Universities Overview

There are ten universities established under State legislation providing higher education in New South Wales:

- Charles Sturt University (CSU)
- Macquarie University (MU)
- Southern Cross University (SCU)
- The University of Sydney (TUS)
- University of New England (UNE)
- University of New South Wales (UNSW)
- University of Newcastle (UN)
- University of Technology, Sydney (UTS)
- University of Western Sydney (UWS)
- University of Wollongong (UW).

AUDIT OPINION

The audits of all ten universities' 2007 financial reports resulted in unqualified Independent Auditor's Reports.

PERFORMANCE INFORMATION

Financial Performance

Six of the State's ten universities meet the four Australian benchmarks for university financial performance.

The liquidity of three universities is marginally below the benchmark range. The University of New South Wales recorded the only operating loss and the University of New England is the most reliant on Australian Government funding.

The Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) has identified a number of benchmark indicators for the financial performance of universities. These measures include liquidity, diversity of revenue, employee benefits and on-costs, and operating result. The following table summarises each university's performance at 31 December 2007 against these benchmarks.

University	DEEWR Benchmark Achieved			
	Liquidity – current ratio between 1.5 and 3.0	Australian Government grants not more than 50% of total operating revenue	Employee benefits & on-costs between 50% - 70% of total operating revenue	Positive operating result as percentage of total operating revenue
Charles Sturt	Yes	Yes	Yes	Yes
Macquarie	Yes	Yes	Yes	Yes
Southern Cross	No	Yes	Yes	Yes
Sydney	Yes	Yes	Yes	Yes
New England	No	No	Yes	Yes
New South Wales	No	Yes	Yes	No
Newcastle	No	Yes	Yes	Yes
Technology, Sydney	Yes	Yes	Yes	Yes
Western Sydney	Yes	Yes	Yes	Yes
Wollongong	Yes	Yes	Yes	Yes

A 'No' result indicates the university did not meet the DEEWR benchmark and is performing outside its general better practice guideline. These are discussed in further detail below.

The criteria and calculation of these benchmarks are presented in the aggregated tables on pages 21 to 23 of this overview.

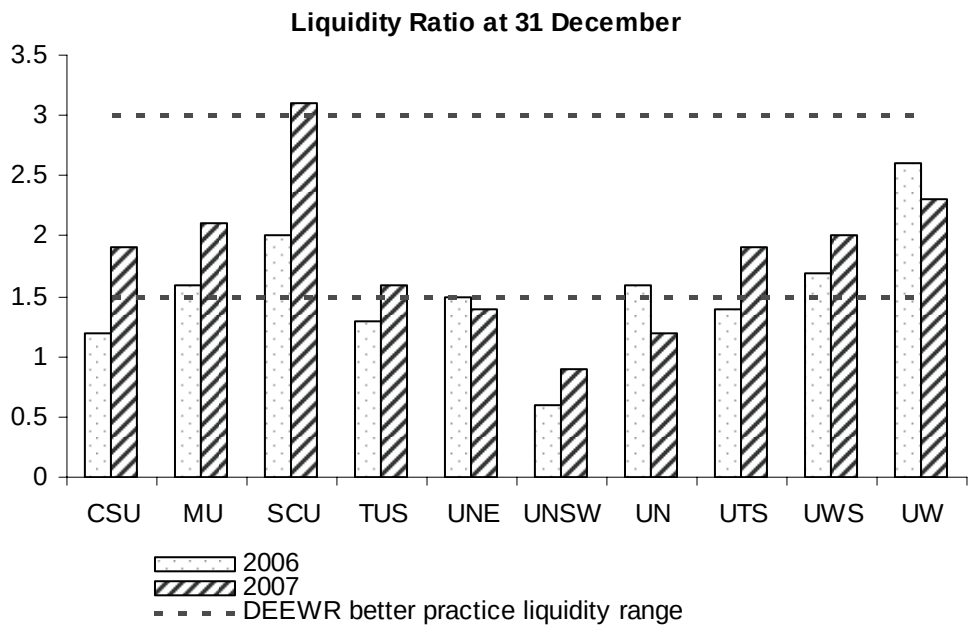
Liquidity

For 2007, three universities did not meet the DEEWR benchmark. DEEWR considers a liquidity ratio of less than 1.5 as being below its general better practice guidelines. Southern Cross University marginally exceeded DEEWR's upper benchmark of three. Southern Cross University advised us that it has a significant capital works program which will result in the ratio returning to within the better practice range.

DEEWR's benchmark current ratio is based on the traditional formula of current assets divided by current liabilities. Because the definition of current liabilities has changed significantly under Australian Accounting Standards, we have adjusted the balance reported in each university's financial report to present a more useful measure of their liquidity. The adjustment also allows us to present a ratio that is more consistent with DEEWR's benchmark liquidity measure.

Australian Accounting Standards require an entity to report all unconditional liabilities as current irrespective of when it expects to settle these liabilities. We have excluded long service leave except for what is expected to be settled in the next 12 months.

The graph below depicts the trend in all New South Wales universities' liquidity ratios over the past two years.



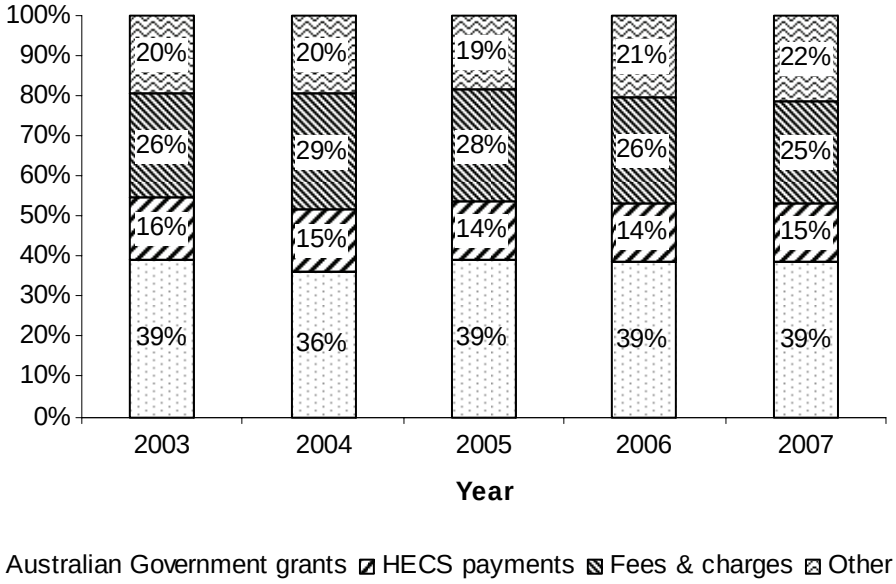
However, another DEEWR guideline, the Annual Institutional Assessment Framework, suggests a current ratio of more than one is low risk, between 0.75 and one is medium risk, and less than or equal to 0.75 is high risk. Using this benchmark, none of the universities would be considered high risk.

Diversity of Revenue

One way universities can reduce their financial risks is by diversifying their revenue sources. Each university has a different capacity to generate revenue. Their ability to do so depends on factors such as location, size, perceived standing and student profiles.

The breakdown of total university revenue is shown below:

Sources of Revenue - at 31 December



Australian Government grants and HECS have remained fairly constant over the last five years. The declining trend in fees and charges has been offset by increases in other income. A further dissection of revenue is shown below.

	2003 $m	2004 $m	2005 $m	2006 $m	2007 $m
Australian Government grants	1,466	1,421	1,669	1,823	*1,957*
HECS	591	604	615	679	*738*
Fees and charges					
- Student fees - Domestic	170	163	172	177	*187*
- Student fees - Overseas	612	661	715	728	*794*
- Consultancy and contracts	191	215	230	260	*267*
Total fees and charges	973	1,039	1,117	1,165	*1,248*
Other income					
- Investment income	110	143	159	230	*283*
- Other	630	715	728	805	*849*
Total other income	740	858	887	1,035	*1,132*
Total operating revenue	3,770	3,922	4,288	4,702	*5,075*

Total operating revenue increased by 35 per cent over the last five years. The major source of revenue is Australian Government grants which increased by 33 per cent since 2003. DEEWR expects Australian Government grants to be not much more than 50 per cent of operating revenue. All universities except the University of New England continued to achieve this expectation.

In 2007, the Australian government announced its major policy initiatives that included the phasing out of domestic undergraduate full fee paying places from 1 July 2009. Revenue from full fee paying domestic students rose ten per cent over the last five years. For 2007, these fees were four per cent of total operating revenue.

Fees and charges increased by 28 per cent over the last five years. Revenue from fee-paying overseas students has increased by 30 per cent over the last five years. For individual universities, revenue from fee-paying overseas students as a percentage of total operating revenue ranged from five per cent to 27 per cent for 2007.

Since 2003 there has been a 40 per cent increase in consultancy and contracts revenue. In the same period other income increased by 53 per cent with investment income rising by 157 per cent.

Employee Benefits and On-Costs

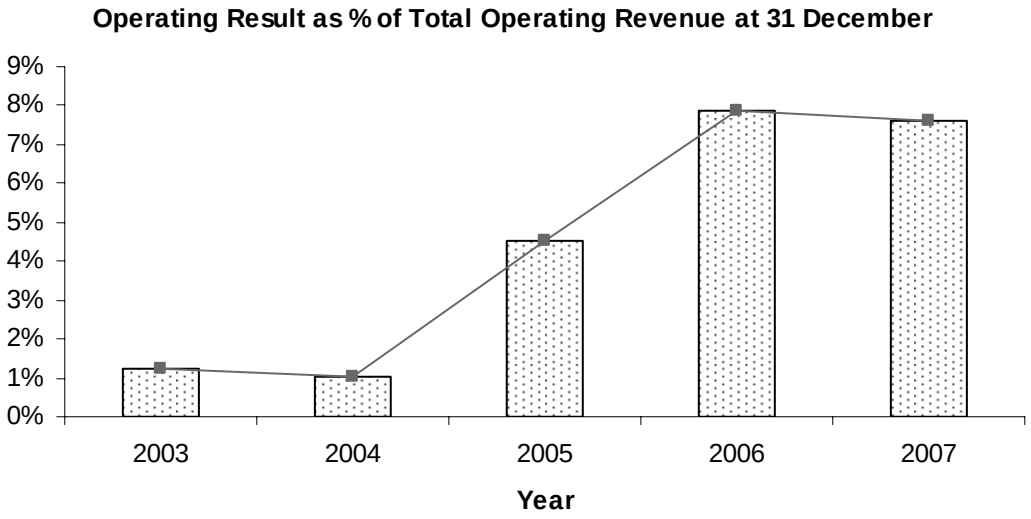
DEEWR monitors the ability of universities to meet essential needs by measuring employee benefits and on-costs as a percentage of total revenue. All ten universities had employee benefits and on-costs within DEEWR's good practice benchmark of 50 per cent to 70 per cent. Universities ranged between 51 per cent for the University of Sydney to 60 per cent for the University of Western Sydney.

Operating Result

Although universities are not-for-profit organisations, DEEWR considers the operating result a useful measure of financial performance.

Universities had a combined surplus of $386 million in 2007 ($370 million in 2006). More information on their performance is included in individual university comments within this Volume.

The graph below illustrates the trend in operating result as a percentage of total operating revenues over the past five years. Nine universities reported a surplus for 2007 (all reported surpluses in 2006). Half the universities improved their results with the biggest improvement in percentage terms being Macquarie University at 246 per cent. This was primarily due to assets being transferred from preceding student organisations. The University of New South Wales was the only University to record a loss, of $6.5 million. This was primarily attributable to the closure of its educational services controlled entity in Singapore (UNSW Asia) and provisioning for other possible employment related taxes and superannuation obligations.



As a proportion of operating revenues, the 2007 surpluses ranged from two per cent (University of New England) to 14.3 per cent (The University of Sydney). The increase in overseas student fees and favourable investment performance are the primary factors contributing to the improvement in the universities' operating results over the past five years.

Operational Performance

New South Wales universities' student to academic ratio of 26.7 is the third highest of any jurisdiction. New South Wales university ratios ranged from 20.3 for the University of New South Wales to 35.5 for Southern Cross University. Some universities have expressed concern that this ratio is misleading as it includes students enrolled with partner organisations but not teaching staff of those organisations. Accordingly, the information included within this report should be considered within this context.

The ratio of equivalent full-time (EFT) students to full-time equivalent (FTE) academics (excluding staff not involved in teaching) is one indicator of education quality. From a student academic perspective, the lower the ratio the better. However, from a financial viewpoint, a lower ratio may translate into higher total salaries and related costs. This may adversely impact financial performance benchmarks.

At the date of preparing this Report, DEEWR statistics for 2007 were not available. Statistics for 2006 show the ratio for more than half of Australia's university jurisdictions increased. New South Wales universities in aggregate recorded the third highest ratio of all jurisdictions (also third highest in 2005 and 2004).

Jurisdiction	Number of Universities	EFT Students	FTE Academics	Student : Academic Ratio		
		2006	2006	2006	2005	2004
New South Wales	10	*201,563*	*7,532*	*26.7*	25.7	26.0
Victoria	8	*182,106*	*6,788*	*26.8*	26.2	26.5
Queensland	7	*131,289*	*4,762*	*27.6*	28.0	29.1
South Australia	3	*48,756*	*1,970*	*24.7*	24.5	25.4
Western Australia	5	*71,006*	*2,731*	*26.0*	25.5	25.3
Tasmania	1	*13,267*	*537*	*24.7*	24.3	25.6
Northern Territory	1	*3,081*	*173*	*17.8*	18.6	16.8
Australian Capital Territory	2	*18,210*	*898*	*20.3*	22.1	22.3

Source: Australian Government Department of Education, Employment and Workplace Relations.

Aggregated Results of Operations, Financial Position and Performance Indicators

As in previous years we have eliminated deferred income and deferred expenses for superannuation from the tables.

As mentioned previously in this Report, the Australian Accounting Standards require an entity to report all unconditional liabilities as current irrespective of when it expects to settle the liability. We have excluded long service leave except for what is expected to be settled in the next 12 months.

The tables on the following pages aggregate the results of operations, financial positions and performance indicators for the universities and their controlled entities.

PERFORMANCE INFORMATION

	Charles Sturt		Macquarie		Southern Cross		Sydney	
	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m
Abridged Income Statements (year ended 31 December)								
Total revenue	*297.7*	257.3	*463.0*	415.7	*141.3*	119.6	*1,304.7*	1,211.0
Total expenses	*265.8*	240.8	*408.4*	399.9	*125.2*	114.3	*1,117.5*	1,020.5
Outside equity interest/other	--	--	--	--	--	--	--	0.1
Operating result	*31.9*	16.5	*54.6*	15.8	*16.1*	5.3	*187.2*	190.6
Abridged Balance Sheets (at 31 December)								
Total assets	*669.1*	642.5	*1,386.9*	1,229.5	*221.1*	209.7	*3,846.7*	3,778.9
Total liabilities	*125.8*	138.4	*254.7*	281.3	*38.5*	43.3	*616.5*	654.4
Net assets	*543.3*	504.1	*1,132.2*	948.2	*182.6*	166.4	*3,230.2*	3,124.5
Performance Indicators (at 31 December)								
Current ratio **(a)**	*1.9*	1.2	*2.1*	1.6	*3.1*	2.0	*1.6*	1.3
Australian Government grants as a % of total revenue **(b)**	*46.0*	41.2	*26.2*	28.3	*46.3*	45.5	*37.2*	38.2
HECS as a % of total revenue **(b)**	*20.0*	22.7	*12.1*	12.3	*21.2*	22.2	*9.8*	10.2
Fees and charges as a % of total revenue **(b)**	*16.1*	17.5	*43.0*	45.3	*14.5*	15.5	*19.5*	18.4
Employee Benefits and on-costs as a % of total revenue **(c)**	*57.2*	58.3	*51.7*	57.0	*53.1*	57.3	*51.3*	49.0
Operating result as a % of total revenue **(d)**	*10.7*	6.4	*11.8*	3.8	*11.4*	4.4	*14.3*	15.7
Student numbers – EFT *	*nya*	19,159	*nya*	20,788	*nya*	8,870	*nya*	35,582
Students per academic*	*nya*	33.9	*nya*	28.9	*nya*	35.5	*nya*	22.6

Key: All data except 'Student numbers' and 'Students per academic' are based on the universities' financial reports. They reflect the key indicators set out in the February 2000 Department of Education, Employment and Workplace Relations publication 'Benchmarking: A Manual for Australian Universities'. That publication considers:

(a) Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.

(b) Diversity of Revenue – Universities should reduce financial risks from reduction or failure of an income source by having three or four major income sources with none below five per cent for any one source and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

(c) Employee Benefits and on-costs as a percentage of Total Operating Revenue – Good practice is between 50 per cent and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue – The essence of good practice is to have a reasonable safety margin that should be positive other than in exceptional years, the rationale for which should be reported in the university's annual report.

***** Source: Australian Government Department of Education, Employment and Workplace Relations: Publications – Higher Education Statistics Collection. The academic numbers represent 'Teaching Only' and 'Teaching and Research'.

nya Not yet available.

	New England		New South Wales		Newcastle		Technology, Sydney	
	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m
Abridged Income Statements (year ended 31 December)								
Total revenue	*205.9*	192.9	*1,010.5*	948.3	*415.0*	383.7	*464.0*	426.1
Total expenses	*201.8*	189.7	*1,016.8*	932.5	*392.8*	348.2	*426.8*	408.4
Outside equity interest/other	*--*	--	*(0.2)*	--	*--*	0.4	*0.6*	1.3
Operating result	*4.1*	3.2	*(6.5)*	15.8	*22.2*	35.9	*37.8*	19.0
Abridged Balance Sheets (at 31 December)								
Total assets	*368.8*	379.4	*2,136.0*	1,952.5	*975.0*	970.0	*1,239.6*	1,143.4
Total liabilities	*135.9*	155.2	*736.0*	721.2	*218.3*	240.3	*280.8*	337.9
Net assets	*232.9*	224.2	*1,400.0*	1,231.3	*756.7*	729.7	*958.8*	805.5
Performance Indicators (at 31 December)								
Current ratio **(a)**	*1.4*	1.5	*0.9*	0.6	*1.2*	1.6	*1.9*	1.4
Australian Government grants as a % of total revenue **(b)**	*51.1*	47.4	*38.3*	39.0	*42.7*	42.8	*32.3*	31.7
HECS as a % of total revenue **(b)**	*19.0*	19.5	*10.1*	9.6	*17.5*	16.3	*17.7*	17.6
Fees and charges as a % of total revenue **(b)**	*20.4*	23.4	*30.7*	30.1	*18.1*	19.5	*33.9*	36.7
Employee Benefits and on-costs as a % of total revenue **(c)**	*55.9*	58.7	*55.1*	58.5	*53.3*	51.7	*55.1*	57.5
Operating result as % of total revenue **(d)**	*2.0*	1.7	*(0.6)*	1.7	*5.3*	9.4	*8.2*	4.5
Student numbers EFT *	*nya*	9,174	*nya*	27,289	*nya*	17,804	*nya*	23,090
Students per academic*	*nya*	22.4	*nya*	20.3	*nya*	28.9	*nya*	30.7

Key: All data except 'Student numbers' and 'Students per academic' are based on the universities' financial reports. They reflect the key indicators set out in the February 2000 Department of Education, Employment and Workplace Relations publication 'Benchmarking: A Manual for Australian Universities'. That publication considers:

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(d) Operating Result as a percentage of Total Operating Revenue – The essence of good practice is to have a reasonable safety margin that should be positive other than in exceptional years, the rationale for which should be reported in the university's annual report.

***** Source: Australian Government Department of Education, Employment and Workplace Relations: Publications – Higher Education Statistics Collection. The academic numbers represent 'Teaching Only' and 'Teaching and Research'.

nya Not yet available.

	Western Sydney		Wollongong		Total	
	2007 $m	2006 $m	2007 $m	2006 $m	2007 $m	2006 $m
Abridged Income Statements (year ended 31 December)						
Total revenue	*422.5*	405.9	*350.1*	341.2	*5,074.7*	4,701.7
Total expenses	*392.8*	363.1	*341.1*	316.7	*4,689.1*	4,334.0
Outside equity interest/other	*--*	--	*0.1*	0.5	*0.6*	2.2
Operating result	*29.7*	42.8	*9.1*	25.0	*386.2*	369.9
Abridged Balance Sheets (at 31 December)						
Total assets	*1,010.5*	879.4	*687.0*	681.8	*12,540.7*	11,867.1
Total liabilities	*143.7*	150.1	*156.9*	168.0	*2,707.1*	2,890.1
Net assets	*866.8*	729.3	*530.1*	513.8	*9,833.6*	8,977.0
Performance Indicators (at 31 December)						
Current ratio **(a)**	*2.0*	1.7	*2.3*	2.6	*1.6*	1.4
Australian Government grants as a % of total revenue **(b)**	*45.2*	44.3	*38.9*	41.4	*38.6*	38.8
HECS as a % of total revenue **(b)**	*27.4*	26.3	*15.1*	13.8	*14.5*	14.4
Fees and charges as a % of total revenue **(b)**	*14.9*	17.3	*32.7*	32.7	*25.3*	25.9
Employee Benefits and on-costs as a % of total revenue **(c)**	*60.0*	55.1	*56.5*	52.0	*54.3*	54.4
Operating result as % of total revenue **(d)**	*7.0*	10.6	*2.6*	7.3	*7.7*	7.9
Student numbers EFT *	*nya*	23,948	*nya*	15,859	*nya*	201,563
Students per academic*	*nya*	33.35	*nya*	27.2	*nya*	26.7

Key: All data except 'Student numbers' and 'Students per academic' are based on the universities' financial reports. They reflect the key indicators set out in the February 2000 Department of Education, Employment and Workplace Relations publication 'Benchmarking: A Manual for Australian Universities'. That publication considers:

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(c) Employee Benefits and on-costs as a percentage of Total Operating Revenue – Good practice is between 50 per cent and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue – The essence of good practice is to have a reasonable safety margin that should be positive other than in exceptional years, the rationale for which should be reported in the university's annual report.

***** Source: Australian Government Department of Education, Employment and Workplace Relations: Publications – Higher Education Statistics Collection. The academic numbers represent 'Teaching Only' and 'Teaching and Research'.

nya Not yet available.

OTHER INFORMATION

Our audits highlighted opportunities for universities to improve internal controls. These opportunities have been identified in letters we have issued or will be issuing to university management. We refer to more significant items in individual university comments within this Volume.

Controlled Entities

> We recommend that universities review the need for separate entities to conduct their business with a view to reducing the number required. Compliance costs and governance risks are increasing and university resources would benefit from eliminating unnecessary entities.

At 31 December 2007, the universities controlled 124 separate entities as shown in the following table.

University	Incorporated in Australia			Incorporated Overseas			Total
	Operational	Dormant*	Total	Operational	Dormant*	Total	
Charles Sturt	8	--	8	--	--	--	8
Macquarie	25	1	26	--	--	--	26
Southern Cross	3	--	3	--	--	--	3
Sydney	4	4	8	--	--	--	8
New England	7	--	7	--	--	--	7
New South Wales	15	8	23	8	1	9	32
Newcastle	7	1	8	1	--	1	9
Technology, Sydney	3	1	4	4	--	4	8
Western Sydney	11	1	12	--	--	--	12
Wollongong	8	--	8	3	--	3	11
Total	91	16	107	16	1	17	124

* Dormant entities are defined as those with no activity during this financial year.

For financial reporting purposes these entities are consolidated into the financial reports of universities. Each entity is required under legislation to prepare a financial report each year and have it audited. Costs involved in complying with legislative requirements are increasing and can be significant. The requirements are not reduced for entities with few or no operations. A dormant company is still required: to prepare a financial report that complies with all appropriate accounting standards; have it audited in compliance with auditing and accounting standards; and ensure other legislative requirements are met. Universities need to consider the need for separate entities due to the compliance costs involved.

Universities are exposed to risks from the operations of controlled entities. It is therefore essential that universities have in operation an effective corporate governance framework. This framework would include regular reporting by controlled entities to university finance and audit committees on operations, financial performance, risk and fraud management and compliance with legislation. We assist the universities in their governance role by providing them with the results of our audit for each controlled entity. In recent years we have noted an overall improvement in the level of governance operated by universities over their controlled entities. It is an area that universities need to continually monitor and improve in order to reduce risks created from controlled entities, especially those incorporated overseas. Last year we reported that generally universities complied with the Australian Government's National Governance Protocols for higher public education institutions for overseeing commercial activities.

Pre-Retirement Employment Contracts

> We recommend management liaise with the Commonwealth Department of Education, Employment and Workplace Relations on the extent of utilising pre-retirement employment contracts with the University's employees.

Six universities have utilised pre-retirement employment contracts from time to time to allow the university and the employee to agree that the employee will give up their status as a continuing employee and enter into a fixed-term contract prior to the employee's retirement. The employee's employment with the universities will end on the expiration of the contract. In return for agreeing to enter into this contract the employee receives a salary loading.

Fixing the employee's retirement date assists universities with succession planning. Employees are encouraged to seek superannuation advice when contemplating entering into a pre-retirement contract.

It is common for the employees on pre-retirement contracts to be members of New South Wales Public Sector defined benefit superannuation funds. When the universities pay a salary loading under these pre-retirement contracts, it results in higher superannuation benefits to the employees. Funding of these defined benefit superannuation funds is the responsibility of the Australian Government.

Non-Current Physical Assets and Capital Works

There is inconsistency in reporting property, plant and equipment asset values by universities. Details at 31 December 2007 were:

University	Measurement Basis	Land Gross Value $m	Buildings Gross Value $m	Capital Expenditure Commitments $m
Charles Sturt	Fair Value	*45.8*	*366.2*	*29.9*
Macquarie	Fair Value	*364.3*	*427.4*	*164.4*
Southern Cross	Cost	*11.8*	*125.1*	*0.2*
Sydney	Non Commercial – Cost	*170.5*	*977.4*	*120.6*
	Commercial – Fair Value	*53.6*	*77.3*	*13.8*
New England	Fair Value	*18.6*	*365.4*	*10.0*
New South Wales	Fair Value	*234.2*	*1,688.9*	*126.5*
Newcastle	Fair Value	*35.2*	*617.7*	*5.1*
Technology, Sydney	Fair Value	*350.1*	*1,017.8*	*9.9*
Western Sydney	Fair Value	*353.5*	*343.4*	*15.8*
Wollongong	Cost	*61.1*	*322.6*	*43.0*
Total		*1,698.7*	*6,329.2*	*539.2*

Three universities continue to measure their major non current physical assets using the cost basis. Whilst there is no prohibition against using the cost method, an inconsistent measurement basis across the universities is not desirable as it diminishes comparability.

Capital expenditure commitments reported in 2007 are $539 million. A majority of the universities have significant capital programs over the next few years. The capital expenditure programs are designed to primarily meet the following:

- improve infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities.

The source of funding for these capital programs includes:

- cash flows from operating activities
- Australian Government grants
- Non-government grants
- sale of excess university property
- negotiated public private partnerships
- financing arrangements.

Impact of Voluntary Student Unionism (VSU) on Universities

Voluntary Student Unionism (VSU) came into effect in July 2006 and is governed by the *Higher Education Support Act 2003*. Under the Act, higher education providers cannot require a student to be a member of a student association, union or guild; and/or a person to pay a compulsory fee for facilities, amenities or services that are not of an academic nature.

This financial year marked the first full year without compulsory union fees. Some universities received grants from the VSU transition fund however these funds provided only short term relief to the student unions. In addition to these grants, the universities used other methods of funding student union activities, including:

- donations
- taking over operations of student union associations
- writing off student union association loans
- provision of rent free accommodation for student union occupied buildings.