Te Pōkai Tara
Universities
New Zealand

The Tertiary Education 2021 Annual Maximum Fee Movement Notice of 2020

Introduction

This submission is in response to the Minister of Education's proposed 1.1% limit on the annual increases that tertiary education organisations may make to fees and course costs charged to domestic students in 2021. This submission is made by Universities New Zealand – Te Pōkai Tara (Universities NZ[1]) on behalf of the eight universities.

Submission

Online submission
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Recommendations

To ensure that universities can, to a small extent, cover actual cost increases and manage the impact of the COVID-19 pandemic, we recommend the maximum fee increase should be at least 1.5% in line with the consumer price index (CPI) increase of the same amount[2]. This is a very modest increase, recognising that the student cohort will also be facing the economic impacts of COVID-19 in 2021 such as the availability of part time work.

The combined effect of long-term underfunding and the ongoing impact of COVID-19 on universities' finances

In our submission last year to the proposed AMFM limit, we outlined the financial stress faced by universities. That was before the significant financial shock of the COVID-19 pandemic, which is expected to have a significant impact on revenue in 2020 and an even greater impact in 2021. If universities are to maintain the quality of learning opportunities and support for domestic students, in an environment that limits opportunities for international student recruitment, they must increase their revenue from other sources in the very short term.

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[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.
[2] StatsNZ https://www.stats.govt.nz/indicators/consumers-price-index.

One such revenue source is student fees. Universities are key contributors to New Zealand's economic recovery through:

- retraining and upskilling the workforce rather than contributing to unemployment
- delivering relevant high value research
- accelerating the educational progress for equity groups
- slowing the downwards slide in international rankings which would, in turn, enable universities to attract and retain high quality researchers and non-government investment.

A reduction in real funding per student over the past 20 years means universities will struggle to meet the costs of continuing to deliver high-quality relevant teaching and research without the cross-subsidy provided by international student fees. Cost pressures have been compounded by years of inadequate student achievement component (SAC) funding adjustments characterised by little (or none) or only subject-specific annual increases to the SAC funding rate.

In the absence of adequate SAC funding, universities need to be allowed to increase their student fees beyond the proposed 1.1% limit to compensate for the SAC shortfall and the COVID-19 financial impact.

Cost pressures

The cost pressures faced by universities are mainly driven by three factors over which universities have only limited control. These are:

- having to pay ever-increasing international market rates for salaries to attract and retain the best academic staff
- repairs, maintenance, and redevelopment of aging building infrastructure
- responding to changing modes of delivery and teaching (often subject-specific).

While we are seeking an AMFM limit increase to 1.5% in line with the current consumer price index (CPI) increase of 1.5% pa,[3] this is a very modest increase given the rate at which the universities' costs are increasing. These costs—and costs overall—are increasing at a much higher rate than the 1.6% SAC rate increase provided for in 2021 (slightly less than for 2020 at 1.8%) and the proposed 2021 AMFM rate of 1.1%.

Universities are making significant efficiencies in response to these fiscal pressures, but these efficiencies alone are not enough to ensure universities can continue to address all the Government's priorities. These broad-ranging priorities include, but are not limited to, improving access and success for students from priority groups, providing New Zealand and

[3] StatsNZ https://www.stats.govt.nz/indicators/consumers-price-index. Note that CPI is mentioned here because it is often used as a benchmark for university funding increases when in actual fact it reflects rising costs such as food which have little relevance to universities.

New Zealanders with access to world-class education and research, and ensuring its ongoing relevance for our future.

International market rates for academic salaries

New Zealand universities must compete with international salary rates for academics. Total staff-related expenses, including salaries, at NZ universities have increased on average 3% per annum since 2014—double CPI over the same period. Furthermore, for organisations such as universities, where staff account for approximately 60% of total costs, the CPI underestimates the true cost increases.

New Zealand tries to compete with international salary rates for academics, but we pay well below the universities to which we compare ourselves in countries such as Australia, the US, Canada and China. Although New Zealand offers lifestyle factors as partial compensation for lower salaries, it can only do this to a limited extent. The further New Zealand slips behind international remuneration levels, the more difficult it becomes to recruit and retain good staff—whether they are immigrants or New Zealanders wanting to stay or return home. Quality of academic staff, as evidenced by the research they undertake, is the single most important determinant of the quality of a university.

Capital asset maintenance programmes

Since 2014, the total SAC increase has been 9.7%, significantly less than the 24%[4] rise in university costs over the same period. Operating costs alone increased by 40%,[5] which does not include the even higher costs of significant capital maintenance programmes involving building replacement and maintenance brought on by earthquake strengthening and/or replacement of old stock.

Even if the 2020 SAC rate increases are factored into a more recent 6-year timeframe (2014-2020), the funding rate changes for each of the three major subject areas of undergraduate enrolment are much lower than the rate at which university costs have been rising. The total SAC rate increase for these three major areas are:

- arts and humanities, 4.45%
- commerce and business, 4.45%
- sciences, 27.6%.

Finally, universities' revenue is also constrained by the policy that stipulates that the student fees for new courses must be no more than the 75th percentile from the range of fees charged for similar courses.

[4] University annual reports 2014 vs 2019.
[5] University annual reports 2014 vs 2019.

The impact of the COVID-19 pandemic

In late April 2020, Universities New Zealand wrote to Government[6] describing the forecast impact of COVID-19, including the slowing of commercial revenue and income associated with research. The cumulative results for the sector in 2020 will be slightly better than the initial forecasts, however the impact on cash flow will be the most important factor influencing the universities' ability to respond in the short term.

The situation is potentially even more dire in 2021 if international students are unable to enter New Zealand in time for Semester 1 (February 2021). In that case, the deficit for 2021 will be substantially greater than that for 2020. This would inevitably create a slower recovery path, as each international student who does not enrol as a first-year student in 2021 will be a missing enrolment in subsequent years. And the longer it takes for the borders to safely reopen, the longer the universities' recovery.

Short-term mitigation strategies for the universities include a focus on reducing discretionary operating expenditure and delaying non-essential capital expenditure. As approximately 60% of university annual costs are in personnel, an obvious way to recover from a deficit situation will be to reduce the workforce. However, these personnel processes take time and do not generally pay back financially within one year.

Furthermore, some of this staff reduction will include reducing support staff in areas where student numbers have reduced. This will, unfortunately, disproportionately focus on lower paid jobs (in areas such as accommodation, catering, cleaning and maintenance). It will also see pay freezes, a halt on hiring, and letting a range of fixed-term academic contracts lapse (tutors and post-doctoral researchers) with impacts on both quality of teaching and research capability. The halts on hiring and non-renewal of fixed-term contracts will limit the ability of universities to scale teaching and research back up as the economy recovers.

Expenditure maintaining infrastructure may need to be largely halted for the next 12-24 months—exacerbating an already large deferred maintenance challenge for the sector.

All avenues of cost cutting are fraught with undesirable consequences; therefore, it is critical that universities can increase their revenue from other sources such as students' fees. We have clearly demonstrated that a modest increase of at least 1.5% will balance the fiscal pressures faced by both the university sector and the 2021 student cohort.

[6] Letter dated 23 April, addressed to Minister Hipkins.