Aide Memoire

How much New Zealand spends on tertiary education compared with other countries

To: Hon Chris Hipkins, Minister of Education  
Security Level: In Confidence  
Priority: Medium  
From: Shona Ramsay  
Date: 14 March 2019  
METIS No: 1180584  
DDI: S 9(2)(8)

Purpose

1. Following the last release of QS World University Subject rankings, and the subsequent Universities New Zealand media release citing funding comparisons with other countries, you have requested more information on how much New Zealand spends on universities compared with other countries.

Latest international funding comparisons

2. The source of international funding comparisons is OECD's Education at a Glance 2018 (EAG). The latest year available is the 2015/16 financial year. There are no funding comparisons that relate just to universities. The level usually compared – and most relevant for universities – is 'tertiary' which here relates to diploma level and above, and includes both university and non-university institutions. Comparisons include institutional expenditure on teaching and research, as well as on administration and any ancillary services. All expenditure is presented as $US adjusted for purchasing parity.

3. All comparisons (except one, noted below) relate to institutional expenditure only, so exclude public expenditure to private individuals or organisations that is spent outside of educational institutions, such as student allowances, loans for living costs, and workplace-based training. New Zealand has relatively high public funding to students that is not spent on institutions. This is important to note when making inferences about public funding relativities for institutions versus public funding relativities for tertiary education as a whole.

4. The key messages from the latest comparisons are:

- New Zealand’s institutional expenditure per student on tertiary education – including that from both public and private sources – is about the OECD average, but well below that of Australia, Canada, the UK and US.
  - The message is similar when just publicly-sourced institutional expenditure is considered, although the differences between New Zealand, Australia, the UK and US are smaller.

- New Zealand is in the bottom third of OECD countries in terms of institutional expenditure on research and development. When this expenditure is excluded from these comparisons, New Zealand’s level of expenditure per student is in the top 10, but still below that of the UK, US and Australia.

- New Zealand is in a group of countries where up to 50% or more of institutional income comes from private sources. These, mainly Anglophone
countries, typically generate more of their income from private grants and contracts, and support higher private tuition costs through well-developed government-subsidised financial support. This public-private share has now shifted with the introduction of fees-free.

- OECD also compares expenditure as a proportion of GDP, as a proxy for relative wealth, or ability to pay. On this measure, expenditure in New Zealand institutions is in the top 10, well above the OECD average, but still below that of the US, UK, Canada and Australia. When expenditure from public sources only is considered, then institutional tertiary expenditure as a proportion of GDP is at a similar level to Australia, and ahead of both the US and UK.

- This means that relative to our wealth, our overall investment in tertiary is better than average, public investment is similar to Australia, and higher than the US and UK, while private investment is lower.

- Expenditure per student relative to GDP per capita allows investment to be viewed after accounting for national wealth, as well as national demographic differences. On this measure, New Zealand is a little above the OECD average, but still below the level of the US, UK and Australia.

- The above indicators relate to institutional expenditure only. In terms of the proportion governments allocate to tertiary education from their total expenditure, including that which is spent outside institutions, New Zealand has one of the highest proportions. New Zealand ranks first in the OECD when all student lending is counted as public expenditure, or 10th when none of it is. In either case, this proportion is higher than that of Australia, the US and UK.

5. While these 2015/16 comparisons are now three years old, the messages around New Zealand’s relative position in OECD tertiary funding comparisons have remained unchanged since 2010.

6. University income (when adjusted for CPI) has increased by 16% between 2010 and 2017, and by 20% when considered on a per EFTS basis. Since 2015/16, New Zealand’s universities have received increased funding due to a range of Budget initiatives, through both Vote Tertiary Education and through Vote Business, Science and Innovation, including:

- Targeted increases to tuition subsidy rates for a range of science-based fields at degree-level and above in Budgets 2015, 2016 and 2017
- Increasing the Performance-Based Research Fund (PBRF) by $15m from 2018, and increases to the MBIE-administered Endeavour Fund
- A 1.6% increase to tertiary tuition and training subsidies from the start of 2019.

7. We do not expect these funding initiatives to have had a material impact on the position of New Zealand’s universities in the comparisons outlined above, although the First-Year Fees-Free initiative will see an increase in the public share of this funding, by substituting with fees paid by students.
Proactive Release

It is intended that this aide Memoire is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Agree / Disagree

Hon Chris Hipkins
Minister of Education

28/3/19
Annex: More detail on international tertiary expenditure comparisons

8. Institutional expenditure per student is just below the OECD average, while expenditure on R&D is in the bottom third of countries. Australia, Canada, the UK and US all spend noticeably more per student than New Zealand. These figures count both public and private sources of institutional funding, but they don’t count public or private spending outside of institutions. When R&D expenditure is excluded, New Zealand’s level of expenditure is in the top 10, but still below that of UK, US and Australia. Our relative position in the middle of OECD countries hasn’t changed much in the last decade.

**Annual expenditure per student by educational institutions - diploma level and above (2015)**

9. Across the OECD, 73% of expenditure on tertiary institutions came from public sources. In New Zealand, tertiary institutions received 52% of their funding from public sources and 49% from private sources, most of which was from students. Of this, around 21% is subsided through funding from government, mostly as student loans. This public-private share will shift with the introduction of fees-free.

**Sources of tertiary funding to educational institutions (2015)**
10. Tertiary expenditure indicators relative to the size of country economies (as proxied by GDP), are designed to indicate the degree that countries invest according to their ability to pay. At 1.7%, combined expenditure from public and private sources on tertiary education in New Zealand institutions as a percentage of GDP was in the top 10 in the OECD, well above the OECD average, but below that of the US, UK, Canada and Australia.

Annual expenditure on education institutions at diploma level and above, as a percentage of GDP (2015)

11. Publicly sourced institutional expenditure (including loans paid to students for tuition) as a proportion of GDP was 1.3%, again placing New Zealand in the top 10, at a similar level to Australia, and ahead of both the US and UK at 1.0%.
12. Spending per student relative to GDP per capita allows investment to be viewed after accounting for both differences in relative national wealth, as well as national demographic differences. On this measure, at 41%, New Zealand sat above the OECD average, but below the level of the US, UK and Australia.

Annual expenditure per student by education institutions (including R&D) at diploma level and above, as a percentage of GDP per capita (2015)

13. In terms of the proportion governments allocate to education from their total expenditure, New Zealand sits 10th in this measure (when loans are not counted), well above Australia, US and UK. When loans are counted (every dollar lent counted as a dollar spent), New Zealand ranks first in the OECD. While no consistent comparisons exist on fair public value of lending, the data suggests that the proportion of total public expenditure that New Zealand allocates to tertiary education is one of the highest in the OECD, and higher than that of Australia, US and UK.

Total public expenditure on tertiary education as a percent of total public expenditure (2015)
Traditionally, OECD countries can be broadly put into four groups. New Zealand is in a group of countries including Australia, the US, Canada and the UK with relatively high tuition fees and high levels of financial support. Some of the Nordic countries form a group with low tuition fees and high financial support, while most of the other European countries have relatively low tuition fees and low financial support. A fourth group with high tuition and low financial support features Chile, (Japan and Korea have featured in this group in past editions).

**Average bachelor level tuition fees in public tertiary education institutions and available public financial support (2014)**

*Note: New Zealand not included in source Education at a Glance graph, but added for this analysis.*
15. While these 2015/16 comparisons are now three years old, the messages around New Zealand’s relative position in OECD tertiary funding comparisons have remained unchanged since 2010. Since 2015/16, New Zealand’s universities have received increased funding due to a range of Budget initiatives, through both Vote Tertiary Education and through Vote Business, Science and Innovation. University income (when adjusted for CPI) has increased by 16% between 2010 and 2017, and by 20% when considered on a per EFTS basis. The First-Year Fees-Free initiative will see a shift in public share of funding on universities, substituting with fees paid by students. However, we do not expect these funding initiatives to have had a material impact on the overall position of New Zealand’s universities in these OECD comparisons.

**Real university income total and per EFTS 2010-2018 (in 2010 dollars)**

![Graph showing real university income total and per EFTS 2010-2018](image-url)