before 30 June 2023 when unspent 2022/23 funding is due to be returned to the Centre. Further information on this is provided in the financial implications section.

6. It should also be noted that change processes are already underway at Otago and Massey while consultation on change proposals at VUW begin on 26 June 2023. We understand further change processes are due to occur at Otago and Massey over the next month. There is very limited time for any Government decisions to impact on these processes and no guarantee that additional funding would not be redirected to support other initiatives.

Context

Current financial challenges facing the university sector

7. The TEC provided a financial update on the university sector in May 2023, which included an overview of 2022 results and the financial challenges facing the sector (TEC AM-23-00191 refers).

8. The current forecasts provided by universities to TEC at the end of May 2023, show that the sector is forecasting a $62.6 million deficit (1.3 percent of revenue) for 2023. The sector had budgeted for a surplus of $17.8 million with only three out of the eight universities expecting a deficit. The updated forecasts show that seven out of eight universities are forecasting a deficit with only 9(2)(b)(ii) [redacted] forecasting a surplus. If achieved, this would be the first time since 1996 that the sector as a whole reported a deficit. **Annex One** provides a more detailed explanation of the 2022 and 2023 results and forecasts.

9. The university sector is facing several financial challenges. There are four key factors that are contributing to the sector's current financial situation:

a. *Domestic enrolments continued to decline in 2023 and the outlook remains uncertain*.

   i. Domestic student revenue (both government funding and tuition fees) accounts for more than 50 percent of university revenue. The April 2023 Single Data Return (SDR) shows that domestic enrolments have fallen by four percent in 2023 following a four percent decline in 2022 (and are slightly below pre-COVID-19 levels of enrolment). There are various reasons for the continued decline including the tight labour market and high cost of living, removal of border restrictions, lower university entrance achievement by school leavers, and lower retention among existing students.

   ii. While Ministry of Education forecasts suggest a very small recovery of domestic enrolments in 2024, with enrolments remaining relatively stable thereafter, this is highly uncertain and individual universities need to ensure they have sufficient ability to manage any further declines.

b. *International enrolments fell strongly during COVID-19 and have yet to recover.*

   i. In 2019, prior to COVID-19, the university sector generated $560 million in full-fee international revenue. At the time, the university sector forecast that by 2022, it would be generating $626 million in full-fee international revenue. Due to COVID-19, international enrolments fell strongly and in 2022 the sector generated $404 million in full-fee international revenue – a $222 million difference compared to pre-COVID-19 forecasts.

   ii. While full-fee international enrolments have increased by 38 percent in 2023, they remain well below pre-COVID-19 levels and will take many years to return to that level. This has had a significant impact on overall revenue and profitability.

c. *Revenue increases being constrained by government and not keeping up with inflation*.

   i. Most university revenue is controlled by the government – either directly through tuition subsidies, the Performance Based Research Fund (PBRF), and other research funds, or indirectly, through the annual maximum fee movement (AMFM) which constrains the degree to which domestic fees can be increased.

   ii. Tuition subsidy increases that came into effect from 2020 and 2023 have totalled 7.35 percent while inflation has increased by 15.8 percent.[1] While the 5 percent funding rate increase for 2024 exceeds forecast inflation (2.75 percent for the 2024 calendar year) funding rates will continue to be substantially below 2019 levels in real terms. Inflation has also significantly exceeded AMFM increases in this period, and total PBRF funding has remained unchanged. While the gap has opened significantly in recent years, the long-term decline in real funding is an issue that the sector regularly raises.

   iii. With revenue constrained, and ongoing increases in operating costs, universities have had to seek substantial efficiencies or reduce costs just to maintain a stable level of reported financial performance let alone show improvement.

[1] This is based on the Budget 2019 tuition subsidy increase of 1.8% for 2020, followed by increases of 1.6%, 1.2% and 2.75%. The CPI inflation figure is based on Statistics New Zealand’s published CPI figures of 1052 in quarter 1 of 2020 and 1218 for quarter 1 of 2023 (ie, a 15.8% increase).

d. *High capital cost inflation.*

i. Over recent years, building construction costs have been increasing at much faster rate than general inflation. While this does not directly impact reported profitability, it does require universities to generate more cash flow than they did previously to sustainably fund capital projects. Cost escalation in construction projects has put pressure on university cash reserves and debt levels, requiring actions to not only improve financial performance but also to protect access to liquidity.

10. It is worth noting that these issues apply to many providers across the tertiary system, and in particular create significant challenges for the financial sustainability of Te Pūkenga (among other factors). Similar issues are also being faced by universities in other countries, which have also had to deal with the impact of the COVID-19 pandemic and have in many cases also faced declines in real-term funding levels in the current inflationary environment.

Forecast financial performance over 2024 and 2025

11. You have also requested advice on the forecast financial performance of universities. Based on information provided to the TEC at the end of May 2023, the university sector is forecasting a $63 million deficit in 2023 with seven universities making a deficit. In 2024, the sector is forecasting a $15 million surplus with two universities forecasting a deficit. By 2025, the sector is forecasting a $105 million surplus with only 9(2)(b)(ii) forecasting a deficit (and this is due to it investing in strategic initiatives rather than due to an underlying sustainability issue).

12. The recovery of the wider sector is reliant on full-fee international enrolments continuing to recover, savings plans being achieved, and domestic enrolments stabilising. The university sector expects enrolments to remain relatively flat in 2024 and show a small increase in 2025. This aligns with the Ministry of Education's BEFU 2023 enrolment forecasts for 2024 – which suggests that enrolments will remain around their current level through to 2027 (which is the last year it forecasts).

13. Overall, the TEC considers the sector forecasts for 2024 and 2025 performance are underpinned by sensible assumptions around tuition subsidy increases, AMFM, inflation, and enrolment growth for both domestic and international enrolments. As a result, we consider they are achievable and show a recovery for nearly all universities. However, there are downside risks for individual institutions – particularly, those currently facing financial issues. If domestic enrolments continue to fall and/or savings targets are not achieved, there is a risk that performance could be worse than currently forecast for VUW, Massey, and Otago.

Universities are responding to these challenges

14. The issues outlined in paragraph 9 are negatively impacting on the performance of the entire university sector. However, the impact has been greater on some universities than others due internal factors that the university can control and external factors outside of their control.

15. This is particularly the case with domestic enrolments which can be impacted by recruitment strategies, enrolment processes, scholarship spend, and relevant programme offerings as well as external factors such as accommodation offerings/cost, cost of living, weather events, and transport links. Both sets of factors have impacted on domestic enrolment trends across the sector.

16. During COVID-19, universities responded differently to the impact of border closures to international fee revenue. Some universities responded to the decline in international enrolment numbers in New Zealand by establishing overseas study centres and joint programme delivery offshore as well as online offerings which helped mitigate the decline in international fee revenue. The success of these various initiatives has meant the reduction in international enrolments has been felt more strongly by some universities than others.

17. There has also been varying approaches to staffing changes. Some universities made changes early when COVID-19 first hit (e.g. the University of Auckland made 330 FTEs redundant over 2020 and 2021 while Lincoln University made a 50 FTE reduction) so have benefited from lower personnel costs for a number of years. Other universities have undertaken a more regular, rolling approach to restructuring (e.g. Waikato University) while the Auckland University of Technology reduced staffing levels by 170 FTEs at the end of 2022/beginning of 2023. If these changes had not been made, these universities would be facing more significant financial challenges.

18. In contrast, staffing levels at VUW and the Otago are higher than they were pre-COVID-19 and so they have not benefited from the savings made in many other universities through lower headcount. Alongside declines in domestic enrolments, this is one of the key reasons both universities are now having to undertake widespread restructuring. VUW is looking to reduce staffing levels by up to 260 FTEs while 9(2)(b)(ii) [redacted] We would also note that Massey is currently undertaking a Professional Services review which proposes a reduction of 34 FTEs, 9(2)(b)(ii) [redacted]

19. While the focus has been on reducing staffing levels (given personnel costs account for more than half of all expenditure), VUW, Massey, and Otago are also considering and implementing other options to support their financial position and preserve cash. This includes (but is not limited to) asset sales, general operational savings, deferring/cancelling capital expenditure, and exploring opportunities to generate revenue.

Risk of losing subject offerings and capacity across the university sector

Network of provision

20. You have requested advice on whether there is a risk of losing subject offerings across the university sector due to the financial challenges and proposed job layoffs.

21. While a voluntary redundancy round has been run at Otago, overall, VUW, Otago and Massey are targeting staffing reductions in programmes with low demand or low profitability. University management from these three universities have informed the TEC that there is a need to right-size a range of programmes and courses so that staffing levels are aligned with lower enrolment levels. For many programmes, this is due to a long-term decline in enrolments rather than a cyclical decline, and the rightsizing is long overdue. As a result, we consider the changes being made are largely rational responses to lower student demand.

22. It is also important to note that in many instances, the proposal is to reduce staffing levels to ensure sensible student-to-staff ratios but to continue to offer the programme or course. In other areas, the proposal is to fully remove certain programmes or courses. However, university management have noted that in some instances where a programme or major may be being removed, they will be looking to ensure elements of it are included in other programmes.

23. There is a risk that capacity is lost in specific areas, and this means reduced current offerings for learners at these universities. There also appears to be some overlap in the subject areas that are being targeted in the changes (e.g., foreign languages). The TEC is monitoring these changes closely and engaging with universities in areas they plan on ceasing delivery. We are also aware the university sector is engaging with each other around this issue.

24. Universities continually review the programmes and qualifications being offered to ensure they meet the needs of both future learners and New Zealand. As a result, programmes are regularly being reshaped in different ways with new disciplines being incorporated. Some of the historical courses are less relevant in their current form and need to be reshaped into offerings which are fit for purpose for the New Zealand of the future. This has been seen in changes related to science and engineering over recent years. Universities that have led out on this are seeing increased student enrolments (e.g. the University of Canterbury). We have also heard from universities that for some foreign languages, incorporating future delivery into global/international focussed qualifications would better support student demand.

25. To date, we are unaware of any major, strategic delivery that is at risk of not being offered anywhere in New Zealand. We are continuing to closely monitor the situation and are receiving updates from the sector around any areas in which they plan to stop delivering (as well as areas where they plan on increasing delivery). While it is difficult to monitor this comprehensively in such a dynamic situation, the TEC intends to develop a more robust picture of where we consider there are gaps in the network of provision or where there is a risk of certain subject areas not being taught anywhere in New Zealand. This view will take time to develop.

26. You have also asked whether there is scope to consolidate subject offerings around the country and essentially move individual universities towards specialising in certain areas. While the TEC can decide whether or not to fund new areas of provision, and may choose to stop funding in a certain areas if there is poor outcomes, it does not have scope to more broadly consolidate subject offerings across institutions. Such an approach would require fundamental change to the funding system or to the structure of the university sector more generally.

Research capacity

24. Ministry of Business Innovation and Employment (MBIE) has also highlighted concerns raised by parts of the sector on the impact staffing reductions at Victoria University and Otago University will have on the Wellington Science City (WSC) initiative. Loss of research staff in the key WSC areas (health, advanced tech, climate) would pose a risk to the success of WSC by removing capability that will be critical to the success of the Hubs and undermining the government's public commitment to WSC.

25. As well as the potential impact on WSC, MBIE is currently assessing wider research activity at Victoria University and Otago University to identify if there are particular concentrations of capability or excellence that are not present at other New Zealand universities. If such concentrations are identified, loss of capability would impact our national research capability as a whole as it could not easily be replaced by capability at other research institutions.

26. It is worth noting that the majority of the proposed redundancies across VUW and Otago are in non-academic positions and universities are cognisant of protecting strategically important research capability.

Considerations for Government intervention

27. You have requested advice on the benefits and risks of options, in particular front-loading the cost adjustment to tuition subsidies or increasing debt limits. We have also considered other options, noting that given the level of institutional autonomy protected by legislation, funding settings are the primary levers the Government has to influence the decision-making of these institutions, supported by the TEC's monitoring function and governance appointments.

28. Overall, we consider that any immediate intervention is unlikely to be effective or desirable. Leaving the universities to address individual issues that have arisen over time may be the best option in the first instance, although there are certainly longer-term funding reforms that could be considered (as outlined below).

29. Any one-off sector wide interventions (e.g. increased cost adjustment, allowing for higher fees, or increasing funding for PBRF) are likely to only have small impacts on the change processes underway.

30. While there are options for more targeted interventions these are also unlikely to have a significant impact on current restructuring proposals if they do not come with on-going funding. More significantly, we note that any targeted interventions would risk undermining the role and function of councils and management whose job is to ensure the financial sustainability of the organisation, while creating problematic precedents and equity concerns within the sector. It is important the universities remain clearly responsible for their own financial sustainability and management decisions.

Scope of options considered

31. We have outlined the options below that we consider could be implemented quickly with low administrative and compliance costs. We have therefore discounted options such as the creation of new contestable funds to support strategically important provision on the basis that this would take significant time to design and would not provide funding certainty to providers in a timely manner.

32. Other options, such as reducing recovery thresholds for this year (ie. allowing providers to retain more of their allocated funding despite lower-than-expected enrolments) are not Ministerial decisions (the 99 percent threshold is approved by Cabinet). The funding determinations for 2023, which set a recovery threshold of 99 percent, cannot be varied during the course of a year.

33. Finally, we have developed options on the basis that they will need to be funded through existing Vote Tertiary Education baselines. We note that due to declining enrolments there is now expected to be a substantial underspend in the 2022/23 financial year, which could provide a funding source for any time-limited funding increases.

34. Further information on the forecast underspend is outlined under *Financial Implications*. As noted, we are proposing to shift some of this funding onto the TEC's balance sheet to fund future volume and Cabinet agreement to transfer remaining funding would be required by the end of June 2023 to make use of the underspend.

Options to 'front-load' the cost-adjustment

35. You have requested advice on the potential options and implications of bringing forward the 5 percent funding increase over 5 years into earlier years, including all possible phased

options such as frontloading increases earlier. Budget 2023 provided $496.8 million over four years to increase all tertiary tuition and training subsidies by 5 percent for 2024 and subsequent years (and $24.2 million for additional phased increases for subsidies for te reo and matauranga Māori delivery).

36. This means subsidy rates for most provision will be 5 percent higher in 2024 than the current 2023 rates and will be maintained at those rates until Cabinet takes any further decisions to increase them further (eg, through a Budget 2024 cost adjustment for 2025).

37. We consider there are two options to temporarily increase the cost adjustment from 2024 (above the 5 percent increase):

    a. *Option one:* Bringing forward funding across the forecast period to increase funding rates in 2024;
        i. This option would involve funding the cost of a higher funding rate in 2024 to be offset by a reduced funding rate in 2025, 2026 and 2027. For example, a further 3 percent increase in the 2024 funding rate (8 percent increase on 2023 rates) could be offset by a 1 percent reduction in 2024, 2025 and 2026 (4 percent increase on 2023 rates).
        ii. This would simply rephase available funding and would not result in a net funding increase to providers over the period.

    b. *Option two:* Using the underspend in Vote Tertiary Education to fund a temporary increase in funding rates for 2024 and 2025
        i. Similar to option one, this option would allow an increase above 5 percent in 2024 and potentially 2025 rates, but would maintain the outyear rates at current levels (which includes the 5 percent increase from Budget 2023).
        ii. This option would still result in providers facing a decrease in funding rates when the temporary increase ends (2025 or 2026), however would be a smaller decrease as funding rates in these years will have been maintained at current rates.

38. Option 1 is unlikely to benefit providers (given that a higher upfront increase would be offset by lower rates in subsequent years) unless the Government committed to maintain higher rates on an ongoing basis, which would likely require a Budget 2024 precommitment.

39. Option 2 would likely be welcomed by the sector and would provide a one-off increase across all providers but would not address the longer-term issues facing universities nor have any impact on current change proposals. The funding would also be spread across the entire tertiary education system and would only make a marginal difference for those universities facing structural financial issues.

40. Initial estimates are that it would cost approximately $24 million to increase Level 3+ subsidy funding rates by an additional one percent for one year. For example, if Ministers wished to make the 5 percent increase for 2024 to instead be 10 percent that would cost around $120 million. Under such a scenario, VUW's 2024 funding would increase by a further $7.5 million, Massey's by a further $8.5 million and Otago's by a further $13.5 million. Given that this would only be a one-off increase, it would be unlikely to have a significant impact on the overall savings plans for institutions with large forecast deficits such as VUW.

Options to target the cost adjustment

41. Cost adjustments to funding rates would be applied across the sector and cannot easily be specifically targeted to institutions or specific sub-sectors. While previously, the tertiary funding system differentiated funding rates for certain sub-sectors (particularly Private Training Establishments), this is not the case currently and is not something we recommend introducing back into the system.

42. Targeted cost adjustments could alternatively target certain levels of provision (such as Level 7+), or certain areas of provision (particular subjects). For example, If Ministers wish to target additional funding toward universities, the most effective way would be through funding rates for degree-level delivery and above, which universities are the primary deliverers of. We note that this would increase gaps between funding rates for sub-degree provision through the unified funding system for vocational education and training and those for degree-and-above delivery.

43. If an additional increase for 2024 was to be applied only to tuition subsidy rates for degree-and-above (L7+) delivery, we estimate that each additional percentage point increase would require an additional $16 million. For example, if Ministers wished to make the 5 percent increase for 2024 to instead be 10 percent but targeted at only L7+ delivery, this would cost around $80 million, with a broadly similar benefit to the universities as an across the board increase of the same level. This would, however, raise significant equity concerns with other providers.

Alternative options

44. This section canvasses a range of alternative options that could be considered for government intervention. Due to the time available in providing this advice, the options are high-level. Further information can be provided at Ministers request.

Increasing borrowing limits

45. It has been proposed that one option to support the financial position of universities is to increase borrowing limits. Currently, VUW, Massey, and Otago all have borrowing consents granted by the Secretary for Education.

46. While increasing borrowing limits provides greater access to cash, it does not address the underlying profitability problem in these institutions. Increasing the limit would provide more time to consider issues, but subsequently greater savings would need to be made to address the even larger deficit.

47. 9(2)(f)(iv) [redacted] The TEC and the Ministry of Education will continue to monitor whether any such response would be appropriate. Reporting and repayment conditions can be applied to borrowing consents by the Secretary for Education.

One-off increase to Performance Based Research Fund (PBRF)

48. Ministers could consider a one-off increase to Performance-Based Research Fund (PBRF). The PBRF allocates $315 million per annum based on a six-yearly cycle of assessed research performance for the purpose of supporting the delivery of research-led teaching in our research-focused tertiary education institutions.

49. Universities are the primary beneficiaries of the PBRF, and it therefore provides more targeted funding to universities. It would provide some immediate relief to these institutions as funding would be able to be distributed from in the 2023 calendar year. However, this would likely give rise to concerns about inequitable treatment of other TEOs currently experiencing financial challenges, including the concerns about the PBRF and its distribution raised by the three wānanga.

50. A one-off injection into the PBRF would need to be distributed on a pro-rated basis of its current distribution. Similar to a tuition subsidy increase, the University of Auckland would be the largest beneficiary. For illustrative purposes, the current distribution of the $315 million and the distribution of an additional $50 million is shown in the below table.

	Share of $315m ($'000s)		**Share of additional $50m ($'000s)**
Te Pūkenga	$8,767.7	2.8%	$1,391.7
Lincoln University	$10,281.8	3.3%	$1,632.0
University of Waikato	$12,969.8	4.1%	$2,058.7
Auckland University of Technology (AUT)	$21,324.8	6.8%	$3,384.9
University of Canterbury	$27,406.0	8.7%	$4,350.2
Victoria University of Wellington	$36,614.6	11.6%	$5,811.8
Massey University	$39,190.9	12.4%	$6,220.8
University of Otago	$62,816.1	19.9%	$9,970.8
University of Auckland	$93,533.3	29.7%	$14,846.6
Other TEOs	$2,094.9	0.67%	$332.5
TOTAL	**$315,000.0**	**100.0%**	**$50,000.0**

Increase Annual Maximum Fee Movement (AMFM)

51. You recently agreed to consult on a 2.8 percent increase to the AMFM, in line with BEFU 2023 inflation forecasts. Ministers could consider increasing the AMFM higher than 2.8 percent as a way to provide support to the sector. As noted in our earlier advice, this would require Cabinet agreement and additional ongoing funding to meet the cost of increased student loan scheme lending ($36 million over the forecast period for an increase in the AMFM to 5 percent) [METIS 1310304 refers].

52. Officials consider that while higher fee revenue would be welcomed by providers it would have a limited impact on the current financial challenges faced by universities. Revenue from fees makes up approximately 18 percent of the total revenue and therefore an addition 2.2 percent (for a total 5 percent increase) would likely not be sufficient to influence decisions around lay-offs that universities are currently facing. In addition, a higher AMFM would result in an increase fee paid by students.

Section 556 grants

53. Under the Education and Training 2020 Act, the Minister of Education is able to direct funding to an individual institution if they believe the grant is in the national interest. The level of grant can be decided by you, as Minister, and it could be funded through underspends.

54. A one-off grant could be provided to all, or some universities currently facing financial challenges and could be provided almost immediately to the recipients. Officials would have concerns about whether this would be in the national interest as providing additional funding to only some universities would likely lead to precedent setting risks, would likely result in perverse financial management incentives on providers and would create equity concerns across the tertiary system.

55. In addition, unless the grant was being provided on an ongoing basis, then we consider it would simply be delaying changes that need to be made, and that further savings would be required in future years. It would not address the underlying profitability of these institutions.

Opportunities for long-term reform

56. On balance, we do not consider that any of the above options address the immediate needs of the sector or would result in mitigating the potential job layoffs currently planned within some universities. Many of the options above would only provide a one-off or time-limited support that would likely only delay the changes that are needed to make operations more efficient and effective and ensure medium-term sustainability.

57. We do consider that there would be merit in a more substantial review of the funding system for higher education. This would be a significant task that would have both Budget and potentially legislative implications and would need to be considered against other Government priorities after the upcoming general election. This could include consideration of both the rates at which provision is funded, the balance of volume and non-volume linked funding, options to support the growth and development of new delivery models within higher education and the desirability of any greater coordination or specialisation between institutions. This could also include consider of broader issues such as university governance. Any reform should be focussed on improving learner outcomes from higher education, rather than solely on institutional sustainability.

Financial implications

58. There would be financial implications if any of the options discussed in this paper are progressed. We understand that Ministers are keen to consider looking at options to fund any potential support within Vote Tertiary Education baselines.

59. Currently, across the whole Vote Tertiary Education we are expecting a $170 million underspend in 2022/23, largely due to lower than expected enrolments in 2022 and 2023. This is made up of:

    a. $122 million is from within the Tertiary Tuition and Training Multi Category Appropriation (MCA); and
    b. $50 million is from the Fees Free Payments appropriation

60. You will be receiving a separate paper on the forecast surplus within the MCA for 2022/23. At this stage we expect that up to $50 million of the forecast surplus be retained as reserves on the TEC's balance sheet to help manage demand fluctuations and baseline reductions in future years. This leaves $70 million surplus available within the MCA, in addition to the $50 million in the Fees Free Payments appropriation above. Therefore, we expect there is approximately $120 million available for reprioritisation.

61. Funding is due to be returned to the centre at the end of the current financial year (30 June 2023). Therefore, if Ministers wished to progress with an option to provide support to universities with the current underspend, decisions would need to be taken by Cabinet before this date.

Proactive Release

62. It is recommended that this Briefing Note is not released until decisions have been taken on whether support is provided to the university sector.

Annexes

The following are annexed to this paper:

Annex 1: Breakdown of 2022 and 2023 university results

Annex 1: Breakdown of 2022 and 2023 university results

The sector reported a breakeven result in 2022…

1. In 2022, the university sector budgeted for a $59.1 million surplus but only reported a $3.9 million surplus (0.1 percent of revenue). *Table 1* presents the 2022 audited results for each university.

Table 1: Net surplus/deficit, budget versus actual, 2022

	2022 budget ($ million)	2022 result ($ million)
Auckland	9(2)(b)(ii) [redacted]	
Lincoln		
AUT		
Massey		
Otago		
Waikato		
VUW		
UC		
TOTAL	**$59.1**	**$3.9**

2. Six out of the eight universities reported deficits in 2022 with all six reporting a result worse than budget. Only the University of Auckland and Lincoln University reported a surplus. This is the first time in our records dating back to 1996 that six universities have reported a deficit in the same year.

3. There were two key drivers of the worse than budget result for 2022:

   - Domestic enrolments fell by 4 percent when the sector had budgeted for a 2 percent increase; and
   - There was a 9(2)(b)(ii) [redacted] loss from net trust income due to poor performing financial markets. The loss is unrealised, and relates to the performance of university foundations, but it does impact on the overall result. Over the previous three years, the university sector benefited from an average gain of over $150 million per annum in net trust income which has helped ensure the sector continued to report surpluses despite the negative impacts of COVID-19.

…and the university sector is forecasting a large deficit in 2023…

At the end of 2022, the university sector budgeted for a $17.8 million surplus in 2023. *Table 2* shows that five out of eight universities budgeted for a surplus. Based on forecasts submitted to the TEC at the end of May 2023, the sector is now forecasting a $62.6 million deficit (1.3 percent of revenue) for 2023. Seven out of eight universities are forecasting a deficit with only 9(2)(b)(ii) [redacted] forecasting a surplus. If achieved, this would be the first time in our records dating back to 1996 that the sector as a whole has reported a deficit.

Table 2: Net surplus/deficit, budget versus forecast, 2023

	2023 budget ($ million)	**2023 reforecast ($ million)**
Auckland	9(2)(b)(ii) [redacted]	
AUT		
Lincoln		
Waikato		
UC		
Otago		
Massey		
VUW		
TOTAL	**$17.8**	**-$62.6**

4. The key drivers for the sector forecasting a worse than budget result in 2023 are:

- The sector budgeted for domestic EFTS to increase by 2 percent, but they are now forecast to fall by 3 percent; and
- Expenditure is forecast to be $73 million higher than budget due to the high inflation environment and an inability to achieve desired savings targets.

Te Tāhuhu o te Mātauranga
Ministry of Education

Draft Cabinet paper seeking time-limited tuition subsidy increase to support degree level and above delivery

To:	Hon Jan Tinetti, Minister of Education		
Date:	21 June 2023	**Priority:**	High
Security Level:	In Confidence	**METIS No:**	1313091
Drafter:	Scott Connew	**DDI:**	9(2)(a) [redacted]
Key Contact:	James Campbell	**DDI:**	
Messaging seen by Communications team:	No	**Round Robin:**	No

Purpose of Report

The purpose of this paper is to provide you with a draft Cabinet paper proposing a time-limited increase to tuition subsidies for degree level and above provision (funded from the forecast Vote Tertiary Education 2022/23 underspend) and provides you with advice on options for the structuring of this increase.

You may wish to share this advice with the Prime Minister, Minister of Finance and the Minister of Research, Science and Innovation to inform final decisions on the Cabinet paper.

Proactive Release

1. agree that the Ministry of Education release this briefing after decisions have been made on any funding increase, subject to appropriate redactions as per the Official Information Act 1982.

Agree / Disagree

Katrina Sutich
General Manager, Tertiary Education
Te Pou Kaupapahere

21/06/2023

Hon Jan Tinetti
Minister of Education

29/06/2023

Background

1. Following our briefing note on the current financial challenges facing the university sector [METIS 1312632 refers], we understand that Ministers have discussed these issues and agreed to proceed with a time-limited increase to tuition subsidies for degree-level and above delivery and to commit to a review of higher education funding, including the Performance Based Research Fund.

Proposed Cabinet paper

2. Your office has requested an urgent draft Cabinet paper today for your review, ahead of consideration by Cabinet on 26 June. We have attached an initial draft of the Cabinet paper, with a proposed approach based on the commissioning and our advice on a reasonable approach to a time-limited increase. Further information responding to your office's questions on other options is below.

3. The draft Cabinet paper proposes:

    a. An additional funding increase of 4 percent for all degree level and above delivery (total 9 percent including the cost adjustment announced in the Budget) for both 2024 and 2025 at an approximate cost of $130m. As noted below, we are comfortable that an increase of this level could be accommodated within the underspend, although we are in the process of doing more detailed costings, as well as confirming our forecast of the likely underspend. We will provide further advice on whether there is any scope to increase funding beyond this level.

    b. As noted below, this could be rephased to a larger one-year increase, or a lower three-year increase, but could not provide for an outyears increase without new ongoing funding.

    c. The increase would apply to degree and above delivery across the tertiary system (universities, Te Pūkenga, Wānanga and private training establishments). While the universities delivery a large majority of this provision, we strongly recommend that the increase apply across all provider types. Distinguishing by provider type would raise significant equity concerns, introduce complexity into the funding system and would not support other institutions (particularly Te Pūkenga) that are also facing funding challenges associated with lower enrolments.

4. The Cabinet paper also proposes that the Government will review higher education funding, including the Performance Based Research Fund. We would advise that this should be a first-principles review and note that this would be a very significant policy project (which, depending on parameters, could be similar in scale to the Reform of Vocational Education), which we would expect to take a number of years and which would require additional resourcing to progress.

5. We would only propose to undertake initial scoping and planning work prior to the general election and would expect to seek additional funding to progress the review through Budget 2024. Subsequent decisions would be required on the scope of the review, including the extent to which it includes issues such as the tertiary investment system, institutional governance and quality assurance within higher education.

Advice on alternative options

6. Your office has requested advice on alternative options that could be considered for this increase:

Any variations/options that could be considered to front load the 5% increase in addition to the $120m boost?

7. As noted in our earlier briefing note, we do not think there would be any benefits from front-loading the 5 percent increase as it would simply rephase already committed funding, with no significant end benefit to tertiary providers. Doing this would come with a number of risks as it would also make the increase more complex to communicate, create a larger drop once increased near-term funding ends and create expectations across the sector of funding remaining at its elevated levels.

Is there a way the $50m underspend that TEC wants to retain as reserves can be eased a bit to a lesser amount to put more money into further increase the degree-level subsidy increase, possibly to 10%

8. After consulting with the TEC, we agree that the level of funding to be transferred to the TEC's balance sheet mechanism could be reduced to $30 million. This would increase the balance sheet to $110 million, which should be sufficient to allow the TEC to fund 100% of forecast volume in 2024 and something closer to 99% in 2025 – as well as managing the TEC's obligation to fund providers to 102% of their agreed allocation. 9(2)(f)(iv) [redacted]

9. This would leave approximately $130 million available to reprioritise towards a funding rate increase. We are working with the TEC to confirm this amount and whether there is any scope to provide for a higher increase than currently proposed in the Cabinet paper (an additional 4 percent for 2 years at an approximate cost of $130 million).

10. 9(2)(f)(iv) [redacted]

Is there another way to spread the underspend by increasing the funding by 10% in total for 1-2 years plus 1% increase in outyears?

11. While the underspend could be spread over multiple years, it could not provide funding for any increase in outyears, as that would require additional ongoing funding.

12. In terms of the phasing, Cabinet could decide to progress a larger rate increase for one year (2024), or to spread the funding over two or three years. The key consideration here is that the larger the increase is for 2024, the larger the subsequent decrease will be for 2025 and subsequent years.

13. We note that while a longer period would provide more stability and time for the funding review to progress, it would likely embed expectations that rates will remain at these levels on an ongoing basis and possibly encourage providers to delay necessary changes in the hope that the new funding system would make them unnecessary.

Risks

14. Our earlier advice outlines the key risks associated with any one-off investment in higher education, including that it may have a limited impact on the restructuring decisions of individual institutions. While the risks around precedent and institutional incentives are significantly lower than a funding increase targeted at particular institutions, there is still a risk that it undermines the accountability of institutions for their own financial performance 9(2)(g)(i) [redacted]

15. We also note that there are still risks associated with targeting degree and above delivery. Providers such as Wānanga and PTEs that primarily deliver sub-degree qualifications are likely to object to the sole focus on degree and above delivery and the (temporary) widening of the funding differential between vocational and degree level delivery.[1]

Next Steps

16. Subject to your feedback on this paper and the draft Cabinet paper, we will provide you with a final Cabinet paper as soon as we are able to so that it can be lodged for consideration by Cabinet on Monday 26 June, along with speaking points for the meeting.

17. Any changes to funding rates will need to be implemented through the relevant 2024 funding determination, which is currently going through mandatory sector consultation. We would propose to reissue the draft determination with updated rates giving effect to Cabinet's decision.

Proactive Release

18. It is recommended that this briefing note is proactively released after final decisions are made on this matter, with any information needing to be withheld done so in line with the provisions of the Official Information Act 1982.

Annexes

The following are annexed to this paper:

Annex 1: Draft Cabinet paper: Time-Limited Tuition Subsidy Increase to Support Degree Level and Above Delivery

Annex withheld under section 9(2)(f)(iv)

[1] We note that the Wānanga have not faced the same pressure on enrolments in 2023 as other providers with the Wānanga sector seeing an overall increase in enrolments of 14 percent compared to 2022.

Information Update – Speaking points for Tuition Subsidy Increase Cabinet paper

Drafter: Scott Connew-Simmons
Metis Number: 1313316
Date: 23 June 2023

Purpose

This information update provides speaking points to support the Cabinet discussion on 'Time-Limited Tuition Subsidy Increase Degree-Level and Above Tertiary Education' on Monday 26 June.

Context

You have submitted a paper to Cabinet on Monday 26 June 2023 proposing a 4 percent increase to tuition subsidies for degree-level and above tertiary education delivery in 2024 and 2025, on top of the 5 percent increase announced as part of Budget 2023.

The paper also recommends that Cabinet commission a review of higher education funding and that you to report back to Cabinet with a proposed terms of reference and scope for that review in December 2023.

Speaking points

- 9(2)(g)(i) [redacted]

- 9(2)(g)(i) [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]