

In Confidence

Office of the Minister of Education

Chair, Cabinet Social Wellbeing Committee

Status update on tertiary provision and capability at universities

Proposal

- 1 This paper responds to Cabinet's invitation to report back (CAB-23-MIN 0269 refers) on whether there are risks to the capability in the higher education system or to the provision of courses on a nationwide basis from proposed changes by universities. It proposes delegating authority to joint Ministers to make time-limited changes to funding policy settings, within Vote Tertiary Education baselines, to support collaboration in the delivery of at-risk provision.

Relation to government priorities

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

Executive Summary

- 3 Recent financial pressures prompted cost-saving measures by universities which presented a risk to the future quality and breadth of higher education and our broader research and innovation system in New Zealand. The Government provided additional support to mitigate these risks.
- 4 The Tertiary Education Commission (TEC) has continued to monitor and engage with universities throughout, as does the Ministry of Business, Innovation and Employment (MBIE) on research capability. While university change proposals are still emerging, analysis has been undertaken against current confirmed changes.
 - 4.1 Based on information to date, agencies have not identified any critical research capability concerns, but will continue monitoring for emerging risks.
 - 4.2 Analysis of the broad network of provision and areas confirmed for phasing out suggests that universities continue to respond to government priorities and there are currently no areas where national provision is being completely lost.
- 5 The Government has a range of mechanisms to address future risk including strategic priority signalling, funding incentives, monitoring and engagement. I have asked TEC to keep me informed of risks or emerging gaps in the network of provision.
- 6 While the additional funding support has been well-received and may alter some decisions, the noted challenges mean it is timely to ensure the funding model is fit for purpose. These issues will be considered as part of the higher education funding

system review, for which I will provide a terms of reference and scope to Cabinet in December 2023.

- 7 To ensure a mechanism exists to protect strategically important at-risk provision whilst the review is being undertaken, I seek Cabinet's authorisation agreement to the Minister of Finance and myself making time-limited changes to funding policy settings, within Vote Tertiary Education baselines, to support collaboration in the delivery of at-risk provision.

Background

Universities are facing financial challenges due to multiple factors

- 8 Universities are forecasting a \$62.6 million deficit for 2023, with seven of New Zealand's eight universities expecting a deficit. These financial challenges are driven by factors including an unexpectedly large decline in domestic enrolments for 2023, constrained revenue increases, the impacts of COVID-19 on international enrolments, and increasing operational and capital development costs due to high inflation.
- 9 Overall enrolments in April 2023 were down four percent compared to April 2022, (although two percent higher than in April 2019). Some universities have been impacted more than others. For example, Auckland University of Technology (AUT) and Victoria University of Wellington (VUW) both experienced a nine percent drop in enrolments since 2022, whereas the University of Canterbury (UoC) and Lincoln University (Lincoln) had increases of four and twelve percent respectively.
- 10 Similar issues are being experienced across the tertiary sector. Effects of the COVID-19 pandemic and declines in real-term funding in an inflationary environment have also put pressure on universities internationally.

We responded with a time-limited increase to tuition subsidies and a review of the higher education funding system

- 11 In addition to the five percent¹ increase to all tertiary tuition and training subsidies provided in Budget 2023, Cabinet also recently agreed to (CAB-23-MIN-0269 refers):
 - 11.1 support the higher education system with a further increase of four percent to tuition subsidies for degree-level and above delivery in 2024 and 2025, at an approximate cost of \$128m.
 - 11.2 review the higher education funding system, including the Performance Based Research Fund (PBRF).

Universities have also responded, including restructuring at different times

- 12 Universities' responses to current pressures include asset sales, general operational savings, deferring or cancelling capital expenditure, and exploring options to generate

¹ Budget 2023 provided a 5.3 percent for tertiary tuition and subsidies, comprised of a 5 percent increase to all subsidy rates and additional phased increase in subsidy rates for te reo Māori and mātauranga Māori provision.

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revenue. Most have undertaken restructuring during or post the pandemic, often using voluntary redundancy options first. Previous responses included:

- 12.1 The University of Auckland (UoA) and Lincoln reduced staff numbers early in the pandemic and have benefited from savings since, including bringing in new capability to support their strategies.
 - 12.2 The University of Waikato and Massey University (Massey) undertook rolling restructures, often small staffing adjustments across programmes or services.
 - 12.3 AUT completed a restructure in 2022, which saw reductions in academic and professional staff. Its new A1 building on the North Shore is on track.
- 13 As work is ongoing, we do not have detailed information on currently proposed staffing changes, other than at VUW. Current proposals include:
- 13.1 VUW increased staffing over the pandemic to above pre-COVID-19 levels. Its 2023 review aimed for a single major change that supports the university's long-term sustainability and distinctiveness. It included phasing out some programmes and reducing or combining others, but consultation has since been paused while voluntary redundancies are considered. These will inform an updated proposal to commence consultation in August. Alongside reviews of operational spending and asset sales, VUW have paused capital projects such as Weir House and National Music Centre Stage 2.
 - 13.2 Otago University (Otago) also has higher staffing levels than pre-COVID-19 and has currently accepted 107 voluntary redundancies. Its approach is to undertake a series of rolling proposals through 2023 and 2024, the details of which are not yet clear. It is likely to streamline its wide variety of courses, in line with evidence that more choice can lead to poorer learner outcomes. Other savings include not going ahead (alongside other partners) with the proposed Interprofessional Learning Centre facility in the Dunedin health precinct (while collaborative interprofessional education will continue).
 - 13.3 VUW and Otago are also considering new collaborations to maintain access to some of their provision. However, additional government funding they are seeking to facilitate this is unavailable through current funding mechanisms.
 - 13.4 Massey recently restructured some non-academic roles within its ongoing professional services review, and recently announced it is seeking up to 245 voluntary redundancies across sciences, health, humanities and social sciences, creative arts, the business school and the library. It is considering consolidating some intramural delivery to one campus (intramural delivery has declined while extramural has grown) and may review courses with low enrolments (noting extramural delivery is ideally suited to these).
- 14 UoC has not implemented staffing restructures over recent years due to its strong financial position and robust growth in domestic enrolments. It also credits its strategic responses to previous disruptions such as the Canterbury earthquakes.

Universities autonomously manage their own expenditure and educational portfolio

- 15 Universities have the autonomy, as set out in the Education and Training Act 2020 (the Act), to determine how they will use resources allocated to them, including whether they will run a lower surplus or deficit. Their options to manage spending include changing planned investments (such as strategic initiatives or capital assets), course offerings and organisational structures. The Act requires university councils (as tertiary education institutions) to ensure the institution operates in a financially responsible manner that maintains its long-term viability.
- 16 Universities also manage costs by cross-subsidising specialist programmes with lower-cost, large-enrolment courses. EY Parthenon (London) estimate up to 80 percent of university courses are cross-subsidised (law, engineering, commerce and information technology being examples). This allows universities to deliver a wide array of courses (eg, humanities and languages) that allow broader options for study and complement other provision but are not a major within a degree.

While recent responses from Government have been well-received, universities are still likely to undertake some restructuring

- 17 I previously acknowledged key risks of the time-limited tuition subsidy increase. Most crucially, Cabinet acknowledged that the funding increase would not eliminate the need for organisational changes at some institutions. I consider recent proposed and confirmed changes to be considered responses to changing learner demand. TEC's analysis below shows there are no areas where nationwide provision is being immediately lost because of currently confirmed changes.
- 18 I expect universities to adjust their structure and mix of capability over time to optimise delivery and reflect demand. Current proposals attempt to right-size staffing levels for programmes with low demand. Where programmes are being removed or niche areas require protection, universities are looking to include elements elsewhere (eg, incorporating some foreign languages into globally focused qualifications).
- 19 Most universities' May 2023 re-forecasts project surpluses for 2024 based on 2023's proposed actions. The decline in revenue resulting from recent challenges still presents risk to the future quality and breadth of higher education in New Zealand, and to our broader research and innovation system. These issues will be considered as part of the higher education funding system review, for which terms of reference and scope will be provided to Cabinet in December 2023.

The Tertiary Education Commission (TEC) has continued to monitor risks to provision and capability

- 20 In its role as the key relationship-holder between Government and universities, TEC has been monitoring the viability and performance of providers throughout recent changes. This includes assessing the network of provision across the entire tertiary sector, and working with the sector to address gaps when provision is at risk (especially in a particular region) to ensure learners and communities are supported.
- 21 TEC has analysed the current state of capability and provision, each of which is summarised below.

Critical capability is being maintained, with some pockets being monitored

- 22 A feature of the New Zealand system compared to other jurisdictions is broad teaching and research portfolios at each university. Elsewhere (eg, United States, United Kingdom, and South Africa) contains more specialisation; technology and teaching focused universities are common.
- 23 Both TEC and MBIE engage with universities about teaching and research capability and funding. MBIE's engagements and analysis have not identified any critical research capability concerns, however language and linguistics, information and computer sciences, history and heritage, and earth sciences are being monitored. MBIE officials will advise the Minister of Research, Science and Innovation and engage with providers if specific risks arise.
- 24 Key indications from data and engagement all suggest capability continues to respond reliably to funding and government priorities and is broadly increasing or stable.

Universities continue to respond to priorities and funding

- 25 Universities continue to respond to the Government's strategic direction by delivering against identified areas of investment priority. For example, change proposals reflect a desire to maintain research capability for delivery on Budget priorities such as Wellington Science City. Further direction on priority areas will be provided when National Research Priorities are established (DEV-23-MIN-0062 refers).
- 26 Delivery on national priorities can also be supported through deliberate acts of system integration. These programmes require additional funding but can be very effective. One example is the Engineering education-to-employment programme where TEC acted as a system integrator by commissioning, coordinating and monitoring activity from education to employment across the system. Alongside an increase in tuition subsidy funding rates, the programme successfully contributed to increasing the number of engineering graduates.
- 27 Universities also regularly collaborate to maintain capability and deliver priorities. For example:
- 27.1 the Centres of Research Excellence are cross-agency research networks with common work programmes, building research capacity and capability.
- 27.2 UoC and Lincoln have several teaching and research partnerships such as post-graduate programmes in freshwater science, and health and wellbeing.
- 27.3 Massey has a partnership with the University of New England which has provided online teaching of Spanish language, arts and culture to learners across Australasia for over a decade.
- 27.4 VUW and Otago recently announced they are considering new collaborations in areas such as earth science to maintain access to some provision.

Research funding and positions are broadly increasing or stable

- 28 In addition to Vote Tertiary Education funding supporting research-led teaching, research funding administered through MBIE, the Health Research Council or the Marsden fund also supports core research capability (eg, with additional research roles or project expenses) and has increased by \$82.8m from 2018 to 2022. Government has committed to increase overall investment (alongside business expenditure) in research and development to two percent of GDP by 2030 (DEV-22-MIN-02277 refers).
- 29 Overall university research full-time equivalents positions (FTEs, including researchers, research support and research administration/management) have increased from 5,525 FTEs in 2018 to 5,670 in 2022² (by comparison, teaching FTEs remained stable around 8,300). Within research FTEs, research delivery roles increased by 11 percent over this period, while support roles decreased by 16 percent.
- 30 Another indicator of stable research activity is that the number of PhD graduates has been broadly maintained, with 1,560 in 2021³ compared to 1,580 in 2019.
- 31 Officials are aware from engagements that research FTE reductions will likely be distributed across a range of areas rather than concentrated in specific areas. This suggests national research capability is likely to be broadly maintained, however agencies will continue to monitor the ongoing impact of proposed changes.

Research capability also exists outside of universities

- 32 In addition to universities' broad teaching and research portfolios, 28 percent of research FTE capability exists outside universities. Most public-good science capability (eg, geohazard monitoring and infectious disease surveillance) is provided by Crown Research Institutes and therefore not directly affected by change proposals.

Subjects with limited nationwide provision appear safeguarded through funding incentives and available alternatives

- 33 Universities' recent proposals broadly include three types of changes at programme level: administrative changes only, integration or reducing scale, and phasing out or discontinuation⁴. So far only VUW has a clear proposal, so TEC has analysed risks to provision across the entire portfolio and on specific areas proposed for phasing out.

Broad analysis across the network shows subjects with limited nationwide provision are either funded priorities or have alternative offerings

- 34 TEC has looked at provision across all subject areas to capture any areas with limited nationwide provision. Subjects with limited provision were defined as those either:

² 2022 data is from NZBT+ and is indicative only. Results will be finalised by the end of July 2023.

³ Figures from the PBRF. Data for 2022 will be finalised in August 2023.

⁴ Most of these changes are 'phasing out', where no new learners will be enrolled but existing learners can complete their qualifications. If programmes are discontinued for existing learners, TEC expects universities to support them towards a similar/related qualification (eg, major in Tourism instead of Tourism Management).

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- 34.1 offered at only one or two universities⁵ (approximately seven percent of all university-delivered equivalent full-time students [EFTS]), or
 - 34.2 with an average of less than twenty⁶ EFTS per university (approximately two percent of all university-delivered EFTS).
- 35 Most subjects with limited nationwide provision are unlikely to be at risk because:
- 35.1 they are priority areas of provision and therefore tend to have higher funding rates. Demand for these specialty areas (eg, podiatry or engineering specialties) only supports provision by one or two providers.
 - 35.2 although they are not identified government priority areas and have low university enrolments, they are available at other providers. Examples include youth work (offered by Te Pūkenga and eight private training establishments) or Māori performing arts (over 80 percent of delivery is by Wānanga).

Subjects identified for phasing out at VUW are also available at other universities

- 36 Analysis was also undertaken for programmes proposed for phasing out by VUW (as only university with a confirmed proposal). Further analysis will be undertaken as proposals from other universities become clearer.
- 37 Of the areas proposed by VUW for phasing out, most are offered at other universities:

| VUW subject area | Provision offered at other universities |
|--|---|
| Secondary teaching | Offered at six other universities Wellington provision discussed below |
| Foreign languages: German, Latin, Italian and Greek. | Italian discussed below German, Latin and Greek all offered at three or more other universities |
| Masters in Design Technology | VUW offers several similar postgraduate design-related qualifications |
| Post-graduate study in geographic information systems | Offered at two other universities |
| Major in Tourism Management | Similar tourism-related provision offered at five other universities, as well as sub-degree provision at other types of providers |
| Majors in Geophysics and Physical Geography | Offered at four other universities |
| Postgraduate qualifications with endorsements in Health and Safety | Offered at two other universities |

VUW's proposal puts only two subjects at potential risk of lack of provision, but these risks are currently minimised through actions of other providers

- 38 Analysis above shows two areas are at risk if further providers were to make changes:

⁵ Excluding those where the cost of infrastructure leads to universities having specialist capability in particular disciplines, such as dentistry or veterinary science.

⁶ Consistent with areas VUW proposed for phasing out, where the larger numbers of EFTS recently delivered was approximately 20.

- 38.1 Italian continues to be offered at UoA.
- 38.2 Secondary teaching is currently offered by seven universities but proposed phasing out by VUW means there will be a lack of intramural provision in Wellington. Programmes are instead available extramurally through Massey. TEC is also aware Te Pūkenga may expand its provision to Wellington if required, and Massey has expressed interest in filling market gaps. TEC will continue to engage with providers in mitigating risks to provision.
- 39 While it is difficult to monitor this comprehensively in such a dynamic situation, TEC will keep me informed on emerging risks or gaps in the network of provision.

The Government has a range of mechanisms to address any future risk

Government has two primary levers for influencing universities

- 40 Given the institutional autonomy protected by legislation, Government's primary levers for influencing universities' decision-making are funding settings and signalling investment priorities. Universities are particularly sensitive to funding incentives. For example, over recent years governments have increased funding rates in areas with current and future skills shortages such as health, sciences, technology and engineering. Learner demand has also incentivised provision in these areas, and enrolments have increased.
- 41 By contrast, areas such as humanities, foreign languages and fine arts have not been as strongly incentivised and learner demand has declined (enrolments in humanities declined by approximately 2.3 percent from 2008 to 2016⁷). Around \$300m of government funding is still spent here, the highest amount of TEC-administered funding after health, and more than science and engineering-related courses⁸.

Primary levers are supported by TEC's engagement and monitoring

- 42 TEC stewards the tertiary education system by publishing priority areas of investment annually (developed through agency engagement and government priorities), making funding decisions aligned to these priorities, and making governance appointments (including to university councils). TEC decides whether to fund new areas of provision (or not fund if learner outcomes are poor), but cannot become involved in operational decisions, consolidate subject offerings across institutions, or require them to maintain specific provision. Instead, providers respond to learner demand and funding settings as above. The structure of the funding system means TEC can only fund in strategically important areas if learners also enrol in them.
- 43 TEC works closely with key industry groups such as Food and Fibre, or Te Whatū Ora to understand areas where new or increased provision is forecast as needed. This

⁷ Bachelor's degree or higher qualification enrolments in New Zealand Standard Classification of Education (NZSCED) field 'Society and Culture', https://www.educationcounts.govt.nz/publications/tertiary_education/education-learners/what-are-they-doing-the-field-of-study-of-domestic-studentslearners-2008-2016

⁸ Based on 2022 NZSCED value of delivery by course.

collaboration ensures that the network of tertiary education provision across the country can support workforce needs in the future.

TEC will continue to monitor the network and engage with providers...

- 44 As universities work through their change proposals, TEC will continue to closely monitor the situation and engage with universities about areas they plan to stop delivering (as well as where they plan on increasing delivery), noting that within broad funding categories, universities have autonomy over what they deliver.
- 45 Through its relationships with the sector, TEC will also continue to support collaboration between universities which maintain and build on existing strengths. In addition to individual universities, TEC regularly engages with Universities New Zealand, the peak body for New Zealand's eight universities. It provides sector coordination, as well as informing and influencing decision-making.

...and I propose that joint Ministers be authorised to adjust funding policy settings to support sector to collaboration if needed

- 46 The situation at institutions continues to evolve and there is a need to ensure that funding policy settings are sufficiently flexible to support the sector to respond to the current funding pressures in a way that minimises the impact on overall sector capacity and capability.
- 47 In particular, I am aware that universities are considering collaboration on at-risk delivery as a way of maintaining the breadth of their provision while addressing the financial viability of these programmes. However, they argue that these initiatives will require additional funding support, at least in the near-term.
- 48 Any broader changes to the funding system to incentivise and support collaboration between institutions would have significant implications and should be considered as part of the review of the higher education funding system that the Government has announced. I have been invited to report back to Cabinet by the end of the year on the scope and draft terms of reference for that review.

49 9(2)(f)(iv)

50 9(2)(f)(iv)

Cost-of-living Implications

- 51 There are no cost-of-living implications from this paper.

Financial Implications

- 52 There are no direct financial implications from this paper. The proposal to authorise the Minister of Finance and I to authorise policy changes to enable the TEC to support collaborative provision of otherwise at-risk programmes and/or subject areas would be limited to using existing funding in Vote Tertiary Education.

Legislative Implications

- 53 There are no legislative implications from this paper.

Population Implications

- 54 The information in this paper does not target specific population groups; however, supporting the higher education system to maintain quality and breadth of provision and mitigate risks to research capabilities is crucial to ensuring ongoing access to and success in tertiary education opportunities.
- 55 The time-limited tuition subsidy increase may help higher education providers to better support their learners to succeed, particularly those who may be at risk of disengaging from tertiary education, including Māori, Pacific and disabled learners.

Human Rights

- 56 There are no human rights implications from this paper.

Consultation

- 57 This paper was developed by TEC. The Ministry of Education (MoE), MBIE and the Treasury were consulted on the paper. The Department of Prime Minister and Cabinet was informed of the paper.

Communications

- 58 TEC will lead any relevant communications with the sector.
- 59 MoE will lead the review of the higher education funding system and any related communications.

Proactive Release

- 60 I intend to release the material within this Cabinet paper within 30 days after decisions have been made by Cabinet.

Recommendations

The Minister of Education recommends that the Committee:

- 1 note that this paper responds to Cabinet's invitation to report back (CAB-23-MIN-0269 refers) on whether there are risks to the capability in the tertiary sector or to the provision of courses on a nationwide basis from proposed changes by universities.

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- 2 note current change proposals do not pose a risk to critical research capability. TEC and MBIE will continue to monitor the situation and inform Ministers if risks arise.
- 3 note TEC has analysed the impact of proposed changes at universities and sees no evidence of current major risk to nationwide provision, with only two subjects at risk of limited provision, and only if other providers also make changes.
- 4 note TEC will continue to monitor university councils' mitigation of their individual risk positions, work with providers to address risks or fill emerging gaps in provision and keep me informed of such risks.
- 5 note mechanisms for influencing universities and responding to future risk include signalling of priorities, funding incentives, and TEC's processes for funding strategically important provision and supporting sector collaboration.
- 6 note the upcoming review of the higher education funding system is an opportunity to consider risks presented by situations where universities have reduced revenue

7 9(2)(f)(iv) [Redacted]

8 9(2)(f)(iv) [Redacted]

Authorised for lodgement



Hon Jan Tinetti
Minister of Education