

VICTORIA

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Auditor General  
Victoria

**Report of the  
Auditor-General  
on  
RMIT's finances**

**June 2003**

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AUDITOR GENERAL  
VICTORIA

The Hon. Monica Gould MP  
President  
Legislative Council  
Parliament House  
Melbourne Vic. 3000

The Hon. Judy Maddigan MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne Vic. 3000

I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 15 of the *Audit Act* 1994.

This report sets out the results of my review of RMIT's finances.

Yours faithfully

J.W. CAMERON  
*Auditor-General*

4 June 2003

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# Part 1

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## Executive summary

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## OVERVIEW

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**1.1** Following a request from the Minister for Education and Training on 4 February 2003, I have examined RMIT's current financial position and budgetary outlook.

**1.2** Over the period 2000 to 2002, there has been a significant and unsustainable deterioration in RMIT's financial performance indicating the need for urgent improvement in the financial management of the University. Since 1999, there has been a 22.5 per cent growth in revenue, yet expenditure increased by 42 per cent.

**1.3** The mismanagement of the implementation of the Academic Management System (AMS) has contributed to the weakened financial position of RMIT. However, other factors have also contributed, such as high overhead costs, losses incurred on research activities, low TAFE productivity and high costs associated with a large property portfolio.

**1.4** The unreliability of the information submitted by management to the RMIT Council during 2001 and 2002 did not facilitate effective review of the performance of management by the Council and its sub-committees. During this period, a range of issues were raised in Council and sub-committee meetings, including issues contributing to the deterioration of the University's financial position, such as the non-achievement of agreed budget outcomes. Senior management, however, did not effectively ensure that these issues were addressed.

**1.5** While action commenced in late 2002 and early 2003 to address RMIT's deteriorating financial performance, it is clear that corrective action should have been initiated earlier. To overcome cash flow difficulties and reduce expenditure levels, RMIT has severely curtailed its capital expenditure program and imposed restrictions on the appointment of full-time staff. However, these actions are not sustainable over the long-term and must be replaced by medium to long-term strategies.

**1.6** RMIT's 2003 budget projects an operating surplus of \$14.6 million, which includes \$13.4 million in grants provided for capital purposes. The budget is underpinned by a number of key assumptions in areas where adverse performance will reduce the possibility of achieving the projected result. Careful management of this risk will be required.

**1.7** At the date of preparation of this report, forward financial projections covering 2004 and subsequent years had not been finalised. RMIT needs to move quickly to finalise these forward financial projections in order to enable financial decisions to be made in the context of a medium to long-term financial strategy.

**1.8** While action on a number of initiatives has commenced to address RMIT's financial position, it will be critical that RMIT's senior management develops a comprehensive plan which outlines current weaknesses and issues impacting adversely on the University's financial performance, and establishes achievable timelines for the implementation of specific corrective action. It will be equally important that the Council closely monitors progress in implementing planned actions.

## KEY FINDINGS

### Governance, and strategic and business planning

- Senior management did not effectively follow-up issues raised in Council and sub-committee meetings.  
*Paras 3.13 to 3.14 and Para. 6.75*
- While the vision and mission of RMIT University contained in the strategic plan and direction are clear, their translation into a set of measurable goals and improvement priorities requires attention.  
*Paras 3.28 to 3.31*
- RMIT does not have a single, annual university-wide business plan. In lieu of such a plan, RMIT uses as its key driver the Higher Education Profile Agreement with the Commonwealth Government and the TAFE Performance Agreement with the Victorian Government.  
*Paras 3.33 to 3.45*
- Faculty business plans were not prepared in a format that facilitates effective central monitoring and review.  
*Paras 3.46 to 3.49*

### RMIT's current financial position

- There has been a significant deterioration over the period 2000 to 2002 in RMIT's operating results, working capital position and net cash flows generated from operating activity.  
*Paras 4.16 to 4.22*
- The consolidated group (comprising RMIT and the entities which it controls) and RMIT incurred operating losses of \$250 000 and \$17.7 million, respectively, in 2002. The group's position was materially assisted by a significant increase in donations received by RMIT Vietnam Holdings Pty Ltd.  
*Paras 4.1 to 4.2*
- While RMIT's budgeted operating result for 2002 was a surplus of \$21.6 million, the actual operating result was a loss of \$17.7 million.  
*Para. 4.5*
- There was a 22.5 per cent growth in revenue over the 4-year period 1999 to 2002, but expenditure increased by 42 per cent over the same period indicating the need to rebalance expenditure growth.  
*Paras 4.3 to 4.4*



KEY FINDINGS - *continued*RMIT's current financial position - *continued*

- A qualified audit opinion was issued on RMIT's financial statements for 2002 relating to the impact of the failed Academic Management System (AMS) and the treatment of grant revenue.

*Paras 4.8 to 4.15*

- During 2002, the technical problems affecting the performance of the AMS resulted in errors in billing fee-paying students; duplicate transactions; unreconciled differences between the AMS, the general ledger and the bank account; a lack of documentation supporting adjustments processed; difficulties in issuing Higher Education Contribution statements; and errors in processing and advising enrolment details.

*Paras 4.11 to 4.13*

## Specific issues impacting on RMIT's financial position

- RMIT has proportionately higher overheads costs than other Victorian dual-sector universities. In 2002, this translates to excess expenditure on overheads of around \$20 million after excluding the write-off of \$13.1 million in costs for the AMS in that year.

*Paras 5.18 to 5.22*

- While RMIT's research income has grown at a steady rate over the past 4 financial years, in 2001 and 2002 growth was well below expectations. In addition, RMIT's Research Centres and I-Cubed organisational unit in 2002 incurred combined losses of approximately \$3.5 million.

*Paras 5.11 to 5.17*

- RMIT TAFE teachers, based on outputs per teacher, have less contact with students, in relative terms, than teachers at other Victorian dual-sector universities.

*Paras 5.23 to 5.26*

- On the other hand, higher education teaching and learning activities, based on outputs per academic, are more productive at RMIT, in relative terms, than at other Victorian dual-sector universities.

*Paras 5.29 to 5.31*

- Capital expenditure in 2002 was approximately \$29 million less than that budgeted. If capital expenditure projects included in these budgets are essential to the achievement of its asset management plans, then it is concerning that RMIT is falling behind in the implementation of its long-term capital expenditure program.

*Paras 5.39 to 5.41*

KEY FINDINGS - *continued*

Specific issues impacting on RMIT's  
financial position - *continued*

- RMIT's building maintenance backlog increased to an estimated \$119 million as at the end of 2002. We were also advised that around 30 per cent of building space on the University's City campus is not fit for purpose, i.e. not ideally suited to the purposes or activities for which it is currently utilised.

*Paras 5.46 to 5.47*

- A consultant was engaged in February 2003 to undertake a review of the University's property portfolio and its future needs.

*Para. 5.51*

Performance against budget, 2001 and 2002

- In 2001 and 2002, there were significant adverse variances between the actual operating result and that budgeted; \$23.2 million and \$39.3 million, respectively.

*Para. 6.2 and Para. 6.12*

- Due to unreliable forecasting by management during 2001 and 2002, the Council did not become aware of the full extent of the deteriorating financial position until after the end of each financial year.

*Paras 6.10 to 6.11 and Paras 6.57 to 6.58*

- The 2002 budget was based on an inaccurate forecast operating result for 2001. The supporting documentation provided to Council was inadequate - it did not provide sufficient detail about underlying assumptions and the associated financial strategy.

*Paras 6.18 to 6.20*

- For 2002, management reported against the approved budget up until October 2002, from which date its actual performance began to be compared with a revised full-year forecast prepared as at 31 March 2002 and described as a revised budget. This revised budget was not submitted to Council for consideration or approval.

*Paras 6.32 to 6.38*

- While certain factors causing budget underperformance were identified and management advised Council that remedies were in place or planned, there was little evidence that this occurred in 2001 and the bulk of 2002.

*Paras 6.6 to 6.7, Paras 6.14 to 6.16 and Para. 6.75*

- In response to the University's poor financial performance against budget and the ensuing cash shortfalls, a number of cost containment measures were implemented during November 2002 (including the imposition of restrictions on staff recruitment).

*Paras 6.71 to 6.72*

KEY FINDINGS - *continued*

## RMIT's 2003 budget and financial outlook

- RMIT's 2003 budget, approved in March 2003, projects an operating surplus of \$14.6 million (excluding a \$7.5 million grant received in advance in the year). Note, however, that total income includes \$13.4 million in grants provided by the Commonwealth and State Governments for capital purposes.

*Paras 7.1 to 7.2*

- RMIT's 2003 budget is underpinned by a number of key assumptions in areas where adverse performance will reduce the possibility of achieving the budgeted result. Careful management of this risk will be required in the following areas:
  - the growth factor assumed in respect of salaries and wages expenditure due to the outcome of enterprise bargaining agreement negotiations in 2003;
  - the assumed increase in income from international students, particularly in light of the uncertainty generated by international unrest and the potential impact of the severe acute respiratory syndrome (SARS) illness;
  - budgeted costs associated with the remediation or replacement of the AMS;
  - the achievement of research income targets;
  - delivery of initiatives identified to improve income and reduce expenditure leading to an overall projected improvement in the operating result of \$17.7 million; and
  - meeting the budgeted expenditure on casual labour.

*Para. 7.4*

- The process simplification project should realise productivity and cost savings where duplicated procedures can be eliminated. While the Council was informed in December 2002 that this project would be completed in April 2003, we were advised by RMIT that it is now planned that the first phase of the project will be completed in June 2003 and that the project will extend across 2003 and 2004.

*Paras 7.32 to 7.38*

- Forward financial projections for 2004 and subsequent years have not been finalised due to the significant focus on ensuring that the 2003 budget is robust and achievable. The focus will be directed to forward projections when the 2003 budget has been "bedded down".

*Paras 7.48 to 7.49*

KEY FINDINGS - *continued*

Budget management processes

- RMIT's budget setting process has not been well integrated into its business planning processes.

*Paras 8.10 to 8.12*

- The University established a Budget Review Task Force in late 2002 to identify expenditure savings and additional revenue.

*Para. 8.17 and Paras 7.39 to 7.43*

- RMIT did not utilise a standard pricing model for all competitive revenue activities. This includes tendering for research, commercial and fee-for-service projects. The weaknesses in the University's current costing and pricing practices have been brought to the attention of management previously by internal audit, but RMIT has been slow to take action to address deficiencies in this area.

*Paras 8.26 to 8.34*

- The method of allocating corporate overhead costs requires further improvement.

*Paras 8.19 to 8.24*

- There was limited evidence of comprehensive work force planning across RMIT's organisational units, including faculties.

*Paras 8.35 to 8.39*

- The 2002 budget and associated management process did not provide adequate incentives to reward budget performance for cost reduction and revenue enhancements.

*Paras 8.40 to 8.42*

- RMIT's general ledger reporting system does not separate Higher Education and TAFE activities. To report Higher Education and TAFE activities, formulae are used outside the mainstream general ledger system.

*Para. 8.44*

- Finance reports to Council during 2002 did not provide information on trends in key aspects of RMIT's financial performance over extended periods to allow Council to effectively monitor the University's performance.

*Paras 8.48 to 8.51*

- Given the large number of performance measures included in RMIT's *2001 Annual Report* it is difficult to distinguish and focus on the key performance indicators.

*Paras 8.60 to 8.62*

KEY FINDINGS - *continued*

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Issues arising from the 2002 financial  
statement audit

- The audit of RMIT's 2002 financial statements identified shortcomings associated with:
  - reconciliation of the AMS with other accounting records;
  - availability of key financial reports;
  - accuracy and integrity of the underlying data; and
  - management control and oversight of employee pay, including annual leave.

*Paras 9.4 to 9.18*

## RECOMMENDATIONS

Paragraph number	Recommendations
<b>Governance</b>	
3.23	<ul style="list-style-type: none"> <li>In light of the changing environment in which universities operate, including increasing reliance on income being generated from non-government sources and accordingly subject to greater risk, consideration should be given to reviewing the legislative provisions relating to the membership of Councils in universities.</li> </ul>
3.17	<ul style="list-style-type: none"> <li>The RMIT Council should review the information it receives to ensure that it is appropriate and reliable so that it can effectively examine and monitor the performance of management.</li> </ul>
3.17	<ul style="list-style-type: none"> <li>Amended operating procedures should be implemented to ensure that issues raised at RMIT Council and sub-committee meetings requiring action by management are effectively monitored.</li> </ul>
<b>Strategic plan</b>	
3.31	<ul style="list-style-type: none"> <li>The strategic plan should identify success indicators and related targets in relation to all core goal areas. In addition, better focused performance measures are required in the strategic plan to enhance performance and accountability.</li> </ul>
<b>Business planning</b>	
3.45	<ul style="list-style-type: none"> <li>An annual, consolidated university-wide business plan should be developed to assist organisational units in developing their business plans and achieving the goals espoused in RMIT's Strategic Plan and Direction.</li> </ul>
3.51	<ul style="list-style-type: none"> <li>Organisational units should be required to prepare their business plans using a standard pro forma that reflects the goals and priorities of RMIT's Strategic Plan and Direction, and which links to their operating budgets and work force plans.</li> </ul>
<b>Performance monitoring</b>	
8.45	<ul style="list-style-type: none"> <li>Appropriate systems (including an enhanced general ledger system) should be established to facilitate effective monitoring and reporting of financial and operational performance of the Higher Education and TAFE sectors.</li> </ul>
8.57	<ul style="list-style-type: none"> <li>There should be adequate alignment between the performance monitoring framework and the strategic plan.</li> </ul>
8.62	<ul style="list-style-type: none"> <li>RMIT's <i>Annual Report</i> should include those performance indicators which are critical to assessing the progress towards the achievement of its strategic directions.</li> </ul>
<b>Establishing a sound budget</b>	
8.13	<ul style="list-style-type: none"> <li>The budget process should be integrated with business planning, and be consistent with organisational goals and priorities.</li> </ul>
4.24	<ul style="list-style-type: none"> <li>RMIT, when establishing future budgets, should aim to achieve operating surpluses which exceed the capital grants received from both the State and Commonwealth Governments, and achieve the University's desired return on investment.</li> </ul>
8.17	<ul style="list-style-type: none"> <li>The rigorous review process undertaken by the budget review taskforce should be integrated into RMIT's future budget development processes. The timing of such reviews should be managed to enable the budget to be approved prior to the commencement of the financial year to which it relates.</li> </ul>
8.34	<ul style="list-style-type: none"> <li>An appropriate pricing model should be implemented as a matter of urgency for use across the University.</li> </ul>

## RECOMMENDATIONS - *continued*

Paragraph number	Recommendations
<b>Establishing a sound budget - <i>continued</i></b>	
8.39	<ul style="list-style-type: none"> <li>Comprehensive work force planning should be implemented across RMIT, particularly by organisational units responsible for the delivery of outputs.</li> </ul>
8.40	<ul style="list-style-type: none"> <li>Appropriate incentives should be incorporated within the budget process to encourage ownership and delivery of budget targets.</li> </ul>
8.25	<ul style="list-style-type: none"> <li>Cost drivers which allocate central overhead costs to organisational units should be reassessed to ensure that they reflect actual levels of service usage. Service centre agreements could be considered as a means of communicating the level and cost of service that faculties will receive.</li> </ul>
<b>Achieving the 2003 budget</b>	
7.4 and 7.26	<ul style="list-style-type: none"> <li>It will be critical that senior management provide Council with accurate and reliable progressive reports on actual progress towards achieving the 2003 budget, including the status of key risk areas, and the extent to which outcomes projected to result from change management initiatives are realised.</li> </ul>
7.38	<ul style="list-style-type: none"> <li>The process simplification project should be completed in a timely manner to enable any resultant one-off and systemic cost savings to be realised as early as possible in 2003.</li> </ul>
5.52	<ul style="list-style-type: none"> <li>If a decision is taken to rationalise the property portfolio, it is important that sale proceeds are applied towards capital improvements and/or debt retirement.</li> </ul>
<b>Medium to long-term financial planning</b>	
7.50	<ul style="list-style-type: none"> <li>The forward financial projections covering 2004 and at least 2 subsequent years should be finalised as soon as possible in order to ensure that strategic financial decisions expected to be reached during 2003 are made in the context of a medium to long-term financial strategy.</li> </ul>

### **RESPONSE** provided by Vice-Chancellor, RMIT University

#### **Overview**

*In recent years RMIT, like so many other Australian higher education institutions, has faced significant challenges arising from systemic and organisational change. From being almost fully Government funded in the early 1990s, RMIT now earns about half its revenue from non-government sources.*

*After a period of particularly intense disruption and uncertainty between 2000 and 2002, RMIT's financial management has been stabilised, new accountability processes have been put in place and the outlook is far more secure.*

*RMIT accepts that problems with governance and management procedures were exposed during this period. Systemic flaws were exacerbated by problems associated with the introduction the Academic Management System. RMIT is aware of some of the longstanding underpinnings of these problems and has been taking action to address them.*

*On the other hand, this was also a period of significant growth and achievement for RMIT. Judged against indicators such as employment outcomes for our graduates, graduate enterprise formation, demand as measured by share of Victorian first preference applications, attractiveness to international students, improvement in research performance (reflected in success in achieving Australian Research Council Grants) and independence of government funding, RMIT is a highly successful institution.*



**RESPONSE** provided by Vice-Chancellor, RMIT University - continued

*Further governance and management changes are important to ensure that we continue to respond to the needs of our communities, in Melbourne, in regional Victoria and internationally. We are committed to continuing transparent dialogue with the Minister and with other RMIT stakeholders on these matters.*

**Existing Reform Programme**

*RMIT has already taken action to address many of the weaknesses identified in the Auditor-General's Report, and we will give close consideration to all its recommendations. Our initiatives to date include:*

- *A decision taken in late October 2000 to limit capital expenditure, in the light of concern about the sustainability of the level of capital spending.*
- *Council endorsement of recommendations of a Review of Corporate Governance undertaken by Internal Audit in 2001, with phased implementation taking into account progress of the Victorian Government's Review of University Governance.*
- *Commissioning an expert in university budget management to chair a Review of the University's budget management and development processes in 2002 to underpin further development of the 2003 Budget and ongoing Budget management processes. Management has accepted the major recommendations of the Review (which are also broadly endorsed by the Auditor-General) and begun implementing them by -*
  - *establishing a Budget and Financial Performance Management Group within the Financial Services Group, to ensure integration of the Budget process with business planning.*
  - *recruiting a Finance Director to oversee financial/statutory accounting, treasury and tax functions;*
  - *preparing revised parameters to inform the 2004 budget, the first phase of which, the pricing and setting international fees for 2004, was completed in March; and*
  - *re-establishing from the 1st July separate operating and capital budgets for both Higher Education and TAFE to ensure transparency and effective monitoring.*
- *Including in the internal auditor's programme approved in March last year a study of budget setting and monitoring. Management has accepted the majority of its recommendations, allocating responsibility for implementation and indicating completion dates where feasible.*
- *Endorsement by Council of a financial strategy which underpins the 2003 budget and addresses deficiencies that the Consultant's Report and the Internal Audit Report identified. The four elements of that strategy are:*
  - *driving hard towards 2003 budget targets and building incentive back into Departments, Schools and Faculties;*
  - *fast tracking the establishment of a core Strategic Sourcing Capability to capture the full potential of procurement savings by harnessing University wide buying power;*
  - *reconfiguring the asset mix and maintaining tightly focused control of capital expenditure; and*
  - *targeting select University wide processes with a view to driving out complexity, duplication and cost.*
- *A major review of the composition of the workforce, presented to Council in October 2002.*



**RESPONSE** provided by Vice-Chancellor, RMIT University - continued

- Significant changes in senior management, including implementation of a new Executive management structure which is:
  - focused on performance and the delivery of budget outcomes set by Council, as well as other major institutional priorities.
  - ensuring that accountabilities and reporting lines are transparent,
  - reflective of the composition of operational units within the University, therefore enabling quicker and more effective identification of critical issues as they emerge, and cost savings as the duplication of functions in the larger operational units is eliminated.

**Conclusion**

*The University's goal is to go forward with our budget and financial management strategy, and ensure a sustainable future for an institution that is vital to the Victorian community.*

*RMIT does not believe that the Report gives sufficient weight to the long-term origins of RMIT's financial situation, or to the remedial action taken by the Council and Executive in 2002 and 2003.*

*Nevertheless, RMIT agrees that extraordinary events over the past two years have exposed structural and cultural deficiencies which have contributed to significant problems identified in the Report and by RMIT itself. The University accepts that it is important that these be addressed as it continues to implement a budget and financial management strategy to ensure a sustainable future.*

**1.9** Note: The above management response provided by the Vice-Chancellor, RMIT University is an abridged version of the full response which appears in Appendix A of this report.

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## Part 2

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# Introduction

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## WHY DID WE DO THE AUDIT AND WHAT DID THE AUDIT COVER?

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**2.1** On 4 February 2003, the Minister for Education and Training requested my Office to undertake an urgent examination of the Royal Melbourne Institute of Technology's (RMIT's) current financial position and budgetary outlook (refer to Appendix B of this report).

**2.2** I subsequently accepted this request and established the following audit objectives and scope for this audit.

**2.3** The objective of the audit was to examine RMIT's financial position and budgetary outlook and determine the adequacy of its budget management processes, including budget setting, monitoring and actions taken to address budget variances.

**2.4** The scope of the audit encompassed:

- analysis of RMIT's financial position and financial performance;
- examination of the effectiveness of the RMIT Council's oversight of RMIT's financial performance, including information provided to Council for decision-making;
- examination of the adequacy of the budget management process at a whole-of-university and business unit (including subsidiary companies) level; and
- review the budget outlook for RMIT covering 2003 and subsequent years.

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## OVERVIEW OF RMIT UNIVERSITY

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**2.5** In 1992, RMIT was granted university status under the *Royal Melbourne Institute of Technology Act 1992*.



*RMIT's Melbourne City campus.*

**2.6** RMIT, which is also known as RMIT University, has adopted the following vision: “making a difference through education, research and training”. In order to achieve this vision, RMIT’s mission is to provide professional and vocational education and training to individuals and enterprises on a regional and international basis, and to provide outcome-related research and consultancy services that address real-world issues.

**2.7** In 2002, the University and its subsidiary entities had total income of around \$541 million, total expenditure of around \$541 million, and as at 31 December 2002 had total assets of \$1 340 million and total liabilities of \$418 million.

**2.8** RMIT is one of 8 government-owned universities operating in Victoria, and is the largest provider of dual-sector education in the State, offering both Higher Education and TAFE courses. During 2002, RMIT had around 57 000 students enrolled, including:

- 22 000 TAFE students; and
- 35 000 Higher Education students.

**2.9** In relation to Higher Education, 25 000 students were undertaking graduate studies, 8 000 students were undertaking post-graduate studies and 2 000 students were undertaking non-award courses.

**2.10** RMIT has the second highest number of international student enrolments in the State with 13 371 students in 2002. Table 2A shows the number of international students enrolled across the 8 Victorian universities and the movement in those numbers between 1999 and 2002.

**TABLE 2A**  
**INTERNATIONAL STUDENT ENROLMENTS**  
(number)

<i>University</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Deakin University	2 088	2 190	2 601	4 274
La Trobe University	2 445	2 902	2 768	2 558
Monash University	7 648	8 852	10 287	14 499
<b>RMIT University</b>	<b>7 849</b>	<b>9 035</b>	<b>9 635</b>	<b>13 371</b>
Swinburne University of Technology	1 504	1 836	2 357	3 193
University of Ballarat	327	391	566	2 107
University of Melbourne	4 043	4 902	5 540	7 850
Victoria University of Technology	2 479	2 668	2 848	4 574
<b>Total Victorian universities</b>	<b>28 383</b>	<b>32 776</b>	<b>36 602</b>	<b>52 426</b>

*Source:* DEST, Students: Selected Higher Education Statistics - adjusted to take account of the revised figures relating to La Trobe University.

**2.11** In order to achieve its mission of providing professional and vocational education and training, RMIT employed 3 194<sup>1</sup> full-time equivalent (FTE) staff, of which 48 per cent were either academic or teaching staff.

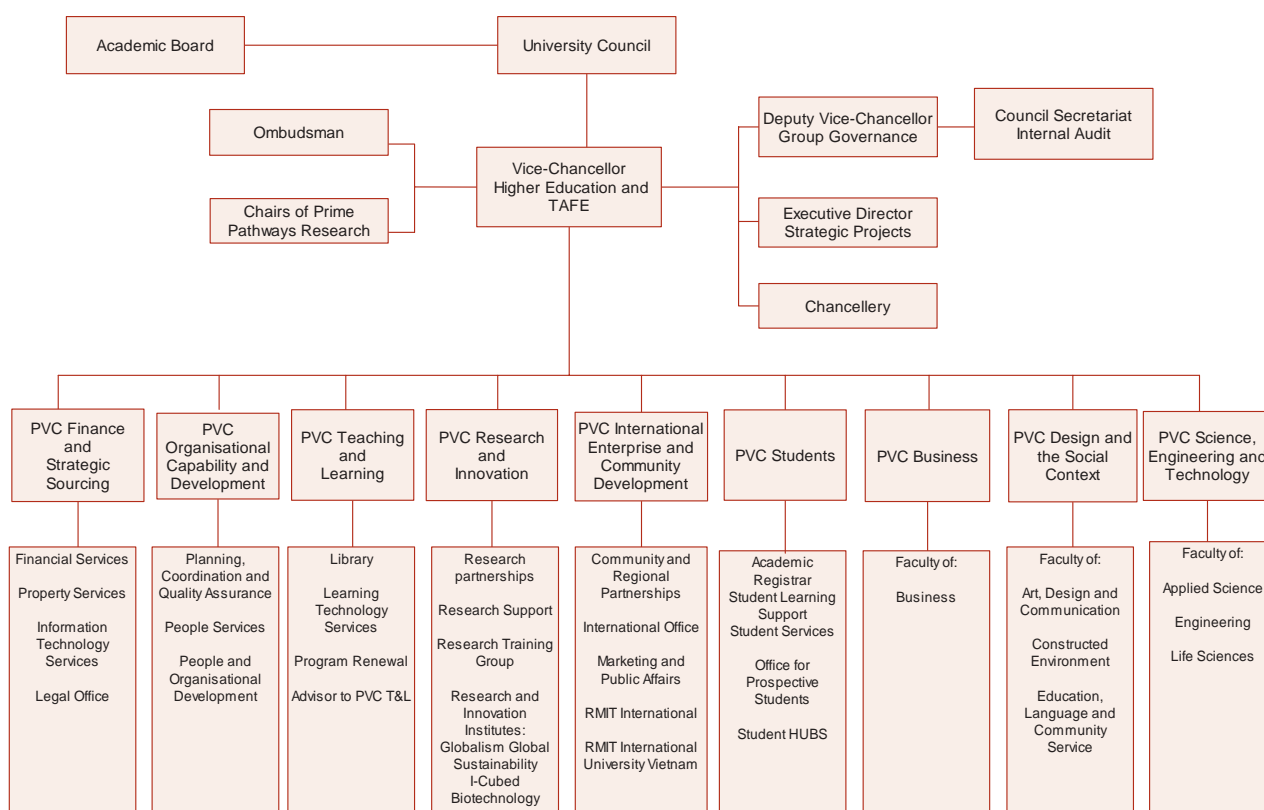
<sup>1</sup> 2002 full-time equivalent (FTE) staff numbers sourced from RMIT Financial Services Group.

**2.12** RMIT operates 3 main campuses in metropolitan Melbourne - the City campus, Bundoora and Brunswick, as well as 2 specialised campuses in regional Victoria, namely, East Gippsland and Hamilton. RMIT also operates a university in Vietnam.

**2.13** RMIT has 13 subsidiary entities and is a partner in more than 20 research centres and institutes, including 9 co-operative research centres.

**2.14** In late 2002, a new leadership structure for RMIT was announced. Chart 2B outlines the organisational structure as at January 2003.

**CHART 2B  
RMIT ORGANISATIONAL STRUCTURE, JANUARY 2003**



Source: RMIT.

## RECENT AUDIT ON IMPLEMENTATION OF RMIT UNIVERSITY'S ACADEMIC MANAGEMENT SYSTEM

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**2.15** In February 2003, my *Report on Public Sector Agencies* contained a report on the results of our review of the implementation of RMIT University's Academic Management System (AMS). The AMS information technology information project commenced in December 1999, with the aim of integrating all of RMIT's student management activities into a consolidated system to streamline processes, including student enrolments. The implementation of the AMS was largely outsourced and went "live" in October 2001. Since going "live", the AMS has suffered a number of functional and technical problems.

**2.16** The anticipated cost of the implementation of the AMS to the end of 2003 of \$47.2 million represents 3.7 times the original budget. RMIT, as part of the original budget, allocated a further \$6 million per annum for 3 years for licence fees, additional implementation work, consultancies and upgrades.

**2.17** The current system has not provided the functionality originally planned and RMIT faces significant challenges in transitioning to a high quality student administration system that is sustainable in the medium to long-term, as well as funding the activities necessary to achieve this outcome.

**2.18** It was found that RMIT did not comprehensively plan for, and apply, appropriate contract management practises. It did not establish the required governance arrangements, including senior management involvement, or support, to ensure the implementation project was effectively managed.

**2.19** The AMS became operational in October 2001 although it was unable to satisfy a significant number of the critical business needs. As a consequence, RMIT operations suffered disruption, including services to prospective and current students.

**2.20** We found that while some significant progress had been subsequently made by RMIT towards stabilising and supporting the AMS to allow faculties to meet the short-term requirements of the academic calendar, much remains to be done – both in the short-term to ensure processing requirements are met, and over the longer-term if a lasting solution is to be found.

**2.21** **The mismanagement of the implementation of the AMS has contributed to the weakened financial position of RMIT and has consumed a large amount of senior management attention over the last 12 months. However, this report identifies that there are other factors contributing to RMIT's financial position which were not effectively addressed by senior management.**

## Part 3

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# Governance, and strategic and business planning

## RMIT COUNCIL

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**3.1** The enabling legislation for each Victorian university include similar membership and governance provisions. The legislation establish universities as autonomous bodies and provide for the appointment of members to the governing council. The responsible Minister can appoint one member of the Council and is also required by legislation to approve certain key transactions.

**3.2** The last major national review of Australian university governance arrangements was the *Higher education management review* chaired by David Hoare (1996). The position expressed by this review remains authoritative:

*“The governing body exists to oversee the development and adoption of institutional strategic plans and key policies, to monitor and review the institution’s overall performance and to bear ultimate accountability for the institution. Its activities should be principally those of guidance and review, rather than executive management, and its members should recognise their overriding responsibility to bring diverse viewpoints together for the advancement of the institution rather than to represent sectional interests.”* (Hoare, 1996)

**3.3** Following the above review, the Victorian Government established a ministerial committee to advise on university governance in Victoria chaired by the Hon. Haddon Storey MP, a former Minister for Tertiary Education and Training (1997).

**3.4** After receiving recommendations from this committee, the Victorian Government made several important legislative changes relating to the composition and powers of university councils. Since the implementation of the recommendations of the committee, all Victorian universities’ councils comprise 22 members. The council of RMIT along with the other 3 dual-sector universities with a significant proportion of TAFE and higher education (the University of Ballarat, Swinburne University of Technology and Victoria University of Technology) also include an additional member being the Chairperson of the Board of Technical Studies.

**3.5** The main principle underlying the current composition of Victorian university councils remains that of giving the major stakeholders a voice in their governance. These stakeholders are identified as the principal and the chief executive officers, the presiding officers of the academic decision-making body or bodies, the academic and the general staff, the students, the responsible Minister, and the wider community as determined by the State Government and by the council itself. About one-third of the council is drawn from within the university and about two-thirds from outside if it.

**3.6** Under the *Royal Melbourne Institute of Technology Act* 1992 the Council is the governing authority of RMIT and has the responsibility for the direction and superintendence of the University.



**3.7** Under the Act, the Council membership is specified as consisting of:

- the Chancellor elected by Council;
- the Vice-Chancellor appointed by the Council;
- the Chairperson of the Academic Board;
- the Chairperson of the Board of Technical Studies;
- 3 elected staff;
- 2 elected students;
- 6 persons appointed by the Governor-in-Council;
- 1 person appointed by the Minister; and
- 6 persons appointed by the Council.

**3.8** Of the 6 members appointed by the Governor-in-Council, one must be a person with substantial business experience, one must possess qualifications and experience in financial matters, and one must have substantial knowledge of vocational education and training.

**3.9** The 6 members appointed by the Council must not be persons who are employed as staff, or who are students at RMIT.

**3.10** RMIT Council has established various committees to allow for the distribution of workload which enables detailed consideration to be given to important matters. The following committees were in place at the time of our audit:

- **Audit and Risk Management Committee** - monitors and oversees all internal and external audit matters, internal controls and risk management, and all associated policies and procedures;
- **Human Research Ethics Committee** – approves and monitors research involving people as subjects, conducted at RMIT;
- **Finance and Major Initiatives Committee** - reviews the University’s annual budget, and reports to Council on the University’s finances and progress with major initiatives;
- **Membership Committee** - recommends to Council, persons to be appointed by the Council;
- **Planning, Quality and Performance Committee** – provides advice to the Council on key issues relating to planning, quality and performance within the University; and
- **Remuneration Committee** - determines remuneration policies and procedures for all categories of staff, including succession planning for members of the Vice-Chancellor’s executive team.

## Effectiveness of RMIT Council

**3.11** The Australian Stock Exchange Corporate Governance Council - *Principles of Good Corporate Governance and Best Practice Recommendations* - issued in 2003 was used as a benchmark to assess the effectiveness of the RMIT Council's operations, including its sub-committees. The principles include:

*“An effective Board is one that facilitates the effective discharge of the duties imposed ... and adds value in the context of the particular [entity's] circumstances. This requires that the Board be structured in such a way that it:*

- *has a proper understanding of and competence to deal with the current and emerging issues being faced by the [particular entity]; and*
- *can effectively review and challenge the performance of management and exercise independent judgment.*

*Ultimately the [members of a Board] are appointed by the [owners or their representatives]...”*

**3.12** Over the past 18 months RMIT Council has been faced with significant issues such as the mismanagement of the implementation of the AMS and the related consequences, and the continuing deterioration of its financial position.

**3.13** Elsewhere in this report we comment on a lack of evidence of follow through with management of issues identified as contributing to the deterioration of RMIT's financial position (such as the non-achievement of agreed budget outcomes, at the University and organisational unit level) which were raised in Council and sub-committee meetings. The lack of follow through was also evident in relation to other issues – e.g. the audit committee did not obtain timely management responses to issues raised in internal audit reports.

**3.14** It should be recognised that while the Council did not rigorously follow-up on issues, senior management of RMIT had an obligation to ensure that issues raised in Council and sub-committee meetings were actioned, and that timely responses were provided.

**3.15** Our review also identified that not all sub-committees met on a regular basis. For example, the Planning, Quality and Performance Committee, responsible for monitoring the performance of RMIT against its strategic plan, only met once in 2001 and the Finance and Major Initiatives Committee held its first meeting for 2003 in May. Although we do recognise that the roles of sub-committees can be assumed by the full council, sub-committees are generally established to facilitate more detailed scrutiny of specific issues than can be obtained in a wider setting of a full Council meeting. One might expect that, consistent with good governance, sub-committees would meet on a regular basis in order to discharge their delegated responsibilities to Council.

**3.16** As indicated in Parts 6 and 8 of this report, the unreliability of the information submitted to the Council, especially forward financial projections, did not facilitate effective review and challenge of performance by the Council and its committees.

**3.17** We recommend that the Council review the information it receives to ensure that it is appropriate and reliable so that it can effectively challenge the performance of management. In addition, amended operating procedures should be implemented to ensure that issues raised at Council and sub-committee meetings requiring action by management are effectively monitored.

**3.18** As indicated previously, about one-third of the Council's 22 members are drawn from within the University. These councillors work within the University but, at the same time, must exercise independent judgment as a Council member over the activities of the University.

**3.19** Based on the shortcomings outlined above and the lack of evidence of the Council effectively holding management to account for their performance, it must be questioned whether the RMIT Council has achieved the second element of the above best practice principle, that is: "... can effectively review and challenge the performance of management and exercise independent judgment ..."

**3.20** It should be noted that 6 members of the Council, who held the positions outlined in Table 3A, resigned in February 2003.

**TABLE 3A**  
**POSITIONS HELD BY COUNCILLORS WHO RESIGNED IN FEBRUARY 2003**

<i>Position held when resigned</i>	<i>Period on Council</i>
Chancellor (a)	1/1/1999 to 3/2/2003
Deputy Chancellor (b)	21/10/1997 to 11/2/2003
Treasurer and Chair of FAMIC (c)	16/3/1993 to 11/2/2003
Chair of Audit Committee (a)	25/2/1997 to 11/2/2003
Councillor	1/1/1997 to 11/2/2003
Councillor	1/7/1992 to 12/2/2003

(a) Position held for entire period on Council.

(b) Position held from 1/1/2001 to 11/2/2003.

(c) Position held from 1/1/2003 to 11/2/2003.

Source: RMIT.

**3.21** In examining this question of Council effectiveness we were mindful of the various stakeholders' interests represented on Council. For any governing body to remain effective it is critical that its members act at all times in the interests of that body, in this case the University. Public service reforms over the past decade have frequently included changes in the composition of governing body membership – moving essentially away from boards which also included ministerial or departmental representatives, staff and customers to those whose membership acted only on behalf of the institution. Other ways of responding to the various stakeholders' interests were found, rather than through membership of the governing body.

**3.22** In 2002, the Minister for Education and Training conducted a review of university governance to examine the accountability of Victoria's public universities and examine developments in university governance and governance generally. The review concluded that the composition of university councils should remain unchanged until a major flaw or problem is identified, or until circumstances change sufficiently to warrant a fundamental review of the nature, purposes and ownership of universities.

**3.23** We recommend that in the light of the changing environment in which universities operate, i.e. a greater proportion of income being generated from non-government sources and accordingly subject to greater risk, consideration should be given to reviewing the legislative provisions relating to the membership of Councils in universities.

## STRATEGIC AND BUSINESS PLANNING

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**3.24** Strategic planning is an important element of an effective governance framework in that it provides:

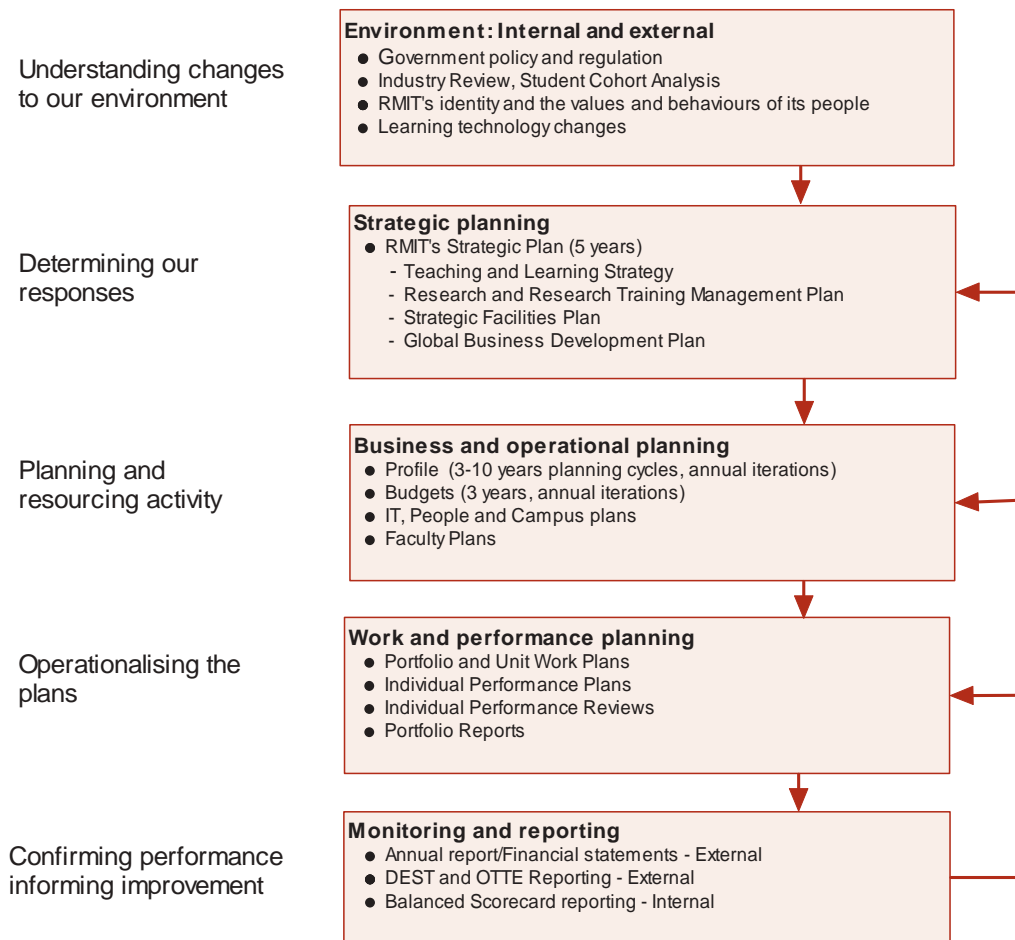
- the medium through which an organisation is able to formulate the strategies, priorities and challenges it needs to master in achieving its objectives; and
- the articulation of a coherent organisation-wide strategy aimed at achieving unity of purpose and a commitment to shared objectives within a large and diverse business.

**3.25** Whereas strategic plans tend to focus on the medium to long-term, business plans are completed to give effect to the strategic plan and tend to be more sharply focused. Business plans need to be supported by adequate resource and financial plans.

**3.26** Thus, internal budgeting should be linked to the strategic planning process and be focused on, and aligned to, the organisation's objectives, strategies and outputs. Internal budgeting should be central to the financial management framework supporting the allocation and management of scarce resources within an organisation.

**3.27** Chart 3B outlines the business planning cycle adopted by RMIT in managing its business.

**CHART 3B  
RMIT BUSINESS PLANNING CYCLE**



Source: RMIT.

**3.28** The *RMIT University Strategic Plan and Direction to 2006 - Dissolving the Boundaries: Building a Sustainable RMIT* represents the overarching planning document setting the overall direction of RMIT. The underpinning themes of the plan are about building “sustainable organisational capacity within a rapidly changing environment and market.”

**3.29** The strategic plan identifies that RMIT will be student and customer centered, and identifies 3 key objectives for the University, namely:

- improving the consistency and quality of teaching;
- developing the performance and profile of research; and
- creating a collaborative and inclusive working environment across the University.

**3.30** These objectives are supported by core goals in relation to teaching and learning, research and development, regional and local communities, international, and staffing and resources.

**3.31** While the vision and mission of RMIT University contained in the strategic plan and direction are clear, their translation into a set of measurable goals and improvement priorities requires attention. Specifically:

- better focused performance measures are required to enhance performance and accountability; and
- in relation to 2 of the core goal areas, namely regional and local communities, and international, indicators of success and targets have not been outlined in the strategic plan.

**3.32** In serving students and customers, the strategic plan also refers to RMIT's "academic strategy". This is a reference to the Teaching and Learning Strategy Plan and the Research and Development Strategy Plan. Our review of these documents disclosed that there is a clear linkage to the strategic plan, however, they require some redesign to establish a hierarchy of priorities and strategies to assist RMIT in the allocation of scarce resources, and organisational units in the establishment of their business plans.

### RMIT business planning

**3.33** Business planning when integrated with effective internal budgeting, can make a valuable contribution to the attainment of an organisation's objectives by:

- communicating and improving understanding of the priorities of the organisation;
- allocating resources to operational plans to enable outputs to be delivered;
- setting internal targets consistent with organisational goals and external targets; and
- providing accurate and timely financial and performance information to support decision-making and the measurement of performance.

**3.34** In lieu of a university-wide annual business plan, RMIT uses as its key driver the Higher Education Profile Agreement with the Commonwealth Government and the TAFE Performance Agreement with the Victorian Government. That is, RMIT does not consolidate the substance of these 2 agreements into a single RMIT-wide business plan.

### *RMIT Higher Education Profile Agreement*

**3.35** Under the *Higher Education Funding Act 1988*, all universities are required to provide the Commonwealth Minister for Education, Science and Training with an educational profile, made up of a series of plans. Under the Act, the Minister is responsible for nominating the information to be included as part of the profile after consultation with the relevant university.

**3.36** Student target loads are set during the consultation process. RMIT is required to provide an agreed level of non-research fully subsidised places (total enrolment target) and an agreed level of undergraduate fully subsidised places (undergraduate target). These target loads form the basis for determining the operating grant that RMIT receives from the Commonwealth Government.

**3.37** RMIT's current educational profile covering the financial years 2003 to 2005 includes an outline of RMIT's strategic plan, as well as information on core teaching and research activities, proposed discipline shifts and staffing profiles, rationalisation initiatives, indications of shifts in demand, and strategies in response to emerging trends in the education environment, including fee – paying opportunities.

**3.38** The educational profile document and subsequent funding agreement with the Commonwealth Government is a key planning document for RMIT and provides the basis for the provision of higher education in the University. The document discloses the expected level of higher education and research at RMIT.

### *RMIT TAFE Performance Agreement*

**3.39** The *Vocational Education and Training Act 1990* gives the Victorian Learning and Skills Commission responsibility for vocational education and training in Victoria and empowers the Commission to enter into annual agreements for the provision of training services.

**3.40** The 2003 Performance Agreement between the Commission and RMIT sets out the terms and conditions under which the Commission will make payments to RMIT for the provision of services specified in the Agreement. These services are expressed in terms of the delivery of student contact hours.

**3.41** In delivering the services specified under the annual agreements, RMIT agrees to comply with all applicable legislation and Ministerial Directions, as well as support the Ministerial Statement on Knowledge and Skills for the Innovation Economy.

### *Integration between TAFE and Higher Education*

**3.42** The University's *Strategic Plan and Direction to 2006 - Dissolving the Boundaries: Building a Sustainable RMIT* focuses on RMIT as a dual-sector institution.

**3.43** In 1996, RMIT abolished its separate TAFE and Higher Education divisions and incorporated them within a dual-sector faculty structure in order to implement a seamless system of post-secondary education.

**3.44** There are many systemic and structural barriers to seamlessness. Separate and different funding models, different reporting and accountability requirements, and different industrial awards for academic and teaching staff are major barriers to efficiency and cross-sectoral collaboration. Accordingly, the success or otherwise of seamlessness at RMIT is reliant not on structure but on organisational culture, governance, policy priorities and management.

**3.45** **As indicated previously, for university-wide business planning purposes, RMIT relies on the Higher Education Profile Agreement and the TAFE Performance Agreement. It is recommended that an annual consolidated university-wide business plan be developed to assist organisational units in developing their business plans and achieving the goals espoused in the RMIT strategic plan within a dual-sector institution.**



### Annual operational unit plans

**3.46** RMIT's *Strategic Plan and Direction to 2006 – Dissolving the Boundaries: Building a Sustainable RMIT* along with the profile document and Vocational Education and Training or TAFE performance agreement forms the basis of business and operating plans of faculties and groups within the University.

**3.47** Our review of 2002 and 2003 Business Plans and Work plans of various faculties and groups across the University revealed significant variation in their style and layout. Many were descriptive and focused only on improvement initiatives and innovations. Some were set out in a range of columns according to categories such as “What, Why, When, Who, How. Others contained strategies, targets and performance measures.

**3.48** As part of our audit, we examined the business plans of 3 major faculties, namely:

- Faculty of Business, 2002 – 2004 (May 2001);
- Faculty of Art, Design and Communication, 2002 – 2004 (October 2001); and
- Faculty of Education, Language and Community Services, 2003 – 2005 (August 2002).

**3.49** **These plans were not prepared in a consistent format to facilitate effective central monitoring and review. Only one of the plans was supported by a detailed operating budget for each of the goals established by RMIT and incorporated 3-year financial projections.**

**3.50** In developing their business plans, faculties and groups appear to take account of the broad directions of the teaching and learning, and research and development plans, but do not link their own work plans specifically to all of the objectives in these plans. This is understandable given the number of goals, approaches and priorities detailed in the plans.

**3.51** **We recommend that organisational units be required to prepare their business plans using a standard pro forma that reflects the goals and priorities of RMIT's *Strategic Plan and Direction to 2006 – Dissolving the Boundaries: Building a Sustainable RMIT* which links to their operating budgets and work force plans.**

**3.52** **At the date of preparation of this report, work plans had been drafted for the 2003 financial year reflecting the changed leadership situation announced in late 2002 and were expected to be finalised in May. We have also been advised that they will be subject to continuing review.**

### Individual performance agreements

**3.53** While we did not examine the performance plans that were currently in place for individual staff members, we were provided with documentation outlining enhancements to the current process which will link performance plans to the achievement of the strategic goals and priorities. We support this future direction.



**RESPONSE** provided by Vice-Chancellor, RMIT University

*Issues*

*Recommendations relate to the quality of information received by RMIT Council, and the effective monitoring of follow-up arising from Council and subcommittee meetings. The Report also proposes a review of legislative provisions relating to the membership of University Councils.*

*Response*

*RMIT accepts that the quality and effectiveness of communications between the Council and the University management must be continually improved, and it is already taking steps to ensure this happens. A review of relevant procedures and practices is underway, including initiatives outlined at (3) above. A Review of action sheets arising from Council and subcommittee meetings in 2002 reveals that the majority of actions arising have been followed up. However, we acknowledge that feedback mechanisms need to be improved, and we are doing so. The transition between the old and new Council membership has proceeded in an atmosphere of transparency and cooperation between Council members and University management, and induction procedures formalised for incoming members.*

*The majority of Council subcommittees met regularly in 2001 and 2002. The February 2003 meeting of the Finance and Major Initiatives Committee was postponed because the Chancellor called a special Council meeting on the 3rd February to discuss the financial position and the senior staff restructure, and there were irregular meetings of the Planning, Quality and Performance Committee in 2001 because members participated in joint PQPC/Management Strategic Planning Working Groups during that period.*

*The Report does not cite any evidence for the inference that some Councillors did not fulfil their legal obligation to act in the interests of RMIT University and not the group by whom they were elected or appointed. RMIT rejects the Report's suggestion that the legislative provisions relating to the membership of Councils in Universities be reviewed.*

## Part 4

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# **RMIT's current financial position**

## RMIT'S CURRENT FINANCIAL POSITION

**4.1** RMIT's financial performance for the financial year ended 31 December 2002 deteriorated significantly since the previous financial year. Table 4A discloses the operating results of the consolidated group and RMIT for 2001 and 2002.

**TABLE 4A**  
**OPERATING RESULT FOR THE CONSOLIDATED GROUP AND RMIT**  
(\$million)

<i>Operating result for financial year</i>	<i>Consolidated (a)</i>	<i>RMIT</i>
2002 – operating loss	(0.25)	(17.7)
2001 – operating profit	8.6	2.8

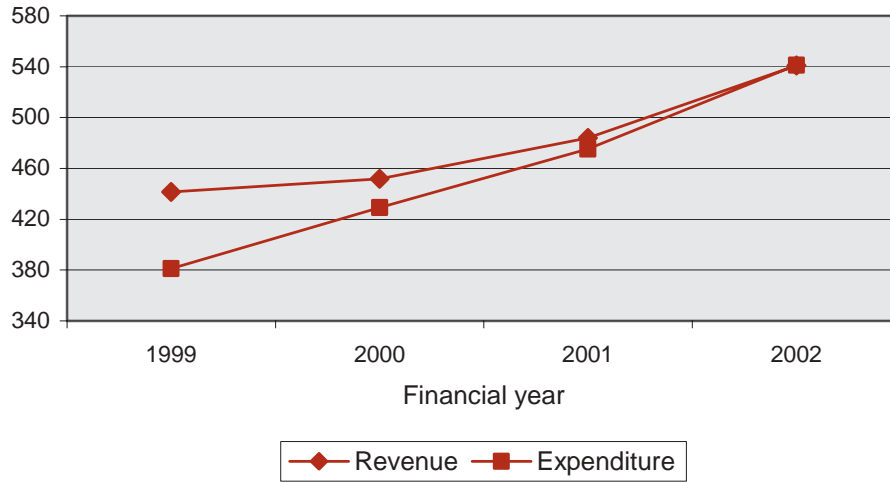
(a) The consolidated group consists of RMIT and the entities which it controls, as listed in Appendix C of this report.

Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

**4.2** The key reason for the variance between the consolidated group and RMIT's operating result for the 2002 financial year was the positive operating result of \$18.5 million generated by RMIT Vietnam Holdings Pty Ltd. This positive result was primarily attributable to a significant increase in donations received by that subsidiary.

**4.3** Chart 4B discloses that while there has been a 22.5 per cent growth in revenue over the 4 year period 1999 to 2002, expenditure has increased at a far greater rate (42 per cent).

**CHART 4B**  
**CONSOLIDATED REVENUE/EXPENDITURE ANALYSIS**  
 (\$million)



		1999	2000	2001	2002
Revenue	(\$million)	441.5	451.8	483.9	541.1
Expenditure	(\$million)	381.2	429.2	475.3	541.4

Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

**4.4** The chart clearly demonstrates the need for reforms to rebalance expenditure growth. Part 5 of this report includes commentary on trends in specific factors impacting on RMIT's financial position.

**4.5** RMIT's operating loss of \$17.7 million for 2002 compares with a budgeted operating surplus of \$21.6 million. Table 4C identifies the major variations from the 2002 budget.

**TABLE 4C**  
**MAJOR VARIANCES FROM THE 2002 BUDGET FOR RMIT**  
(\$million)

<i>Item</i>	<i>Variance from 2002 budget (Under)/Over</i>
Revenue -	
Research activities	(7.5)
Australian full fee-paying students	(2.1)
Donations and bequests	(4.4)
Investment income	(1.6)
Tuition fees overseas (onshore and offshore)	3.3
Student fees and charges	3.0
Various revenue items	4.8
	<b>(4.5)</b>
Expenditure -	
AMS write-off (a)	13.1
Staff administrative costs	11.1
Salaries and related costs	2.2
Grants to other institutions	3.3
Various expenditure items	5.1
	<b>34.8</b>
<b>Total variance</b>	<b>39.3</b>

(a) RMIT's audited financial statements for the financial year ended 31 December 2002 disclosed that capitalised expenditure of \$13.1 million on the AMS was written-off and that other costs of \$11.2 million were incurred on the AMS. Other costs associated with the AMS have been recorded under other expense categories.

Source: Victorian Auditor-General's Office based on information drawn from RMIT's audited financial statements.

**4.6** While the net assets of the consolidated group increased in 2002, RMIT's net asset position reduced. Table 4D discloses the movement in the net asset position from 2001 to 2002 for the consolidated group and RMIT.

**TABLE 4D**  
**COMPARISON OF 2001 AND 2002 NET ASSET POSITION**  
**OF THE CONSOLIDATED GROUP AND RMIT**  
(\$million)

<i>Net assets</i>	<i>Consolidated</i>	<i>RMIT</i>
2002	921.9	876.0
2001	908.8	880.2
Movement	13.1	(4.2)

Source: Victorian Auditor-General's Office based on information drawn from RMIT's audited financial statements.

**4.7** The key reason why the consolidated net asset position improved was the increase in net assets of RMIT Vietnam Holding Pty Ltd associated with the receipt of donations.

*Qualified audit opinion issued on the 2002  
financial statements*

**4.8** It is important to note that a qualified audit opinion was issued on RMIT's financial statements for the year ended 31 December 2002. Accordingly, this should be kept in mind when reading this report as our analysis, by necessity, is based on the data underlying the 2002 financial statements.

**4.9** The 2 matters addressed in the qualified audit opinion related to the impact of the failed Academic Management System (AMS) and the treatment of grant revenue.

**4.10** The AMS is the computer system established by RMIT for the purpose of maintaining accounting records for student-related transactions, including enrolment processing, tuition fee calculation, invoicing of fee-paying students, invoicing of other course-related fees and receipting of student fees.

**4.11** During the financial year ended 31 December 2002, a number of technical problems affected the performance of both the hardware and software, which impacted upon the operations of the AMS. These problems resulted in errors in billing fee-paying students, duplicate transactions, unreconciled differences between the AMS, the general ledger and the bank account, a lack of documentation supporting adjustments processed, difficulties in issuing Higher Education Contribution statements, and errors in processing and advising enrolment details.

**4.12** As a result of the technical difficulties encountered, the accounting records produced by the AMS were not adequate or sufficiently accurate to permit the application of necessary audit procedures. We were unable to obtain all of the information and explanations required to form an opinion on the following balances for the economic entity (consolidated group) and RMIT, respectively:

- fees and charges of \$170.6 million and \$160.1 million;
- student loans and student debtors of \$5.3 million and \$5.3 million;
- cash at bank and on hand of \$12.9 million and \$6.7 million; and
- student fee revenue in advance of \$6.6 million and \$6 million.

**4.13** As a result, the audit report on the financial statements was qualified in relation to the above items as there was insufficient documentation to support the completeness and accuracy of the balances reported.

**4.14** The audit opinion also contained a qualification in relation to the treatment of grant revenue. At 31 December 2002, RMIT reported revenue received in advance from the Commonwealth Government of \$14.8 million (\$14.7 million as at 31 December 2001) and reported the sum as a current liability. As RMIT effectively controlled these funds at 31 December 2002, this amount should have been recorded as revenue in accordance with the requirements of Australian Accounting Standard *AAS 15: Revenue*. Therefore, grant revenue and the operating result was understated by \$14.8 million for the financial year ended 31 December 2002.

**4.15** Part 9 of this report contains more detailed commentary on issues arising from the annual financial statement audit.

### Financial viability of RMIT

**4.16** We reviewed the financial viability of RMIT by applying the following financial indicators:

- operating result for the year excluding the portion of revenue grants provided to finance asset renewals;
- net cash flows generated from operating activities during the year; and
- the working capital position at year-end.

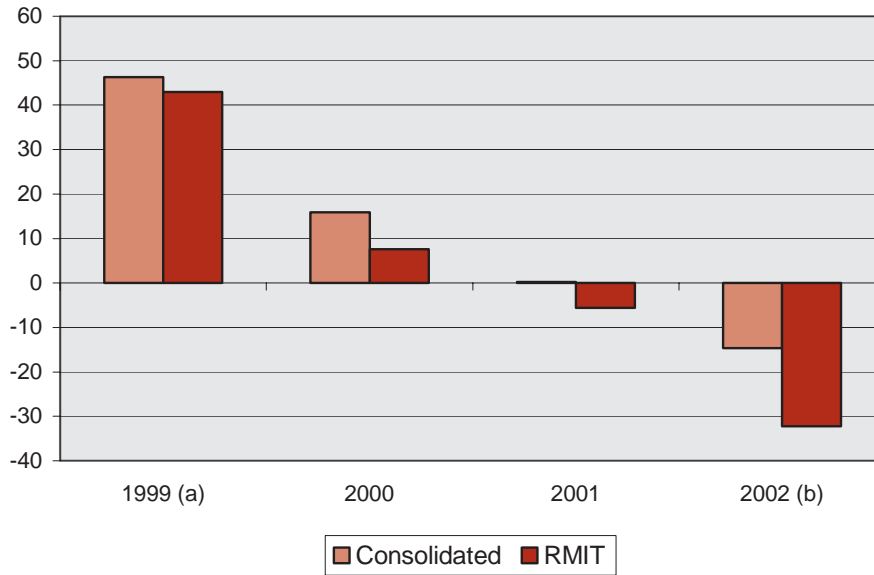
**4.17** The following analysis of RMIT's financial performance discloses trends in these indicators over the period 1999 to 2002.

#### *Operating result, excluding revenue grants provided to finance asset renewals*

**4.18** When assessing the annual operating result, it is important to be aware that a portion of revenue grants provided by the State and Commonwealth Governments is for asset renewals which do not form part of annual operating expenditure. For this reason, when analysing the financial viability of RMIT we have excluded this portion of the revenue grants.

**4.19** Chart 4E discloses the operating results excluding revenue grants provided for asset renewals and demonstrates that there has been a significant deterioration in this key financial indicator over the period 2000 to 2002.

**CHART 4E**  
**ANALYSIS OF OPERATING RESULTS EXCLUDING REVENUE GRANTS**  
**PROVIDED FOR ASSET RENEWALS – CONSOLIDATED AND RMIT**  
 (\$million)



		1999 (a)	2000	2001	2002 (b)
Consolidated	(\$million)	46.3	15.9	0.19	(14.7)
RMIT	(\$million)	43.0	7.6	(5.6)	(32.2)

(a) Included in the 1999 consolidated and RMIT result is an abnormal revenue item of \$15.2 million. This item related to the transfer of net assets from the Melbourne Institute of Textiles to RMIT.

(b) The difference between the 2002 consolidated and the RMIT result is mainly attributed to the positive operating result of RMIT Vietnam Holdings Pty Ltd. The consolidated and RMIT result include the impact of the write-off of the AMS which totalled \$13.1 million.

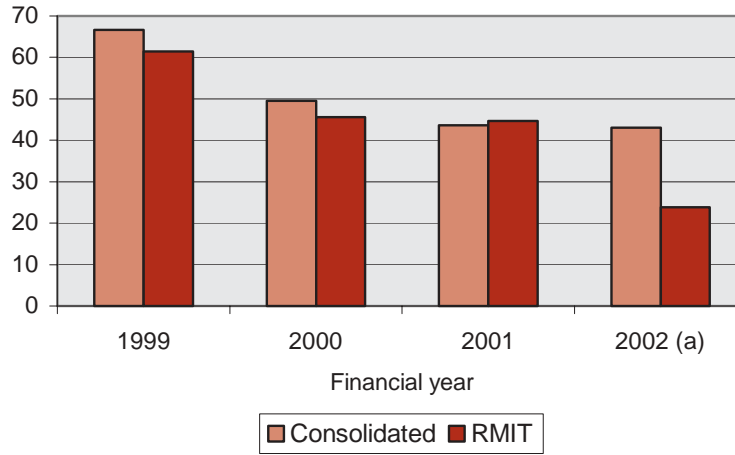
Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

*Net cash flows generated from operating activities*

**4.20** Chart 4F discloses that net cash flows from operating activities, while remaining positive, have generally declined over the period 2000 to 2002.



**CHART 4F**  
**NET CASH FLOWS FROM OPERATING ACTIVITIES –**  
**CONSOLIDATED AND RMIT**  
 (\$million)



	1999	2000	2001	2002 (a)
Consolidated (\$million)	66.7	49.5	43.6	43.0
RMIT (\$million)	61.4	45.6	44.7	23.8

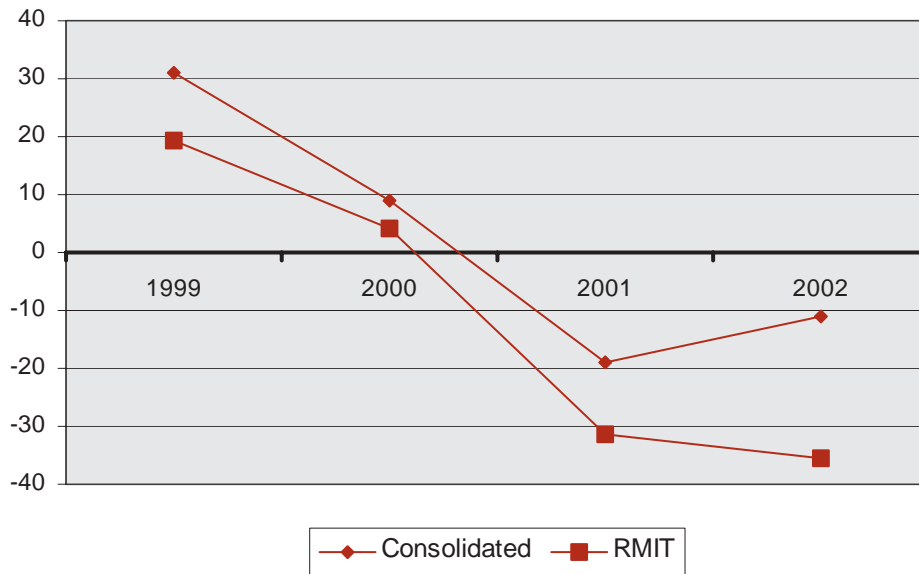
(a) The main difference between the consolidated and RMIT net operating cash flows for the 2002 financial year is the positive cash flows of RMIT Vietnam Holdings Pty Ltd.

Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

### *Working capital position*

**4.21** The working capital calculation is a standard liquidity indicator which represents the difference between current assets and current liabilities. **Chart 4G** discloses the overall decline in the working capital position since 1999, and that for the 2001 and 2002 financial years it was in a negative position.

**CHART 4G**  
**ANALYSIS OF WORKING CAPITAL – CONSOLIDATED AND RMIT**  
 (\$million)



		1999	2000	2001	2002
Consolidated	(\$million)	31.1	9.0	(18.8)	(11.2)
RMIT	(\$million)	19.2	4.0	(31.3)	(35.4)

Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

### Overall comment

**4.22** The negative trends over the period 2000 to 2002 in these financial indicators is clearly unsustainable and demonstrates the need for urgent reforms in relation to the financial management of RMIT.

**4.23** While later in this report we outline action which commenced in late 2002 and early in 2003 to address RMIT's financial performance, it is clear from the trends in these indicators that corrective action should have been initiated earlier.

**4.24** When establishing future budgets, RMIT should be aiming to achieve annual operating surpluses which exceed the capital grants received from both the Commonwealth and State Governments, and achieve the University's desired return on investment. If RMIT had managed its financial affairs prudently in line with this objective, the problems caused by the poor implementation of the AMS would not have had such a severe impact on the University's financial position.

## Part 5

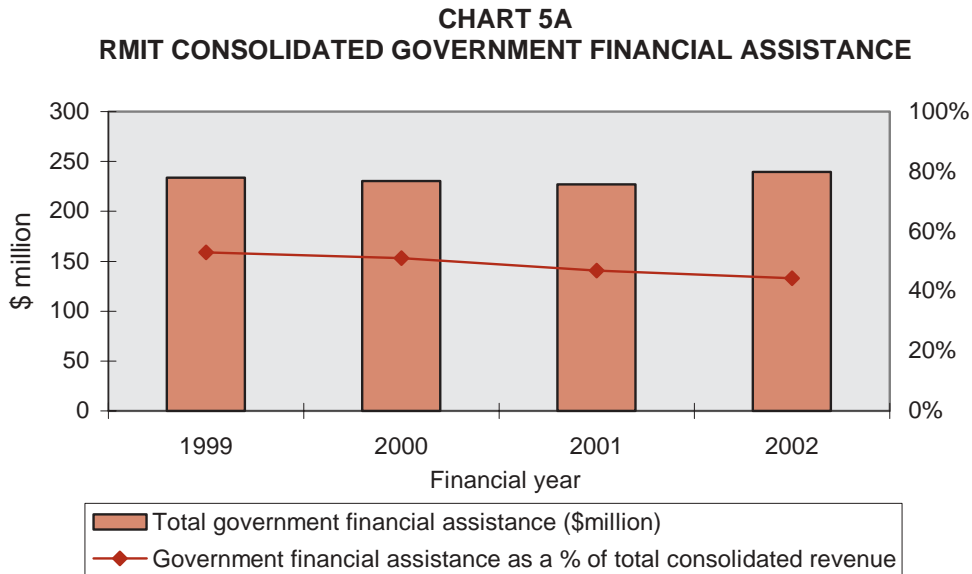
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# Specific issues impacting on RMIT's financial position

**5.1** This Part of the report examines a range of specific factors which have impacted on, or influenced, RMIT University's financial performance and position over the past 4 years.

### GOVERNMENT FINANCIAL ASSISTANCE

**5.2** Financial assistance from both Commonwealth and State Governments continues to represent RMIT's single largest source of revenue. Chart 5A highlights trends in consolidated government financial assistance over the past 4 years.



		1999	2000	2001	2002
Commonwealth Government financial assistance	(\$million)	174.3	175.3	168.7	173.8
State Government financial assistance	(\$million)	59.4	55.1	58.2	65.9
<b>Total government financial assistance</b>	(\$million)	<b>233.7</b>	<b>230.4</b>	<b>226.9</b>	<b>239.7</b>
Total operating revenue	(\$million)	441.5	451.8	483.9	541.1
<b>Government financial assistance as a percentage of total consolidated revenue</b>		<b>52.9%</b>	<b>51.0%</b>	<b>46.9%</b>	<b>44.3%</b>

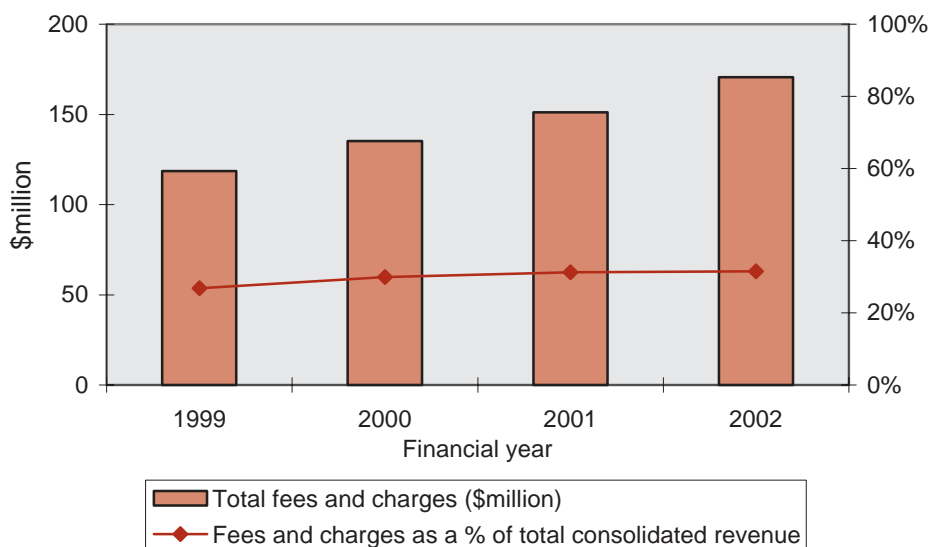
Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

**5.3** Chart 5A discloses that financial assistance from government has remained relatively static in nominal terms, but has fallen as a percentage of RMIT's total revenue from 53 per cent in 1999 to 44 per cent in 2002. The University has clearly had to seek other sources of revenue to finance growth. **While RMIT's diversification of revenue sources is commendable, it also brings higher risk and necessitates the utilisation of robust costing and pricing practices to ensure that new revenue streams are, in fact, contributing positively to the University's operating result. In Part 8 of this report, we identify weaknesses in the University's current costing and pricing practices, and indicate that RMIT has been slow to take positive action to address deficiencies in this area.**

## FEES AND CHARGES REVENUE

**5.4** RMIT derives significant revenue from Australian and overseas (both onshore and offshore) fee-paying students and a range of other student-related fees and charges. Chart 5B highlight trends in the University's fees and charges revenue in nominal terms and as a percentage of total revenue over the past 4 years.

**CHART 5B**  
RMIT CONSOLIDATED: ANALYSIS OF FEES AND CHARGES REVENUE



		1999	2000	2001	2002
<b>Fees and charges</b>	(\$million)	<b>118.5</b>	<b>135.2</b>	<b>151.1</b>	<b>170.6</b>
Total operating revenue	(\$million)	441.5	451.8	483.9	541.1
<b>Fees and charges as a percentage of total consolidated revenue</b>		<b>26.8%</b>	<b>29.9%</b>	<b>31.2%</b>	<b>31.5%</b>
Fees and charges – Percentage movement between years		22.3%	14.0%	11.8%	13.0%

Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

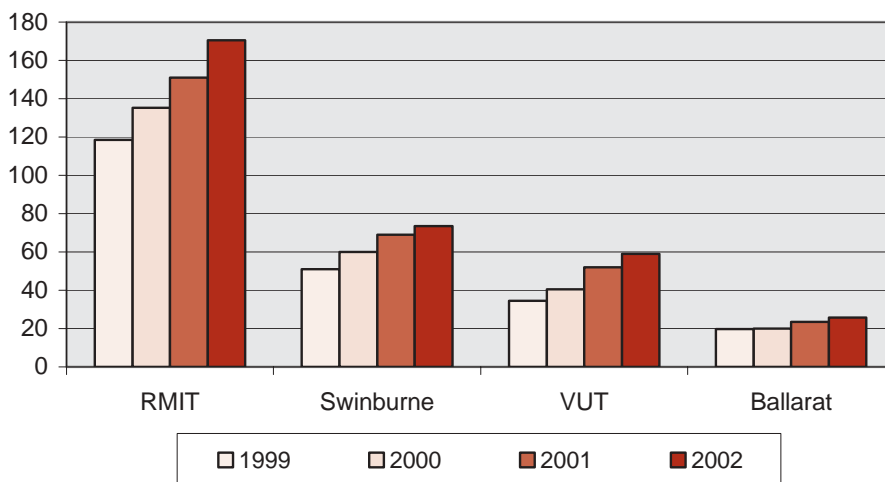
**5.5** The chart demonstrates that revenue from fees and charges has increased by \$52 million over the 4 year period 1999 to 2002, and has grown relative to total revenue.

**5.6** RMIT is developing a number of strategies to manage the risk arising from an increasing reliance on revenue from overseas students, as reflected in the University's international business development plan and country frameworks. RMIT needs to develop an overarching strategy to minimise risk arising from reliance on international fee revenue. We were advised by RMIT that this issue will be addressed through the development of a global business development plan.

**5.7** Chart 5C compares the revenue derived by RMIT from fees and charges with that derived from this source by other major dual-sector universities (i.e. those providing both higher education and TAFE teaching programs) over the past 4 financial years. The other dual-sector universities are Swinburne University of Technology, Victoria University of Technology (VUT) and the University of Ballarat. For the remainder of this Part of the report we primarily compare the performance of RMIT against that of the three other Victorian dual-sector Universities identified above. These universities together with RMIT, were selected on the basis that they are the major dual-sector universities in Australia which provide teaching programs for a significant number of TAFE students. In addition, these universities receive funding for TAFE programs under the same State Government funding model.

**5.8** The chart discloses that these universities have also increased their revenue from fees and charges over the 4 year period, but RMIT has by far the largest nominal exposure to this revenue source.

**CHART 5C**  
**DUAL-SECTOR: FEES AND CHARGES REVENUE**  
(\$million)



Total fees and charges (\$million)	1999	2000	2001	2002
RMIT	118.5	135.2	151.1	170.6
Swinburne	51.1	60.1	69.1	73.5
VUT	34.6	40.5	52.1	59.7
Ballarat	19.7	20.0	23.4	25.7

Source: Victorian Auditor-General's Office, based on information drawn from audited financial statements of the various universities.

## INCOME FROM RESEARCH ACTIVITIES

**5.9** RMIT has placed significant emphasis on increasing its research activities and profile in recent years. Academic departments have been required to seek to increase the amount of revenue derived from research activities. In addition, a number of research centres have been established by, or attracted to, the University.

**5.10** Universities can derive research income from government-funded national competitive grant programs, industry and commercial entities, and by attracting research students.

**5.11** Table 5D discloses the extent to which the University has been successful in growing research income over the past 4 years both in nominal terms and as a percentage of total income.

**TABLE 5D  
RMIT CONSOLIDATED: RESEARCH INCOME**

		1999	2000	2001	2002
Research income	(\$million)	15.6	17.7	19.0	23.9
Total operating revenue	(\$million)	441.5	451.8	483.9	541.1
Percentage of total revenue		3.5%	3.9%	3.9%	4.4%

*Source:* Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

**5.12** Table 5E discloses the growth in research income achieved by RMIT over the past 4 year period compared with the other dual-sector universities in Victoria and indicates that both Swinburne University of Technology and the University of Ballarat have, in relative terms, been more successful than RMIT in growing research income over the past 4 years.

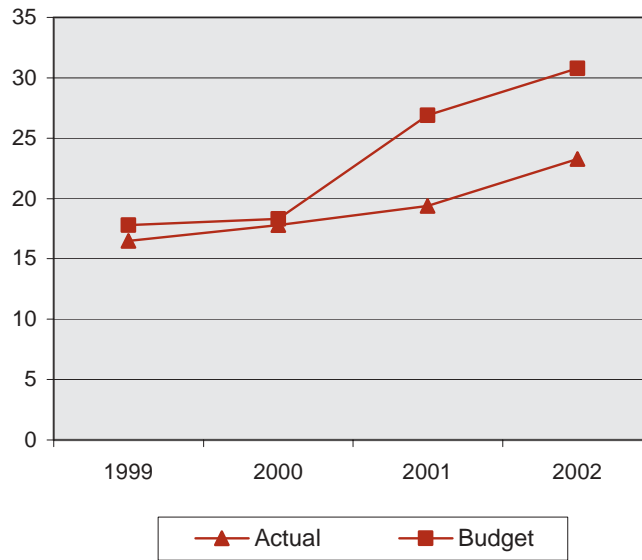
**TABLE 5E  
DUAL-SECTOR UNIVERSITIES – ANALYSIS OF GROWTH IN RESEARCH INCOME**

	1999	2000	2001	2002
<b>RMIT -</b>				
Total research income (\$million)	15.6	17.7	19.0	23.9
Percentage of total revenue	3.5%	3.9%	3.9%	4.4%
<b>Swinburne</b>				
Total research income (\$million)	8.0	11.4	12.0	19.4
Percentage of total revenue	4.3%	5.4%	5.1%	8.0%
<b>VUT</b>				
Total research income (\$million)	8.8	9.7	8.0	8.0
Percentage of total revenue	3.7%	3.9%	3.0%	2.9%
<b>Ballarat</b>				
Total research income (\$million)	2.4	3.5	5.7	6.5
Percentage of total revenue	2.9%	3.9%	5.4%	6.1%

*Source:* Victorian Auditor-General's Office, based on information drawn from audited financial statements of the various universities.

**5.13** While RMIT's research income has grown at a steady rate over the past 4 financial years, in 2001 and 2002 growth has been well below expectations. Chart 5F discloses the actual revenue derived by RMIT from research activities between 1999 and 2002 compared with budget.

**CHART 5F**  
**RMIT RESEARCH INCOME BUDGET AND ACTUAL**  
 (\$million)



Source: Victorian Auditor-General's Office.

### Research Centres and other activities

**5.14** In recent years, RMIT has established a number of Research Centres within the University and has also attracted Research Centres from outside, with the aim of contributing to its objectives of raising the profile of RMIT as a research university and growing the level of revenue derived from research activities.

**5.15** In July 2001, the RMIT Council received a report on the performance of RMIT's Research Centres for the 2000 financial year which demonstrated that the financial performance of Research Centres was not in line with budget expectations. The Council raised issues regarding the poor performance against budget of some Research Centres and correlations between staff numbers and publications.



**5.16** A report on the performance of the Research Centres for the 2001 financial year was submitted to the Council in May 2002 and subsequently re-submitted in September 2002. The report disclosed that 4 Centres had incurred losses in 2001 and that overall RMIT's 12 Research Centres had incurred an operating loss of \$2.6 million. The Council noted plans for the following 12 months to review and improve financial reporting of Research Centres and to ensure their more systematic integration with University-wide research and development initiatives around the University's Virtual Research Institutes. RMIT has 4 "Virtual Research Institutes" (comprising Globalism, Global Sustainability, Biotechnology and I-Cubed) which represent the areas in which the University wishes to build critical mass and reputation. The Institutes are "virtual" in that they are interdisciplinary and draw on expertise from across the University.

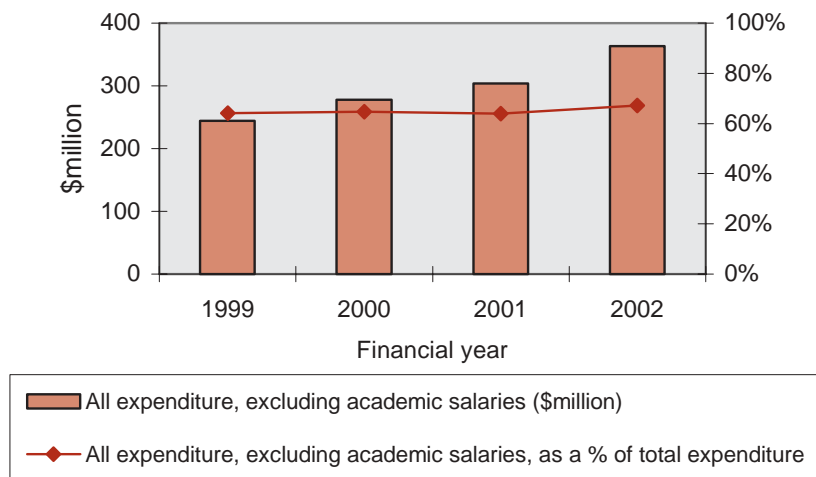
**5.17** The financial performance of RMIT's Research Centres for the 2002 financial year disclosed that 2 Centres had been closed and that the overall operating result for the year was a loss of approximately \$1.4 million. In addition, the I-Cubed organisational unit recorded an operating loss of \$2.1 million in 2002.

### COSTS OTHER THAN ACADEMIC SALARIES

**5.18** Examining the cost levels excluding academic salaries of a university provides an insight into the proportion of total resources expended on overheads or support services.

**5.19** Chart 5G discloses the movement in RMIT's costs, excluding academic salaries, over the past 4 years in nominal terms and as a percentage of total expenditure. **The chart reveals an increase in both measures.**

**CHART 5G**  
**RMIT CONSOLIDATED: ALL COSTS, EXCLUDING ACADEMIC SALARIES**



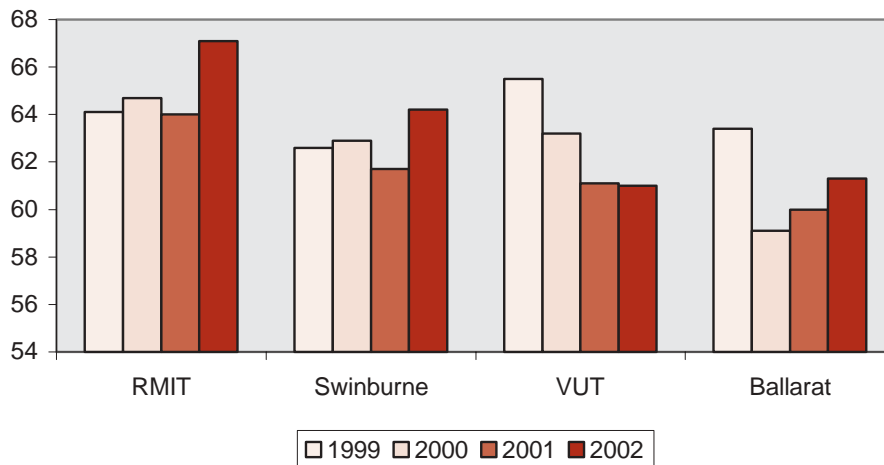
		1999	2000	2001	2002
<b>All expenditure excluding academic salaries</b>	(\$million)	<b>244.3</b>	<b>277.7</b>	<b>304.0</b>	<b>363.4</b>
Total expenditure	(\$million)	381.2	429.2	475.3	541.4
<b>Percentage of total expenditure</b>		<b>64.1%</b>	<b>64.7%</b>	<b>64.0%</b>	<b>67.1%</b>

Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

**5.20** Part of the reason for the increase in expenditure in 2002 is associated with the mismanagement of the implementation of the Academic Management System (AMS).

**5.21** Chart 5H provides a comparison of RMIT's performance against this measure with other Victorian dual-sector universities.

**CHART 5H**  
**DUAL-SECTOR: ALL COSTS, EXCLUDING ACADEMIC SALARIES,**  
**AS A PERCENTAGE OF TOTAL EXPENDITURE**  
 (per cent)



Dual-sector universities	1999	2000	2001	2002
<b>RMIT -</b>				
All expenditure, excluding academic salaries (\$million)	244.3	277.7	304.0	363.4
Percentage of total expenditure	64.1%	64.7%	64.0%	67.1%
<b>Swinburne -</b>				
All expenditure, excluding academic salaries (\$million)	115.6	126.1	136.6	154.6
Percentage of total expenditure	62.6%	62.9%	61.7%	64.2%
<b>VUT -</b>				
All expenditure, excluding academic salaries (\$million)	152.9	157.7	156.1	158.8
Percentage of total expenditure	65.5%	63.2%	61.1%	61.0%
<b>Ballarat -</b>				
All expenditure, excluding academic salaries (\$million)	50.9	51.5	55.3	59.1
Percentage of total expenditure	63.4%	59.1%	60.9%	61.3%

Source: Victorian Auditor-General's Office, based on information drawn from audited financial statements of the various universities.

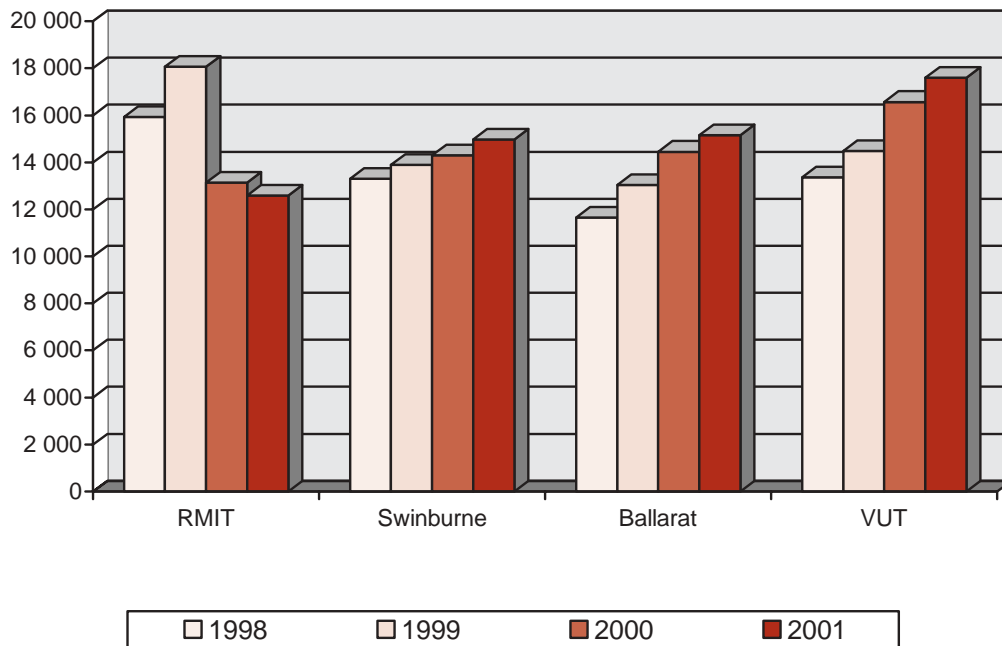
**5.22** The chart reveals that RMIT has incurred proportionately higher overheads or support services costs than the other dual-sector universities for the majority of this period. A positive movement in this measure, consistent with that achieved by VUT and Ballarat University, would translate into reduced overheads at RMIT of around \$20 million compared with that achieved in 2002, after excluding the costs associated with the write-off of the AMS in that year.

## VOCATIONAL EDUCATION AND TRAINING (TAFE)

### Student contact hours

**5.23** The primary measure of activity utilised in the vocational education and training or TAFE sector is student contact hours. Chart 5I illustrates the average volume of student contact hours delivered by each teaching full-time equivalent (FTE) staff member from 1998 to 2001 for each of the Victorian dual-sector universities.

**CHART 5I**  
**STUDENT CONTACT HOURS PER TEACHING FTE**  
(hours)



	<i>Student contact hours per teaching FTE (hours)</i>			
	<i>RMIT</i>	<i>Swinburne</i>	<i>Ballarat</i>	<i>VUT</i>
1998	15 931	13 298	11 645	13 365
1999	18 062	13 897	13 042	14 479
2000	13 142	14 298	14 451	16 569
2001	12 581	14 977	15 162	17 602

Source: Victorian Department of Education and Training.

**5.24** The chart discloses that during the period 1998 to 2001, the average volume of student contact hours delivered by each RMIT TAFE teacher has decreased. The chart also indicates that this trend at RMIT is out of step with the performance of the other dual-sector universities which have been growing the average volume of student contact hours delivered by teaching staff.

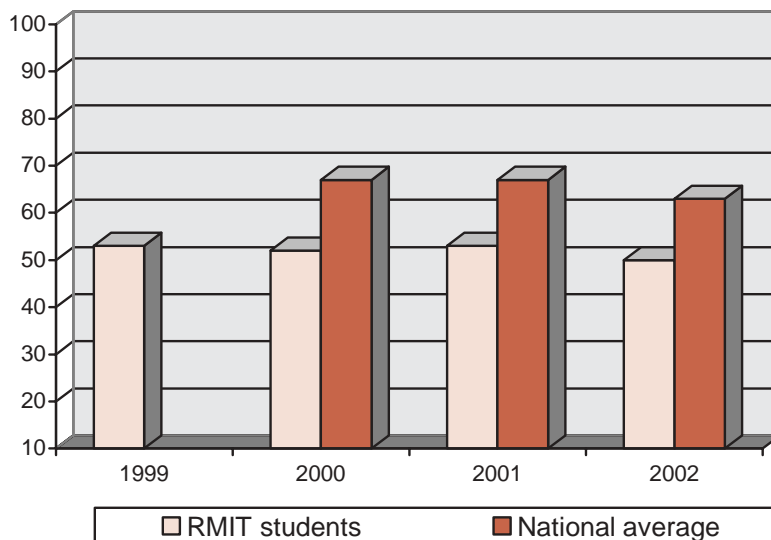
**5.25** The 2002 outcome for RMIT University indicates that 13 119 student contact hours were delivered by each teacher (FTE) - a slight improvement on 2001 but still a long way short of that achieved in the other dual-sector universities.

**5.26** The above data indicates that RMIT TAFE teachers, based on outputs per teacher, have less contact with students, in relative terms, than teachers at other dual-sector universities.

### Student satisfaction survey results

**5.27** We reviewed student satisfaction survey results at RMIT to determine whether they were influenced by lower student contact hours per teaching FTE. Chart 5J discloses the results of satisfaction surveys of RMIT's TAFE students from 2000 to 2002, along with the national average satisfaction rate for TAFE students.

**CHART 5J**  
**TAFE STUDENT SURVEY RESULTS - OVERALL SATISFACTION**  
(per cent)



Overall student satisfaction	1999	2000	2001	2002
	(%)	(%)	(%)	(%)
RMIT	53	52	53	50
National average	n.a.	67	67	63

Note: 1999 national average was not available.

Source: The Student Outcomes Survey is administered by the National Centre for Vocational Education Research.

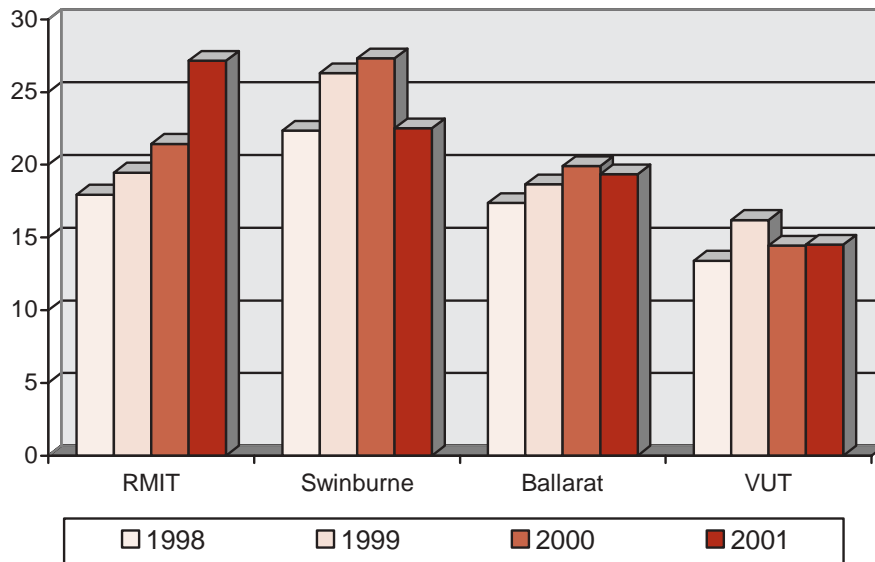
**5.28** While student contact hours delivered by each teacher is considerably lower than the other dual-sector universities, the satisfaction level expressed by RMIT's TAFE students has been consistently and significantly below the national average.

## HIGHER EDUCATION

### Student load

**5.29** Chart 5K shows effective full-time student units (EFTSU) - which is the unit of measure used by the higher education sector to measure student load per full-time equivalent academic (FTE) at RMIT compared with the other Victorian dual-sector universities over the period 1998 to 2001.

**CHART 5K  
STUDENT LOAD (EFTSU) PER ACADEMIC STAFF (FTE)**



	<i>RMIT</i>	<i>Swinburne</i>	<i>Ballarat</i>	<i>VUT</i>
1998	17.95	22.34	17.36	13.40
1999	19.46	26.30	18.66	16.20
2000	21.44	27.33	19.91	14.45
2001	27.16	22.51	19.34	14.50

Source: Commonwealth Department of Education, Science and Technology.

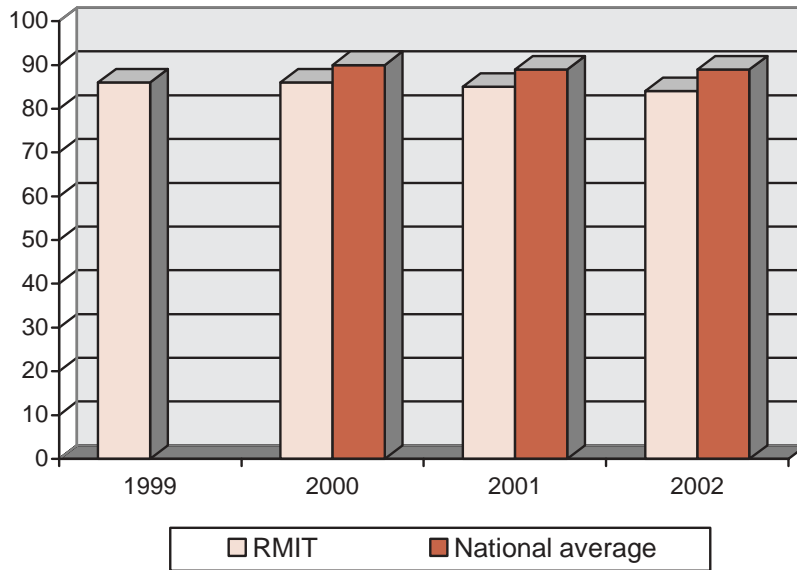
**5.30** During this period, RMIT has shown an increased student load per academic staff member. Compared with the other Victorian dual-sector universities, RMIT University had the highest average student load delivered by each academic staff member in 2001.

**5.31** Based on the above data, higher education teaching and learning based on outputs per academic is more productive at RMIT, in relative terms, than at other dual-sector universities.

## Student satisfaction survey results

**5.32** Chart 5L discloses the results of satisfaction surveys of RMIT's higher education students from 1999 to 2002, along with the national average satisfaction rates for these students.

**CHART 5L**  
**HIGHER EDUCATION STUDENT SURVEY RESULTS – OVERALL SATISFACTION**  
(per cent)



Overall student satisfaction	1999	2000	2001	2002
	(%)	(%)	(%)	(%)
RMIT	86	86	85	84
National average	n.a.	90	89	89

Note: 1999 national average was not available.

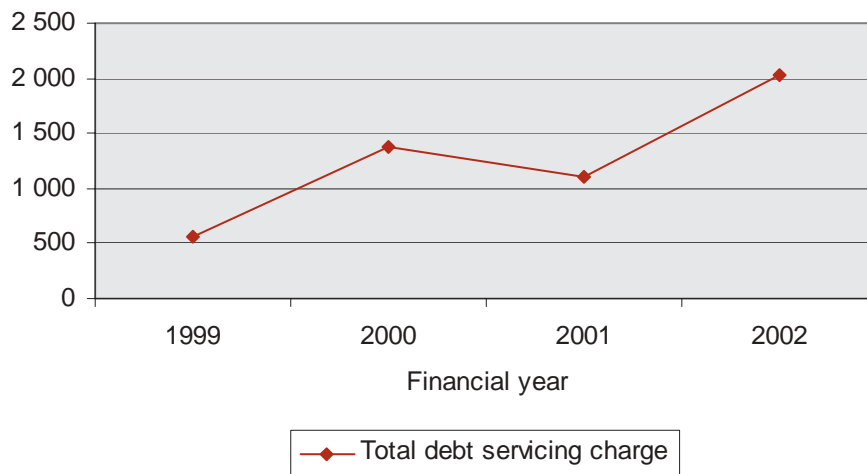
Source: The Client Experience Questionnaire is administered by the Graduate Careers Council of Australia.

**5.33** While the student load per academic staff member was considerably higher than the other dual-sector universities, the satisfaction level expressed by RMIT's higher education students has been high but slightly below the national average.

## DEBT

**5.34** As at 31 December 2002, RMIT had \$50 million of borrowings. Based on the projected debt retirement during the year, borrowings are expected to reduce to \$38 million as at 31 December 2003. Chart 5M discloses the growth in debt servicing charges incurred by RMIT between 1999 and 2002.

**CHART 5M  
TOTAL DEBT SERVICING CHARGES – CONSOLIDATED  
(\$'000)**



	1999	2000	2001	2002
Debt servicing costs (\$'000) (a)	570	1 385	1 097	2 022

(a) Debt servicing costs relate to a debt facility with RMIT's banker which has an upper limit of \$50 million.

Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

**5.35** In the period 1999 to 2001, borrowings remained constant at \$25 million and increased to \$50 million in the 2002 financial year. Accordingly, debt servicing costs increased in 2002 in line with this increase in borrowings.

## CASUAL LABOUR

**5.36** Effective resource management requires the linkage of resources that will be used with the outputs that will be delivered. The budget process requires faculties to submit estimates of the funds required to engage casual labour, but does not require the faculties to provide resource plans covering effective full-time employees which include casual labour.

**5.37** Our review has indicated that RMIT's casual labour costs have fluctuated in the past, and have been a soft part of the budget. Table 5N discloses adverse variances in actual expenditure on casual labour compared with budget over the last 2 financial years.

**TABLE 5N**  
**CASUAL LABOUR COSTS**  
(\$million)

	Budget 2001	Actual 2001	Budget 2002	Actual 2002	Budget full year 2003
Academic	14.5	16.0	14.9	18.8	16.1
General	4.7	10.6	4.7	12.7	4.4
<b>Total</b>	<b>19.2</b>	<b>26.6</b>	<b>19.6</b>	<b>31.5</b>	<b>20.5</b>

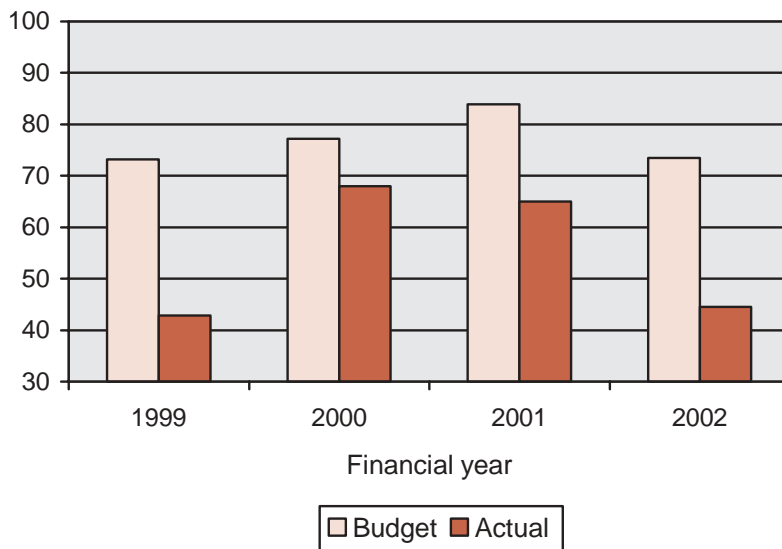
Source: RMIT.

**5.38** Casual labour can be easily budgeted for and managed if the required levels of usage are understood and factored into the budget process. Casual labour will continue to be an element of RMIT's budget where there is a high risk of variance from budget in the absence of adequate work force planning and associated accountability.

### RMIT'S CAPITAL EXPENDITURE PROGRAM

**5.39** Chart 50 discloses trends in RMIT's budgeted and actual capital expenditure over the period 1999 to 2002.

**CHART 50**  
**RMIT'S CAPITAL EXPENDITURE – BUDGET AND ACTUAL**  
(\$million)



Year	Budget (\$m)	Actual (\$m)	Variance (\$m)
1999	73.2	42.8	(30.4)
2000	77.2	68.0	(9.2)
2001	83.9	65.0	(18.9)
2002	73.5	44.5	(29.0)

Source: Victorian Auditor-General's Office.



**5.40** The chart indicates that actual capital expenditure has been significantly below budget in recent years and that there was a sharp reduction in the level of capital expenditure in 2002. Actual capital expenditure in 2002 was \$29 million less than budgeted. Capital expenditure is budgeted to be \$38.4 million for 2003, some \$35 million lower than that budgeted for in 2002.

**5.41** The RMIT Council has approved successive capital expenditure budgets as part of the annual budget approval process. If the capital expenditure items and projects included in these budgets over the past 4 years were essential to the achievement of the University's strategic plans, including its asset management plans, then it is concerning that RMIT is so far behind in the implementation of its long-term capital expenditure program.

**5.42** The volatility in the actual capital expenditure compared with budget in recent years also indicates that the capital expenditure program has been used by the University as a tool to address poor performance against its operating budget. While this may be understandable given the strong imperative to address short-term budget management issues, there are longer-term implications associated with such an approach. Specifically, the University may be running down the condition of its asset stock prematurely by failing to fund significant maintenance and upgrade interventions in a timely manner. In addition, the costs of these interventions or capital works will tend to increase over time, as will the costs of other capital projects which have been deferred and delayed.

**5.43** As indicated above, the 2002 capital expenditure program was dramatically curtailed. The majority of the cost containment occurred in relation to property projects. The original property capital expenditure project budget for 2002 was \$43 million. Actual expenditure on this component of the capital expenditure program for 2002 was \$29.1 million. The reduction in planned expenditure was achieved by deferring projects where contracts had not been entered into and progressing projects where contracts were in place through to the completion of the stage covered by the contract and then delaying the next stage of the project. Although effective in containing capital expenditure in 2002, the University may face cost penalties for delaying works and future cost escalations if it is decided to complete these projects.

## PROPERTY PORTFOLIO

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**5.44** RMIT's total property portfolio comprises 120 buildings situated on 4 campuses in the City, Bundoora, Brunswick and Hamilton covering approximately 428 000 square metres of gross floor area. The current value of these properties is \$926 million.



RMIT owned and occupied land and buildings – Melbourne City campus.

**5.45** Of the total area, 50 per cent is contained in 10 buildings with the remaining 50 per cent spread over 110 buildings. The poor condition of the infrastructure of many buildings adversely affects the University's ability to undertake minor and medium size capital works. The fact that a significant number of buildings provide only a modest amount of the University's overall space, also imposes significant constraints on its ability to effectively operate and manage these facilities.

### Maintenance backlog

**5.46** In 1995, RMIT undertook an extensive review of the condition of all properties then owned. The report which resulted from this exercise has formed the basis for much of the regulatory and building upgrade projects undertaken by the University since that date. **The report identified that a significant maintenance backlog had accumulated over the past 30 years and that accommodation standards were relatively poor in terms of safety and amenity compared with established regulatory and community standards.**

**5.47** Following the report, a major program commenced in 1996 to reduce the amount of maintenance backlog. As a result, the maintenance backlog was reduced from \$136 million in 1997 to an estimated \$82 million in 2001. However, RMIT advised that the level of the maintenance backlog has increased to an estimated \$119 million as at the end of 2002.

### Property rationalisation

**5.48** The subject of rationalising RMIT's property portfolio has been considered on a number of occasions by the University in recent years. In October 2001, the RMIT Council's Finance and Major Initiatives Committee (FAMIC) was informed that the property portfolio should be rationalised due to the significant associated ongoing costs.

**5.49** In June 2002, FAMIC received a report that identified properties and sites that could be considered for rationalisation. The report indicated that with normal growth in student numbers of approximately one per cent each year, there was sufficient space to meet future needs over the next 5 to 10 years without developing a number of its vacant sites.

**5.50** Over recent years, the impact of gradually increasing student numbers has been largely absorbed into existing space by changing the mode of delivery of teaching and learning to a more flexible "learner centre" model and the improved utilisation of existing facilities. It was anticipated that this trend will continue with the emphasis shifting to refurbishment and replacement of outdated building stock to provide space which facilitates the new mode of teaching and learning. **We were advised by RMIT management that around 30 per cent of building space on the University's City campus was not fit for purpose – that is not ideally suited to the purposes or activities for which it is currently utilised.**

**5.51** In December 2002, the Vice-Chancellor informed the RMIT Council that the University had a significant bank of real estate assets which were no longer required. Subsequently, in February 2003, a consultant was appointed to undertake an independent review of the University's property portfolio and provide advice to assist in focusing the University's property portfolio realignment. At the date of preparation of this report, the review had not been finalised.

**5.52** **If a decision is taken to rationalise the property portfolio, it is important that property sale proceeds are applied towards capital improvements and/or debt retirement.**

*Property site at Janefield and the RMIT  
Technology Estate*

**5.53** In July 1997, RMIT purchased 112 hectares of land adjacent to the University's Bundoora campus from the then Urban Land Authority at a cost of \$12 million. This site is commonly referred to as Janefield.

**5.54** Subsequent to the purchase of the land, work commenced on the development concepts and objectives for an RMIT Technology Estate. The "innovation vision" for the RMIT Technology Estate was to *"encompass a range of activities to support and enhance the innovation and entrepreneurship aspects of the University's Teaching and Learning Strategy and the R&D Strategy, and to build interactions with various industries and partners in ways that generate substantial benefits to all participants"*.

**5.55** A RMIT Technology Estate Management Committee was established by the RMIT Council in July 1997. Soon afterwards, the RMIT Technology Estate Office was created to develop a master plan and implement the project.

**5.56** In 1998, a conceptual master plan was developed comprising the following main components:

- technology park, including related infrastructure, for high-technology industries and organisations that were partners of RMIT University;
- student housing;
- neighbourhood shopping centre;
- small residential sub-division; and
- recreational facilities (including a golf course).

**5.57** The RMIT Technology Estate Management Committee approved the final master plan and this was incorporated into the overall development plan which was approved by the City of Whittlesea in November 1998. RMIT subsequently developed strategies for the implementation of the project, which led to reviews of existing and proposed technology parks, and discussions with potential participants. RMIT also sought potential development partners.

**5.58** In late 2000, the University initiated a review into the progress of the project. The review was specifically focused on determining whether the objectives for the project were still appropriate, and whether these objectives could be achieved by alternative means.

**5.59** An RMIT Technology Estate Project Status Report was prepared in March 2001, with the final report being presented to FAMIC in 30 October 2001. The final report recommended “*that efforts and activities to develop and implement the RMIT Technology Estate as a major physical project on the Janefield site should cease*”. The University Council adopted this recommendation in December 2001. The report identified a number of issues which had impeded the successful implementation of the project, including:

- lack of State Government financial support, as RMIT Technology Estate was considered to be duplicating the activities of the La Trobe University’s Research and Development Park located nearby;
- absence of private sector involvement and investment in the infrastructure and buildings as it was felt that Bundoora was not a suitable location, the project development phase was too long and that there was an apparent lack of support from the Commonwealth, State and local governments;
- RMIT’s research profile was not considered high enough to attract private sector interest; and
- inadequate resources, both financial and physical, to implement the project within RMIT.

**5.60** In recommending that further development of the RMIT Technology Estate cease, the report suggested that the University give consideration as to whether all, or part, of the Janefield site be retained. The report did not contain any detailed financial information relating to the purchase price paid for the land, costs associated with managing the land or other costs associated with management of the Technology Estate project.

**5.61** **FAMIC and the University Council approved the recommendation to cease further development of the RMIT Technology Estate on the Janefield site. Based upon the information available, it is estimated that RMIT spent \$2.6 million in respect of the RMIT Technology Estate project between 1997 and 2003.**

#### *Sale of the Janefield site*

**5.62** In late 2000, RMIT identified a 6.5 hectare section of land on the Janefield site located in Bundoora in the northern suburbs of Melbourne, which was surplus to the University’s requirements. A public expression of interest and tender process commenced in December 2000 for the land, which was suitable for sub-division and sale for residential development.



**5.63** Negotiations between RMIT and the highest bidder, continued throughout 2001 and 2002, until an agreement was reached in August 2002. The sale was approved by the Minister for Education on 11 August 2002. RMIT signed a contract of sale, which stipulated a sale price of \$5.99 million, subject to RMIT spending \$1.8 million on infrastructure development.

**5.64** On 17 October 2002, nearly a year after the RMIT Council had approved cessation of the RMIT Technology Estate project, the Vice-Chancellor wrote to the Minister for Education and Training seeking approval of the sale of the remainder of the Janefield site. Subsequently, RMIT placed this property on the market via a public tender process.

**5.65** Ministerial approval for this sale was provided on 5 May 2003. **At the date of preparation of this report, RMIT was considering a range of responses to this request for tender for the sale of the Janefield site.**



*A billboard on the Janefield site advertising the sale of the site by public tender.*

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## OVERALL COMMENT

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**5.66** As demonstrated in this Part of the report, there are a number of factors which have contributed to RMIT's poor financial position, in addition to those related to the implementation of AMS. The other principal factors have been:

- RMIT's support or overhead costs are relatively higher than those for comparable universities;
- losses incurred by research centres and activities;
- low TAFE productivity relative to comparable universities; and
- high costs associated with a large property portfolio.

**RESPONSE** provided by Vice-Chancellor, RMIT University

***Long term factors contributing to RMIT's financial position.***

*RMIT believes that the fact that the scope of this Review is largely limited to 2001 and 2002 renders its analysis of factors impacting on RMIT's financial position incomplete.*

*The Report is virtually silent about RMIT's capital programme over the last decade and its impact on cashflow. Between 1990 and 2000, net capital expenditure increased from \$13.77 million in 1990 to \$69.18 million in 2000 (nominal dollars). This increase was unavoidable because of years of neglect, and the need for RMIT to expand its facilities to reflect the expansion of its student numbers and activities as a university. However, funding received from the Commonwealth did not cover the necessary expenditure, as capital funding was not received from the Commonwealth prior to capital 'roll-in' of operating grants being made available in 1994. Between 1996 and 2000 net capital expenditure totalled \$249 million of which only \$47 million comprised capital roll-in. In 2000 net capital expenditure was seven times the amount received via capital roll-in, the highest ratio of private to public investment in the higher education sector for that year.*

*As a result of the high capital expenditure and consequent impact on cash, the Vice-Chancellor, on assuming office in October 2000, took a decision to limit capital expenditure in 2001 and 2002. This was a response to a problem that had developed over some time and not just a reaction to an immediate crisis, as is suggested in the Report. The priority informing this strategy has been the improvement of space utilisation and prioritising health and safety for students and staff.*

***Institutional Benchmarking***

*RMIT believes that selective benchmarking against two or three dual sector universities in the Auditor-General's Report is misleading and inappropriate. In terms of history, scale and mission, RMIT has more in common with the Australian Technology Network, of which it is a member, than it has with the other dual sector universities in Victoria. Benchmarking against ATN and the higher education sector more generally using a broader range of indicators not only would have been more appropriate but also given a more accurate and comprehensive view of RMIT. For example, benchmarking against dual sector universities (which have a higher proportion of TAFE activity than RMIT) suggests that overhead costs are high by comparison with other institutions. While RMIT accepts that overhead cost reduction must be pursued as a matter of urgency, its proportion of expenditure on overheads (using the indicators adopted by the Auditor-General) is actually lower than the sectoral figure, and has been for the past three years.*

## **Part 6**

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# **Performance against budget, 2001 and 2002**



**6.1** This Part of the report discusses the performance of RMIT University against budget (and not the budget performance of the consolidated group) as the University has the greatest impact on the financial performance of the consolidated group.

## RMIT'S PERFORMANCE AGAINST 2001 BUDGET

**6.2** RMIT failed to achieve its budgeted financial outcome in fiscal 2001. The University's actual operating surplus of \$2.8 million was \$23.2 million (89 per cent) less than the originally budgeted operating surplus of \$26 million. RMIT's actual performance against its budget for 2001 is shown in Table 6A.

**TABLE 6A  
RMIT'S PERFORMANCE AGAINST BUDGET, 2001**

	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>	<i>Variance)</i>
	(\$'000)	(\$'000)	(\$'000)	(%0
Student-related income	424 614	416 614	(8 000)	(1.9)
Other income	39 879	33 906	(5 973)	(14.9)
<b>Total income</b>	<b>464 493</b>	<b>450 520</b>	<b>(13 973)</b>	<b>(3.0)</b>
Salaries and oncosts	275 932	281 024	5 092	1.8
Facility-related occupancy costs	17 139	20 168	3 029	17.7
Staff administrative costs	17 055	21 150	4 095	24.0
Marketing, advertising and public relations	12 994	12 443	(551)	(4.2)
Communication costs	7 219	8 585	1 366	18.9
Staff and student-related expenses	13 967	13 188	(779)	(5.6)
Other expenses	94 162	91 500	(2 662)	(2.8)
<b>Total expenses</b>	<b>438 468</b>	<b>448 058</b>	<b>9 590</b>	<b>2.2</b>
<b>Operating result as per RMIT's internal budget reports</b>	<b>26 025</b>	<b>2 462</b>	<b>(23 563)</b>	<b>(90.5)</b>
<b>Operating result as per RMIT's audited financial statements for 2001</b>	<b>26 025</b>	<b>(a) 2 790</b>	<b>(23 235)</b>	<b>(89.3)</b>
Capital expenses	83 904	65 000	(18 904)	(22.5)

(a) RMIT's operating result disclosed in its audited accounts differed from the operating result for that year disclosed in its internal budget reports by \$328 000.

Source: Victorian Auditor-General's Office.

**6.3** As illustrated in the above table, total income was \$13.9 million below budget and total operating expenditure was \$9.5 million in excess of budget. The major variations from budget were:

- State operating grants were less than budget by \$5.5 million primarily due to capital projects being deferred or delayed. The major project deferred involved the construction of a building designed to enable effective teaching in aerospace technology, which involved a State Government grant of \$4.8 million;
- Income from research activities was \$7.6 million below budget;
- Income from Australian full fee-paying students was \$5.2 million below budget due to lower average prices for programs and lower than expected student numbers;
- Income from commercial activities was \$4.7 million below budget;
- Salary and salary-related expenditure exceeded budget by \$5.1 million;
- Staff administration costs were \$4.1 million in excess of budget, primarily due to higher than expected expenditure on temporary staff, casual staff, consultants and contractors, and staff appointment costs.

**6.4** In December 2001, the University's Council was informed that the forecast operating result for the 2001 financial year would be a surplus of \$15 million. This was \$11 million less than the budgeted operating surplus. However, the finance report for the financial year ended 31 December 2001 presented to the University's Council in March 2002 disclosed an actual operating surplus for 2001 of \$2.8 million. The report indicated that the major items which had contributed to the significant difference between the actual operating result and the forecast operating surplus of \$15 million provided to Council in December 2001, included:

- a loss of \$5.2 million on returning 2 unused TAFE buildings to the State Government;
- a reduction in the State operating grant of \$2.9 million due to the deferral of certain expenditures;
- an increase in the provision for long service leave by \$2.7 million;
- underestimation by \$2 million of the amount required to pay employees' annual leave loading (RMIT like other universities pays out employee leave loading entitlements in November each year);
- the loss incurred by the Centre for Workforce Culture Change of \$1.6 million; and
- additional expenditure in the Property Services Division of \$1.5 million.

**6.5** RMIT's capital expenditure for 2001 totalled \$65 million, some \$18.9 million lower than the budget for the financial year of \$83.9 million. This was primarily attributable to the deferral of a range of capital expenditure projects.

## Monitoring of performance against budget during 2001

**6.6** In July 2001, the RMIT Council was provided with the minutes of a meeting of the Council's Finance and Major Initiatives Committee (known as FAMIC), held in June 2001 at which a report on the financial performance of RMIT for the first 5 months of 2001 was discussed. The Council was informed that there were several areas that called for further review, including ascertaining reasons for increases in casual staff numbers which had resulted in unfavourable salary and wage variances, and a full-year forecast of unfavourable variances in some faculties. The Council minutes noted that FAMIC and senior management were aware of the problems and that remedies were in place.

**6.7** **We sought access to evidence of the specific remedies to be applied in July 2001 to deal with increasing casual staff numbers and the unfavourable faculty forecasts. Such evidence had not been provided at the date of preparation of this report.**

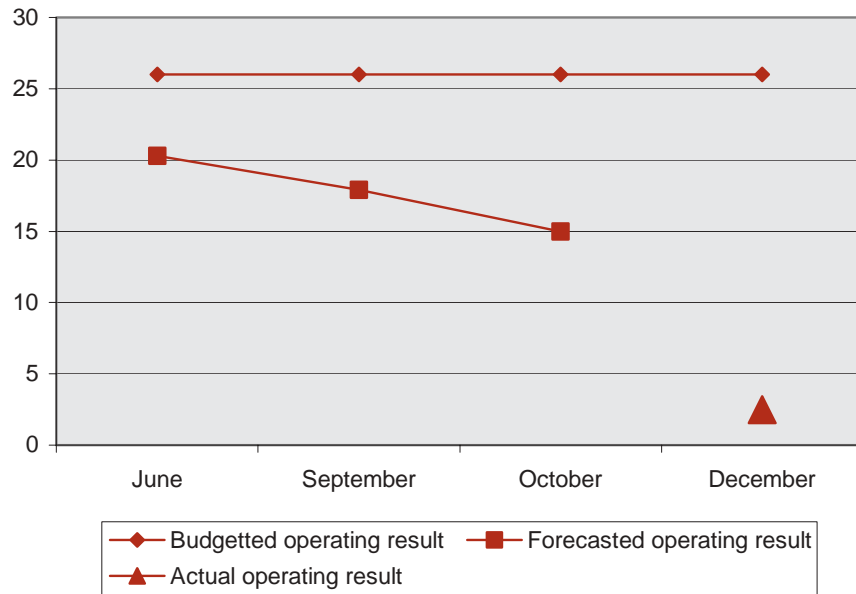
**6.8** The finance report for the 6 months to 30 June 2001 presented to FAMIC in July 2001 indicated that a number of faculties were expecting to record a deficit for the 2001 financial year. FAMIC was advised by the Deputy Vice-Chancellor (Resources) that action plans were in place to address the financial viability issues, with some plans stretching beyond 2001. The Committee noted that when these plans had been implemented it was expected that the faculties concerned would be expected to generate surpluses in the future.

**6.9** Income pressures were emerging by the middle of 2001 and by the end of August 2001, total income was \$12.9 million (or 4 per cent) below the year-to-date budget. The major categories of income which were below expectations were:

- grants from the State Government;
- research grants and income;
- commercial income;
- income from both Australian and overseas fee-paying students;
- donations and bequests; and
- investment income.

**6.10** The inability of RMIT to accurately forecast the financial position of the University is illustrated in Chart 6B which discloses the changes in the forecast full-year operating result provided to FAMIC and the Council during the latter part of 2001. While the budget represents an organisation's approved financial plan and is a tool to control the allocation and management of resources, a forecast is an estimate of the financial outcome for the year based on actual performance up to the date of its preparation and projected performance for the balance of the financial year.

**CHART 6B**  
**ACCURACY OF FORECASTS FOR 2001 FULL YEAR OPERATING RESULT**  
(\\$million)



Source: Victorian Auditor-General's Office.

**6.11** The final forecast position varied from the actual result by a significant margin (some 83 per cent). This inability to accurately forecast the university's financial position must erode the confidence of the users of the forecasts provided for decision making purposes.

## RMIT'S PERFORMANCE AGAINST 2002 BUDGET

**6.12** RMIT's budget for 2002 was approved by the Council on 3 December 2001. As demonstrated in Table 6C, RMIT failed to achieve its budgeted operating surplus in 2002. **The University's actual operating deficit of \$17.7 million was \$39.3 million or 182 per cent at variance from the originally budgeted operating surplus of \$21.6 million.**

**TABLE 6C  
RMIT'S ACTUAL PERFORMANCE AGAINST 2002 BUDGET**

	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>	<i>Variance</i>
	(\$'000)	(\$'000)	(\$'000)	(%)
Student-related income	452 469	450 491	(1 978)	(0.4)
Other income	38 526	36 004	(2 522)	(6.5)
<b>Total income</b>	<b>490 995</b>	<b>486 495</b>	<b>(4 500)</b>	<b>(0.9)</b>
Salaries and oncosts	298 676	300 904	2 228	0.7
Facility-related occupancy costs	20 442	20 142	(300)	(1.5)
Staff administrative costs	19 434	30 735	11 301	58.1
Marketing, advertising and public relations	13 067	12 262	(806)	(6.1)
Communication costs	6 178	6 505	327	5.3
Staff and student related expenses	15 547	13 981	(1 566)	(10.1)
Other expenses	96 051	119 716	23 665	24.6
<b>Total expenses</b>	<b>469 395</b>	<b>504 245</b>	<b>34 645</b>	<b>7.4</b>
<b>Operating result</b>	<b>21 600</b>	<b>(17 750)</b>	<b>(39 350)</b>	<b>(182.2)</b>
Capital expenses	72 896	44 540	(28 356)	(38.9)

Source: Victorian Auditor-General's Office.

**6.13** The above table shows total income was \$4.5 million below budget and total operating expenditure was \$34.6 million in excess of budget. The primary reason for significant over-expenditure related to additional costs associated with efforts to address deficiencies in the Academic Management System (AMS). We have recently reported to Parliament regarding deficiencies in the planning and implementation of the AMS<sup>1</sup>.

### Establishment of the 2002 budget

**6.14** In October 2001, Council's Finance and Major Initiatives Committee received a paper and presentation on progress in development of the University's 2002 budget. The presentation indicated that:

- the capital program required review in the light of the need to support emerging new strategies;
- the operating results for 2001 and 2002 would be similar;

<sup>1</sup> Report on Public Sector Agencies – Results of special reviews and 30 June 2002 financial statement audits, tabled in Parliament in February 2003.

- increased expenditure in some areas was subject to critical review as increases in revenue virtually matched increases in expenditure; and
- overhead costs were being scrutinised with a view to identifying targets for cost reduction.

**6.15** The Vice-Chancellor informed the Committee that initiatives were underway to provide dramatic changes to service delivery as well as the rationalisation of the capital portfolio. Specific initiatives were not, however, outlined to the Committee.

**6.16** On 26 November 2001, FAMIC received and discussed the final draft budget for 2002. The Committee was informed that its comments at the previous meeting had been taken into account when finalising the budget. We compared the version of the budget presented to the Committee in October with that presented in November and could see no evidence that expenditure on overheads or other areas had been subjected to any significant reduction. At that meeting, the Committee agreed to recommend to Council that it adopt the 2002 budget.

**6.17** The 2002 budget recommended by FAMIC for adoption was presented to the RMIT Council at its meeting on 3 December 2001. The Acting Vice-Chancellor expressed confidence in the projections contained in the budget and the Council noted a number of points including:

- the projected operating surplus of \$21.6 million was achievable in light of major investment designed to enhance performance in generating research income and commercial income;
- the projected increase in research income of 43 per cent would be a challenge;
- high overheads were noticeable in some faculties, but issues of overheads were of concern to a number of universities, and benchmarking showed that RMIT was not an exception with regard to high overheads;
- income below budget expectations could be detected early enough to facilitate expenditure adjustments in response; and
- positive cash flow from operating activities of \$44.6 million would contribute the major share of funding for the capital expenditure program of around \$72 million with the balance funded by additional borrowings of \$25 million which was within the University's planning constraints and Loan Council limits.

**6.18** The December 2001 submission to Council, seeking approval of the 2002 University budget, forecast as at the end of November 2001 an operating surplus for 2001 of \$15 million. The Council approved the 2002 budget at its meeting on 3 December 2001 based on this submission and a presentation by the Deputy Vice-Chancellor (Resources) as Acting Vice-chancellor. The University's actual operating surplus for 2001 was \$2.8 million, well below that forecast in November 2001. **The fact that the forecast operating result for 2001 provided to the Council as part of the information to support its deliberations on the 2002 budget eventually proved to be in error by some \$12.2 million, or 81 per cent was of concern.**

**6.19** While it is acknowledged that there was some discussion at the FAMIC meeting in early February 2002 regarding the poor forecasting of the 2001 operating result, based on the evidence provided by the official minutes of the Council meeting in March 2002 at which the actual operating result for 2001 was disclosed, there was no discussion by the Council of the extent to which the forecasts for 2001 were in error.

**6.20** We reviewed the submissions to FAMIC and Council regarding the 2002 budget to assess whether sufficient information was provided to enable informed consideration of the proposed budget. **It is our view that documentation provided to both the Council and FAMIC for the 2002 budget was inadequate. It did not provide sufficient detail regarding assumptions underlying budgeted movements in revenue and expenditure items. The submissions failed to address the question of whether or not the reasons for variations from the 2001 budget were relevant to the consideration of the 2002 budget. It was also difficult to obtain a sense of the financial strategy underlying the budget submissions in terms of the intended short and longer-term financing and cash management strategies.**

**6.21** This view is consistent with that expressed in a report issued on Budget Setting and Monitoring by RMIT's Internal Audit Group in October 2002. That report included a recommendation that budget submissions should contain considerably more detail, with essential elements including:

- an analysis of the prior year;
- a detailed cash flow projections (and loans analysis);
- details of the capital projects (including link with the Strategic Plan, relationship to an asset management strategy, and timing and relative priority of projects);
- a discussion of the overall financial management strategy;
- detailed assumptions about revenue; and
- any other strategic initiatives not implied above.

**6.22** We are supportive of this recommendation and the related recommendations that:

- all budget submissions and parameters should address the entire RMIT group and not just the University; and
- changes to the budget should be explicitly justified and approved by Council.



**6.23** However, the information provided in submissions on the 2002 budget appear to have met the expectations of both the Council and FAMIC as neither forum requested additional information before endorsing or approving the 2002 budget.

### Monitoring performance against the 2002 budget by FAMIC and Council

**6.24** In February 2002, FAMIC received and discussed the finance report for the financial year ended 31 December 2001. The Committee was informed by the Deputy Vice-Chancellor (Resources) that the major concern arising from the report was that the October 2001 forecast for an operating surplus of \$15 million had not been realised and that the actual figure was \$2.8 million. The Deputy Vice-Chancellor (Resources) indicated that there were several factors contributing to this adverse result, the major one being poor forecasting in October, at both faculty and other levels.

**6.25** The Committee also noted that a review of the capital program for 2002 would have to occur to ensure minimum cash levels were maintained. This review subsequently took place leading to a cut in the capital expenditure program from \$72 million to \$44.5 million

**6.26** The minutes of the February 2002 FAMIC meeting indicated that the Vice-Chancellor would be undertaking an assessment of the budget for 2002 in the light of the 2001 results and that the results of the budget assessment would be available at the next meeting, as well as action points for greater central influence in forecasting realistic income figures.

**6.27** The University's senior management subsequently undertook a review of the 2002 budget in light of the worse than expected result for 2001 and the actual results achieved to the end of March 2002. Despite strong indications that the 2002 budget as approved by Council in December 2001 was too optimistic, senior management failed to recommend to FAMIC or Council that the 2002 budget be revised.

### *Council meetings in March 2002*

**6.28** At a meeting on 4 March 2002, Council noted that FAMIC had received and discussed the finance report for the financial year ended 31 December 2001. Council minutes of this meeting do not record any discussion of the fact that the 2001 result was considerably worse than that budgeted for, and worse than that forecast as at the time the Council approved the 2002 budget.

**6.29** On 25 March 2002, a special meeting of Council was held to deal with a number of issues including a paper on the 2002 budget. Key issues identified in the paper included:

- Lack of appropriate procedures for capital expenditures underlay some of the variances recorded in respect of the 2001 budget. The paper indicated that this had been addressed by the introduction of new evaluation procedures, requirements and delegations;



- There were organisational issues regarding the extent of acceptance of new approaches to budgeting and management reporting in terms of profit centre and accrual accounting;
- Senior management had undertaken budget review meetings with all Deans of faculties and heads of resource groups;
- The need to address the fact that the same overhead rate had been applied to Higher Education and TAFE programs with the impact of increasing the cost of all TAFE programs and hindering the capacity of RMIT to compete with other single sector TAFE colleges and private providers. An undertaking was given in the paper that this issue would be addressed;
- Adjustments to employee leave provisions (recreational and long service) had highlighted the need to reinforce processes for clearance of outstanding leave balances. An undertaking was given in the paper that this issue was being addressed; and
- The cash position of the University was significantly weaker than expected as a result of the 2001 budget over-run. The consolidated cash reserves were reduced by \$23.5 million as a direct result of capital programs consuming more funds than were generated through operating activities during 2001.

**6.30** In presenting this paper, the Vice-Chancellor informed Council that it was a report of work in progress and that while the cash position had deteriorated temporarily because of invoicing delays, a series of activities were in place to remediate the cash position.

**6.31** The Council noted that it would receive a more definitive report on the 2002 budget at its May meeting when a report on its performance during the first quarter of 2002 would be presented.

#### *Meetings of the Council and FAMIC in May 2002*

**6.32** FAMIC was presented with a finance report covering the 3 month period ended 31 March 2002 for discussion at its meeting on 1 May 2002. The Committee noted that the first quarter's actuals were favourable to budget and that changes due to the budget review were reflected in the year-end forecast. **The committee did not submit a revised budget for approval by Council. A review of Council minutes revealed that the Council did not formally approve a revised budget for the University in March, or at any other time during 2002.**

**6.33** At this meeting, FAMIC also discussed the special leave granted by the Vice-Chancellor to those who were involved with the AMS project, at an estimated cost of \$2 million, and it was agreed that if it was possible, this should be designated as special leave that would be taken within a finite period, and not be recorded as a liability. The Committee concluded its discussion on the finance report by agreeing that the Vice-Chancellor could amend the report to make editorial changes and correct any errors before the report was submitted to Council.

**6.34** In comparing the finance report presented to the Council for discussion at its meeting on 13 May 2002 with the report presented to FAMIC on 1 May, it is apparent that some commentary which was present in the report provided to FAMIC, including commentary dealing with the projected cost of the provision of additional leave to staff involved in the AMS project had been removed from the report provided to Council.

**6.35** At the Council meeting on 13 May 2002, the Council received and noted the finance report at 31 March 2002. The Treasurer informed Council that FAMIC had satisfied itself about the budget forecasts contained in the finance report, and also informed Council that these forecasts might be conservative.

**6.36** Council was aware that senior management had undertaken a review of the 2002 budget and had produced a revised full-year forecast in April 2002, based on the position to the end of March and discussions with unit managers regarding expectations for the remainder of 2002. However, senior management did not take specific action to require unit managers to manage against and be held accountable for their performance against the forecast prepared in April 2002 until the third quarter of 2002. Revised full-year forecasts were also prepared as at 30 June, 30 September and 31 October 2002.

**6.37** From October 2002, the revised full-year forecast prepared in April 2002 began to be referred to as the “revised budget” in management reports and finance reports to FAMIC and the Council. However, at no stage during 2002 did the “Snapshot” reports provided to Council (which provide summary information regarding key aspects of the University’s financial and operational performance) include information comparing the actual financial performance of the University with the “revised budget”. Information included in the “Snapshot” reports on performance against budget, compared actual performance with the 2002 budget approved by Council in December 2001.

**6.38** **On the basis of this evidence, we conclude that the University was not managing against a realistic budget for much of 2002. In our view, if senior management had concluded that the 2002 budget originally approved by Council was unrealistic then a revised budget should have been considered, approved and issued by Council. An approved revised budget should then have been communicated to all organisational units with a view to ensuring that these units were held accountable for performance against this new budget.**

#### *FAMIC meetings in July 2002*

**6.39** The FAMIC meeting on 30 July 2002 included discussion of the finance report for the 6 months ended 30 June 2002. The finance report compared the University’s actual performance with the approved budget and, to some extent, with the forecast position prepared in April based on the actual results to the end of March. The report also included a revised full-year forecast budget position which indicated that the operating result would be \$14 million lower than that budgeted and \$8.5 million lower than the forecast provided to the Committee in May 2002. Despite this deterioration in the projected financial position of the University, the Committee did not recommend a revision to the budget.

**6.40** FAMIC noted that the Capital Investment Review Board, which was established in April 2002 and comprises senior management representatives from across the University, would review all items of proposed expenditure and that only essential items would be approved. FAMIC also required management to reduce the proposed capital expenditure by the amount identified as the projected cash shortfall in February 2003 of \$7.1 million.

#### *Council meetings in September and October 2002*

**6.41** The minutes of the Council's September 2002 meeting do not record any discussion by Council of the University's then current and projected financial position.

**6.42** At the Council meeting on 25 October 2002, the Council received a draft finance report for year to 30 September 2002 that had not been considered by FAMIC as that committee did not meet to consider the finance report until 29 October 2002. The main issues identified in the report were:

- the University's forecast year-end operating surplus had further deteriorated to \$360 000 compared with a budget of \$21.6 million; and
- the costs associated with the Academic Management System were given as the main contributor to expenditure pressure.

**6.43** The Council discussed the finance report and the importance of the University having at its disposal a credit facility that would ensure adequate financial support at all times. Council was advised by senior management that the University's cash position fluctuates throughout the academic year and it would be prudent to review current borrowing limits with a view to strengthening its approach to cash management.

**6.44** The Council noted that State Government approval was required for RMIT to increase its borrowings and that current limits on borrowing were contingent on the extent of the University's assets. It was agreed that the question of an adequate financial "buffer" should be considered by FAMIC at its meeting on 29 October 2002.

#### *FAMIC meeting in October 2002*

**6.45** FAMIC met on 29 October 2002 and noted the finance report for the period ended 30 September 2002. The Committee also received and discussed a submission entitled *Financial Strategy and 2003 Budget Parameters*.

**6.46** The Chair advised the Committee that after a discussion with the Deputy Vice-Chancellor (Resources) he had agreed that the meeting should devote its attention to a tabled paper prepared by the Vice-Chancellor entitled *Major Issues Action Summary* as the paper covered all the major issues relating to a financial strategy and budget parameters. The paper was prepared based on the assumption that the actual operating result for 2002 would be a surplus of \$360 000 and identified the following issues:

- possible shortfalls in the University's cash position of \$10 million in January 2003 and February 2003, \$7.1 million in May 2003 and \$18 million in June 2003;

- assuming \$12 million was received from the sale of Janefield in January 2003, the cash position pressure points identified above would be covered and seasonal fluctuations in cash flow managed within existing borrowing limits;
- the University's banker had been asked to undertake a comprehensive review of the University's financing strategy, with particular focus on the working capital arrangements; and
- a number of possible actions, in addition to the sale of Janefield, were available to the University to address its cash flow problems, including establishment of "Group Treasury" arrangements which would make the cash reserves of the controlled entities available, establishment of an overdraft facility with the University's banker and making a request for an increase in the Commonwealth Operating Grant of around \$7 million.

**6.47** FAMIC received advice from the Vice-Chancellor on the strategies for addressing the projected cash shortfall early in 2003. The Committee agreed that approval should be given for the sale of the remainder of Janefield at the best price possible over \$12 million. It was noted that the sale could be effected before the end of the year with payment made in early January, and that this would remedy the cash position of the University.

**6.48** Following discussion on the other options available, the Committee unanimously resolved *"That the Committee approves the University selling the remainder of Janefield, creating a Group Treasury including company cash flows and, putting in place an overdraft facility of \$25 million ..."*

**6.49** At the 29 October meeting, the Committee also received advice from the Vice-Chancellor on strategies for managing the 2002 out turn and that the aim was to have an operating surplus between \$3 million and \$5 million. The Vice-chancellor advised that controls on casual employment and the withdrawal of most credit cards would help achieve such a result.

#### *FAMIC meeting in November 2002*

**6.50** On 25 November 2002, at its final meeting for the year, FAMIC received a finance report for the period ended 31 October 2002. The report included the statement that *"The original 2002 budget of \$21.7 million was revised downwards in March to \$16.1 million, with the understanding that the 'abnormal' AMS remediation costs would be additional to this result"*. **This statement was incorrect, as the Council did not approve a revision to the originally approved 2002 budget and there was no evidence in official minutes or in papers provided to Council or FAMIC, that there was any "understanding" that the "abnormal" AMS remediation costs would be excluded from the projected full-year result.**

**6.51** The other main issues discussed at FAMIC's November 2002 meeting included:

- The sale of the Janefield site had been progressing very well and that the delay in finalising the sale was the need for Ministerial approval. It was also noted that the 2 parties (RMIT and the Urban and Regional Land Corporation) had agreed to the sale conditional on the minister's approval and that the price to be obtained was significantly higher than previously expected;
- That arrangements were in place which enabled short-term money market investments by companies controlled by RMIT to be realised if required by RMIT; and
- It was noted by FAMIC, based on advice provided by senior management, that the results to 31 October 2002 were reasonably as expected although some attention was devoted to the increase in salary on-costs.

**6.52** FAMIC did not meet following the meeting in November 2002 until 6 May 2003. This is surprising, particularly in light of the unsatisfactory financial and accounting position of RMIT during this period.

### Lack of accountability for performance against approved original 2002 budget

**6.53** Table 6C (included earlier in this Part of the report) shows RMIT's performance against its approved budget for 2002. The primary adverse variances from budget in 2002 were as follows:

- Significant costs incurred on the AMS in addition to the write-off of \$13.1 million of capitalised expenditure. The operating budget for the AMS was \$1.7 million;
- Income from research activities was \$7.5 million below budget;
- Income from Australian full fee-paying students was \$2.1 million below budget;
- Income from donations and bequests was \$4.4 million below budget;
- Investment income was \$1.6 million below budget;
- Expenditure on salaries and related oncosts was \$2.2 million above budget; and
- Grants from RMIT to other institutions were \$3.3 million above budget.

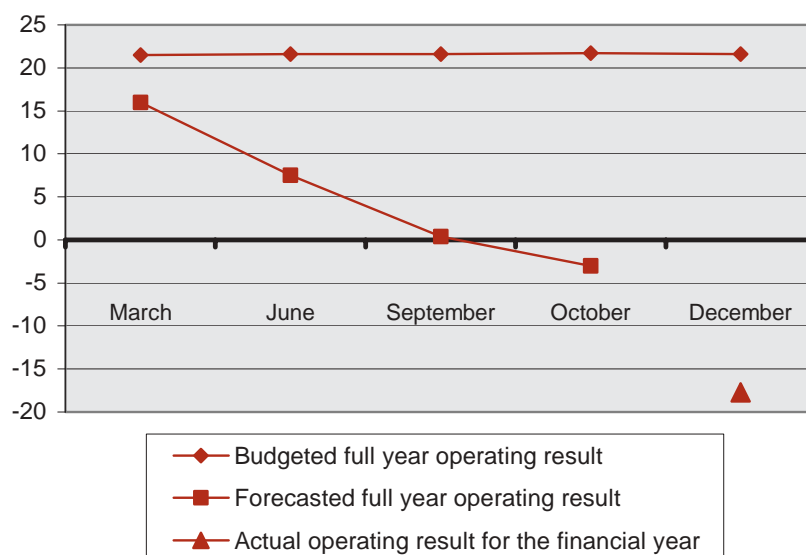
**6.54** In examining papers and presentations provided to Council between late 2002 and the date of preparation of this report, we concluded that there has been limited detailed analysis provided to Council regarding the actual performance of the University in 2002 against its approved budget for the year. Analysis has primarily comprised limited commentary on the adverse impact of unplanned expenditure and write-offs associated with the AMS. While the AMS experience had a major impact on the University's 2002 financial performance, there were other factors such as those outlined above which warranted consideration by Council, but there was no evidence that this broader debate took place.

**6.55** The formal approval of a budget for an organisation establishes an accountability reference point. Those responsible for implementing the activities which have been budgeted for can be held to account against the expected financial outcomes expressed in the approved budget. Variance analysis should be primarily undertaken with reference to the approved budget. **This did not occur at RMIT with regard to the University’s performance against the 2002 budget approved by Council in December 2001. What occurred was that from October 2002 actual performance was primarily compared with a full year forecast prepared in April 2002.**

**6.56** Despite the fact that the Council did not, at any point in 2002, formally approve a revised budget for 2002, correspondence with various external parties during November and December 2002 included a supporting document which would have given these parties the impression that the University had formally revised its budget in March 2002. **These external parties included the Victorian Treasurer, the Victorian Minister for Education and Training, and the University’s banker.**

**6.57** Earlier in this Part we commented on the significant variances between forecast operating results and the actual result for 2001. This trend continued during 2002 as illustrated in Chart 6D which shows the changes in the forecast full-year operating result provided to FAMIC and the Council during the latter part of 2002.

**CHART 6D**  
**ACCURACY OF FORECASTS OF 2002 FULL-YEAR OPERATING RESULT**  
((\$million))



Source: Victorian Auditor-General's Office.

**6.58** While the forecast position was progressively updated during the year, the projection as at 31 October 2002 of a \$3.4 million operating loss varied by a significant margin from the actual result of a \$17.6 million operating loss. As indicated previously, this inability to accurately forecast the University’s financial position must erode the confidence of the users of the forecasts provided for decision-making purposes.



## Actions to address budgetary problems in late 2002

**6.59** In late 2002, as discussed earlier, RMIT responded to projections of a cash shortfall in early 2003 by exploring a range of options to strengthen its cash position. The following paragraphs discuss action taken by RMIT in respect of some of the options explored.

### *Extension of borrowing facility*

**6.60** In late October 2002, RMIT held discussions with its banker regarding the possibility of establishing an overdraft facility or extending its borrowing facility. The bank was asked to undertake a comprehensive review of the University's financing strategy. The results of this review were provided to RMIT by the bank in November 2002.

**6.61** The *Royal Melbourne Institute of Technology Act 1992* effectively requires RMIT to seek approval from the Treasurer and Minister for Education and Training prior to borrowing.

**6.62** In December 2002, RMIT sought approval from the Minister and the Treasurer to increase its existing borrowing limit from \$50 million to \$75 million.

**6.63** The Minister for Education and Training did not approve RMIT's request to increase its borrowing facility. The basis for the decision was that RMIT had reached agreement with the Commonwealth Government that it would receive an advance operating grant of \$7.5 million from the Commonwealth Department of Education, Science and Technology in January 2003. Given, that RMIT had received this additional funding, there was no need to acquire the extension of the borrowing facility.

### *Advance funding obtained from the Commonwealth Government*

**6.64** The Commonwealth Minister for Employment, Education and Training and Youth Affairs has issued guidelines pursuant to the *Higher Education Funding Act 1988* outlining the circumstances under, and purposes for which higher education institutions can receive advances of higher education operating grants. The guidelines indicate that advances will be strictly limited to cases of real need and which have explicit policy justification. The guidelines also state that advances have to be repaid over a period not exceeding 3 years.

**6.65** On 5 December 2002, RMIT University applied to the Commonwealth Department of Education, Science and Training for an increase of \$10 million in its 2003 operating grant and requested that this amount be paid to the University in January 2003. The letter of application stated that the funds were sought to provide RMIT "... with sufficient cash flow to meet its current liabilities and undertake essential restructuring".

**6.66** The application indicated that in response to the serious financial challenges confronted during 2002, RMIT was developing and implementing a number of ongoing strategies, including:

- process simplification including an overhead reduction project and identifying opportunities for redeployment and voluntary departure packages;
- improved cash management strategies and financial management processes;
- profile renewal incorporating ceasing low-performing programs and redirecting resources into areas of strength; and
- refocusing the capital management strategy away from land and buildings, in favour of renewing IT infrastructure and developing the e-learning environment.

**6.67** In December 2002, RMIT was advised that approval had been given for advance funding in 2003 of \$7.5 million to be provided to enable RMIT to undertake various restructuring activities in 2003, specifically to:

- deliver against financial targets set by RMIT Council; and
- improve the quality of teaching and research programs by ceasing low-performing programs and continuing to grow in areas of strength and relevance.

**6.68** The Minister requested that the University provide draft financial statements for 2002 and budgets for 2003 to 2005, and advised that the additional grant would be offset by reductions to the 2004 and 2005 operating grants (reductions of \$4 million and \$3.5 million, respectively).

**6.69** **The additional grant of \$7.5 million obtained from the Commonwealth Government in 2003 will result in reduced grants for RMIT in 2004 and 2005 and will place pressure on the University to generate savings from its strategic initiatives.**

**6.70** In February 2003, Council was advised that the \$7.5 million advance was not built into the 2003 operating budget. However, the cash flow budget for 2003 does include this additional funding.

### *Tightened control over expenditure*

**6.71** In response to the University's poor financial performance against budget and the ensuing cash shortfalls, RMIT implemented a number of cost containment measures during November 2002. The cost containment process, with explicit actions and accountabilities by individuals, was documented and disseminated to Deans, Directors and Managers of faculties during that month. In addition, the University made a change to the process relating to the procurement of goods and services. Table 6E illustrates the various controls that were implemented by faculties towards the end of 2002, along with ongoing procurement controls.



**TABLE 6E  
EXPENDITURE CONTROLS**

<i>Area</i>	<i>Expenditure controls implemented in November 2002</i>	<i>Current status of control</i>	<i>Intentions with respect to control</i>
<b>Casual and sessional staff</b>	<ul style="list-style-type: none"> <li>All casual/sessional staff are to cease work no later than 8 November 2002. Where these staff are required beyond that time, a written submission is required justifying the position.</li> <li>Delegation for staff appointments are withdrawn with the Dean the only person authorised to appoint staff.</li> </ul>	Revised controls introduced November 2002 remain in place.	Revised controls introduced November 2002 are subject to ongoing review but will likely remain throughout 2003.
<b>Credit cards</b>	<ul style="list-style-type: none"> <li>All credit cards to be collected and held by the Department head.</li> </ul>	Enhanced credit card controls remain in place.	Reviewing current use of credit cards in order to reduce total number and expand the use of department-based purchase cards for enhanced expenditure control.
<b>Equipment, supplies</b>	<ul style="list-style-type: none"> <li>The practice of ordering equipment and supplies before approval is to cease.</li> <li>No vehicles, minor or capital equipment to be purchased for the remainder of 2002.</li> </ul>	Revised controls introduced November 2002 remain in place.	Revised controls introduced November 2002 are subject to ongoing review but will likely remain throughout 2003.
<b>Travel</b>	<ul style="list-style-type: none"> <li>Travel to be kept to a minimum and deferred to 2003 where possible. All travel will require approval of the Dean.</li> <li>All non-teaching related travel, both within Australia and offshore to be deferred.</li> </ul>	Revised controls introduced November 2002 remain in place.	Revised controls introduced November 2002 are subject to ongoing review but will likely remain throughout 2003.
<b>Hospitality</b>	<ul style="list-style-type: none"> <li>Hospitality to be kept to a minimum and all proposed expenditure above \$50 to be approved by Dean.</li> </ul>	Revised controls introduced November 2002 remain in place.	Revised controls introduced November 2002 are subject to ongoing review but will likely remain throughout 2003.
<b>Executive</b>	<ul style="list-style-type: none"> <li>Pay rises to be negotiated in January 2003 could be deferred until July 2003.</li> </ul>	RMIT Remuneration Committee will not meet until late June.	n.a.
<b>Capital expenditure</b>	<ul style="list-style-type: none"> <li>No expenditure undertaken on maintenance or repairs other than works needed to meet occupational health and safety requirements, or as part of annual maintenance of equipment associated with teaching delivery.</li> </ul>	Revised controls introduced November 2002 remain in place.	Revised controls introduced November 2002 are subject to ongoing review but will likely remain throughout 2003.

**6.72** In November 2002, RMIT also changed the business process relating to the procurement of goods and services for the University. Previously, purchase orders could be raised and authorised by staff with delegated authority up to \$5 000. The University has changed this policy and raised the level of delegated authority to approve purchases. In most departments the authority will be at the Dean, Director or Head of Department level. RMIT advised that this control was still in place as at the date of preparation of this report and will most likely remain in place throughout 2003.

*Concluding comments*

**6.73** In both the 2001 and 2002 financial years, there were significant variances in the actual operating result compared with that budgeted. Due to unreliable forecasting by management during these 2 periods, Council did not become aware of the full extent of the poor financial performance until the end of each financial year.

**6.74** In relation to the 2002 budget produced by management, it was based on an inaccurate forecast operating result for the prior financial year and the supporting documentation provided to FAMIC and Council was inadequate as it did not provide sufficient detail regarding underlying assumptions and the associated financial strategy.

**6.75** While certain areas causing budget underperformance were identified and management advised FAMIC and Council that remedies were in place or planned, there was little evidence that this was the case. We saw instances where advice was provided to FAMIC or Council regarding courses of action in areas such as high overheads, high staff leave balances, rationalisation of the University's capital or property portfolio, and the need to simplify administrative and other processes. However, there was little evidence of what action was taken regarding these matters and the outcomes achieved as a result of action taken.

## Part 7

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# **RMIT's 2003 budget and financial outlook**

## RMIT'S 2003 BUDGET

**7.1** The RMIT Council approved the 2003 budget for the University on 3 March 2003. Table 7A compares the approved 2003 budget with the actual and budgeted results for 2002.

**TABLE 7A  
COMPARISON OF 2003 BUDGET WITH ACTUAL AND BUDGETED RESULTS FOR 2002**

	2002 Budget	2002 Actual	2003 Budget	Variance between 2002 actual and 2003 Budget
	(\$'000)	(\$'000)	(\$'000)	(%)
Student-related income	452 469	450 491	<b>471 320</b>	4.6
Other income	38 526	36 004	<b>32 895</b>	(8.6)
<b>Total income</b>	<b>490 995</b>	<b>486 495</b>	<b>504 215</b>	<b>3.6</b>
Salaries and oncosts	298 676	300 904	<b>310 616</b>	3.2
Facility related occupancy costs	20 442	20 142	<b>22 071</b>	9.5
Staff administrative costs	19 434	30 735	<b>28 152</b>	(8.4)
Marketing, advertising and public relations	13 067	12 262	<b>13 257</b>	8.1
Communication costs	6 178	6 505	<b>6 597</b>	1.4
Staff and student related expenses	15 547	13 981	<b>15 572</b>	11.3
Other expenses	96 051	119 716	<b>93 278</b>	(22.1)
<b>Total expenses</b>	<b>469 395</b>	<b>504 245</b>	<b>489 543</b>	<b>7.4</b>
<b>Operating result</b>	<b>21 600</b>	<b>-17 750</b>	<b>14 672</b>	<b>182.2</b>
Capital expenses	72 896	44 540	<b>38 394</b>	(13.7)

Source: Victorian Auditor-General's Office.

**7.2** The table discloses that RMIT is budgeting for an operating surplus of \$14.6 million in 2003 (excluding the \$7.5 million grant received in advance in the year). Note, however, that total income includes \$13.4 million in grants provided for capital purposes.

**7.3** The basis upon which the major revenue and expenditure line items within the 2003 budget have been derived can be summarised as follows:

- **Commonwealth Government operating grants.** These grants are determined by the amount of student load that the University has agreed to deliver, measured by the equivalent full-time student unit, and other activity-based funding measures;
- **State Government operating grants.** These grants are based on the delivery of agreed upon student contact hours;
- **Tuition fees revenue for international students.** The estimate is based on projected student load as advised by RMIT International Pty Ltd. The University is assuming growth of \$10.5 million or 9 per cent in income from international students (both onshore and offshore) on income achieved in 2002;
- **Tuition fee revenue from Australian full fee-paying students.** The estimate is based on projected student load as advised by the responsible organisational units;

- **Student fees and charges.** The projected fees and charges are based on an estimate of the volume of student enrolments;
- **Research and commercial income.** The projected income is based on organisational unit estimates of the related amounts to be earned by the University. A probability factor is assigned to each related project to assist in providing a more reliable estimate;
- **Salary and wages expenditure.** The budgeted amount is primarily based on projected full year outcomes for 2002, estimated at the end of June 2002. The budget also includes a contingent sum to cover the anticipated outcome of enterprise bargaining agreement negotiations due in 2003;
- **Casual labour expenditure.** The budget incorporates an assumption that this component of expenditure will increase by 4.5 per cent on the 2002 budget. The budget process requires each organisational unit to submit estimates of the funds required for the year (a bottom up approach). Faculties were not required to prepare work force plans to identify the extent of casual labour required or estimates of the volume of full-time equivalents (FTEs) required;
- **Non-salary related expenditure.** The budget for this item was primarily based on projected full year outcomes for 2002, at June 2002. A growth factor of 2.25 per cent representing inflation has been applied to the base amount, consistent with the consumer price index movement assumption incorporated within the State Budget by the Department of Treasury and Finance; and
- **Capital Expenditure Program.** The capital budget for 2003 was established following an assessment and prioritisation of bids received from faculties by the Capital Investment Review Board, a committee of RMIT's senior executive team.

**7.4 RMIT's 2003 budget is underpinned by a number of key assumptions. However, our review of the assumptions indicated that the budget will need to be carefully managed due to uncertainties in the following areas:**

- **The growth factor assumed in respect of salaries and wages expenditure may or may not be achievable depending on the outcome of enterprise bargaining agreement negotiations in 2003. The University's capacity to fund salary and wages growth above that incorporated in the budget is limited due to its current financial position. If the new enterprise bargaining agreements become effective part way through the 2003 year and the salary growth outcome is greater than that anticipated, the impact will be greater in future years;**
- **The assumed increase of \$10.5 million or 9 per cent in income from international students was identified by RMIT as a high risk area when formulating its budget assumptions in November 2002. We concur with this assessment, particularly in light of the uncertainty generated by international unrest and the potential impact of the severe acute respiratory syndrome (SARS) illness, particularly in the Asian region;**

- The University's Academic Management System (AMS) is budgeted to cost a further \$15 million in 2003. If this project is not managed appropriately, it will once again put pressure on the University's projected outcomes;
- **Given the University's underachievement for research income in recent years, there is a risk that the budgeted income of \$27.5 million may not be fully attained. Revenue estimates for research activities are difficult to determine due to the competitive nature of this area of activity. For the 2003 financial year, the University has reduced the level of projected growth in research income on that budgeted in recent years;**
- The budget is based on an assumption that a number of initiatives to improve income and reduce expenditure will improve the operating result by \$17.7 million. Comment on these initiatives is included later in this Part of the report; and
- The budget assumes that expenditure on casual labour will increase by 4.5 per cent on the 2002 budget. Given that actual expenditure in this area exceeded budget in 2002 by \$10.8 million and the fact that the University's finance report to the end of March 2003 indicated that expenditure in this area was already in excess of budget for the current year, it is questionable whether RMIT can meet this budget target. The imposition by the University of restrictions in respect of permanent staff appointments has led to additional use of casual labour by faculties.

### 2003 cash flow budget

**7.5** We have examined RMIT's cash flow budget for the 2003 year. The cash flow budget discloses for each month the projected level of cash inflows (including Commonwealth and State Government grants, student fees and charges, commercial income and donations) and cash outflows (including salaries and wages, creditors etc.).

**7.6** Table 7B summarises RMIT's cash flow budget for 2003.

**TABLE 7B**  
**2003 CASH FLOW BUDGET**  
(\$million)

<i>Cash flows</i>	
Operations (net inflows)	40.6
Capital (outflows)	(38.7)
Asset sales	12.0
Debt retirement	(12.0)
<b>Net movement for year</b>	<b>1.9</b>
Opening cash balance	21.1
<b>Closing cash balance</b>	<b>23.0</b>

Source : Victorian Auditor General's Office.

**7.7** The table discloses that RMIT expects positive cash flows of \$1.9 million for the 2003 financial year. Cash balances are projected to grow from \$21.1 million in January 2003 to \$23 million as at 31 December 2003.

**7.8** It should be recognised that \$12 million of the cash balance at January 2003 relates to union fees collected from students but not paid to the RMIT Union. RMIT is charged interest, on normal terms and conditions, on the amounts due to the RMIT Union.

**7.9** Net cash flow movements (which represent cash flows from operating activities, capital spending and financing activities) vary on a monthly basis during the year as demonstrated below:

- negative cash flows are expected for the first 5 months of the financial year (January to May), accumulating to \$16.8 million by mid-year; and
- the second half of the financial year forecast positive cash flows of \$18.7 million.

**7.10** The University's projected net cash position is at its lowest in May 2003 (\$385 000), primarily attributable to 3 payroll payments and low student fees and charges during that month. The May projected cash balance assumes loan repayments have been made and that the proceeds from asset sales have not been received.

**7.11** The cash flow forecast indicates that the capital expenditure budget of \$38.7 million can be funded from cash surpluses from operations of \$40.6 million (this includes the \$7.5 million grant provided in advance by the Commonwealth Government). Clearly, a decline in cash flows during the year will require the capital expenditure program to be reviewed and contracted or some other strategy employed, if the forecast cash position is to be maintained.

### Establishment of the budget for 2003

**7.12** At the Finance and Major Initiatives Committee (FAMIC) meeting on 29 October 2002, the Committee received and discussed a submission entitled *Financial Strategy and 2003 Budget Parameters*, which included a draft 2003 budget for RMIT. FAMIC indicated that the draft 2003 budget figures were unacceptable as it forecast a fiscal deficit. The Committee agreed that:

- when the 2003 budget was next presented, the 2002 out turn figures should be as accurate and definitive as possible;
- management should be encouraged to look at other revenue initiatives as well as external financial support for restructuring initiatives;
- more radical cost reduction opportunities should be identified and planned for;
- the fiscal surplus (which is determined by adding back depreciation expense to the operating result and then deducting capital expenses) for 2003 should be zero (as opposed to a projected \$15 million deficit); and
- expenditure on minor works should be revisited with a view to further reductions in 2003.



**7.13** The *Financial Strategy and 2003 Budget Parameters* document which was presented to the meeting included the following:

- In order to ensure sustainable growth and financial independence the University aimed to achieve, by the end of 2004, an annual operating surplus at least equivalent to the quantum of capital grants received, a break-even result for government-funded activities and a 5 per cent return on all non-government income. This compares with the target in the University's Strategic Plan of a 15 per cent return on all income;
- A University-wide program to streamline administrative processes would be launched in November 2002 with the objective of achieving productivity gains equal to the expected increase in salaries and wages expenditure arising from the renegotiation of enterprise bargaining agreements. This would require an initial hiring freeze and the establishment of more effective redeployment processes to enable the realisation of the immediate benefits of RMIT's aging work force;
- A new set of strategies would be developed to address the growing liability for annual leave; and
- The 2003 Profile process will involve the introduction of minimum class sizes and fiscal viability as key performance criteria for all teaching programs. This strategy was aimed at helping reduce losses in printing, textiles, creative media and other TAFE areas.

**7.14** At its meeting on 25 November 2002, FAMIC received the finance report for the period ended 31 October 2002 which forecast a full year operating loss for 2002 of \$3.4 million. At that meeting, the Committee also discussed a paper entitled *Financial Strategy and 2003 Budget Progress Report* which included a revised budget following discussions at the Committee's previous meeting. The paper, which included a financial strategy for 2003-2005, indicated that the budget had been recast to arrive at an operating surplus for 2003 of \$14.6 million, in line with the requirements expressed by FAMIC at its previous meeting.

**7.15** The Committee was advised that management had identified revenue raising and cost reduction initiatives that would improve the operating result by \$17.7 million, resulting in an operating surplus of \$14.6 million. The Committee discussed this issue and agreed that the list of initiatives included in the report need not be regarded as definitive but more as indicative, and that while the initiatives might change, the total improvement in the budget result must be maintained. The Committee was advised that to assist in the process of finalising the cost reduction measures a Vice-Chancellor's Budget Taskforce had been established.

**7.16** FAMIC agreed that it was essential for structural changes to be implemented to ensure that costs reductions were maintained. The Vice-Chancellor indicated that there were 3 priorities in dealing with the 2003 budget and cost reductions, namely:

- grounding the budget within a realistic context of salaries and minimum class sizes;
- commence by Christmas or early 2003 a process simplification exercise; and



- ensure that savings achieved through the procurement savings program were captured in the budget.

**7.17** The Committee was informed that work was also required on the revenue estimates, as there was considerable variation in the methodology used by various groups in the University to determine revenue.

**7.18** There was also discussion on whether it was really necessary to aim for a fiscal surplus. A consultant engaged to examine the University's financial position and budget management processes informed the Committee that as the operating grants provided by the Commonwealth and State Governments had a capital component of approximately \$18 million, to achieve a surplus of less than that figure meant that the University was spending capital money on operating activities.

**7.19** The Committee agreed to endorse the *Financial Strategy and 2003 Budget Progress Report* with the budget settings contained therein, and recommend to Council its approval, noting that a firm budget would be available for the March 2003 meeting of Council by which time the 2002 out turns would be known and the revenue raising and cost reduction measures would be finalised.

#### *Council meeting, 2 December 2002*

**7.20** At the Council meeting on 2 December 2002, the Council was presented with a range of papers dealing with the University's financial position and budget for 2003. These papers included a cash flow report indicating that the University faced a cash shortfall in January and February 2003 of between \$4 million and \$6 million. The papers outlined the strategies being pursued by the University to address the projected cash shortfall (these strategies are outlined later in this section and in Part 6 of this report).

**7.21** The Council was also provided with a presentation by the Vice-Chancellor regarding the projected 2002 budget out turn and the 2003 budget which also focused on:

- the cash position in which the University would find itself in January and February 2003;
- key features of the proposed 2003 budget;
- the financial strategies to be adopted between 2003 and 2005; and
- the structuring of the 2003 budget process from 2 December 2002 onwards.

**7.22** The Vice-Chancellor indicated that the process of re-grounding the budget would commence in early December, involving teams visiting departments and organisational units, and would be completed by Christmas 2002. The Vice-Chancellor also indicated that the process simplification project would be focused on University overheads and would be completed by April 2003, with implementation of the outcomes from the project to occur between April and December 2003.

**7.23** Council received and discussed the paper entitled *Financial Strategy and 2003 Budget - Progress Report*. The content of this report was essentially the same as that presented to and endorsed by FAMIC at its meeting on 25 November 2002. The 2003 budget outlined in the document was based on the achievement of an operating surplus of \$14.6 million. The Chancellor advised Council that approval of the report would enable senior management to move forward with the financial strategy and the 2003 budget. **Council approved the Progress Report, noting that a firm budget would be available for the March 2003 meeting of Council, by which time the 2002 out turns would be known in full and the revenue raising and cost reduction measures would be finalised.**

**7.24** On this basis, RMIT did not commence the 2003 financial year with an approved budget, however, there was clearly a draft budget in place and an expectation that the budget would be finalised and approved in March 2003. As indicated later in this Part of the report, the budget was approved on 3 March 2003.

### *Council meetings, February 2003*

**7.25** At the Council's first meeting for 2003 on 3 February, the Council received an update on the University's financial position and the 2003 budget process. This presentation provided details of projected cost savings and areas of income growth for 2003 across the following organisational portfolios:

- **Science Engineering and Technology** – income growth of \$800 000, cost savings of \$2.4 million and expected improvement of \$230 000 resulting from increased revenue targets and targeted rationalisation in the TAFE area;
- **Design and Social Context** – income growth of \$3.7 million (includes \$1.8 million from international fee-paying students) and cost savings of \$1.3 million. These cost savings to be achieved by reducing staff costs through the use of more efficient work force planning (\$300 000) and reducing TAFE staff costs by identifying the required level of teaching resources (\$1 million);
- **Business** – income growth from international fee-paying students of \$2.9 million to be achieved without increasing staffing costs but with an increase in non-salary costs of \$500 000 to support the additional activity; and
- **Central activities** – costs savings of over \$5 million identified through various rationalisation initiatives including a projected saving of at least \$3 million to be realised from the process simplification exercise.

**7.26** It is important that senior management provide FAMIC and Council with reports on actual progress towards achieving these targets throughout 2003.

*Council meeting, March 2003*

**7.27 RMIT's budget for 2003 was approved by Council at its meeting on 3 March 2003.** Prior to approving the 2003 budget, Council discussed a paper on the budget and noted that the budget had set very ambitious targets, which would require a significant level of commitment, activity and vigilance in achieving those targets. In noting that the targets involved both cost reductions and increased revenues, some concern was expressed regarding whether cost reductions would lead to a diminution in services to students. Council was informed that one of the parameters for the cost reductions was to maintain an appropriate level of service to students. **The acting Chancellor indicated that the target of a \$14.6 million operating result was absolutely fixed and must be achieved.**

**7.28** The paper on the 2003 budget discussed by Council included the following important information:

- the budgeted operating result of \$14.6 million was not predicated on asset sales or the \$7.5 million operating grant advance from the Commonwealth Government;
- there will be an emphasis on building budget incentives back into organisational units through retained/carried forward surpluses generated over and above agreed benchmarks;
- RMIT needs a better procurement outcome which harnesses its university-wide buying power of approximately \$130 million per year on externally supplied goods and services; and
- the budget required cost savings of \$6 million across central areas.

**7.29** At this meeting, the Council also discussed a paper on management reporting and control which indicated that achievement of the 2003 budget outcomes will require a significant level of commitment and determination across the University. The paper indicated that the approach to budget and forecast preparation, management reporting and control and "closed loop" visibility on key initiatives (meaning the establishment of clear accountability and progress reporting mechanisms to ensure that progress in implementing agreed actions is tracked and visible) will be critical to driving and underpinning the business and process improvement program. In discussing this paper, Council noted that in order to achieve the budget targets a new level of rigour, accountability and forecasting would be required. The Vice-Chancellor indicated that targets of the magnitude included in the 2003 budget had never been previously set or achieved and that the Executive was committed to achieving the targets.

**7.30** Council noted that the ability to manage the budget and reach the targets required financial reports that aided managers in achieving the required results. It was suggested that the current management reports were not as useful as they should be and, in any case, they had, for the most part, been unreliable for 2002. It was agreed that monthly financial reports against budget must be provided to the Council. The Chancellor reiterated that the budget targets must be met and that he saw a great willingness and much goodwill within the University to reach them.

**7.31** We support senior management's stated intention to institute "closed loop" visibility and reporting on key initiatives on a number of grounds, but primarily because we identified an absence of adequate reporting and accountability on initiatives and actions reported to FAMIC and Council in recent years. This area of management has been poor.

### Business Process Simplification Project

**7.32** As far back as May 2001, business process simplification was identified as a means of improving RMIT's efficiency. In November 2002, RMIT initiated a review of the University's administrative procedures, with a view to alleviating the complexity of such procedures and to gain efficiency savings from re-engineering. Council was informed in December 2002 that the Process Simplification Project would be completed in April 2003. However, the project's scope and approach was not endorsed by the Council until 24 March 2003.

**7.33** The project is seen as a key initiative within an overall productivity improvement program, specifically aimed at reducing business overheads and re-directing resources to core research, teaching and student service activities. The project has 4 phases, namely:

- establish a project office, recruit team members and design the project charter;
- through consultation with process owners, examine the key processes, identify opportunities for improvement and create high level process change plans;
- engage process users to devise roll-out plans for improvement solutions and delivery of a high level business case consolidating the priority opportunities; and
- implementation of the plan in a priority approved by the Vice-Chancellor's Executive Management Committee (VCEM).

**7.34** The first 3 phases were expected to be completed within 8 weeks, starting 24 March 2003 and concluding on 28 May 2003. The implementation phase (including realisation of benefits), is intended to occur over at least an 18 month period. The Project Office will be responsible for managing the implementation and tracking the results against measurable targets agreed with VCEM.

**7.35** The project will focus on Student Administration, Teaching and Learning (renewal, development and approval), Finance, Research, People Services and Information Technology, where improvement opportunities will be targeted.

**7.36** The project manager will report to a steering committee, and the chairman of the committee will report to the VCEM on a weekly basis. Prioritised project plans and business cases for simplification work were planned to be submitted to the VCEM in May 2003. The Council was to receive a progress report at its May 2003 meeting. Senior management planned to provide regular progress and outcome reports to FAMIC during 2003.

**7.37** The project has the potential to remove some administrative duplication between the faculties and the central business units. Accordingly, the University should be able to realise productivity and cost savings where duplicated procedures can be eliminated. However, the implementation phase will be critical to the success of the project and if this is not managed well the risk of not changing business processes and not realising the benefits of such changes are high.

**7.38** While the Council was informed in December 2002 that this project would be completed in April 2003, we were advised by RMIT that it is now planned that the first phase of the project will be completed in June 2003 and that the project will extend across 2003 and 2004. It is important that this project be completed in a timely manner in order to enable any resultant one-off and systemic cost savings to be realised as early as possible in the 2003 financial year.

### Budget Review Task Force

**7.39** The University established a Budget Review Task Force in late 2002 to review the 2003 budget with a view to identifying expenditure savings and additional revenue. The Task Force consisted of 4 teams, each of which was required to examine one of the following organisational units or portfolios: Faculty of Business; Faculty of Science Engineering and Technology; Faculty of Design and Social Context; and the Central business units.

**7.40** The purpose of the Task Force was to ensure that the 2003 budget was firmly e-grounded in the academic strategy of the institution and within the financial constraints applying to RMIT. The review was intended to achieve greater consistency and clarity across the University in relation to issues such as the resourcing of academic programs, the investment in research, the treatment of overheads, and the issue of academic workload and employment practices.

**7.41** In November 2002, FAMIC was informed that the budgeted operating result for 2003 had been improved by \$17.7 million to a surplus of \$14.6 million, as a result of specific revenue generation and cost saving initiatives. The role of the Budget Review Task Force was to realistically evaluate the initiatives making up the \$17.7 million improvement in operating result to ensure that they would be achieved.

**7.42** The 4 teams reviewed the revenues and expenditures of their respective business units. Expenditure was analysed on a line-by-line basis to examine robustness and relevance to the teaching and learning, research and support activities, and the objectives of the University. Revenue was analysed on a line-by-line basis, where in the case of student-related income, their relationship with the student load profiles articulated within the student load projection model was reviewed and assessed.

**7.43** We were advised that the Budget Review Task Force has been able to substantiate the achievability of the projected \$17.7 million improvement in the operating result.

## PERFORMANCE TO 31 MARCH 2003 AGAINST BUDGET

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**7.44** The University's operating result was \$7.4 million favourable to budget as at the end of March 2003. Key movements were:

- student-related income was \$653 000 favourable to budget;
- other income was \$724 000 favourable to budget;
- salaries and oncosts were \$4.3 million under budget; and
- other operating expenses were \$1.7 million under budget.

**7.45** While the year-to-date performance against budget is favourable, it is important to recognise that the March quarter only includes one month of the academic year. In addition, the budget incorporates provision for a growth factor in respect of salaries and wages relating to enterprise bargaining agreement negotiations which are due during 2003. The outcome and financial impact of these negotiations remains uncertain at the date of preparation of this report. Comments on other areas of key risk associated with the delivery of the 2003 budget are outlined earlier in this Part of the report.

**7.46** The imposition by the University of restrictions on the appointment of full-time staff is leading to positive outcomes on salaries and oncosts, with fixed-term appointments well under budget, slightly offset by casual appointments being over budget. However, the imposition of restrictions on employment is not a satisfactory long-term strategy. Without work force plans (that detail resources required to deliver planned teaching and learning, research and other programs) for organisational units and RMIT as a whole, the impact of the restrictions imposed on the appointment of full-time staff on servicing the needs of students and other recipients of RMIT's outputs cannot be determined.

**7.47** As at the end of March 2003, capital expenditure was \$3.2 million under budget, but is projected to approximate the budgeted amount for the full year.

## ABSENCE OF FINANCIAL AND BUDGET FORECASTS FOR 2004 AND SUBSEQUENT YEARS

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**7.48** At the date of preparation of this report, RMIT has not endorsed financial projections covering 2004 and subsequent years. The establishment of such forward projections is an important part of an organisation's annual budget-setting and financial management process. Forward projections which extend beyond the budget year enable senior management and the governing body to ensure shorter-term decisions are made in the context of the organisation's longer-term financial strategy.



**7.49** RMIT has advised that forward projections have not been finalised due to the significant focus placed upon ensuring that the 2003 budget is robust and achievable. We were advised that focus would be directed to the 2004 and subsequent year forward projections when the 2003 budget has been “bedded down”.

**7.50** In our view, the University should move quickly to finalise and endorse forward financial projection’s covering 2004 and at least 2 subsequent years as soon as possible in order to ensure that strategic financial decisions expected to be reached during 2003 on issues such as the rationalisation of RMIT’s capital portfolio, are made in the context of a medium to long-term financial strategy.

**7.51** The development of medium to long-term financial plans which address the key dimensions of forward budgeted performance, work force profile and the capital expenditure program is critical to the effective management of an organisation.

*RESPONSE provided by Vice-Chancellor, RMIT University*

*Financial Outlook*

*RMIT’s financial position is underpinned by strong management of financial performance and revised preparation of budget and forecasts.*

*The Vice-Chancellor’s Executive is carefully monitoring performance across all cost centres, to ensure that targets set as part of the rigorous Budget Review process undertaken late in 2002 are achieved. As at the end of April, income exceeded year to date budget forecasts and expenditure was tracking below forecasts. As a result, financial results show a positive variance of \$7.7m to the year-to-date forecast. Careful cash management in 2003 has enabled RMIT to retire \$25m in debt during the first quarter. Although there are cyclical variations expected during the year to both surplus and cash, reflecting the semester cycle, RMIT is confident of achieving its budget unless there are unforeseen circumstances.*

## Part 8

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# Budget management processes



## RMIT budget approach

**8.1** A budget is a critical tool for an organisation to ensure that resources are aligned with strategic objectives and directions. This Part of the report contains our assessment of the adequacy of RMIT's budget management processes, with a particular focus on budget development, review and approval, monitoring and reporting on performance.

**8.2** The University uses an incremental budgeting approach which utilises the projected full year forecasts, at the time that the budget process commences, as the primary basis for the development of the budget for the following year. This is a traditional method of budgeting and involves adjustments to the base line in recognition of known changes in activity levels, efficiency targets, inflation and other key variables.

**8.3** Prior to 2001, an "off-the-top" budgeting methodology was used to distribute revenue to each business unit. This budget methodology is commonly used by Australian universities. It involves meeting all central overhead expenditures from the total revenue pool before allocating the residual revenue to individual organisational units. Individual organisational units only manage the direct expenditure part of their budget and do not recognise all of revenue generated from their activities.

**8.4** The 2001, 2002 and 2003 budgets have been prepared using the "surplus centre accounting" method for preparing and monitoring the budget for each organisational unit. The surplus centre accounting methodology allocates all revenue generated by an organisational unit directly to that business unit. Centrally incurred overhead expenditure is distributed to the revenue generating organisational units. This method provides transparency regarding all costs and revenues.

### Adequacy of guidelines for budget preparation, including linkages with operational planning

**8.5** When examining the adequacy of RMIT's guidelines for budget preparation, including linkages with operational planning we expected to find that detailed budget parameters and guidelines would be prepared, approved and widely disseminated each year, providing sufficient detail to facilitate the development of quality budgets, and which reflect the organisation's objectives, strategies and priorities.

**8.6** The development of RMIT's annual budget is managed by the University's Financial Services Group and involves input from, and consultation with, all organisational units including faculties and schools. In recent years, the Financial Services Group has developed and distributed a "Budget Pack" to assist and guide the development of the annual budget.

**8.7** The 2003 Budget Pack was issued by the Financial Services Group in July 2002 and placed on the University's internal website with the objective of assisting all faculties and departments to prepare their respective budgets. The Budget Pack outlines the key assumptions and principles underlying revenue recognition, incurrence of direct expenditure and the allocation of central expenditure to the faculties, along with details of information required from organisational units to facilitate the development of the budget and a timetable outlining key steps and deadlines.

**8.8** **The Budget Pack contains clear and concise guidelines and information required to prepare a financial budget. There are no significant gaps in, or omissions from, the document. The information is made available to all organisational units, which can access it readily.** The Budget Pack details the specific information that is required by the Financial Services Group from the organisational units and provides explanations regarding why the information is required.

**8.9** Comment on the assumptions that are built into the 2003 budget is included in Part 7 of this report.

**8.10** **In relation to the linkages between RMIT's budget and its planning of program delivery levels (referred to as "profile planning") and other operational activities, it is clear that they have not been well integrated.** The budgeting process and the business or operational planning process are managed by 2 separate organisational groups and occur at different times in the University's annual planning and management cycle.

**8.11** The poor integration between the University's operational planning and budgeting process was also highlighted by both the internal audit group report and the report prepared by the external consultant.

**8.12** Part 3 of this report deals with governance and strategic and business planning issues, and contains further specific commentary on the linkages between RMIT's strategic plan and business planning processes.

**8.13** **We recommend that RMIT's budgeting process be integrated with business planning to ensure that resource decisions to deliver outputs are made in conjunction with business planning, and are consistent with organisational goals and priorities.**

### *Budget review and approval*

**8.14** The development of RMIT's budget has typically involved the following phases:

- organisational units complete a draft budget;
- draft budgets are reviewed by the Vice-Chancellor;
- budgets are then revised, if necessary, and submitted to the Vice-Chancellor's Executive group; and
- once the Vice-Chancellor's Executive group is in agreement with the contents of the budget it is submitted to FAMIC for review and then to Council for approval.

**8.15** The annual budget development process involves the formulation of annual budgets and 3-year financial projections at a whole-of-university and faculty level.

**8.16** The 2003 Budget Pack determines the deadlines and responsibility for major budget development activities. The process started in June 2002 and was planned to be completed in December 2002.

**8.17** The initial draft budget for 2003 was presented to FAMIC in late October 2002, however, it was not accepted. Subsequently, management took action to revisit and revise the budget. This action included the establishment of a Budget Review Task Force which undertook detailed analysis of the proposed budgets for various organisational units with a view to identifying and validating savings and opportunities for revenue enhancement. **This was a positive initiative and a rigorous review process of this nature should be integrated as part of RMIT's future budget development processes. The timing of such reviews should be managed to enable the budget to be approved prior to the commencement of the financial year to which it relates.**

**8.18** RMIT's Council did not approve the 2003 budget until 3 March 2003. The Council had not, at the date of preparation of this report, approved financial projections for 2004 and subsequent years.

### Allocation of corporate overhead costs

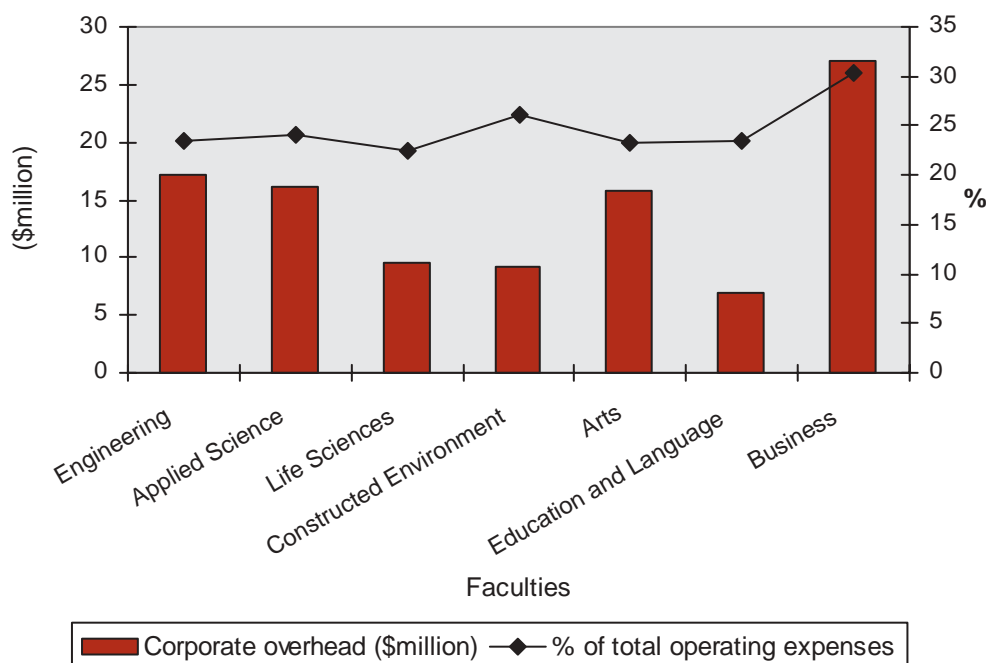
**8.19** Since 2001, corporate overhead costs have been allocated to faculties. A number of cost drivers are utilised to allocate these costs. The cost drivers should not be seen as just a method of allocating costs. The cost drivers should be used by management as a tool for understanding the efficiency and effectiveness of educational programs and services provided.

**8.20** Under the current budget-setting arrangements, faculties have input into the overhead cost driver negotiations but do not have input into the level of service they require from the corporate/service centres. In 2003, overhead expenditure totalling \$91.4 million was allocated to the revenue generating organisational units, i.e. faculties. As stated previously, this approach to overhead allocation is known as "surplus centre accounting".

**8.21** The organisational structure of RMIT complicates the allocation of overhead expenditure, as the overhead costs relating to Vocational Education and Training (VET) and Higher Education (HE) programs are clearly different. As neither the organisational structure nor the chart of accounts are split between VET and HE, then the difficulty of effectively allocating the separate costs is increased.

**8.22** As illustrated in Chart 8A, corporate overhead costs accounted for between 23 per cent and 30 per cent of a faculty's gross expenditure in 2002.

**CHART 8A**  
**ALLOCATION OF CORPORATE OVERHEAD COSTS TO FACULTIES, 2002.**



**8.23** In 2001, the basis on which overheads were allocated to faculties (cost drivers) was largely based on the proportion of revenue allocated to, and projected to be raised by, each faculty. This proved to be an unreliable indicator of the quantum of overhead costs that should be borne by each faculty and in 2002, in negotiation with the faculties, new cost drivers were developed. The cost drivers utilised included student load, space occupied, staff numbers and number of financial transactions processed. The cost drivers utilised were further enhanced for the 2003 budget in response to faculty concerns about the inequitable allocation between VET and HE.

**8.24** Although the cost drivers for 2003 have been reworked to make them multi-dimensional (i.e. allocate between VET and HE usage), the drivers still need refinement. For example, property services costs are allocated based on “space occupied”. This cost driver does not take into account the quality of buildings that each faculty occupies, resulting in faculties that occupy poorer quality buildings being charged the same amount per “space occupied” as other faculties.

**8.25** It is recommended that, in addition to the review of corporate overheads via the Process Simplification Project, management should re-assess overhead cost drivers to ensure that they reflect actual levels of service usage by faculties. Furthermore, service centre agreements could be considered as a means of communicating the level and cost of service that faculties will receive.

## Adequacy of costing and pricing practices

**8.26** As stated in Part 5 of this report, RMIT has responded positively to the challenges presented by the very limited growth in government funding for Higher Education and VET activities in recent years by growing other sources of revenue. The diversification of revenue sources involves higher risk and necessitates the utilisation of robust costing and pricing practices to ensure that new revenue streams are, in fact, contributing positively to the University's operating result.

**8.27** Unless the University is pursuing a specific strategy which involves undertaking an activity as a "loss leader", it should ensure that programs and services are priced at a level which provides a positive financial return.

**8.28** In 1998, the University's internal audit group conducted an audit of the costing and pricing of commercial activities. The key findings of that audit were:

- no single group had overall responsibility for the application of a consistent costing model;
- there were a variety of costing and pricing methodologies in operation throughout the University; and
- there was a lack of a pricing decision model.

**8.29** The internal audit report recommended that the Financial Services Group "champion" the pricing of all commercial contracts and services in order to protect the commercial interests of the University.

**8.30** RMIT subsequently agreed to implement a range of recommendations in response to the internal audit review, including:

- the establishment of a financial planning and costing unit that could take control of the costing and pricing methodology, and submission assessments; and
- introduction of a generic costing model across the University for all commercial activities capable of incorporating the different requirements of both domestic and international commercial activities.

**8.31** **It was disappointing to find that RMIT has failed to utilise a standard pricing model for all competitive revenue initiatives and activities. This includes tendering for research, commercial and-fee-for service projects. The non-utilisation of a standard costing and pricing model was acknowledged at various levels and across various organisational units within the University during the course of our review.**

**8.32** During 2002, the University's Financial Services Group developed a standard costing model to determine the profitability of individual projects. However, it is not mandatory to use this model and had only been used by some faculties in limited cases. The model requires identification of all direct operating costs associated with the project, as well as any indirect costs (such as central overhead expenditure). A profit margin is also built into the model to ensure that opportunity costs are taken into account. Mandatory use of this model for pre-tender assessment of pricing decisions on all competitive revenue initiatives and activities would enable the University to at least be aware of whether or not prospective tender bids were priced at a level which, if successful, would result in positive or negative financial outcomes for RMIT.

**8.33** Where prices are established for ongoing programs or services, they should also be subject to periodic review and adjustment to reflect movements in both direct and indirect delivery costs. In October 2002, the Council approved increases in domestic undergraduate program fees. These fees had not been formally reviewed since their inception in 1998. They were increased by an average of 15 per cent.

**8.34** **The weaknesses in the University's current costing and pricing practices have been brought to the attention of management previously and RMIT has been slow to take positive action to address deficiencies in this area. It is recommended that an appropriate costing model be implemented as a matter of urgency for use across the University.**

### Work force planning

**8.35** Organisational unit work force plans are an integral part of an effective budget management process and complement organisational unit business plans, and revenue and expenditure budgets.

**8.36** Work force plans identify resources (i.e. time in hours or days) required to deliver desired outputs and the level of resources not directly associated with the delivery of outputs (which include corporate overheads, other running costs, and salary costs associated with leave, staff development etc.).

**8.37** A comprehensive work force plan provides management with complete information regarding the resources required to deliver outputs and the full costs attributable to the resources used in delivering those outputs. Once this information is available, meaningful decisions can be made based on comparisons between the full cost of delivering outputs and the revenue generated by the outputs.

**8.38** Resources used to deliver outputs can include full-time, part-time and casual staff, and contractors. The use of work force planning does not restrict flexibility in terms of the mix of resources utilised to deliver outputs.



**8.39** There was limited evidence of comprehensive work force planning across RMIT's organisational units, including faculties. We recommend that work force plans be developed by organisational units responsible for the delivery of outputs. The use of such plans would contribute positively to the robustness of business plans and budgets developed by organisational units, and would also provide senior management with meaningful information on the financial outcomes of revenue-generating programs and services.

### Budget incentives

**8.40** The budget management process should contain appropriate incentives to ensure full commitment to its achievement and return to those areas which improve upon their planned budget outcomes.

**8.41** The 2002 budget and associated management process did not provide incentives to reward budget performance associated with cost reduction and revenue enhancements. The use of incentives can encourage business development and efficiency, and discourage "end of year" expenditure, and retention of non-viable and non-strategic activity.

**8.42** It is pleasing to report that it is management's intention to build incentives back into departments, schools and faculties through retained surpluses over and above agreed benchmarks for the achievement of cost reductions and revenue enhancements.

### Adequacy of reporting against budget

**8.43** Once a budget has been developed and approved it is critical to the successful management of budget outcomes that both management and the governing body be provided with focused and relevant information on financial performance which is accurate and timely.

**8.44** We examined the nature, accuracy and timeliness of budget performance and other financial information provided to RMIT's Council, FAMIC and management between late 2001 and the date of preparation of this report. Before providing further comments in these areas, it is important to deal with the following matters which have impacted on the adequacy of financial reporting in recent times:

- **Academic Management System (AMS).** The failed implementation of the AMS resulted in significant uncertainty regarding accounting information produced by, or reliant upon data from, this system. This issue was so pervasive as to result in the need to issue a qualified audit opinion on RMIT's 2002 financial statements (as discussed in Parts 4 and 9 of this report). **A significant consequence of the failure of the AMS was that RMIT management had to incorporate estimates of tuition fee income (which represented \$145.8 million, or approximately 34.7 per cent of RMIT's budgeted income from students for 2002) in management reports and finance reports to FAMIC and Council during much of 2002. This created doubt about the accuracy of the University's reported income performance; and**

- **Separation for financial reporting and monitoring purposes of VET and Higher Education activities.** RMIT's ability to produce financial reports for the Vocational Education and Training (VET) and Higher Education (HE) segments of its operations is limited by the financial accounting system and organisational structure. **The University does not maintain a general ledger system that accurately identifies VET and HE activities separately. As a result, financial information regarding VET and HE activities is not routinely produced.** To facilitate the production of VET and HE information for reporting purposes RMIT disaggregates financial data using formulae.

**8.45** It is recommended that appropriate systems (including an enhanced general ledger system) be established to facilitate effective monitoring and reporting of the financial and operational performance of the Higher Education and VET sectors.

**8.46** RMIT produces monthly finance reports for its executive management group and the heads of organisational units generally 3 to 4 weeks following month end. These reports routinely provide information on:

- performance against budget in respect of the current month and year-to-date, including variance analysis at the University level and at the organisational unit level, such as faculties and corporate services units;
- full year forward estimates in comparison with approved budget including variances; and
- commentary on variances from budget at the University level and by major organisational units.

**8.47** The monthly reports to senior management during 2002 were restricted to performance against the operating budget and associated variance analysis and did not address the University's performance in terms of its cash flows, or in the context of its financial strategy. There have been minimal changes to the content of monthly management reports thus far in 2003.

**8.48** The Council and FAMIC were provided with quarterly finance reports during 2002 which typically addressed:

- Operating and capital performance against budget for the current month and year to date, including variance analysis at the University level;
- Full year forecasts compared with approved budget including variances;
- Commentary on variances from operating and capital budget at the University level and, where considered warranted, by major organisational units such as faculties;
- An overview of the financial performance of the consolidated entity, including a year-to-date operating statement and statement of financial position. This information was not provided as part of the finance report for the October 2002 quarter; and
- The cash flow performance of the University for the year-to-date.



**8.49** The quarterly finance reports were generally provided to FAMIC within a month of the end of each quarter and then to the following Council meeting. This did not occur for the September quarter, when the Council meeting preceded the FAMIC meeting.

**8.50** The forecasts of full year performance against budget provided to Council and FAMIC during both 2001 and 2002 proved to be significantly unreliable. This issue is discussed in more detail in Part 6 of this report.

**8.51** In our view, the finance reports provided to FAMIC and Council during 2002 did not provide high level information on trends in key aspects of its financial performance (such as those outlined in Part 4 of this report) over extended periods to allow Council to gauge the extent to which its performance was improving or deteriorating. Sufficient information was not provided regarding the nature and progress of remedial action initiated by management to address areas of poor performance against budget.

#### *RMIT's performance measurement framework*

**8.52** RMIT's current strategic plan *Dissolving the Boundaries: Building a Sustainable RMIT – Strategic Plan and Direction to 2006* focuses upon 5 key areas: Teaching and Learning; Research and Development; Regional and Local Communities; International; and, Staffing and Resources.

**8.53** Each of the focus areas has been assigned goals and approaches to the achievement of these goals. However, as indicated previously, when considering the success indicators (performance measures) contained in the strategic plan, we found that there were only 3 focus areas addressed: Teaching and Learning; Research and Development; and Organisation and Management (which equates to Staffing and Resources). There were no success measures for the 2 key areas of Regional and Local Communities, and International.

**8.54** RMIT uses 2 key frameworks to measure its performance, namely:

- triple bottom line plus one; and
- the balanced scorecard approach.

**8.55** Triple bottom line plus one is used by RMIT to measure performance against social, financial, environmental and governance indicators. However, the main framework used by RMIT to monitor its performance is the balanced scorecard.

**8.56** In 1999, RMIT commenced work on developing a balanced scorecard reporting framework to measure performance outcomes against key activity areas. The balanced scorecard approach developed by RMIT has 5 perspectives: student/client, financial, staff, internal process, and investment in the future.

**8.57** At the date of preparation of this report, RMIT was in the process of finalising its balanced scorecard report for 2002. It will be important that there are clear linkages between the balanced scorecard reporting framework and RMIT's current strategic plan *Dissolving the Boundaries: Building a Sustainable RMIT – Strategic Plan and Direction to 2006*.

**8.58** The 2001 balanced scorecard performance measurement report, entitled *RMIT University Consolidated Report on Performance Outcomes*, was published in August 2002 and contained 80 performance measures.

**8.59** As a result of the considerable delay in the publication of the *RMIT University Consolidated Report on Performance Outcomes*, Council and senior management did not have access to timely and relevant information on actual performance against success indicators and related targets identified in the University's strategic plan when they were establishing budgets, work plans and business plans for the University.

**8.60** A review of the 74 performance measures included in the *2001 Annual Report* disclosed that:

- 21 per cent of the measures were not reported against as they were "qualitative"; and
- 34 per cent of the measures did not have targets or benchmarks set for 2001.

**8.61** It is recommended that RMIT set targets for all key measures to enable both Council and management to effectively monitor and evaluate their outcomes.

**8.62** Given the large number of performance measures included in RMIT's *2001 Annual Report* it was difficult to distinguish and focus on the key performance indicators. Consideration should be given to only including in the Annual Report those performance indicators which are critical to assessing RMIT's progress towards the achievement of its strategic directions.

### Recent reviews of budget management processes initiated by RMIT

**8.63** In light of emerging financial pressures and a poor forecast outcome for 2002, RMIT initiated a number of reviews dealing with its budget management processes in the past year. These reviews were carried out separately by the University's internal audit group and an external consultant.

#### *Internal audit review of budget setting and monitoring – October 2002*

**8.64** The University's internal audit group provided management with a report on the results of a review of RMIT's budget setting and monitoring process in October 2002. The report identified a range of issues requiring attention including:

- The University's strategic plan does not direct profile planning, nor does profile planning appear to form the basis of the relevant elements of the strategic plan;
- The strategic plan does not provide guidance on the allocation of resources between business units and does not explicitly address the development and exploitation of synergy between business units;

- While student load targets are set and approved for each program, the budget approval process is completed in isolation. Actual enrolments by faculties may bear no relation to either approved departmental budgets or approved student load targets;
- Service level agreements between faculties and central organisational units for the services consumed and expenditure incurred do not exist. Services may be developed that bear no relationship to faculty needs;
- The cost drivers used to allocate central overhead expenditure are overly simplistic and are only used as a means of cost recovery;
- The cost drivers do not reward efficient behaviour and/or penalise inefficient behaviour in a way to eliminate waste and increase productivity;
- The budget preparation guidelines are essentially instructions for "data entry" and do not provide rationale for decisions, quantum or percentage change from the previous year;
- The low level integration between the strategic plan and the budget parameters results in budget development proceeding in a non-strategic manner;
- The information provided to Council as the basis for it to make a decision to adopt the budget settings and budget is extremely brief and does not include much by way of description, analysis or supporting documentation; and
- Monthly management reports focus on low level accounting issues and are presented as such. This form of presentation does not facilitate the consideration of strategic, organisational performance or management decision-making issues.

**8.65** We are supportive of the findings and recommendations of the internal audit report in many key areas.

**8.66** At the date of preparation of this report, University management had not provided a complete response to the internal audit report. However, it is clear from the partial response provided in May 2003 that management has accepted the majority of the findings and will take appropriate corrective action.

#### *External consultant's review March 2003*

**8.67** An external consultant was appointed to review the University's budget process with a view to assisting the development of the 2003 budget. The consultant reported in March 2003 and the key findings from that review included:

- There is no clear linkage between the University's planning and budgeting processes, as 2 different organisational units are responsible for the respective processes;
- The basis for pricing and costing of services performed by the University is not adequate or clear. Fees charged do not contain an amount representing the financial return or cost of capital to the University;
- The existing budget does not provide incentives for budget performance beyond target;

- Central overhead costs allocated to faculties are based on a number of subjective cost drivers. These costs are beyond the control of faculty management, who have no ability to impact on the outcome of these costs;
- Government income (Commonwealth and State) is recognised by organisational units based on their share of the student load. However, a responsible budget manager may not have control of all revenue, as students can be enrolled in a different faculty than where the student is taught. Therefore, costs associated with student enrolment are not always linked with revenue received for delivery of student load;
- The central contingency fund of \$1.5 million is too low and should be increased to \$5 million; and
- The budget team within the Financial Services Group has an emphasis on being a recording centre for budget numbers rather than an evaluator of those numbers.

**8.68** Based on the outcome of our review, we are generally supportive of the findings and recommendations reported by the consultant. It was apparent that the University had commenced action on many of these matters.

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## Part 9

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# Issues arising from the 2002 financial statement audit

**9.1** A number of significant issues were identified arising from the 2002 financial statement audit, including issues associated with the Academic Management System (AMS) and management of payroll, including annual leave.

### Academic Management System

#### *Carrying value of the Academic Management System*

**9.2** RMIT assessed the value of the Academic Management System (AMS) from an accounting perspective and assigned a nil value to this asset in its financial statements at 31 December 2002. This resulted in a write-off of \$13.1 million during the 2002 financial year which was disclosed as an individual item in the 2002 financial statements.

**9.3** Australian Accounting Standard, *AASB 1040: Statement of Financial Position* defines an asset as being a future economic benefit that is controlled by an entity as the result of a past event. We agreed with RMIT's assessment of assigning a nil value to this asset on the basis that there is no future economic benefit associated with the AMS given the current state of the system and future plans about its replacement.

#### *Financial information generated from the AMS*

**9.4** As stated in Part 4 of this report, the audit opinion issued on the 2002 financial statements was qualified as the accounting records produced by the AMS were inadequate and unreliable. The specific issues encountered during the course of the audit centred around shortcomings associated with the following:

- reconciliation of the AMS with other accounting records;
- availability of key financial reports; and
- accuracy and integrity of the underlying data.

#### *Reconciliation of the AMS with other accounting records*

**9.5** The following account balances were unable to be reconciled due to the problems associated with the AMS:

- student debtors and student loans;
- student fee revenue received in advance; and
- bank balances.

**9.6** Table 9A highlights the differences between the balances recorded in the AMS and those recorded in the general ledger system (known as SAP) in relation to student debtors, loans and fees received in advance.

**TABLE 9A**  
**DIFFERENCES BETWEEN THE BALANCES RECORDED IN**  
**THE AMS AND SAP GENERAL LEDGER**  
(\$million)

	<i>AMS balance</i>	<i>SAP general ledger</i>	<i>Reconciling items (a)</i>	<i>Unreconciled differences</i>
Student debtors and student loans (gross)	11.4	9.1	2.6	(0.3)
Student fee revenue received in advance	3.9	6.0	(1.9)	(0.2)

(a) RMIT was unable to provide documentation supporting a number of the reconciling items.

Source: Victorian Auditor-General's Office.

**9.7** Complete reconciliations of international student debtor accounts between the AMS and the previous system (known as Sema4) and the general ledger were still to be finalised at the time of our audit with material reconciliation adjustments not fully supported by appropriate documentation and explanation.

**9.8** **The unreconciled differences and the lack of appropriate documentation to support adjustments diminish the usefulness and reliability of the reconciliation process.**

**9.9** RMIT was also unable to perform a reconciliation of revenue/net charges and cash receipts recorded in the general ledger balances to the AMS. Table 9B highlights unreconciled differences.

**TABLE 9B**  
**DIFFERENCES BETWEEN REVENUE/NET CHARGES**  
**AND CASH RECEIPTS RECORDED IN THE AMS AND GENERAL LEDGER**  
(\$million)

	<i>General ledger</i>	<i>AMS</i>	<i>Difference</i>
Revenue/net charges	136.4	131.5	(4.9)
Cash receipts	131.3	125.2	(6.1)

Source: Victorian Auditor-General's Office.

**9.10** The movements in balances in the general ledger that related to the AMS transactions were identified and used to estimate the amount of the AMS cash receipts. **This amount, along with student fee revenue, could not be reconciled to the total charges and cash receipts processed by the AMS. These differences could not be adequately explained by RMIT.**

**9.11** In addition, RMIT was unable to reconcile the general ledger cash account to the balance contained in the bank statement. An unreconciled difference of approximately \$200 000 remained, which was subsequently adjusted in the general ledger. A further reconciliation by RMIT of cash receipts banked to receipts processed in the AMS was performed and an unreconciled difference of \$7 million was identified.

**9.12 RMIT still needs to perform a considerable amount of work to ensure the completeness, accuracy and reliability of the financial information produced by the AMS.**

*Availability of key financial reports*

**9.13** A number of key financial reports were unavailable for audit at year-end as the development and testing of these reports, to be produced by the AMS, had not been completed. These included:

- aged listing of student debtors and student loans aged trial balance;
- details of student fee revenue received in advance;
- bank reconciliation; and
- listing of bad debts written-off.

**9.14** The non-availability of these key financial reports was disappointing given that the AMS has been in operation for over 12 months. RMIT needs to finalise the development and production of these reports as a matter of priority to ensure the availability of complete and accurate management information.

*Accuracy and integrity of underlying data in the AMS*

**9.15** A number of issues were identified specifically relating to the accuracy and integrity of the underlying data held within the AMS, including:

- Approximately 4 000 duplicated student records in the AMS. RMIT indicated that the duplicate records only relate to student identifications, and do not necessarily represent duplicate transactions;
- A number of high-risk system security issues primarily relating to access to sensitive functions; and
- Deficient business processes which have resulted in instances of incorrect data being input into the AMS.

**9.16** It is important that these issues are also addressed as a matter of priority to ensure the integrity of information produced for management decision-making and external reporting purposes.

*Management of payroll, including annual leave*

**9.17** During the course of the audit, the following issues were identified relating to the management of payroll, including employee annual leave balances:

- lack of evidence of management review of key payroll, reports, including those detailing movements between pay periods;
- 188 employees had accumulated leave entitlements of greater than \$20 000 in accrued payroll value, which in total amounted to \$5.5 million;
- 13 employees had entitlements of greater than \$50 000; and



- 87 employees had negative leave balance as a result of taking leave which they had not yet accrued, which included one employee who had taken 21 weeks of leave, totalling approximately \$23 000 which the employee had not accrued;

**9.18** These findings reflect poor management control and oversight of employee pay, including annual leave, which requires management attention.

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## **Appendix A**

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# **Management responses provided by RMIT**

**RESPONSE** provided by Vice-Chancellor, RMIT University**Overview**

*In recent years RMIT, like so many other Australian higher education institutions, has faced significant challenges arising from systemic and organisational change. From being almost fully Government funded in the early 1990s, RMIT now earns about half its revenue from non-government sources.*

*After a period of particularly intense disruption and uncertainty between 2000 and 2002, RMIT's financial management has been stabilised, new accountability processes have been put in place and the outlook is far more secure.*

*RMIT accepts that problems with governance and management procedures were exposed during this period. Systemic flaws were exacerbated by problems associated with the introduction the Academic Management System. RMIT is aware of some of the longstanding underpinnings of these problems and has been taking action to address them.*

*On the other hand, this was also a period of significant growth and achievement for RMIT. Judged against indicators such as employment outcomes for our graduates, graduate enterprise formation, demand as measured by share of Victorian first preference applications, attractiveness to international students, improvement in research performance (reflected in success in achieving Australian Research Council Grants) and independence of government funding, RMIT is a highly successful institution.*

*Further governance and management changes are important to ensure that we continue to respond to the needs of our communities, in Melbourne, in regional Victoria and internationally. We are committed to continuing transparent dialogue with the Minister and with other RMIT stakeholders on these matters.*

**Existing Reform Programme**

*RMIT has already taken action to address many of the weaknesses identified in the Auditor-General's Report, and we will give close consideration to all its recommendations. Our initiatives to date include:*

- *A decision taken in late October 2000 to limit capital expenditure, in the light of concern about the sustainability of the level of capital spending.*
- *Council endorsement of recommendations of a Review of Corporate Governance undertaken by Internal Audit in 2001, with phased implementation taking into account progress of the Victorian Government's Review of University Governance.*
- *Commissioning an expert in university budget management to chair a Review of the University's budget management and development processes in 2002 to underpin further development of the 2003 Budget and ongoing Budget management processes. Management has accepted the major recommendations of the Review (which are also broadly endorsed by the Auditor-General) and begun implementing them by -*
  - *establishing a Budget and Financial Performance Management Group within the Financial Services Group, to ensure integration of the Budget process with business planning.*
  - *recruiting a Finance Director to oversee financial/statutory accounting, treasury and tax functions;*
  - *preparing revised parameters to inform the 2004 budget, the first phase of which, the pricing and setting international fees for 2004, was completed in March; and*
  - *re-establishing from the 1st July separate operating and capital budgets for both Higher Education and TAFE to ensure transparency and effective monitoring.*

**RESPONSE** provided by Vice-Chancellor, RMIT University - continued

- Including in the internal auditor's programme approved in March last year a study of budget setting and monitoring. Management has accepted the majority of its recommendations, allocating responsibility for implementation and indicating completion dates where feasible.
- Endorsement by Council of a financial strategy which underpins the 2003 budget and addresses deficiencies that the Consultant's Report and the Internal Audit Report identified. The four elements of that strategy are:
  - driving hard towards 2003 budget targets and building incentive back into Departments, Schools and Faculties;
  - fast tracking the establishment of a core Strategic Sourcing Capability to capture the full potential of procurement savings by harnessing University wide buying power;
  - reconfiguring the asset mix and maintaining tightly focused control of capital expenditure; and
  - targeting select University wide processes with a view to driving out complexity, duplication and cost.
- A major review of the composition of the workforce, presented to Council in October 2002.
- Significant changes in senior management, including implementation of a new Executive management structure which is:
  - focused on performance and the delivery of budget outcomes set by Council, as well as other major institutional priorities.
  - ensuring that accountabilities and reporting lines are transparent,
  - reflective of the composition of operational units within the University, therefore enabling quicker and more effective identification of critical issues as they emerge, and cost savings as the duplication of functions in the larger operational units is eliminated.

**Financial Outlook**

RMIT's financial position is underpinned by strong management of financial performance and revised preparation of budget and forecasts.

The Vice-Chancellor's Executive is carefully monitoring performance across all cost centres, to ensure that targets set as part of the rigorous Budget Review process undertaken late in 2002 are achieved. As at the end of April, income exceeded year to date budget forecasts and expenditure was tracking below forecasts. As a result, financial results show a positive variance of \$7.7m to the year-to-date forecast. Careful cash management in 2003 has enabled RMIT to retire \$25m in debt during the first quarter. Although there are cyclical variations expected during the year to both surplus and cash, reflecting the semester cycle, RMIT is confident of achieving its budget unless there are unforeseen circumstances.

Financial performance is monitored through a number of measures introduced in 2002 and 2003. Daily cash forecasts set out on a rolling four-week basis are provided to the Finance and Major Initiatives Committee, the Audit and Risk Management Committee and to the Vice-Chancellor each week, extending the arrangements for reporting introduced early in 2001. In addition to quarterly snapshot reports, monthly updates which include year-to-date progress against key indicators (including an analysis of cash flow and any emergent risks which might affect financial performance) are provided to Council and the Vice-Chancellor's Executive within five working days of the closing of monthly accounts. This additional information will better enable Council to assess progress towards achieving Budget outcomes.

**RESPONSE** provided by Vice-Chancellor, RMIT University - continued

**Response to recommendations**

The following points go to specific recommendations contained in the Auditor-General's Report.

**Governance**

Issues -

Recommendations relate to the quality of information received by RMIT Council, and the effective monitoring of follow-up arising from Council and subcommittee meetings. The Report also proposes a review of legislative provisions relating to the membership of University Councils.

Response –

RMIT accepts that the quality and effectiveness of communications between the Council and the University management must be continually improved, and it is already taking steps to ensure this happens. A review of relevant procedures and practices is underway, including initiatives outlined at (3) above. A Review of action sheets arising from Council and subcommittee meetings in 2002 reveals that the majority of actions arising have been followed up. However, we acknowledge that feedback mechanisms need to be improved, and we are doing so. The transition between the old and new Council membership has proceeded in an atmosphere of transparency and cooperation between Council members and University management, and induction procedures formalised for incoming members.

RMIT believes that the Report does not sufficiently recognise the actions taken by the Council or the University's management in 2002 to strengthen financial and budget processes. This includes the Council's adoption of a financial strategy in December 2002 to overcome some of the deficiencies the Report identifies and the Vice-Chancellor's commissioning of the Budget Review Taskforce in October.

The Report is critical of the fact that Council did not formally approve the 2002 revised budget figures in May, after a decision to revise was taken in February. Despite this omission, Council members, the Executive and cost centre managers understood the revised figures as the basis for management and monitoring of the University's financial performance. The Vice Chancellor's decision in July to engage an emeritus professor and respected former dean as Acting Deputy Vice Chancellor to liaise with faculties and oversee the implementation of the revised budget is a measure of the high priority the Vice Chancellor placed on this work, and evidence of the fact that both the Council and the senior management were acting on the basis that the budget had been revised.

The majority of Council subcommittees met regularly in 2001 and 2002. The February 2003 meeting of the Finance and Major Initiatives Committee was postponed because the Chancellor called a special Council meeting on the 3rd February to discuss the financial position and the senior staff restructure, and there were irregular meetings of the Planning, Quality and Performance Committee in 2001 because members participated in joint QPQC/Management Strategic Planning Working Groups during that period.

The Report does not cite any evidence for the inference that some Councillors did not fulfil their legal obligation to act in the interests of RMIT University and not the group by whom they were elected or appointed. RMIT rejects the Report's suggestion that the legislative provisions relating to the membership of Councils in Universities be reviewed.

**RESPONSE** provided by Vice-Chancellor, RMIT University - continued

**Strategic Planning, Business Planning and Performance monitoring**

Issues –

Recommendations call for the identification of success indicators and related targets in relation to all core goal areas, and better-focused performance measures to enhance performance and accountability. The Report also calls for an annual consolidated business plan, and the use of pro forma business plans at local level to reflect the goals and priorities of the strategic plan and ensure a link between workforce planning and budget. This section also recommends closer alignment between performance monitoring, budget and strategic planning.

Response -

RMIT accepts the broad thrust of the recommendations regarding strategic planning, business planning and performance monitoring. The University has already reduced the number of performance indicators referred to in its 2002 Report, and is pleased that the Auditor-General is endorsing this approach.

RMIT engagement in strengthening the links between the performance monitoring framework and the Strategic Plan includes the development of indicators and performance targets for community engagement and research commercialisation, neither of which is currently reflected in sectoral benchmarks.

An annual consolidated university wide business planning process will be achieved by a closer alignment of profile planning with budget development and monitoring. RMIT is implementing this recommendation through the establishment of a Budget and Financial Performance Management (BFPM) group reporting directly to the PVC (Finance & Business Services). This group will be charged with embedding budget planning processes firmly within our profile planning processes, and will work closely with the Director of Planning and staff of the Planning Group. The project leader of the BFPM Group presented an integrated planning timetable to the Vice-Chancellor's Executive Group in May.

**Establishing a Sound Budget and Achieving the 2003 Budget Targets.**

Issues -

Recommendations in this section go to the achievement of the 2003 Budget targets set by Council, and the importance of sound budget practices and medium to long term financial planning to underpin this.

Response -

RMIT has already taken action against the majority of these recommendations. The rigorous review of revenue and expenditure of all organisational units used to develop the 2003 Budget will be repeated in 2004. From 1 July, separate operating and capital budgets will be adopted for both higher education and TAFE, to ensure transparency and effective monitoring in each area of activity. This includes the identification of cost drivers, resource requirements and service delivery levels in each sector.

RMIT has already developed budget projections for 2004 and 2005. These projections are refreshed on an annual basis, and part of the Budget process in July 2003 will include the development of projections for 2005 and 2006. Our immediate priority remains meeting our current targets, as this will provide the foundation for the future.

Currently, all prospective appointments must be reviewed and approved by relevant members of the Vice-Chancellor's Executive. This follows a major review of the workforce composition presented, as requested, to Council in October 2002, highlighting the implications of changing delivery modes within the sector. This Review will be supplemented by additional workforce planning within academic portfolios in 2003 overseen by the Pro-Vice-Chancellors (Academic).



**RESPONSE** provided by Vice-Chancellor, RMIT University - continued

*RMIT accepts the Auditor-General's point regarding the need for centralised price setting. However, it is important to clarify that a pricing model has been in place for some time, although implementation has in the past been devolved to cost centre levels. In 2002, the Vice-Chancellor directed that the responsibility for price setting be re-centralised and to this effect a pricing review was conducted and is currently being operationalised.*

**Long term factors contributing to RMIT's financial position.**

*RMIT believes that the fact that the scope of this Review is largely limited to 2001 and 2002 renders its analysis of factors impacting on RMIT's financial position incomplete.*

*The Report is virtually silent about RMIT's capital programme over the last decade and its impact on cashflow. Between 1990 and 2000, net capital expenditure increased from \$13.77 million in 1990 to \$69.18 million in 2000 (nominal dollars). This increase was unavoidable because of years of neglect, and the need for RMIT to expand its facilities to reflect the expansion of its student numbers and activities as a university. However, funding received from the Commonwealth did not cover the necessary expenditure, as capital funding was not received from the Commonwealth prior to capital 'roll-in' of operating grants being made available in 1994. Between 1996 and 2000 net capital expenditure totalled \$249 million of which only \$47 million comprised capital roll-in. In 2000 net capital expenditure was seven times the amount received via capital roll-in, the highest ratio of private to public investment in the higher education sector for that year.*

*As a result of the high capital expenditure and consequent impact on cash, the Vice-Chancellor, on assuming office in October 2000, took a decision to limit capital expenditure in 2001 and 2002. This was a response to a problem that had developed over some time and not just a reaction to an immediate crisis, as is suggested in the Report. The priority informing this strategy has been the improvement of space utilisation and prioritising health and safety for students and staff.*

**Institutional Benchmarking**

*RMIT believes that selective benchmarking against two or three dual sector universities in the Auditor-General's Report is misleading and inappropriate. In terms of history, scale and mission, RMIT has more in common with the Australian Technology Network, of which it is a member, than it has with the other dual sector universities in Victoria. Benchmarking against ATN and the higher education sector more generally using a broader range of indicators not only would have been more appropriate but also given a more accurate and comprehensive view of RMIT. For example, benchmarking against dual sector universities (which have a higher proportion of TAFE activity than RMIT) suggests that overhead costs are high by comparison with other institutions. While RMIT accepts that overhead cost reduction must be pursued as a matter of urgency, its proportion of expenditure on overheads (using the indicators adopted by the Auditor-General) is actually lower than the sectoral figure, and has been for the past three years.*

**Conclusion**

*The University's goal is to go forward with our budget and financial management strategy, and ensure a sustainable future for an institution that is vital to the Victorian community.*

*RMIT does not believe that the Report gives sufficient weight to the long-term origins of RMIT's financial situation, or to the remedial action taken by the Council and Executive in 2002 and 2003.*

*Nevertheless, RMIT agrees that extraordinary events over the past two years have exposed structural and cultural deficiencies which have contributed to significant problems identified in the Report and by RMIT itself. The University accepts that it is important that these be addressed as it continues to implement a budget and financial management strategy to ensure a sustainable future.*

## **Appendix B**

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# **Correspondence initiating the review**



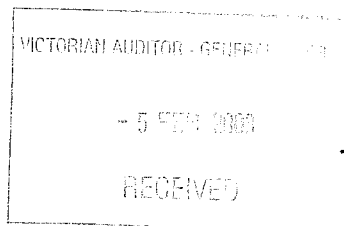


## Minister for Education and Training

The Hon. Lynne Kosky, MP

2 Treasury Place  
East Melbourne, Victoria 3002  
Telephone: +61 3 9637 3196  
Facsimile: +61 3 9637 2800  
GPO Box 4367  
Melbourne, Victoria 3001

Mr J W Cameron  
Auditor General  
Victorian Auditor-General's Office  
Level 34  
140 William St  
MELBOURNE VIC 3000



-4 FEB 2003

Dear Mr <sup>Wayne</sup> Cameron

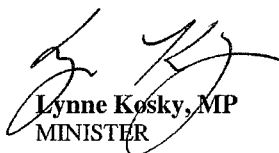
I write to request that you conduct an urgent audit of RMIT's current financial position and budgetary outlook for the institution.

I have been informed that the Chancellor of RMIT has resigned his position, and has cited his concerns over the financial position of RMIT as a major reason for this decision. Over the last 12 months I have received financial data from RMIT that has changed between successive reports, particularly in regard to projected operating deficits.

It would be assist me if your audit could extend to RMIT's capacity to understand and manage its cash flows, its strategies to build and maintain adequate cash reserves, and its longer term budget planning, including management of overheads.

I hope that you will share my view that this audit is important and urgent and needs to be undertaken as expeditiously as possible.

Yours sincerely

  
Lynne Kosky, MP  
MINISTER





AUDITOR GENERAL  
VICTORIA

5 March 2003

Our Ref: 30.03.03/2

Professor Ruth Duncan  
Vice Chancellor  
RMIT University  
City Campus  
GPO Box 2476V  
Melbourne 3001

Dear Professor Duncan,

As you are aware, following a request from the Minister for Education and Training I have agreed to undertake an audit of RMIT's finances.

The objective of the audit is to examine RMIT's financial position and budgetary outlook and determine the adequacy of its budget management processes, including budget setting, monitoring and actions taken to address budget variances. The scope of the audit will encompass:

- analysis of RMIT's financial position and financial performance;
- examination of the effectiveness of Council's oversight of RMIT's financial performance, including information provided to Council for decision-making;
- examination of the adequacy of the budget management process at a whole of university and business unit (including subsidiary companies) level; and
- review of the budget outlook for RMIT covering 2003 and out years.

As agreed with the Minister, a report on the results of this audit will be provided to the University, the Minister and the Parliament by the end of May 2003. To achieve this timeframe, I seek your utmost cooperation in connection with the audit.

You should be aware that the costs associated with this audit will not be borne by the University.

Should you wish to discuss any matters relating to the audit, please do not hesitate to contact me on 8601 7000 or Mr Russell Walker, Assistant Auditor-General on 8601 7005.

Yours sincerely,

J W CAMERON  
*Auditor-General*

*Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000*  
*Telephone (03) 8601 7000 Facsimile (03) 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au*

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*Auditing in the Public Interest*

# Appendix C

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## Entities controlled by RMIT

The consolidated entity consists of RMIT and the following entities which it controls:

<i>Controlled entities</i>	<i>Notes</i>	<i>Ownership</i>	<i>Net assets</i>	<i>Operating result</i>
		<i>(%)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>
RMIT Resources Ltd	(a)	100	-	137
Meltech Services Pty Ltd (2)	(b)	100	-	-
RMIT Training Pty Ltd (2)	(c)	100	2 166	(1 187)
RMIT Innovation Ltd	(d)	100	(703)	20
Spatial Vision Innovations Pty. Ltd.	(e)	51	984	125
RMIT International Pty Ltd	(f)	100	2 490	(184)
RMIT (Malaysia) Snd Bhd	(g)	100	(87)	(25)
RMIT Vietnam Holdings Pty Ltd (2)	(h)	100	23 062	18 465
RMIT International University Vietnam (1) (2)	(i)	100	(124)	(1 195)
Citytech Pty Ltd	(j)	100	-	-
Inquiron Pty Ltd	(k)	50.05	(440)	(442)
RMIT Union (2)	(l)	Unincorporated body	14 896	(38)
RMIT Foundation	(m)	Unincorporated body	5 918	223

(1) Accounts disclosed in United States dollars.

(2) Figures as per draft accounts.

- (a) RMIT Resources Ltd is a company incorporated under the *Corporations Act 2001*, limited by guarantee and without a share capital. The liability of members at balance date was limited to \$4 being 2 members with a liability of \$2 each.
- (b) Meltech Services Limited is a company incorporated under the *Corporations Act 2001* limited by guarantee and without share capital. The liability of members at balance date was limited to \$120, being 6 members with a liability limited to \$20 each. Three directors, being the majority of directors, are nominees of RMIT. Accordingly, Meltech Services Limited is a subsidiary of RMIT.
- (c) RMIT Training Pty Ltd is a company incorporated under the *Corporations Act 2001* with a share capital of 502 000 ordinary shares of \$1 each.
- (d) RMIT Innovation is a company incorporated under the *Corporations Act 2001*, limited by guarantee and without a share capital. The liability of members at balance date was limited to \$60, being 6 members with a liability of \$10 each.
- (e) Spatial Vision Pty Ltd is a company incorporated under the *Corporations Act 2001* with a share capital of 200 000 ordinary shares of \$1 each. The company is a subsidiary of RMIT Innovation Limited which holds 51 per cent of the issued share capital.
- (f) RMIT International Pty Ltd is a company incorporated under the *Corporations Act 2001* with a share capital of 200 002 ordinary shares of \$1 each.
- (g) RMIT (Malaysia) Sdn Bhd is a company incorporated under the *Malaysian Companies Act 1965* with an issued share capital of 2 ordinary share of RM\$1 each, which are held by RMIT.
- (h) RMIT Vietnam Holdings Pty Ltd is a wholly-owned entity of RMIT University and has 12 ordinary shares of \$1 each. The company's principal activity is to hold funds for the distribution to operations at the RMIT International University Vietnam Campus and RMIT's investment in RIUV.
- (i) RMIT International University Vietnam is a jointly-owned entity of RMIT Vietnam Holdings Pty Ltd (1 434 910 ordinary shares of US\$1) and RMIT University (524 287 ordinary shares of US\$1). Its purpose is to provide advanced education to the Vietnamese community in Vietnam.
- (j) Citytech Pty Ltd is a company incorporated under the *Corporations Act 2001* with an issued share capital of 12 ordinary shares of \$1 each, which are held by RMIT.
- (k) Inquiron Pty Ltd was incorporated on 16 December 2001. RMIT acquired 10 010 ordinary shares of \$1 each, which was 50.05 per cent of the equity in the company on 1 January 2002, with the balance being held by RMIT employees. RMIT has the power to appoint the board, therefore, has substantial influence over its operations. The operating result of the entity has been included in the consolidated statements of financial performance since the date of acquisition.
- (l) The RMIT Union is an unincorporated body. The Union has been consolidated with RMIT in order to comply with AAS 24: *Consolidated Financial Reports*.
- (m) The RMIT Foundation is a Trust. Its principal purpose is to raise funds, provide grants to RMIT for the conduct of research, construction of teaching facilities, provide for scholarships and to engage visiting scholars. The Trust is controlled by the RMIT Council



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AUDITOR GENERAL  
VICTORIA

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