



**OECD IMHE-HEFCE PROJECT ON  
INTERNATIONAL COMPARATIVE HIGHER EDUCATION  
FINANCIAL MANAGEMENT AND GOVERNANCE**

**FINANCIAL MANAGEMENT AND GOVERNANCE IN HEIS:  
AUSTRALIA**

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## CONSTITUTIONAL POSITIONS

### Legal Status of Universities

1. The Australian higher education system has some unique characteristics compared to other countries in the OECD. It is essentially a national system with mostly public and relatively homogenous universities. Almost all of the higher education provision is through universities and each of them seeks to provide a comprehensive range of courses and engage in research. There are 39 universities, including 2 private universities – University of Notre Dame and Bond University; 3 other self-accrediting higher education institutions; and about 85 other private higher education providers. Of the public universities, 5 are dual sector (higher education, and vocational education and training) institutions – 4 in the State of Victoria and 1 in Northern Territory. More details are provided at [Appendix 1](#). The private providers are mainly theological colleges and those with specialist interest in particular vocational or artistic fields. The private providers, although large in number, account for only 3% of higher education students.

2. The Commonwealth Government has limited constitutional power in relation to the higher education system. Under the Australian Constitution, the Federal Parliament has no legislative powers in the areas of education, higher education and universities. These are the responsibilities of the States and Territories (States). Despite this, the Commonwealth Government has prime responsibility for higher education funding and many areas of policy under current arrangements agreed with States and Territories.

3. The Commonwealth has gradually played a more important role in higher education financing and policy since the 1940s. Since 1974 the Commonwealth has had prime funding responsibility, while States have retained legislative and regulatory control over universities. The respective Commonwealth/State roles were last formalised in 1991, when the Special Premiers' Conference endorsed an agreement describing the public higher education system as an area of shared responsibility. Under this agreement, the Commonwealth was to have primary funding and policy-making responsibility and the States to have responsibility for legislation and governance and the identification of broad priorities for the development of the sector.

4. Prior to 1993, Commonwealth support was provided through *States Grants Acts* on the basis of the “financial assistance to States” power under Section 96 of the Constitution. Since then the Commonwealth has funded institutions directly on the basis of:

- the “provision of benefits to students” power under Section 51(xxiiiA) of the Constitution;
- the “appropriations power” under Section 81 of the Constitution; and
- in the case of some research related grants, the implied “nationhood” power of the Commonwealth.

### **Relationships between Governments and Universities**

5. All but two of Australia’s statutory higher education institutions are established under State or Territory legislation. The exceptions are the Australian National University and the Australian Maritime College, which are established under Commonwealth legislation. The governance arrangements, accountability reporting and other obligations of universities are set out in their establishment acts and in other legislation applicable to statutory authorities of the relevant Commonwealth/State/Territory government.

6. The States/Territories exercise a fair degree of control over universities in their respective jurisdictions. As statutory bodies, public universities are subject to the financial accountability frameworks that are applicable to any statutory agency of that State/Territory and are mostly not university specific. The universities are also required to provide State/Territory Ministers with audited financial statements and performance information and inform them of specified financial and/or business dealings.

7. Universities are generally accountable to the State Parliament and specifically to the State Minister for Education. The relevant Auditor-General audits the financial statements of universities and tables a report in State Parliament. In addition, State bodies such as the Ombudsman and other specialist bodies oversee various aspects of university operations.

8. Nevertheless, the formal legislative and accountability frameworks for Australian universities remain unusual and at times have the potential for considerable tension between the policy intent of the Commonwealth, and the regulatory arrangements of the States.

9. Commonwealth-State consultation occurs at Ministerial level through the Ministerial Council on Employment, Education and Training (MCEETYA). Consultation between Commonwealth and State/Territory officials occurs through the Joint Committee on Higher Education (JCHE). The JCHE reports to MCEETYA through the Chair from time to time. The Commonwealth also has bi-lateral consultations with the States and Territories through Joint Planning Committees.

10. State and Territory Governments have a number of responsibilities in respect of quality assurance in higher education, including the recognition of new universities; the operation of overseas higher education institutions in Australia; the accreditation of higher education courses offered by non self-accrediting providers; and monitoring the delivery arrangements of higher education institutions where they involve other organisations.

11. The Australian States and mainland Territories have agreed to the *National Protocols for Higher Education Approval Processes* that are designed to ensure consistent criteria and standards across Australia for the matters identified in paragraph above.

12. The Australian approach to quality assurance in higher education is underpinned by the universities' status as self-accrediting institutions with the legislative authority to accredit their own courses and programmes. They have primary responsibility for their own academic standards and quality assurance processes. The capacity to responsibly exercise this authority is among the criteria for recognition as a university in Australia.

13. Quality in the areas of admissions, teaching, learning and assessment is overseen within each university by the body with responsibility for academic matters, generally the Academic Board. Each university has processes to assess new course proposals and to monitor and evaluate course curricula on a continuous basis, including regular evaluation of student feedback.

14. The term "university" is protected in Australia under business name/association legislation and under Commonwealth Corporations Law. There is also agreement between all States and Territories on the use of consistent criteria before an institution can use the title "university".

15. In March 2000, the Australian Universities' Quality Agency (AUQA) was established by the MCEETYA. The AUQA is an independent national body that will monitor, audit, and report on quality assurance in Australian higher education. It operates independently of governments and the higher education sector under the guidance of a Board of Directors. AUQA will audit each university over a five year cycle from 2002, using a methodology of institutional self assessment and a visit by an expert panel. The approach focuses on institutional quality assurance processes that are in place to achieve organisational outcomes and has international recognition. (See par. 107).

### **Higher Education Funding**

16. The existing funding framework was introduced following a major review of higher education policy and financing arrangements in 1988. A review of the funding of research and research training in universities was undertaken in 2000, resulting in significant changes in this area from 2002.

17. The main features of the current framework are:

- operating resources for teaching and learning are provided to universities as a single base operating grant for a specified number of student places within the context of an Educational Profile that covers a higher education institution's teaching and research activities. The operating grant also includes teaching, capital and Indigenous Support funding components;
- resources are allocated in the context of a rolling triennium which ensures that institutions have a secure level of funding on which to base their planning for at least three years;

- allocation of research grant funding primarily on a competitive basis;
- capital funding (AUD 41.1 million in 2001); and
- an accountability framework provided essentially by the yearly submission of Educational Profiles.

18. Educational Profiles are one of the key elements of the Commonwealth's accountability framework for higher education institutions and are discussed further in section 3.1.1.

19. In 2001, the Commonwealth outlays contributed to 61% of the revenue received by higher education institutions, consisting of:

- grants under the Higher Education Funding Act 1988 (HEFA), which are nearly 38% of total revenues;
- Higher Education Contribution Scheme (HECS) amounts under HEFA, which are 17.4% of total revenues;
- grants under the Australian Research Council Act 2001 (ARCA), which are 1.8% of total revenue; and
- other Commonwealth Government Grants, which are 3.7% of total revenues.

20. Public funding is likely to remain a cornerstone of Australian universities, although universities have since 1983 become less reliant on public funding and their sources of revenue have diversified as their revenue has increased. There were also quite large variations between universities in the proportion of revenue from Commonwealth sources. In 2001, Central Queensland University received just 28% of its revenue from Commonwealth grants (44% including HECS) while the Australian National University received 62% of funds from Commonwealth grants (67% including HECS). The University of Sunshine Coast received most of its funding from Commonwealth grants and HECS (83%). (See tables in Appendix 2)

21. Contributions from State/Territory governments account for just around 1.5 ~ 2.0%. In 2001, non-government revenue streams for universities included overseas fee paying students (11%), domestic fee paying students (2%), investment income (3%), consultancies, contract research, endowments, and trading and other income. (See Appendix 2)

22. Commonwealth funding under HEFA can be broadly categorised as either for the general operating purposes of higher education institutions or for research and research training. The Government's 1999 White Paper *Knowledge and Innovation: A Policy Statement on Research and Research Training*<sup>1</sup> outlined five principles of public funding for research and research training. These included ensuring transparency, contestability and accountability for such funds, which have now been fully separated from general operating resources under HEFA.

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<sup>1</sup> <http://www.dest.gov.au/archive/highered/whitepaper/default.asp>

23. The distinction is slightly artificial as funds for operating purposes may be spent on things that contribute to supporting research and some research funding may be used for purposes, which also benefit undergraduate students (e.g. libraries).

### *Grants for operating purposes*

24. At present, Australian universities receive the majority of their public funds (both recurrent operating and capital funds) as a single block operating grant for a specified number of student places within the context of an Educational Profile that broadly details the institution's teaching and research activities. Around three-quarters of Commonwealth funds are allocated on a rolling triennial basis, giving institutions some predictability for forward planning of their operations.

25. These general operating resources consist of a base operating grant and a range of other grants provided for specific purposes including equity, workplace reform, teaching hospital grants, superannuation grants and special capital funding. Funds for research and research training are allocated either through performance-based block funding programmes administered by the Department of Education, Science and Training (DEST), or peer-reviewed competitive grants administered by the Australian Research Council (ARC).

26. The base operating grant (AUD 4.5 billion in 2002) is provided to higher education institutions on condition that they provide a specified minimum number of student places in a given year. The "target" student load, which is defined in Equivalent Full-Time Student Units (EFTSU), has two components:

- a target for total fully subsidised places; and
- an undergraduate fully subsidised places target.

27. Universities must provide the target number of HECS-liable places under the Commonwealth's funding arrangements. They cannot charge fees for this target number of places or HECS-exempt postgraduate research places, but otherwise universities make their own decisions as to which courses are HECS-liable and which attract fees.

28. Since 1998 universities have also been paid marginal funding equivalent to the minimum discounted HECS rate (AUD 2 699 in 2002)<sup>2</sup> for each HECS-liable undergraduate student enrolled above its "undergraduate target". Where an institution fails to fill its undergraduate target the Commonwealth reduces its funding in the same way.

29. The determination of universities' funding amounts is historically based. Grants for operating purposes are provided to 39 "public" universities and specialist higher education institutions. Two other institutions, Avondale and Marcus Oldham College, receive limited operating grants.

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<sup>2</sup> Minimum discounted HECS rate = 0.75 x AUD 3 521

### ***Higher Education Contribution Scheme (HECS)***

30. HECS commenced in 1989. Most domestic undergraduate students contribute to the cost of their education through HECS. Prior to 1 January 1997, eligible students paid a flat rate of HECS, irrespective of which course they took. Since then, three different levels of HECS have been charged depending on the course they are studying. These levels were based on the cost of provision and the estimated future earning capacity for the field of study. The current HECS contribution levels are AUD 3 521, AUD 5 015 and AUD 5 870.

31. Students can either choose to pay the HECS upfront directly to universities and receive a 25% discount for making upfront payments or choose to defer payments. The Commonwealth makes up for the payments deferred by students by paying universities an amount equivalent to the deferred part of each student's HECS contribution, and an amount equivalent to the discount for those students who make HECS payments upfront.

32. Students who defer payment of HECS begin repaying their debt through the Commonwealth tax system when their income reaches the minimum threshold for compulsory repayment, which was AUD 23 242 for the 2001-02 financial year.

33. From 1998, universities have also been able to receive funding for HECS-liable undergraduate students enrolled above the target number of fully subsidised undergraduate places. The amount provided is a proportion of the deferred part of these students' HECS contribution ("the minimum upfront discounted HECS amount").

### ***Research and research training***

34. Universities play a vital role in the research and innovation system. They are the nation's leading providers of training for Australia's future research workforce and generate much of the new knowledge that is essential for its long-term economic growth and social cohesion.

35. Most Commonwealth funding for higher education research and research training is provided through the Education, Science and Training portfolio, but significant Commonwealth support is also provided through the Health and Aged Care portfolio.

36. The key features of the policy and funding framework for university research and research training include:

- a largely independent Australian Research Council<sup>3</sup> (ARC), established under its own Act;
- performance-based funding for research training and research; and
- a quality verification framework supported by research and research training management reports.

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<sup>3</sup> <http://www.arc.gov.au>

37. Programmes to support *research training* administered by the Department of Education, Science and Training (DEST) amount to AUD 618 million in 2002 and consist of:

- Research Training Scheme (AUD 516 million);
- Australian Postgraduate Awards scheme (AUD 85 million); and
- International Postgraduate Research Scholarships scheme (AUD 17 million).

38. Programmes to support university *research* administered by DEST consist of:

- Institutional Grants Scheme (AUD 271 million);
- Research Infrastructure Block Grants scheme (AUD 114 million);
- Systemic Research Infrastructure scheme (AUD 246 million over five years from 2002); and
- Other minor programmes.

39. Programmes to support *individuals and teams of researchers* administered by the ARC amount to AUD 248 million and consist of:

- National competitive research grants programme. The programme is comprised of:
  - Discovery grants (which support fundamental or basic research); and
  - Linkage grants (which support collaboration with other universities, research agencies and industry).

40. A substantial injection of direct funds of AUD 1.5 billion over five years was announced in 2001 through the innovation statement, *Backing Australia's Ability* (BAA). Funding for ARC competitive research grants will be doubled over five years at a cost of AUD 736 million and funding of university research infrastructure will be increased by AUD 583 million. Universities can also expect to benefit from decisions to boost funding for the Cooperative Research Centres programme (AUD 227 million over five years) and to establish a pre-seed fund to support commercialisation (AUD 79 million).

### ***Student fees and loans***

41. Domestic undergraduate students may be HECS-liable or pay fees. The vast majority are HECS-liable. Since 1998, universities have been able to charge domestic students upfront fees for undergraduate courses, provided that the number of domestic students charged fees for a particular course does not exceed 25% of the total number of places available for domestic students in that course. Only 16 universities offered undergraduate fee-paying places for domestic students in 2001.

42. Domestic postgraduate research students usually have a HECS exempt place provided under the Research Training Scheme (RTS) but otherwise may pay fees. Domestic postgraduate coursework students may be HECS-liable or pay fees. Since 1994 universities

have been able to charge upfront fees for domestic postgraduate students who are not in HECS-liable places. Courses leading to an initial qualification in nursing, teaching or provisional registration as a medical practitioner must be offered on a HECS-liable basis. The balance between HECS-liable and fee-paying student numbers has changed since 1996 (See [Appendix 3](#)).

43. From January 2002 postgraduate coursework students have had access to loans with no real rate of interest to meet the cost of upfront fees. These loans are provided under the Postgraduate Education Loans Scheme (PELS). The loans will be repayable on an income contingent basis similar to HECS. Debts incurred under PELS will be added to any existing HECS debt and the combined amount will become a single debt.

44. Both continuing and commencing students enrolling in such courses will be able to borrow up to the limit of the tuition fee set by the university for each semester for the duration of their course. The loan will not cover accommodation or other living costs. Currently, PELS is only available to postgraduate non-research students at publicly funded universities and four other private institutions.

### **Institutional Governance**

45. As mentioned previously, each public university has its own enabling legislation establishing the university as a statutory body in the home State or Territory and which specifies, in most cases, the university's objects. Matters related to university governance arrangements are primarily the responsibility of universities and State/Territory governments.

46. The responsibility for the governance and management of a university is typically vested in a governing body such as a Council or Senate, which may delegate some of its powers. The executive management of the universities lies with the Vice-Chancellor who tends to function as a chief executive officer.

47. The governing bodies of universities have on average 21 members (ranging from 15-35), composed of elected, official and appointed members. In most cases a governing body would include the Chancellor, Vice-Chancellor, 1 or 2 other official members, elected academic and general staff representative/s, elected student representative/s and a number of members appointed by the relevant Minister or Vice-regal office holder. Appointed members tend to be from politics, business or the community. In some cases, members are parliamentary or governing body appointments.

48. Changes to the structure and role of university governing bodies have occurred against a backdrop of a general trend to concentrate executive power within the Office of the Vice-Chancellor. The increased executive power has contributed to the expansion of certain general management functions. The size of the senior executive has increased in most institutions, with Deputy Vice-Chancellor and Pro Vice-Chancellor positions created with specific responsibilities for areas such as research, teaching/academic, international, and resources. Many universities have also streamlined their academic boards and actively

pursued strategic planning initiatives. These developments have led to the bypassing of the old university hierarchy.

49. Governance and management arrangements have not always been responsive to changes in the universities' operating environment over the past decade. Some of the changes in higher education have been significant - expansion in the provision of higher education, diversification of revenue sources, rapid growth in commercial activity, the expansion of consultancy services and the commercialisation of research, the export overseas of university education, and the impact of information and communication technologies.

50. Good governance is essential for the proper and effective functioning of universities. Given the substantial public investment in the higher education sector, the Government and the larger community have a legitimate interest in ensuring that university governing bodies are appropriately structured, tasked and have the membership with the necessary skills and attributes to lead universities into the next decade and beyond.

51. The most recent review of university governance and management was conducted in 1995. The *Higher Education Management Review* by David Hoare (Hoare Review) identified shortcomings in university governance arrangements and recommended clarification of the role of the governing bodies, and changes to the size, composition and methods of appointments of members to the governing bodies.

52. Seven years on, there is still substantial scope for improvement despite changes effected by the State/Territory governments in cooperation with universities since the Hoare Review. The University of Adelaide submission to the Higher Education Review 2002 (*Review*) has identified 4 areas of dysfunction in the current governance and management arrangements.

- debilitating divisions within governing bodies, often linked to special interest groups;
- difficult relationships between governing bodies and executive managers;
- an inability of governing bodies to respond quickly and decisively to change; and
- a failure of governing bodies to inform themselves adequately about the operations of universities, and especially their controlled entities, in order to discharge their monitoring and public accountability roles.

53. However, some universities have taken best practice initiatives to clarify the role and responsibilities of the governing boards, their members and the executive management.

54. Specific issues have been raised in the current review of higher education policy (see 2) in relation to university governance and management. These include:

- regulatory regimes of Commonwealth and State/Territory Governments that inhibit universities' ability to capitalise on business and innovation opportunities;
- the burden on universities of reporting requirements, and how to reduce red tape while ensuring public accountability;

- the unwieldy structures of many Boards, Councils and Senates and the lack of clarity in their roles and requirements;
- industrial relations, in particular the national “gate keeping” role of the National Tertiary Education Union in creating a centrally-determined, pattern-bargaining approach to enterprise bargaining across the sector; and
- universities' need for greater flexibility in determining different employment types and a stronger focus on performance management.

### **Asset Ownership**

55. Public universities in Australia own substantial assets. At the end of 2001, the higher education sector had net assets of more than AUD 20 billion. Total assets exceeded AUD 26 billion with land and buildings reported to be valued at AUD 14 billion and plant and equipment at AUD 3 billion. Library assets were valued at AUD 2 billion or 8% of the total assets. But most importantly, the sector had cash and investments valued at AUD 4.7 billion (AUD 4.4 billion in 2000) that was 18% of total assets or 23% of net assets. The cash and investments were more than eight times the sector borrowings of AUD 591 million (ten times the sector borrowings of AUD 426 million in 2000).

56. Remarkably, the universities have been making substantial investments on capital assets without resorting to higher levels of debt financing or reducing their cash reserves. In the past 5 years, net capital investment by universities has totalled AUD 4.7 billion. This is against the backdrop of a AUD 1.1 billion increase in cash and investments and just AUD 0.3 billion increase in borrowings.

57. The asset bases of universities vary widely across the sector. Of the oldest universities, two had net assets of over AUD 2 billion each at the end of 2001, while three others had more than AUD 1 billion. The smaller and younger universities had relatively small net assets – 12 institutions having net assets of less than AUD 200 million.

58. The fixed assets, mainly land and buildings, irrespective of whether they were obtained through private donations or government grants or the proceeds of investments, belong to the university, unless specifically encumbered. Universities generally hold land that may have been provided under statute, and land, buildings and other fixed assets purchased on the open market, received under the terms of a will or a trust. Universities may also hold Crown land with the permission of the relevant government. Crown land and land provided under statute may be regulated by the relevant State Minister and their disposal may require Ministerial approval.

59. Public universities can and do engage in commercial activities and operations, although the proceeds of their activities must be directed to the public purposes of their establishment. The legislative framework (establishing Acts) in a State or Territory regulates the powers of universities to undertake commercial activities.

60. A study of the powers and constraints on universities to engage in commercialisation conducted by the law firm Phillips Fox<sup>4</sup> found that in general the commercial activities of Australian universities are restricted to the “purposes of the university”, i.e. to the promotion of a university’s objects and interests or connected to the performance of the university’s functions. These restrictions apply to the establishment of companies, borrowings and investments, and the acquisition, use and disposal of university land (particularly Crown land).

61. As owners of intellectual property (including that produced by members of staff), universities are given the right to exploit that property for commercial purposes by the general law.

62. Lately, universities have also begun to engage in sophisticated financial arrangements for developing capital projects. They are developing projects with third party partners, making use of “real options”, and having projects to be “off balance sheet” without financial underwriting by the universities. Moves towards leasing, rather than owning space and facilities, have become more evident, although they are not yet significant in relation to the total portfolio of fixed assets.

### **Staffing**

63. Australian universities are responsible for employing their staff and negotiating appropriate workplace relations to establish an environment that promotes effective learning and scholarship. Around 60% of university operating expenses, on average, are dedicated to salaries and salary related expenses. In some cases, the percentage is much higher.

64. Higher education institutions employed approximately 83 800 “full time equivalent” (FTE) staff during 2001.

- Nearly 61 700 (74% ) of this FTE was permanent full-time staff.
- Nearly 8 900 (12% ) of this FTE was made up by 16 000 permanent part-time staff.
- The remaining 13 100 FTE was made up of casual staff employed at various times throughout the year.

65. Over the last 10 years, the total number of staff has grown by 7 800 FTE (10%). The number of permanent full-time staff grew by 3 400 (5.5% ) to 65 250 FTE between 1992 and 1996 before declining to 61 200 in 1999. Since then, the staff numbers have increased marginally to 61 700 FTE in 2001 but still around 100 FTE than it was in 1992. On the other hand, there has been a steady increase in permanent part-time and casual staff (See Appendix 4).

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<sup>4</sup> [http://www.dest.gov.au/highered/eippubs/eip01\\_19/reg\\_environ.pdf](http://www.dest.gov.au/highered/eippubs/eip01_19/reg_environ.pdf)

66. There is more staff with non-academic classifications (55% of FTE). Male staff are marginally over half of all staff (50.3% of FTE), but 56% of them are academic staff. Only 31% of female staff have an academic classification.

67. Prior to 1993 universities received salary supplementation from the Commonwealth for actual salary increases in the sector and the non-salary component was indexed according to price movements in a higher education bundle of goods. Since 1994 university staff salaries (for both general and academic staff) have been determined through an enterprise bargaining process in which salary increases are required to be productivity-related. Pay increases greater than the indexed Safety Net Adjustment determined by the Australian Industrial Relations Commission need to be offset by higher productivity.

68. Successive governments have tried to strengthen bargaining at the enterprise level since 1993. The sector has continued to settle individual university enterprise agreements within national bargaining “rounds”. Since 1993 there have been three completed rounds of enterprise bargaining.

69. During the third round of negotiations in 1999, the Government attempted to foster arrangements that reflected the needs of individual institutions to achieve greater efficiency, and to promote direct relations between individual universities and their staff. To achieve this, the Commonwealth introduced the *Workplace Reform Programme* (WRP) from January 2000 providing up to AUD 259 million over 3 years. The additional funds, equivalent to 2% salary increase for university staff, was contingent on universities meeting at least 9 of 14 criteria that included bargaining processes, performance management, cost savings, discretionary revenue generation, productivity measures and flexible working arrangements.

70. The programme has had only modest success and enterprise bargaining outcomes are still uniform across the sector. The National Tertiary Education Industry Union (NTEU) continues to act as an effective gatekeeper of enterprise agreement making despite having less than a third of university staff as members. In 2001, only around 26 000 of the 83 800 academic and non-academic staff were NTEU members.

## CURRENT POLICY CONTEXT

71. Commonwealth policy for higher education has been made in the context of sustained national development, facilitation of user access, plurality of financing mechanisms and targeted support for specific priorities.

72. In April 2002 the Commonwealth Minister for Education, Science and Training announced a review of higher education policy, "Higher Education at the Crossroads". The Higher Education Review (*Review*) will canvass a range of policy options in relation to the way the Government administers, funds, and supports Australian universities. The issues for review are wide-ranging but include increasing diversity/specialisation, achieving concentrations of excellence, strengthening the role and focus of regional universities, and financing. A series of discussion papers<sup>5</sup> have been produced as part of the *Review* process to stimulate debate on issues such as "governance and management of universities", "quality", "regional engagement", and "financing".

73. After an extensive public consultation process, the Minister will put a submission to the Government by the end of 2002, for consideration in the context of the Federal Government Budget 2003/2004. This and the following section refer to relevant policy options under consideration by the *Review* and much of the text has been extracted from the policy document and the discussion papers.

### **Higher Education in National/ Regional Economy**

74. The higher education sector generated over AUD 10 billion in revenue in 2001 and had more than AUD 20 billion in net assets, of which almost a quarter (AUD 4.7 billion) in cash and liquid investments. A study commissioned in 2000 by the Business/Higher Education Round Table reported that higher education contributed AUD 10.6 billion annually to the Australian economy, about 2% of GDP, with a total economic impact of over AUD 22 billion. The higher education sector is also a big export earner, attracting more than AUD 1.1 billion in fee income from overseas students.

75. Australian universities employ about 83 800 people and contribute about AUD 8.7 billion per year to the economy through expenditure on staff, non-wage purchases and net capital expenditure. In addition, students spend a further AUD 1.79 billion on education and related activities, while university staff add an additional AUD 70.5 million by way of consultancy income. The study estimated that Australia's universities receive over AUD 1.18 billion per year in research income, and that this results in about AUD 2.23 billion worth of spill over benefits to Australian industry.

76. The Commonwealth provided AUD 6.4 billion in funding to the higher education sector, or 3.8% of the Budget outlays. Perhaps a more significant measure is the return to

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<sup>5</sup> <http://www.dest.gov.au/crossroads/>

government for its investment in higher education. A study<sup>6</sup> conducted in 2000 determined that the average rate of return to government in Australia from its investment in higher education was about 11% . This was calculated using a balance sheet approach where the level of spending on higher education by government was compared with the revenue it received from taxes attributable to the higher earnings of graduates. A more recent study (2002) concluded that the expected rate of return on the cohort of students entering higher education in 1999 is 10.9% per year. Universities clearly make a significant economic contribution to the region in which they are located. In the case of the University of Newcastle, for example, the multiplier effect on income generated to its regional economy area for each dollar of its income was found to be AUD 6 to 8.

77. Despite the economic rewards for the Commonwealth's investment in higher education, the position of higher education funding within Government expenditure as a whole is uncertain as demands for competing public expenditure increase. Social expenditures are likely to increase as a proportion of GDP. The major source of that growth will be health expenditures, driven by increases in health costs and the ageing of the Australian population. Higher education will have to compete for funds. In all likelihood, public funding of higher education will continue to face tight fiscal constraints and additional funding will have to draw on private as well as public contributions.

### **Current and Future Role in Economic and Social Development**

78. The Government regards higher education as contributing to the fulfilment of human and societal potential, the advancement of knowledge and social and economic progress. The main purposes of Australian higher education are to:

- inspire and enable individuals to develop their capabilities to the highest potential;
- enable individuals to learn throughout their lives (for personal growth and fulfilment, for effective participation in the workforce and for constructive contributions to society);
- advance knowledge and understanding;
- aid the application of knowledge and understanding to the benefit of the economy and society;
- enable individuals to adapt and learn, consistent with the needs of an adaptable knowledge-based economy at local, regional and national levels; and
- contribute to a democratic, civilised society and promote the tolerance and debate that underpins it.

79. the overarching objectives of the Government's policies for higher education are to:

- expand opportunity;

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<sup>6</sup> <http://www.ecom.unimelb.edu.au/iaesrwww/mipub/mied2.pdf>

- assure quality;
- improve universities' responsiveness to varying student needs and industry requirements;
- advance the knowledge base and university contributions to national innovation; and
- ensure public accountability for the cost-effective use of public resources.

80. Higher education is seen to play a key role in securing Australia's position within the global economy. The Government has argued that a diverse higher education system will help maximise Australia's competitive advantages in the global knowledge-based economy and international market for higher education. There have been recent calls for the development of a number of "world class" universities in Australia. In an environment in which higher education has to compete with strong alternative demands for public expenditure, the Commonwealth considers that an understanding of Australia striving for excellence in a global market is a difficult but important concept to convey.

81. The Government believes that universities can contribute to the achievement of national economic and social objectives through diversity, specialisation and regional engagement. Universities are now a significant presence in many communities in regional Australia. Regional partnerships may assist these higher education institutions to contribute to the social, economic and cultural development of their communities. Distinctive partnerships in community service, for example, present powerful opportunities for higher education institutions to contribute to a broader national and regional, social and cultural agenda.

### **Key Financial Policy Issues**

82. In the past decade there has been increasing pressure on the higher education sector to achieve genuine productivity improvements. Overall, the level of public funding for Australian universities has been a major issue for a number of years and has been raised in the majority of submissions to the *Review*. Successive governments have encouraged universities to diversify and grow their funding sources and have given them greater freedom to do so. There has been deregulation of pricing arrangements for overseas undergraduate students and domestic and overseas postgraduate students, and easing of the limits on charging fees to undergraduate domestic students. Marginal funding has been provided for undergraduate over-enrolments. There have also been greater encouragement and incentives to earn non-government income from research commercialisation, consultancies and other sources.

83. However, there is widespread dissatisfaction with the current model for financing teaching and learning in Australian higher education institutions. The current base operating grant approach means that funding is distributed according to a "one-size-fits-all" model. There are no real incentives for institutions to diversify or specialise their course offerings or engage with their local communities to ensure that they are being responsive to the needs of their stakeholders.

84. Current funding arrangements for over-enrolment are also problematic. Not all institutions have acted responsibly in taking advantage of the flexibility. Some universities

have accepted larger over-enrolments to address unmet demand, at times beyond their capacity to effectively deliver. Some others have treated marginal funding as short term revenue source and are at potential risk of heavy reliance on marginal funding exacerbating the financial pressures.

85. The “one-size-fits-all” model does not take into account the roles and circumstances of universities that vary considerably. Some universities operate with significant intrinsic comparative disadvantages largely beyond the control of their management.

86. The *Review* has canvassed a framework of principles to guide thinking about the sort of higher education Australia seeks and needs. Two of the eleven principles deal directly with financial policy issues. Australia needs a sustainable higher education system with institutions that are cost-effective and publicly accountable. The cost-effectiveness of universities relates to the efficient use of financial resources provided to them and the achievement of intended results. The challenges posed by this goal are considerable in complex organisations such as universities, and apply to the full range of activities, including capital development, commercialisation initiatives and the number of subjects or units that may be offered within an institution.

87. The public accountability element requires universities to be good stewards of the financial resources provided to them. As the recipients of large amounts of public funding and private investment, higher education institutions are accountable to their respective stakeholders. Their policies and actions need to be transparent and open to scrutiny.

88. The current “one-size-fits-all” model has come under strong criticism for constraining excellence, diversity and student choice. Four alternative generic models<sup>7</sup> have been proposed for consideration in the *Review* process.

89. In all of these models, students will have access to income contingent loans:

- discipline-based model (a variation on current arrangements)
- fee deregulation
- flat rate learning entitlements
- variable rate learning entitlements

90. Research financing policy is also under review. A considerable amount of publicly funded research exists outside universities and for both economic and strategic reasons a case can be made for a more nationally consistent approach to publicly funded research.

91. Australia’s framework for higher education research policy was subject to a full review in 1999. As a result substantial reform to higher education research programmes was introduced in 2001. Some submissions to the *Review* argue that the results of this reform process need to

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<sup>7</sup> [http://www.dest.gov.au/crossroads/pubs/setting\\_firm\\_foundations/settingfirmfoundations.pdf](http://www.dest.gov.au/crossroads/pubs/setting_firm_foundations/settingfirmfoundations.pdf)

have time to bed down and be properly evaluated. Others argue that there is a need for further changes to maximise publicly funded research outcomes. Proposals for change focus on three areas based on the need:

- for increased levels of funding for research;
- to explore options for greater coherence, coordination and partnership across all of Australia's publicly funded research organisations; and
- for changes to arrangements for distributing public research funding.

## DESCRIPTION OF POLICY INSTRUMENTS

92. The Commonwealth expects to derive certain outcomes through its funding of universities - participation by all who can benefit in ways and at times convenient for them, expansion of user choice, stronger contributions to national innovation, and responsiveness and diversity through organisational flexibility.

93. Few federations have central governments with the policy control of Australia's Government. This control is not mediated, as in many countries, by a "buffer" body. The Commonwealth's key role results from the States ceding full responsibilities for funding higher education in 1974. As noted in section 2, the Commonwealth Government's higher education policy instruments are currently under review and the specific measures described in this section may change significantly in 2003.

### **Legal and Other Requirements**

94. Given the substantial public funding provided to universities, it is entirely appropriate that universities are regulated and monitored for public accountability. The accountability framework seeks to provide assurance to the Commonwealth that universities satisfy these key accountability requirements:

- meeting at least the minimum levels of higher education provision for Australian students;
- prudent use of funds to effectively deliver the outcomes the Commonwealth seeks;
- quality assurance; and
- probity in university operations and decision-making, particularly in the provision of equitable and transparent access to university by students from across the community, in universities' research endeavours and commercial ventures, and in their strategic decision making.

95. One of the key elements of the Commonwealth's accountability framework for higher education institutions is the Educational Profiles.

### ***Educational Profiles***

96. Educational Profiles are descriptions of a university's activities provided by the university in a form approved by the Commonwealth Minister. The annual Profiles process is legislated for under HEFA. It enables the Commonwealth to be assured of the financial health of the sector and that institutions are spending Commonwealth funds in accordance with the conditions of their grants. The Minister determines a university's operating grant in relation to its Educational Profile.

97. Universities are required in the Profiles process to provide the Commonwealth with a range of reports and plans for public accountability purposes. They also provide student load data that, in conjunction with an historical input based funding model, determines the level of a university's operating grant. Annual Profiles meetings with individual universities give the Commonwealth and the universities an opportunity to discuss this documentation, as well as any emerging issues.

98. Under HEFA, the Minister decides the approved form of the Educational Profile after consultation with higher education institutions. In 2002 the documentation and data requirements were:

- strategic plans
- research and research training management plans
- resource management
- outcomes and performance
- quality assurance and improvement plans
- equity plans
- indigenous education strategies

99. The documentation and data requirements for the 2002 Educational Profiles discussions are at [Appendix 5](#). Also, a chart mapping the Profiles process is attached at [Appendix 6](#). The chart maps the various interactions between the Minister, DEST, universities and State/Territory Governments (Joint Planning Committees) that constitute the Profiles process.

### ***Audited Financial statements***

100. All universities in Australia operate on a calendar year basis and prepare their financial statements on that basis. Universities are required under HEFA to provide the Minister by 30 June the following year a financial statement together with a report on the statement by a qualified auditor.

101. Universities' financial statements are prepared in accordance with the Australian Accounting standards and the financial reporting guidelines prepared by DEST. The guidelines for the preparation of the annual financial statements are issued to universities each year. The guidelines require Chancellors and/or Vice-Chancellors to formally certify that Commonwealth financial assistance has been used for the purposes for which it was provided under HEFA. This ensures that data required by the Commonwealth for the acquittal of grants is examined and certified as part of a university's financial statements by the relevant State or Territory Auditor-General.

102. The Auditors-General (Commonwealth/State/Territory) audit the annual financial statements of the universities within their jurisdictions. The audited financial statements are used to monitor the financial performance and position of each university, to provide

statistical information and to acquit Commonwealth grants (i.e. those provided under HEFA for a specific purpose, in addition to operating grants).

103. The Commonwealth's financial reporting requirements are a particular point of contention with universities, primarily because of conflicts with State/Territory requirements, and are to be addressed as part of the current *Review*.

#### ***Provision of staff and student statistics***

104. HEFA allows the Commonwealth Minister to require universities to provide statistical information related to university staff, students, units and courses, income and expenditure and research activity. The data is collected and published by DEST with the cooperation of the Australian Bureau of Statistics and is required by the Commonwealth for accountability, program administration and the development of public policy. Staff and student statistics are also made publicly available as part of the *Characteristics and Performance Indicators of Higher Education Institutions*<sup>8</sup>.

105. Many submissions to the *Review* have highlighted the burden that Commonwealth reporting requirements place on universities. The Commonwealth accepts that there is a need to keep regulatory burdens and accountability requirements to a minimum, consistent with ensuring accountability appropriate to the current policy environment.

#### ***Requirements for providers of services to overseas students***

106. The requirements for providers (both private and public) of services to overseas students are set out in the Education Services for Overseas Students Act 2000 (ESOS). The purpose of the ESOS Act and associated legislation is to protect the interests of people coming to Australia on student visas. Universities and other self-accrediting higher education institutions are exempt from several provisions of the ESOS Act.

#### ***The Australian Universities Quality Agency (AUQA)***

107. AUQA's core activities include managing a system of periodic audits of quality assurance arrangements for the activities of Australian universities and other self-accrediting institutions, and monitoring, reviewing, analysing and providing public reports on these arrangements. It focuses on quality assurance process rather than on the quality of teaching or learning, or the quality of research. AUQA forms part of the accountability framework for Australian universities.

108. Some submissions to the *Review* indicated that the establishment of AUQA creates the opportunity to eliminate some Commonwealth requirements. AUQA itself has argued that there is the potential for its activities to duplicate those of other agencies. The role and scope

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<sup>8</sup> <http://www.dest.gov.au/highered/statpubs.htm>

of AUQA's activity will need to be taken into account in any attempt to streamline accountability requirements and/or to minimise red tape.

### **Directional or Devolved approach?**

109. For more than a decade now, successive governments have introduced initiatives aimed at giving universities more autonomy and flexibility, while requiring universities to take responsibility for overall control and management. Responsibility for resources decisions has been more fully placed in the hands of universities over the past decade.

110. The 1989 Budget introduced single-line operating grants that gave universities the flexibility to decide the best use of their resources, consistent with broad objectives. To enable the overall operating grant to reflect the different discipline profiles of universities, a relative funding model was developed in 1990 as a basis for adjusting funds to universities. The Relative Funding Model recognises variations in costs for different disciplines.

111. Since 1994 the large part of higher education capital funding has been rolled into institutional operating grants (i.e. Capital Roll-in component). Before this, the Commonwealth had funded capital projects on a project basis with close scrutiny of plans and budgets. The incorporation of the capital grant into operating grants has meant that the Commonwealth is no longer closely involved in administering universities' capital projects and that responsibility for capital management decisions lies primarily with the institutions themselves. To ensure accountability for the expenditure of Commonwealth grants, institutions are expected to prepare and make available capital management plans as part of their profiles documentations.

112. As mentioned earlier, the Commonwealth has continued to encourage institutional autonomy of universities and for most part the Commonwealth's accountability requirements are met through the Educational Profiles process.

### **Proactive and Preventative, or Reactive Approach?**

113. The Commonwealth Government is the major source of funding for universities and there is a need for the Commonwealth to be proactive in the assessment of institutions financial health. Currently, the Commonwealth applies a well-defined financial monitoring framework that incorporates compliance and performance assessments. Financial performance monitoring includes analysis of past financial performance and financial projections for the triennium, and references to sector benchmarks<sup>9</sup>.

114. Recent experiences suggest that financial monitoring is in itself not sufficient to predict potential difficulties and is not sufficiently diagnostic of the causes of failure or potential failure. Some of the causes were found to be leadership and management; governance; supply and demand factors; and structural cost disabilities.

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<sup>9</sup> <http://www.dest.gov.au/archive/highered/otherpub/bench.pdf>

115. Drawing from these experiences and in light of the current *Review*, work is in progress for developing an accountability framework that incorporates an institutional performance-monitoring framework. The framework could include resource (including staff, assets) management, leadership and governance, supply and demand, and quality. The other two aspects of the accountability framework would be compliance obligations and effectiveness (outcomes).

116. DEST already publishes<sup>10</sup> a range of indicators across a number of areas for all universities and any new framework would draw heavily on the existing information base:

- students – enrolment, progress rates, completions, modes of study, equity groups, demographics, course experience, graduate destination, graduate generic skills;
- staff – number, level, age, equity groups, student/staff ratios;
- research – research income, publications, higher degree completions;
- finance – revenue, revenue/EFTSU, operating margin, current ratio, net assets, proportion of non-government revenue.

### **Development and Promotion of Good Practice Guidance**

117. The Commonwealth, through DEST administered programmes, provides funding and support for the development and promotion of good practice in a number of areas related to higher education policy.

118. The Restructuring and Rationalisation programme (R&R) was run from 1998 to 2001. The objectives of this programme were to provide assistance to universities for the cost of major rationalisation and restructuring which results in long-term efficiencies at those institutions, and thereby increases the efficiency of the higher education sector and the capacity of institutions to respond to their changing environment and competitive opportunities. The programme was designed to support institutions, which are less able to finance major restructuring from their own resources.

119. The Evaluations and Investigations Programme (EIP) provides funding for studies and research projects to evaluate performance and investigate issues of national importance to Australian higher education policy. EIP projects are cooperative ventures in areas of interest common to researchers, institutions and the Commonwealth.

120. Several studies and research projects have been undertaken under EIP in the past 3 years to promote good practice in higher education. These include:

- Activity Based Costing for Library and Information Technology Activities

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<sup>10</sup> <http://www.dest.gov.au/highered/statpubs.htm>

- A Study to Develop a Costing Methodology for the Australian Higher Education Sector (Ernst & Young)
- Benchmarking: A manual for Australian universities (McKinnon, Walker & Davis)
- Shared services initiative to identify the processes with the greatest potential to benefit from the implementation of shared services arrangements between two universities (Deloitte Touche Tohmatsu)
- Strategic planning in Australian universities (Anderson, Johnson & Milligan)
- Client centred transformation of corporate services (Edith Cowan University)

These and many other reports are published on the DEST website<sup>11</sup>.

121. The Commonwealth and State governments are also paying closer attention to risk management in universities, particularly those related to their commercial activities. Encouraged by the government to diversify and grow the revenue base, universities have been engaging in a variety of commercial activities, including the commercialisation of research and intellectual property. Among the commercial activities undertaken by universities, research commercialisation in particular is an inherently high risk area as only a small proportion of patented technology will actually succeed in the market. The Commonwealth for its part requires universities to provide a “Research and Research Training Management Report” that reports on their strategies for managing research commercialisation. This provides an opportunity to identify and share “better practice” approaches.

122. The States are either in the process of reviewing or have reviewed the legislative and reporting framework for universities to encourage them to develop appropriate risk management strategies and plans to assure the public that universities’ commercial operations are properly managed.

### **Management Development of Institutional Managers**

123. Consistent with its policy of allowing universities to govern their own internal staffing and management arrangements, the Commonwealth is not involved directly in any management development programmes for universities. However, the Commonwealth has been promoting workplace reforms at public universities. The Workplace Reform Programme (see section *Staffing*) was introduced to fund pay rises for university staff, if the universities commit to and implement significant reforms to deliver better and more efficient services to students. To get the funds universities will have to demonstrate that they are willing to implement genuine reforms in workplace relations arrangements and management and administration.

124. Funding from the programme was available in two stages. In stage one; universities will need to demonstrate that they have a framework that allows flexibility and improvement

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<sup>11</sup> <http://www.detya.gov.au/highered/pubgen/keyw/pubskeywatog.htm>,  
<http://www.detya.gov.au/highered/eippubs.htm>

in the way that they operate. In the second stage they will need to demonstrate that reforms have taken place.

125. The Commonwealth also has a strong interest in the efficiency and effectiveness of universities. As part of the *Review*, the Productivity Commission is undertaking an international comparative study on resourcing and management. A draft report from the study is expected in October 2002.

126. The Australian Vice-Chancellors' Committee (AVCC) and individual universities run staff development programmes, including those on institutional management. There is a general awareness in the sector of the need to strengthen the management skills of senior university staff, given the growing corporate nature of universities.

127. Universities also recognise the challenges faced by their commercial arms and are taking action to improve their effectiveness. They are now reviewing their structures and the procedures of the commercial arms and are employing people with high-level management and entrepreneurial skills at senior executive levels. A number of universities are inviting industry leaders on to the Boards of their commercial arms to secure commercial expertise.

### **Institutional Monitoring Arrangements**

128. Under the legislation, universities are required to comply with the guidelines on student fees and to provide an audited financial statement and such statistical and other information as required by the Minister. The statistical data collections provide an extremely comprehensive and highly regarded set of data concerning students enrolled at public universities in Australia, academic and general staff employed, financial arrangements and research expenditure. Summary data from the student, staff and finance collections are published annually and provides for public scrutiny of university performance.

129. The Commonwealth also has a well-defined financial monitoring framework that incorporates:

- Compliance – the proper use of grants money and acquittal based on audited financial statements. Responsibility for financial statement audit rests with state jurisdictions;
- Performance – past financial performance and position, financial projections, efficiency and effectiveness of resource utilisation;
- Capital investment – levels of capital investment and means of financing.

130. The Commonwealth monitors the financial situation of higher education institutions mainly by assessing their audited financial statements. Because the audited financial statements reveal only past information, the Commonwealth also uses a resource analysis and projection model to assist in examining trends in key financial indicators. Although, there is no legislative requirement to undertake the financial projections or to include it as part of the

Profiles discussions, it is incorporated as part of an integrated financial monitoring framework to strengthen the Commonwealth's prudential assurance capabilities. (See [Appendix 7](#))

131. Universities' financial health is monitored using a range of indicators, not just whether their operating result for a given year is in surplus or deficit. Financial analysis involves the assessment of financial stability and liquidity of individual institutions using key financial ratios and measures. The assessment also includes an analysis of trends/changes in revenue and expenditure activities, a review of institutions other activities including the impact of their commercial operations, consistency in accounting policies, abnormal and extraordinary items and any audit qualifications.

132. The financial projection model uses information from the latest available audited financial statements as the base and makes projections for the triennium incorporating generally available as well as confidential data (e.g. enrolment forecasts, capital investments), overlaying them with a number of internally based assumptions.

133. Trends shown in recent financial statements and in projections over three years are analysed and discussed with universities especially where clarification is needed or any concerns arise about the medium to longer-term trends. The purpose of the forecasting exercise is to identify any possible early warning signals and to initiate discussions on institutional strategies for the long-term financial viability of institutions. This strategy is directed towards identifying problems and/or substantial risks in advance, so far as is possible, so that action can be taken to avoid the need for a "bail out". The financial projections are highly sensitive and are considered to be confidential internal working documents of DEST.

134. The projections are meant to provide only signals and DEST does not place emphasis on the forecast numbers. It must be said that on average 40% of universities' revenue is generated from non-government sources, and DEST does not have an intimate knowledge of universities' cost structures, which can be so different for individual institutions for the various activities. Having said that, the Commonwealth would want to be assured that universities are managing their financial and commercial risks associated with their commercial activities prudently. Given the reliance (in general) on both onshore and offshore overseas fee revenue, universities will have to consider and manage carefully, the financial risks associated with the accurate assessment of costs for delivering services, setting fees and assessment of exchange rates movements, competition for market share in the target countries, economic outlook for the target country, and accuracy of market research.

135. The Commonwealth also has an interest in the commercial entities of universities and regularly assess whether universities' controlled entities have any significant negative effect on the financial position of the university. At an aggregate level, the financial impact of the operations of controlled entities is assessed by comparing the financial statements of the university and the consolidated entity. As for the operations of individual controlled entities, the information is not always available. If DEST were concerned about consolidated entities at the aggregate level, it would seek more information from the university concerned, including information about individual controlled entities.

136. As mentioned in the section *Proactive and Preventative, or Reactive Approach*, recent experiences suggest that financial monitoring is in itself not sufficient. There is a perceived need for broader institutional monitoring without undue intrusion into universities' autonomy or additional administrative or regulatory imposts. The challenge for DEST is to develop an overarching framework to comprehensively analyse and report on the overall performance of Australia's higher education institutions, individually and comparatively within the context of the accountability framework.

137. Progress has been made in developing a prototype performance framework in 2002. The "Interim Performance Management Assessment" model is based on three main assessments:

- supply/demand
- quality
- financial management

138. A model of the assessment framework used in 2002 is at [Appendix 8](#). Each assessment draws on a range of relevant performance indicators, and all three depend on a common set of descriptive statistical and financial data. Taken together, the supply/demand, quality and financial management assessments are intended to produce an across-the-board assessment of institutional performance. This overall institutional performance assessment was incorporated as part of the Profiles process in 2002 and is yet to be fully evaluated.

139. The Educational Profiles meetings provide a regular structured opportunity for the Commonwealth and the universities to discuss issues arising out of the monitoring framework. However, consultations may also be arranged with individual universities at other times during the year if needed.

140. The Minister, on behalf of the Commonwealth Government, has the ultimate authority to act on the outcomes of monitoring arrangements. The Minister would normally act on the advice of DEST and in consultation with relevant stakeholders, including State Government officials, university senior management and staff representatives and members of the university's governing body. In the past, the Commonwealth has not intervened directly in a university's financial or other affairs but has instead encouraged the university to adopt remedial measures. The Commonwealth and State Governments may also work jointly to assist a university in implementing any necessary changes.

141. The State/Territory governments also monitor individual institutions and in many instances require performance information in addition to the universities' audited financial statements. State/Territory Auditors-General also undertake, either on their own initiative or at the request of the relevant State Minister, specific compliance and performance audits of university operations.



## SECURING FINANCIAL VIABILITY

142. As mentioned earlier, the States and Territories have legislative responsibilities for all but two of the public universities in their jurisdictions. The assets and liabilities of public universities impact on the whole of government financial reporting of the respective State/Territory. Public universities, by virtue of being statutory bodies, could legally expose the States/Territories to unlimited liabilities. Therefore, university borrowings in particular, are a matter of legitimate concern for the respective State/Territory. State/Territory governments could also scrutinise asset sales, particularly land and buildings and investment instruments, of public universities.

143. Another area of concern that has gained prominence in recent years is the risk exposure of universities as a result of their commercial activities. In the past decade, the universities have significantly diversified and grown their revenue base. In 1990, the total Commonwealth outlays were around AUD 3.65 billion (AUD 3.4 billion excluding HECS) accounting for 75% of the sector revenue (AUD 4.86 billion). In 2001, the Commonwealth outlays were AUD 6.2 billion (AUD 4.4 billion excluding HECS) accounting for 61% of sector revenue (AUD 10.18 billion). The increase in revenue from non-government sources is highly significant in that it has increased four-fold during this period – from AUD 0.96 billion to AUD 3.8 billion.

### **Emerging Financial Management and Governance Issues**

144. Public universities are facing increasing competition from private providers of higher education and from other universities, both nationally and internationally. It is not just a coincidence that a number of countries in the developed world such as Australia, the UK, Germany, Italy, Japan, Korea and New Zealand are either in the process of conducting, or are considering, major reviews of higher education. There is an expectation that lifelong learning, international competition in higher education provision, and the increasing demand for higher quality education are likely to force major changes in the financing and governance of higher education institutions over the next decade.

145. Locally, Government policy has also been to encourage competition in the higher education sector and enhance user choice. This is reflected in much of the research funding being distributed on the basis of performance-based formulas and through competitive tendering. In 2001, the Commonwealth also distributed 2 000 undergraduate student places through a competitive assessment process. The universities are faced with more budget uncertainty than ever before, with the increased risk of not achieving budgeted revenue levels to meet planned expenses.

146. Public universities have met the challenge to diversify their revenue base with varying levels of success. Most have increased their non-government income by attracting private support for existing activities as well as engaging in new activities specifically to earn non-government income. Although the diversification of revenue has not come at the expense of

universities' public activities, it has changed the nature of the academic enterprise. However, there is the perception that public universities could be shifting their emphasis from delivering public goods and services to providing private benefit. There have been concerns that public funds are being potentially used for commercial activities and that there is a lack of public accountability for universities' commercial arms.

147. The commercial activities of universities are gaining far greater significance in terms of their contributions to the university revenue base and in universities developing and maintaining a competitive edge. Broadly, commercial activities can be categorised as fee paying students; fee paying short courses; services to support academic programs (eg. excursions, child care, health centres, library, sports facilities); ancillary operations (theatres, art galleries, museums); other services (eg. printing, bookshops, computing, counselling); commercial research (eg. contract research, consultancies, laboratory/field testing, IP commercialisation); and real property.

148. This requires universities to have transparent accountability arrangements and strong financial and management capabilities in their senior staff. Universities have responded to this need by strengthening the commercial management expertise of their senior staff responsible for commercial activities.

149. Universities will also have to guard against a range of risks such as:

- Commercial – exposure through minority participation in commercial entities that are not fully controlled by universities;
- Financial – potential investment loss, public liability, professional negligence, defamation and property loss;
- Reputation – lower entry requirements and soft marking for overseas students, lower quality of offshore/franchise operations; and
- Legal - operating outside the scope of the charter, regulatory and/or legislative framework, non-compliance with reporting requirements, and contravention of competitive neutrality by subsidising service provision.

150. Most universities have established mechanisms for risk management and accountability for financial performance. They have set up more transparent processes and structures for dealing with issues related to their commercial operations – declaration of pecuniary interests, tender boards etc.

151. Some may argue that the universities have been diversifying their revenue base and engaging in commercial activities to reduce the risk of over-reliance on government funding. But the public perception is that with increased commercial exposure universities may be exposing themselves to higher levels of risk.

152. While public universities have had success in a number of areas, there is a need for a continued focus on:

- developing and managing strategies for raising revenue and containing expenditure within the limits of the revenue raised;
- improving financial and management systems to increase understanding of costs and to improve the reporting of financial information;
- managing financial and quality risks associated with expansion and diversification of revenue sources;
- managing financial and quality risks associated with expansion of fee paying students, particularly by smaller institutions, and the increase in franchising arrangements for servicing these students;
- managing infrastructure asset maintenance and capital expenditure programmes; and
- managing effectively the commercialisation of intellectual property.

### **Handling Financial Management and Governance Issues**

153. The State/Territory governments have responded to various public concerns by tightening the accountability and reporting requirements for universities' commercial activities. States Auditors-General have taken a lead role in advocating more stringent regulatory and accountability requirements for public universities. It may seem ironic that accountability requirements on universities are on the increase while the proportion of their revenue from government sources is decreasing. But, as universities engage more and more in commercial type activities, governments, acknowledging the increased risks, tend to tighten regulatory control.

154. In instances where concerns have been raised about aspects of a university's governance or financial management, State governments have immediately commissioned a review or audit of those aspects and have mostly acted on the findings. Recent reviews have covered such issues as - establishment of offshore campuses, implementation of student records management systems, implementation of new financial management systems, and private work of university staff.

155. The Commonwealth for its part relies on its own accountability framework to assure itself that its funds have been used for the purposes for which they were provided:

- audited financial statements assure that funds provided by the Commonwealth have been accounted for;
- the certification by the CEO assures that the funds have been used for the purposes for which they were provided;
- statistical returns of universities provide detailed data on students that assures the Commonwealth that universities have delivered the services (eg. student places) for which the funds were provided; and
- the data is matched/verified with HECS data from Australian Taxation Office and internal DEST processes.

156. The Educational Profiles process, particularly discussions with universities and relevant State/Territory Governments, provides the Commonwealth with a means of responding quickly to any emerging financial management issues.

157. The Commonwealth has significant leverage over the universities, being the largest provider of funds. The Commonwealth Minister has the legislative power to withhold or seek to withdraw funding from universities, but is unlikely to exercise this power. There is recognition that punitive measures, especially withholding of funds, are unlikely to be effective and will not only affect the students but will harm the long term interests of institutions. The Commonwealth has consistently maintained its policy stance on institutional autonomy and has not interfered directly in the affairs of the universities. Rather, it has tried to steer changes for improved governance and management in the sector through specific initiatives ranging from targeted funding and financial assistance to the promotion of best practice guides and research publications.

158. In providing funding, the Commonwealth seeks to satisfy itself that, in return for funding, the university is doing all it can to ensure it is able to deliver what the community reasonably expects of it and that it is using the funds it receives from the Commonwealth as efficiently as it can. If it were not satisfied, then it would work cooperatively with the university and the relevant State government to achieve the desired outcomes. However, it is not always going to be easy.

159. There is potential for considerable tension between the policy intents of the Commonwealth and the States. Individual universities may also be constrained or disadvantaged by legislative, regulatory and governance arrangements imposed by the States. Universities' own governance arrangements may also have to be reorganised around the contemporary political thinking of the two levels of governments. Also, some States may prefer tighter regulations and active control of the commercial operations of universities, while other States may adopt a more relaxed approach. Such differences in regulatory approach could affect the competitive position of universities in some States.

160. Although the Commonwealth has not attempted to interfere directly in the internal affairs of universities, this is not the case with State governments. There is concern that too much control by State governments could have the effect of shifting governance responsibilities from university governing bodies to the State government. However, recent developments point to a convergence in thinking between the two levels of governments and across jurisdictions on the broader issue of institutional autonomy and of the responsibility of university governing bodies in managing the affairs of the university. There is growing support for less intrusion by the various levels of governments in university affairs and for more effective self-governance.

### **Future Directions – Financial Management and Governance**

161. The current arrangements are unclear on many areas of Commonwealth/State responsibilities and are to be visited as part of the *Review* process to identify ways of improving public accountability while reducing red tape and university reporting

requirements. The shared responsibilities for higher education between the Commonwealth and States/Territories will continue to present some unique challenges, and it would be unrealistic to expect that streamlining administrative and reporting arrangements will overcome these challenges.

162. The Commonwealth is expected, as part of the *Review* outcomes, to pursue a uniform national protocol on university governance and consistency on compliance and reporting requirements across the jurisdictions. It may also be likely that the MCEETYA process is reinvigorated in a way that the Commonwealth and State Ministers could work in a collaborative manner in responding to significant emerging issues.

## CRITICAL ANALYSIS OF CURRENT APPROACHES

### Higher education financing

163. As detailed in the section *Higher Education Funding*, the current funding framework is based on the provision of a single base operating grant on condition that universities provide a specified minimum number of student places in a given year.

164. The teaching component of the operating grant is largely historically based. Since the Relative Funding Model and its adjustments were set in 1990, the amount of operating grant that each institution receives in any given year has been based on the level of funds it received in the previous year, plus or minus any growth or downward adjustment in its Commonwealth funded load.

165. Base operating grant funding is also input based, with educational and management performance having virtually no impact on the level of funding that institutions receive. Universities are not rewarded for high progression and completion rates or particular learning outcomes nor are they rewarded for teaching particular disciplines that may be of local or national significance.

166. The *Review* has indicated that these arrangements, in place since 1988, are due for reappraisal. In particular, the *Review* has pointed out that the current base operating grant approach means that funding is distributed according to a “one-size-fits-all” model. Because the model lacks flexibility, universities receive the same amount for students in particular disciplines regardless of the number of students studying in that discipline, where they are studying and their mode of study. In fact, university cost structures vary considerably because of location, historical advantage, the size and scale of operations and the types of services that are offered.

167. The main difficulties created by the current higher education financing system are therefore its inflexibility and lack of transparency. It is anticipated that the *Review* will address and shed some light on these problems.

### Accountability and institutional monitoring

168. Currently, the Commonwealth’s accountability arrangements seek to ensure at least the minimum levels of higher education provision, quality, and prudent use of funds by universities. In addition the Commonwealth seeks to assure itself of probity in university operations and decision-making, particularly in the provision of equitable and transparent access to universities by students from across the community, in universities’ research endeavours and commercial ventures, and in their strategic decision-making.

169. The Commonwealth ensures public accountability of its funding primarily through the Educational Profiles process, the acquittal of other special purpose grants, and other reporting requirements. As part of the Profiles process, the Commonwealth collects triennium data and

planning documentation on a number of areas as described in *Educational Profiles* and Appendices 5 and 6.

170. The Commonwealth also collects data on students (including enrolment, student load, courses, academic organisational units, HECS, PELS, unit and course completions, and payment option declarations); staff (including full time, fractional full time, casual, gender, and age); research activities (publications, and source and quantum of income); and finance (audited annual financial statements and financial statistics). The universities' students, staff and finance data are published by the Commonwealth and are open for public scrutiny.

171. As part of the accountability arrangements, the Commonwealth also imposes reporting requirements on universities that are specific to the various programmes under which they receive funding, through the AUQA, and under the ESOS Act.

172. The current accountability arrangements for higher education funding have evolved from the context of Commonwealth funding to universities for "inputs" (eg. salaries, capital) for the "processes" (what they do) in a cash accounting environment. The Profiles process is an important avenue for universities to describe their activities and how they use the Commonwealth funds. It must be acknowledged that much of the requirements for data and planning documentations have been useful and have helped encourage universities in establishing proper processes and management over the years.

173. Nevertheless, the emphasis on compliance and the lack of a robust performance based accountability framework have created difficulties in two areas: excessive university reporting requirements; and a failure to encourage effective self-governance in universities.

174. The accountability arrangements and much of the existing reporting requirements were established in the late 1980s and have increased in volume and scope over the years. There is growing concern in the sector about the increasing compliance burden. In their submissions to the *Review*, universities were critical of the intimidating array of reporting requirements and the burden of compliance. The Commonwealth Government responded to these criticisms early on in the *Review* process, making it clear that reducing red tape and the cumbersome bureaucratic process imposed on universities under the current arrangements would be a priority.

175. Secondly, the Educational Profiles and grants acquittal processes do not focus on outcomes or encourage universities to develop outcome-based strategies. Although for many years Commonwealth funding has been referenced to the "number of student places" (or "outputs"), the accountability framework has remained focussed on "compliance" and "conformance" rather than on "performance" or "accountability for results".

176. The Educational Profiles process could be redesigned to provide better accountability. Instead of being based on the universities' submission of reports and plans, the process needs to centre on bilateral discussions which would address specific financial and organisational performance issues and the reporting of measurable outcomes. A more precisely targeted Educational Profiles process would also assist the Commonwealth to develop a higher

education system based on diversity, specialisation and regional engagement. In its current format, the Educational Profiles process lacks the flexibility necessary to promote the differentiation of university structures, missions and course offerings.

177. The Commonwealth may choose to adopt an accountability framework that encompasses “compliance” (legal, ethical and administrative due process) and “performance” (effectiveness and efficiency) to derive improved “corporate governance” and “public accountability” in universities. Performance could be assessed for efficiency and effectiveness of organisational outcomes, research outcomes and student outcomes.

178. Accountability arrangements can and do drive institutional behaviour or could produce outcomes that were not intended. For example, it would not be exaggerating to say that the current accountability framework has contributed to driving universities towards uniformity. While a “performance” based accountability framework (eg. outcomes and outputs) could be articulated to encourage institutional performance to achieve the best possible return on public investment, “compliance” measures will also have to be in place to monitor and ensure the substantial public investment is protected.

179. Elements of the current accountability framework, such as the external accountability of financial statement audit by Government auditor and the funds acquittal process should be retained and improved. Improvements can be effected in many areas of accountability and reporting based on the principles of effective institutional self-governance and assessment of Commonwealth policy outcomes, without much bureaucratic red tape. For example, universities could be required to inform the Commonwealth of any significant events or issues that will have a significant impact on the university’s operations or reputation, or are of interest to the Commonwealth. Reporting requirements imposed on public companies by Corporations Law, Australian Securities Exchange (ASX) listing rules, and the Australian Securities and Investment Commission (ASIC) to protect investors and ensure good governance could also guide the development of reporting requirements for universities.

180. Universities could also be asked to have clearly laid out principles or criteria for investments, borrowings and capital expenditure. Universities and their controlled entities are subject to audit by State Auditors-General, but not the subsidiaries and joint ventures that universities do not control. Arrangements should be put in place for either the Government auditor or an independent auditor to audit institutions subsidiaries and joint ventures. These entities should be certified as having appropriate internal financial controls and probity arrangements.

### **Governance arrangements**

181. As detailed in the sections *Emerging Financial Management and Governance Issues* and *Handling Financial Management and Governance Issues*, universities are currently facing significant challenges in the area of governance. Increased competition and the growth of commercial activities require universities to have transparent accountability arrangements and strong financial management capabilities in order to avoid being exposed to higher levels of risk. The Commonwealth’s approach to date has been to steer changes for improved

governance and management in the sector through specific initiatives such as targeted funding, and commissioning/publishing research on good practice.

182. The current approach to ensure the financial management and good governance of universities is multi-layered, as the Commonwealth, State/Territory governments and universities all have different, but sometimes duplicated and cumbersome, roles. This shared responsibility already presents difficulties for the Commonwealth, and will continue to do so in the future.

183. For example, the Commonwealth is concerned that many university governing bodies are too large (up to 35 members), and include members who represent sectional interests or who are Ministerial, Vice-regal or other special appointments. Members of governing bodies often lack the specific skills and attributes needed to effectively govern their institutions commercial activities (see section *Institutional Governance*). Governing boards should also be required to ensure that institutions develop and implement appropriate risk management strategies, accountability processes and internal controls in respect of their commercial entities. And a uniform national protocol for university governance could be developed. The scope for making such changes to governing bodies and governance processes will be greatly limited without the cooperation of relevant State/Territory Governments.

184. The Commonwealth Government's preference is to support effective self-governance in universities and to reduce the demands placed on universities due to unnecessary reporting requirements. Effective self-governance entails greater institutional autonomy and responsibility. This will create new challenges for the Commonwealth to ensure that the substantial past and ongoing public investment is protected and the best possible return on the public investment is achieved. If enhanced public accountability and improved governance and financial management arrangements in universities are to be achieved with reduced regulatory burden, then agreements will have to be reached between the Commonwealth and States/Territories on a number of specific areas. The *Review* will address at least some of these key financial management and governance issues.

## ADDENDUM (MAY 2003)

185. The Government's response to the Review was announced on 13 May 2003 as part of the 2003-2004 Budget. The Reform package, *Our Universities: Backing Australia's Future*, lays the foundation for a ten-year vision for Australian higher education, with approximately AUD 1.5 billion additional Commonwealth funding invested in the sector over four years. Full details of the package are at

186. <http://www.backingaustraliasfuture.gov.au/review.htm>. The reform package is an integrated package of over 60 initiatives and is subject to the passage of legislation. The reforms, if passed by Parliament, will introduce far reaching changes to Australia's higher education system and will render much of the current funding arrangements as outlined in the body of the report, obsolete.

187. The addendum focuses only on three aspects of the reform that are more relevant to the report – key principles of the reform; a new accountability framework; and university governance arrangements.

### Key principles

188. The Government's package of reforms is underpinned by four key principles.

#### 1. *Sustainability*

- deregulation of the market and increased capacity to generate non-government revenue
- creation of a coherent and consistent policy framework
- increased Commonwealth funding per place
- additional support for regional campuses
- ensuring programme growth in line with population
- improving governance and flexibility of institutions
- ensuring course provision addresses labour market needs

#### 2. *Quality*

- ensuring all Commonwealth supported places are funded at a level that sustains quality learning outcomes
- improving the quality of learning and teaching outcomes
- creating incentives to promote collaboration between institutions and business/industry and local communities

- new accountability framework

### 3. *Equity*

- no cost to students at the point of entry (public and eligible private institutions)
- increased repayment thresholds in student loan schemes
- increasing participation and outcomes for disadvantaged groups
- incentives for students to undertake courses in National Priority areas
- additional Commonwealth supported places

### 4. *Diversity*

- differentiation through structure, mission, goals, course offerings, research strengths and partnerships
- provision of a range of targeted performance-based incentives, not mandated requirements

## **A New Accountability Framework (Institution Assessment Framework)**

189. To support the new funding arrangements proposed under *Backing Australia's Future*, the Commonwealth will introduce a new accountability framework for Australian higher education institutions. The new accountability framework, which will replace the existing Educational Profiles process from 2004, is based on a more strategic bilateral engagement with each institution and is underpinned by an 'Institution Assessment Framework' that clearly articulates the Commonwealth's accountability requirements. The Framework will apply to all institutions receiving Commonwealth funding.

190. The Institution Assessment Framework (IAF) also support the Commonwealth's commitment to reduce the amount of reporting required of institutions. The Framework produces an across-the-board assessment of institutional achievements based on quantitative and qualitative data from universities and external sources.

191. The IAF is founded on the responsibilities of the Commonwealth to ensure that the institutions it funds are sustainable and deliver the outputs for which they are funded, that their outcomes are of a high quality and that they comply with their legal obligations. The IAF produces an across-the-board assessment of institutional achievements based on quantitative and qualitative data from universities and external sources. The Commonwealth's assessment of an institution will form the basis of strategic bilateral discussions between DEST and an individual institution.

192. The Framework has four principal elements. A graphical illustration of the IAF is at [Appendix 9](#).

### **1. *Organisational sustainability***

To gain assurance that institutions are able to continue delivering the services the Commonwealth is funding. It covers:

- leadership and strategic direction;
- risk management; and
- Financial accountability.

## **2. *Achievements in higher education provision***

The extent to which institutions have contributed to meeting the Government's higher education objectives. It covers:

- the provision of student places and the extent to which the institution has met demand;
- the distribution of places between courses and disciplines;
- adequacy of student access and support; and
- research activity and how this relates to the institution's mission and particular strengths.

## **3. *Quality of outcomes***

The Department's assessment of quality will draw on a range of quality indicators and processes already used in the sector. It will use findings from the Australian Universities' Quality Agency's audits, focusing on outcomes.

## **4. *Compliance***

The compliance assessment ensures that institutions have acquitted their funds and that institutions have complied with legislative requirements.

193. Information required under the IAF will be compiled annually and used systematically in forming the Commonwealth's assessments of institutions. Detailed bilateral discussions between DEST and individual institutions will occur only biennially unless there is a specific need for additional meetings (for example, if concerns arise from the assessments). The discussions will focus on immediate issues as well as longer term strategic initiatives. They will also serve as a useful forum for sharing "best practice" information. Negotiation of places will be done for each institution annually through Funding Agreements.

194. DEST officers in specific higher education areas, such as equity, quality and financial analysis will visit individual institutions separately, at least once every two years (or as the need arises), to gain a better understanding of institutional specific issues and to develop useful professional networks. These initiatives will generate closer engagement and greater cooperation with each university than is possible under the current Profiles arrangements.

## **Governance Arrangements**

195. *Backing Australia's Future* includes initiatives to improve university governance. The Commonwealth has developed a set of National Governance Protocols for Public Higher Education Institutions. These Protocols build on the outcomes of the Review of University Governance undertaken by the Victorian Government (2002) and the Higher Education Management Review chaired by David Hoare (1995). The Protocols will strengthen university governance by increasing the responsibilities of university councils in overseeing commercial activities, requiring councils to discharge these responsibilities in a transparent way and ensuring the protection of the public interest.

196. The Protocols were developed on advice from both the university and business sectors having regard to current best practice models. The Protocols will require universities to specify the duties of their council members, and have in place a formal programme of professional development for council members. Members will be required to be “trustees” of the institution and act solely in the interests of the university rather than as a delegate or representative of a particular constituency. Councils will not exceed 18 members and will have at least two members with financial expertise and one with commercial expertise. The majority of members will be external to the institution.

197. Incremental increases in Commonwealth funding will be conditional on implementation of these Protocols and workplace reform requirements. New legislation will outline the conditionality of funding and compliance will be monitored through Funding Agreements to be negotiated between the Commonwealth and each institution. Institutions will need to agree to and implement those aspects of the Protocols that are within their legal power. Each State and Territory will be required to agree to and implement those aspects of the Protocols within their power, including passage of relevant legislation, if institutions within its jurisdiction are to receive the funding increase. Amendments will also be made to the legislation of the two institutions under direct Commonwealth control, namely the Australian National University and the Australian Maritime College, to ensure that their governance arrangements reflect best practice and the National Governance Protocols.

## **APPENDICES**

Appendix 1 Diversity and Performance of Australian Universities – context, scale of operations and governance

Appendix 2 Financial Data for Australian Universities - Tables and Charts

Appendix 3 Changes in Enrolment Composition - Australia 1996-2001

Appendix 4 Changes in University Staffing – Australia 1992-2001

Appendix 5 2002 Educational Profiles Documentation

Appendix 6 Annual Educational Profiles Process

Appendix 7 Integrated Financial Monitoring Framework

Appendix 8 Interim Performance Management Assessment for 2002 Profiles (2003-2005 Triennium Funding)

Appendix 9 Structure of the Institution Assessment Framework

## Appendix 1- Diversity And Performance Of Australian Universities—Context, Scale Of Operations And Governance

	Year established as a university	Total revenue AUD '000 (2001)	Total assets AUD '000 (2001)	Number of campuses in Australia (1996)	Number of fields of study in which under-graduate students are enrolled (2000)	Total onshore student enrolments in Australia (2000)	Total offshore student enrolments overseas (2000)	Total number of members of University council (2000)	Total number of full-time and fractional full-time staff (2000)
<b>Older established universities</b>									
The University of Sydney	1851	739,923	2,918,334	11	10	34 691	430	21	5 218
The University of Melbourne	1853	741,467	2,548,919	9	10	33 362	0	19	4 949
The University of Adelaide	1874	295,496	674,359	4	9	12 805	80	21	2 253
University of Tasmania	1890	179,359	361,593	3	9	11 496	350	24	1 519
The University of Queensland	1909	643,363	1,600,699	2	10	29 716	0	34	4 919
The University of Western Australia	1911	349,609	1,216,227	1	9	274	0	22	2 658
The Australian National University	1946	447,741	1,551,192	1	6	9 344	35	22	2 985
The University of New South Wales	1949	649,466	1,562,282	4	8	31 300	198	21	5 132
The University of New England	1953	134,628	349,045	1	9	14 553	256	19	1 302
Monash University	1958	664,170	1,242,676	6	7	38 444	3 204	21	4 939

**Appendix 1 - Diversity And Performance Of Australian Universities—Context, Scale Of Operations And Governance (Cont.)**

	Year established as a university	Total revenue AUD '000 (2001)	Total assets AUD '000 (2001)	Number of campuses in Australia (1996)	Number of fields of study in which under-graduate students are enrolled (2000)	Total onshore student enrolments in Australia (2000)	Total offshore student enrolments overseas (2000)	Total number of members of University council (2000)	Total number of full-time and fractional full-time staff (2000)
<b>Universities established 1960-1986</b>									
Macquarie University	1964	219,433	746,781	1	7	19 771	850	19	1 484
La Trobe University	1964	292,276	654,433	8	8	20 013	411	21	2 326
The University of Newcastle	1965	232,808	727,346	2	8	18 087	162	19	2 134
The Flinders University of South Australia	1966	166,468	255,355	1	7	11 233	171	21	1 571
James Cook University	1970	165,401	376,745	2	9	10 262	0	26	1 203
Griffith University	1971	317,910	805,378	5	8	23 836	0	25	2 365
Murdoch University	1973	152,550	341,005	2	8	10 144	719	25	1 185
Deakin University	1974	303,569	717,793	6	8	25 668	0	21	1 917
University of Wollongong	1975	182,146	413,069	2	7	12 375	282	18	1 396

**Appendix 1 - Diversity And Performance Of Australian Universities—Context, Scale Of Operations And Governance (Cont.)**

	Year established as a university	Total revenue AUD '000 (2001)	Total assets AUD '000 (2001)	Number of campuses in Australia (1996)	Number of fields of study in which under-graduate students are enrolled (2000)	Total onshore student enrolments in Australia (2000)	Total offshore student enrolments overseas (2000)	Total number of members of University council (2000)	Total number of full-time and fractional full-time staff (2000)
<b>Universities established post 1987</b>									
Curtin University of Technology	1987	344,316	697,632	6	9	21 405	209	21	2 376
Queensland University of Technology	1988	328,493	595,365	4	8	29 608	77	22	2 665
Northern Territory University	1988	56,827	174,112	1	8	4 045	0	20	603
University of Western Sydney	1989	279,816	692,940	11	9	27 807	1 067	17	2 273
Charles Sturt University	1990	177,825	354,891	9	7	23 326	4 583	19	1 540
University of Technology, Sydney	1990	264,616	719,434	3	9	23 509	298	21	1 813
Victoria University of Technology	1990	170,619	360,414	7	8	15 644	1 534	22	1 217
University of Canberra	1990	103,097	202,679	1	9	8 331	250	21	787
Edith Cowan University	1991	191,307	400,227	5	7	18 277	814	21	1 615
University of Notre Dame Australia	1991	16,780	38,761	2	5	13 280	199	na	105
University of South Australia	1991	268,037	734,106	6	9	21 893	2 845	21	1 981
Australian Catholic University	1991	94,564	182,324	8	5	9 713	0	16	810
Royal Melbourne Institute of Technology	1992	347,059	1,041,733	4	8	26 772	4 190	22	2 278

**Appendix 1 - Diversity And Performance Of Australian Universities—Context, Scale Of Operations And Governance (Cont.)**

	Year established as a university	Total revenue AUD '000 (2001)	Total assets AUD '000 (2001)	Number of campuses in Australia (1996)	Number of fields of study in which under-graduate students are enrolled (2000)	Total onshore student enrolments in Australia (2000)	Total offshore student enrolments overseas (2000)	Total number of members of University council (2000)	Total number of full-time and fractional full-time staff (2000)
Swinburne University of Technology	1992	133,467	282,678	3	4	12 105	0	22	1 058
Central Queensland University	1992	194,239	243,035	7	7	13 203	547	19	1 023
University of Southern Queensland	1992	118,399	169,342	2	6	15 342	0	22	1 094
Southern Cross University	1994	82,777	146,579	3	7	8 955	0	18	641
University of Ballarat	1994	65,575	172,904	1	6	4 216	307	22	422
University of the Sunshine Coast	1996	31,697	61,604	1	4	2 594	0	21	213
<b>Australia</b>		<b>AUD 10,182,151</b>	<b>AUD 26,388,283</b>	<b>155</b>	<b>10</b>	<b>667 399</b>	<b>24 068</b>		<b>75 969</b>

## Appendix 2 - Financial Data For Australian Universities - Tables Andcharts

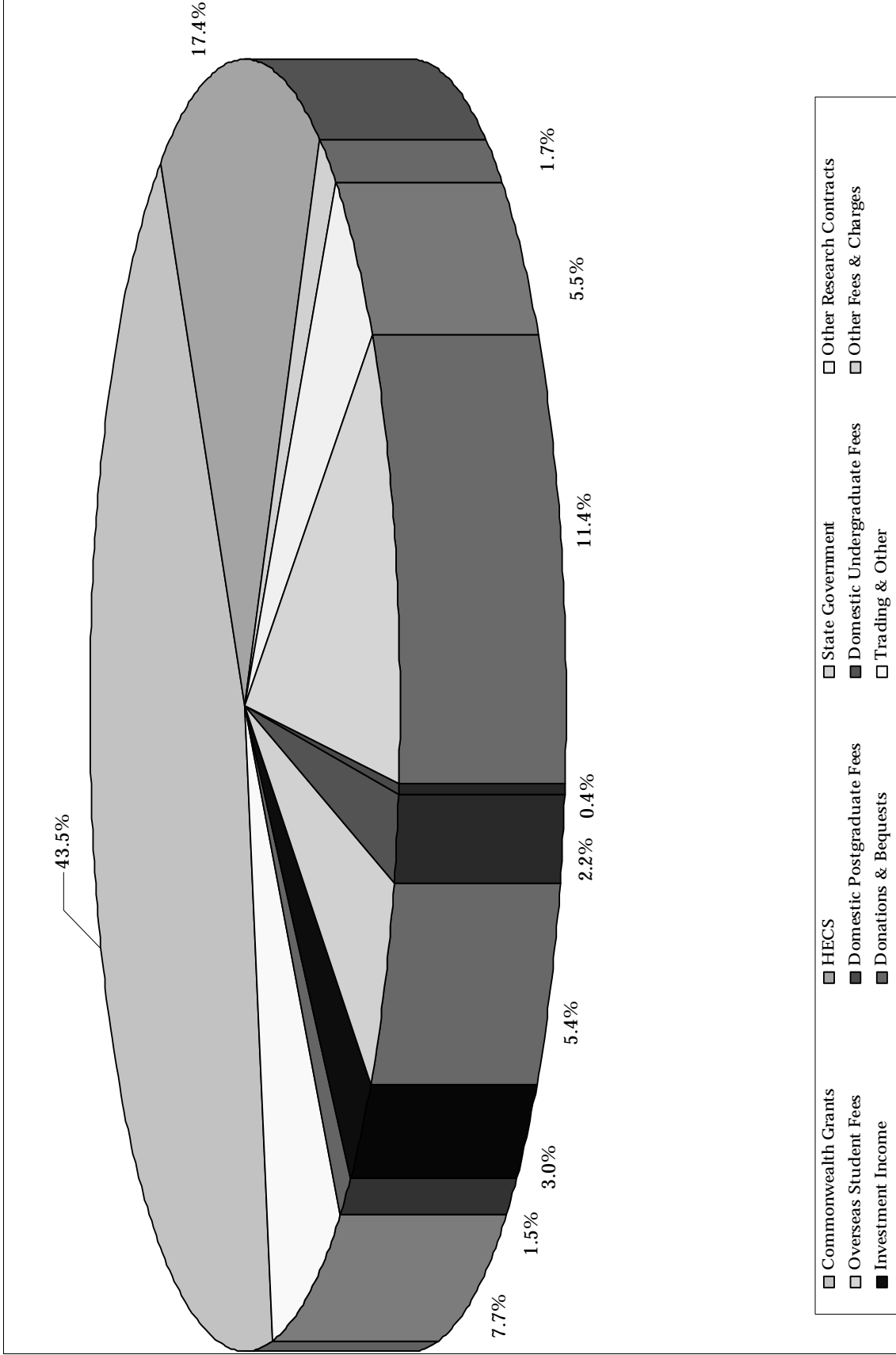
Year 2001 Universities	Commonwealth Grants		HECS		Total Revenue	Capital Funding		Staff Costs		Operating Result	
	(\$ 000)	% of Revenue	(\$ 000)	% of Revenue	(\$ 000)	(\$ 000)	% of Revenue	(\$ 000)	% of Expense	(\$ 000)	Op. Margin %
Charles Sturt University	68,644	38.6%	48,638	27.4%	177,825	6,884	3.9%	104,693	66.2%	3,961	2.2%
Macquarie University	83,620	38.1%	47,664	21.7%	219,433	5,921	2.7%	117,919	68.5%	14,036	6.4%
Souther Cross University	41,932	50.7%	21,770	26.3%	82,777	3,677	4.4%	49,490	68.5%	69	0.1%
University of New England	74,045	55.0%	29,297	21.8%	134,628	4,390	3.3%	69,469	66.3%	2,356	1.8%
University of New South Wales	301,469	46.4%	71,865	11.1%	649,466	11,360	1.7%	361,621	66.1%	28,621	4.4%
University of Newcastle	117,780	50.6%	49,566	21.3%	232,808	7,925	3.4%	151,529	67.3%	-5,654	-2.4%
University of Sydney	328,431	44.4%	104,011	14.1%	739,923	16,377	2.2%	392,160	68.4%	88,791	12.0%
University of Technology, Sydney	104,766	39.6%	56,546	21.4%	264,616	9,935	3.8%	158,769	66.3%	11,103	4.2%
University of Western Sydney	133,293	47.6%	83,360	29.8%	279,816	11,219	4.0%	178,919	69.5%	3,470	1.2%
University of Wollongong	80,427	44.2%	33,472	18.4%	182,146	4,766	2.6%	100,971	69.5%	3,707	2.0%
Deakin University	112,693	37.1%	58,730	19.3%	303,569	8,355	2.8%	137,581	66.3%	15,347	5.1%
LaTrobe University	125,567	43.0%	62,825	21.5%	292,276	8,883	3.0%	177,739	70.3%	-7,813	-2.7%
Monash University	242,640	36.5%	98,061	14.8%	664,170	13,698	2.1%	355,761	69.5%	21,282	3.2%
Royal Melbourne Institute of Technology	130,854	37.7%	61,774	17.8%	347,059	9,357	2.7%	212,950	69.0%	4,536	1.3%
Swinburne Institute of Technology	51,271	38.4%	28,485	21.3%	133,467	5,186	3.9%	70,706	70.5%	14,120	10.6%
University of Ballarat	25,501	38.9%	14,286	21.8%	65,575	1,868	2.8%	34,444	69.8%	9,909	15.1%
University of Melbourne	323,726	43.7%	83,758	11.3%	741,467	14,442	1.9%	380,005	70.1%	68,208	9.2%
Victoria University of Technology	69,525	40.7%	49,417	29.0%	170,619	6,640	3.9%	97,105	73.0%	9,171	5.4%
Central Queensland University	54,467	28.0%	30,491	15.7%	194,239	6,335	3.3%	70,007	64.4%	17,128	8.8%
Griffith University	134,282	42.2%	68,906	21.7%	317,910	16,364	5.1%	172,565	66.7%	11,511	3.6%
James Cook University	84,813	51.3%	32,432	19.6%	165,401	8,106	4.9%	87,748	67.7%	18,453	11.2%
Queensland University of Technology	143,551	43.7%	81,822	24.9%	328,493	12,967	3.9%	193,738	65.5%	11,126	3.4%
University of Queensland	261,230	40.6%	88,781	13.8%	643,363	19,051	3.0%	338,242	67.2%	36,754	5.7%
University of Southern Queensland	49,517	41.8%	28,350	23.9%	118,399	5,960	5.0%	70,876	64.0%	304	0.3%
University of Sunshine Coast	17,012	53.7%	9,123	28.8%	31,697	5,203	16.4%	15,674	64.3%	6,114	19.3%
Curtin University of Technology	122,265	35.5%	54,220	15.7%	344,316	8,728	2.5%	200,992	68.6%	907	0.3%
Edith Cowan University	87,791	45.9%	46,334	24.2%	191,307	9,223	4.8%	113,193	68.9%	14,882	7.8%
Murdoch University	61,292	40.2%	26,697	17.5%	152,550	4,074	2.7%	89,521	64.9%	688	0.5%
University of Notre Dame	3,530	21.0%	846	5.0%	16,780	0	0.0%	6,883	66.3%	242	1.4%
University of Western Australia	125,115	35.8%	42,697	12.2%	349,609	6,260	1.8%	198,342	68.2%	20,263	5.8%
Flinders University	88,856	53.4%	30,856	18.5%	166,468	4,767	2.9%	108,002	69.4%	7,523	4.5%
University of Adelaide	160,118	54.2%	39,163	13.3%	295,496	6,850	2.3%	171,873	68.8%	-6,365	-2.2%
University of South Australia	110,981	41.4%	61,434	22.9%	268,037	9,144	3.4%	171,252	71.2%	5,231	2.0%
Australian Maritime College	10,391	54.4%	1,291	6.8%	19,102	0	0.0%	11,417	68.0%	-2,012	-10.5%
University of Tasmania	101,708	56.7%	34,933	19.5%	179,359	5,357	3.0%	106,148	67.5%	-4,842	-2.7%
Batchelor Institute	14,082	89.4%	1,295	8.2%	15,756	776	4.9%	7,969	61.6%	1,317	8.4%
Northern Territory University	29,950	52.7%	10,677	18.8%	56,827	1,759	3.1%	29,221	67.4%	10,724	18.9%
Australian National University	275,274	61.5%	24,778	5.5%	447,741	10,531	2.4%	219,910	64.0%	25,830	5.8%
University of Canberra	37,801	36.7%	23,596	22.9%	103,097	3,432	3.3%	64,778	67.1%	1,959	1.9%
Australian Catholic University	43,729	46.2%	27,064	28.6%	94,564	4,149	4.4%	60,184	71.1%	1,018	1.1%
<b>Sector</b>	<b>4,433,939</b>	<b>44.9%</b>	<b>1,769,311</b>	<b>19.0%</b>	<b>10,182,151</b>	<b>299,920</b>	<b>3.5%</b>	<b>5,660,366</b>	<b>67.7%</b>	<b>463,975</b>	<b>4.4%</b>

## Appendix 2 - Financial Data For Australian Universities - Tables And Charts (Cont.)

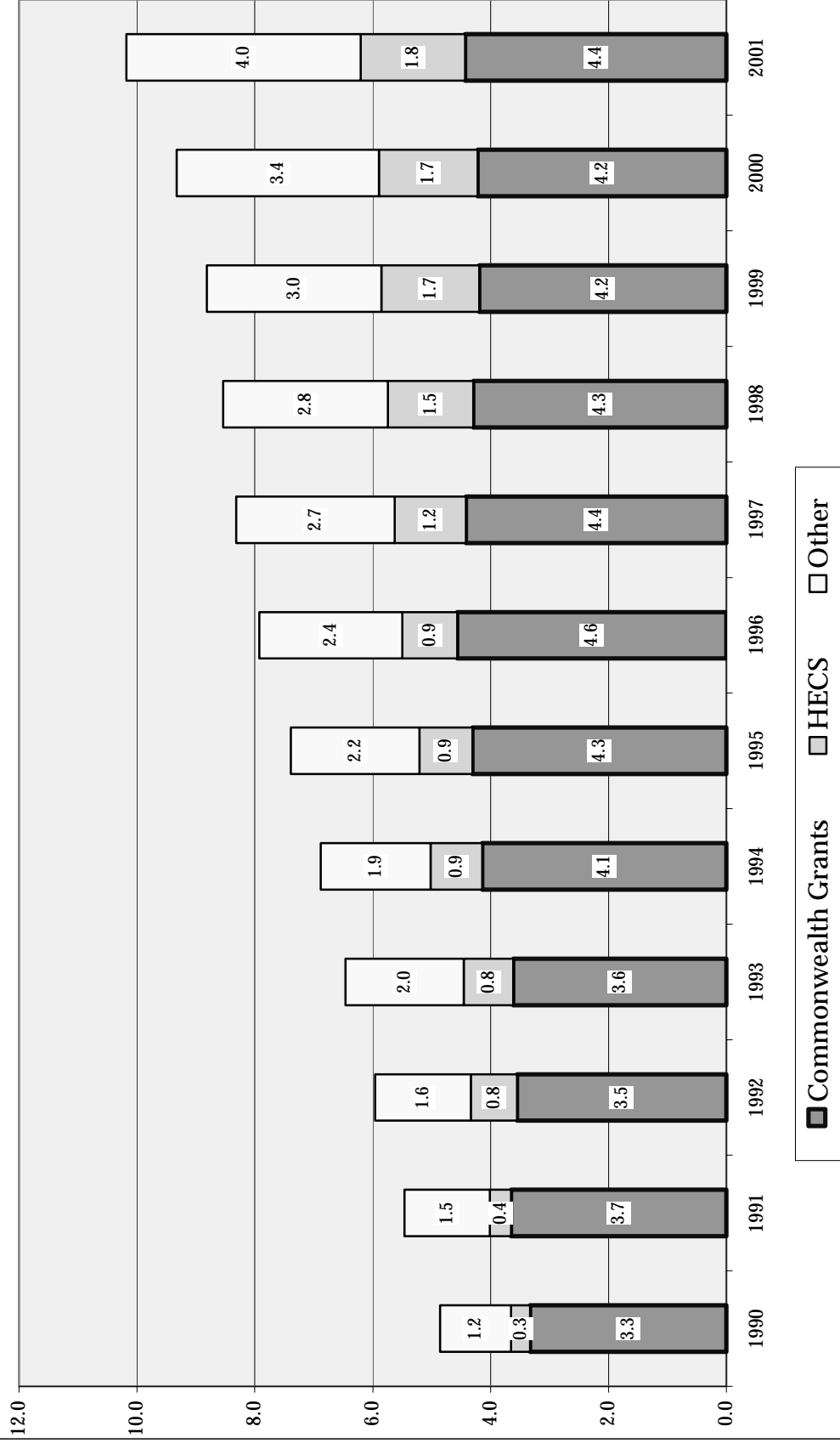
Year 2001 Universities	Cash & Investments		Land & Buildings		Total Assets		Net Assets		Borrowings	
	(\$ 000)	% of Assets	(\$ 000)	% of Assets	(\$ 000)	(\$ 000)	(\$ 000)	% of Assets	(\$ 000)	(\$ 000)
Charles Sturt University	43,466	12.2%	220,519	62.1%	354,891	271,551	76.5%	0	0	0
Macquarie University	107,587	14.4%	494,894	66.3%	746,781	570,138	76.3%	17,427	17,427	0
Southern Cross University	12,378	8.4%	101,181	69.0%	146,579	118,956	81.2%	0	0	0
University of New England	21,643	6.2%	164,580	47.2%	349,045	231,911	66.4%	13,754	13,754	0
University of New South Wales	340,071	21.8%	812,692	52.0%	1,562,282	1,100,001	70.4%	0	0	0
University of Newcastle	57,777	7.9%	539,916	74.2%	727,346	593,397	81.6%	0	0	0
University of Sydney	736,620	25.2%	1,077,095	36.9%	2,918,334	2,490,259	85.3%	0	0	0
University of Technology, Sydney	114,265	15.9%	462,633	64.3%	719,434	534,878	74.3%	40,000	40,000	0
University of Western Sydney	94,977	13.7%	517,018	74.6%	692,940	605,767	87.4%	0	0	0
University of Wollongong	40,487	9.8%	271,886	65.8%	413,069	304,283	73.7%	7,175	7,175	0
Deakin University	50,360	7.0%	401,842	56.0%	717,793	491,001	68.4%	30,942	30,942	0
LaTrobe University	52,121	8.0%	176,669	27.0%	654,433	492,616	75.3%	28,006	28,006	0
Monash University	169,062	13.6%	713,634	57.4%	1,242,676	915,262	73.7%	76,033	76,033	0
Royal Melbourne Institute of Technology	5,307	0.5%	719,381	69.1%	1,041,733	666,624	64.0%	25,000	25,000	0
Swinburne Institute of Technology	21,327	7.5%	93,536	33.1%	282,678	133,871	47.4%	7,500	7,500	0
University of Ballarat	16,853	9.7%	87,703	50.7%	172,904	100,454	58.1%	4,177	4,177	0
University of Melbourne	535,317	21.0%	1,266,768	49.7%	2,548,919	2,155,025	84.5%	143,763	143,763	0
Victoria University of Technology	23,941	6.6%	229,870	63.8%	360,414	229,593	63.7%	8,550	8,550	0
Central Queensland University	41,393	17.0%	113,616	46.7%	243,035	196,593	80.9%	20,241	20,241	0
Griffith University	34,634	4.3%	592,594	73.6%	805,378	722,899	89.8%	27,711	27,711	0
James Cook University	48,391	12.8%	238,698	63.4%	376,745	333,151	88.4%	22,504	22,504	0
Queensland University of Technology	147,348	24.7%	262,082	44.0%	595,365	534,373	89.8%	1,119	1,119	0
University of Queensland	175,067	10.9%	620,942	38.8%	1,600,699	1,479,247	92.4%	0	0	0
University of Southern Queensland	11,850	7.0%	114,945	67.9%	169,342	149,827	88.5%	0	0	0
University of Sunshine Coast	6,349	10.3%	41,321	67.1%	61,604	53,874	87.5%	4,727	4,727	0
Curtin University of Technology	90,821	13.0%	454,932	65.2%	697,632	510,086	73.1%	28,760	28,760	0
Edith Cowan University	26,217	6.6%	329,173	82.2%	400,227	324,004	81.0%	2,971	2,971	0
Murdoch University	20,432	6.0%	284,764	83.5%	341,005	308,879	90.6%	8,559	8,559	0
University of Notre Dame	2,517	6.5%	32,584	84.1%	38,761	15,740	40.6%	19,778	19,778	0
University of Western Australia	557,435	45.8%	535,042	44.0%	1,216,227	1,131,798	93.1%	0	0	0
Flinders University	40,332	15.8%	102,821	40.3%	255,355	201,138	78.8%	1,573	1,573	0
University of Adelaide	147,363	21.9%	393,679	58.4%	674,359	559,828	83.0%	22,216	22,216	0
University of South Australia	61,015	8.3%	350,331	47.7%	734,106	390,761	53.2%	15,050	15,050	0
Australian Maritime College	12,912	25.2%	24,841	48.4%	51,319	47,639	92.8%	0	0	0
University of Tasmania	91,583	25.3%	195,568	54.1%	361,593	296,146	81.9%	0	0	0
Batchelor Institute	2,461	82.8%	0	0.0%	2,973	381	12.8%	0	0	0
Northern Territory University	24,195	13.9%	135,180	77.6%	174,112	153,987	88.4%	2,618	2,618	0
Australian National University	757,798	48.9%	620,375	40.0%	1,551,192	1,046,161	67.4%	0	0	0
University of Canberra	20,745	10.2%	157,320	77.6%	202,679	177,150	87.4%	4,500	4,500	0
Australian Catholic University	21,476	11.8%	134,922	74.0%	182,324	133,801	73.4%	5,957	5,957	0
<b>Sector</b>	<b>4,785,893</b>	<b>16.0%</b>	<b>14,087,547</b>	<b>57.4%</b>	<b>26,388,283</b>	<b>20,773,050</b>	<b>75.6%</b>	<b>590,611</b>	<b>590,611</b>	<b>0</b>

Appendix 2 - Financial Data For Australian Universities - Tables And Charts (Cont.)

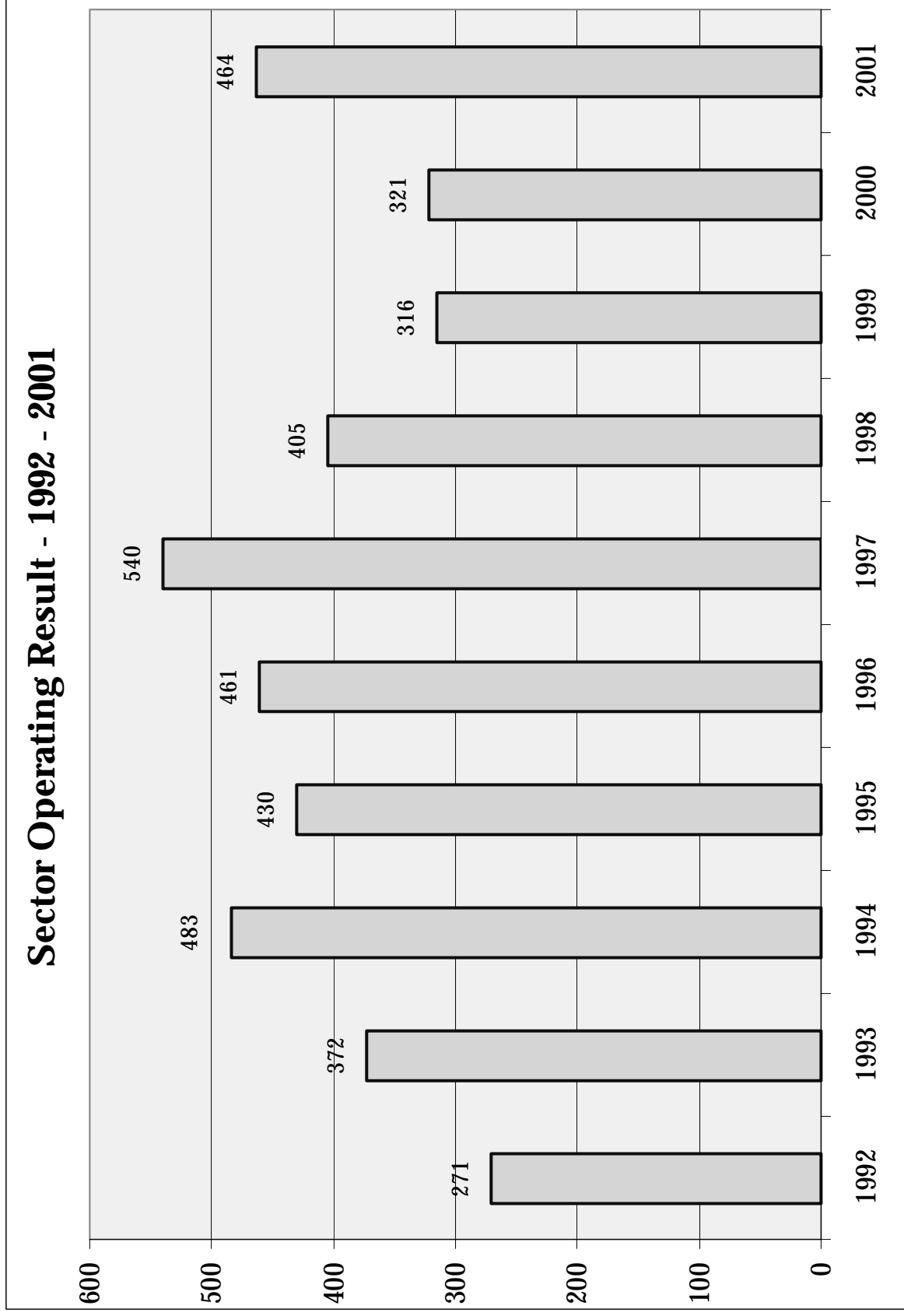
Revenue by Sources 2001

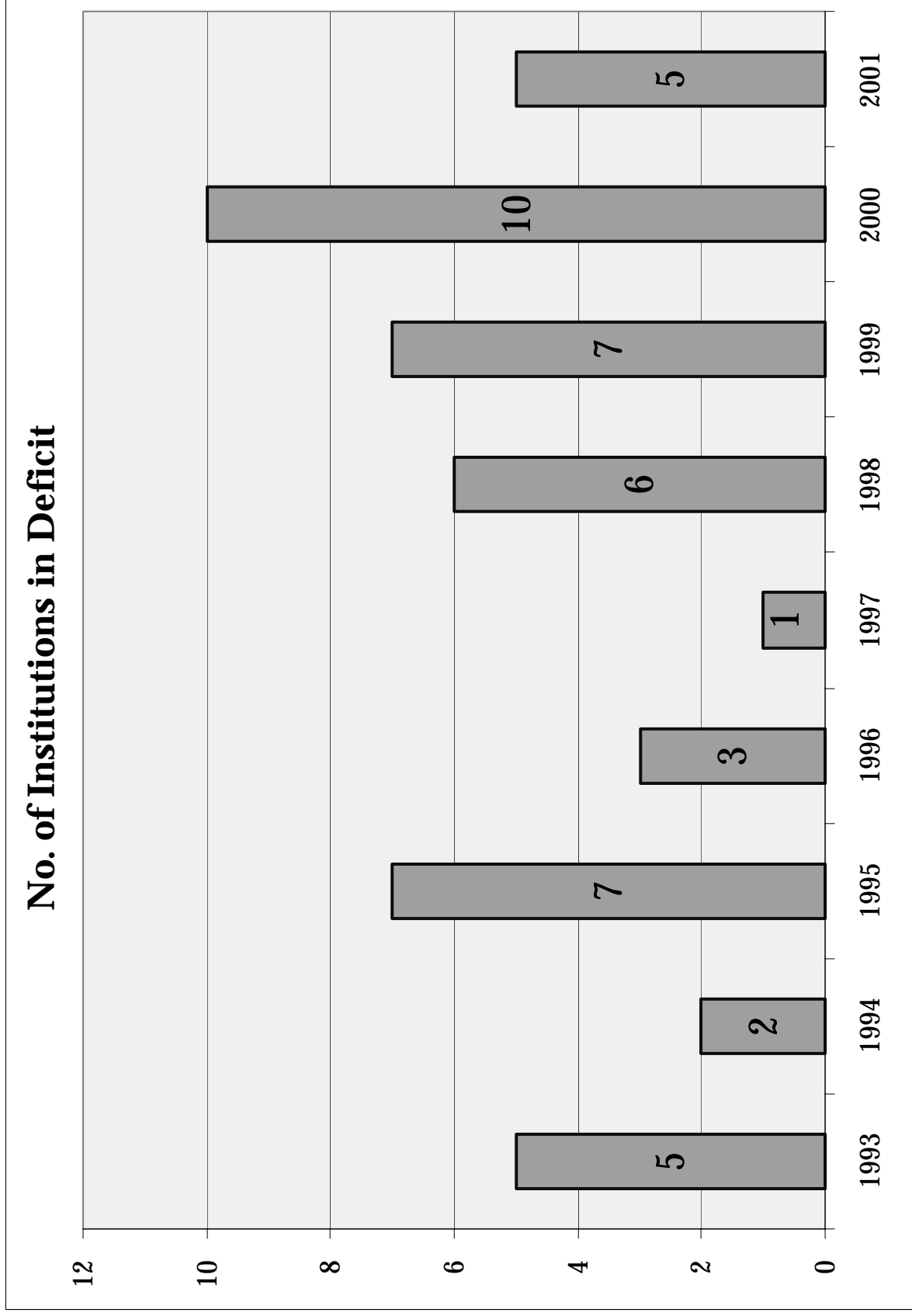


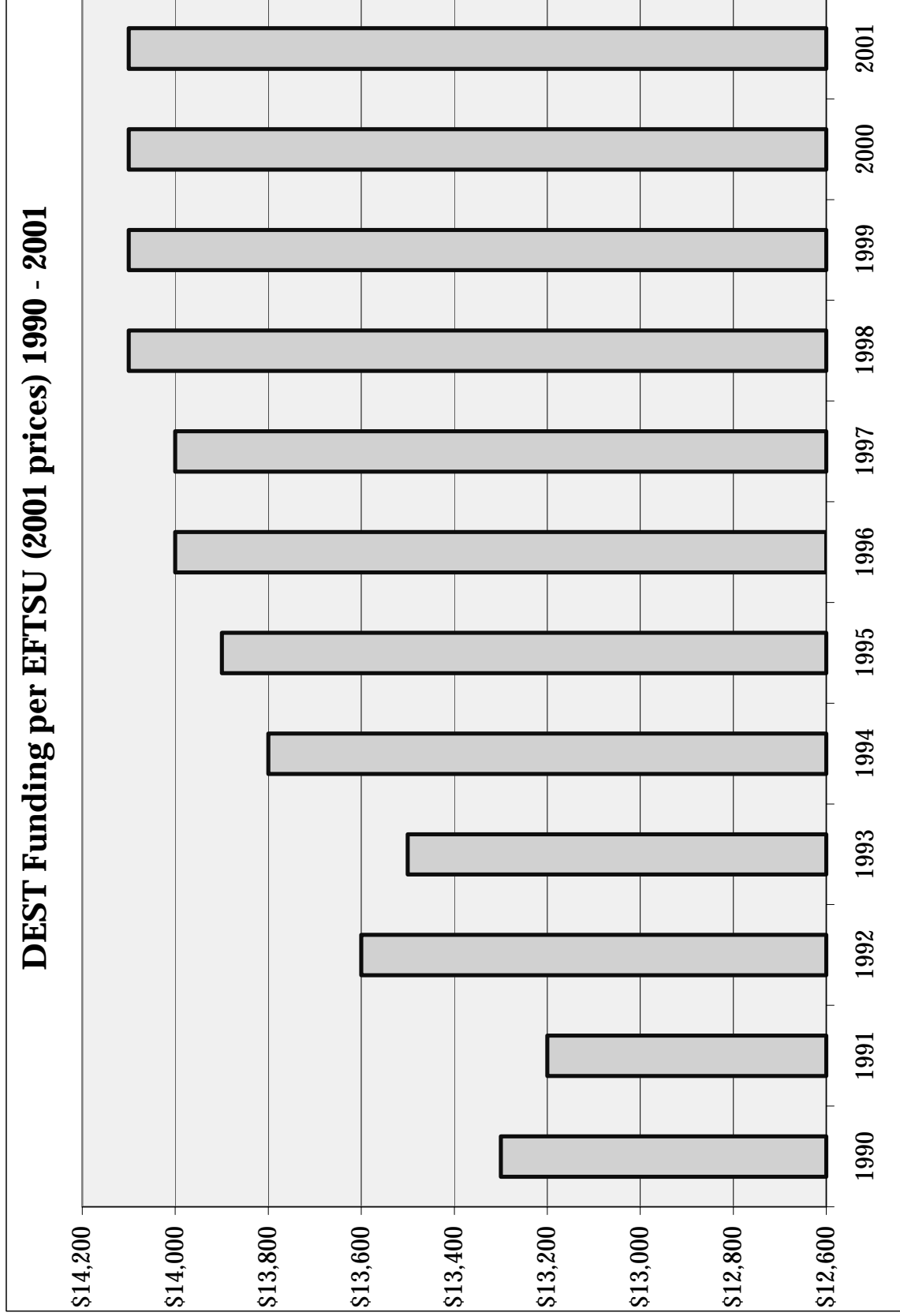
### Higher Education Sector Revenue - 1990-2001



(cont.)







### Appendix 3 - Changes in Enrolment Composition - Australia 1996-2001

#### Changes in enrolment composition - Australia 1996-2001\*\*

	1996		1997		1998		1999		2000		2001 *		Variation 1996 to 2001		Proportion of Total Enrolment (%)	
	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	EFTSU	%	1996	2001
Total Domestic Enrolments	436,558	454,110	460,575	466,432	464,409	478,257	41,699	10	89.5%	81.3%						
<b>HECS Liabie or HECS Exempt Enrolments:</b>																
Research including APA's	21,793	22,920	23,334	23,872	24,160	23,397	1,604	7	4.5%	4.0%						
Other Postgraduate/Coursework	30,548	28,667	22,630	17,673	14,917	14,121	-16,427	-54	6.3%	2.4%						
Undergraduate	364,290	379,712	386,740	391,710	389,787	399,538	35,248	10	74.7%	67.9%						
<b>Fee-Paying and Unfunded Enrolments:</b>																
Research	84	84	113	396	160	1,503	0.02%		0.3%							
Other Postgraduate/Coursework	13,430	16,192	20,273	23,590	24,677	28,124	14,694	109	2.75%	4.8%						
Undergraduate	0	0	830	1,799	2,649	4,085	4,085		0.00%	0.7%						
Other Non Overseas Enrolments **	6,413	6,535	6,655	7,392	8,059	7,490	1,077	17	1.3%	1.3%						
Overseas Enrolments **	51,502	60,698	68,376	78,109	93,542	110,088	58,586	114	10.6%	18.7%						
<b>TOTAL ENROLMENTS</b>	<b>487,976</b>	<b>514,724</b>	<b>528,838</b>	<b>544,145</b>	<b>557,791</b>	<b>588,344</b>	<b>100,368</b>	<b>21</b>	<b>100%</b>	<b>100%</b>						

\* Note that 2001 figures are based on unpublished but nearly finalised data ie will need to be used carefully until publication of "Selected Student Statistics 2001" as changes may occur.

\*\* Includes non award places and places at Australian Film, Television and Radio School, Avondale College, National Institute of Dramatic Art, Marcus Oldham College, and Australian Defence Force Academy.

NOTE: Actual student places (EFTSU) reported in this table may vary from EFTSU reported in the Student Publications due to rounding and aggregation of data.

## Appendix 4 - Changes in University Staffing – Australia 1992-2001

Year	Full-time		Fractional Full-time		Estimated Casual		TOTAL	
	FTE	% Change on prior year	FTE	% Change on prior year	FTE	% Change on prior year	FTE	% Change on prior year
1992	61,864		6,545		7,558		75,968	
1993	63,155	2.1%	6,713	2.6%	8,483	12.2%	78,350	3.1%
1994	63,435	0.4%	6,823	1.6%	8,895	4.9%	79,154	1.0%
1995	64,349	1.4%	7,157	4.9%	9,249	4.0%	80,754	2.0%
1996	65,254	1.4%	7,449	4.1%	10,185	10.1%	82,888	2.6%
1997	62,771	-3.8%	7,910	6.2%	10,723	5.3%	81,404	-1.8%
1998	61,284	-2.4%	8,290	4.8%	10,711	-0.1%	80,285	-1.4%
1999	61,192	-0.2%	8,059	-2.8%	11,580	8.1%	80,832	0.7%
2000	61,568	0.6%	7,973	-1.1%	12,760	10.2%	82,301	1.8%
2001	61,732	0.3%	8,916	11.8%	13,162	3.2%	83,809	1.8%
% of Total FTE in 2001	73.7%		10.6%		15.7%		100.0%	

## **Appendix 5 - 2002 Educational Profiles Discussions Documentation and Data Collection Requirements**

### **Introduction**

The documentation and data requirements for the 2002 Profiles round were similar to the requirements for 2001, with only minor modifications. The requirements relate to the following:

- Strategic plans;
- Research and research training management plans;
- Resource management;
- Outcomes and performance;
- Quality assurance and improvement plans;
- Equity plans; and
- Indigenous education strategies.

### ***Strategic planning***

Institutions were asked to outline the main features of their strategic plans and to comment on any substantial changes in strategies or core activities. In fulfilling this requirement, institutions were to submit extracts of the current strategic plan covering, at least, the following areas:

- Proposed rationalisation initiatives, including possible campus closures, collaborative arrangements (educational and administrative) and merging of activities between institutions and with the VET sector
- Proposed discipline shifts (including shifts in focus from undergraduate to postgraduate provision) and staffing profiles
- Indications of shifts in demand (eg in teacher education, nursing, science and agriculture)
- Strategies in response to emerging trends and fee-paying opportunities.

### ***Research and research training management reports***

Guidelines in regard to Research and Research Training Management Reports (RRTMR) for 2002 were provided separately. The RRTMR outlines strategic objectives for research and research training and reports on their past performance. It is also a means of linking institutions' postgraduate profiles with their research capacity and performance.

### ***Outcomes and performance***

#### **Student load data collection**

A statistical return on student load covering the current year and the three years of a forthcoming triennium. The student load data were requested as per four specific tables P1 to P4. Table P1 related to operating grant load and included only the HECS-liable research student load that institutions have elected to phase out. It must be noted that with the implementation of the Research Training Scheme (RTS) in 2002, universities were not allowed to allocate Commonwealth subsidised (HECS-liable) postgraduate places for research students. All existing research students on HECS-liable places were to be phased out. All new postgraduate research places should be either allocated under the competitive RTS scheme or should be fee-paying.

The estimated higher degree research load in the RTS for 2002 was collected in Table P2. In this table institutions were asked to provide a breakdown of estimated load between high cost and low cost fields as defined in the Relative Funding Model.

Table P3 – non-overseas fee-paying postgraduate and undergraduate load were to be reported in this table.

Table P4 – total student load by funding source. For 2002, 2003 and 2004, the total load will exclude research load within the RTS, as this will be subject to performance-based allocations.

The student load data tables and detailed instructions for compiling the data are contained in the publication *Educational Profiles Student Load Data Collection for The 2002-2004 Triennium* provided to institutions.

### ***Resource management***

In recent years, the Commonwealth's key areas of interest in resource management have been the financial and capital management of institutions and submissions for Capital Development Pool (CDP) funding. The Department's analysis of institutions' financial position is based on audited 2001 financial statements. As in previous years, the Department ran a financial projection model for each institution and provided a copy to institutions prior to discussions.

Institutions planning capital development projects, which meet the guidelines for the Capital Development Pool (CDP), were invited to submit proposals for financial assistance as part of the profiles documentation.

### ***Equity Plan, Indigenous Education Strategy and Quality Improvement and Enhancement Plan***

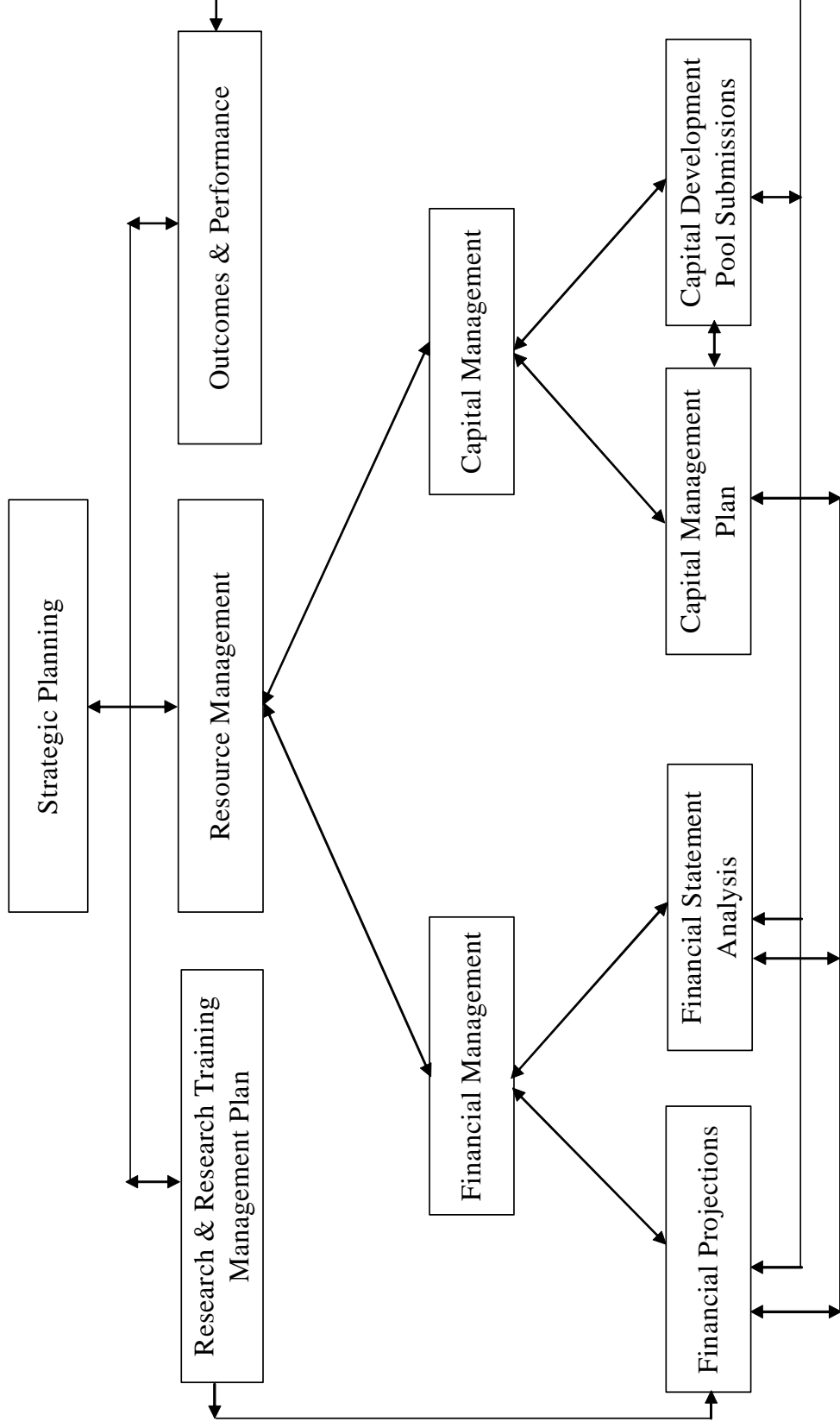
Details of requirements for the Equity Plan, Indigenous Education Strategy and Quality Improvement and Enhancement Plan were provided to institutions. The equity plan provides details of institutions' strategies regarding provision for equity groups such as students with disabilities, persons from low socio-economic status backgrounds and women in respect of non-traditional areas of study. The Indigenous Education Strategy outlining strategies regarding course provision and support for Aboriginal students. The quality improvement plan outlines institutions' goals, strategies for ensuring quality, and indicators of the success of these strategies.

### ***Return of Profiles documentation***

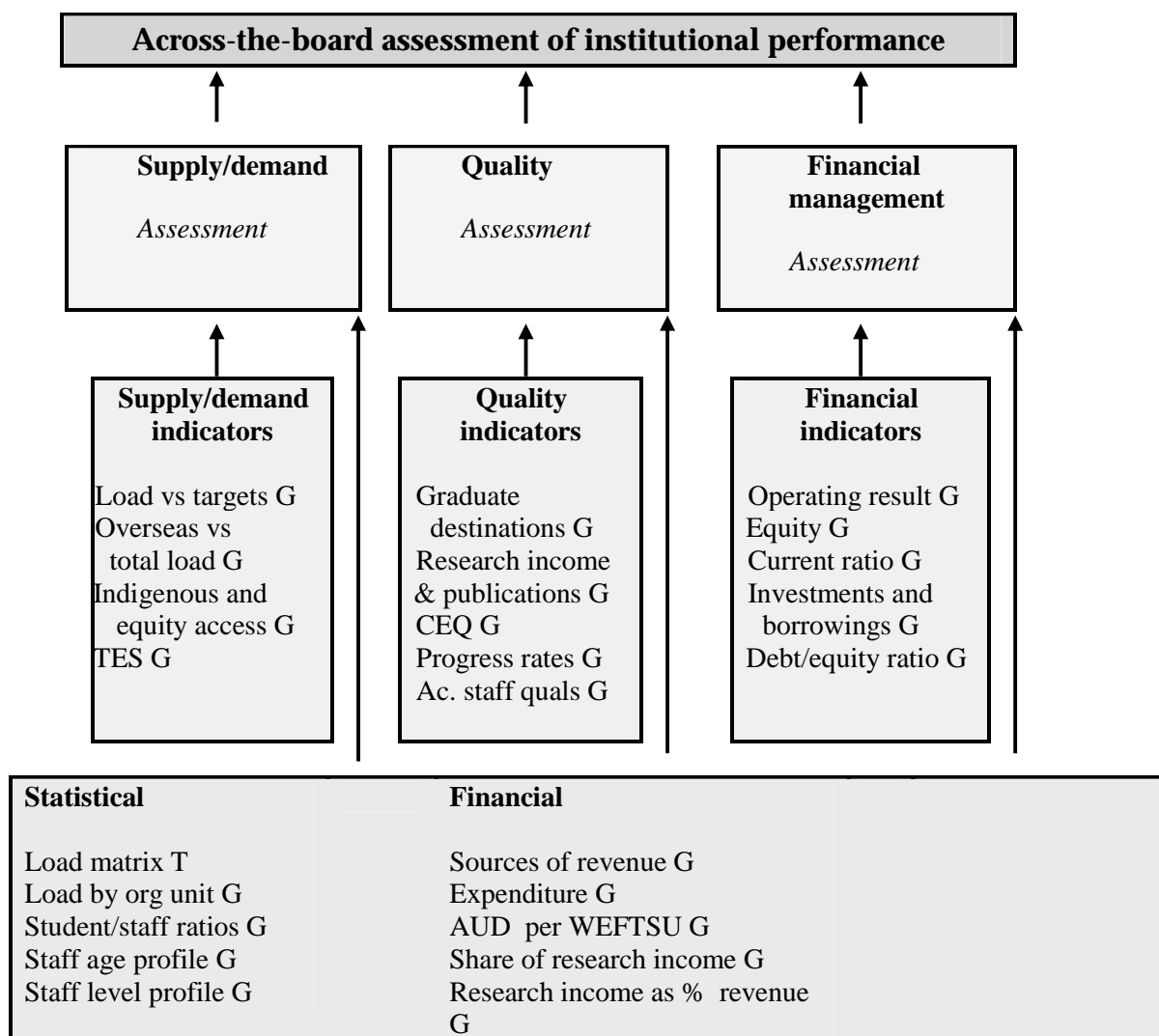
The profiles documentation and data are returned electronically. In addition, two hardcopies of all the documents endorsed by the chief executive of the institution should be sent to the Department.



## Appendix 7 - Integrated Financial Monitoring Framework



**Appendix 8: Interim Performance Management Assessment  
for 2002 Profiles Round (2003-2005 Triennium)**



G = graph T = table Subject to revision as data compiled and formatted

**Appendix 9 - Structure of the Institution Assessment Framework**

