Te Pōkai Tara
Universities
New Zealand

The Tertiary Education 2020 Annual Maximum Fee Movement Notice of 2019

Introduction

This submission is in response to the Minister of Education's proposed 2% limit on the annual increases that tertiary education organisations may make to fees and course costs charged to domestic students in 2020. 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 some extent, cover actual cost increases, we recommend:

1. the maximum fee increase should be at least 4%; and
2. exemptions be allowed where the rising costs for specific courses exceed the Annual Maximum Fee Movement (AMFM) limit.

The university system is under stress

A reduction in real funding per student over the past twenty years means universities struggle to meet the costs of continuing to deliver high-quality relevant teaching and research. Cost pressures have been compounded by years of inadequate 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 2% limit to compensate for the shortfall.

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

- having to pay ever-increasing market rates or salaries;
- repairs, maintenance, and redevelopment of aging built infrastructure; and

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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.

- responding to changing modes of delivery and teaching (often subject-specific).

These costs—and costs overall—are increasing at a much higher rate than the 1.8% SAC rate increase provided for in 2020 and the proposed 2020 AMFM rate of 2%. The cost increases also exceed the current consumer price index (CPI) increase of 1.7%pa[2]. Universities have made significant efficiencies in response to these fiscal pressures to compensate for these externally generated rising costs. However, 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 for students from priority groups, growing earnings from international education, and providing New Zealand and New Zealanders with access to world-class education and research.

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—almost 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 already pays well below the universities to which we compare ourselves in countries such as the United States, 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. Quality of academic staff is the single-most important determinant of the quality of a university.

In the past five years (2014 to 2018) the total SAC increase was 8.6%, the domestic student fee revenue on a per-capita basis rose by 11% and CPI rose just 5.5%[3]. These increases are significantly less than the 18%[4] rise in university costs over the same period. The majority (57%) of these costs were personnel-related, which rose only at a rate comparable to that of the average NZ wage (12.3% and 12.4%, respectively).

Even if the 2020 SAC rate increases are factored into a more recent 5-year timeframe (2016-2020), 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 (approx. 18%). The total SAC rate increase for these three major areas are:

- arts and humanities, 4.4%;
- commerce and business, 4.4%; and
- sciences, 13.3%.

The proposed exemption criteria are counterintuitive

To qualify for exceptional circumstances, all proposed criteria must be satisfied, including that the TEO must be of questionable financial viability (ref "The TEO is unable to support

[2] StatsNZ https://www.stats.govt.nz/indicators/consumers-price-index.
[3] Reserve Bank Inflation Calculator – Q4 2013 to Q4 2018
[4] University annual reports 2014 vs 2018.

the course(s) while remaining financially viable”). The value proposition of allowing students to pay more for education from a struggling organisation is counterintuitive and morally questionable.

We therefore recommend the exemption criteria are reconsidered to allow well-managed, financially viable and sustainable TEOs the flexibility to increase fees above the AMFM where they can demonstrate the costs of some courses have risen at a faster rate than the AMFM.