The Tertiary Education (2024 Fee Regulation Settings) Notice of 2023

Introduction

This submission responds to both the Annual Maximum Fee Movement and Student Services Fee proposals of the The Tertiary Education (2024 Fee Regulation Settings). The submission is made by Universities New Zealand – Te Pōkai Tara (Universities NZ[1]) on behalf of the eight universities and supplements those by individual universities.

The submission highlights the cumulative impacts of long-term underfunding, the current financial shock of the pandemic, universities' response to fiscal pressures, and the opportunity cost to Aotearoa New Zealand if government does not address this shortfall with an increased Annual Maximum Fee Movement.

The submission also notes that the eight universities already invest significant time and effort into engaging with students about both the setting and use of the Student Services Fees and these proposals add unnecessary regulations that risk adverse unintended consequences.

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Submission

Online submission
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Due 17 July 2023

[1] Universities NZ is the operating name of the New Zealand Vice-Chancellors' Committee, a body established under Part 19 of the Education Act 1989. It has statutory responsibilities for university quality assurance, the approval and accreditation of university academic programmes, entrance to universities, and scholarships. It also represents the interests of the universities on a wide range of other matters, such as education and research policies.

Annual Maximum Fee Movement (AMFM)

Recommendation

We recommend the Annual Maximum Fee Movement (AMFM) for 2023 should be 3.3%. This is in line with the rate of inflation as indicated in the Budget Economic and Fiscal Update (BEFU) forecast at about 3.3%[2], noting that the AMFM has historically been below the rate of inflation. This increase is critical to universities being able to cover actual costs and inflationary increases, retain and attract staff of international repute to ensure the quality of our research-led teaching and innovation is globally competitive, implement the organisational change expected of us with respect to achieving parity for priority learners, and continue to contribute to NZ's economic recovery from the pandemic. Whilst we appreciate the DQ 7+ funding rate increase to 9% from 2024 onwards that was announced on 27th June 2023, this will provide only some financial relief especially as there is no current commitment for any inflation linked rise in 2025 at this stage.

We have also made specific recommendations regarding fees setting and student services fees, below.

Chronic underfunding and cross-subsidisation of international student fees

In our AMFM submissions over the last 3 years, we highlighted that NZ universities have been chronically underfunded. A reduction in real funding per student over the past 20+ years means universities struggle to meet the costs of continuing to deliver high-quality relevant research and research-led teaching expected of world-class institutions without the cross-subsidy provided by international student fees. Cost pressures have been compounded by years of inadequate Student Achievement Component (now called DQ 7+) funding adjustments characterised by minimal general increases (e.g., 1.2% in 2022, and 2.75% in 2023) or only subject-specific annual increases. The DQ 7+ increase of 9% for 2024 announced in May this year provides only some financial relief given that inflation has been running at over 7%.

The ongoing impact of Covid-19 on universities' finances

This is the fourth year universities have needed to submit on the proposed AMFM outlining the financial stress faced by universities due to the pandemic. With the loosening of border controls only commencing late last year, the pandemic has had, and continues to have, a significantly adverse impact on universities' revenue. If universities are to maintain the quality of learning opportunities and support for domestic students, in an environment where government and international student revenue are inadequate, they must increase their revenue from other sources in the very short term.

One such revenue source is domestic student fees. However, most universities have experienced domestic enrolment decline in 2022 that has extended into 2023. In some cases, this enrolment decline is unprecedented. This will continue to have a significant

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[2] https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2023-html

impact in 2024 as the smaller Year 13 cohort combines with the widespread disengagement of Year 13 school students from their studies this year further reduces progression to university. Higher levels of attrition (i.e., non-retention) are also likely in 2024 due to the financial pressures facing students and their whānau (see below). The negative impacts of the pandemic outlined in the last three year's AMFM submission have persisted throughout 2021, 2022 and into 2023. We started 2022 with international student numbers at about 30% of pre-Covid levels. While the Government made allowances for a cohort of 5,000 tertiary students[3] to enter the country, by 15 June 2022 only 150[4] had arrived and fewer than 100 of these were university students. The international student pipeline issue has been exacerbated by visa processing deficiencies last year that prevented new international students from commencing on-campus study in NZ in 2022. We also do not yet have a clear indication of what enrolments will look like for 2024. Even if first-year international student enrolments continue to recover, student numbers will still be very low at second-year, third-year and postgraduate levels. NZ remains a less attractive destination than other countries such as Canada, the UK and the US that have welcomed back on-campus international students well ahead of us. Attempting to recruit into financially stressed universities unable to retain good staff will, we hasten to add, hardly make that recruitment proposition any easier.

It is also worth noting that during the pandemic unlike schools, for instance, universities have been expected to fund the increased student support required and cover the costs of online and hybrid learning, and of additional consumables such as masks, sanitiser, etc, and some universities have even provided additional special sick leave entitlements for staff. All these are extra costs borne by universities.

The impact of chronic underfunding amidst the fiscal shocks of recent years is evident in the deficits reported by universities in their annual reports recently tabled in Parliament. Six of the eight universities have reported losses for 2022. The combined value of these losses is approximately $86mil. As a result, the sector is experiencing an unprecedented level of staff redundancies. This has huge consequences for our national capability and will mean an even slower rate of recovery in future years.

The perfect storm: the combined effect of a growing number of fiscal pressures

The impact of reduced international student revenue in the context of chronic underfunding is one thing; however, universities have also been impacted by the rapid rise in inflation in recent years. In June 2022[5], the consumer price index (CPI) rose to a 32-year high of 7.3%. While the inflation rate has recently begun to decrease it remains high at a time universities are still trying to manage the impacts of the 32-year high. This has several consequences for universities which include, but are not limited to:

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[3] What is more, these 5,000 student places were for the entire tertiary sector, not just for universities.
[4] 19065 (2022). Erica Stanford to the Minister of Immigration – New Zealand Parliament (www.parliament.nz).
[5] https://www.stats.govt.nz/news/annual-inflation-at-7-3-percent-32-year-high/

- Low unemployment combined with the smaller and less engaged Year 13 mentioned above means universities will face a reduction in domestic student enrolment.
- High salary expectations of current and prospective employees to meet their rising costs of living.
- Maintaining infrastructure may need to be halted temporarily or scaled back massively for the next 24–36 months – exacerbating the sector's large deferred-maintenance challenge.

Universities' current fiscal situation

Since mid-2020, universities planned for lockdowns and disruptions to continue into 2021. All universities forecasted major falls in revenue for 2021 and therefore took significant and urgent steps to reduce operating costs to ensure any losses in 2021 would be minimised. Steps included voluntary redundancies, hiring freezes, travel bans, across-the-board budget cuts, pausing capital projects, etc.

In our previous submissions we noted that 2021 turned out to be a stronger than expected year for domestic enrolments, but we also predicted that this would be a one-off result because domestic student enrolments have declined year on year since 2021 and international student numbers are still unlikely to reach pre-pandemic levels. Furthermore, even if international students return to NZ at pre-Covid levels in 2025, most would be first-year students – the impact of the previous three years on the student pipeline will still be evident by the low numbers in the second-, third- and fourth-year cohorts.

Universities are now dealing with the compounded financial impact of a drop in domestic student enrolment and a fourth successive year of drastically reduced international student enrolment. In addition to these stressors, universities will receive significantly less funding for their pre-degree provision with the introduction of the Unified Funding System.

While the cost cutting of 2020 put the sector in a strong but short-term position for minimising losses or even maintaining small surpluses, high inflation, low unemployment and higher salary expectations (noting that around 60% of university costs are personnel costs) will again focus universities on directing available funds to critical expenditure such as payroll. As mentioned above, universities need to pay more not only to attract new staff but to retain existing talented staff. Most universities are seeing significantly increased staff turnover and are facing many more recruitment challenges – including multiple failed attempts to recruit. This stress on capability means the sector will remain severely limited in its ability to stay competitive and advance other government priorities.

Finally, universities have carried the financial costs associated with unfunded government mandates, such as compliance costs associated with adhering to the Pastoral Care Code, Fees Free, TEC's Data Exchange Project and Learner Success Plans.

The opportunity cost to NZ

Universities play a central role in the success of NZ and its people, including navigating the complex challenges ahead:

- University education unlocks potential and is the best way of setting people on pathways to successful lives and careers.
- Through research and research-led teaching, universities will continue to be a key source of innovation, knowledge and solutions for NZ.
- Universities create value by fostering international connectedness.
- Domestic regions gain huge economic, social and cultural benefits from their local universities.
- Universities play a core role in supporting a cohesive, tolerant and participatory democratic society.

It is therefore important for universities to be adequately funded to continue to make these valuable contributions to NZ society in a meaningful way. This is particularly important under the current economic climate, where universities are key contributors to NZ's economic recovery through:

- Retraining and upskilling the workforce.
- Delivering relevant high-value research.
- Accelerating the educational progress for equity groups.
- Improving national productivity.
- Slowing the downwards slide in international rankings which would, in turn, enable universities to attract and retain high-quality researchers and non-government investment.

Universities should be seen as critical infrastructure – key to unlocking value to NZ. Government should be enabling universities in every way possible to assist in delivering on the following immediate government priorities:

- A step change in improvements for priority student groups, student wellbeing and mental health, student completion rates, the number of graduates and the skills graduates bring to the workforce, employment outcomes, etc, which require core funding to increase above CPI.
- Mitigating the impacts of students at school and in tertiary studies who have had their learning significantly impacted by two years of pandemic disruption.
- Lifting productivity and innovation which requires funding better aligned to research-led teaching that produces significantly more innovative and productive graduates.

Fee setting

Universities also have concerns about the fee setting restrictions and are disappointed that in spite of raising these issues with MoE and TEC officials many times in recent years, the proposed criteria do not address the fee discrepancies between universities. While we recognise the intend behind the following clauses, they are unduly restrictive, will generate additional and time-consuming activities for universities while still not providing a workable pathway to address the discrepancy between universities:

- Clause 9 doesn't close the gap in fees between similar courses.

- Clause 10b is impracticable because universities do not have visibility of the sector-wide course-level fees data that is held with the TEC.
- Clause 10c is overly restrictive.
- Clause 12 – there are likely hundreds of courses within each university that would need to be reclassified. Placing a cap on number of courses per year that can apply for exemption is therefore unhelpful.

The fee discrepancies across the sector are between subject areas (such as humanities) and not at the course-level. The course-level approach is too granular therefore we recommend taking a high-level subject area approach.

Student Services Fees (SSF)

This section of the UNZ submission reflects the collective response from the eight university Directors of Student Services (DSS). Engaging with students on the setting and use of the SSF is an area the DSS at the eight universities work extremely hard on, and absolutely agree on the importance of. Building strong relationships with students is one of the most important aspects of the work of DSS and there are many examples of good practice within the universities. The DSS believe the Tertiary Education Commission (TEC) guidance ("Student Services Fees Guidance for Tertiary Providers") already outlines expectations on the SSF and that no further regulation is required.

There are four aspects of the proposed SSF regulations the DSS would particularly like to comment on:

1) ***Decoupling reference to the fee and the services provided by the fee***

A key issue with the proposed regulations is that they appear to treat fee setting and fee utilisation as the same process. The setting of the fee is a specific event in the year, whereas decisions about how the fee is utilised are considered on an ongoing basis throughout the year. The DSS suggest clarifying the regulations to decouple the fee setting and the provision of services so that each process can be considered separately.

The DSS note that the use of the ambiguous term 'proposals' has the potential to cause unnecessary confusion as it is not clear whether this term refers to the fee, the services or both.

All universities currently run appropriate consultation processes about fee setting and this is a small part of their annual cycle of activity. However, much more work is undertaken engaging about the range of services provided and whether they meet students' needs.

The DSS feel strongly that students' time and energy is best spent providing strategic direction on the use of the SSF and that these regulations propose an unnecessary burden that detracts from the meaningful work currently undertaken. Understanding the detail of this spending requires significant time and support and given the high turnover of student representatives, does not represent time well-spent. All universities consult on the relative percentages of category spending, as well as regularly reviewing individual services, and the DSS believe this is the most appropriate approach.

2) Regulation overlap and overprescription

There also appears to be some overlap with the work on the Education (Pastoral Care of Tertiary and International Learners) Code of Practice 2021 (the Code), which the DSS are highly engaged in. Learner Voice is well embedded in all universities and this includes for services provided by the SSF, as well as academic services.

The lesson of the Code is that prescriptive solutions are not helpful. They are more likely to undermine effective existing arrangements and create additional cost without additional benefit. Any requirements should be principles-based and recognise (a) that demands will always exceed finite resources, and (b) that most services funded through levies need long term certainty as to funding levies and service expectations. For example, we cannot expand or shrink recreation services from one year to the next, just as we cannot hire and then fire counsellors or health services staff annually. Most universities also cross-subsidise services funded through SSFs and/or deliver them within a wider suite of services and support arrangements.

3) Use of the term 'predetermined'

While the DSS understand that there is an obligation to ensure that consultation is genuine, they believe the use of the phrase 'The outcome is not predetermined' may set unrealistic expectations about the extent to which decisions are able to be made on a year-by-year basis. In order to maintain a range of high-quality services with clear strategic direction, universities need to have predictable and reliable funding. Without this, universities would not be able to commit to ongoing services in areas such as health services, where salaries make a significant component of the funding. It's also important to note that some of these services are services that the Code requires universities to provide. While a component of how universities make use of the student services fee is discretionary, much of it is committed from year to year and it is impossible not to be predetermined.

4) Additional category of SSF framework to support cost of consultation

While on the face of it, this may seem to be a pragmatic solution to supporting further consultation with students, the DSS feel very uncomfortable with the idea of adding further cost to the SSF to support engagement when there is already significant consultation undertaken.

A significant component of the SSF (up to 30% at some universities) is already provided to Students' Associations, whose role is to engage with students and represent their perspectives. The DSS are not clear that adding additional cost to the whole student body is in the best interests of students.

Conclusion

Annual Maximum Fee Movement

Despite the 9% DQ 7+ funding increase or 2024, the historic chronic underfunding, the ongoing impacts of the pandemic and the implications of rising inflation, universities need to be allowed to increase their student fees beyond the proposed 2.8% limit. We believe an

AMFM increase to 3.3% is appropriate, as it is in line with the BEFU forecast rate of inflation of 3.3%.

We also have concerns about the fee-setting criteria which are unduly restrictive and don't provide a workable pathway to address the discrepancy between universities.

Student Services Fee

The Directors of Student Services do not believe the proposed Student Services Fee regulations add anything to the current, robust processes and may add significant time and cost to the process. All guidance should be focussed on clear expectations and standards around minimum expectations for providers to consult with students.

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