CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

Summary of our report

Investing in tertiary education assets

Tertiary education institutions – our universities, polytechnics, wānanga, and other tertiary education organisations – make an important contribution to New Zealand's social and economic success. In 2015, these institutions held about $9.7 billion in net assets, including $9.5 billion in capital assets. In 2014, they also planned to spend a further $8.2 billion on capital assets by 2024.

This report considers the effectiveness of investment in tertiary education sector assets to support educational success. We looked at some business cases and came up with a cost-effectiveness measure.

Context for investment decisions

The tertiary education sector is facing pressures from new technology and ways of delivering education, ageing assets, and declining numbers of domestic students. Such pressures are inevitably increasing the level of competition for student enrolments. In this context, the Government's *Tertiary Education Strategy 2014-2019* supports social and economic outcomes for the tertiary education sector. The strategy aims to enhance the effectiveness of the sector as a whole, as well as the effectiveness of its parts.

Assessing business cases

Each tertiary education institution is required to prepare an investment plan to show how it plans to give effect to the priorities in the tertiary education strategy. For particular capital investments, tertiary education institutions prepare business cases. We reviewed 14 business cases prepared in 2013 and 2014.

We found that these business cases were generally of a high standard. Benefits, risks, and risk-management approaches for the individual university or polytechnic were usually described in detail, and most sections dealing with risk included comments about a range of financial indicators.

However, there was little evidence of the tertiary education strategy's aim to enhance the effectiveness of the sector as a whole. In most of the business cases, tertiary education institutions did not take account of the investments planned or made by other tertiary education institutions, nor did they consider how to make the most of their investments by sharing or using the existing assets of other tertiary education institutions.

Vital statistics:

- 40 pages
- Presented to Parliament on 14 February 2017
- Download from oag.govt.nz
- Contact: reports@oag.govt.nz

For 2015/16, the Tertiary Education Commission specifically asked tertiary education institutions to "explore ways to increase efficiencies through shared services, infrastructure and other collaboration, such as partnerships". Our findings and this requirement suggest it is important that tertiary education institutions give attention to wider sector considerations when they prepare future business cases to support their major investments.

Measuring investment effectiveness

We developed a simple measure to see whether system-wide factors could affect the relationship between the money spent on assets and educational outcomes for students – in other words, a basic cost-effectiveness measure that we called "investment effectiveness". We used publicly available information about tertiary education institutions' assets and education outcomes to apply the measure.

Applying our measure shows how tertiary education institutions may individually and collectively be affected by changes in their wider environment. We used three scenarios involving changes in student numbers. Using our measure:

- a large change in the number of international students has a small effect on investment effectiveness;
- a small change in domestic student numbers has a comparatively large effect on investment effectiveness; and
- if a group of tertiary education institutions increases its market share, this can decrease the overall (average) investment effectiveness of all tertiary education institutions.

When the results of our analysis are put together with what we saw in selected business cases, it is clear that there is an opportunity for education agencies, tertiary education institutions, and other stakeholders to explore the measurement of the effectiveness of investments in tertiary assets and the potential opportunities for more sector-based investment decisions.

Some tertiary education institutions believe that a competitive funding model and regulatory environment make it unlikely that they will work together to improve the collective efficiency of their investments in assets. Others pointed to examples where joint investments have been successfully made and the complexities of the funding and regulatory environment were worked through. These diverse views pose both a challenge to the implementation of the strategy and an opportunity for further conversations and developments.

Our recommendations

We recommend that the Ministry of Education, the Tertiary Education Commission, and other education agencies work with tertiary education institutions to improve the use of, and investment in, tertiary education assets by:

- improving business case guidance and assessment criteria to support tertiary education institutions in considering how their business cases and asset investment proposals are affected by the investment decisions of other tertiary education institutions; and
- considering further types of analysis, measures, and forecasting that could improve the collective effectiveness of the investment in tertiary assets.