‘Slicing Up the Funding Pie’
Tertiary Funding in New Zealand: Where It’s Been, and Where It’s Going

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For the past three years life hasn’t been particularly happy for those of us involved in tertiary education. Staff at almost every institution have been faced with ongoing job insecurity as a wave of major staffing and budgetary cuts have swept the sector. This year most universities were forced to increase their fees by the maximum or near to the maximum permitted under the Government’s Fee Maxima regulations, and at least two Universities (Massey and Victoria) have already indicated they will be seeking further 10% increases for 2008.

Massey University, traditionally one of the strongest institutions in the country, recently reported a budget deficit of $1.5 million for 2006. Latest available figures show the university predicting an operating deficit of approximately $3.1 million for 2007, with management not expecting to regain a stable financial position until 2009.

While Massey is currently the worst off, its problems are hardly unique. Strategic reviews, programme deletions, budgetary cutbacks, and large scale staffing cuts both through forced retirement and enhanced redundancy packages have been the norm throughout the sector. This isn’t just business as usual; these are signs of a tertiary education system in trouble. The most important stakeholders in our universities – the students and the staff – can justifiably be asking one simple question: ‘What the hell went wrong?’

Our current problems go back, as these things tend to do, to the free market reforms of the 80s and early 90s, and the ‘bums on seats’ funding model established therein. Before that, back in pre-Rogernomics New Zealand, tertiary institutions were given block grants, a system which basically amounted to the six or seven venerable Professors who constituted the University Council writing a letter to the Minister every three years to request more funds. The system worked for as long as the government took little interest in how universities operated, and tended to see them as indistinguishable from one another.

Despite this treatment, on the whole, universities did not misuse the funding (it wasn’t generous), and although some of the staff were apathetic – putting little effort into teaching or research – and some courses were low quality, our universities still managed to supply world standard degrees.

About 15 years ago this arrangement abruptly went from standard to archaic. In line with prevailing ideas, it was decided that universities – as with other public institutions – should be able to run primarily on their own steam as profit (or at least surplus) -driven enterprises in a new consumer-driven tertiary education marketplace. The grants system was (albeit, rightly) criticised for its absorption in the world of academia and university politics, and its lack of exposure to the ‘real world’. Tertiary institutions, it was said, had to be forced into the ‘real world’ – a brave new real world in which enterprise and innovation required an ‘activist market’, with both education and research driven by the needs of the newly coined and still very popular notion of the ‘knowledge economy’.

While the rhetoric was grandiose, its application was less so. Aside from some limited retooling of governance and management structures and the imposition of charter goals and profile objectives, the most significant result of the tertiary reforms was the establishment of the much-maligned ‘bums on seats’ funding model by the 1991 National Government. The simplicity of the term reflects the simplicity of the system: polytechnics, colleges of education, universities, and wananga were to receive their funding based on the number of equivalent full-time students (EFTS) enrolled.

‘Bums on seats’ was seen as a way to establish a market-driven atmosphere in which universities competed with each other for students, thus serving the two conveniently interlinked functions of feeding large numbers of New Zealanders through higher education, as well as relieving a significant portion of the burden of state funding – all corollary to a belief that the invisible hand would ensure that these attempts to maximise revenue would serve the greater interests of New Zealand’s economy and its society.

While the EFTS system did lead to a marked increase in participation rates, it also led to the wasteful duplication of courses and ballooning marketing expenditures ($28 million in 2005 alone). Universities became ‘providers’ operating in a super-competitive commercial environment, which in turn led to a proliferation of cheap courses of dubious worth as institutions learned to view students purely as a means to obtain funding. Based on the never-ending accumulation of EFTS, the system was kept afloat first by large numbers of domestic students willing to take out loans in the 1990s (the proportion of 18-to-24-year-olds enrolled in public tertiary institutions rose from 20.5% to 30.2% between July 1990 and July 2001), and then by a very profitable, but very temporary, influx of full-fee paying international students, primarily from China.

During this same period, government investment steadily declined. In 2004 economists Scott and Scott reported that funding to universities per domestic student fell by 34.75% (in 2002 prices) from $11,293 in 1980 to $7,368 in 2002. Between 1991 and 2002, government funding for universities dropped from 73% of total operating revenue to 42%, and a Deloitte study last year shows the figure is now just 37%, compared to 46% for comparable Australian universities.

In such an environment, institutions have been forced to look to students to fill the funding deficit. Tuition fees increased by an average of 13% a year in the 1990s, and while there was a temporary respite during the Labour-Alliance government’s fee freezes in 2001, 2002 and 2003, increases were soon back on the cards for most tertiary institutions following the implementation of Fee and Course Costs Maxima policy in 2003. While sold as a bulwark against the spiralling increases of the 90s, in practice the fee maxima has operated more as a fee minima – most institutions simply choosing to raise their fees by the minimum 5% annually.

Despite entering on a platform of ‘stabilising and then lowering student fees’, the Labour government has been impressively strategic in appearing to put constraints on fee hikes, while establishing conditions in which they can continue to rise endlessly. The maxima levels announced in the 2003 budget were all set significantly above the 2003 average fees level, and the maximum levels for 2007 are 2.7% higher than the 2006 levels. A recent report shows the median student loan was $10,652 in 2005-06; and by 2015, past and current students are expected to owe a staggering $12.7 billion.

16 years of a funding model based solely on the accumulation of EFTS has also left institutions extremely vulnerable to the shifting sands of annual enrolments, which is why, when enrolments drop off, institutions summarily initiate slash-and-burn type staffing and budgetary cuts. Since another key element of the reforms was to purge universities of 'vested interests' – which amounted to dismantling the structures of collegiality and staff participation in university governance – these decisions are typically made by management bodies where academic values and issues of quality come second to the commercial imperative. A case in point was the University of Auckland's plan to axe 43 jobs from the faculties of Education, Business and Humanities late last year. The move provoked international condemnation from senior academics at Cambridge University, the University of California and the University of Paris, who argued the cuts would damage the University's international reputation.

Due mainly to initiatives on behalf of the Chinese government to encourage their students to study at home, revenue from international students dropped 15% last year and continues to plunge. Domestic enrolments have long since peaked, and are now beginning to flatten out. When the students go, so does the money, with university budgets close behind.

The big irony of all this (there's always a big irony) is that many of these failures have been openly recognised by the Labour government since it came into office, and it's taken eight years for us to see any signal that concrete reforms are on the way. Back in May, in a speech delivered at Victoria University in Wellington, Minister for Tertiary Education Michael Cullen outlined his glorious vision for the future of New Zealand tertiary education. The long-anticipated announcement, though ominously lacking in detail, was generally met with approving noises from sector leaders.

According to Cullen, Labour will break from the atomised approach to funding under the EFTS system, and instead it will be moving towards an 'investment system' that puts funding on a three-year plan drawn up by institutions in collaboration with the Tertiary Education Commission (TEC). On three-yearly cycles, each institution will work to a funding plan, run on two main mechanisms: a student achievement component where government contribution to the costs of teaching and learning are based on the nature of the programme and the volume and retention of students; and an institutional component based on the distinctive role of the organisation, and its allegiance to its defined plan.

The idea is that such plans would establish clearly differentiated roles for tertiary institutions and make it easier for these institutions to collaborate, rather than compete with each other, thereby reducing the pointless double-up of courses and the other wasteful expenditure associated with the EFTS-based model, like marketing and the mushrooming of dubious programmes and degrees in the scramble for students. According to Cullen, the system will somehow also 'include allowances for inflation, demographic change and fluctuations in student numbers', although details of how this would work in practice remain unknown.

The overall implication is that, through its power to determine funding, the TEC will be given some real regulatory power over the sector, and the government is finally putting its hands firmly back on the wheel.

At this stage however, the reforms are still shrouded in commercial jargon and rhetoric, and we don't know what concrete legislative changes are in the works. Considering approximately 70% of funding (the 'student achievement component') will remain EFTS based, it is difficult to see the reforms as the great transcendence it was framed as back in May. Moreover, we've been hearing the same talk about differentiation and collaboration for a long time now, raising the suspicion that the new round of changes is primarily targeted at tweaking structures that proved ineffectual because of faults in their conception.

In order to oversee a funding structure reliant on a highly intricate set of relationships between New Zealand's tertiary institutions, TEC will need to be given some decent regulatory bite. Just how far this power will extend is uncertain. While recognizing their public accountability, Universities are famously cautious about government control and have fought a long-standing battle against any assertion that the Crown is their in-substance owner. Many in the sector have already voiced apprehensions that the replacement of Charters (which enshrined their particular role in the tertiary sector) with plans negotiated with TEC will give the Government major power to determine programmes offered. Cullen has made it clear he's seeking to rationalize higher education – we can only hope this doesn't translate into an arbitrary assault on every Greek, literature, history or sociology paper that doesn't turn an acceptable rate of profit.

A great deal of mystery surrounds the internal functioning of TEC as well. Although the government clearly has confidence – it accords the commission more power (including the Tertiary Advisory Monitoring Unit) and the lead role for developing tertiary education policy – the continuing failure to fill half of the 26 new management positions that will be central to the reformed system has raised issues of internal dysfunction, raising the question of whether the current board really have the chutzpah to create these policies and drive through the changes. The recent resignation of TEC Chair Russell Marshall and news that Commission chief executive Janice Shiner is to return to England when her contract expires in the middle of next year has added to these concerns.

One thing we do know, the biggest and most urgent problem – the chronic under-resourcing of the entire sector – will continue into the foreseeable future. To date, the reforms have been concerned with restructuring funding processes, rather than with increasing the number of resources available for investment in universities. While the budget did include an additional $129 million injection into the sector, the figure becomes less spectacular when one considers it will be trickled in over a four-year term, and the vast majority will go towards addressing the long-term disparity between Australian and New Zealand academic salaries ($89 million), and preparing institutions for the implementation of the new funding system ($40 million). Funding is set to drop on a per-EFTS basis (about 0.5 percent) in the following financial year, and most of the new money is one-off capital funding. In other words, it's a band-aid on a bloody stump: universities will continue to struggle with basic operational costs, and students will continue to shoulder the burden for inadequate funding through rising tuition fees.

It's worth noting that when the excitement surrounding the knowledge economy was first heating up, the then government repeatedly cited Finland and Ireland as shining examples that New Zealand could follow in transforming the economy through higher education. Despite the simplicity of transplanting policies from one social and economic context to another, the mind boggles at how such vital and fundamental lessons can be so effectively ignored. Both of these countries emphasized public provision as crucial to the role of universities in promoting socio-economic development. Finland has never charged tertiary students fees, and Ireland abolished fees in 1996, a move that directly preceded the kind of economic growth that countries like New Zealand could only sit back and envy.

In stark contrast to our own system, local and central governments provided over 90% of funding for Ireland's tertiary institutions, while Finland maintains a system of cooperative planning among its universities. For both countries, university governance and policy formation relies heavily on academics' input and experience. Both countries' tertiary strategies were centrally planned and regulated.

The basic point, then, is the same as it has always been: a genuine knowledge economy, in the context of a healthy society, requires its universities to produce the best and broadest possible education, with the best quality staff and infrastructure, and without the dysfunction inherent to a miserly funding system based on never-ending student debt. Everyone can agree that we need a longer-term funding cycle and more cooperation between institutions, but unless these reforms include the restoration of funding to a level that allows universities to operate as universities, then the rhetoric surrounding our glorious knowledge society will continue to remain largely that – rhetoric.

ABOUT THE AUTHOR

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