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Tertiary education
institutions:
2019 audit results
and what we saw
in 2020



Photo acknowledgement:
Ginny Dunn, Office of the Auditor-General

Tertiary education institutions: 2019 audit results and what we saw in 2020

Presented to the House of
Representatives under section 20 of
the Public Audit Act 2001.

December 2020

ISBN 978-0-9951409-3-6

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Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Tertiary education is important to many New Zealanders' personal development and to the country's future economic well-being. Young people, their whānau, adults looking to retrain or learn a new skill, and employers rely on the quality and stability of our tertiary education institutions (TEIs).

In a Covid-19 world, the strength and quality of TEIs will be even more critical. They will play a crucial role in our success as a nation in recovering from the consequences of the pandemic and in positioning the country for future success.

This report summarises the main findings of our 2019 audits of the 27 public TEIs. These consist of eight universities, three wānanga, and 16 institutes of technology and polytechnics. We also comment on the tertiary education sector's operating environment in 2020, including the effects of the reforms of vocational education and Covid-19, and what this might mean for the sector in 2021.

Reform of vocational education

On 1 April 2020, the 16 institutes of technology and polytechnics became Crown entity subsidiary companies of Te Pūkenga – New Zealand Institute of Skills and Technology. This is part of an overall programme of reforms that is far from finished.

The subsidiary companies will be in place until 31 December 2022, when they will merge with Te Pūkenga to form one organisation. This is a longer transition period than the Government originally consulted on.

In my submission on the reforms during that consultation, I raised concerns about the risks of merging the institutes of technology and polytechnics into Te Pūkenga in the original time frame. The extended time frame has mitigated some, but not all, of these risks.

Early certainty about what is changing and what is not changing will help staff and students manage the almost three-year transition period.

In early November 2020, Te Pūkenga announced that it had appointed consultants to co-design the way it will deliver tertiary education. Te Pūkenga expects to have completed the design stage by the end of 2021, but some aspects of the plan will take longer to carry out. Work on a new unified funding system for vocational education is also still under way.

In my submission on the reforms, I said that the design and funding of vocational education would be integral to the future success of Te Pūkenga. In the coming years, I intend to look at whether Te Pūkenga is meeting the aspirations set out in the reform proposals, including building a financially sustainable network of vocational education.

Financial challenges for tertiary education institutions

Many institutes of technology and polytechnics had been experiencing increased financial difficulty for several years before Covid-19. This is because domestic student enrolments had declined from the levels they had been at after the global financial crisis in 2008.

By 2019, only four out of 16 institutes of technology and polytechnics (Ara Institute of Canterbury, Eastern Institute of Technology, Southern Institute of Technology, and the Open Polytechnic) finished the year in surplus and in a sound cash position. There are indicators that most, if not all, financial measures of performance for what are now the Te Pūkenga subsidiaries will have worsened in 2020.

Universities generally ended 2019 in a better financial position than 2018. However, Covid-19 has brought significant financial challenges for universities. In 2020, universities have had lower revenue from international students, research, commercial operations, and charitable donations.

Although they are still uncertain, the immediate effects of Covid-19 on wānanga are less obvious than those for ITPs or universities. The border closure did not affect their revenue in 2020 because wānanga do not have many, or any, international students. However, other economic factors related to Covid-19 might affect enrolments at wānanga in the future.

Initial responses to Covid-19

In their initial response to Covid-19, TEIs appear to have provided good levels of support for the well-being of students. The Government has announced further investment in mental health services for all domestic students studying at TEIs for 2021.

TEIs worked to adjust the nature, timing, and frequency of student assessments, and they published policies about how they would adjust assessment grades to take account of Covid-19.

Students were most concerned about the change from face-to-face teaching to online teaching. Many TEIs were reasonably well prepared for providing courses online. For others, moving to online courses was an emergency response, and this was more stressful for staff and students.

Recovery goals for the sector

The response phase to Covid-19 was, and continues to be, important. However, Covid-19 has fundamentally reset TEIs' operating environment for the foreseeable future. Even before Covid-19, the changing expectations of employers and students put pressure on traditional operating models and financial sustainability.

In my view, many TEIs are still in a “get-through” phase. They are focusing on short-term measures to address immediate issues, such as revenue shortfalls. As part of its recovery strategy, the Government intends further actions to achieve its policies of strengthening the sector and transforming to a more sustainable future state.

Te Pūkenga has an opportunity to align its operating model and its role in international education with proposed changes to the funding system for vocational education.

My view is that, for the university sector, there is a long way to go in building a strong consensus for recovery and a sustainable operating environment for higher education. Without this consensus, there is a risk that tactical response decisions being made now might be detrimental to successful outcomes in the long term.

Sensitive expenditure

This report includes findings from reviews we carried out into sensitive expenditure by two TEIs. Poorly managed sensitive expenditure undermines the public's trust and confidence in public organisations. This is no different in the TEI sector than it is for any other publicly funded organisation.

Although TEIs have more autonomy, they are subject to the same expectations about spending public money as other public organisations. I expect all TEIs to have robust sensitive expenditure policies. Those policies must be supported by a strong “tone from the top” on what is and what is not appropriate when spending public money.

To assist organisations, I have recently published updated guidance on sensitive expenditure. I recommend that all public organisations carefully consider how well their policies and practices align with this guidance.

In closing ...

I want to thank the staff and governors of TEIs, who worked hard to meet their accountability requirements in what has been an extremely challenging environment for them and their auditors.

Nāku noa, nā



John Ryan
Controller and Auditor-General

3 December 2020

Audit results at a glance

23 of 27 TEIs reported on time



24 of 27 received unmodified audit opinions

Categories of new recommendations in 2019



Top 4

1 – improving controls related to expenditure, including payroll;

2 – improving compliance in the application of accounting and other policies;

3 – improving the process to value assets, and maintaining fixed asset registers; and

4 – improving technical accounting knowledge and application.

36 “Emphasis of matter” paragraphs

We used emphasis of matter paragraphs in the ITP audit reports to draw attention to the disclosures about uncertainty created by the Government’s planned reforms of vocational education.

We also used them in the reports for all TEIs to draw attention to disclosures relating to the possible effects of Covid-19 on the operations of the TEIs.

Financial and enrolment results at a glance

Total revenue

\$5.6 billion

up \$200 million from 2018.

Total assets

\$16.3 billion

up \$1.6 billion from 2018.

Surpluses and deficits



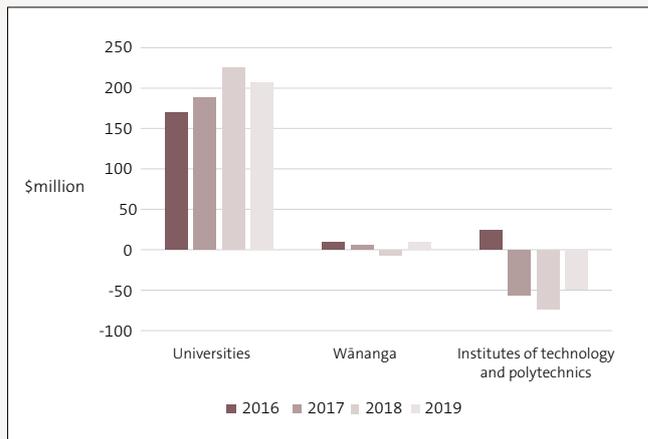
All universities and wānanga ended the year with surpluses, but 11 out of the 16 ITPs made a combined loss of \$55.8 million (2018:10 ITPs/\$82.5 million loss)

Total liabilities

\$2.6 billion

up \$240 million from 2018.

Group surpluses and deficits, by type of tertiary education institution, 2016 to 2019



Equivalent full-time students



229,974

(2018: 232,274)

Overall, universities saw increases in domestic and international students, but numbers fell at other TEIs.

32,302 of the total were international equivalent full-time students (2018: 31,489).

Equivalent full-time students (EFTS)

Universities



138,805 EFTS
(2018: 136,044)
Including 21,572 international EFTS
(15.5%)

Wānanga



22,186 EFTS
(2018:23,490)
Including 15 international EFTS

Institutes of technology and polytechnics



68,983 EFTS
(2018: 72,740)
Including 10,715 international EFTS
(15.5%)

Types of tertiary education institutions

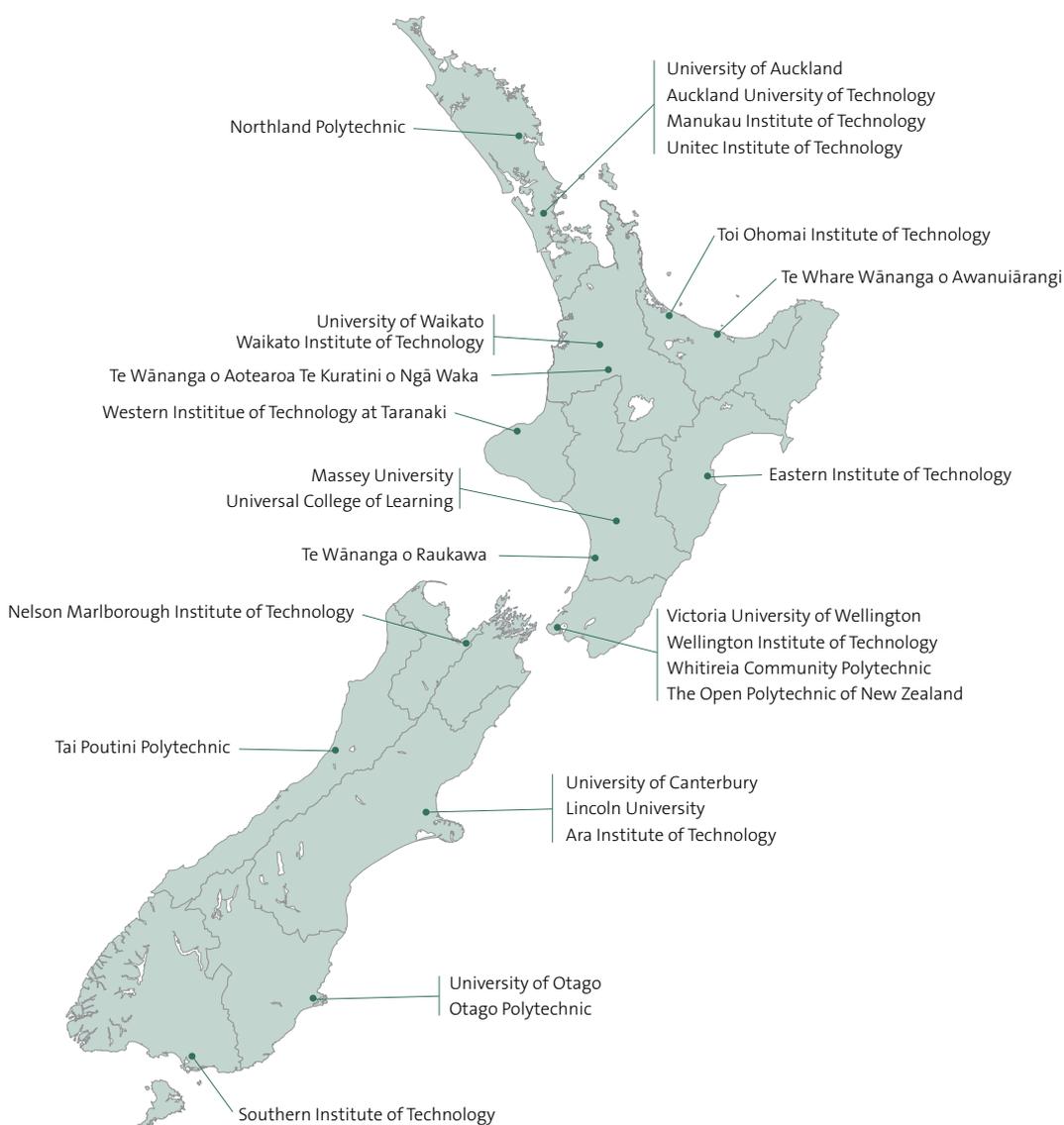
Section 162 of the Education Act 1989 sets out the characteristics of tertiary education institutions applicable in 2019.¹ On 1 April 2020, the Government created a new type of tertiary education institution, Te Pūkenga – New Zealand Institute for Skills and Technology.² On that day, the 16 institutes of technology and polytechnics became Crown entity subsidiary companies of Te Pūkenga.

Universities	
A university is characterised by a wide diversity of teaching and research, especially at a higher level, that maintains, advances, disseminates, and assists the application of knowledge; develops intellectual independence; and promotes community learning. There are eight universities:	
University of Auckland	Massey University
University of Canterbury	Lincoln University
University of Otago	Victoria University of Wellington
University of Waikato	Auckland University of Technology
Wānanga	
A wānanga is characterised by teaching and research that maintains, advances, and disseminates knowledge; develops intellectual independence; and assists the application of knowledge regarding āhuatanga Māori (Māori tradition) according to tikanga Māori (Māori custom). There are three wānanga:	
Te Wānanga o Raukawa	
Te Wānanga o Aotearoa Te Kuratini o Ngā Waka	
Te Whare Wānanga o Awanuiārangi	
Polytechnics	
A polytechnic (including institutes of technology) is characterised by a wide diversity of continuing education, including vocational training, that contributes to the maintenance, advancement, and dissemination of knowledge and expertise, and that promotes community learning and research, particularly applied and technological research, that aids development. There are 16 institutes of technology and polytechnics:	
Unitec Institute of Technology	Otago Polytechnic
Ara Institute of Canterbury	Southern Institute of Technology
Eastern Institute of Technology	Western Institute of Technology at Taranaki
Wellington Institute of Technology	Waikato Institute of Technology
Universal College of Learning	Whitireia Community Polytechnic
Manukau Institute of Technology	The Open Polytechnic of New Zealand
Nelson Marlborough Institute of Technology	Tai Poutini Polytechnic
Northland Polytechnic	Toi Ohomai Institute of Technology

1 The Education Act 1989 was in force in 2019. That Act was repealed and replaced by the Education and Training Act 2020, which was enacted on 31 July 2020. Section 268 of the Education and Training Act describes the characteristics of universities and wānanga. It does not describe institutes of technology and polytechnics because they became subsidiaries of Te Pūkenga. Te Pūkenga operates under a charter and a more specific set of functions (see sections 315 and 316).

2 The new institution was known as the New Zealand Institute of Skills and Technology until an Order in Council under section 314(2) of the Education and Training Act renamed it as Te Pūkenga – New Zealand Institute of Skills and Technology on 21 September 2020.

Main campus or headquarters of the 27 tertiary education institutions



Note that Te Pūkenga's main office will be in Hamilton in addition to the University of Waikato and Waikato Institute of Technology.

1

Introduction

- 1.1 Tertiary education is important to many New Zealanders' personal development and future economic well-being. Young people, their whānau, adults looking to retrain or learn a new skill, and employers rely on the quality and stability of tertiary education providers. Tertiary education is also important to the country's future economic performance.
- 1.2 The Government invests more than \$3 billion annually in about 760 public and private tertiary education organisations. These include public tertiary education institutions (TEIs), private training establishments, industry training organisations, adult and community education providers, government training establishments, and secondary schools.³
- 1.3 Tertiary education includes adult community education, vocational education and training, higher education, and research.
- 1.4 This report summarises our audits of the 27 public TEIs. They consist of eight universities, three wānanga, and 16 institutes of technology and polytechnics (ITPs). We did not look at the quality of teaching or research at these TEIs because it is outside of our mandate.
- 1.5 We audited the financial statements and statements of service performance for the year ended 31 December 2019, with a statutory reporting deadline of 30 April 2020.
- 1.6 In early 2019, the Government began its programme to reform vocational education. During the Government's consultation on the reforms, we expressed some concerns about the time frame for the reforms and the lack of detailed financial projections.
- 1.7 During 2019, before the legislation that gave effect to the reforms was enacted, ITPs were affected by considerable uncertainties about their future.
- 1.8 TEIs prepared their 2019 financial statements, and we carried out most of the audits, when concerns about Covid-19 were increasing. Covid-19 was a sudden and significant shock to the operations of all TEIs. There have been significant revenue implications for TEIs whose international students were not in the country when the border was closed.
- 1.9 In Part 2, we look at progress with the implementation of the reforms of vocational education.
- 1.10 In Part 3, we look at the immediate responses to Covid-19, including additional funding for vocational education. We also discuss the tertiary education sector's plans for recovery.
- 1.11 In Part 4, we discuss the results of the 2019 audits of TEIs.

- 1.12 In Parts 5-7, we discuss the financial and enrolment results for universities, wānanga, and ITPs.⁴
- 1.13 Wherever possible, data in this report comes from audited financial statements and statements of service performance in the TEIs' annual reports. However, some TEIs do not report separately on domestic and international full-time students.⁵
- 1.14 Therefore, we have calculated those numbers from other published but unaudited information in the TEIs' annual reports. For three former ITPs that have not yet reported, we looked at data from their draft and unaudited financial statements.

4 Our data on the number of enrolled students might vary slightly from those published by the Ministry of Education and the Tertiary Education Commission. Those organisations collect data that is more detailed than the data we get from TEI annual reports. However, the annual reports are the only publicly available source of data at the time we collect it.

5 We count a student as domestic if they qualified for domestic fees or their institution gets government funding for them. This includes a small number of students from other countries that qualify for domestic tuition fees and a small number of international students studying level 9 post-graduate or doctoral degrees. We count students as international students only if they are paying full international fees.

2

Reforms of vocational education

- 2.1 On 1 August 2019, the Minister of Education announced the Government’s decisions on proposals to reform vocational education. These included:
- creating Te Pūkenga – New Zealand Institute of Skills and Technology (Te Pūkenga);
 - creating a unified funding system to support the wider reforms and that aims to improve collaboration and flexibility, and ensure a sustainable network of vocational education; and
 - creating Workforce Development Councils to extend industry and employers’ leadership role for all vocational education.
- 2.2 The Education (Vocational Education and Training Reform) Amendment Act 2020 (the Act) gave effect to the reforms. It was enacted on 24 February 2020.

Te Pūkenga – New Zealand Institute of Skills and Technology

- 2.3 The Act disestablished all 16 ITPs and established 16 corresponding Crown entity subsidiary limited companies (subsidiary companies) of Te Pūkenga. All 16 ITPs’ assets, liabilities, and operational activities were transferred to their corresponding subsidiary companies on 1 April 2020.
- 2.4 There are some differences between Te Pūkenga and the other types of TEI. The main difference is the amount of control the Minister of Education has over Te Pūkenga.
- 2.5 All TEIs must maintain high ethical standards, permit public scrutiny of those standards, and be accountable for, and properly use, the resources allocated to them.⁶ Within this context, universities and wānanga have both academic freedom and institutional autonomy.⁷ Te Pūkenga has academic freedom but not institutional autonomy.⁸
- 2.6 The Minister of Education appoints most of the members to Te Pūkenga’s governing council. The council can have between eight and 12 members, and the Minister appoints all but three members.⁹ For other TEIs, the Minister appoints four members to councils that have between 10 and 12 members, and three members to councils that have eight or nine members.¹⁰
- 2.7 Te Pūkenga “owes a duty” to the Minister of Education to give effect to its charter. It needs to report on how it has given effect to its charter in its annual report.¹¹

6 Education and Training Act 2020, section 267(2)(a), (b) and section 318(4)(a), (b).

7 Education and Training Act 2020, section 267(1).

8 Education and Training Act 2020, section 318(1).

9 Education and Training Act 2020, section 320(1)(d).

10 Education and Training Act 2020, section 276.

11 Education and Training Act 2020, section 316 and Schedule 13.

- 2.8 Additional provisions of the Crown Entities Act 2004 apply to Te Pūkenga’s council. These include:
- providing a statement of intent and a statement of performance expectations;
 - reporting on any ministerial direction in Te Pūkenga’s annual report; and
 - provisions for removing members from autonomous Crown entities.
- 2.9 The disestablishment of ITPs and establishment of subsidiary companies was largely uneventful because very little changed. Most of the work on the transition to a new operating model for Te Pūkenga has yet to be carried out.
- 2.10 However, new boards of directors replaced the outgoing ITP councils. In many subsidiary companies, there was some continuity between the outgoing council members and the new boards. In a few instances, most of the members were new. The directors of the new boards were responsible for preparing the final reports of the ITPs, which covered from 1 January to 31 March 2020.
- 2.11 The subsidiary companies will be in place until 31 December 2022, when they will be merged into Te Pūkenga to become one organisation.¹²
- 2.12 Originally, the Government proposed that Te Pūkenga would operate as a single entity from 1 January 2020. In our submission on the reforms during the consultation period, we raised concerns about the risks of establishing Te Pūkenga in such a short time frame.¹³
- 2.13 The Government extended the time frame, and the subsidiary companies will now operate until 2022. This has mitigated some of the risks that we discussed in our submission, and should enable the remaining risks to be better managed. Early certainty about what is changing and what is not changing will help staff and students manage the almost three-year transition period.
- 2.14 In early November 2020, Te Pūkenga announced that it had appointed consultants to co-design the way it will work in future. The design will include arrangements for a regional network of vocational education that will be closely aligned to local economies and local employers. It will also focus on increasing access to, and providing better support during, tertiary education for those who might not have enrolled previously.
- 2.15 Te Pūkenga expects to have completed the design stage by the end of 2021, but some aspects of the plan will take longer to carry out.

12 The time frame can be extended by the Governor-General by an Order in Council on the recommendation of the Minister of Education (see the Education and Training Act 2020, Schedule 1, clause 21). Te Pūkenga can dissolve a subsidiary before the date specified (see the Education and Training Act 2020, Schedule 1, clause 22).

13 See Office of the Auditor-General (2019), *Submission on the Reform of Vocational Education proposals*, at oag.parliament.nz.

- 2.16 In late November 2020, Te Pūkenga reported the results of a short survey of staff across its subsidiary network. The survey showed that a majority of staff understood the need for change, but did not yet know how the changes would affect them personally. Te Pūkenga intends to focus on improving this result, and will re-run its survey to assess progress.¹⁴
- 2.17 We also submitted feedback on the draft Education (Vocational Education and Training) Amendment Bill. In our submission, we recommended that the subsidiary companies continue to report separately on their financial and service performance until 31 December 2022.
- 2.18 In the next two years, Te Pūkenga needs to develop its systems and capability to provide quality reporting at a group level. It will also need to consider how it can best serve local accountability.

Unified funding system

- 2.19 Work is continuing on a unified funding system. It will cover certificate and diploma qualifications (level 3 to non-degree level 7) and all industry training.
- 2.20 The unified funding system will fund all work-integrated and provider-based education, including Te Pūkenga, wānanga, and private training establishments. It will also apply to those universities that offer level 3 to non-degree level 7 courses.
- 2.21 Funding will be calculated based on:
- a funding category component, which considers not just what is delivered but how it is delivered;
 - a student success component, which looks to lift outcomes for students who have been traditionally under-served by the education system by lifting the performance of that system; and
 - a strategic component, which aims to increase how quickly the education system can respond to national and regional priorities and regional labour market demand.
- 2.22 In our submission on the reforms, we said that the operating model and funding system would be integral to the future success of Te Pūkenga. In the coming years, we intend to look at whether Te Pūkenga is meeting the aspirations of the Government, including building a financially sustainable network of vocational education.
- 2.23 Although the unified funding system will change the calculations used to fund learners and courses, there is no indication yet that the amount of overall government funding will increase.

¹⁴ Te Pūkenga's staff survey is called Aromātai Kaimahi. 8,000 staff across the subsidiary network were surveyed, and 53% responded.

- 2.24 The design of the unified funding system also does not include higher-education qualifications at level 7 (degree) and above. Many TEIs, not just ITPs, tell us that they rely on fees from international student enrolments to maintain financial viability and that a review of other funding streams is also needed. We discuss this in Part 3.

Workforce Development Councils

- 2.25 Budget 2020 provided \$276 million to set up new Workforce Development Councils (and Regional Skills Leadership Groups led by the Ministry of Business, Innovation and Employment).
- 2.26 Workforce Development Councils are expected to have a “forward, strategic view of the future skills needs of industries”. They will set standards, develop level 1 to level 3 qualifications, and moderate assessments. When these arrangements are in place, the current Transitional Industry Training Organisations will be dissolved.¹⁵
- 2.27 There are six interim establishment boards for the Workforce Development Councils, which are expected to be set up by an Order in Council in 2021. Each Workforce Development Council covers a group of similar industries.

Progress on supporting aspects of the reform programme

- 2.28 The Government has also progressed with other arrangements to support the reforms, including Te Taumata Aronui and Centres of Vocational Excellence.

Te Taumata Aronui

- 2.29 Te Taumata Aronui is a group that provides advice and independent recommendations to Ministers on how to respond to the needs of Māori students and communities better. The group will also work with Ministers and officials on these matters. Appointees to Te Taumata Aronui were announced in December 2019.

Centres of Vocational Excellence

- 2.30 The first two Centres of Vocational Excellence have been set up. These are in the construction and primary production sectors. Centres of Vocational Excellence must meet a range of criteria, including having a national focus and supporting the development and sharing of high-quality curriculum and programme design.

¹⁵ Industry Training Organisations arrange training for trainees and apprentices. Their role is to organise the delivery, assessment, and/or monitoring of training. They are operating in transitional form until the Workforce Development Councils are established.

3

Covid-19 response and recovery plans

- 3.1 On 2 February 2020, the Government announced it would implement a travel ban on passengers from China. On 11 March 2020, the World Health Organization declared Covid-19 a pandemic. On 20 March, the Government closed the border to everyone except for returning citizens and permanent residents.
- 3.2 The border restrictions meant that about a third of first-year international university students might not have been able to travel to New Zealand to take up their places. ITPs were affected, but less so, as more of their international students had already arrived.
- 3.3 On 21 March, the Government introduced a four-tiered alert level system in response to Covid-19. It immediately implemented alert level 2 arrangements. The Government increased the alert level to level 3 on 23 March and to level 4 on 25 March.¹⁶ The alert levels included restrictions on non-essential services and domestic travel, and introduced a range of social distancing measures.
- 3.4 Tertiary campuses closed under level 3 on 23 March 2020. They did not re-open until the country was at level 2 on 13 May. About 6000 students spent the lockdown, or noho rahui, in halls of residence.

Initial Covid-19 response

- 3.5 Senior leaders in the tertiary education sector told us that the sector's initial response to Covid-19 was highly collaborative. Because TEIs are independent and more used to competing with each other, we consider this to be notable.
- 3.6 The TEIs' initial response plans included continuing to provide courses through online platforms, implementing social distancing safeguards for students and staff, and providing consistent and clear communications.
- 3.7 Many TEIs were reasonably well prepared to provide courses online. Some TEIs already had some or all of their courses online. These included the Open Polytechnic of New Zealand, the six ITPs using the TANZ eCampus platform, Southern Institute of Technology, Massey University, and Te Wānanga o Aotearoa.
- 3.8 For others, moving to online courses was an emergency response. One example of how the sector collaborated to respond to Covid-19 was that TEIs with online platforms shared those platforms with TEIs that did not have them.
- 3.9 The tertiary education sector's operational response to Covid-19 was variable. Some TEIs found responding in a timely way to the human, practical, and financial consequences of Covid-19 challenging. Many staff found making alternative

¹⁶ The Government also declared a state of emergency. After four weeks under alert level 4, the country gradually went down alert levels until it was at level 1 on 8 June. There have been other changes to alert levels since June. The country, or parts of it, might move up and down the alert levels in response to any future outbreaks.

teaching arrangements stressful. Media reports indicated that staff at TEIs that had limited experience of online delivery faced more difficulties.

- 3.10 Most TEIs provided online courses for a large number of students quickly. These covered a vast array of different teaching contexts. By October 2020, there was no overall decrease in the number of students still enrolled, including students offshore.
- 3.11 However, no centralised data on how many international students might have deferred rather than withdrawn or how many are studying remotely is currently available.
- 3.12 We are aware that the university sector estimates that about two-thirds of those students (more than 5000) who did not make it to New Zealand are still enrolled and have begun their studies remotely. About half of those students will need to enter New Zealand to complete their studies.
- 3.13 Data from August 2020 shows that, for courses starting in the first half of 2020, overall enrolments were down by about 1.3% at universities and 6.2% for ITPs. This was partly related to Covid-19, but it is also part of a continuing trend for ITPs.
- 3.14 There was a noticeable increase in course enrolments in the second half of 2020. This correlates to the significant increase in unemployment reported for the September 2020 quarter. Enrolments were up by 4.3% at universities and by 6.8% for ITPs.
- 3.15 Overall, TEIs appear to have provided good levels of support for the well-being of students. However, some students did not view TEIs' responses as trouble free.
- 3.16 The New Zealand Qualifications Authority (NZQA) is responsible for looking into concerns and complaints about TEIs and the pastoral care of students.¹⁷ It told us that there had been a "steady stream of concerns and complaints, but not an avalanche". Overall, it saw no notable increase in volume compared to the previous year.
- 3.17 However, the nature of the complaints and concerns changed. Since March 2020, more of the students concerns were about changes from face-to-face teaching to online teaching.
- 3.18 Students and family members also contacted NZQA to raise concerns about students' mental well-being during the pandemic. The Government has announced an additional \$25 million for extra mental health and well-being services for all domestic students studying at TEIs, although these services will not be available until later in 2021.

¹⁷ The current code of practice for the pastoral care of students covers international students, and there is an interim code for domestic students.

- 3.19 University Students' Associations highlighted concerns about the timing of assessments and financial hardship. In response, the sector worked to adjust the nature, timing, and frequency of student assessment. Most TEIs moved reasonably promptly to publish policies about how they would adjust assessment grades to take account of Covid-19.
- 3.20 As at 30 June 2020, 120 tertiary organisations, including TEIs, had accessed funding from the Government's hardship fund for learners. The Government also set up a hardship fund for international students to help with temporary and urgent needs, and a financial support package for domestic students.
- 3.21 In 2020, the Government will not be "clawing back" funding if TEIs do not meet their enrolment targets or performance measures because of Covid-19. Also, all TEIs will receive a 1.6% increase in government funding from January 2021.¹⁸
- 3.22 The Government also provided \$1.6 billion for a trades and apprenticeships training package in Budget 2020.¹⁹ This funding will mostly fund extra training places at Te Pūkenga, its subsidiary companies, and some Transitional Industry Training Organisations and private training establishments.

Longer-term recovery strategies and priorities

- 3.23 The Covid response phase was, and continues to be, important. However, Covid-19 has fundamentally reset TEIs' operating environment for the foreseeable future. Even before Covid-19, disruptive technology and the changing expectations of employers and students were putting pressure on traditional operating models.
- 3.24 We asked senior leaders in the sector about their longer-term strategies for recovery.²⁰ Although those conversations were wide-ranging, two topics dominated – international education and delivering courses online.

International education

- 3.25 Senior leaders mostly told us about how TEIs (except wānanga) are struggling from a decline in revenue from international students. We saw some financial forecasts that assume that international students will return from the second quarter of 2021.
- 3.26 Although those plans also project some additional domestic demand related to Covid-19, the net revenue (revenue less expenses) from those students is

¹⁸ Budget 2019 provided for a 1.8% increase from January 2020.

¹⁹ Of this funding, \$334 million was for additional tertiary education enrolments (level 3 to non-degree level 7 courses). A further \$320 million was targeted to free trades training in critical industries. Other funding was aimed at apprentice support and increased demand for trade academies.

²⁰ We spoke to senior staff in some TEIs, Te Pūkenga, the Ministry of Education, the Tertiary Education Commission, Universities New Zealand, the New Zealand Qualifications Authority, and Education New Zealand.

not projected to fill the financial gap. It is also not yet certain that the Tertiary Education Commission will be able to fund additional domestic demand for non-trades training in 2020. Its existing budget is committed by the funding guarantee (see paragraph 3.21).

- 3.27 In July 2020, Te Pūkenga's subsidiary companies were forecasting a combined \$53 million deficit in 2020. This might double in 2021 if international students cannot enter the country in the first quarter of 2021. Because Te Pūkenga is continually reforecasting based on the latest information on domestic student enrolments, these projections will change.
- 3.28 Universities New Zealand²¹ estimates that total university revenue will decline by \$200 million in 2020 and by \$400 million in 2021. These forecasts include not only a reduction in revenue from international students but also reductions in other activity, including research, commercial activities, and philanthropy. We estimate that, as at November 2020, revenue from international tuition fees was down by about \$60-\$70 million.²²
- 3.29 On 13 October 2020, the Government announced that it would allow 250 doctoral research (PhD) and masters-level postgraduate students to enter the country from about November 2020. Students who already held visas for 2020 and who needed to be in New Zealand to complete practical components of their research would be eligible for those places.
- 3.30 TEIs (most likely universities) will need to nominate students for these places. Successful students will need to complete the mandatory period in managed isolation when they arrive in the country.
- 3.31 There is no indication when other international students might be allowed into the country or how many. The Treasury's pre-election economic and fiscal update for 2020 assumes that border restrictions will be lifted on 1 January 2022.
- 3.32 However, the update includes a possibility that safe travel arrangements might be agreed to allow some service exports, including international education, to start recovering from mid-2021. The update also notes that the speed at which those service exports will recover is uncertain.²³

21 Universities New Zealand carries out statutory functions under the Education and Training Act 2020 for universities. These functions include quality assurance, placing qualifications on the qualifications framework, approving and moderating courses, and granting scholarships. It also co-ordinates sector responses to government policy, including international education.

22 This depends on the equivalent full-time student value of the course the students intended to study.

23 The Treasury, *Pre-election Economic and Fiscal Update 2020*, at www.treasury.govt.nz.

Delivering courses online

- 3.33 Some TEIs are making the most of the opportunity to develop their online courses for domestic and international students. Some estimates we have seen forecast that, globally, 70%-75% of courses could be offered fully online or by a mixture of face-to-face and online teaching. Providing more education through online platforms is also part of the Government's strategy for international education.
- 3.34 This approach could build resilience for future shocks and meet the learning needs of some students. However, in our view, delivering more courses online is not the only solution.
- 3.35 Although delivering courses online might be more efficient in some respects, costs could increase. For example, TEIs will need to consider:
- investing in retraining educators to be able to teach online to mitigate student concerns about variable quality;
 - the need for communications support staff, such as those with skills in video editing and creating content;
 - investing and re-investing in online delivery and assessment platforms;
 - the possible duplication of courses running online and face-to-face – some students might choose a TEI based on the availability of face-to-face tuition;
 - any impairment of physical assets that might no longer be needed or cannot be fully utilised (for example, halls of residence), or where fixed campus costs might be shared between fewer students;
 - reduced revenue from student services fees for on-campus services such as sports facilities;
 - additional complexity in managing student well-being;
 - price sensitivity – surveys show that students likely want to pay less for tuition delivered wholly or mostly online; and
 - for international students, studying a New Zealand qualification outside of New Zealand might not translate into work rights in New Zealand, which can be a factor when students decide where to study.

Other actions under way

- 3.36 Te Pūkenga has an opportunity to address sustainability issues when designing its future operating model and as the Tertiary Education Commission continues to work on the unified funding system. It has started work on its strategic approach to international education with its subsidiaries and Education New Zealand.²⁴
- 3.37 Te Pūkenga hopes that the unified funding system will make a significant difference to its financial viability. However, the system is currently at the design

stage and might not be in place for another two years. In the meantime, Te Pūkenga's subsidiaries are divesting some assets and reducing some variable costs, such as by appointing joint chief executives.

- 3.38 In September 2020, the Secretary for Education agreed that Te Pūkenga would not need her consent to dispose of assets, raise money (including by borrowing), or carry out other activities that would normally require her consent.²⁵
- 3.39 This enables Te Pūkenga to use the cash and cash equivalents within the group to support the liquidity needs of subsidiary companies that are at risk. However, in doing so, Te Pūkenga must not affect the overall balance sheet of the group. It must also keep to previously agreed restrictions on the use of local assets.
- 3.40 On 27 July 2020, the Government announced a concurrent three-part recovery plan for the international education sector. The plan aims to:
- stabilise the international education sector;
 - strengthen the system by ensuring that regulatory settings, policies, and practices support the recovery; and
 - accelerate the transformation of the international education sector described in the 2018 International Education Strategy.²⁶
- 3.41 To stabilise the international education sector, the Government has announced a \$51 million support package. Most of this funding is targeted at schools and some types of private training establishments. Education New Zealand receives \$10 million of the package for marketing and to support innovation in delivering education to international students.
- 3.42 We understand that transforming international education might include changes to the number of international students eligible to study in the country, the nature of their study, their financial independence, and their access to work rights. These measures are likely to lower overall demand. However, New Zealand's generally successful response in avoiding the worst consequences of the pandemic presents opportunities. As a consequence, demand might increase.²⁷
- 3.43 Although the universities are participating in some of the recovery initiatives, our view is that there is a long way to go in to building a strong consensus about how to recover from the pandemic and build a sustainable operating environment for higher education.
- 3.44 We heard many differing and unreconciled views between TEIs, policy makers, and funders on the model of government funding (including price and volume

25 Education and Training Act 2020, section 282(4).

26 New Zealand Government (2018), *International Education Strategy 2018-2030*, at enz.govt.nz.

27 Cabinet paper: *A Strategic Recovery Plan for the International Education Sector*, 22 June 2020, Ministry of Education.

controls), commercialisation, the “right” level of international students, operating models (including online learning), and the asset base of universities.

- 3.45 As it develops its policies of strengthening the sector and transforming to a more sustainable future state, the Government has signalled its intention to consult with the sector “as needed”. In our view, achieving long-term sustainability will need a shared vision, co-ordination, co-operation, and leadership. Because of their autonomy, this is particularly the case for universities.
- 3.46 Without a consensus, there is a risk that tactical response decisions being made now might be detrimental to successful outcomes in the long term.
- 3.47 In the short term, many universities are looking at voluntary redundancy schemes, and some are holding back on capital projects or repairs and maintenance. We have not yet heard whether universities are planning to dispose of assets (if possible) as part of their recovery strategy.

Conclusion

- 3.48 The sector’s initial response to Covid-19 was variable, but it was characterised as collaborative and flexible. However, in our view, many TEIs are still in a “get-through” phase. During the recovery period, focusing on longer-term strategic goals and priorities will be critical in guiding short-term decisions.
- 3.49 The Government’s recovery strategy for international education provides a foundation for improving the financial sustainability of the sector, but more needs to be done to build consensus.
- 3.50 Building that consensus will be complicated. For example, the Government will need to balance immigration settings, international relations, broader economic policy, the autonomy of universities, the importance of university rankings, attracting academics and students, and research and development capabilities.
- 3.51 The Tertiary Education and International Education Strategies cover much of this, but they need to reflect the challenges of the Covid-19 environment. In our view, any new or revised strategic approach needs to be specific enough to enable longer-term planning for what tertiary education and the institutions that deliver it will look like in five to 10 years.

Audit results for 2019

Audit opinions and audit reports

- 4.1 We issued unmodified audit opinions for 24 of the 27 TEIs. That means that we were satisfied the information we audited fairly reflected those 24 TEIs' activities for the year and their financial position at the end of the year. Three TEIs did not meet their statutory reporting obligations.

Emphasis of matter – Covid-19

- 4.2 When the country was in alert levels 3 and 4, the TEIs were finalising their financial statements and we were auditing them. It was difficult to determine the full effect that Covid-19 has had on their operations.
- 4.3 TEIs and auditors had to consider whether the pandemic had implications for going concern assumptions. All but one TEI disclosed the possible significant effects of Covid-19 in their financial statements.²⁸ Our audit reports included an “emphasis of matter” paragraph drawing attention to those disclosures.
- 4.4 The disclosures by TEIs reflected their own particular circumstances. For example, wānanga do not have many international students, so they were less affected by the border closures than other TEIs.
- 4.5 Covid-19 was a “non-adjusting subsequent event”, which means that the figures reported in the December 2019 financial statements did not need to change. However, as the Covid-19 situation evolved, we saw increased detail in the disclosures by those TEIs that reported closer to the statutory deadline.

Emphasis of matter – reforms of vocational education

- 4.6 We included emphasis of matter paragraphs in the 13 ITP audit reports, drawing attention to the ITPs' impending disestablishment in 2020. Because the subsidiary companies continued to provide vocational education, they did not need to change the way they measured or classified their assets and liabilities.

Other matters of public interest – sensitive expenditure

- 4.7 Sensitive expenditure is any spending by a public organisation that could be seen to be giving private benefit to a staff member, their family, or friends. Spending that is inappropriate or that lacks a legitimate business reason risks harming a public organisation's reputation and that of the public sector more generally.
- 4.8 Therefore, public organisations need to manage sensitive expenditure deliberately and diligently. As with all spending, they need to be able to justify it.

²⁸ The University of Canterbury did not include a disclosure on Covid-19. It reported on 26 February 2020, before Covid-19 became a serious issue in New Zealand.

- 4.9 Part of the Auditor-General's wider mandate is to monitor how public organisations spend public money, including whether the spending provides, or might be seen to provide, some private benefit.

Otago Polytechnic – study tour to Japan

- 4.10 As part of our testing of Otago Polytechnic's expenditure for 2019, we reviewed spending on a Japanese study tour that took place in April 2019. The chief executive and chairperson travelled to the International College of Technology Kanazawa to sign a renewal of a memorandum of understanding.
- 4.11 We questioned the size of the party (21 people) that travelled to Japan. Many of these people worked in support roles, such as administration and finance. In our view, the formal business case for the trip lacked a robust reason for including so many staff. When we reviewed the itinerary for the trip, we found that most of the activities were similar to sightseeing and cultural experience tours.
- 4.12 The Polytechnic paid at least \$2,000 for each travelling staff member. Staff who had accumulated funds in their professional development allocation used this to pay for the trip (as well as the \$2,000 paid by the Polytechnic).
- 4.13 Staff contributed only once the costs were more than the Polytechnic's contribution and their professional development allocation. On average, staff paid for about half of the costs. However, a small number of staff were deemed to be working full time on the trip and did not pay for any of the costs.
- 4.14 The Polytechnic told us that it considered it important for staff to understand the culture of international students attending the Polytechnic. It also pointed to its employee satisfaction ratings.
- 4.15 In our view, if there was a clear business justification, the Polytechnic could have sent a small number of staff and asked those staff to provide cultural training when they returned. This would be a more usual way to use learning and development funds.
- 4.16 We understand that the Polytechnic had previously run similar trips under similar arrangements. After our review, we expected the Polytechnic to reconsider its policy on overseas travel expenditure, particularly from the perspective of its reasonableness in the public sector. The Tertiary Education Commission also wrote to the new chief executive asking them to investigate and review how fit for purpose the Polytechnic's sensitive expenditure and business travel policies were.
- 4.17 We understand that this has now been done. The Polytechnic has confirmed that – with a change in chief executive, a new Board, and a review of policies – a trip such as this will not occur again.

Auckland University – purchase of a house for Vice-Chancellor accommodation

- 4.18 In November 2019, the University of Auckland purchased a house in Parnell, Auckland. The University said the house would be used for accommodation, business-related operations, and functions.
- 4.19 The house cost about \$5 million, and the University entered into a tenancy agreement with the incoming Vice-Chancellor from the start of her five-year term of employment.
- 4.20 We were interested in this matter, because it seemed an unusual purchase for the University to make. It raised questions about the University's use of public resources and how it manages sensitive expenditure. The focus of our work was on the University's actions and decision-making processes.²⁹
- 4.21 The University has not been able to show that this sensitive expenditure was appropriate in all respects. This is because the University has not been able to demonstrate that it has met key principles of managing sensitive expenditure well.
- 4.22 For example, the University has not been able to show a justifiable business purpose for purchasing the house. It is hard to accept that purchasing a house to provide accommodation for the incoming Vice-Chancellor, and to host an anticipated 14 events in two years, justifies the \$5 million expenditure.
- 4.23 The University has also been unable to show that the expenditure was moderate and conservative. Although the University paid a market rate for the house, it did not assess whether it needed to spend that amount on a house, nor whether the house needed to be in that part of Auckland. It also did not consider whether it could have effectively achieved the purposes it says it bought the house for – accommodation and hosting – for less cost.
- 4.24 The University also did not follow its policy on sensitive expenditure, nor its processes for approving capital expenditure.
- 4.25 Where sensitive expenditure is concerned, we expect all public organisations to consider each situation carefully to ensure that they can justify the spending and are reasonably able to do so. To do that, we encourage every public organisation to consider our recently updated good practice guidance on sensitive expenditure.³⁰

29 Our full report on the University of Auckland's decision to purchase a house in Parnell can be found on our website at <https://oag.parliament.nz/reports>.

30 Office of the Auditor-General (2020), *Controlling sensitive expenditure: Guide for public organisations*, available at oag.parliament.nz.

Timeliness of reporting

- 4.26 Despite the operational disruptions caused by Covid-19, all eight universities, all three wānanga, and 12 of the 16 ITPs reported by the statutory deadline of 30 April 2020.
- 4.27 Southern Institute of Technology reported three weeks late because of constraints on the Institute and its auditor related to Covid-19. Wellington Institute of Technology (Weltec), Whitireia Community Polytechnic (Whitireia), and Tai Poutini Polytechnic are yet to report. Covid-19 is not the primary reason for these three ITPs' delay.
- 4.28 WelTec and Whitireia have shared management and governance roles. They finalised their 2018 financial statements only after the Government provided a capital injection of \$5 million in 2020.
- 4.29 We were able to give an audit opinion on their 2018 financial statements on 19 March 2020, almost 11 months after the statutory reporting date. We drew attention in our audit report to the ongoing financial difficulties they were experiencing. WelTec and Whitireia have been unable to produce a final set of their 2019 financial statements for audit.
- 4.30 Tai Poutini Polytechnic is in significant financial distress. It has not produced financial statements for audit since 2017.
- 4.31 We are concerned that the reporting delays in these three ITPs, compounded by staff turnover in the finance teams, presents an unacceptable accountability risk.
- 4.32 The 16 ITPs also had to provide a final set of financial statements for 1 January 2020 to 31 March 2020. This was because they were disestablished as part of the Government's reforms of vocational education (see Part 2).
- 4.33 Only ten of the 16 ITPs have reported their results for the three months to 31 March 2020. Weltec, Whitireia, Tai Poutini Polytechnic, Waikato Institute of Technology (Wintec), the Universal College of Learning, and the Western Institute of Technology at Taranaki have not yet reported.
- 4.34 We will report on the 31 March results when we report on the rest of the tertiary education sector's results for the year ending 31 December 2020.
- 4.35 In these uncertain times, we want to focus on ensuring that organisations continue to produce robust and high-quality financial reporting, and that the audits of these reports remain robust and high quality.
- 4.36 Although end-of-year reporting describes events that have already happened, it provides the foundation for longer-term planning. High-quality, reliable, and

independently assured information is important to maintaining the trust and confidence of Parliament and the public.

Preparing for audit

- 4.37 Even though a high proportion of TEIs meet their statutory reporting deadlines every year, doing so can involve hidden costs. We approved eight requests from auditors wanting to charge additional costs to TEIs because of delays and rework in auditing the 2019 financial and performance statements. These costs are also not just financial – they can include extra stress on TEI staff and audit teams.
- 4.38 TEIs can help the audit process to run smoothly. Having robust governance frameworks and internal controls are important to good stewardship of organisations and maintaining public trust and confidence. When they are operate effectively, these frameworks and controls can reduce the amount of work auditors need to do.
- 4.39 Some common issues faced by our auditors in auditing TEIs' financial statements³¹ included:
- a lack of documentation to support critical judgements, such as on the value of assets, the forecasting of revenue, and the recovery of debt;
 - auditors being unable to rely on internal controls;
 - TEIs not having all the required information available at the start of the process;
 - a lack of internal quality review of the annual report (including the financial statements and statements of service performance), instead relying on the auditors to find errors;
 - auditors receiving multiple versions of the financial statements; and
 - a lack of disclosures to explain certain figures.
- 4.40 Although it is always important to prepare for the audit process, it has been even more important in the context of Covid-19.
- 4.41 The most challenging matters for public sector organisations and auditors have been those that require a high level of judgement and estimation because of Covid-19. Because future revenue from international students is so uncertain, we expect TEIs to consider the effects of potential restructuring or changes to how they deliver services on their future costs and use of assets.
- 4.42 Other public organisations have carried out additional work to test and document impairment of physical assets, intangible assets, investments, and interests in associates. Some organisations have faced challenges calculating and supporting

31. TEI audits for 2019 and the additional ITP audits for the period to 31 March 2020.

the collectability of receivables. These organisations have needed to do more work to determine expected credit losses because of a higher risk of default.

- 4.43 Obtaining asset valuations and understanding them has also been more challenging. In some instances, valuers have had difficulty providing valuations of assets. There is uncertainty about how Covid-19 has affected, and will affect, the value of some assets.
- 4.44 We encouraged TEIs to engage with valuers early. We also encouraged them to carefully consider the valuation reports so they can make good disclosures about the associated uncertainties in their financial statements.
- 4.45 Senior managers need to work closely with their appointed auditors to improve the end-of-financial year process. Based on our experience from other public organisations, TEIs will need significant time and expertise to form robust judgements when estimating the effects of Covid-19.

Audit recommendations

- 4.46 The top four types of recommendations our auditors made were for TEIs to improve:
- controls over expenditure, including payroll systems (this was the most common recommendation in 2018);
 - how they applied their accounting policies or policy framework, such as spending on travel (this was the second most common recommendation in 2018);
 - their processes for valuing property, plant, and equipment, including maintaining the fixed asset register; and
 - their technical knowledge of, for example, accounting standards and how to present financial statements.
- 4.47 To protect themselves from fraud, it is important that TEIs improve their controls and ensure that staff follow policy. In 2019, TEIs notified us of the following three significant internal fraud events:
- An employee misused a purchase card by exploiting a weakness in the accounting software and spent more than \$100,000 on personal items.
 - A contractor's employee who had a significant criminal history, which the TEI was unaware of, stole physical equipment.
 - A senior IT manager overrode management controls, set up a false company with his partner, and stole \$220,000 through false invoicing.
- 4.48 These internal frauds were reported to the Police. Staff in TEIs were also victims of several external scams. These included fraudsters getting TEI staff to change the bank account details of vendors or employees to divert payments.

- 4.49 In the instances we are aware of, the TEIs' control systems identified these matters. However, this was at varying times after the frauds had already been committed.
- 4.50 With a significant increase in government expenditure because of Covid-19, there are increasing financial and reputational risks from scams and other fraud, probity, and waste matters. It is important that TEIs' management control environment and systems of internal control remain robust to maintain the high standards of integrity expected from public organisations.
- 4.51 Auditors identify opportunities for improvement. They expect governors to maintain an active interest in addressing these issues despite the other challenges and risks that the sector faces. These recommendations present opportunities for TEIs to improve how they safeguard public money, which will improve trust and confidence in the public sector.

5

Universities' financial results and enrolments

- 5.1 In our briefing to the Education and Workforce Committee on the results of the 2018 TEI audits last year, we concluded that all universities were in good financial standing and had low debt and strong equity. We said:

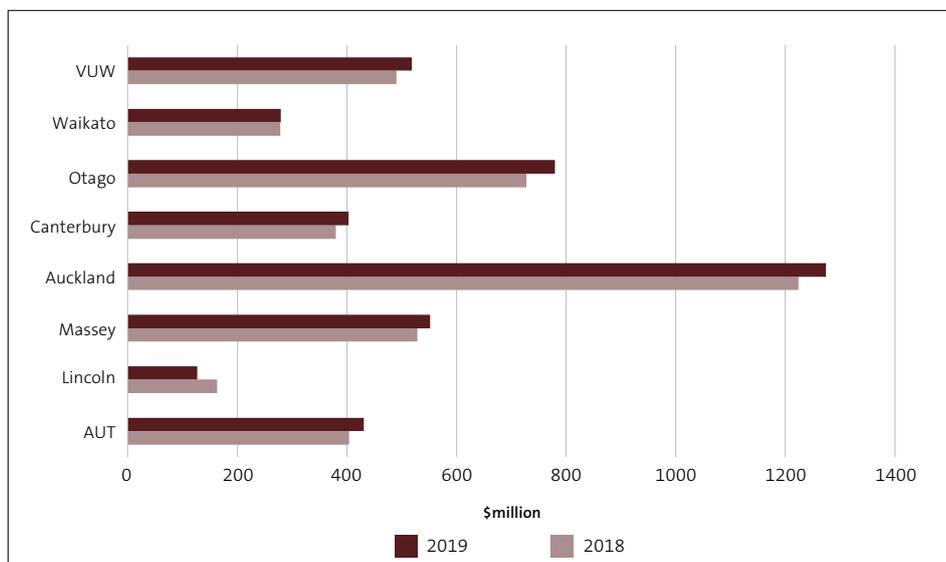
[A]lthough future international student enrolment patterns might be more volatile than in the past, we considered universities had enough resources to manage any period of adjustment.

- 5.2 Covid-19 was a “non-adjusting subsequent event”, which means that the figures reported in the December 2019 financial statements did not need to change. In this report, we have revisited our financial analysis from last year to see whether, and by how much, the financial position of universities had changed.

Main financial results

- 5.3 Figure 1 shows that every university except Lincoln University earned more revenue in 2019 than in 2018. Lincoln University's revenue for 2018 reflected a one-off insurance payment for earthquake damage. Six of the other seven universities had increases in revenue of between 4.1% and 7.1%. The University of Waikato's increase looks minimal, but it had a significant one-off capital donation in 2018. Its performance on a like-for-like basis shows a much more positive result for 2019.

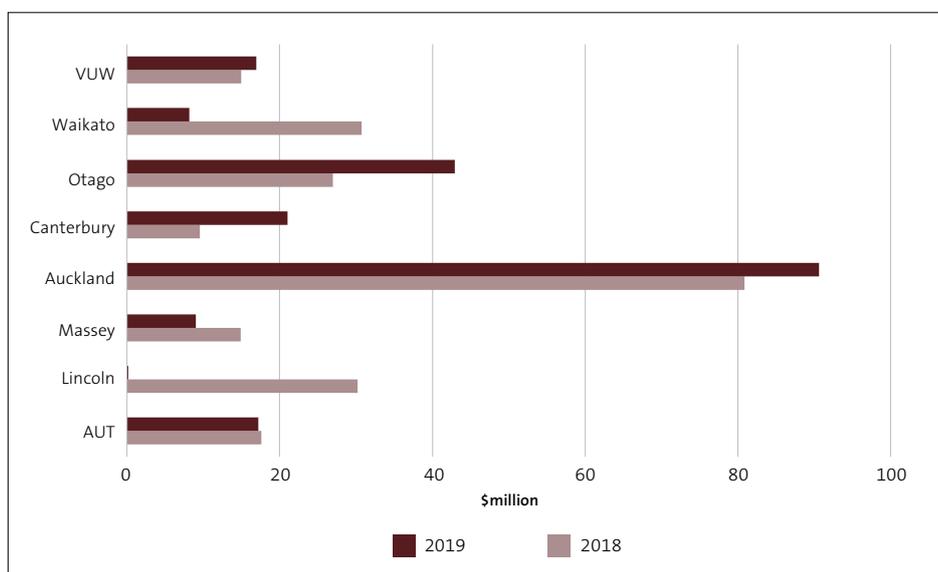
Figure 1
Revenue for universities, 2018 and 2019



Source: Office of the Auditor-General.

5.4 All of the universities achieved a surplus, but four made less in 2019 than in 2018. Figure 2 shows that the University of Waikato, Massey University, and Lincoln University's surpluses all decreased from 2018. Auckland University of Technology's surplus also had a small decrease.

Figure 2
Total university surpluses, 2018 and 2019

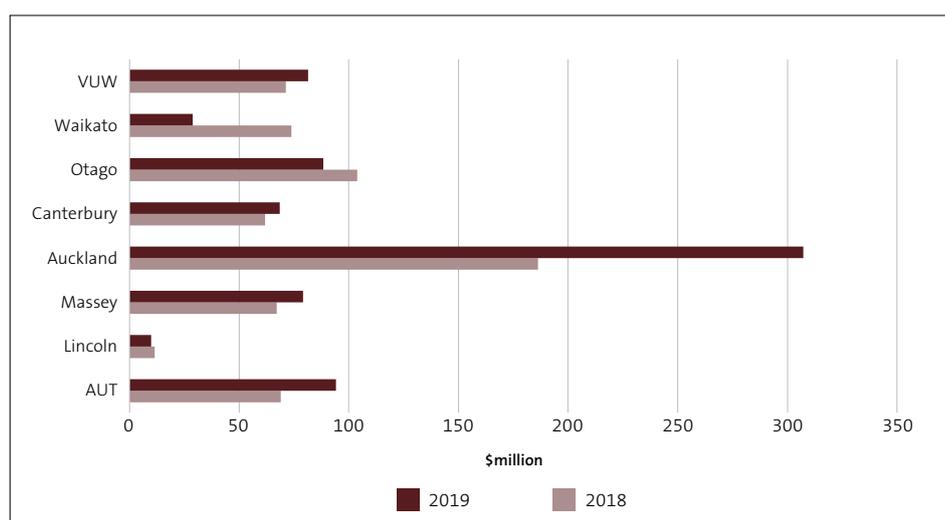


Note: Lincoln University's 2019 surplus was \$172,000. This barely registers on the scale in the graph, which is in \$millions.

Source: Office of the Auditor-General.

5.5 Figure 3 shows that all universities had positive operating cash flows and that five generated larger cash flows in 2019 than in 2018. Although the University of Waikato's operating cash flow was positive, its net cash flow decreased from about \$74 million to less than \$29 million. This also reflected the one-off donation in 2018. For all universities, operating cash flows increased by slightly more than \$112 million.

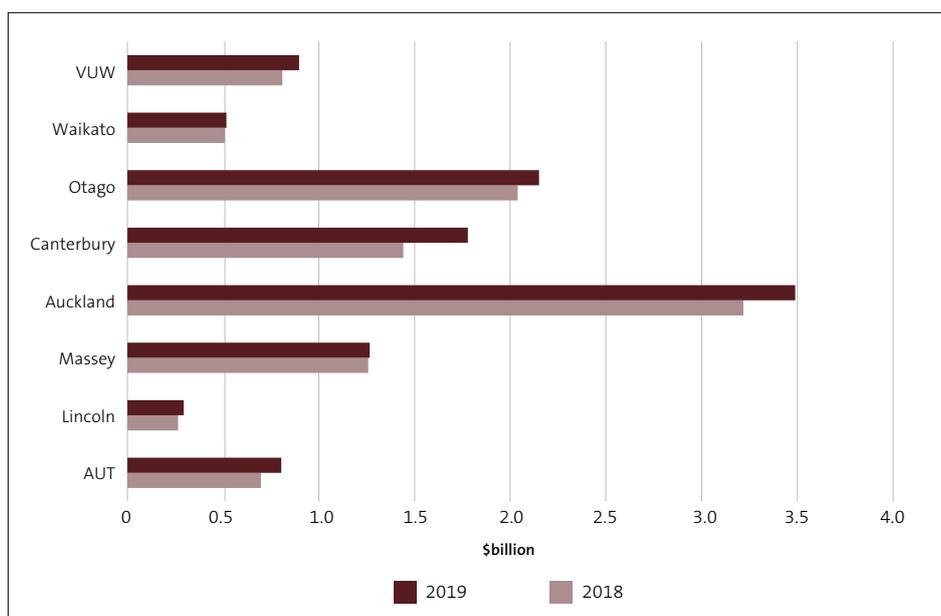
Figure 3
University cash flows from operations, 2018 and 2019



Source: Office of the Auditor-General.

- 5.6 Debt is still low in relation to assets. Only three universities have a debt-to-asset ratio of more than 1%, and the other five have no debt. Auckland University of Technology's debt ratio reduced from 15% to 11% in 2019, and Victoria University of Wellington's reduced from 9% to 6%. Only Auckland's debt ratio increased, from 1% to 4%.
- 5.7 All universities still have strong balance sheets. Figure 4 shows that all universities had more equity in 2019 than in 2018. Total equity increased by \$960 million to slightly more than \$12 billion.

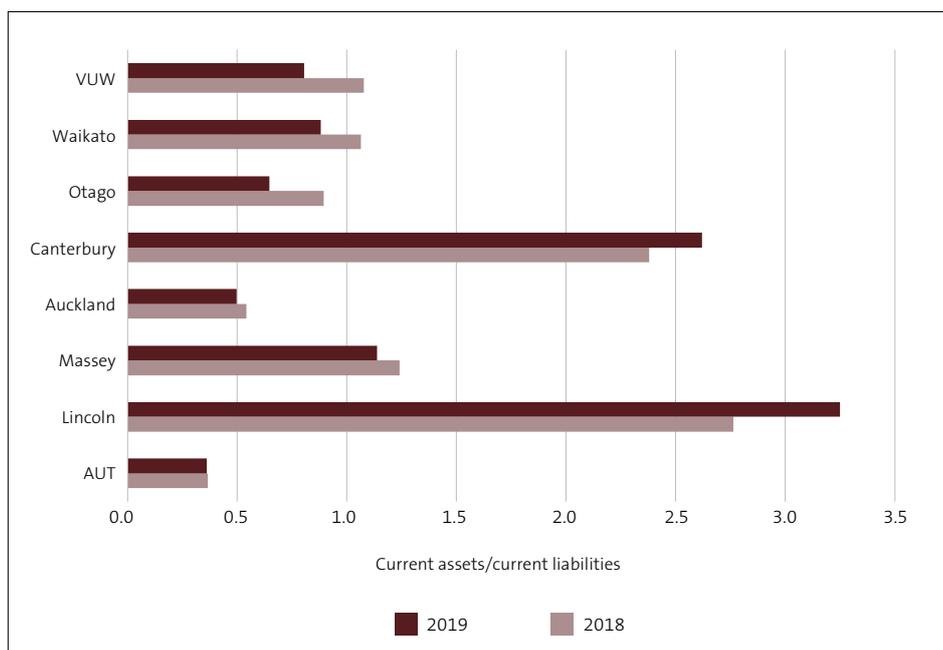
Figure 4
University equity, 2018 and 2019



Source: Office of the Auditor-General.

- 5.8 Some universities have historically operated with low current ratios – that is, their current liabilities exceeded their cash or cash equivalents. However, in these uncertain times, higher current ratios would be prudent because of the effects of Covid-19 on revenue flows.
- 5.9 Current ratios are only one measure of liquidity. Because of the overall financial standing of universities, the low current ratios are not concerning.
- 5.10 Figure 5 shows that five universities had current ratios of less than 1 in 2019 and that six had lower current ratios in 2019 than in 2018.

Figure 5
University current ratios, 2018 and 2019

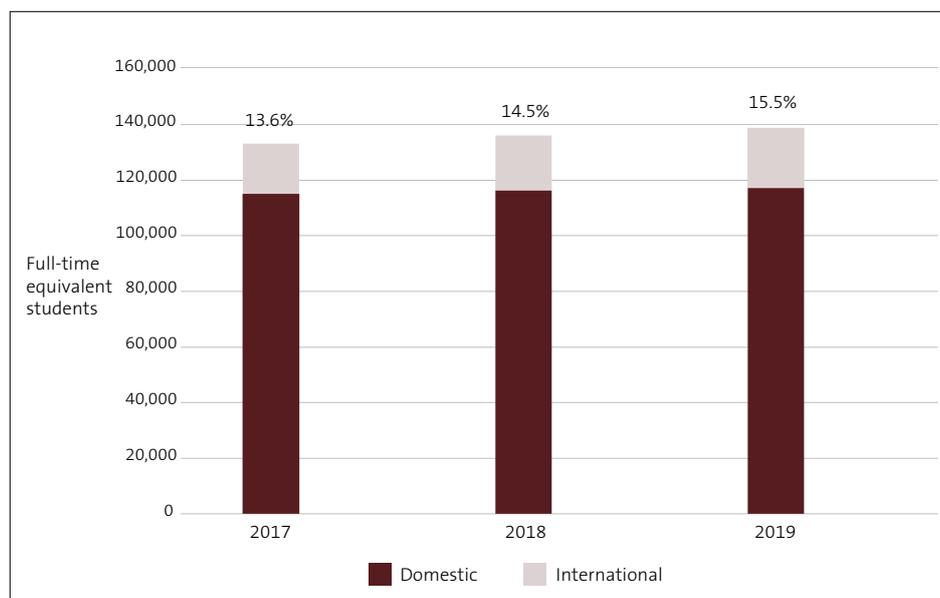


Source: Office of the Auditor-General.

Enrolments

- 5.11 Figure 6 shows that the total number of equivalent full-time students (EFTS) enrolled at universities increased from 136,044 in 2018 to 138,805 in 2019. Both domestic and international EFTS enrolments increased.
- 5.12 Because international enrolments are increasing at a greater rate than domestic enrolments, they now account for a higher percentage of all enrolments. This is opposite to enrolments at ITPs.

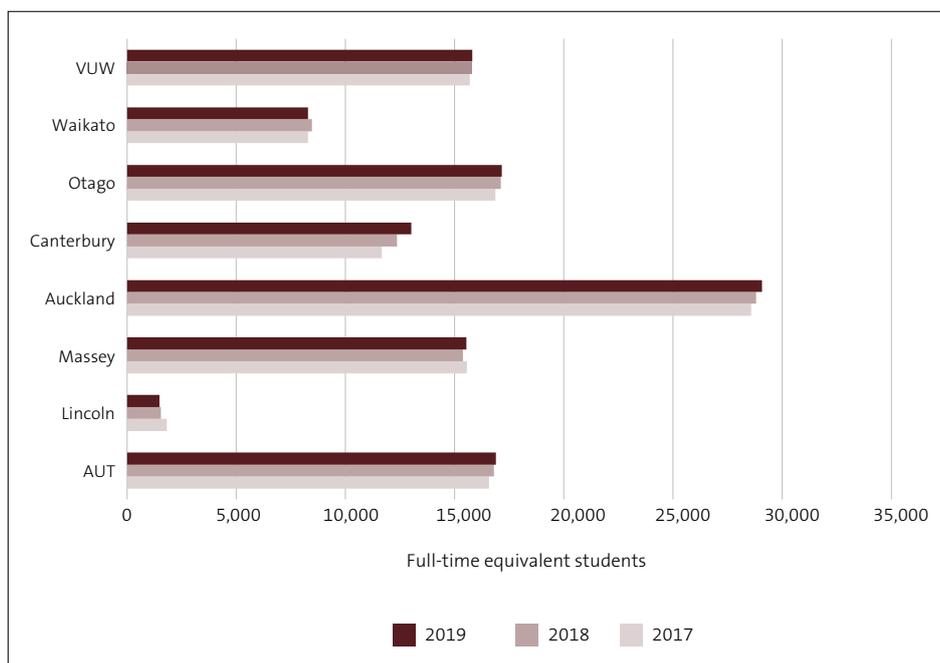
Figure 6
Total full-time student enrolments in EFTS and the percentage of international EFTS at universities, from 2017 to 2019



Source: Data collected from universities' annual reports.

- 5.13 Most universities had an increase in domestic enrolments. Figure 7 shows that University of Canterbury continued to have the highest increase in enrolments (highest numbers and highest percentage). This reflects its recovery strategy from the 2010 and 2011 Canterbury earthquakes.
- 5.14 Lincoln University's domestic enrolments decreased for the third year in a row. This is because it no longer operates a campus at Telford. The University of Waikato's enrolments had increased in 2018 but are now back at a similar level to 2016 and 2017.

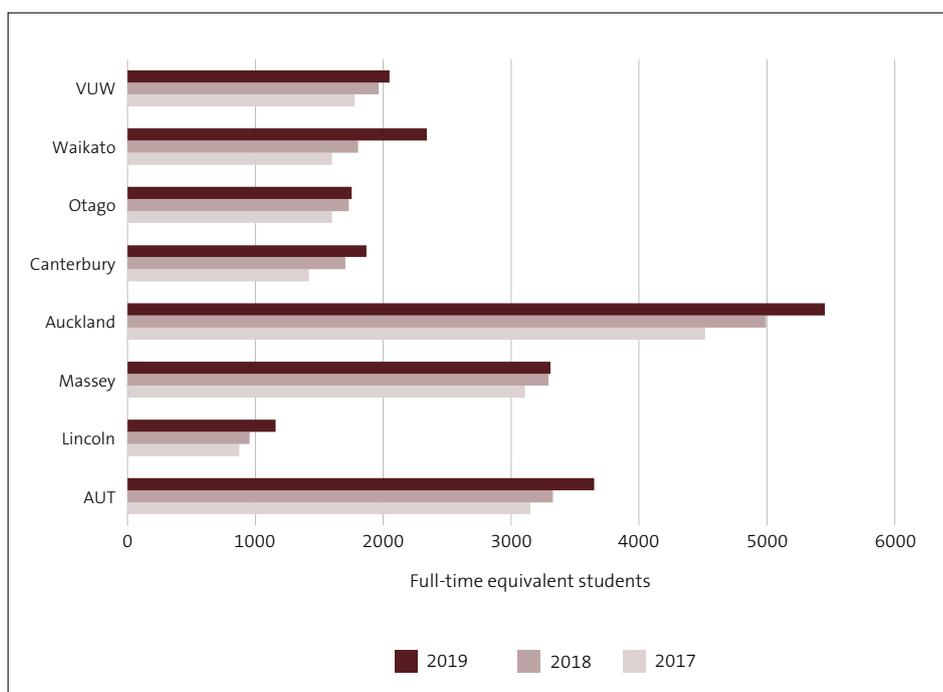
Figure 7
Domestic equivalent full-time student enrolments at universities, from 2017 to 2019



Source: Data collected from universities' annual reports.

5.15 Figure 8 shows that every university had an increase in international EFTS enrolments in 2019. However, Massey University and the University of Otago had small increases. Otago has a policy that international enrolments will not be more than 15% of total enrolments and that no more than 25% of international students will come from a single country.

Figure 8
International equivalent full-time student enrolments at universities, from 2017 to 2019



Source: Data collected from universities' annual reports.

Conclusion

5.16 Universities generally ended 2019 in an improved financial position from 2018.

6

Wānanga financial results and enrolments

Main financial results

- 6.1 Te Wānanga o Aotearoa just about broke even in 2019, after incurring an almost \$5 million deficit in 2018. It previously achieved surpluses in 2016 (\$2.6 million) and 2017 (\$3.1 million).
- 6.2 The wānanga has been reducing costs by changing the programmes it offers. A kaimahi (personnel) restructure in 2018 also reduced its spending by \$5.9 million. Its other spending has remained largely stable during the past five years as the wānanga and group continue to focus on controlling operating costs.
- 6.3 Te Whare Wānanga o Awanuiārangi incurred a deficit of slightly more than \$2 million in 2019 (2018: \$3 million deficit) and achieved a small surplus in 2017. It is also forecasting a deficit for 2020. However, because it has a high level of cash reserves, it remains in a good position to absorb the 2019 deficit and the forecast deficit for 2020. It has also implemented cost-saving measures and spent \$3.8 million less than it budgeted for 2019.
- 6.4 Te Whare Wānanga o Awanuiārangi continues to make its case to the Government for improved indicators of success of importance to Māori and better alignment of funding rates to reflect the levels of support students might need. It is also evaluating its strategy for organisational success against any potential effects from the creation of Te Pūkenga and its network of subsidiaries.
- 6.5 Te Wānanga o Raukawa has not incurred a deficit in four years. In 2019, its surplus was \$10 million more than in 2018. This was because the Crown partially resolved a Whakatapu Mātauranga claim.³² The partial resolution was paid as a grant and relates to Raukawa's claim that it had not benefited from the Performance-Based Research Fund since it was established.
- 6.6 The wānanga reflected the grant in its revenue and operating surplus for 2019. It is continuing work to resolve other aspects of its claim under a relationship agreement it signed with the Crown in 2019.³³
- 6.7 All three wānanga have strong balance sheets, although Te Whare Wānanga o Awanuiārangi's equity reduced by slightly less than \$3 million in 2019. All three wānanga have current ratios of more than 2.
- 6.8 Te Wānanga o Aotearoa had a strong cash flow from its operations, good equity, and low debt of under \$0.5 million. Te Wānanga o Raukawa's operating cash flow doubled from 2018 to 2019 when comparing like with like.³⁴ Te Whare Wānanga o

³² Waitangi Tribunal Claim (WAI 2698) at justice.govt.nz.

³³ "Te Wānanga o Raukawa receives one-off \$10m grant" (5 December 2019) at rnz.co.nz.

³⁴ This does not include the \$10 million partial settlement it received in 2019.

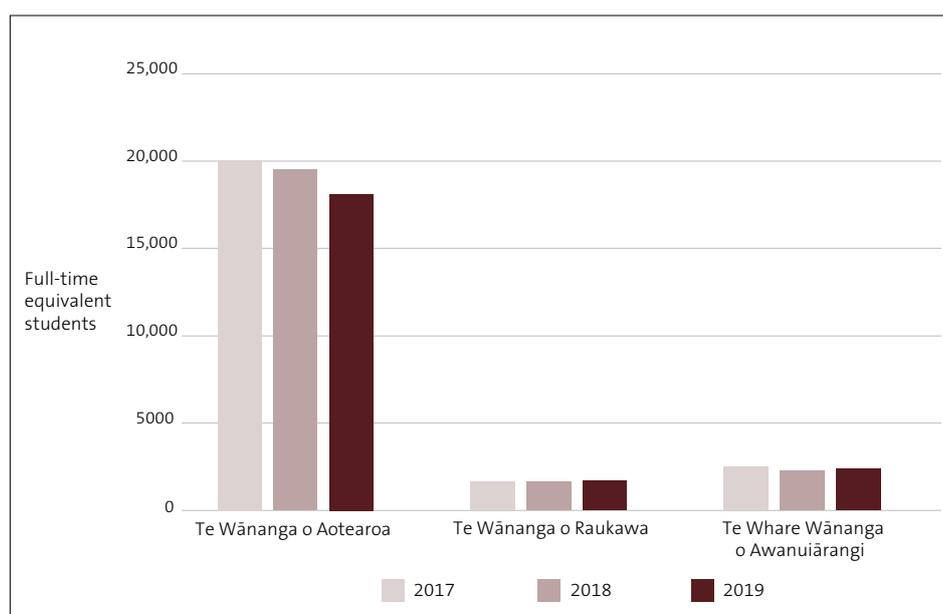
Awanuiārangi had a negative cash flow from operations in 2019, but it has good equity and no debt.

- 6.9 Although still uncertain, the immediate effects of Covid-19 on wānanga are less obvious than those for ITPs or universities. The border closure has not affected revenue in 2020 because wānanga do not have many, or any, international EFTS. However, other economic factors related to Covid-19 might affect enrolments at wānanga in 2020 and 2021.

Enrolments

- 6.10 Usually, only domestic students enrol at a wānanga. The number of international students enrolled at a wānanga has never been high. For example, in 2019, only 15 international EFTS were enrolled at wānanga.
- 6.11 Figure 9 shows the total enrolments at wānanga from 2017 to 2019. Enrolments at Te Wānanga o Raukawa increased to 1682 in 2019 (2018: 1629). Te Whare Wānanga o Awanuiārangi had 2369 EFTS in 2019, which is 82 more than in 2018.

Figure 9
Total equivalent full-time student enrolments at wānanga, from 2017 to 2019



Source: Data collected from wānanga annual reports.

- 6.12 The largest wānanga, Te Wānanga o Aotearoa Te Kuratini o Ngā Waka, had more than 18,100 EFTS in 2019, which is just under 1400 fewer than in 2018.

- 6.13 The wānanga stopped offering some lower-level computer courses from 2019. There was also a significant decrease in 2019 EFTS funded through the Youth Guarantee programme and no international EFTS.
- 6.14 The decline in EFTS has continued into 2020, and the wānanga is under-delivering against its budget. Although the wānanga will be protected by the funding guarantee for 2020 (see paragraph 3.21), the scale of its under-delivery is significant, at about \$25 million.

Conclusion

- 6.15 There were no indicators of financial stress at wānanga at the end of 2019, although Te Wānanga o Aotearoa is significantly behind on delivery in 2020. All wānanga are watching to see whether the reforms of vocational education will affect their operations.

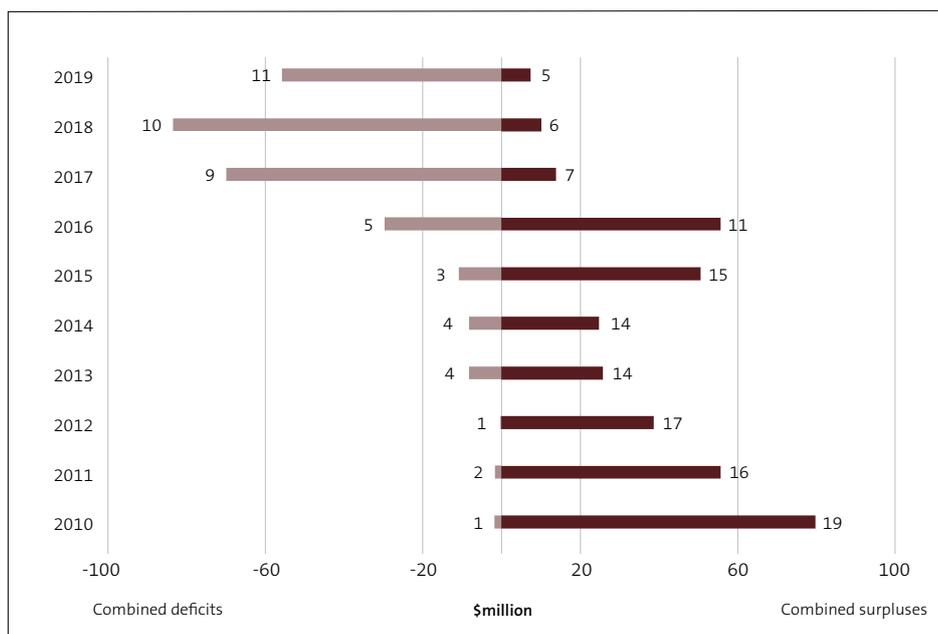
Institutes of technology and polytechnics' financial results and enrolments

7

Main financial results

- 7.1 In our report on the results of the 2017 TEI audits, we focused mostly on the ITPs' financial performance.
- 7.2 In that report, we noted that, from 2016 to 2017, the number of ITPs in financial difficulty and the ITPs' combined deficit had both significantly increased. In 2018, 10 ITPs incurred a deficit, and the combined deficit increased to \$83.4 million.
- 7.3 In 2019, the Universal College of Learning incurred a deficit of \$1.2 million, after incurring a surplus of \$1.08 million in 2018. Figure 10 shows that 11 ITPs incurred a combined deficit of \$55.8 million in 2019. However, the combined deficit was \$27.6 million less than the 2018 combined deficit of \$83.4 million.
- 7.4 In 2019, five ITPs had a combined surplus of \$7.4 million. In 2018, six ITPs had a combined surplus of \$10.1 million.
- 7.5 We added the deficits and surpluses for ITPs together. The overall deficit for ITPs decreased to \$48.5 million, from a \$73.3 million deficit in 2018. We understand that Te Pūkenga's July 2020 forecasts show the deficit increasing to \$53 million in 2020.

Figure 10
Institutes of technology and polytechnics' combined surpluses and deficits, from 2010 to 2019



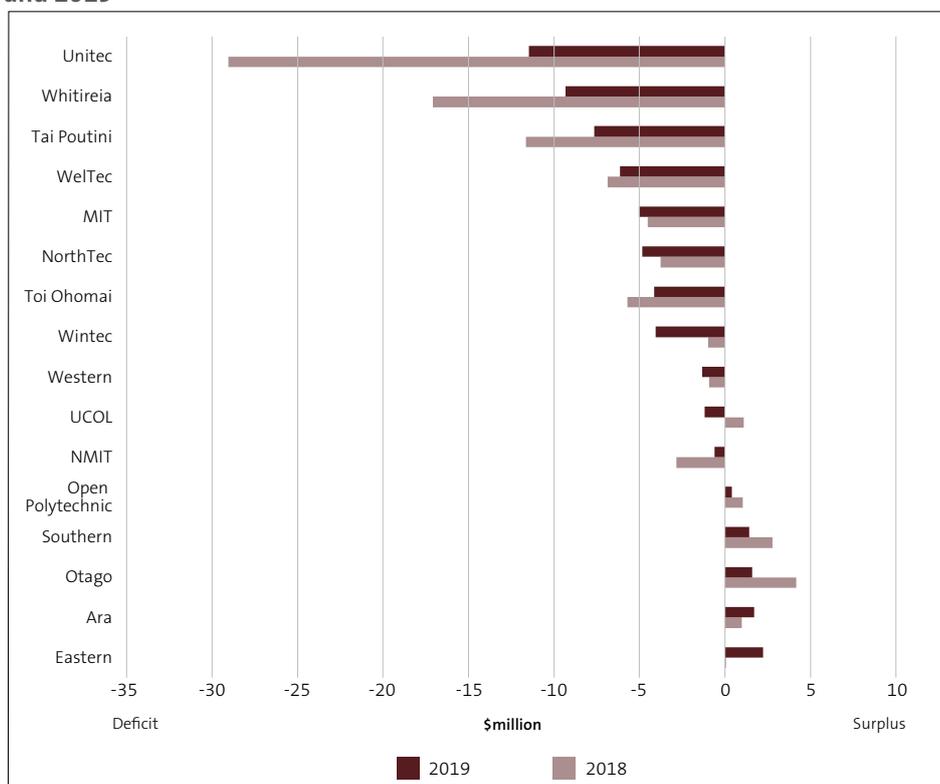
Note: The numbers at the end of each bar indicate the number of TEIs making up the combined surpluses and deficits for those years.

Source: Office of the Auditor-General.

Individual surpluses and deficits in 2019

- 7.6 The Tertiary Education Commission has a framework for monitoring the financial viability of TEIs. It sets risk thresholds for each of the measures in the framework. One measure the Tertiary Education Commission uses is surplus as a percentage of revenue. The low-risk threshold (that is, performing as, or better than, expected) is 3% or more.
- 7.7 Of the five ITPs making a surplus, only Eastern Institute of Technology made a return of 3% of revenue or more. Its surplus increased by about \$2.2 million in 2019.
- 7.8 Figure 11 shows that Unitec Institute of Technology, Whitireia, Tai Poutini Polytechnic, WelTec, Toi Ohomai Institute of Technology, and Nelson Marlborough Institute of Technology reduced their deficits in 2019. Manukau Institute of Technology, Northland Polytechnic, Wintec, and Western Institute of Technology at Taranaki all incurred greater deficits in 2019.

Figure 11
 Surpluses and deficits for each institute of technology and polytechnic, 2018 and 2019



Note: Eastern Institute of Technology's 2018 surplus was \$68,000. This does not register on the scale, which is in \$millions.

Source: Office of the Auditor-General.

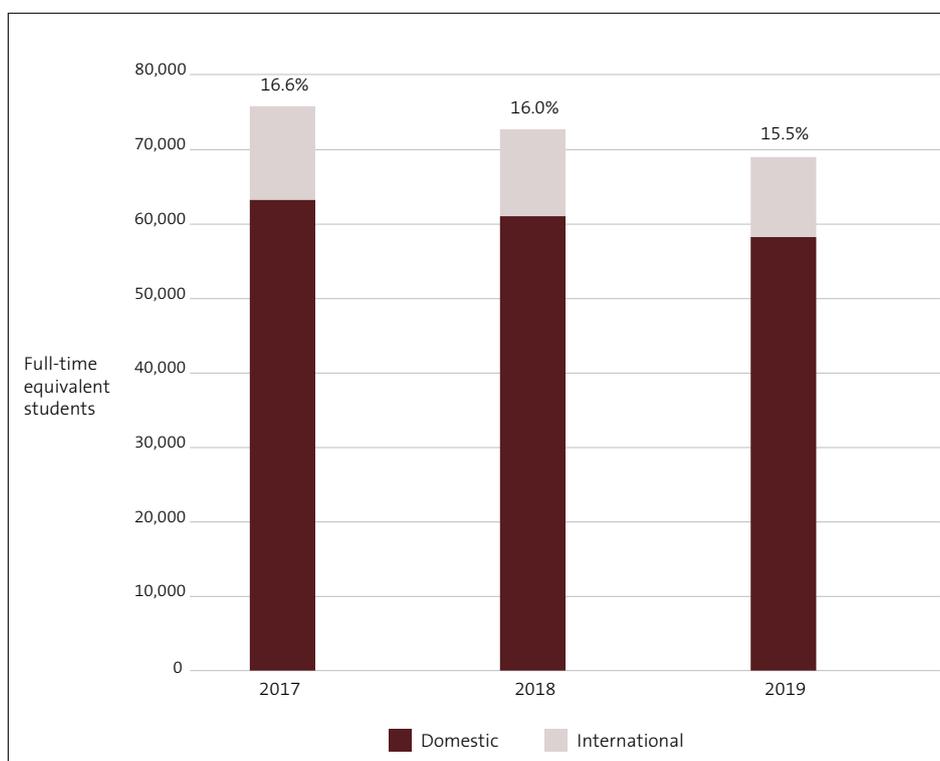
7.9 The Government had to provide balance sheet support to Unitec Institute of Technology (a loan). It also provided support to Whitireia and Tai Poutini Polytechnic (capital injections). This support enabled the three TEIs to meet their current liabilities.

7.10 As with last year, the main reason that revenue did not meet forecasts was a continued decline in the number of EFTS enrolments.

Enrolments

7.11 Figure 12 shows that, overall, student enrolment numbers for ITPs continued to decline in 2019. Total domestic EFTS enrolments decreased from 61,079 in 2018 to 58,268 in 2019, and international EFTS enrolments decreased from 11,661 in 2018 to 10,715 in 2019. International EFTS enrolments are about 15.5% of student enrolments.

Figure 12
Total full-time student enrolments in EFTS and the percentage of international EFTS at institutes of technology and polytechnics, from 2017 to 2019

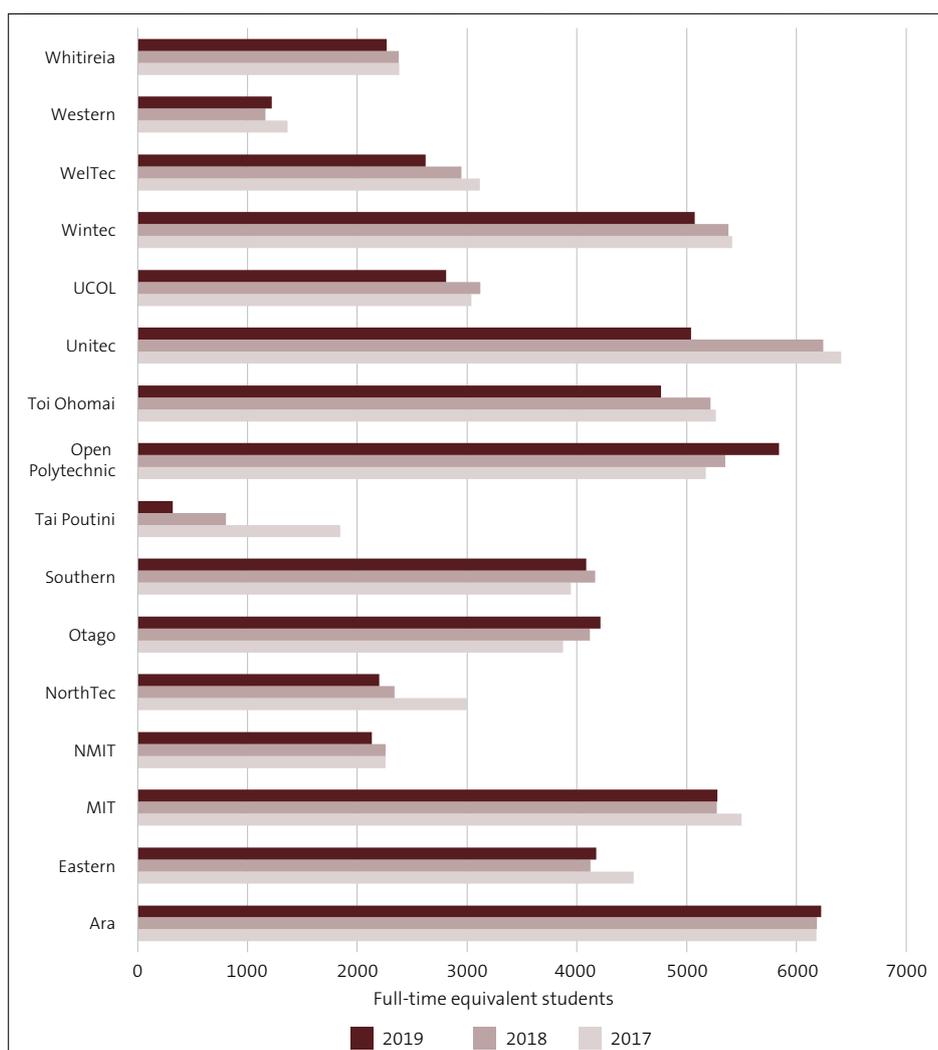


Source: Data collected from ITPs' annual reports.

Domestic student enrolments

7.12 ITPs were not equally affected by the continued decline in EFTS enrolments. Figure 13 shows that Unitec Institute of Technology had the largest decrease in domestic EFTS, with 1205 fewer domestic EFTS than in 2018. Tai Poutini Polytechnic and Toi Ohomai Institute of Technology had 482 and 451 fewer domestic EFTS, respectively.

Figure 13
 Domestic equivalent full-time student enrolments at institutes of technology and polytechnics, from 2017 to 2019



Source: Data collected from ITPs' annual reports.

- 7.13 The Open Polytechnic had the largest increase in domestic enrolments, with 492. Ara Institute of Canterbury and the Eastern Institute of Technology had small increases in domestic EFTS enrolments.

International student enrolments

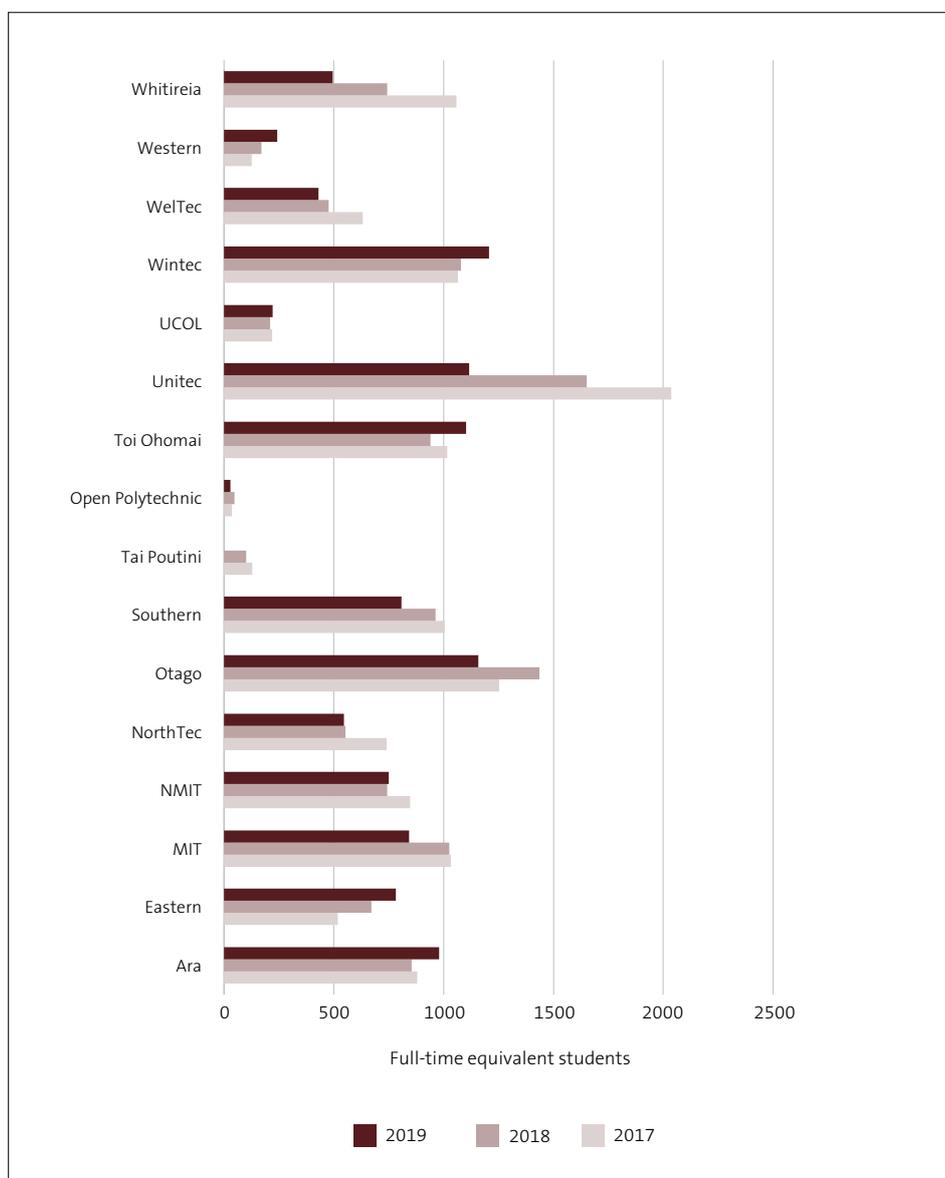
- 7.14 Figure 14 shows that the ITPs with the most decreases in international EFTS enrolments were Unitec Institute of Technology (536) and Otago Polytechnic (278). The ITPs with the most increases in international EFTS were Toi Ohomai Institute of Technology (164), Western Institute of Technology at Taranaki (129), and Ara Institute of Canterbury (126). Overall, international enrolments in EFTS were down by slightly more than 8% (946) compared to 2018.

Assets, liabilities, and equity

- 7.15 If Te Pūkenga had been established at 31 December 2019, it would have had total group assets of \$2.62 billion (2018: \$2.57 billion), total liabilities of \$481 million (2018: \$452 million), and \$2.14 billion in equity. It would have had enough cash to pay its bills as they fell due.³⁵ However, results for the subsidiary companies varied considerably.
- 7.16 Six ITPs had lower asset values in 2019 than in 2017. This is mostly a result of the ITPs downsizing their operations in response to fewer enrolments by disposing of assets, such as land and property.
- 7.17 Tai Poutini Polytechnic had the most significant reduction in the value of assets (37% less), followed by Unitec Institute of Technology (26% less) and Manukau Institute of Technology (14% less). Southern Institute of Technology increased its asset base by 20% during the same period.
- 7.18 Manukau Institute of Technology and Unitec Institute of Technology used the proceeds of asset sales to repay borrowing, which significantly reduced their liabilities. Tai Poutini Polytechnic's liabilities increased.
- 7.19 Eight of the ITPs had current ratios below 1. That means that they had less in cash and cash equivalents than their short-term liabilities.
- 7.20 Otago Polytechnic had the lowest ratio at 0.23, followed by Whitireia at 0.38 and Wintec at 0.67. A low current ratio does not imply going concern issues if the ITP can raise cash or access borrowing quickly, but these three ITPs were also close to their current borrowing limits in 2019.

³⁵ Its current ratio would have been 1.17. In practice, a ring-fencing policy limits how much cash can be moved around the group in the future, because some can only be used locally.

Figure 14
 International equivalent full-time student enrolments at institutes of technology and polytechnics, from 2017 to 2019



Source: Data collected from ITPs' annual reports.

- 7.21 A capital injection in late 2019 improved Tai Poutini Polytechnic's 2019 and 2020 position, but its position is forecast to deteriorate in 2021.
- 7.22 The total equity held by all 16 ITPs was \$2.14 billion. This represents all of the assets held by the ITPs, less all of their liabilities. Tai Poutini Polytechnic has the lowest level of net equity at \$11.8 million, less than half of Western Institute of Technology at Taranaki, which has the next lowest at slightly less than \$28 million.

Conclusion

- 7.23 Only four ITPs (Ara Institute of Canterbury, Eastern Institute of Technology, Southern Institute of Technology, and the Open Polytechnic) ended 2019 having achieved a break-even result or better as well as having a current ratio of more than 1.
- 7.24 Te Pūkenga will be able to take a group approach to financial management. However, there are indicators that most, if not all, metrics will get worse in 2020.
- 7.25 Revenue from international students is down, and some underlying cost issues still need to be addressed. This means that increased 2020 domestic enrolments evident at many subsidiaries might not lead to better overall financial results.

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