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What the UWA annual report reveals

The past reliance on international onshore student fees, holding substantial cash or cash equivalents and building substantial infrastructure should not be incorporated into any future strategy

by **JAMES GUTHRIE**

The University of Western Australia has announced staff cuts to deal with a $40m structural deficit – the university's recently released annual report creates a context for discussing this.

Several observations first concerning the so-called $40 million in "structural cost cuts", which involves cuts to academic and professional staff. A structural deficit exists when an organisation spends more than it receives. The University of WA has spent a lot on infrastructure, student accommodation and general campus improvements. Also, other expenses have increased significantly, and these are the line-items in the revenue statement after employee-related expenses.

I am surprised that the university executive wishes to create a 15 per cent cash margin by 2025. They already have roughly $1bn in cash or cash equivalent investments. In the business world, we could call this rate of return. Why build up such an investment pool at the expense of ongoing academic and professional staff employees who are the human capital which drives the teaching, research, and student experiences?

Internally Australian public universities operate on cash flows cash in and cash out (see John Howard's Rethinking Australian Higher Education (https://www.uts.edu.au/research-and-teaching/our-research/centre-business-and-social-innovation/news/rethinking-australian-higher-education)).

The Federal Government pays in cash, and the local students pay in cash by the HECS-HELP programme, and the international onshore students pay in cash. The University of WA would have prepared internal budgets on a cash basis over a three to five-year timeframe. However, they are required by law to report publicly on their financial position on an accrual basis in audited financial statements and a cash flow statement.

Let us now turn to the annual report in more detail. The university highlights results regarding the reconciliation from operating result to underlying result. This is not a formal accounting statement and is not audited but rather some internally generated statement that includes one-off or restricted items. For instance, the recognition of grants for research ($23.7m); however, the expenditure on research would show as an operating expense?

The following Table from the annual report highlights that the statutory operating result is $55m. This is understated because of the non-cash expenses, such as depreciation. As expressed elsewhere, I am surprised depreciation is used, as nearly all the assets ($1.4 bn) would have been gifted by capital grants, and it is only in recent times that the university has borrowed for its expansionary infrastructure programme.

Depreciation expenses have increased $4.5m to nearly $55m. If you accept the argument about the depreciation of buildings and infrastructure being a capital grant gift then operating results would be much higher.

The underlying result has been adjusted for several items, including capital grants and research grants and records a ($2.4m) loss. The focus should be on consolidated operating results and not some other calculative practices such as underlying results with no accounting standard or practice guides on how to construct.

Reconciliation from operating result to underlying result

	2020	2019	2018	2017	2016	2015	2014	2013
	$M	$M	$M	$M	$M	$M	$M	$M
Consolidated operating result	**55.1**	**121.0**	**29.1**	**81.8**	**25.9**	**33.1**	**91.7**	**124.8**
Less subsidiaries	3.0	(9.3)	(0.5)	(0.4)	(0.1)	(0.7)	(0.5)	(0.0)
University operating result	**58.1**	**111.7**	**28.6**	**81.4**	**25.8**	**32.4**	**91.2**	**124.8**
Adjusted for:								
Gifted funds and capital grants	(44.6)	(108.3)	(9.5)	(88.5)	(44.3)	(54.4)	(60.1)	(95.1)
Investment funds and reserves	5.7	20.0	4.0	1.1	(3.2)	(1.5)	(12.7)	(20.5)
Research and other specific grants	(23.7)	(32.4)	(12.3)	14.3	(4.4)	2.5	(2.5)	(8.0)
Extraordinary items*	2.1	6.0	–	9.8	24.3	17.0	–	_
Underlying result	**(2.4)**	**(3.0)**	**10.8**	**18.0**	**(1.8)**	**(4.0)**	**15.9**	**1.2**

Now, turning to reductions in revenue, the annual report noted that "overall, the University (excluding subsidiaries) recognised $22m reductions in international student revenue and commercial income as a direct result of COVID-19 and incurred additional one-time costs in response to the pandemic of $5 million." However, my calculations indicate that international student fees only dropped about $11m, and therefore there were about $11m losses in commercial income.

A big loss-maker for the university was the drop in net fair value gains / (losses) on investment portfolios and other financial assets from 2019 $87.270m to 2020 $25.11m, which is $60.4m compared to the $11 million reductions in international onshore student fees.

Turning to infrastructure, the annual report notes that "during 2020 the university spent $28m ($47m in 2019) on major capital projects. Total capital expenditure for campus management in 2020 was $36m ($57 m in 2019)." However, this spend in 2019 included a substantial amount associated with constructing the $80m million transformational EZONE Student Hub project, which commenced in April 2018 and was completed in April 2020; also, the student accommodation, most probably paid with cash from commercial loans.

Turning to the number of people who lost employment by UWA in 2020; from the Universities Charities Commission report data below, we have a headcount of 3917, including casuals at the end of 2020. From the 2019 data, we had a headcount of 4473, therefore a loss of 556 employees during the period. The UWA annual report 2020 Table 5 disclosed 3,390.8, but these are full-time equivalent staff, not headcount.

UWA charities commission 2020

* Full-time employees: 2631

* Part-time employees: 1245

* Casual employees: 469

* a headcount 3,917

* Full-time equivalent staff (FTE): 3,331

Over the last decade, there was a significant increase in executive, including the VC, but only a minor increase for all staff (excluding the high executive pay rises). The UWA 2020 annual report notes to the financial statements, identifying employees who received over $500,000 (more than twice a senior professor's salary). We can see that in 2019 there were six executives, and this had dropped four in 2020. As Vice Chancellor Chakma started on July 1 2020 we cannot determine his salary. However, the previous VC received over $1m in salary benefits in 2019. The premier of Western Australia salary is reported to be $355,681.

These levels of remuneration are an anomaly internationally. They are around twice those of executives in the United Kingdom at comparable universities. (Smith, T. and Guthrie, J. (2020), 'What VCs are paid in the great state of NSW', *Campus Morning Mail*, 11 November 2020

Turning to the third accounting statement, Statement of Cash Flows indicates a positive $127m million, I note that there has been an increase of cash and cash equivalents for the year of over $42m.

In conclusion, in teaching accounting 101 for several decades, I always argued that Cash is King, and for Australian public sector universities, we should look to for performance and operations.

In the 2020 annual report, we have several numbers such as $40 m in "structural cost cuts", consolidated operating result of $55.1m, underlying result ($2.4m), cash flows positive of $127 million. Which one are we to accept in cutting courses and subjects and making redundant the most crucial element of the university: its human capital?

The past reliance on international onshore student fees, holding substantial cash or cash equivalents and building substantial infrastructure should not be incorporated into any future strategy. As I have argued (https://campusmorningmail.com.au/news/universities-must-plan-and-budget-for-the-public-good/) in CMM, this wholesale loss of public university employment via sackings and voluntary redundancies and reducing casual workforces should stop.

Distinguished Professor James Guthrie AM, Macquarie U Business School

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