WHERE DOES THE MONEY GO?

Analysis of NZ universities’ financial statements

August 2022
Introduction

In early 2022 Te Hautū Kahurangi | Tertiary Education Union commissioned BERL (Business and Economic Research Limited) to provide a report on the financial position of Aotearoa’s eight universities.

The aim set out by BERL was to understand trends in universities’ financial statements through changes in:

- Operating revenue: government funding, student fees, research income
- Operating expenses: personnel expenses, including salaries and wages
- Assets: additions to property, plant and equipment

We wanted to know where the public and private investment into universities was going and identify issues that needed addressing. BERL’s analysis provides a strong starting point to talk about the salaries of staff and what TEU sees as a trend by university leaders to under-invest in staffing.

The analysis presented in this report covers the annual reports of all eight universities in Aotearoa since 2008.

BERL used the following methodology:

- Horizontal analysis – includes comparing trends in various individual variables over time, by indexing the first year (known as the base year) to 100. If the index value for the following year is 110, this indicates a 10% increase.
- Vertical analysis – includes comparing the individual components of operating revenues and expenses, as a share of total operating revenues or expenses.

TEU has committed to commissioning BERL to update this report annually as the universities continue to publish their annual reports.

One issue that TEU believes must be addressed for the sake of staff, learners and the public is for better reporting standards to be put in place in our university sector. The lack of comparability and transparency affects our ability to understand what is going on in terms of expenditure.

So, what has been going on in our universities since 2008 when it comes to revenue and spending?

Thanks to Amanda Reid, Principal Consultant and Urvashi Yadav, Analyst, for their analysis and advice to the TEU. The data used in this report was prepared by BERL but the commentary is that of TEU, unless otherwise noted.
Operating revenue in universities

Since 2008 operating revenue and expenses have increased faster than inflation.

The graph shows student numbers have been relatively stable in the time period analysed but BERL has noted that the composition of students has changed. There has been an increase in fee paying international students and a drop in domestic learners.

TEU members have continually argued against international learners being used as cash cows – it is both unethical and risky. The high-risk nature of this strategy is evidenced by the problems that arose when borders were closed due to COVID-19 responses which has led to drops in the revenue from international education across the sector.

There has been an overall change in the revenue streams in the sector following a similar trend in other English speaking nations where the costs of tertiary education have increasingly shifted to staff and learners. As can be seen in the Revenue growth by source graph, staff efforts to secure contestable research revenue and student fee revenue have grown faster than government funding.
Revenue growth, by source

To understand what has been happening to operating resources, the BERL team looked at Consumer Price Index (inflation) adjusted growth between 2008 and 2020. Their analysis showed that:

- **Total operating revenue** had grown by **25%**
- **Government funding** had grown by **16.5%**
- **Student fee revenue** had grown by **45%**
- **Research revenue** had grown by **48%**

The critical question then is where is the money going?
**Operating expenses in universities**

TEU members have repeatedly noted that they are doing more work for less and that workloads are out of hand. They also consistently express concerns about the lack of investment in staffing.

The BERL research shows that operating expenses have increased since 2008 but the slowest growth in expenditure has been on staff costs, even though staff numbers have continued to grow during this period.

Inflation adjusted growth between 2008 and 2020 illustrates the difference between the growth in operating expenses and staff costs:

<table>
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<tr>
<th>Total operating expenses</th>
<th>Personnel expenses</th>
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<td><strong>18%</strong></td>
<td><strong>7%</strong></td>
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The concerns of those working in the sector are confirmed by the annual report data.

**Expenses versus staff growth**

TEU is deeply concerned by the overall drop in expenditure on staff.
BERL note that:

Personnel expenses have fallen to 58% of all operating expenses

This share has fallen noticeably in the case of some universities.

Staff are the core investment in any human and social service, including tertiary education. In some other comparable sectors, staff expenditure makes up 65-70% of operating expenses. Yet the BERL data shows an unwillingness of university leaders to invest properly in staffing.

Average salaries in 2007/2008 have not kept up with wage inflation (Labour Cost Index). For example, at the University of Otago, in real terms, average salaries have fallen by 10% in the 13 years that the BERL data looked at. For the University of Auckland, that figure is 17%.

It is important to note that TEU has negotiated settlements in most years that reflect inflation. Following two years of nationwide action by TEU members that resulted in tripartite talks, salary increases of 7.5% in 2006 (CPI was 3.3%), 6.2% in 2007 (CPI 2.5%) and 5% in 2008 (CPI was 4.1%) were won thanks to a $61 million cash injection from the government.

The under-investment in staff is contrasted with a rise in spending on assets.

Asset expenditure in universities

It is important for our public institutions to spend money on the places where TEU members work and students learn. The analysis of the annual reports shows this spending has increased over the timeframe analysed by BERL.

- Annual changes to property, plant and equipment (PPE) including work-in-progress (WIP)
- Changes to PPE have been compared to annual operating revenue

BERL notes the most common drivers of PPE additions as:

- New buildings
- Purchase of land
- Revaluations

They also noted Lincoln University and University of Canterbury’s balance sheets were heavily impacted by the Canterbury earthquakes.
High performing, quality universities are essential as both a social good and as an economic driver of Aotearoa New Zealand. Revenue and expenses for universities have increased faster than inflation but there has not been sufficient investment in staffing in the period since 2008.

The analysis also shows that government investment in universities has dropped as a share of revenue, with more of the cost of university work put onto staff in the form of getting research revenue and learners in the form of increased fees.

We strongly urge the government, chancellors and vice chancellors to address this falling investment in staff. And to make sure that universities continue to be great places to work and study.
Please share this report with your colleagues and make sure they have joined their union.