



Aide-Memoire: Monitoring of the university sector

To:	Hon Dr Shane Reti, Minister for Universities
From:	Tim Fowler, Chief Executive, Tertiary Education Commission
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Purpose

1. This paper provides you with a high-level overview of the university sector, the key drivers of financial performance, and the relevant accountability settings. It also sets out the role of the Tertiary Education Commission (TEC) with an emphasis on the TEC's monitoring functions and our associated monitoring approach. This includes the intervention powers that are available to both the TEC chief executive and the responsible Minister(s). We provide a summary of the key financial, operational, and infrastructure reporting that the TEC receives from universities' performance, which in turn informs the cadence of our future reporting to you on these areas.

Legislative setting and the TEC's monitoring role

Universities are autonomous entities and have freedom to make their own decisions...

2. The Education and Training Act 2020 (the Act) provides universities with the autonomy and independence to make academic, operational, and management decisions. However, the Act requires that in exercising their academic freedom and autonomy universities must act in a manner that is consistent with:
 - a. the need for institutions to maintain the highest ethical standards and the need to permit public scrutiny to ensure the maintenance of those standards; and
 - b. the need for institutions to be accountable and make proper use of resources allocated to them.
3. Universities are governed by Councils, whose key roles are to:
 - a. determine the strategic direction of the institution;
 - b. ensure the institution remains sustainable and financially viable;
 - c. identify, manage, and mitigate risk; and
 - d. monitor performance of the institution and the chief executive, to ensure it is meeting the goals and delivery quality outcomes for learners.
4. By virtue of their independence and autonomy, the TEC does not get involved in operational decisions nor in setting the strategic direction of universities – as an example, when universities are restructuring, or when faculties/schools are deciding on course content, neither the TEC or the responsible Minister has a legitimate role under the Act. The Council sets an institution's

strategy, approves the policies that govern its operations, and makes decisions on where to invest or what assets to divest. As the responsible Minister you have the statutory responsibility for appointing four members to the governing council of each university.

...while the TEC is responsible for allocating funding and monitoring performance...

5. The TEC determines and allocates funding to universities (and other tertiary education organisations (TEOs)), in line with funding mechanisms issued by the responsible Minister. These funding mechanisms set out the rules and settings for the various funds we allocate. Most funding for universities is issued through the Investment Plan process. TEOs must submit an Investment Plan to the TEC which sets out the why, what, and how for the organisation including:
 - a. its role, mission, and how it will give effect to the Tertiary Education Strategy;
 - b. how it will address the needs of its stakeholders;
 - c. the programmes and activities for which a TEO is seeking funding; and
 - d. the outcomes it seeks to achieve and how these will be measured (including EPIs).
6. We then monitor a university's performance against what was agreed in its Investment Plan, including whether it has achieved its stated outcomes. In total, the TEC allocates \$3.9 billion in funding to the tertiary sector (although not all of this funding is allocated through the Investment Plan process), with \$2.1 billion going to universities.
7. As well as monitoring performance against the Investment Plan outcomes, the TEC also monitors that funded organisations are complying with the rules attached to funding (conditions of funding), and that funded organisations are financially sustainable. These monitoring activities are aimed at ensuring that TEC is prudently investing public funding, while learners can have confidence in enrolling in funded TEOs.

...and the TEC has a statutory responsibility to monitor the operation and long-term viability of universities

8. Universities, along with wānanga and Te Pūkenga, form New Zealand's public network of tertiary education providers, collectively known as tertiary education institutions (TEIs). It is important that New Zealand has a financially sustainable tertiary education system which supports high-quality teaching, training, and research. The Act requires all TEIs to operate in a financially sustainable manner. While there is no agreed definition of financial sustainability, we expect a sustainable TEI will generate sufficient cashflow from operations so that it can fund a sensible capital programme, respond to changing learner and stakeholder needs, and have adequate reserves to mitigate cyclical downturns in enrolments or other external shocks.
9. The responsibility for ensuring financial sustainability lies with the governing council of each TEI. However, the Act specifies that the TEC chief executive must monitor institutions that receive funding to assess whether the operation or long-term viability of those institutions is at risk. The TEC also has responsibility for providing assurance to the Crown that universities (and other TEIs) are well governed and are appropriately managing their capital assets – given the potential impact of poor governance and or mismanagement on New Zealand's public network of provision and the Crown's balance sheet. We monitor the sector closely and advise our Board and the responsible Minister(s) of overall performance and key risks.
10. While (as set out above) the TEC monitors universities both on behalf of the TEC Board (in respect of monitoring funded performance) and the Crown (in respect of operation and long-term viability), in practice these activities are heavily interlinked. This is particularly the case due to the high reliance of universities (and other TEIs) on TEC funding revenue. Therefore, before we set out the TEC's monitoring frameworks and approaches in more detail, the following section provides context on how the university system is funded.

How is the system funded and what drives financial performance?

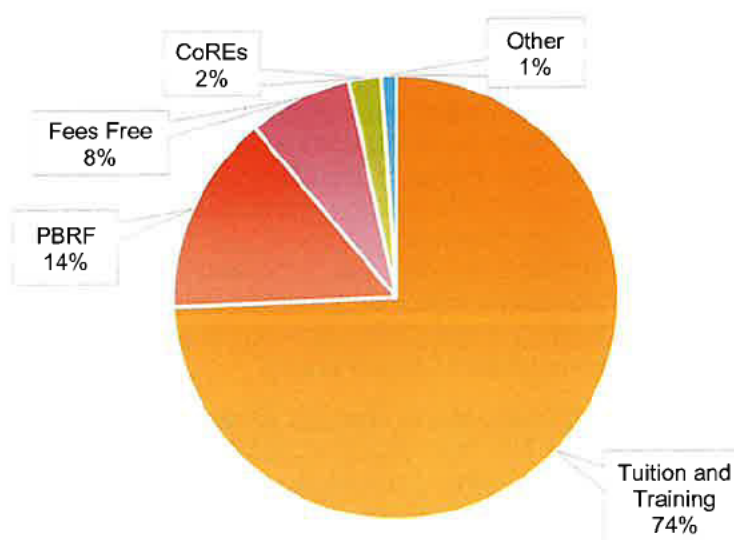
Three-quarters of all university revenue is controlled by the government...

11. The government controls most of the revenue that TEIs receive. Directly, the government decides the amount of government funding that TEC can invest in research and educational delivery. Indirectly, the government sets the annual maximum fee movement (AMFM), which restricts the percentage by which TEOs can increase domestic fees. Decisions made by the government on funding and fee settings significantly influence tertiary sector performance and TEIs' ability to operate in a financially sustainable manner.
12. The government controls around three-quarters of revenue in the university.

...and the TEC allocates nearly \$2.1 billion per annum into the university sector...

13. Of the \$3.9 billion that the TEC invests in the tertiary sector per annum, \$2.1 billion is provided to the university sector. Of the funding allocated to the university sector by the TEC, a total of \$1.6 billion (74 percent) is for volume-based tuition and training (see *Figure 1*). This funding is intended to subsidise the costs of teaching and learning. Universities supplement this funding by charging fees to learners. Under the first-year Fees Free scheme the TEC has been providing a further \$160 million in funding to the university sector to cover fees for Fees Free-eligible learners. The system is currently transitioning to the new final-year Fees Free scheme which will involve learners applying to the Inland Revenue Department to recover their final-year fees upon completion.

Figure 1: TEC university funding breakdown, 2024



14. Around \$365 million of TEC's funding is investment in research, including \$315 million through the performance-based research fund (PBRF) and \$50 million through Centres of Research Excellence (CoREs) funding.
15. Universities also receive a range of research funding from agencies other than the TEC. The main sources of research funding are the Marsden Fund, the Health Research Council, and a range of research funds administered by the Ministry of Business, Innovation and Employment (MBIE) such as the Endeavour Fund. In 2024, the university subsector forecast to receive \$1.2 billion in research funding, most of which is from government sources (including TEC research funding).

...with most revenue generated through learner enrolments...

16. Around 65 percent of revenue in the university subsector comes from learner enrolments with one-quarter of revenue being generated by research activity. The remainder comes from 'non-core' activity. Universities' 'non-core' income comes from areas such as accommodation services, commercial revenue, consulting services, and investment returns on trust funds (although the size of these funds differs across universities).
17. While revenue streams for the university subsector are more diversified relative to other subsectors (which are even more reliant on learner enrolments), universities are still heavily dependent on the number of learners they can enrol. When enrolments fall strongly, universities must adjust their cost base to ensure ongoing financial sustainability. As a result, we closely monitor enrolment patterns across all universities and engage with the sector to understand what influences may be driving certain trends.

...and there are five primary levers universities use to increase revenue...

18. As the government controls most of the revenue that universities receive, there are five main options universities have available to increase revenue. These include:
 - a. **Increasing fees by the annual maximum fee movement (AMFM) limit each year:** TEOs can increase domestic fees by the AMFM limit, which is set by the responsible Minister, annually. Almost all universities increase tuition fees by the maximum amount allowable to support revenue growth.
 - b. **Increasing domestic enrolments:** as they cannot increase fees by more than the AMFM, universities (and other TEOs) often attempt to increase enrolments to increase revenue. This can be achieved through developing new programmes that are attractive to learners and employers, growing EFTS in higher margin courses (eg. nursing), increasing scholarships, improved marketing, and learner success initiatives. These initiatives usually require increased expenditure and can take time to deliver benefits. Other factors outside of the control of universities also impact on enrolment numbers. These factors include the number of school leavers, labour market conditions, accommodation offerings and affordability, and competition from other TEOs. Ultimately however, the TEC decides how much volume it will fund for each TEO based on their alignment to agreed strategic priorities and outcomes for learners (and within the context of the overall capped funding environment). The combination of limited fee increases and the overall capped funding environment also drives universities to introduce or grow EFTS in higher margin courses, such as nursing.
 - c. **Increasing full-fee international enrolments and/or raising international fees:** there are no restrictions on full-fee international enrolment numbers and universities can set their international fees at any level. Over the past two decades, various parts of the sector have increased international enrolments to improve or sustain financial performance. While an attractive option, universities compete for international learners in a competitive global environment while government policy settings and visa processing performance can impact on overall numbers. Universities must also balance the potential financial (and wider) benefits from higher international students with the risk of an external event (e.g. COVID-19) causing a sudden downturn in international learners and creating financial risk. As a result, some universities put self-imposed limits on international enrolments as well as to ensure a suitable offering (i.e. an appropriate mix of domestic and international students in certain programmes), which limits the potential gains from international fee revenue. Although universities can raise international fee levels to increase revenue, setting fees too high can impact on international competitiveness. Most universities carefully set fee levels based on their relevant position in the global market. International student enrolments currently make up between 7% (University of Canterbury and University of Otago) and 23% (University of Waikato) of total enrolments at New Zealand's universities. TEC is of the view that international enrolments could be

considerably increased across the sector before striking social license or market risk issues.

- d. **Increasing research revenue:** universities can seek to increase revenue by attracting additional research funding. Most research funding received by universities is controlled by the government which limits the size of the total funding pool available. Nevertheless, universities can increase the share of the funding they receive as well as seek research funding from the private sector or from overseas.
- e. **Seek to increase non-core revenue:** non-core activity includes sources such as consultancy income, hospitality, childcare, student accommodation, conference income, and donations. This is collectively a bigger revenue source for universities than it is for much of the rest of the sector. While profitable, it can be difficult to increase non-core revenue substantially in the short-term. The university subsector has around \$1 billion invested through trusts. These funds are typically in balanced investment portfolios and support overall performance but have uncertain returns.

...although some revenue sources are much more profitable than others...

- 19. Some of the above revenue sources are more profitable than others, and this differs across subsectors. The core activity of TEOs – education delivery and research activity – is largely break-even or loss-making. Over the five years to 2022, the university subsector reported an average surplus of \$146 million per annum. Around 55 percent of that surplus came from non-core activity (e.g. student accommodation, hospitality, consultancy), 35 percent from non-operational items (e.g. interest received, net trust income), and only 10 percent from core activity such as teaching and research, despite it representing 86 percent of all income.
- 20. Despite core education and research activity being break-even/loss-making, there is an incentive for TEIs to continue to increase enrolments and research activity to contribute to the large, fixed costs they have. Additional tuition or research revenue helps with achieving economies of scale, and on a marginal basis, additional enrolments can help support profitability.

...with international revenue margins helping to drive a positive contribution from core activity for the university subsector...

- 21. Full-fee international revenue is a critical source of revenue for universities (and the sector generates much stronger margins from international enrolments relative to Te Pūkenga). The average full-fee international EFTS in the university subsector generates \$11,400 more revenue than an average domestic EFTS. The margins realised from international EFTS were a key contributor to the strong performance by universities over the 2010s. Conversely, the fall in international enrolments during COVID-19 has had a significant, negative financial impact.

...while staffing costs is the biggest expenditure item...

- 22. Personnel costs represent around 54 percent of overall expenditure for universities. General operating costs represent around 35 percent of all expenditure with depreciation and amortisation costs representing 11 percent.
- 23. If universities have done everything possible to increase revenue, negative shocks can be difficult to manage. They can either respond by cutting spending or by accepting reduced profitability. With universities having an operating structure dominated by fixed and semi-fixed costs, it can be difficult to reduce spending if activity levels fall sharply. As personnel costs represent more than half of total expenditure, any major cost saving effort will involve personnel restructuring.
- 24. For cost cutting exercises to be effective, universities need to develop a more efficient operating structure. If efficiencies cannot be found, the savings need to be found by lowering service levels. These reduced services levels directly impact on the learner experience and chance of success. In recent years, high inflation has caused costs to increase more rapidly

than constrained revenue increases. This has resulted in lower profitability and led to most parts of the sector cutting back on spending and reducing staffing levels.

...and there are several levers the government has to support financial performance

25. There are currently four key levers available to the government to support the overall financial performance of the university sector and the tertiary education sector more widely. The Ministry and the TEC will provide you with advice on the use of these levers, typically as part of the annual budget process. These include:
 - a. **Increasing tuition subsidy rates:** around \$2.8 billion of the funding that the TEC invests is for *Delivery of Qualifications* or *DQ funding* which has separate funding approaches for Levels 1 and 2, Levels 3 to 7 (non-degree), and Level 7 (degree) and above. TEOs receive funding for the number of domestic EFTS delivered, with the rate of funding per EFTS dependent on the subject area (and mode of delivery for Level 3 to 7 (non-degree) delivery). Increases to tuition subsidy rates are the main mechanism used to increase government funding to the sector. Increases can be made to all rates (to reflect cost pressures) and/or to specific areas (to address viability issues or encourage investment). Between 2020 and 2024, tuition subsidy rates have increased by around 15 percent (although 4 percent was only a temporary increase in 2024 and 2025) while inflation has increased by 22 percent. That inflation has increased faster than tuition subsidy rates has had a negative financial impact on the financial sector.
 - b. **Increasing the volume of delivery that is funded:** as part of the annual budget cycle, the government must decide the overall amount of funding it will provide for the system. The government makes these decisions based on the Ministry's demand forecasts and fiscal priorities. Over at least the past 10 years, the government has appropriated enough funding to fund all forecast demand.
 - c. **Increasing the size of the PBRF pool:** we currently allocate \$315 million annually through the PBRF. Increasing the pool provides further funding to the sector, with 97 percent of all PBRF funding going to the university subsector. The pool has not been increased since 2018, when it increased from \$300 to \$315 million.
 - d. **Increasing the AMFM:** the responsible Minister sets the amount that TEOs can increase domestic fees (excluding work-based fees) through the AMFM. Increasing the AMFM can support overall TEO performance. However, this must be balanced with the affordability of study for learners and the flow-on costs to the Crown through the student loan and the final-year Fees Free scheme. The Act requires the responsible Minister to consult on any proposed AMFM change.
 - e. **Introducing new funds or changing existing funds:** the government can also decide to introduce new funds for specific purposes or change the funding rules for existing funds.
26. We expect it will be very difficult to secure significant additional funding given fiscal constraints and cost pressures across government.

Educational performance and learner success

We use educational performance indicators to monitor performance and make investment decisions...

27. The TEC uses educational performance indicators (EPIs) to monitor TEOs' educational performance and progress. It is also one component that helps us make investment decisions. The EPIs include:
 - a. *first-year retention rate* (the percentage of first-year learners who return for their second year of study towards a qualification);

- b. *cohort-based qualification completion rate* (the percentage of learners in a TEO's starting cohort who go on to achieve a qualification at that level);
 - c. *course completion rate* (the percentage of learners who complete courses, which make up qualifications, relative to total course enrolments); and
 - d. *progression rate* (the proportion of learners who complete a qualification at levels 1-4 of the New Zealand Qualifications Framework and enrol in a higher-level tertiary qualification completion within 12 months).
28. EPI targets are agreed as part of a TEO's Investment Plan, and the TEC holds TEOs accountable for their performance against these targets. EPIs are important to not only understand the success of the investment being made by the Crown, but also that made by the learner through the tuition fees they pay.
29. We use EPIs to support our investment decisions across the tertiary sector, directing funding to TEOs and programmes where there is strong learner achievement and that are driving the highest benefits for learners. Other factors in those investment decisions include, but are not limited to, whether the provision is in areas of stated priority for the government, the financial viability of the provider, and the contribution that delivery makes to the overall network of provision.
30. In 2023, the TEC reviewed the current EPIs against international examples to test if they were still fit for purpose. The review found we were comparable to other jurisdictions, which measure the same or similar indicators. We understand that as part of the set-up of an Australian federal tertiary education commission, Australia is undertaking its own review of its EPIs. We will closely monitor any changes to these.

...and we are reintroducing a response framework to increase transparency on how we address poor performance...

31. Our Response Framework for Educational Delivery and Performance (Response Framework) is attached as **Appendix 1**, and this sets out how we manage delivery and performance issues. The Response Framework describes:
- a. The information we consider in making a response decision (including course completion and qualification completion rates, under- or over-delivery, and what actions TEOs are taking to address these factors);
 - b. What other factors affect these decisions (contextual information such as available funding, effects on the network of provision, and the provider's characteristics); and
 - c. What options and levers we use (a spectrum from increased engagement or monitoring to specific funding requirements or conditions, to reduced investment).
32. The Response Framework was developed in consultation with the sector and will be published alongside Plan Guidance in early March 2025. All universities have dedicated TEC Relationship Managers. To address poor performance, we rely on engagement as the first response to enable a 'no surprises' approach if a further escalation is required. We aim to understand what reasons might be impacting underlying performance and what actions universities have in place to improve results.

9(2)(b)(ii)

...while compliance monitoring ensures learners' interests are protected and public funding is used appropriately

34. Conditions attached to TEC funding for universities (and other TEOs) set a range of rules that must be complied with to be eligible to receive TEC funding. These rules are typically focused

on either (a) protecting learners' interests (for example, there are rules governing when universities must provide a learner with a fee refund if they withdraw early in a course), and (b) safeguarding the TEC's investment of TEC funding (e.g. ensuring that universities only claim funding for valid enrolments).

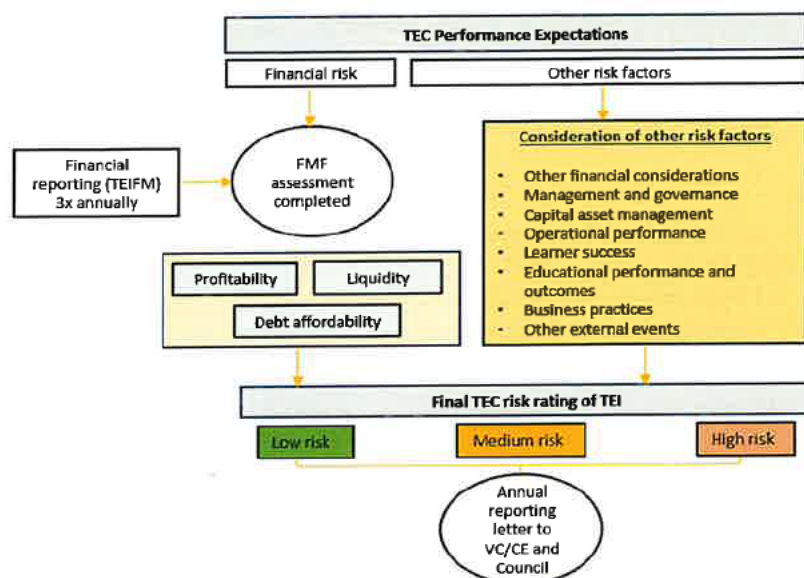
35. The TEC's funding conditions also give us the ability to conduct audits or investigations of universities' compliance with these rules. However, as you would expect given their scale, New Zealand's universities typically have robust processes and strong internal controls – with their overall control environment and financial reporting also subject to annual audit by the Office of the Auditor General. Therefore, in practice the majority of TEC's compliance assurance work is focused on other sectors.

Our overarching approach to monitoring the operation and long-term viability of universities

36. As noted earlier, the TEC chief executive has a statutory responsibility to monitor the operation and long-term viability of universities (and other TEIs). This paper provides an overview of our overall risk assessment framework, as well as our financial monitoring framework (FMF) which is a key contributor to overall risk assessments. Assessments of universities' governance capability and capital asset management capability are also key contributors, but we intend to provide you with an overview of our approach to monitoring these areas in subsequent papers focusing on (1) the process for supporting your appointments to university councils in 2025, and (2) universities' infrastructure and capital plans.

We refreshed our monitoring approach in 2024 alongside consultation with the sector...

37. In July 2024, we released a document outlining the risk assessment process for TEIs to provide increased transparency and clarity on the key factors that the TEC considers when assessing risk. This document, alongside an updated FMF, was developed in consultation with university Chief Financial Officers and was aimed (as far as possible) at aligning key financial metrics used to assess performance to internal reporting provided to university councils and sub-committee groups. The intention of this was to ensure commonality in the information being considered, whilst ensuring the FMF and our processes are understood and fit for purpose.
38. For the TEC to monitor the risks to a university's long-term viability, we take a holistic view of their performance, using both quantitative and qualitative information as illustrated by *Figure 2*. This includes the consideration of operational, educational, management and governance risks alongside financial performance. We assess financial risk using the FMF alongside other financial information and analysis. Using both the FMF outputs and our assessment of other information, we then determine an overall risk rating for each university. This rating is communicated to the Chancellor and Vice-Chancellor on an annual basis. Further detail on this can be found in the TEC risk assessment process guidelines in **Appendix 2**.

Figure 2: Overview of the risk assessment process

39. One of our key monitoring aims is to understand the nuances of an institution's operations and its strategic objectives so that we can monitor risk effectively. In practice, this could mean that a university has a low-risk rating across all three financial metrics in the FMF (profitability, liquidity and debt affordability) but receives an overall risk rating of medium- or high-risk based on other considerations (for example, poor financial forecasting accuracy, optimistic enrolment forecasts, management turnover). Alternatively, a university may be high risk on some dimensions of the FMF but have a lower overall risk rating when other factors are considered (for example an upcoming asset sale or agreed insurance settlement, strong management and governance capability, or having recently implemented a successful restructure to achieve operating savings).

...and our risk assessments require judgment calls, with our monitoring efforts focused towards higher risk universities

40. As the overall risk rating is a combination of formulaic inputs and a subjective assessment of other factors, we ultimately need to make a judgement call on where each university's risk rating lies. To support this approach, we are extremely open with the universities on how we perceive their risk profile when elevated risk ratings are provided. While not all universities naturally agree with our assessments, we ensure we discuss how we arrived at this assessment with senior management and seek to understand how the risk is being managed and responded to. This then informs our ongoing monitoring activity.
41. As a rule of thumb, our focused engagement and monitoring activities are centred towards the universities that have a medium or high-risk rating, with low-risk universities being relatively 'light touch'.

Financial Monitoring Framework

42. The FMF is a technical tool that ensures a consistent and transparent approach to assessing each university's financial viability and performance. It is formulaic in nature and relies on both audited financial results and management information to assess each university against key profitability, liquidity, and debt affordability metrics. These dimensions are stand-alone tests. This means that a low-, medium- or high-risk rating is produced for each dimension.
43. We calculate the FMF risk ratings against the financial returns submitted by universities in May of each year (as this is when audited financial results are provided). The formal risk assessment

letters are sent to each university after our assessment and a round of meetings that occur between the Vice-Chancellor and key senior management staff of each university, and the TEC chief executive and our monitoring team. At these meetings, we discuss each university's financial trajectory, key operational challenges and opportunities, and a more general 'lay of the land' discussion on the university sector. We plan to send our next formal risk assessment letters to universities in August-September 2025.

Profitability Metrics

44. Profitability provides a basis for understanding the viability of a university's continued operations, reflecting whether its revenue and cost structures enable it to sustain its position and/or continue to grow. Three measures are assessed to determine profitability risk, with the financial inputs having a 70 percent weighting on forecast current year and future performance (with the remaining 30 percent weighting based on actual historical performance):
- **Operating surplus/deficit before trust and abnormal items to income:** *This considers whether revenue covers expenditure for normal annual operations (which includes capital-related expenditure and interest). The size of this surplus or deficit compared to total annual income gives an indication of how efficiently resources are being used within an institution. It carries a 30 percent weighting of the profitability score.*
 - **Operating surplus/deficit after trust and abnormal items to total income:** *This is similar to the above metric but includes abnormal and trust items within the calculation of the surplus/deficit. This recognises that some institutions have other activities or items that are outside their normal operations, but which can have a positive or negative impact on viability. It carries a 20 percent weighting of the profitability score.*
 - **Core earnings:** *This considers the financial performance of the core operational activities of an institution and excludes capital-related and interest costs. It carries a 50 percent weighting of the profitability score.*

Liquidity Metrics

45. Two liquidity metrics are used to provide visibility on how easily an institution can meet its short-term obligations or withstand unexpected financial shocks. Both metrics carry a 50 percent weighting on the overall liquidity risk output, with the financial inputs having an 80 percent weighting on forecast current year and future performance:
- **Liquid funds ratio:** *This is a direct reflection of an institution's ability to pay operational costs and short-term debt obligations. It is calculated by considering liquid assets less short-term overdrafts to cash outflow (payments) from operations.*
 - **Net cashflow from operations:** *This provides an indication of an institution's ability to generate cash from normal operating activities. The measure is calculated by subtracting the cash outflows from operations from the cash inflows.*

Debt Affordability

46. The debt affordability test provides a medium- to long-term view on an institution's debt levels and its ability to meet those debt obligations. It considers both the balance-sheet strength of an institution and the ability of its operational performance to service debt on the balance sheet. The framework has three metrics to evaluate the debt held by an institution. As with the liquidity input, debt affordability has an 80 percent weighting on forecast current year and future performance:
- **Relative debt level:** *This provides an indication of how much debt an institution holds relative to its profitability. This compares an institution's total debt to its EBITDA, reflecting how operational activities can be used to address debt obligations.*
 - **Interest strain:** *This is a relative measure that depicts interest repayments as a percentage of an institution's total revenue.*

- **Debt-equity ratio:** *This assesses the size of an entity's debt levels compared to the overall size of the institution's balance sheet.*

The most recent FMF highlighted profitability issues with most universities

47. The results of the FMF analysis completed following the May 2024 financial returns, show that the university sector has significant profitability pressure. This has been driven by several factors. However, in the short-term, overall liquidity remains manageable with no major issues with debt affordability.
48. Despite the overall FMF results, we remain concerned about the medium-term trajectory of Massey University (Massey) and Victoria University of Wellington (VUW) (notwithstanding some positive early enrolment signs from VUW for 2025). We will provide further information on each university in individual briefings in coming weeks. While both universities are considered high-risk, we consider there is a relatively low risk of these universities requiring additional financial support from the Crown, under a normal operating environment.
49. It is our intention to provide you with copies of each university's risk assessment correspondence alongside each university-specific briefing. In the interim, **Appendix 3** sets out each university's FMF ratings for each measure that was included in the annual risk letter sent to each university, to steer an initial discussion with you.

Considering 'other risk factors' - our performance expectations

We focus on six key areas when assessing overall university performance and risk...

50. The consideration of other factors and operational information helps us to assess operational, educational, management and governance risks. We assess these factors against a set of expectations that we developed and consulted on with the sector. While information on these is contained in the risk assessment process document in **Appendix 2**, the TEC's primary expectation is that universities deliver high-quality education and research outcomes for learners, industry, communities and other stakeholders in a financially sustainable manner. To achieve this, we consider a university needs:
 - a. A strong and effective governance regime that sets the institution's long-term strategic direction, holds the Vice-Chancellor to account, and ensures the institution operates in a financially responsible manner.
 - b. A strong understanding of the drivers of financial performance and a clear, achievable financial strategy that ensures ongoing financial sustainability.
 - c. A strong understanding of learner enrolments and trends that helps support financial and operating decisions to ensure high-quality outcomes for learners.
 - d. Policies and practices that ensure a university has appropriate cash reserves and liquidity to meet its financial commitments as they fall due.
 - e. A clear view of what a long-term sustainable level of debt is (if any) and what shorter-term debt levels are appropriate when compared to its financial performance.
 - f. Adequate capital asset management (CAM) systems and processes in place to enable capital assets to be managed and maintained effectively whilst ensuring individual investments and long-term priorities are aligned in the most cost-effective way to protect Crown assets.

...and consider a range of information when making our assessment

51. Our general approach to monitoring overall performance is underpinned by constructive engagement with key management staff and council representatives and, ideally, the mutual sharing of information and insights. However, we also consider:

- a. Analysis of Investment Plans, annual reports, statement of service performance or statement of performance expectations, and other institutional strategic documents;
- b. Analysis of Single Data Return (SDR) submissions and other enrolment information;
- c. Educational performance indicators;
- d. Analysis of financial reports submitted and cash/debt forecasts;
- e. Analysis of Council sub-committee and Council papers (where applicable);
- f. The results of governance self-reviews;
- g. The outputs of the FMF; and
- h. Borrowing consent applications and any agreed monitoring requirements.

Key university reports used to monitor performance

We have a well understood reporting cycle for receiving information from universities...

52. *Table 1* sets out an overview of the key reports which are used to drive our monitoring activity. There are three primary reports received from universities. The SDR is received four times per year and is the TEC's primary data source to monitor delivery and align demand with TEC funding and ensure that universities are delivering on the commitments of their Investment Plan. It is also used to measure EPIs and monitor learner demand forecasts. The TEI financial monitoring (TEIFM) returns provide an overview of in-year performance as well as forecast future performance, alongside a 10-year capital intention plan. The CAM report provides a view on how well the capital asset management processes of an organisation are working and alternates between an independent assessment and self-assessment on a bi-annual basis.

Table 1: Summary of key reporting dates that drive 'BAU' monitoring activity

Area of focus	Nature of Report	Date due to TEC (2025)
Operational	March Indicative SDR	6 March
	April SDR	29 April
	August SDR	21 August
	December SDR	Due end of Jan 2026
Financial	February TEIFM	24 February
	May TEIFM	24 May
	30 June Crown Consolidation submission.	15 July
	September TEIFM	26 September
Infrastructure	CAM reports	30 May
	Capital Intentions Plan	1 July

...and we require additional reporting where it is appropriate to manage increased risk...

53. The above table sets out the reporting that we receive annually for *all* universities and which informs our baseline risk assessments. Where universities are considered to be low-risk, we operate a relatively 'light touch' approach outside of those fixed reporting points and routine engagements. However, where universities are considered to be medium or high risk, we can require a range of additional reporting.

54. *Table 2* provides an overview of additional reporting which universities are currently subject to. This reporting has been implemented either through borrowing consent conditions, TEO-specific funding conditions, or by mutual agreement. The submission dates can vary across university to align with internal reporting commitments (in particular where they relate to council and subcommittee meetings). We can provide more detail on this as part of each university 'deep dive' if you wish.

Table 2: Additional Reporting provided to the TEC to support monitoring activity

University	Additional EFTS reporting	Borrowing Consent report	Finance Committee papers	Council papers	Independent Financial Advisor
Massey University	9(2)(b)(ii)				
Victoria University of Wellington					
University of Waikato					
Lincoln University					
University of Otago					
University of Canterbury					
Auckland University of Technology					
University of Auckland					

...to inform reporting to the TEC Board and the responsible Minister

55. The information obtained from these reports and our engagement is used by our Monitoring and Crown Ownership team to produce regular reporting on the performance of the university sector for the TEC Board and the responsible Minister. Our established reporting pattern to the responsible Minister is set out in *Table 3* and is supplemented by updates as required either via our Fortnightly Report to the Minister (for minor updates) or via standalone aide memoires or briefings (on more substantive matters).

Table 3: Established reporting pattern

	Financial	Operational	Infrastructure
Q3 (Jan-Mar)			
Q4 (Apr-Jun)	Briefing on university sector financial performance (based on Feb TEIFM return)	Enrolment update (based on March indicative SDR) Enrolment update (based on April SDR)	
Q1 (Jul-Sept)	Briefing on university sector financial performance (based on May TEIFM return)	Enrolment update (based on Aug SDR)	Overview of capital intentions plans and capital asset management capability (<i>new</i>)
Q4 (Oct-Dec)	Briefing on university sector financial performance (based on Sept TEIFM return)		

56. We have not previously provided visibility to the responsible Minister on universities' capital intentions plans and projects that are expected to be undertaken by the universities (unless there is a key link to financial sustainability risk). This is both due to the autonomous nature of universities, and that section 282 of the Act provides statutory limitations on some transactions that universities can undertake unless they obtain consent from the Secretary for Education. However, we understand this is a particular area of interest to you and we are in the process of preparing an initial briefing on the current system settings; recent major transactions; and

universities' current capital plans (through each universities standalone briefing). We also propose to provide you with an annual briefing once we receive and have analysed universities' capital intentions plans and capital asset management capability assessments, as noted in *Table 3*.

57. The table above does not cover advice on governance performance and capability, which we advise you on as part of supporting your consideration of ministerial appointments to university councils as and when vacancies arise. We are also in the process of preparing a more detailed briefing for you on this process (in support of 2025 appointments).
58. We of course operate on a no surprises basis so will discuss any developments with you on key issues as they arise.

Escalation and intervention levers

We use a graduated approach to manage risk including both legislative and non-legislative levers...

59. As noted earlier in this briefing, university councils are ultimately responsible for ensuring that universities are operating in a financially sustainable manner. The TEC's monitoring of universities however provides assurance to the Crown and the New Zealand public that the public tertiary education network is sustainable.
60. The Act provides limited statutory levers for the responsible Minister to intervene in university governance where universities are either considered to be at risk or at serious risk. However, the TEC uses a graduated approach where we also utilise engagement and both non-statutory and statutory levers to try to support the early management and mitigation of potential or actual risks, before the more serious interventions are needed. *Table 4* sets out the key levers that can be utilised to manage risks, noting that multiple levers can be used at one time:

Table 4: Summary of interventions available

Actions implemented by the chief executive of the TEC	<ul style="list-style-type: none"> • Increased engagement • Increased reporting or implementation of specific funding conditions • Specific information requests • Appointing an independent financial advisor • Undertaking a strategic review
Statutory interventions, by the responsible Minister	<ul style="list-style-type: none"> • Appointing a Crown Observer • Dissolving the Council and appointing a Commissioner

61. The TEC typically implements the above actions through either agreement with the university (e.g. to increase reporting or appoint an independent financial advisor) or through formal conditions attached to their funding. As risk increases, we typically seek more information on enrolment trends (which is a strong lead indicator) and financial performance. Depending on the level of risk, we may also seek council or council sub-committee papers (such as Finance or Risk and Assurance) to obtain an understanding of how the university is performing, what issues are being considered by governance, and how risks are being identified and subsequently managed.

9(2)(ba)(i)

...and there are three legislative interventions that can be used in the university sector

63. The statutory interventions are implemented based on an assessment that a TEI may be, or is, at risk. The assessment must be made against *Gazetted Risk Assessment Criteria*. These criteria guide assessment of the level of risk to the operation and long-term viability of universities. The Secretary for Education determines the criteria (although the Secretary must consult with TEI Councils before finalising) and must review it at least every two years.
64. Only two formal interventions exist for universities, which must be implemented by the responsible Minister. The TEC Chief Executive also has the power to request information to support the risk assessment process. These powers are set out below:
- a. **Section 288 – Institutions must provide information to the TEC if required:** If the Chief Executive of the TEC has reasonable grounds to believe that an institution may be at risk (i.e., the risk does not necessarily need to have presented itself), he may by written notice to the Council require information about the operation, management, or financial position of the institution. This power can be implemented at any time, without consultation, and can be revoked or amended at any time.
 - b. **Section 289 – Minister may appoint a Crown Observer:** if the Minister believes on reasonable grounds that the operation or long-term viability of an institution is at risk, the Minister may by written notice appoint a Crown Observer to the Council of the institution. To appoint an Observer, the Minister must first consult with the Council, advising that an Observer is being considered and give the Council an opportunity to respond. If appointed, a Crown Observer may attend any Council meeting or Council committee meeting, although the Observer does not have any voting powers and may not exercise any other powers. The Observer may, however, offer advice to the Council. The Observer may also report back to the Minister on any matter raised or discussed at Council meetings.
 - c. **Section 290 – Minister may dissolve Council and appoint a Commissioner:** The Minister may, by notice in the *Gazette*, dissolve an institution's Council and appoint a Commissioner to act in place of the Council if the Minister believes on reasonable grounds that there is a serious risk to the operation or long-term viability of the institution and other methods of reducing the risk either have failed or appear likely to fail. Before appointing a Commissioner, the Minister must consult the Council and any other interested parties over the possible need to dissolve the Council and appoint a Commissioner. As soon as the risk that gave rise to the appointment has reduced enough so that it is appropriate that the institution be administered by a Council, a new Council must be appointed.
65. Section 289 and 290 have not been utilised in the university sector, but have been several times in the institute of technology and polytechnic sector.

Next steps

66. We would like to discuss this paper with you at your earliest convenience to address any questions that you have and ensure that our anticipated cadence of future reporting is satisfactory to you.

Appendices

67. **Appendix 1** provides you with a copy our Response Framework for Educational Delivery and Performance.
68. **Appendix 2** provides you with a copy of the TEC Risk Assessment process (which also includes a summary of the FMF metrics, weightings and scoring).

69. **Appendix 3** provides you with an overview of the May 2024 FMF ratings that were communicated to universities as part of the annual risk assessment process.



Tim Fowler

Chief Executive

Tertiary Education Commission

7 February 2025



Hon Dr Shane Reti

Minister for Universities

19 / 2 / 2025
____ / ____ / ____