



Education Report: Challenges and opportunities in higher education funding

To:	Hon Penny Simmonds, Minister for Tertiary Education and Skills		
Cc:			
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Purpose of Report

1. This briefing provides a high-level description of challenges and opportunities in higher education funding, outlining key elements from our scoping to date, to inform further discussion of your priorities for action and future advice on a review.

Summary

2. We understand that you are interested in progressing a review, with a tightly scoped Terms of Reference that reflects the current constrained financial environment.
3. The higher education sector (which includes universities, Te Pūkenga, Wānanga, and Private Training Establishments) is facing major financial pressure; notably, the university sub-sector is collectively forecasting a deficit this year for the first time in its history. This has been driven by inflationary pressures outpacing funding rate increases, an overall decline in domestic enrolments, and international student enrolments still lagging behind pre-COVID levels. Providers have been responding with staff and programme retrenchment.
4. The immediate question in response to these challenges is the extent to which the Government is willing and able to support increased revenue for providers, whether through higher tuition subsidies, enabling higher domestic tuition fees, or growing international student revenue. However, this environment also presents an opportunity to consider broader and longer-term challenges for higher education and how the funding system could incentivise better outcomes.
5. Officials have been scoping a review of the higher education funding system (initiated by the previous Government), which has highlighted areas where funding and related levers could be used to strengthen system performance. These include:
 - a. **Recognising modern delivery models:** Improving how the funding system accounts for new and changing approaches to education, including the growth of online elements as 'business as usual'.

- b. **Addressing national interests:** Protecting delivery in priority and niche areas, including through encouraging specialisation or networked delivery.
 - c. **Supporting learner success:** Better use of funding levers to support equitable and excellent outcomes for all learners, given the higher education system's ongoing poor performance for particular groups of learners, the low amount of equity-focused funding, and the potential to address additional markers (e.g. first-in-family status, and/or learners from low socio-economic backgrounds).
 - d. **Treaty of Waitangi considerations:** Enabling measures that support improved system performance for Māori, such as the availability of Kaupapa Māori and Māori-Medium education pathways and options, better transition experiences for Māori, engagement with iwi, and a stronger Māori academic workforce.
 - e. **Aligning research funding:** Lining up funding models (especially the Performance-Based Research Fund) and incentives with intended outcomes of the Research, Science, and Innovation system. ✓
6. Our scoping specifically used a funding-based lens to examine higher education. However, increasing providers' performance and position may also require other interventions, such as governance or stronger guidance to and expectations of providers. Depending on your priorities, a review could include examining these non-financial levers.

Proactive Release

1. **agree** that the Ministry of Education release this briefing in full once it has been considered by you.

Agree / Disagree

Recommended Actions

The Ministry of Education recommends you:

- a. **note** that the higher education sector is facing significant and sustained financial pressures

Noted

- b. **indicate** if you would like to meet with officials to discuss your priorities for action in relation to higher education funding

Yes / No

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28/11/2023

Hon Penny Simmonds
Hon Penny Simmonds
Minister for Tertiary Education and Skills

10/01/24

Background

1. The higher education sector is under significant financial pressure. Most notably, falling domestic student numbers (following increases during COVID-19) and ongoing low international enrolments, accompanied by high inflation, have led to four of eight universities facing deficits in 2023 and the overall sector expected to be in deficit this year for the first time in history. Pressures have been felt in different ways and with different intensity across the system, but have led to restructuring, staff redundancies, and programme closures.
2. In June 2023, Cabinet agreed to a four percent increase in higher education funding rates for 2024 and 2025 [CAB-23-MIN-0269 refers] to help relieve financial pressures. This led to some providers scaling back initial proposed reductions.
3. At the same time, Cabinet agreed to a review of higher education funding and financing, including alignment with research, science, and innovation (RSI) priorities. Cabinet requested the Minister to report back to Cabinet with proposed Terms of Reference for a review in December 2023 [CAB-23-MIN-0269 refers].
4. The Tertiary Education Commission (TEC) has provided you with advice on the current state of the tertiary education sector [AM-23-00900 refers], including the financial environment, that may further inform your consideration of priorities for work on higher education.

Context

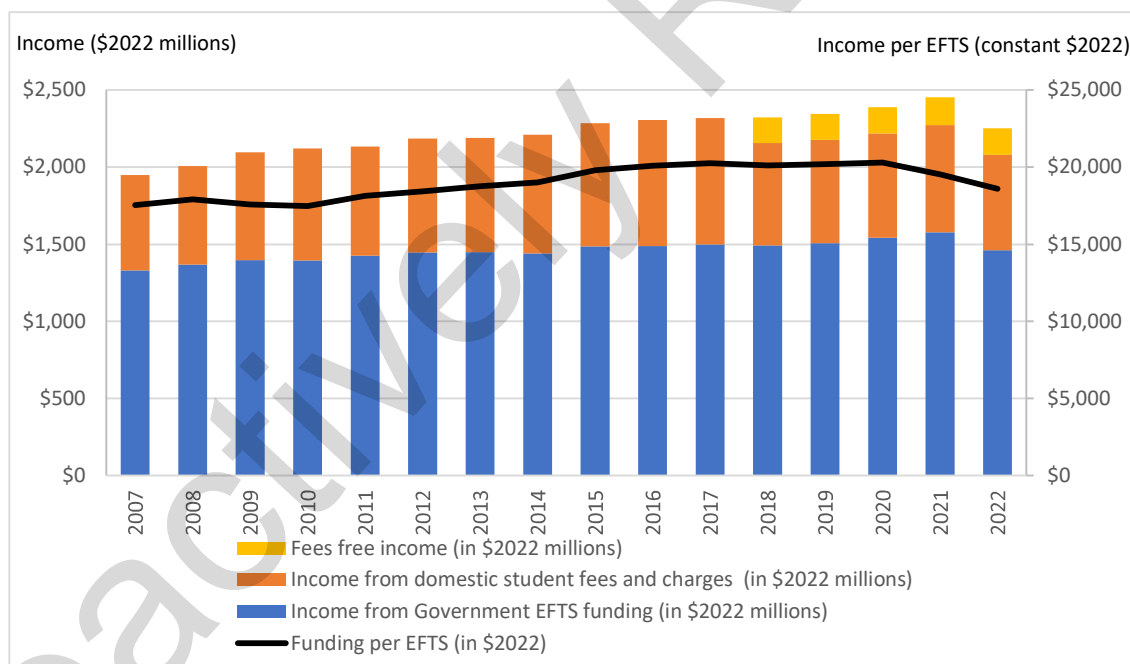
5. Higher education – generally defined as education offered at degree level and above – is a key contributor to our economic performance, our ability to grow and innovate, and achieving better social outcomes. **Annex 1** provides a brief overview of our higher education system and describes the higher education funding model in more detail.
6. Higher education is not just delivered by our eight universities but across all parts of the tertiary education system. Universities and Te Pūkenga offer a broad-based range of programmes (with a strong applied focus in the case of Te Pūkenga), while Wānanga and PTEs are generally more specialised.
7. The higher education system is also a key part of our RSI landscape. Universities are the base for much of our overall research activity, while other providers specialise in particular areas. These providers are also the pipeline through which we create and develop our domestic research workforce. This research function is critical in the sector's contribution to innovation, national productivity, and the advancement of knowledge.
8. Our scoping work involved engagement with the sector between July and September 2023. Together with TEC and the Ministry of Business, Innovation, and Employment (MBIE), we met with key stakeholders about the potential scope and form of a higher education review. These included engagements with senior leaders, peak bodies, and students' associations, **Annex 2** summarises themes we heard in these engagements.
9. Our scoping has been intended to identify possible issues that could be subject to further, detailed analysis in a review. This would include critical appraisal of the evidence around concerns raised with us by the sector and stakeholders, as well as evaluating a range of potential solutions and system shifts.

Financial Sustainability is a Pressing Current Issue

Our higher education providers are facing genuine financial pressures...

10. Funding pressures are creating acute financial challenges for higher education providers [refer AM-23-00900]. In recent years the higher education sector – in common with other parts of tertiary education – has faced noticeably higher costs, including higher salaries, higher interest rates, broader student support needs, and some higher compliance costs. Funding necessarily large capital expenditures for fit-for-purpose teaching and research facilities is also becoming more difficult. Most of these sources of increased cost are unlikely to shift soon.
11. Meanwhile, as shown in figure 1, real income per domestic Equivalent Full-time Student (EFTS) at universities was essentially flat from 2016 to 2020 and has fallen significantly over the past two years. In 2022 this was at its lowest level since 2012 and it has fallen further in 2023. These aggregate figures also mask the fact that tuition subsidies and fees for some individual areas of provision have decreased in real terms over the past decade. In particular, funding rates for large areas of provision (such as humanities, commerce and some health-related fields) will be around 10 percent lower in 2024 than they were in 2014 in real terms (even after the time limited increase for 2024 and 2025).

Figure 1: Domestic volume-based income for universities, adjusted for inflation, 2007-2022



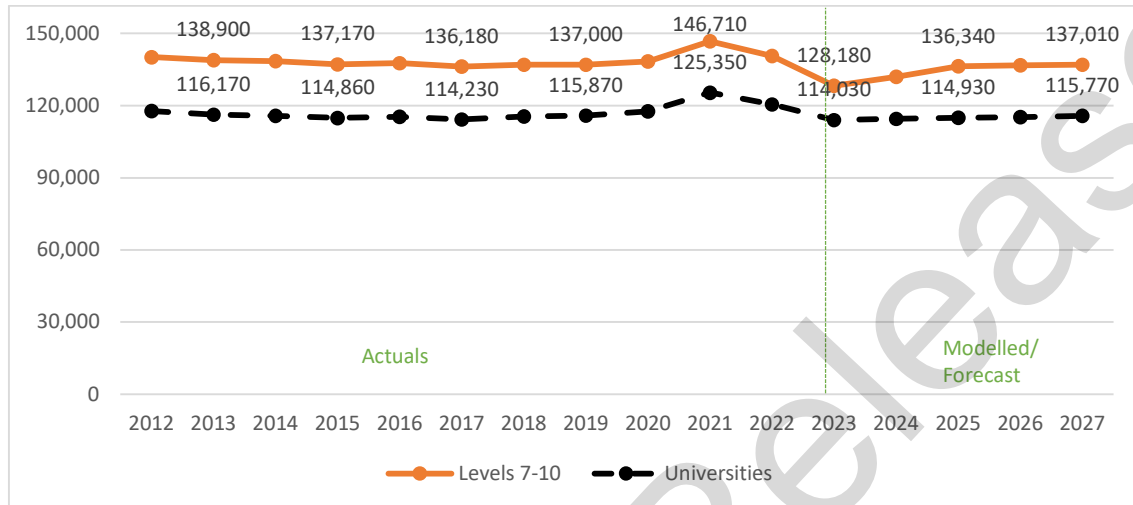
12. The impacts of COVID on international student flows has disrupted the ability of providers to use international student income to supplement lower income from domestic students. For example, Education Export Levy data shows that university income from international fees in 2022 was 45 percent lower than in 2019.

...which are unlikely be resolved by increased domestic enrolments...

13. The long-term volume of domestic learners in the higher education sector is a critical aspect of sustainability, as it affects income from both tuition subsidies and fees. As

shown in figure 2 below, the COVID years of 2020 and 2021 saw temporary increases in domestic enrolments, but numbers have fallen considerably and any recovery is unlikely to lead to numbers significantly above pre-COVID levels.

Figure 2: Domestic actual and forecast higher education EFTS, 2012 to 2027¹



14. Enrolment decreases have been felt unevenly across the sector and driven very difficult financial positions at some providers. While domestic enrolments are expected to stabilise near to pre-COVID levels, these providers are likely to continue to face acute financial challenges. It is important that providers maintain accountability for their own financial position, and provider decision-making is likely to have contributed towards these difficulties. But there are questions about how well our funding system supports providers to manage through financial cycles and sharp enrolment declines without undermining core capability and quality.
15. A recovering international student market will relieve some current pressure. However, relying on international student income can render New Zealand’s higher education system vulnerable to international shocks and requires providers to actively compete – including with each other – in an increasingly aggressive global market for students. Quality support infrastructure such as accommodation, immigration support, and health services also require further investment by providers. We are providing you with further advice on international education in tertiary education [refer METIS 1319472].

... and the extent to which the Government will support the sector through this period is a pressing question.

16. Our briefing to you on tertiary education and skills [refer METIS 1319031] has highlighted the difficult fiscal environment, and the need to carefully prioritise expenditure as a result.
17. The sector has emphasised to us their view that current funding challenges are having a genuine and immediate impact on the viability of education and research provision.

¹ Data based on PREFU modelling. University data includes a small amount of non-HE delivery. Data to 2022 is based on actual enrolments. 2023 is a projection of the year-end total based on enrolment data to August 2023, and totals for 2024 onward are forecast values.

Their support for any broader review of higher education funding will likely depend on the extent of additional support that can be offered in this context.

18. Increased support would not need to involve injecting new money into the system. Other options for increasing provider revenue include allowing greater tuition fee increases, or reprioritising funding that is currently directed to support learners and employers.
19. The June 2023 temporary increase in higher education subsidies has given providers some limited financial relief. However, some providers remain in a difficult financial position. This is creating risks for the ability of the system to sustain the delivery of some programmes to an international standard, retain research capacity, offer appropriate learner support, and use new models to deliver high-quality, work-relevant education.

There are opportunities to strengthen system performance through funding levers

There are longer term questions about how best to support evolving models and changing cost structures...

20. Models of good practice in higher education delivery are continuing to evolve at an increasingly rapid pace, with increasing focus on flexible/hybrid delivery and the inclusion of work-integrated learning within a broader range of provision. However, funding for this delivery (including both tuition subsidies and fee revenue) is premised on historic cost structures.² While subsidies and fee regulation arrangements have been reviewed and updated over time, they are still largely based on these historic levels.
21. These funding levels have a strong influence over how education programmes are delivered and the models that providers are willing to explore, design, and offer. Updating delivery models can be difficult; for example, flexible and work-integrated learning can involve very different cost structures than in traditional 'lectures, labs, and tutorials' education. Our scoping engagement also noted distinctive cost structures and pressures associated with supporting Te Reo and Kaupapa Māori education models.
22. Our funding system does not attempt to directly match tuition subsidies to the cost of provision and assumes some cross-subsidisation will occur. However, extensive cross-subsidisation becomes less viable when providers are put under greater financial pressure, leading to a greater line-by-line focus on financial status of individual programmes and increasing pressure to reduce expenditure on 'recipient' programmes. Managing cost via cross-subsidisation may be a particular obstacle for PTEs and Wānanga who lack the broad base and scale of provision available to other providers.

...while maintaining overall capability and an effective network of provision.

23. The adequacy of funding rates also depends significantly on economies of scale, with lower funding rates for some subject areas (e.g. commerce, law, and arts) often presuming high enrolment levels. This can be problematic where providers are looking to innovate, specialise, move into new areas, or rapidly scale up delivery, or where a subject now attracts a significantly smaller number of enrolments than it did in the past.

² – funding categories for tuition subsidies were introduced in 1991 and reviewed in the early 2000s, while fees are largely based on the levelst they were in 2000 when fee 'stabilisation' was introduced.

24. While it is important that providers update their mix of delivery to reflect changing demand from learners, problems arise where these changes create risks to the overall network of provision (particularly in niche areas) or impact on overall student access, teaching quality, and/or research capability. A pressured financial environment can also reduce appetite and resources for risk, creating a barrier to innovation.
25. Government also has an interest in ensuring the viability of the pipeline for frontline 'public service' professions. There are three major clusters of these: teaching professions, health professions, and social work professions. These are critical for any government's ability to effectively deliver some of our most important services, have their education regulated to protect public safety, and are areas where small specialist programmes that rely heavily on cross-subsidisation are relatively common.
26. A notable theme in our discussions with the sector has been the potential for greater collaboration and/or specialisation to maintain the viability of niche provision and to safeguard student access to a broad range of programmes across the network.

On some measures, our higher education system performs comparatively well...

27. On headline measures, our higher education system has some strengths compared to international counterparts. Our Bachelor's degree completion rates are among the highest in the OECD,³ and participation rates are above average. Bachelor's graduates' employment rates are also above average (90 percent versus the OECD average of 83 percent), although this may be mainly due to New Zealand's traditionally very strong labour market.

... but there are questions around broader outcomes, incentives, and support for learners ...

28. However, there are ongoing questions about how well programmes are preparing learners for future workplaces, and system incentives do not always encourage providers to focus on what is best for learners. For example, when learners shift to another provider or into employment before completing a qualification this leads to lower completion rates for their existing provider, and providers who recognise prior learning will receive lower income (from subsidies and fees) than if they require a learner to complete more courses.
29. As higher education has become more accessible, providers have needed to adapt their teaching to a more diverse student body. For example, learners who do not follow a linear path from school to higher education may require different support than other learners; our engagement highlighted the particular importance of recognising the range of pathways to higher education for Māori and Pacific peoples.⁴ Our engagements also indicated that COVID disruptions to schooling are likely to mean learners will have higher support needs in coming years.

... particularly for some specific communities and learner groups ...

30. Our system also performs poorly for specific groups of learners. First year retention rates for degrees are significantly lower for Māori and Pacific students, and as shown in figure

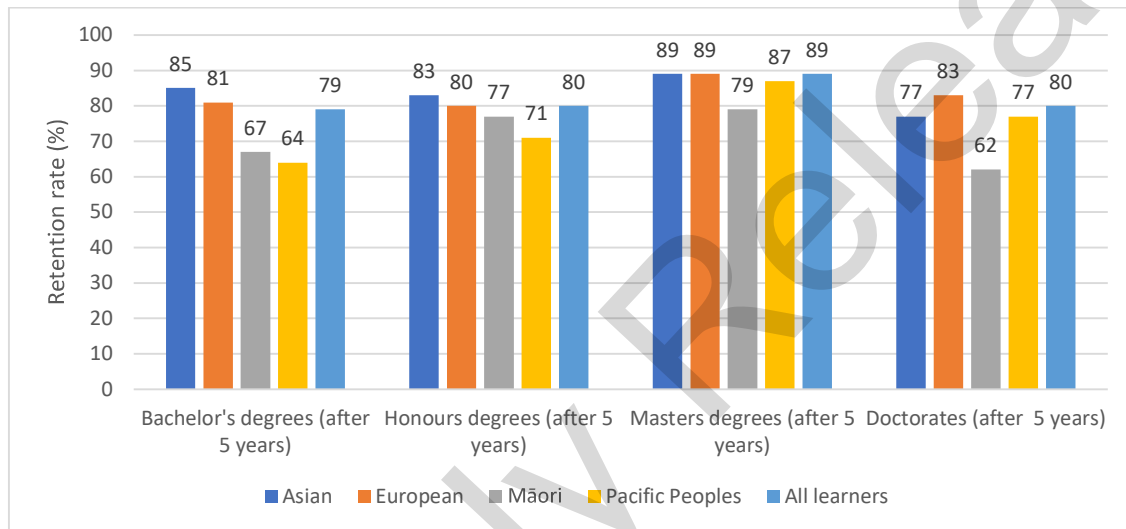
³ Based on full-time student completions within three years of the theoretical duration of a degree (see *Education at a Glance 2022*, Table B5.2: <https://www.oecd-ilibrary.org/sites/e3b05354-en/index.html?itemId=/content/component/e3b05354-en#chapter-d1e16292>)

⁴ In 2022, 38% of Māori and 32% of Pacific learners at degree level were aged 25 or older, compared to 27% of European/ Pākeha degree students.

3, only a little over half of Māori and Pacific learners who enrolled in a Bachelor's Degree in 2018 completed or progressed to a higher qualification within five years. We have very little clear data on how well our higher education system works for disabled learners, but analysis of 2013 data identified significantly lower rates of participation in higher education compared to non-disabled learners.⁵

31. Inequities extend through postgraduate study and on into academic careers, resulting in under-representation of Māori and Pacific peoples in the higher education workforce, especially outside disciplines dedicated to mātarauanga Māori, Te Reo Māori, and Pacific languages and culture. In 2022 only eight percent of university academic staff were Māori and only three percent identified with Pacific ethnicities.

Figure 3: Retention rates (%) for full-time domestic students by level of study and ethnicity⁶



... and the funding system does not clearly recognise the costs of tackling these issues.

32. Since 2018, the TEC has strengthened its focus on promoting learner success via its Ōritetanga Learner Success work programme; the TEC will soon be briefing you on this work. Providers are now required to focus on this area and identify changes to improve success through Learner Success Plans and Disability Action Plans. Some providers have implemented highly successful support and equity initiatives in recent years, such as the University of Canterbury's Analytics for Course Engagement programme.

33. Providers have multiple internal levers to improve learner success. However, their approaches may be limited by the fact that the funding system generally does not focus investment on those learners who need the most support. While providers receive a small amount of Equity funding based on enrolments of Māori and Pacific learners, as well as some funding to support disabled learners, this represents less than one percent of total revenue. There is no funding in higher education that recognises other dimensions of inequity, such as first-in-family or socio-economic status.

34. This funding is widely considered insufficient. As a result, providers' progress in implementing learner support-focused measures and improving equity is variable.

⁵ We are currently working on improving data about how well our system works for disabled learners.

⁶ For students starting in 2017, or 2014 for doctorate students. Retention rates include students who have completed or who are still studying towards their qualification. The honours degree category also includes postgraduate certificates and diplomas.

Providers generally do not consider that funding recognises the particular challenges that they face in supporting success for their learners, while some staff and students argue that the current system lacks accountability and transparency.

35. The Accelerating Learner Success (Tūwhitia) fund allows, from 2024, the TEC to support specific initiatives to accelerate learner success plans. However, this will not shift the underlying funding situation facing providers.

Māori aspirations for Higher Education need to be recognised.

The Crown, agencies, and providers all have obligations under Te Tiriti ...

36. The Crown has a range of rights and responsibilities in relation to higher education under Te Tiriti, including active protection of taonga, ensuring high quality public education for all learners, and the efficient and effective management of public financial resources. The Crown's responsibilities under Te Tiriti are reflected throughout the Education and Training Act 2020, and reinforced in the current Tertiary Education Strategy.
37. These obligations are about more than equity considerations. The system should be capable of supporting options for ākonga for and within higher education, including those who want to follow Māori-Medium and Kaupapa Māori-led education pathways. The Wānanga play a distinctive role in this space, offering kaupapa Māori provision from foundation through to higher education, with a focus on responding to the needs and aspirations of Māori learners, communities and iwi. We will soon provide you with advice on our Te Hono Wānanga work programme, which includes exploring options for approaches to funding and quality assurance of Wānanga.
38. As highlighted in paragraphs 28 to 29, our system does not currently work well for Māori. Considering how it can work better requires both acknowledging the distinctive role played by parts of the sector, and recognising that all providers must contribute to realising Māori aspirations and supporting Māori success.

... but there are challenges in meeting the needs and aspirations of Māori.

39. A broad theme from our scoping was that funding structures are not well-suited to support Māori learner success. Areas with particular resource implications include distinctive approaches to pastoral support, transition pathways that 'reach back' to begin before ākonga enter higher education, and the need to invest in relationships with iwi. Growth in pre-tertiary Māori-Medium and Kaupapa Māori pathways is requiring more providers to invest in developing and extending models that give continuity for this learning pathway into higher education.
40. Improving higher education's performance for Māori also requires a capable workforce. This involves both building non-Māori staff capability and ensuring that there are strong pathways into and through academic careers for Māori. There is evidence that Māori academics likely face slower career growth and shoulder additional work responsibilities, and we heard during scoping that the small size of this workforce creates significant competition for staff – including with non-education sectors.
41. Providers are generally expected to meet these costs through baseline funding (and equity top-ups) and should see this as part of their 'business as usual' work. However, during scoping we also heard some sentiments that providers may use the absence of dedicated funds as an excuse for under-resourcing Māori success initiatives.

42. Iwi and hapū have their own specific priorities for education, research, workforce, and investment. In our scoping we heard a wide range of perspectives from Māori on the position of Te Tiriti and relationships with providers, and many different approaches to engaging with, working for, and responding to the aspirations and needs of iwi, including different views on the nature of partnerships between Crown and Māori within the higher education system. Higher education funding – and any potential review of funding – should support this diversity rather than assuming a particular relationship.
43. Our ongoing discussions with the Wānanga on their funding model suggest that they have different views on the extent to which they would want to be included within the mainstream higher education funding model in the long-term. Regardless, all three of the Wānanga would want to stay closely engaged with any review of funding settings, while maintaining parallel discussions about how best to support the distinctive elements of the Wānanga model.

And the interface with our Research, Science, and Innovation (RSI) system is a key issue.

Research is an integral function of the higher education system ...

44. Higher education providers, particularly universities, are critical to New Zealand's RSI system. The role of research in higher education is embedded in legislation, both in the definition of a degree and in the functions of universities, Te Pūkenga, and Wānanga. Providers deliver an increasing proportion of New Zealand's research output and are critical both as sources of expertise and in growing the research workforce pipeline. Centres of Research Excellence (CoREs), based in higher education providers, are generally seen as a very effective mechanism for promoting collaboration across providers and the RSI system more generally.

... but resourcing for research is very dependent on teaching delivery.

45. Throughout our engagement, providers and researchers highlighted the interdependencies between teaching and research within higher education. Providers' income from research is generally significantly smaller than that generated through teaching, and most departments and academics are fundamentally dependent on student-based funding (tuition subsidies and fees) to remain viable. A provider's research capacity – especially in disciplines or specialties where there are few external sources of funding – is thus strongly tied to student numbers.

The Performance-Based Research Fund (PBRF) is vital for providers, but may have reached a point of diminishing returns...

46. In scoping, providers emphasised the critical role of the PBRF in providing 'baseline' funding for their research and research-led teaching roles, including funding for postgraduate stipends. They highlighted that PBRF funding has not increased since 2018, and in real (inflation adjusted) terms has decreased by 21 percent since 2019. This has encouraged providers to rely more on additional sources of funding and may be limiting their ability to invest in stable development of research capacity (including new researchers). This may in turn be undermining the higher education system's ability to support our broader RSI system goals, including innovation, growth, and economic performance.

47. The previous government, through its Te Ara Paerangi work programme, committed to a review of the PBRF. The Fund has undergone multiple reviews over its lifetime, but these have largely focused on operational and procedural matters (e.g. weightings) and in our engagement there was broad – though not universal – support for a more fundamental review. While providers generally agreed that the PBRF had driven a stronger focus on research outputs and on some measures of research quality, some considered that it had reached a point of diminishing returns and no longer justified the significant compliance costs involved. Research staff were generally more critical of the PBRF, highlighting how drivers affected academic careers and a lack of transparency about how institutions choose to invest their funding.

... and drivers for researchers to engage with social and economic needs seem to be weak.

48. MBIE has also highlighted concerns that the twin pressures of reliance on external research income and the need to improve individual PBRF scores may be discouraging research that focuses on societal impact. Anecdotally, there are few incentives for academic researchers to engage with industry or others outside education unless specific funding for this is available. Links between firms and higher education-based researchers are often described as weak compared to other small advanced economies. Our scoping also identified the opportunity for clearer national signals regarding research priorities.
49. Engagements by MBIE have also suggested that current doctoral models do not align well to the needs of non-academic research careers, while the PBRF may be distorting academic career paths and creating job precarity for new researchers.

Next Steps

50. We understand that you are considering proceeding with a review of the higher education funding and financing system. We would like to discuss your priorities and parameters for a review and higher education policy more broadly.
51. A review would provide an opportunity to address funding issues and possible solutions in a systematic way, and to consider the relationships and dependencies between them. It would also provide an opportunity to look beyond the current financial situation and consider how the funding system can maximise performance and the potential benefits from our higher education system for productivity, innovation, and social outcomes.
52. Subject to your priorities, we would provide advice on options for the scope and process for a review. This could be kept relatively narrow, ranging from focussing on better operation of the existing system, to tightly scoped options for exploring the issues and opportunities outline in this paper. These options would still require a significant investment of the Ministry's tertiary policy capacity. Our ability to resource this work would depend on the scale of other major pieces of work that you may wish to prioritise.

Annexes

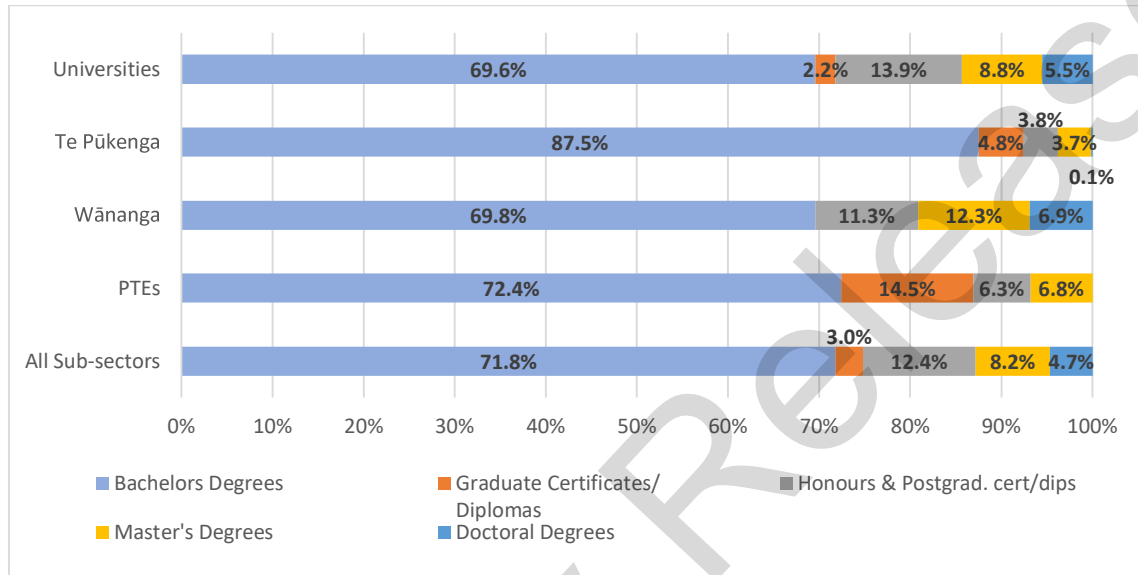
The following are annexed to this paper:

53. Annex 1: An Overview of The Higher Education Funding System
54. Annex 2: Summary of Stakeholder Engagement

Annex 1: An Overview of the Higher Education System

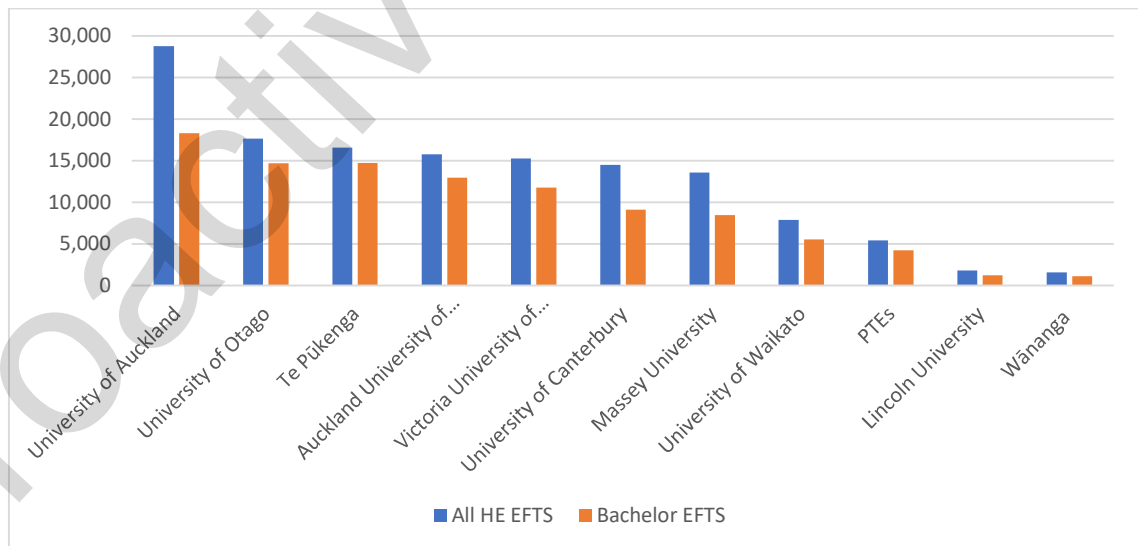
Higher Education consists of qualifications at levels 7 and above on the New Zealand Qualifications and Credentials Framework: undergraduate Bachelor's Degrees, postgraduate Honours, Master's, and Doctoral Degrees, and Graduate and Postgraduate Diplomas and Certificates.

Figure 4: Distribution of all higher education EFTS by level in each sub-sector; 2022



Higher education is delivered by all parts of our tertiary system. Our universities generally account for 80 percent of domestic higher education EFTS, but as shown in figure 4 in 2022 Te Pūkenga was our third largest higher education provider (as measured in domestic EFTS) and the second largest provider of Bachelor's degrees.⁷ Provision across the three Wānanga is similar in size to our smallest university, and PTE-based provision is considerably larger.

Figure 4: Domestic higher education EFTS at providers; 2022



⁷ If international EFTS are included, Te Pūkenga is our second largest HE provider.

Quality assurance in this system involves two separate bodies.⁸ NZQA assures Te Pūkenga, PTEs, and Wānanga as providers, and approves their higher education qualifications. Under the Education and Training Act 2020 (the Act), universities collectively self-manage quality through the Vice-Chancellors Committee (Universities NZ). Universities' overall organisational quality is assured by the Academic Quality Agency, while programmes are approved through the Committee on University Academic Programmes.

International student provision is an important part of the higher education sector, and was growing at all levels prior to COVID. International students have historically been an especially significant part of postgraduate delivery; in 2019 44% of masters and doctoral EFTS were from international enrolments and from 2017 to 2020 international students made up over half of doctoral EFTS each year.

A distinctive feature of higher education is its concern with matters beyond teaching, especially research. The Act requires all degree and postgraduate programmes to be “taught mainly by people engaged in research” and establishes conducting research as a core characteristic of universities, Wānanga, and Te Pūkenga. Many of our researchers are based in the higher education sector, and a substantial amount of our national research activity occurs there. Research and education intersect in research-led postgraduate programmes (doctorates and research-based masters); not only do these programmes educate our future researchers, but the students in them produce research and advance knowledge over the course of their learning.

Both universities and Wānanga also have a legislatively mandated ‘critic and conscience role’ requiring engagement with and contribution to civil society. These roles reflect what is sometimes referred to as the ‘40:40:20’ model; that an academic should spend approximately 40 percent of their time in teaching-related work, 40 percent in research-related work, and 20 percent contributing to society. Universities did highlight during scoping discussions their view that the need to seek external research funding is in practice placing this model under significant pressure.

Funding Higher Education

There are two main public funding sources for higher education: volume-based tuition subsidies and the Performance Based Research Fund (PBRF). In 2023 approximately \$1.6 billion is expected to be paid through tuition subsidies, and the PBRF pool is \$315 million.

Funding from these sources is allocated as bulk grants rather than being tied to specific enrolments or activities,⁹ and providers can largely allocate it as they choose. This gives providers flexibility to adapt their delivery to changing demands and supports the institutional autonomy of universities, wānanga, and Te Pūkenga, which is protected in the Act.

Te Pūkenga, Wānanga, and PTEs all combine their higher education teaching and research with significant vocational delivery.¹⁰ Funding for this provision is calculated differently, but essentially undifferentiated once received by a provider. It is therefore difficult to disentangle

⁸ Additional arrangements, such as professional or statutory accreditation, apply in some areas.

⁹ A tolerance band applies to tuition subsidies, requiring the value of providers' actual delivery to not diverge too significantly from that outlined in their investment plan.

¹⁰ Universities also deliver some sub-degree education funded through the Unified Funding System. While small in absolute terms, universities told us during scoping that this was important to support the bridging of students into degree programmes.

the HE-specific funding situation for non-university providers; for example, where vocational delivery might subsidise degree programmes or vice-versa.

Tuition subsidies are the largest individual source of funding for higher education (and for tertiary education overall). Funding is based on the mix (disciplines) and amount (EFTS) of provision to be delivered by a provider, as outlined in a provider's investment plan and approved by the TEC. Subsidy rates are based on a broad estimation of delivery costs in a field of study. The actual costs of delivering a specific course may be higher or lower than the funding notionally tied to it, due to how the course is delivered (e.g. standard class sizes, amount of higher cost activities like labwork), the number and seniority of staff involved etc. Providers manage these 'unders and overs' through cross-subsidies.

However, while the calculation of this funding is tied to student numbers and tuition delivery costs it is not intended to only fund teaching activities. Funding from this source also represents the government's main contribution to central and shared services, infrastructure, non-teaching staff, general operating costs, and the like. This is another reason for the funding being delivered as a single bulk grant, with each provider being free to determine how the subsidy funding they receive is best allocated through the organisation.

The overall amount of volume funding for higher education depends not just on the total amount of provision, but also the mix. If more students enrol in programmes that have higher subsidy rates, both total and per-student funding will increase. From 2013 to 2022 the mix of degree-level EFTS has not changed dramatically. However, shifts have occurred; for example, EFTS in Health – a field that includes programmes with a range of funding rates but is generally funded at above the sector average – have increased both nominally and as a percentage of enrolments.

The PBRF funding pool is divided amongst providers on the basis of the research performance of their staff, the number of research degree completions, and the amount of external research income received. Although open to all providers, universities receive 97 percent of this funding.

Government subsidies are only one element of how higher education is resourced. As well as public funding for tuition and research, providers have other mechanisms and revenue streams. Other revenue streams include student fees, philanthropy, and contracts, and financing mechanisms such as borrowing to fund capital development. Universities in particular also often maintain ancillary operations such as halls of residence and undertake research commercialisation and consultancy activities.

Most learners pay fees, which reflects the private benefit they gain from their study. In 2022, this accounted for 16 percent of universities' income, or 20 percent if the government's first year fees free initiative is included. Fee increases are constrained by the Annual Maximum Fee Movement (AMFM), set each year by the Minister of Education; this regime means that providers' total income per (domestic) student is in effect centrally fixed.

Support for students to pay fees exists through the first-year fees free scheme, and interest-free student loans. These do not represent additional funding for higher education provision, as the first-year fees free replaces the income that would have been paid by the student, and the loans scheme allows students to access guaranteed and subsidised borrowing.

Annex 2: Summary of engagement themes

The following is a high-level summary of feedback we heard during targeted engagement with the higher education sector and related stakeholders.

Our engagements were open-ended and sought stakeholder opinions on the general problems and opportunities in higher education in the current moment, with particular interest in how they relate to the funding system. A key message in our communication was that these meetings were being held to inform our scoping of options, and that future work would include further specific opportunities for sector input and engagement.

Who We Met With

In our engagements we met with representatives and leaders from:

- The Vice-Chancellor and senior management at each university.
- The students' association at each university.
- Te Pūkenga senior management.
- The New Zealand Union of Students' Associations (NZUSA) and the New Zealand Disabled Students' Association (DSA).
- The Tertiary Education Union (TEU).
- Universities NZ, Te Kahui Amokura and Komiti Pasifika.
- Quality Tertiary Institutions (QTI) and Independent Tertiary Education New Zealand (ITENZ).
- Centres of Research Excellence (CoREs).
- Taumata Aronui.
- Business NZ.
- Workforce Development Councils (WDCs).
- Science NZ, AgResearch, and GNS Science.

University engagement themes

In August 2023, we received a joint statement from Universities NZ outlining four initial key messages agreed by the sector regarding university funding:

1. Protect the core mission of universities - ensure they continue to conform to international norms so they can continue to attract and retain the best staff and students and be able to participate in knowledge exchanges and research collaborations.
2. Preserve core capability – don't force universities into a situation where they are having to cut quality of teaching, research, and student support just to remain financially viable.
3. Provide financial sustainability – any review that just moves money around in different ways, won't achieve much. A higher education funding system has to ensure that universities remain adequately funded in the long term to maintain quality of offerings at an agreed level.
4. Remain simple, predictable, and stable – universities need to be able to invest in staff, programmes of study, and infrastructure with as much certainty as possible as to future funding levels.

In addition, representatives of the Ministry of Education and the Tertiary Education Commission met with each of the eight universities individually over August 2023. As well as the vice-chancellor of each institution, we met with senior leadership such as deputy vice-chancellors and equivalent, directors of funding and planning, and some individual faculty management (e.g. deans). These meetings discussed current issues in higher education and what a review of the funding system could consider. The key messages we heard across individual conversations are discussed below.

The scope of a review

Universities broadly felt that a very narrow review scope (such as simply looking at funding categories) could be a missed opportunity to address broader issues they saw in the system. However, this was balanced against pragmatic concerns around the time involved, the level of agreement required for a wider review, and the need to respect institutional autonomy. We frequently heard that a review should consider what New Zealand wants from higher education in the coming decades, and that a clearer strategic vision for the future would help to guide the sector.

Funding and expectations

There was general agreement that costs and expectations have increased much faster than increases in funding. As well as funding not keeping up with general inflation, we heard that changing costs include:

- Rising construction and building maintenance costs – which have become particularly important in regions affected by earthquakes.
- Information technology systems – these must be kept robust and up to date for the expectations of modern education, a cost which has shifted from capital to operational expenditure. Staff also need to be trained to operate new systems.
- Administrative and compliance costs – new regulations and requirements bring additional costs. These include changing expectations and reporting requirements around pastoral care and learner success, as well as administration of the Unified Funding System (UFS).
- Meeting learner and community needs – the composition and expectations of the student body are changing, and there are costs in adjusting to better serve all students and stakeholders.
- ‘Invisible’ costs – where there is increased pressure on staff time or additional duties for staff, these detract from the time spent on their core work.

Universities did not expect that changing how funding is allocated without increasing the amount would make a significant difference to them. We were told that universities already run very efficiently, and have continued to find efficiencies where they can, but are reaching their limits. Institutions cross-subsidise internally, but again we heard that this is reaching limits in recent times. It was also noted that fee regulation means both public and private revenue are constrained by government. International student revenue has offset costs until recently, but the disruption of the pandemic highlights the risk of relying on this too heavily.

Universities appreciated that the current funding system is simple and predictable and provides some confidence for long-term planning. However, we heard that equity projects, learner success initiatives and other innovations have often been put on hold or reduced in scope in recent years because of funding constraints. We also heard some concerns about the accessibility of funding for capital expenditure.

Collaboration

We heard that collaboration between universities does already happen, and that it is easier in the research space but can be more difficult in teaching and programme design.

Joint programmes (run by two or more universities together) were noted to be typically more expensive, and difficult to develop and run. However, they could offer opportunities and diverse experiences that students would not have at a single institution. Some universities are currently exploring options for collaboration in teaching to support programmes that may not be viable for one institution alone.

Specific barriers to collaboration were identified, including issues with the student loans and allowances system, how institutional performance is measured, how the system responds to students' different journeys, and how degrees are awarded. In some cases, universities' shared systems could be improved to address barriers. Some universities also identified the potential for the institutions to share data, resources and infrastructure, both for efficient use of resources and to improve our understanding of students' needs, journeys and outcomes.

Specialisation and differentiation

Universities broadly agreed that it makes sense for institutions to differentiate themselves more, rather than every university competing over the same students. Many universities already have a clear sense of their own identity, their points of difference, and why a student would choose them in particular.

In discussion universities acknowledged that differentiation must include deciding what an institution will choose not to do, or will cease doing. Some universities told us that the government could help by being clearer about its vision for the university sector, but others felt that current legislation provided sufficient guidance.

An additional factor in specialisation is that not all students have an equal choice in where they attend university, and a broad undergraduate base may still be important for some.

Equity

Universities consistently said that while equity is a stated priority for the tertiary education system, they don't feel this is reflected in the funding system. The existing equity funding was not considered to reflect the cost of the actual work required to support students effectively, and the broader funding system could do more to reduce barriers for learners.

Some universities told us that the funding system does not adequately recognise the level of educational 'distance travelled' provided to some learners who need additional support. More generally, we heard concerns that current Education Performance Indicators do not necessarily reflect the diversity of learner needs, including what Māori communities want from a university education. There were concerns that simple categories do not reliably reflect student needs, and can be gamed.

Pathway or bridging programmes to support students into degree-level study attract lower funding rates under the UFS (as sub-degree provision), and universities told us that this had impacts on these programmes' viability and the incentive to offer them.

It was also noted that students need to 'see themselves in the university' to feel welcome, confident and supported to succeed. Attracting more Māori and Pacific staff was seen as key to attracting and retaining more Māori and Pacific students, but universities pointed out that these staff are in high demand everywhere – including in agencies and organisations outside the education sector.

Learner success

A number of universities are undertaking curriculum redesign, which may include integrating Te Ao Māori, greater connection with work or research skills, or making courses more relevant to a changing world, as well as adjusting teaching and accessibility to support learner success. Each university's initiatives are different, and approaches to resourcing these initiatives also vary. In some cases, resource constraints mean the implementation falls to existing staff taking on extra responsibilities.

One theme in conversations about learner success was that 'success' may look different for different students. This includes the idea of Māori succeeding as Māori, as well as accounting for where individual students start from and what they gain from their education. There was recognition that student expectations are diverse and their pathways to success may not be simple and linear.

We heard that students arriving from schools now are less well prepared for university study (with COVID-19 impacts on these learners' school experiences being one factor in this). Universities reported needing to offer more support to get students 'up to speed' and able to succeed. This could include wrap-around supports that extend beyond academic assistance. Many universities also make outreach efforts to secondary schools to encourage future students and give them information about what university will require.

Te Tiriti and Te Ao Māori in universities

We heard a wide range of perspectives on the role of Te Tiriti o Waitangi and how Te Ao Māori is and should be positioned with respect to universities. We were told about several different models and approaches to universities' relationships with iwi Māori.

Many universities have relationships and/or partnerships with local iwi, and these look different in each place. Some universities told us that iwi have their own priorities, and often a clear sense of what is important to them (in relation to their taura, research priorities, etc). We heard concerns in some conversations about how universities are accountable in delivering for and with Māori, and visibility around how funding to support Māori success is allocated.

Many Māori students and staff carry the aspirations of their iwi, hapu and communities with them to the university; in other cases, connecting Māori students with their whakapapa is an aspect of pastoral support that reaches beyond the institution. We heard that regulations and expectations set for the whole system can get in the way of universities responding meaningfully to Māori stakeholders, and that sometimes, to do things right for Māori requires a different approach.

As well as taking steps to support Māori staff and students, some universities talked about upskilling academic staff in general in aspects of Te Ao Māori. Universities also recognised the need for students to have the option of learning and being assessed in te reo Māori, but establishing the capability to do it can be a challenge.

Research funding and the Performance-Based Research Fund

It was generally expressed that research funding should place a greater weight on the *impact* of research, including on local communities and for local issues.

Opportunities to collaborate in the research space, including Centres of Research Excellence (CoREs) and Marsden Fund grants, were generally considered beneficial both for the quality of research and for research careers. However, universities told us that researchers are spending a disproportionate amount of time on applications and compliance for research

funding (including preparing for PBRF) which detracts from the time spent on actual research or teaching.

In general, universities told us that PBRF was quite successful in shifting the thinking about research when it was introduced – but it could now be a hindrance to new priorities (such as connections with industry and impact). The transaction costs of participating are high compared to the relatively small amounts of funding. Total PBRF funding has not increased, but has become split between a greater number of recipients. CoRE funding was similarly noted to have not increased with time. Some people noted a lack of visibility of how PBRF funds are distributed within universities.

The PBRF is unusual in focusing on individual researchers, and we heard that this can create some perverse incentives. The impact of the quality evaluation on career paths can drive academics to overly prioritise activities that would directly affect their score over collaborating within their departments, supporting colleagues and new researchers, or pursuing learner success initiatives. It was suggested that a group or institution score may be more relevant and incentivise building (and/or recognising) research teams.

The relationship and overlap between universities and Crown Research Institutes (CRIs) was raised in many discussions, with each institution having its own experience of this relationship. There is potential for greater collaboration between universities and CRIs, but they are also in competition for funding. This was an area a review could usefully consider.

Academic pathways

A number of discussions highlighted challenges in building attractive career pathways for prospective academics and early career researchers. Universities generally wanted to encourage promising postgraduate students into academic careers (with 'home grown' Māori and Pacific staff being of particular value). Some institutions highlighted that the structuring of research funding contributed to the precarity of early career research positions.

We heard generally positive views about the proposed 'applied doctorates' scheme, including that these could be a way to link doctoral students with career options beyond academia. There was some concern about the limited funding available, and many institutions reported that forming the necessary industry relationships was a challenge.

Universities had different views on the extent to which teaching is valued within universities (in comparison to research). Some indicated that the funding system should better incentivise teaching excellence, while others considered this an internal matter. We were told that expectations on academic staff have expanded to include not only excellent teaching and research but also entrepreneurialism, incorporating new technologies, upskilling in Māori and Pacific competencies, and offering pastoral support for students.

Delivery models

Many universities told us that how they deliver their programmes is changing, in response to how students want to learn and increased interest in work experience and industry connection. We heard that the funding system does not easily respond to changing delivery models or differences in how similar programmes are delivered.

We heard that there is clear demand from students for flexibility between on-campus and online learning. Universities are in the process of adapting courses for high quality and thoughtful online delivery, beyond the emergency teaching measures put in place during the pandemic. In most cases this is alongside continuing on-campus delivery, which remains important for some students. We also heard that online teaching, and certainly hybrid teaching,

is not less expensive than campus-based teaching and requires unique design and support for both technology and staff.

Many universities told us they were increasing the prevalence of work placements or internships in degree programmes, including for subjects where this has not historically been the case. Challenges in this include the extra work and staff required to match students with opportunities and track placements, the limited opportunities in some regions, and managing the university's responsibility for students while they are in a workplace.

It was noted that in some fields students are competing for positions with both other students and potential employees, and it is difficult to find every student an opportunity relevant to their studies. Unpaid work can be difficult for students to accommodate with their existing work commitments.

Review process

We heard many different suggestions for how a review should be conducted to get the best results. Common themes included:

- Good representation of stakeholders from the beginning would be important, as they need to be 'brought along with you' through the process.
- A process led by officials with close engagement across the higher education sector was preferred, and universities are willing to contribute their expertise to that process.
- Set clear expectations about what is within scope, what can change, what should not be expected to change, and when any change would be seen by the sector.
- Avoid focusing on the loudest problems right now, and instead look at how higher education is changing and what the sector will need in the future.
- Work through what is wanted from the higher education system, and what sort of funding is required to achieve that.

Individual students' association engagement themes

During our scoping meetings at each university we also met with representatives from the relevant students' association. In these meetings we discussed what a review of the funding system should consider from the student perspective. We have summarised below the key messages we heard across these conversations.

The cost of living has a serious impact on students

- Many students are struggling to afford rent, food and heating, which are necessities without which they can't focus on their studies.
- Costs, particularly for housing, are much higher in some cities, and which university students choose to attend is influenced by where they can and cannot afford to live.

Students are working more, and their studies suffer for it

- Many students are working more than 20 hours a week while studying. Some are trying to work full-time alongside full-time study, or shifting their study to part-time because they need to work more.
- Students are prioritising work and fitting study in where they can (rather than the other way around).

Flexible learning options are important for student lifestyles, but could be improved

- Students need flexible learning and online options for study to be accessible.

- However, part of the reason flexible learning is so necessary is that a large number of students have to work during class hours, because they need the income to support their study.
- Student experiences of online learning often suffer from the limitations of outdated or unreliable technology, and online courses are not always designed with the actual needs of students in mind.
- While there has been an emphasis on increased online learning, not all students have easy or equal access to technology and internet at home.
- The 'campus experience' is also an important part of life for many students, and not having that (due to a heavy online emphasis) can make being a student more difficult.

Attending university feels less affordable

- Without a scholarship, and a good support network outside of the university, full-time study does not feel accessible for some people (especially if it means moving).
- Families and whānau feel the pressure of the high cost of living, and studying means foregoing earnings which could otherwise support one's household.
- Cuts made by universities to save money often mean fewer scholarships available for students, which further limits the accessibility of study.

A lot of university staff seem very stretched

- Staff seem to have more and more work to do, and positions are not always filled after someone leaves. This affects how available staff are to students.
- Cuts to courses and staffing are concerning for students, who may find they have fewer options, that they need to find a new supervisor, or that the future of their study is uncertain.
- There are some great individual staff at the universities who go above and beyond and genuinely care, but this is not universal and the great staff are over-worked.

Support systems for students are there, but not as good as they could be

- Students generally have to identify their own needs and ask for support, which not everyone is comfortable with or willing to do.
- Student services and academic support are often experienced as quite different, with the balance differing by university.
- Some student associations reported giving direct aid and assistance to students in need (including food and housing support) where the university did not.

There are things the current funding system does not recognise well

- In general, higher education needs more funding.
- Students from different backgrounds have different needs, and the per-learner funding does not sufficiently reflect those needs.
- It would be positive to see a funding incentive that recognises where a university has done something well, or where a staff member has an exceptional impact.
- While many feel the 'bums on seats' model is no longer working well, there are advantages to linking funding to student choice as it makes universities more accountable to students. Associations had mixed feelings about per-learner funding.

Students want options for how they study

- While universities specialising more could make sense, students want to have a choice in *what* they study, *how* they study, and *where* they study.

- Opinions on joint programmes between universities were mixed. Some associations saw this as always being a second-best option, while others saw it as a good opportunity for students to experience different approaches.

Many students are not well prepared for university study

- In the wake of COVID-19 and disruption to schooling, many students entering university are less well prepared for the course content, self-directed learning, and general environment of higher education.
- The school system is not always setting people up with the skills and knowledge they need to succeed at university.
- Outreach can be successful in getting people to enrol, but if they aren't well prepared and well supported at the university they are unlikely to complete their studies.

Work-integrated learning is a mixed bag

- Work experience and employability are important to students.
- The experience of work-integrated learning varied widely between universities.
- In many cases students are responsible for finding their own placements or internship opportunities, which is added work and stress and limits the benefit gained from doing this work as part of study.
- Some students have concerns about safety and support while on placement, and about work in these placements being unpaid (and in competition with paid work commitments).

Students' associations are generally involved with university decision-making, but this varies in practice

- Several associations reported having representatives on a large number of university committees. The influence that those representatives felt they had varied.
- Some associations reported a good partnership with their university and were positive about the direction of travel, while others said they did not feel that the university listened to them.
- The nature of a students' association's relationship with its university depends heavily on the individual people involved.
- There is a tension in being representatives and advocates for students while also being part of a university's leadership; these roles can be at odds.

Themes from Other Stakeholders

In addition to university leadership and students' associations, we met with a range of other stakeholders during our scoping. Below we highlight some major themes and points that emerged during these conversations.

Te Pūkenga

- Te Pūkenga is a large provider of degree level or above programmes. This is especially notable and important in regions where there is not a local university, and aligns with Te Pūkenga's charter obligations for regional access.
- It is challenging to navigate multiple funding systems (the UFS for vocational education, and the separate funding mechanism for Level 7 [degree] and above), and the two should align better, including in matters of equity funding. In practice, similar learners are sometimes entitled to different funding or support.

- There is no dedicated funding for developing delivery, for example embedding mātauranga Māori, and so this has to be supported from current delivery (as does capital expenditure).
- There is a question of what a modern campus 'looks like', what services are expected to be provided, and whether TEOs are funded to provide those kinds of service.
- The current system incentivises TEOs to not recognise prior learning (as they are not funded for it), but this is not in the best interests of learners.

Private Training Establishment (PTE) representatives

- Many PTEs that deliver degree and above provision focus on a more applied style of learning than is traditionally found in universities, and this has additional costs.
- PTEs tend to have similar enrolment numbers at each level of a programme, without large first-year courses from which other activities could be cross-subsidised.
- Some learners are not ready, or lack the confidence, to go directly into a degree, but pathway programmes to support those learners to get there are funded at lower rates. First in family and 'second chance' learners need more funding support.

Māori and Pacific stakeholders

- Māori and Pacific young people will be growing student demographics in the future and higher education needs to make itself welcoming to these learners, including those from kura kaupapa backgrounds, rather than expecting them to adapt to institutions.
- There is a lack of transparency in how funding is distributed within institutions, including how extra weighting for Māori research and researchers is then used.
- Becoming Treaty-led requires additional staff and work, including to build relationships with local iwi and understand their particular aspirations; funding does not support this.
- Māori should be involved in designing review questions, not just asked for answers.
- Wānanga would want to be closely engaged in any review of higher education funding, but would also want to continue to progress parallel discussions about a long-term sustainable Wānanga funding framework.
- More funding is needed to support the distinctive aspects of the Wānanga delivery model, across all areas of delivery.
- Wānanga do the 'heavy lifting' for some learners to build confidence and competence before they can access degree-level study, but those learners go on to other institutions for their degrees. Funding does not recognise this uplift work.

Other learner and staff representatives

- A review should establish a vision for higher education, and define the identities of the different parts of the higher education system.
- The funding system has a primarily economic framing, and some would like to see a shift toward a principles-based approach to funding education as a public good.
- Greater transparency is needed in how institutions distribute funding.
- The PBRF creates a high compliance burden and supports high-performing researchers over building early careers, and the individual focus of the PBRF does not work well for students.
- Student and staff participation should be embedded throughout the review process, rather than consultation only happening at certain points.

Industry stakeholders

- Higher education programmes need to be relevant to the needs of business and employers.
- A review should be broad and look at what New Zealand needs from the system in the long term, not just how to keep the status quo going.
- A review could consider how much provision is viable, and concentrate on supporting the highest-performing institutions.
- Work-integrated learning is a specialised approach and providers who do not have a history of teaching in this way may not automatically do it well.
- There is a need to encourage firms into research and development to support the commercialisation of research.

Research, Science and Innovation stakeholders

- Crown Research Institutes (CRIs) rely on universities to supply qualified doctoral graduates, but often cannot have confidence they have the skills that CRIs need.
- The PBRF's focus on excellence does not necessarily recognise New Zealand needs and problems as a priority.
- New Zealand is weaker in commercialisation of research; there are low incentives for commercial innovation in a small country with a small market and little competition.
- The competitive environment is financially inefficient and restrictive, with resource spent chasing funding and enrolments.
- Centres of Research Excellence (CoREs) are considered a successful model by many, particularly for building research communities and supporting early career researchers. They are good for 'blue skies' thinking and are well placed to respond to needs and opportunities.