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Tertiary education sector: What we saw in 2021



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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 New Zealand's economic growth and social well-being. The strength and quality of our tertiary education institutions are always critical, but they are particularly important as we recover from the Covid-19 pandemic.

In December 2021, I published the main findings from our 2020 audits of tertiary education institutions. This report expands on those findings and provides my observations on the tertiary education sector in 2021. It focuses on two key areas – the ongoing vocational education reform programme and the impacts of the Covid-19 pandemic on the tertiary education sector.

The reforms aim to create a unified vocational education system that responds to the needs of learners and employers. They provide an opportunity for tertiary education institutions to deliver a new level of accountability to Parliament and the public, including information that better reflects the sector's underlying performance.

Although disruptive and challenging, the Covid-19 pandemic has led to changes in the way tertiary education institutions deliver tertiary education. The pandemic has also brought the sector's financial resilience into sharp focus. This will likely lead to new ways of operating that will help tertiary education institutions to be financially sustainable in the long term.

The vocational education reforms

The vocational education reforms are the most significant reforms in the tertiary education sector in 25 years.

I acknowledge the complexity and scale of the work that has been done to implement the vocational education reforms so far. I also appreciate that there is still much to be done for the reforms to succeed. As these changes are being implemented, tertiary education institutions continue to deliver tertiary education as usual.

Creating Te Pūkenga – New Zealand Institute of Skills and Technology (Te Pūkenga) on 1 April 2020 was central to the reforms. On that date, the 16 institutes of technology and polytechnics were disestablished and became Crown entity subsidiary companies (the subsidiary companies). The Education and Training Act 2020 states that the subsidiary companies will continue in existence until they become fully integrated with Te Pūkenga, which will be on 31 December 2022 at the latest.

Because of its central role in the reforms, Te Pūkenga needs to be clear about its operating model – that is, what it delivers, how it delivers it, and the assets, infrastructure, and capabilities it needs.

Te Pūkenga needs a robust performance and accountability framework for it, Parliament, and the public to understand how well the reforms are progressing. This framework needs to be transparent about whether Te Pūkenga has met its performance targets and show how Te Pūkenga will improve on its performance over time.

There is a real opportunity for Te Pūkenga to build a new and meaningful approach to engaging with the communities it serves. Part of that involves reporting on its performance to those communities. Not only does Te Pūkenga need to be accountable at a whole-of-system level but it also needs a high level of regional and local accountability.

Te Pūkenga was set up almost two years ago. I expected it to have a detailed operating model and performance and accountability framework by now. I also expected the model and framework to be well understood throughout the sector. I acknowledge the progress Te Pūkenga has made with this work, including the recent publication of the *2022 Statement of Performance Expectations*, but neither the model nor the framework is ready to be implemented yet.

The Government has placed higher performance expectations on tertiary education institutions through the vocational education reforms. For example, the Tertiary Education Commission (the Commission) has advised that the new unified funding system means that it will have “significantly heightened” performance expectations of tertiary education institutions.

Sector leaders need to ensure that they have credible plans for meeting those expectations and robust performance measures that reflect them.

The Commission is responsible for leading the vocational reform programme, in collaboration with other agencies, including the Ministry of Education, New Zealand Qualifications Authority, and the Ministry of Business, Innovation and Employment. Part of the Commission's leadership includes ensuring that the reforms have clear performance measures. The Commission also needs to have the capacity and capability to monitor the reforms' progress and the performance of Te Pūkenga.

The vocational education reforms have a strong focus on meeting the needs of all students. This includes students that the tertiary education system has not served well historically – such as Māori, Pasifika, and disabled students.

According to the Commission's *Annual report for the year ended 30 June 2021*, the 2022 goals for Māori and Pasifika student achievement are unlikely to be achieved. It is important that sector leaders prioritise developing appropriate strategies, processes, and performance measures to allow Te Pūkenga to determine whether it is improving its performance for these students.

It is also important that Te Pūkenga focus on the subsidiary companies' underlying financial issues. I am concerned that there is not yet a detailed plan about how fully integrating the subsidiary companies and introducing the new Te Pūkenga operating model will address these issues. We understand that there is currently no reporting against actions to improve the subsidiary companies' financial sustainability.

Because of the reforms' significance and the improved outcomes that they aspire to, it is important that Parliament and the public are easily able to assess the progress Te Pūkenga is making. We will continue to report on the financial and performance information of Te Pūkenga as the reforms progress.

Ongoing impacts of the Covid-19 pandemic

The Covid-19 pandemic continues to impact the tertiary education sector. Border restrictions have significantly reduced the number of international student enrolments in Te Pūkenga and most universities.

This has affected several tertiary education institutions' financial results. Although increased domestic enrolments have replaced some of this lost revenue in the short term, parts of the sector are expecting a decrease in domestic enrolments in 2022.

The Covid-19 pandemic has changed the way that tertiary education is delivered. Mixed model or dual delivery (that is, both on-campus and online delivery) is now common practice. Although this allows tertiary education institutions to reach as many students as possible, it can be time consuming and difficult for teaching staff. It also creates added pressure for them.

Tertiary education institutions' financial robustness is critical to maintaining quality educational outcomes. Although tertiary education institutions may be able to absorb short-term revenue losses, it will be important for them to reconsider their medium- to long-term forecasts to take account of further uncertainty and disruptions. In 2020, many universities, wānanga, and subsidiary companies of Te Pūkenga reported deficits.

Given the many interdependencies the tertiary education sector has with other sectors, an integrated and strategic approach to the sector's recovery from the

Covid-19 pandemic is needed. Labour market and immigration settings are directly relevant to tertiary education institutions' operations. Therefore, any changes made to these settings can have significant impacts on the tertiary education sector.

Sector leaders told us that they will need to rethink their international student strategies so that they are less vulnerable to any future border restrictions. They plan to focus on diversifying where and what they deliver, rather than readopt their previous approach to international learners.

The New Zealand International Education Strategy was released in 2018. It aims to create an environment where international education can thrive and provide economic, social, and cultural benefits for New Zealand.

In July 2020, the Government developed its long-term strategic recovery plan for international education. This plan is being revised so that it remains fit for purpose in bringing stability to the international tertiary education sector. I will watch the plan's implementation during 2022 and beyond with interest.

I would like to thank those in the tertiary education sector for their resilience through what has been a challenging last two years. I would also like to thank my staff and the private sector auditors who audit the public organisations in the tertiary education sector on my behalf.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JMR Ryan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General

7 April 2022

Tertiary education institutions – the sector at a glance

Universities

Section 268 of the Education and Training Act 2020 states that a university is “characterised by a wide diversity of teaching and research, ... develops intellectual independence, and promotes community learning”. The eight universities are:

- University of Auckland;
- Massey University;
- University of Canterbury;
- Lincoln University;
- University of Otago;
- Victoria University of Wellington;
- University of Waikato; and
- Auckland University of Technology.

Wānanga

Section 268 of the Education and Training Act 2020 states that a wānanga is “characterised by teaching and research that ... assists the application of knowledge regarding ahuatanga Māori (Māori tradition) according to tikanga Māori (Māori custom)”. The three wānanga are:

- Te Wānanga o Raukawa;
- Te Wānanga o Aotearoa Te Kuratini o Ngā Waka; and
- Te Whare Wānanga o Awanuiārangi.

Te Pūkenga and its Crown entity subsidiary companies

On 1 April 2020, the Government created a new tertiary education institution, Te Pūkenga – New Zealand Institute for Skills and Technology. On that day, the 16 institutes of technology and polytechnics became Crown entity subsidiary companies of Te Pūkenga.

There are currently 16 Crown entity subsidiary companies of Te Pūkenga. They are:

- Unitec New Zealand Limited;
- Otago Polytechnic Limited;
- Ara Institute of Canterbury Limited;
- Southern Institute of Technology Limited;
- Eastern Institute of Technology Limited;
- Western Institute of Technology at Taranaki Limited;

- Wellington Institute of Technology Limited;
- Waikato Institute of Technology Limited;
- Universal College of Learning Limited;
- Whitireia Community Polytechnic Limited;
- Manukau Institute of Technology Limited;
- The Open Polytechnic of New Zealand Limited;
- Nelson Marlborough Institute of Technology Limited;
- Tai Poutini Polytechnic Limited;
- Northland Polytechnic Limited; and
- Toi Ohomai Institute of Technology Limited.

As well as creating the 16 Crown entity subsidiaries, the legislative changes that came into effect on 1 April 2020 meant that industry training organisations became transitional industry training organisations.

At the end of 2021, Te Pūkenga set up an additional work-based subsidiary, named Te Pūkenga Work Based Learning Limited.

Figure 1
Main campus or headquarters of the tertiary education institutions in New Zealand

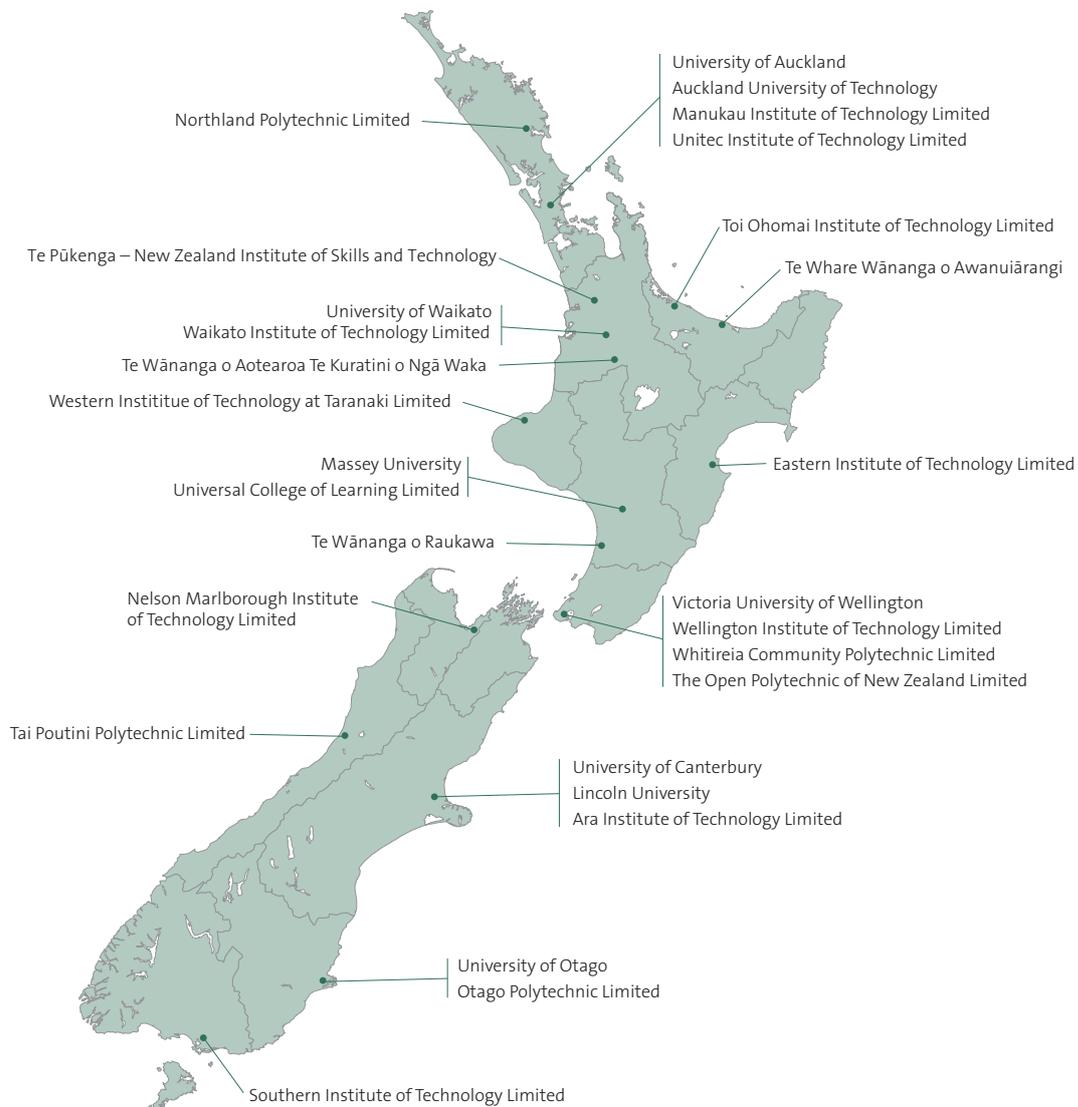
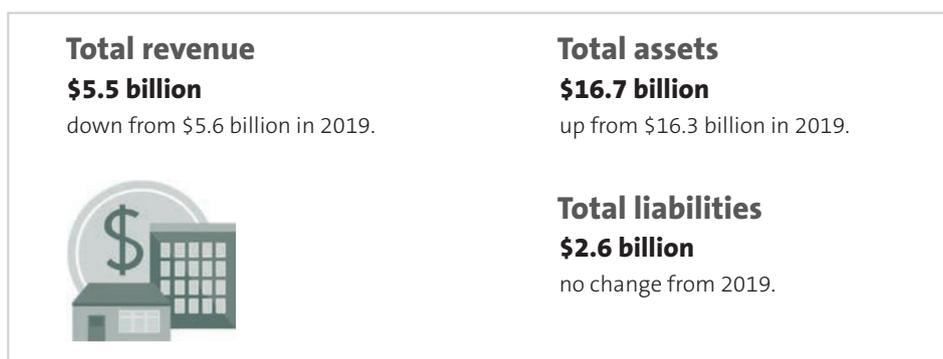
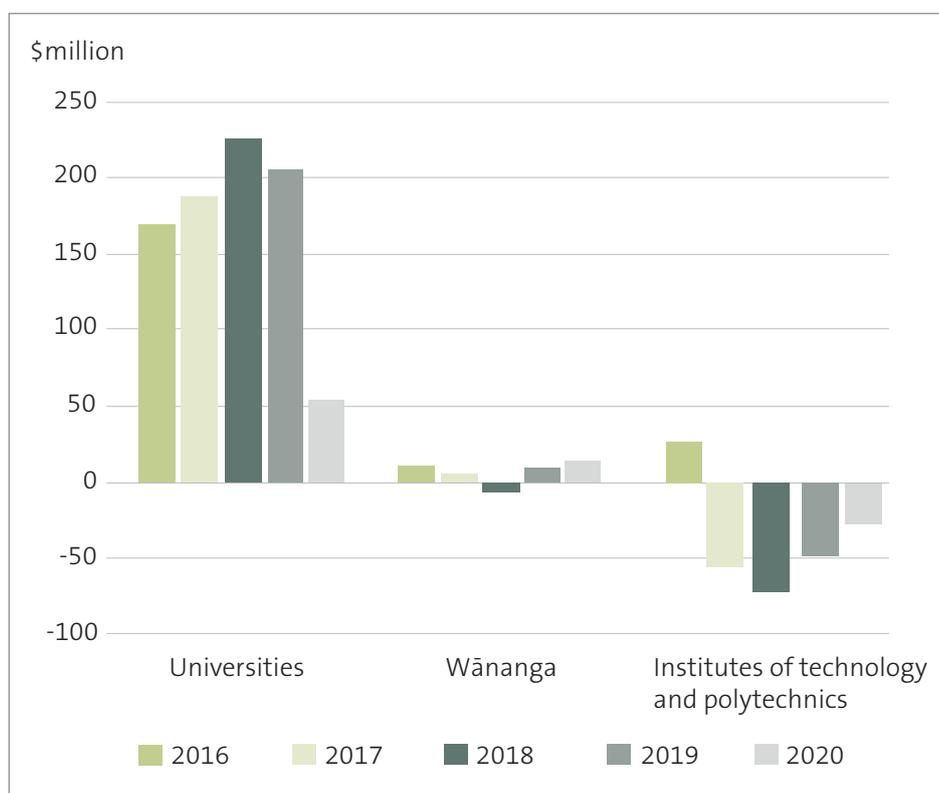


Figure 2
Total revenue, total assets, and total liabilities for 2020



Source: Office of the Auditor-General.

Figure 3
Group surpluses and deficits, by type of tertiary education institution, 2016 to 2020



Source: Office of the Auditor-General.

Figure 4
Number of equivalent full-time students (EFTS)

Domestic students

Tertiary education institution	2019	2020
Universities	115,875	117,540
Wānanga	21,814	17,731
Institutes of technology and polytechnics	51,563	51,296
Total	189,252	186,567

International students

Tertiary education institution	2019	2020
Universities	21,042	18,780
Wānanga	15	12
Institutes of technology and polytechnics	10,870	9297
Total	31,927	28,089

Total equivalent full-time students

Year	2019	2020
Total	221,179	214,656

Source: Tertiary Education Commission, Single Data Return.¹

¹ The Single Data Return is a database of enrolment and completion information that the Ministry of Education and the Commission require certain tertiary education institutions to provide.

1

Introduction

- 1.2 In 2020/21, the Government invested more than \$3.8 billion in tertiary education. This public money is invested through eight universities, three wānanga, Te Pūkenga – New Zealand Institute of Skills and Technology (Te Pūkenga) and its Crown entity subsidiary companies (the subsidiary companies), 11 industry training organisations, and more than 700 public and private tertiary education institutions.
- 1.3 This report provides our observations of the tertiary education sector in 2021. It draws on our 2020 audit findings.²
- 1.4 In Part 2, we look at the progress of the vocational education reforms.
- 1.5 In Part 3, we look at the Covid-19 pandemic’s ongoing impacts on the tertiary education sector.

² See Office of the Auditor-General (2021), *Tertiary education institutions: Main findings from our 2020 audits*, at oag.parliament.nz.

Vocational education reforms

- 2.1 In this Part, we discuss:
- the progress of the vocational education reforms so far;
 - Te Pūkenga;
 - the unified funding system;
 - a unified vocational education system; and
 - how the reforms are intended to address learner disparities.
- 2.2 The vocational education reforms currently under way are the most significant set of changes to the tertiary education sector in more than 25 years.³
- 2.3 According to the Tertiary Education Commission (the Commission), the reforms are intended to create a unified and sustainable vocational education system that is fit for the future of work and delivers the skills that learners and employers need.⁴
- 2.4 Creating Te Pūkenga on 1 April 2020 was central to the reforms. On that date, the 16 institutes of technology and polytechnics were disestablished and became the subsidiary companies.
- 2.5 The Education and Training Act 2020 states that the subsidiary companies will continue in existence until they become fully integrated with Te Pūkenga, which will be on 31 December 2022 at the latest. Some may be disestablished and integrate with Te Pūkenga before this date.
- 2.6 The performance of Te Pūkenga is central to the reforms' success. It needs to create a unified and sustainable public network of regionally accessible vocational education, while continuing to deliver education as usual.
- 2.7 Working closely with other organisations, the Commission has a leadership role for the overall reform programme. A key part of this is ensuring that the vocational education system's new and existing parts work together successfully as a whole.
- 2.8 Therefore, it is important that the Commission has the capacity and capability to help deliver the programme and monitor the reforms' implementation and outcomes.
- 2.9 Since Te Pūkenga was created on 1 April 2020, work has progressed on other important aspects of the reforms. This includes developing a single unified funding system for vocational education and training that encourages work-based learning and attempts to address national and regional skills needs.⁵

3 Kōrero Mātauranga, *Summary of change decisions – Reform of vocational education*, at conversation.education.govt.nz.

4 For information about the vocational education reform programme, see tec.govt.nz.

5 A list of the key changes in the vocational education reform programme can be found at tec.govt.nz.

2.10 Figure 5 shows the phases and time frames of the vocational education reform programme.

Figure 5
Three phases of the vocational education reform programme



Source: Adapted from a graphic by the Tertiary Education Commission.

2.11 The vocational education system needs to work in a co-ordinated and cohesive way for the reforms to succeed. Disparities in student outcomes will most likely be addressed through system-wide leadership and delivery.

Progress on the vocational education reforms

2.12 In August 2019, the Government announced its decisions on proposals to reform vocational education. Progress on the reforms as at the end of 2021 included setting up:

- Te Pūkenga and creating the subsidiary companies;
- the 15 regional skills leadership groups;
- Te Taumata Aronui, an advisory group formed to ensure that the tertiary education system reflects the Government’s commitment to Māori–Crown partnerships; and
- six workforce development councils.

2.13 As well as creating the 16 Crown entity subsidiaries, the legislative changes that came into effect on 1 April 2020 meant that industry training organisations became transitional industry training organisations.

- 2.14 Previously, industry training organisations were responsible for setting skills standards, developing qualifications, moderation and assessment activities, and arranging training that would be delivered at workplaces.
- 2.15 In October 2021, the qualification functions of the 11 transitional industry training organisations were moved to the workforce development councils. The role the transitional industry training organisations have in arranging work-based training must transfer to other entities before 31 December 2022. Responsibility for arranging these activities will transfer to Te Pūkenga, private training establishments, or wānanga.
- 2.16 By no later than 31 December 2022, the skills standard-setting, qualification development, and moderation and assessment activities will transfer to the workforce development councils.
- 2.17 At the end of 2021, Te Pūkenga set up an additional work-based subsidiary, named Te Pūkenga Work Based Learning Limited. Work Based Learning's role is to help move the transitional industry training organisations that opt to do so to Te Pūkenga.
- 2.18 As at the end of 2021, three transitional industry training organisations had moved to Te Pūkenga and one had become a private training establishment. The remainder will transfer to a mix of private training establishments and Te Pūkenga during 2022.⁶
- 2.19 Based on its role in bringing about a considerable amount of the system-wide changes that the reforms seek, setting up Te Pūkenga has been the most critical part of the reforms so far. For this reason, Te Pūkenga is a significant focus of this report.

Te Pūkenga

- 2.20 Te Pūkenga was established on 1 April 2020. Te Pūkenga is responsible for developing the capacity and capability to support work-based, campus-based, and online learning as a unified vocational education system.

Completing and implementing the Te Pūkenga operating model

- 2.21 Te Pūkenga released its proposed operating model in October 2021.⁷ It describes the tertiary education experience that learners, employers, staff, and Māori will have. It also describes how Te Pūkenga will advance equity, especially for Māori, Pasifika, and disabled learners.⁸

⁶ For information about the transitional industry training organisations, see tec.govt.nz.

⁷ The operating model of Te Pūkenga describes how the organisation will operate in the future. It outlines what Te Pūkenga will do and how it will be organised to deliver on the intent of the vocational education reforms and its Charter.

⁸ For information about the proposed operating model of Te Pūkenga, see tepukenka.ac.nz.

- 2.22 Te Pūkenga has also been clear about what the proposed operating model is not – it does not confirm the new organisational design and structure, what the governance arrangements are, or how it will define its regions, as the Education and Training Act 2020 requires. Te Pūkenga has stated that the proposed model provides the foundations for further kōrero about these matters in 2022.⁹
- 2.23 Te Pūkenga needs a clear and detailed operating model and organisational design to determine what capabilities it needs to develop and what structure it needs to operate. The model will also help it determine whether its asset base and systems support its operations.
- 2.24 A detailed operating model and organisational design will allow learners, staff, Parliament, and the wider community to better understand how Te Pūkenga plans to deliver the reforms' intended outcomes and what it is accountable for.
- 2.25 We understand that Te Pūkenga will complete work on the next phase of finalising the operating model in the first half of 2022. This will include an outline of the intended organisational structure.
- 2.26 Te Pūkenga ran an engagement process on its proposed high-level operating model from 18 October to 8 November 2021. The main feedback from the engagement process was the following:
- There was support for the operating model's direction and its focus on ensuring that learners and their whānau are at the centre of the vocational education system.
 - Many respondents wanted to know how the model would work in practice and what it meant for individuals and their roles.
 - There was a desire to strengthen the relationship between Te Tiriti o Waitangi and Te Pūkenga. For example, there was strong support for the principle that Te Tiriti o Waitangi should underpin the entire operating model of Te Pūkenga. Many thought that the operating model did not go far enough in this regard.
 - There was a desire for the operating model to clearly set out the commitment to regional decision-making included in the organisation's Charter. More clarity about the regional relationships was requested.
- 2.27 As well as further refining the operating model, it is also important to understand how Te Pūkenga will monitor and report on its performance.
- 2.28 This is a challenging and complex task that needs a deep understanding of what is relevant at the whole-of-sector level and to the communities that make up the sector. These communities include Māori and Pasifika learners, disabled learners, and staff and learners in regional New Zealand.

- 2.29 To be effective at a community level, it is important to understand what needs to be measured and how that is to be reported. To develop effective measures and reporting systems at this level, stakeholder engagement will be critical.
- 2.30 Ultimately, Te Pūkenga needs to decide what dialogue about its performance it will want to engage in at a community level. Different communities may have different expectations.
- 2.31 There is a real opportunity for Te Pūkenga to build a new and meaningful approach to engaging with the communities it serves. Part of that involves reporting on its performance to those communities.
- 2.32 The Commission produces quarterly monitoring reports on Te Pūkenga for the Minister of Education. Its report for the quarter ended 30 June 2021 says that Te Pūkenga still has not delivered a “detailed, integrated roadmap for its transformation programme – an issue we have raised in our previous two monitoring reports”.
- 2.33 The report also says that, at a recent update of its operating model to the Reform of Vocational Education Programme Board, Board members stated that it is “not clear from the information presented how Te Pūkenga plans to deliver an integrated model for work-based learning”.¹⁰
- 2.34 We understand that Te Pūkenga provided the Minister of Education with an integrated work plan, a critical path, and an update on its progress with the operating model in December 2021.
- 2.35 We also understand that the Commission has continued to report to the Minister of Education on the progress Te Pūkenga is making in the context of the reform programme. We expect this progress to be more visible to the public and Parliament in future.

Improving the financial sustainability of the Te Pūkenga subsidiary companies

- 2.36 Many of the subsidiary companies have been experiencing increasing financial difficulty for several years. Although the net deficit in 2020 reduced compared to the previous year, this was because the Government decided not to recover funding from tertiary education institutions that under-delivered in 2020 because of the Covid-19 pandemic.

¹⁰ The Tertiary Education Commission (2021), *Aide-memoire: Te Pūkenga quarterly monitoring report – June 2021 Quarter*, at tec.govt.nz.

- 2.37 At the end of 2020, the overall net deficit for the subsidiary companies was \$27 million. Nine of the 16 subsidiary companies ended the year in deficit.¹¹ If the Government had required that the money be returned on a funded delivery basis, the Commission would have recovered \$49 million. This would have meant an overall deficit of \$76 million.¹²
- 2.38 In July 2020, the Minister of Education outlined his expectations of Te Pūkenga. He said, “it is the New Zealand Institute of Skills and Technology’s responsibility to manage and integrate its network, improving efficiency and effectiveness across its functions, and I expect decisive action to be taken where required”.¹³
- 2.39 The Commission’s 30 June 2021 quarterly monitoring report on Te Pūkenga raises concerns about the lack of work done to improve the subsidiary companies’ financial sustainability before they are fully integrated with Te Pūkenga in December 2022.
- 2.40 The report says that this work should include addressing areas of the network that are performing poorly from a financial perspective. The Commission expects Te Pūkenga to put in place a financial management plan or strategy for Te Pūkenga as a whole and for those subsidiary companies under the most financial stress. It also expects Te Pūkenga to regularly report against that plan.
- 2.41 In response to questions raised by the Education and Workforce Committee during its 2020 Annual Review hearing in October 2021, the Chief Executive of Te Pūkenga said that:
- ... part of the rationale of the reform of the tertiary education and the vocational education and training part of the system was to recognise that the previous financial arrangements were not sustainable and we are looking forward to the introduction of the unified funding system in 2023 to support the arrangements and the priorities that Te Pūkenga has.*
- 2.42 We have raised the issue of financial sustainability for several years, including in previous reports on the tertiary education sector. It is important that Te Pūkenga address the underlying problems with financial viability within its network. The lack of a detailed plan about how it will do this is concerning.

11 Office of the Auditor-General (2021), *Tertiary education institutions: Main findings from our 2020 audits*, at oag.parliament.nz.

12 Figures provided by the Tertiary Education Commission in March 2022.

13 Letter from Chris Hipkins to Murray Strong (23 July 2020), *Further funding for the New Zealand Institute of Skills and Technology*, at tepukenka.ac.nz.

Performance reporting

- 2.43 Effective performance reporting is essential to building and maintaining trust and confidence in the public sector and, arguably, its ongoing social licence to operate. As we mentioned in our recent report on performance reporting, if the Government wants to maintain the confidence of Parliament and the public, the public sector needs to significantly improve its performance reporting.¹⁴
- 2.44 The reforms are making fundamental and complex changes to the tertiary education sector. However, while these changes are being implemented, tertiary education needs to continue to be delivered as usual. Meaningful performance measures are important to assessing whether the reforms and tertiary education institutions' usual operations deliver the Government's intended outcomes.
- 2.45 It is important that Te Pūkenga is clear about the performance measures within its performance framework. This will allow Parliament and the public to clearly see how it is contributing to outcomes for New Zealand.
- 2.46 Under the Crown Entities Act 2004, Te Pūkenga must prepare a statement of intent and a statement of performance expectations. Te Pūkenga must report its progress against its strategic intentions and its performance against the statement of performance expectations in its annual report each year.
- 2.47 Te Pūkenga did not have a statement of intent or statement of performance expectations for 2020. These are both important to establish the basis for year-end performance reporting. However, Te Pūkenga did have a transitional statement of intent and statement of performance expectations for 2021.
- 2.48 Instead of a performance framework from the statement of intent and statement of performance expectations, Te Pūkenga developed parent reporting measures and targets from its transitional plan and reported against those in 2020. For the group, it reported against selected educational performance indicators that the Commission provided.
- 2.49 Based on the work that Te Pūkenga completed and the content of its annual report, we concluded that its performance reporting met the basic standard required.
- 2.50 However, as part of our audit, we signalled to Te Pūkenga that it needed to make significant improvements to enable better reporting on its performance in the future. There is considerable opportunity for Te Pūkenga to improve its accountability to Parliament and to the various communities Te Pūkenga serves throughout New Zealand.
- 2.51 After its Annual Review hearing in October 2021, the Education and Workforce Committee asked additional questions about the Te Pūkenga performance

14 Office of the Auditor-General (2021), *The problems, progress, and potential of performance reporting*, at oag.parliament.nz.

framework. In response, Te Pūkenga said that it had made significant progress on its monitoring and reporting processes.

- 2.52 We are currently completing our 2021 audit of Te Pūkenga and will assess its performance framework and measures as part of this work. As is normal, we will report our audit results to Te Pūkenga, the Commission, the Minister of Education, and the Education and Workforce Committee.
- 2.53 In its *Annual report for the year ended 30 June 2021*, the Commission said that it has begun developing a performance and monitoring framework for workforce development councils and an engagement model to support new and transitioning institutions (including Te Pūkenga).
- 2.54 The intention is that the performance and monitoring framework and engagement framework will enable Commission staff to work closely with the new institutions to ensure that they are carrying out their legislative functions in a way that gives effect to the reforms' intended outcomes.
- 2.55 Given its involvement in leading the overall reform programme, it is important that the Commission prioritise finalising the performance and monitoring framework for workforce development councils as soon as possible and that it continue to closely monitor the performance of Te Pūkenga.

Unified funding system

- 2.56 The reforms include developing a unified funding system for vocational education. The purpose of the unified funding system is to encourage work-based learning and address national and regional skills needs.
- 2.57 The unified funding system has three components.
- 2.58 The **delivery** component funds tertiary education institutions based on the number of learners they have. Funding rates are calculated based on the subject and the mode of delivery.
- 2.59 Differentiating funding by mode of delivery will be a new feature of the system. It incentivises tertiary education institutions to support learners to transition to work-based learning and build more work-integrated learning pathways.
- 2.60 This component accounts for about 84% of the funding in the unified funding system.
- 2.61 The **learner** component incentivises tertiary education institutions to support the unique needs of all their learners. This component is key to meeting the needs of learners who the education system has traditionally underserved.

- 2.62 Tertiary education institutions will be rewarded for improving their learners' success. This component accounts for about 8% of the unified funding system. It was less than 1% of vocational education training funding under the previous system.
- 2.63 The **strategic** component aims to increase how quickly the tertiary education system can respond to national and regional priorities and regional labour market demand.
- 2.64 The workforce development councils and regional skills leadership groups will identify priorities that 50% of this component will respond to. This will also support Te Pūkenga to build a sustainable national network of provision.
- 2.65 The remaining 50% of this component will support the system to innovate and adapt to meet the changing needs of the labour market.
- 2.66 In total, this component accounts for about 8% of the unified funding system.
- 2.67 A December 2021 Cabinet paper said that the unified funding system will take effect from 1 January 2023.¹⁵ The paper also said that immediate action will hasten the behavioural changes that the Government requires tertiary education institutions to make and that the Minister of Education considers that most subsectors are well placed to react accordingly.
- 2.68 Officials' preliminary assessment of the impacts on subsectors are as follows:
- Te Pūkenga is well positioned. It is expected to gain a large portion of work-based training from transitional industry training organisations.
 - Universities will experience small funding decreases, but officials believe that they can manage this within their overall funding allocations.
 - Wānanga funding will increase slightly.
 - A large amount of private training establishments will see decreases in their volume-based funding allocations.
- 2.69 Given the significant changes the unified funding system will incentivise, it is important that the Commission closely monitor its implementation. This includes ensuring that it has the capability to monitor any performance expectations created by the new funding system.
- 2.70 The Cabinet paper also said that the unified means that the Commission will have "significantly heightened" performance expectations of all tertiary education institutions. We intend to monitor how the unified funding system is implemented, including what measures there are to ensure that it delivers the intended benefits to learners and employers.

¹⁵ Cabinet paper (2022), *Design of the unified funding system underpinning the Reform of Vocational Education*, at tec.govt.nz.

Unified vocational education system

- 2.71 One of the main outcomes of the reforms is the creation of a unified vocational education system. This means that both the new and existing organisations and advisory bodies in the system will need to work together in a cohesive and consistent way.
- 2.72 More than 10 organisations or advisory bodies have been created since April 2020, and each has a fundamental role to play in creating a learner-centred and unified system.
- 2.73 A unified vocational education system needs to:
- take account of the unique needs of all learners, including those who have been traditionally underserved, such as Māori, Pasifika, and disabled learners;
 - be relevant to employers' changing needs;
 - be collaborative, innovative, and sustainable for all regions; and
 - uphold and improve Māori–Crown partnerships.¹⁶
- 2.74 Te Pūkenga needs to continue its regular engagements with organisations throughout the vocational education system to ensure system-wide cohesion and network collaboration.
- 2.75 After Te Pūkenga fully integrates its subsidiary companies, it will need to build and strengthen its regional connections so that it can deliver the required skills and workforce to regions throughout New Zealand.
- 2.76 Delivering tertiary education to all regions in a way that is collaborative, flexible, innovative, and sustainable is key to the reforms' success. Therefore, it is important that Te Pūkenga retain a high level of regional focus and local accountability.

Addressing disparities

- 2.77 A key focus of the reform programme is addressing the disparities that exist throughout the vocational education system. Because these disparities are not limited to just the vocational education part of the system, strategies that capture all tertiary education institutions and tertiary education and training – not just vocational – have been developed.
- 2.78 Te Taumata Aronui is an advisory group that was formed in 2019 to ensure that the tertiary education system reflects the Government's commitment to Māori–Crown partnerships. It provides independent recommendations and advice to Ministers and officials.

- 2.79 The vocational education reforms' *Summary of change decisions* said that one of the first tasks for the advisory group was to provide advice on how the reforms could improve outcomes for Māori learners.
- 2.80 The Summary of change decisions also said that:¹⁷
... we heard from Pacific learners about the importance of a culturally competent system. Teaching and learning needs to understand different Pacific identities, languages, cultures and values. It needs to recognise the importance of family and community life.
We heard that disabled people are not well-served by the current system, partly because they are often not well-supported to succeed in employment. More effective support for transitions from school to vocational education and work is needed, as well as partnership with disabled learners in setting the new system up.
- 2.81 We have previously drawn Parliament's attention to deteriorating tertiary education outcomes for Māori and Pasifika students compared to all students in our briefings to the Education and Workforce Committee.¹⁸
- 2.82 Under the Third Article of Te Tiriti o Waitangi, the Crown has an obligation to ensure equitable outcomes for Māori as learners and to ensure that all learners – especially those currently underserved by the system – are able to succeed. The Oritetanga Learner Success approach is how the Commission is giving effect to this obligation.
- 2.83 The Oritetanga Learner Success approach provides tertiary education institutions with an approach for putting learners at the heart of what they do. It is designed to address biases and disparities that have led to specific learner groups being underserved.
- 2.84 In addition, the companion strategies Ka Hikitia and Tau Mai Te Reo (both of which the Ministry of Education leads) set out respectively the strategic direction for Māori education and Māori language in education. They describe the actions that are needed in the tertiary sector to raise Māori educational success.
- 2.85 The key measures for Ka Hikitia are that Māori learners are engaged and achieving excellent education outcomes and that Māori whānau, hapū, and iwi are active partners with education services in defining and supporting excellent outcomes for Māori learners.¹⁹

17 Kōrero Mātauranga, *Summary of change decisions – Reform of vocational education*, at conversation.education.govt.nz.

18 Office of the Auditor-General (2021), *Tertiary Education Commission Annual Review 2019/20*, at parliament.nz.

19 See *Ka Hikitia – Ka Hāpaitia, the Māori Education Strategy*, at education.govt.nz.

- 2.86 Tau Mai Te Reo – the Māori language in education strategy – aims to grow te reo Māori through education and growing education through te reo Māori to protect and promote the Māori language for future generations.²⁰
- 2.87 The Ministry of Education leads the *Action plan for Pacific education 2020-2030*.²¹ It focuses on a vision that diverse Pasifika learners and their families feel safe, valued, and equipped to achieve their education aspirations.
- 2.88 The action plan outlines the actions for achieving this vision that the Government has committed to and signals how early learning services, schools, and tertiary education institutions can achieve change for Pasifika learners and their families.
- 2.89 The action plan includes five key focus areas for change, including confronting systemic racism and discrimination in education and enabling every teacher, leader, and educational professional to take co-ordinated action to become culturally competent with diverse Pasifika learners.
- 2.90 The Commission's *Annual report for the year ended 30 June 2019* set a goal for participation and completion rates for Māori and Pasifika students to be equal with other students in the tertiary education system by 2022 and that it would deliver comparable post-study outcomes for graduates over time.
- 2.91 According to the Commission's *Annual report for the year ended 30 June 2021*, the 2022 goals for Māori and Pasifika student achievement are unlikely to be achieved. Overall, the gap between the achievement outcomes of Māori and Pasifika students and those of all students has increased.
- 2.92 In October 2021, the Commission was quoted in the media as saying that past attempts at tackling disparities had failed because they were based on isolated interventions.²²
- 2.93 Figures 6 and 7 show the differences in the cohort-based qualification completion rate and course completion rate between Māori students, Pasifika students, and non-Māori and non-Pasifika students at universities, wānanga, and institutes of technology and polytechnics during the last five years.²³
- 2.94 The 2021 figures are forecasts only, and the final numbers will not be confirmed until May 2022.

20 See *Tau Mai Te Reo, the Māori Language in Education Strategy* at education.govt.nz.

21 The *Action plan for Pacific education 2020-2030* is available at education.govt.nz.

22 Radio New Zealand (October 2021), "Tertiary institutions given 10 years to end minority pass rate disparity", at rnz.co.nz.

23 The cohort-based qualification completion rate measures how many learners in a starting cohort go on to complete a qualification at the same level after a given amount of time. This cohort-based approach does not require a learner to complete the qualification that the learner initially enrolled in. The learner is required only to complete a qualification at the same level.

Figure 6
Course completion rate for institutes of technology and polytechnics, universities, and wānanga, from 2017 to 2021

Institutes of technology and polytechnics

Demographic	2017	2018	2019	2020	2021
Māori	73%	71%	72%	71%	70%
Pasifika	72%	71%	72%	71%	68%
Non-Māori and non-Pasifika	85%	84%	85%	84%	81%

Universities

Demographic	2017	2018	2019	2020	2021
Māori	81%	81%	81%	83%	80%
Pasifika	73%	73%	73%	76%	72%
Non-Māori and non-Pasifika	89%	89%	89%	91%	88%

Wānanga

Demographic	2017	2018	2019	2020	2021
Māori	76%	70%	70%	64%	63%
Pasifika	71%	71%	69%	64%	66%
Non-Māori and non-Pasifika	76%	74%	76%	73%	68%

Source: Tertiary Education Commission, Single Data Return.

Figure 7
Cohort-based qualification completion rate for institutes of technology and polytechnics, universities, and wānanga, from 2017 to 2021

Institutes of technology and polytechnics

Demographic	2017	2018	2019	2020	2021
Māori	51%	50%	50%	50%	48%
Pasifika	52%	49%	51%	52%	47%
Non-Māori and non-Pasifika	57%	58%	60%	61%	60%

Universities

Demographic	2017	2018	2019	2020	2021
Māori	53%	53%	52%	53%	54%
Pasifika	50%	46%	47%	52%	48%
Non-Māori and non-Pasifika	66%	67%	67%	69%	69%

Wānanga

Demographic	2017	2018	2019	2020	2021
Māori	52%	49%	64%	66%	61%
Pasifika	55%	47%	67%	62%	61%
Non-Māori and non-Pasifika	49%	49%	69%	63%	57%

Source: Tertiary Education Commission, Single Data Return.

- 2.95 In the Commission's *Annual report for the year ended 30 June 2021*, it said that it wants to see participation and completion rates for Māori and Pasifika students that are equal to those of other students.
- 2.96 In September 2021, the Commission announced that it would introduce disability action plans in its 2022 investment round as part of the Government's move to ensure that tertiary education institutions meet their responsibilities under the United Nations' Convention on the Rights of Persons with Disabilities.
- 2.97 The purpose of the disability action plans is to ensure that tertiary education institution practices:
- avoid discriminating against disabled learners; and
 - provide disabled learners with better outcomes from their education.
- 2.98 The Commission said that understanding all learners' needs and aspirations is fundamental to the "learner success" approach. The work done to develop and implement the disability action plans will play a critical role in tertiary education institutions fully understanding disabled learners' needs.
- 2.99 The Kia Ōrite Toolkit is a New Zealand code of practice intended to achieve an inclusive and equitable tertiary education environment for disabled learners. The University of Otago co-ordinated people throughout the tertiary education sector to develop the toolkit.
- 2.100 The Commission expects all tertiary education institutions to show clear evidence that they are measuring their progress against the Kia Ōrite Toolkit. This will be essential in determining whether tertiary education institutions are delivering on their commitment to address disabled students' needs.
- 2.101 All tertiary education institutions provide support for disabled students. This support includes note taking, mentoring, equipment, accessibility, assistive technology, and transcription.
- 2.102 Most tertiary education institutions' websites outline their commitment to providing equity of access to education for disabled students. However, it is

difficult to find feedback on the quality and adequacy of the services provided to disabled students.

- 2.103 It is important that the tertiary education system continue to focus on supporting disabled students. In June 2020, 48.2% of disabled people aged 15-24 years were not in employment, education, or training, compared to 10.6% for non-disabled youth.²⁴
- 2.104 Having the disability action plans as an investment plan requirement in 2022 should help give effect to objective 2 of the tertiary education strategy: barrier-free access. It should also help improve disabled students' learning experience.
- 2.105 It is vital that tertiary education institutions have appropriate performance measures for determining whether they have delivered on commitments to address inequities throughout the tertiary education system.
- 2.106 We will monitor the implementation of the disability action plans and how the Commission measures their effectiveness over time. The new Ministry for Disabled People will be established on 1 July 2022, and we expect that it will want to work closely with the Commission and the tertiary education sector on addressing disparities.
- 2.107 We will watch with interest the Commission's "comprehensive holistic reform of the system" and the impact it has on the inequities experienced by Māori, Pasifika, and disabled students.

3

Ongoing impacts of the Covid-19 pandemic

- 3.1 In this Part, we discuss:
- how border restrictions have affected international student enrolments;
 - the well-being of students and staff, and course completion rates; and
 - how the Government is supporting tertiary education institutions affected by the Covid-19 pandemic.
- 3.2 The Covid-19 pandemic continued to impact tertiary education institutions in 2021. These included financial impacts because border restrictions reduced the number of international student enrolments. To mitigate this significant reduction, the number of courses and programmes delivered online and offshore increased.
- 3.3 The Covid-19 pandemic also affected the well-being of students and tertiary education staff, and course completion rates.
- 3.4 As part of its response to the Covid-19 pandemic, the Government has provided direct support to students through relief funds and indirect support through developing and implementing a recovery strategy for international education.

The effect of border restrictions on international student enrolments

- 3.5 A report by the Ministry of Education, *The impact of Covid-19 on tertiary education in New Zealand: Initial impact on participation*, shows that the number of international students decreased from 54,660 in 2019 to 36,770 as at August 2021 (a decrease of 33%).
- 3.6 However, the number of international students at tertiary education institutions increased by 55% between 2008 and 2015. It then remained at about the 2015 level for the next four years.
- 3.7 The report also shows that the number of international students enrolling in tertiary education institutions for the first time decreased by 29% between 2019 and 2020. There was a further decrease of 48% between 2020 and 2021.²⁵
- 3.8 The number of domestic students in formal qualifications increased significantly in 2021 after an extended period of declining or flat enrolments. The number of domestic students in August 2021 was 345,910. This was an increase of 11% compared to 2019, when the number of domestic student enrolments was 310,970.
- 3.9 Full-year enrolment data shows that, before the COVID-19 pandemic, there was an extended period where participation by domestic students was decreasing as economic conditions improved after the Global Financial Crisis.

²⁵ Smart, Warren, Tertiary Sector Performance Analysis, and the Ministry of Education (2021), *The impact of COVID-19 on tertiary education in New Zealand: Initial impact on participation*, at educationcounts.govt.nz.

- 3.10 Between 2011 and 2019, the number of domestic students decreased by 14% and the number of equivalent full-time students (EFTS) decreased by 12%. This contrasts with the number of international students, which increased by 55% between 2008 and 2015, and then remained around the 2015 level over the next four years.
- 3.11 The increase in the number of domestic students between 2019 and August 2021 was almost double the number that international students decreased by during that period.
- 3.12 We understand that, generally, international students are significantly more profitable for tertiary education institutions than domestic students. Therefore, increases to domestic student numbers only partially offset decreases in international students in financial terms.
- 3.13 There were increases in participation of domestic students at all levels of study between 2019 and 2021. The largest percentage increase was at master's level, which increased by 23% between 2019 and 2021, followed by Level 5-7 certificates and diplomas.

Wānanga

- 3.14 The impact of border restrictions on tertiary education institutions varied in 2021. Because wānanga do not have many international students, the restrictions did not impact them significantly. In 2019, there were a total of 15 international students at all three wānanga. This dropped to 13 in 2020 and to 7 in 2021.²⁶

Universities

- 3.15 Although universities felt the impact of decreased international student enrolments, it was not as significant as anticipated. International students decreased by 11% between 2019 and 2020, then decreased by a further 25% between 2020 and August 2021. Overall, the number of international students decreased from 54,660 in 2019 to 36,770 in August 2021 (a decrease of 17,890 students).²⁷
- 3.16 Universities New Zealand told us that part of the reason why the reduction in international students did not affect universities as badly as expected is because some students could enrol in courses without travelling to New Zealand. These students began their studies online with the intention of finishing their courses in New Zealand.

²⁶ Data from the Tertiary Education Commission.

²⁷ Smart, Warren, Tertiary Sector Performance Analysis, and the Ministry of Education (2021), *The impact of COVID-19 on tertiary education in New Zealand: Initial impact on participation*, at educationcounts.govt.nz.

- 3.17 Although providing extramural courses and programmes is not new,²⁸ the prospect of losing international student revenue because of border restrictions meant that tertiary education institutions increased the amount of university courses and programmes they deliver overseas and online in 2021.
- 3.18 In November 2021, Massey University announced that it would launch its third dedicated learning centre in China for students who want to study at the university but are unable to travel to New Zealand because of border restrictions.
- 3.19 In 2021, Waikato University expanded its operations in Vietnam, signing a Memorandum of Understanding with Vietnam's Van Lang University in Ho Chi Min City. Under that memorandum, learners will study in Vietnam for the first two years before becoming eligible to complete their degree in New Zealand.
- 3.20 Students now expect tertiary education institutions to deliver courses and programmes online or through dual delivery (that is, both on-campus and online delivery). We understand that online learning provided the opportunity to study for some students who are not able to attend in person.
- 3.21 In a November 2021 article, the Auckland University Vice-Chancellor said that international students will now be more likely to study online and travel less frequently between New Zealand and their home when borders open. This is not just because of the possibility of further border restrictions but also for sustainability reasons and rising climate consciousness.²⁹

Te Pūkenga and its Crown entity subsidiary companies

- 3.22 Te Pūkenga and the subsidiary companies were most affected by the decrease in international students. In 2019, Te Pūkenga had 10,870 international EFTS, which decreased to 9297 in 2020. As at the end of 2021, it had 4477 international EFTS.³⁰
- 3.23 In 2020, tuition fees from international students accounted for about one-third of its total revenue for the year at \$118 million.³¹
- 3.24 Although the number of international students decreased compared to the universities, Te Pūkenga had the largest increase in domestic students (14%).³² This

28 The Open Polytechnic began delivering online courses in 1997, and Massey University has been delivering courses extramurally since the 1960s.

29 New Zealand Herald (November 2021), "Dawn Freshwater: International study has changed – for good", at nzherald.co.nz.

30 Tertiary Education Commission, Single Data Return data as at December 2021, at tec.govt.nz.

31 Te Pūkenga (2021), *2020 Te Pūrongo ā-Tau Annual Report*, at tepukenka.ac.nz.

32 Tertiary Education Commission, Single Data Return data as at December 2021, at tec.govt.nz.

was because of a surge in domestic vocational enrolments at the non-degree level between August 2019 and August 2021.³³

- 3.25 Some of the fields that showed large increases qualified for assistance from the Government's Targeted Training and Apprenticeship Fund, which supports learners to carry out vocational education and training without fees.
- 3.26 Te Pūkenga told us that, despite the increase in domestic students in vocational training, it expected fewer students overall in 2022. This is because of a reduction in international students and tight labour market conditions leading to an anticipated drop in domestic enrolments.
- 3.27 The subsidiary companies delivered several courses overseas and online. In October 2021, 222 new students began studying at the Eastern Institute of Technology Data Science and Communication College. This is a joint International College partnership between the Eastern Institute of Technology and Zhejiang Yuexiu University of Foreign Languages.
- 3.28 In terms of workplace-based tertiary education, the Ministry of Education's report *The impact of Covid-19 on tertiary education in New Zealand: Initial impact on participation* said that Covid-19 arrived when the number of apprentices had been increasing over time and the number of trainees had been decreasing.
- 3.29 The data shows that, between August 2019 and August 2021, the number of apprentices increased by 49% and the number of trainees decreased by 14%. The participation data shows that the number of apprentices and trainees started to decrease in the months that were affected by the Alert Level 4 lockdown in 2020.
- 3.30 From the second half of 2020, there was a significant increase in the number of apprentices compared to the previous year. At this time, the Government introduced several policies that were designed to support participation in apprenticeships and certain vocational areas of study. This has been associated with the increase in the number of apprentices training.

Reasons why international students study in New Zealand

- 3.31 It is unclear what influence universities' performance in various international ranking systems has on international students' decisions to study in New Zealand.
- 3.32 In a report published in September 2020, the Ministry of Education said that:
... international university rankings are important because they attract interest – they are important because people think they are important. They are also one of the only ways people can access information on the relative performance of individual universities from different countries. While there may be doubts about

33 Smart, Warren, Tertiary Sector Performance Analysis, and the Ministry of Education (2021), *The impact of COVID-19 on tertiary education in New Zealand: Initial impact on participation*, at educationcounts.govt.nz.

*their intrinsic value, most countries and most universities now at least monitor the rankings.*³⁴

- 3.33 Each university's website has a considerable amount of information about how it ranks in various systems. International rankings are clearly important to each university.
- 3.34 Sector leaders told us that a university's international ranking accounts for about 18% of a person's decision to study there. Other factors – such as location, safety, and experience – are just as, if not more, important.
- 3.35 In 2019, Education New Zealand surveyed international students on the reasons for studying in New Zealand. Respondents to the survey identified nine factors that were “very” or “extremely” important in their decision to study in New Zealand. These were:
- opportunity to live in a society that is welcoming and inclusive (79%);
 - New Zealand's natural environment (76%);
 - New Zealand's reputation as a safe country (75%);
 - right to work in New Zealand once their studies are complete (70%);
 - New Zealand qualifications are internationally recognised (69%);
 - opportunity for outdoor leisure and adventure (67%);
 - academic reputation of the institution or school they are studying at or studied at (67%);
 - the reputation of New Zealand's education system (66%); and
 - the New Zealand culture and way of life (66%).
- 3.36 The quality of the education a student can attain in New Zealand is in the bottom three reasons on the list.

Well-being and completion rates

- 3.37 The Covid-19 pandemic's effect on the tertiary education sector is not limited to financial impacts. Ongoing disruption to course and programme delivery, and the ability of learners and staff to go to campuses, has affected well-being and course completion rates.

³⁴ Tertiary Sector Performance Analysis and the Ministry of Education (2020), *University rankings factsheets*, at educationcounts.govt.nz.

Well-being

- 3.38 As part of its Covid-19 Response and Recovery Fund, the Government allocated \$20 million to establishing a student hardship fund for 2019/20.³⁵ The funding provided financial support to students, allowing them to remain connected with the tertiary education institution they were enrolled at.
- 3.39 In 2020/21, the Government “topped up” the fund by another \$20 million. By 26 October 2021, more than \$36 million of the funding had been distributed to tertiary education institutions – the largest grant – of just more than \$9 million – went to students at Te Pūkenga.³⁶
- 3.40 Students told us that a loss of regular income because of the lockdowns caused a lot of stress and anxiety. We also heard about the well-being of students in halls of residence during lockdowns. These students were often young and away from their families and support systems for the first time.
- 3.41 Surveys by the universities suggest that technology-enabled learning has worked best for students who are already well positioned to succeed. These are students who are self-directed, who are supported by their family, and who have access to the physical spaces and technology for studying online.
- 3.42 Other students have struggled in a technology-enabled learning environment. This has had an adverse impact on academic performance and increased levels of students feeling isolated and seeking support.
- 3.43 In terms of staff well-being, we have heard (both through surveys and face-to-face meetings) that increasing stress levels are common. This stress is caused by issues such as unrealistic work expectations, restructuring, job insecurity, redundancy threats, and pay and staff cuts.
- 3.44 We heard that, although dual delivery allows tertiary education institutions to reach as many students as possible, it can be time consuming and difficult for teaching staff. It also creates added pressure for them.
- 3.45 Despite generally performing better than expected in 2020, some universities continued with redundancy plans.
- 3.46 In May 2020, the Tertiary Education Union published the results of its survey on the impact of the Covid-19 pandemic on tertiary education staff. The summary of the report said that:

... the most obvious result was the serious stress amongst staff ... Many reported a number of concerns and causes of stress that included both workload, personal

35 Government of New Zealand (2020), *Summary of initiatives in the COVID-19 Response and Recovery Fund (CRRF) Foundational Package*, at treasury.govt.nz.

36 New Zealand Parliament (2021), *Minister of Education, Response to Written Parliamentary Question 47949 (2021)*, at parliament.nz.

issues and treatment received as a result of the emergency. It is the combination of these that is overwhelming for many.

Course completions – a wānanga perspective

- 3.47 According to data from the Commission’s *Annual report for the year ended 30 June 2021*, completion rates for Levels 1-10 in 2019 and 2020 varied between Māori, and non-Māori and non-Pasifika students (see Figure 8).

Figure 8
Course completion rates for all tertiary education institutions for Māori, and non-Māori and non-Pasifika students, 2019 and 2020

Student demographic	Course completion rate Levels 1-10 in 2019	Course completion rate Levels 1-10 in 2020
Māori students	75.4%	73%
Non-Māori and non-Pasifika students	86.8%	87.2%

Source: Tertiary Education Commission’s *Annual report for the year ended 30 June 2021*, at tec.govt.nz.

- 3.48 How the Covid-19 pandemic impacted course completion rates at wānanga is of interest.
- 3.49 In its *Te Pūrongo 2020*, Te Wānanga o Raukawa said that, although the Covid-19 pandemic did not affect enrolments, it had a significant impact on attendance and completion rates.
- 3.50 Te Whare Wānanga o Awanuiārangi said in its annual report that more than 50% of learners had successfully completed a qualification at Level 1 to 4, which is above the 2020 target but lower than the 2019 result.
- 3.51 In August 2020, Te Wānanga o Aotearoa carried out independent research to gain a deeper understanding of:
- the reasons its learners withdrew from courses that are related to Covid-19;
 - what differences may be causing more withdrawals at the wānanga than at other tertiary education institutions; and
 - what the wānanga can do to mitigate any future withdrawals.
- 3.52 In 2019, the course completion rates for Level 1-10 students at the wānanga was 76.3%. The 2020 interim result was 71.3%.³⁷

- 3.53 The research's findings show that students at Te Wānanga o Aotearoa have quite different demographics than at other types of tertiary education institutions (although they are not substantially different to other wānanga).³⁸
- 3.54 Students at Te Wānanga o Aotearoa are much more likely to be Māori (48%), female (74%), and aged 40 years and over (54%). Students at universities are more likely to be New Zealand European/Pākeha (56%), female (58%), and aged 20-24 (48%).³⁹
- 3.55 Because of its demographics, Te Wānanga o Aotearoa has a greater proportion of students who are more likely to have competing responsibilities, such as work or looking after children and whānau, and who are more likely to be of lower socio-economic status. Therefore, they are more adversely affected by lockdowns and their ongoing consequences.
- 3.56 The research concludes that the three main reasons learners withdrew from their courses were because:
- it was too difficult to study from home;
 - of work commitments; and
 - it was too difficult to use the technology or learn online.
- 3.57 The main reasons learners withdrew from their wānanga courses are not dissimilar to those for other tertiary education institutions. However, several of the courses and programmes all three wānanga deliver have a different nature to those that other tertiary education institutions provide. This brings with it a unique set of reasons for course withdrawals.
- 3.58 For all three wānanga, face-to-face learning and contact time between kaiako (teachers) and tauira (students) are important parts of how they deliver their programmes. For example, programmes that involve raranga (weaving) and whakairo (carving) incorporate te reo Māori and tikanga that enable the learner to extend their knowledge and become kaitiaki (guardians) of the traditions and practices that have been handed down through generations.
- 3.59 Additionally, programmes such as *Te Pou Hono ki Marae Ātea* (a marae-centred programme delivered by Te Whare Wānanga o Awanuiārangi) and *Poupou Karanga* at Te Wānanga o Raukawa have components that, for practical and cultural reasons, are considered best delivered face to face.

38 At Te Wānanga o Raukawa, 80% of students are Māori and the average age is 38. At Te Whare Wānanga o Awanuiārangi, 73% of students are Māori, 50% are over the age of 40, and 71% are female.

39 This is based on enrolment data for 2019, available at educationcounts.govt.nz.

Immigration settings and government support

- 3.60 International education delivers economic, social, and cultural benefits for New Zealand. New Zealand's international education sector is made up of schools, universities, institutes of technology and polytechnics, private training establishments, English language schools, and education businesses.
- 3.61 Under the Education and Training Act 2020, Education New Zealand's functions include promoting New Zealand education overseas, providing information to international students in New Zealand, carrying out research and providing intelligence, and acting for the government in relation to international education.
- 3.62 As part of its recovery plan for international education, the Government announced border exceptions for international students in 2021. In January 2021, the Minister of Education stated in a press release that:
- ... this border exception delivers on a part of the recovery plan for international education. It underscores the Government's commitment to the international education sector, which is important in the country's long-term economic recovery from COVID-19.*
- 3.63 Initially, an exception class was granted for 1000 international students. These included those studying at degree level and above, and those who began their study in New Zealand but were overseas when border restrictions were introduced.
- 3.64 This exception allowed students to return to New Zealand from April 2021 in stages. The Minister of Education also said that:
- ... the annual economic value of this group of degree-level international students is estimated to be roughly \$49 million in wider economic contribution, including approximately \$27 million in tuition fees.*
- 3.65 In October 2021, the Government announced that further border exceptions for 240 students would take effect in 2022. Students from this cohort were able to return after February 2022. In November 2021, a further 1000 exceptions were announced (specifically, 400 pilot trainees, 300 students at degree level and above, and 300 students at the sub-degree level). When we wrote this report, the expectation was that these students would start arriving from March 2022.
- 3.66 In February 2022, the Government announced that it would allow 5000 overseas students who are eligible to study in semester 2 of 2022 into the country from 12 April 2022.
- 3.67 Although these exceptions will provide some financial relief for the tertiary education sector in 2022, it is still uncertain when all restrictions on international students entering the country will be lifted.

- 3.68 In response to a written parliamentary question, the Minister of Education said that tertiary education institutions collectively budgeted for \$774 million of international student fee revenue in 2020. The actual result was \$679 million in tuition fees in 2020. This led to a loss of about \$105 million.⁴⁰
- 3.69 The Minister's response also said that, although full information for 2021 is not yet available, forecasts from earlier in the year suggested that international fee revenue would fall further to about \$480 million in 2021.
- 3.70 In contrast, 43,000 international students arrived in Australia between 1 December 2021 and 18 January 2022. Because of workforce shortages, the Australian government temporarily removed working hours limits for student visa holders and refunded the visa fee for students who arrived between 19 January and 19 March 2022.⁴¹
- 3.71 New Zealand faces considerable competition for international students. This means that certainty about the Government's long-term plan for international students is important for tertiary education institutions. This certainty will allow them to develop their international student strategies.
- 3.72 In May 2021, the Productivity Commission began an inquiry into which immigration policy settings would best facilitate New Zealand's long-term economic growth and promote the well-being of New Zealanders.
- 3.73 The Productivity Commission released its preliminary findings in November 2021.⁴² It said that the immigration system and the education and training system are not connected. More specifically, the findings stated that:
- ... there are no consistent feedback mechanisms to link skills shortages evident in the immigration system to potential responses in the education and training system. This limits the ability of the education system to meet employer needs and may weaken accountabilities on employers to train and develop local workers.*
- 3.74 In July 2021, Cabinet considered a paper about New Zealand's long-term immigration priorities. The paper discussed areas of focus for rebalancing the immigration system, such as international student settings (which includes post-study work rights). Specifically, the paper said that:
- ... pre-COVID-19, international students were a source of high migrant volume. Immigration settings can support a shift to attract proportionally more students*

40 New Zealand Parliament (2021), *Minister of Education, Response to Written Parliamentary Question 54803 (2021)*, at parliament.nz.

41 Australian Government Department of Home Affairs media release (January 2022), "Temporary changes to visa work conditions for Students and Working Holiday Makers", at immi.homeaffairs.gov.au.

42 New Zealand Productivity Commission (2021), *Summary of Immigration: A fit for the future*, at productivity.govt.nz.

studying for degree-level qualifications or in critical skill shortage areas within overall lower volumes.

- 3.75 The Cabinet paper invited the Minister of Immigration to report back on international student settings in October 2021.
- 3.76 As part of its Covid-19 Response and Recovery Fund Foundational Package, the Government allocated \$1.4 billion to Tertiary Education initiatives over five years.⁴³ The Commission has confirmed that, as at 31 December 2021, \$491 million of the money has been invested.
- 3.77 The funding focused on ensuring that the tertiary education sector was resilient and responsive to change. Part of this funding was set aside to provide students with financial support and allow them to remain connected with their tertiary education institution.
- 3.78 At a high level, the Covid-19 recovery funding for tertiary education focused on the following four targeted areas:
- increased demand because of forecast unemployment;
 - supporting displaced workers into training and apprenticeships;
 - retaining existing learners and apprenticeships; and
 - ensuring that vocational education and training delivers the skills that industry needs.
- 3.79 The impact of the response and recovery fund initiatives in the tertiary education sector will be seen in the next few years.
- 3.80 Given our interest in the investment of funding in Covid-19 response initiatives generally, we will continue to report on this matter for all sectors, including the tertiary education sector. This includes providing advice to select committees to assist them with Parliament's scrutiny of public organisations.
- 3.81 Given the many interdependencies the tertiary education sector has with other sectors (such as immigration), an integrated and strategic approach to the sector's recovery from the Covid-19 pandemic is needed.
- 3.82 Sector leaders told us that they will need to rethink their international student strategies so that they are less vulnerable to any future border restrictions. They plan to focus on diversifying where and what they deliver, rather than re-adopt their previous approach to international students.
- 3.83 In July 2020, the Government released its long-term strategic recovery plan for the international education sector. The plan included \$51.6 million of investment from the Covid-19 recovery and response fund.

⁴³ New Zealand Government (2020), *Summary of initiatives in the COVID-19 Response and Recovery Fund (CRRF) Foundational Package*, at treasury.govt.nz.

- 3.84 The plan focuses on stabilising the international education sector, strengthening the tertiary education system, and accelerating the transformation of the sector as signalled in the International Education Strategy.⁴⁴
- 3.85 Outcomes to date from the Senior Officials Group have included carrying out a broader impact evaluation of international education to better identify the benefits, costs, and value of international education.
- 3.86 The recovery plan is being revised to ensure that it remains fit for purpose, and we will continue to watch how the Government brings increased stability to the international education sector during the coming year.⁴⁵

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

45 See “Next steps on the international education rebuild” at education.govt.nz.

Appendix

Audit results for 2020

This Appendix was originally published in *Tertiary education institutions: Main findings from our 2020 audits* (2021), at oag.parliament.nz.

Audit reports

We issued unmodified audit opinions for the financial statements of 25 of the 28 tertiary education institutions. An unmodified opinion means that we were satisfied that the information those 25 tertiary education institutions reported fairly reflected their activities for the year and their financial position at the end of the year.

We issued a qualified audit opinion for the financial statements of one tertiary education institution, and we are yet to issue our audit opinion for the financial statements of two tertiary education institutions.

Qualified audit opinion

We issued Universal College of Learning with a qualified audit opinion because the scope of our audit was limited. This limitation arose because Universal College of Learning could not reliably estimate the seismic remediation work it needs to carry out. Therefore, it did not recognise the work's effect on the value of its Manawatū and Whanganui campus buildings.

When we issued our audit report, the seismic assessment work was still ongoing. The cost for seismic remediation work could be substantial. We were unable to determine whether the book value of buildings was materially different to their fair value.

Except for the above matter, we were satisfied that the information we audited fairly reflected Universal College of Learning's activities and its financial position as at 31 December 2020.

Emphasis of matter: Impact of the Covid-19 pandemic

The Covid-19 pandemic has continued to impact the sector. Both tertiary education institutions and auditors have had to consider the implications of the Covid-19 pandemic on their entities.

All but one tertiary education institution disclosed the possible significant effects of the Covid-19 pandemic in their financial statements. Our audit reports included emphasis of matter paragraphs drawing attention to those matters.

Emphasis of matter: Te Pūkenga subsidiary companies to exist until 31 December 2022

The subsidiary companies' audit reports that our auditors issued included emphasis of matter paragraphs drawing attention to the entities only continuing to exist until 31 December 2022, when they are required to be fully integrated into Te Pūkenga.

Other matters of public interest – Te Pūkenga

Te Pūkenga came into existence on 1 April 2020 during an Alert Level 4 lockdown. The permanent senior management team was established between July and November 2020. However, responding to the impacts of the Covid-19 pandemic limited management's time for other matters, including the time needed to plan and budget for future years.

A transition pathway was established, with nine workstreams covering a variety of areas. These included partnership and equity, development of the operating model, network collaboration, transition of the industry training organisations, capital asset strategy, and academic delivery innovation.

The effect of managing the impacts of the Covid-19 pandemic and the length of time to establish the senior management team meant that progress on the workstreams by 31 December 2020 was slower than planned.

Te Pūkenga did not have a statement of intent or statement of performance expectations for 2020. These important documents establish the basis for year-end performance reporting.

In our view, the performance framework in the statement of intent and statement of performance expectations for 2021 needs significant improvement. This is because there is a risk that Te Pūkenga may be unable to adequately report on its performance in 2021 and beyond.

Disestablishment audits of institutes of technology and polytechnics

On 1 April 2020, the 16 institutes of technology and polytechnics became the subsidiary companies. Disestablishment audits for the period 1 January 2020 to 31 March 2020 were required to be carried out by 31 July 2020.

Of the 16 institutes of technology and polytechnics, 14 have now reported on the three-month period ended 31 March 2020. Out of these, only six reported on time.

Tai Poutini Polytechnic and Western Institute of Technology at Taranaki have yet to report. For Tai Poutini Polytechnic, the delay in completing its 2018 audit, client

matters, and the sequencing of audit work have all affected the completion of its disestablishment audit. For Western Institute of Technology at Taranaki, the delay is because of resourcing constraints and auditor resourcing pressures.

Universal College of Learning's audit opinion continued to be qualified, as outlined above.

Timeliness of reporting for 2020

Despite the continued operational disruptions caused by the Covid-19 pandemic, all eight universities, all three wānanga, 13 of the 16 institutes of technology and polytechnics, and Te Pūkenga reported by the statutory deadline of 30 April 2021.

Tai Poutini Polytechnic, Waikato Institute of Technology, and Western Institute of Technology at Taranaki did not meet their statutory reporting deadlines. Waikato Institute of Technology adopted its audited financial statements in September 2021.

Tai Poutini Polytechnic and Western Institute of Technology at Taranaki have yet to report. The delay is because of resourcing constraints in the finance teams of each entity and at auditors.

Waikato Institute of Technology and Western Institute of Technology at Taranaki are currently sharing a chief financial officer because Western Institute of Technology at Taranaki's previous chief financial officer left in October 2020.

It is important that public organisations continue to produce timely and accurate reporting so that audits can be completed on time and results reported publicly. The challenges of the Covid-19 pandemic and resource constraints for some institutes of technology and polytechnics and our auditors have not made this possible in the current year.

Although end-of-year reporting describes events that have already happened, it provides the foundation for public accountability and is important information for future planning. High-quality, reliable, and independently assured information is important to maintaining the trust and confidence of Parliament and the public.

Preparation for audit

Even though a high proportion of tertiary education institutions meet their statutory reporting deadlines every year, doing so can involve hidden costs. We approved six requests from auditors to charge additional costs to tertiary education institutions because of delays and rework in auditing their 2020 financial statements and performance information.

Tertiary education institutions can help the audit process to run smoothly. Having robust governance frameworks and internal controls are important for good stewardship and maintaining public trust and confidence. When they operate effectively, these frameworks and controls can reduce the amount of work auditors need to do.

Some common issues auditors experienced when auditing tertiary education institutions' financial statements and performance information included:

- auditors receiving multiple versions of the financial statements;
- tertiary education institutions not having all the required information available at the start of the process and not providing additional support in a timely manner during the audit process;
- auditors being unable to rely on organisations' internal controls for a range of areas;
- tertiary education institutions not doing an internal quality review of the annual report (including the financial statements and statements of service performance);
- accounting standards being inappropriately applied; and
- the impact of the Covid-19 pandemic on the audit process and resources.

Given the accounting judgements and challenges that can arise from the Covid-19 pandemic, preparing for the audit process well has never been more important.

Sensitive expenditure

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 their friends. Spending that is inappropriate or that lacks a legitimate business reason risks harming a public organisation's reputation and the public sector more generally.

Therefore, like all public organisations, tertiary education institutions need to manage sensitive expenditure deliberately and diligently. As with all spending, it needs to be able to withstand public scrutiny.

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

We inquired into the purchase of a house in Auckland for the University of Auckland's Vice-Chancellor. The purchase gained significant public attention. We published a report on our inquiry in November 2020.⁴⁶

⁴⁶ See Office of the Auditor-General (2020), *Inquiry into the University of Auckland's decision to purchase a house in Parnell*, at oag.parliament.nz.

During our 2020 audits of tertiary education institutions, we found various instances of organisations not complying with their sensitive expenditure policies. Issues with sensitive expenditure arise regardless of how much money is spent. Even a small amount can raise concerns if it appears to be improper.

Tertiary education institutions should ensure that their policies include adequate guidance about handling sensitive expenditure and that these policies are consistent with good practice for public organisations. To assist organisations, we have published our good practice guides on our website.⁴⁷

Audit recommendations

In 2020, we were pleased that no instances of fraud in tertiary education institutions were reported to us.

The top five types of recommendations our auditors made were for tertiary education institutions to improve:

- controls over their expenditure and payroll systems;
- how they applied their accounting policies;
- the effectiveness and application of their other policies, including those for spending on travel;
- their processes for valuing property, plant, and equipment, including maintaining the fixed-asset register; and
- their technical knowledge. For example, improving their knowledge of accounting standards and how to present financial statements.

These types of recommendations are consistent with those we have made in previous years. Tertiary education institutions implemented about 100 of our audit recommendations during 2020. However, at the end of 2020, the sector had still not yet addressed many of our recommendations.

We expect tertiary education institutions to maintain a focus on making the improvements that have been identified and encourage audit and risk committees to regularly monitor progress against them.

⁴⁷ See Office of the Auditor-General (2020), *Controlling sensitive expenditure: Guide for public organisations*, at oag.parliament.nz.

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