



4.1 Institution Assessment Framework

In 2004, the Institution Assessment Framework (IAF) replaced Educational Profiles as the Australian Government's primary accountability mechanism for universities and other Table A higher education providers. The IAF is a streamlined information collection exercise compared to the previous Educational Profiles process.

Much of the information for the IAF process is collected by DEST from public sources such as annual reports, audited financial statements and university websites, and from data routinely supplied to DEST through student and staff statistical collections and research data collection. Some information on planning, capital management, indigenous education and equity issues was collected from universities specifically for the IAF assessments.

A number of indicators and measures were derived from this information and used in assessing a higher education provider's performance in four key areas:

- organisational sustainability – to verify that the provider is in a sound financial situation and is well governed and managed, so that it will be able to continue delivering programmes for the Australian Government;
- achievements in higher education provision – to measure the extent to which it has contributed to meeting the Australian Government's higher education objectives;
- quality – to gain assurance that its educational provision is of a high standard; and
- meeting legislative requirements – to confirm that the provider has met its obligations under legislation and guidelines.

In 2005, an assessment portfolio was provided to each university covering the four areas of interest showing its own performance over a period of time, as well as comparisons with the sector average and with similar higher education providers.

Senior officers of DEST visited 19 Table A providers in 2005 for bilateral discussions centred on their submissions and the assessment portfolio. DEST officers will normally visit every Table A provider biennially.

More information on the IAF can be found at: http://www.dest.gov.au/sectors/higher_education/policy_issues_reviews/key_issues/institution_assessment_framework.htm

4.2 Report on assessments

In 2005, assessment portfolios were prepared on 37 universities, the Batchelor Institute of Indigenous Tertiary Education and the Australian Maritime College.

The assessment covered the four key areas detailed in Section 4.1, but the portfolios were divided

into five sections, with research performance covered separately. The first section, 'organisational sustainability', included assessments of a higher education provider's strategic planning processes and financial health. The second section, 'achievements in higher education provision', provided statistics on student load, staffing profile and equity outcomes, including those for Indigenous Australians. Section three, 'quality outcomes', documented issues relating to quality, including the results of Australian Universities Quality Agency audits, graduate experience and outcomes surveys, tertiary entrance scores and student-staff ratios. Section four examined research performance and section five detailed issues with meeting legislative requirements.

All higher education providers were presented with their assessment portfolios by the end of 2005. Higher education providers were invited to formally respond to DEST's assessment of their individual performance and this response formed an integral part of the final assessment portfolio.

The assessments continued to indicate a financially sustainable, high achieving, high quality and accountable higher education sector in Australia.

4.3 Financial health of the sector

The Australian Government monitors the financial situation of higher education providers by assessing their audited financial statements. Higher education providers receiving Australian Government grants under the *Higher Education Funding Act 1988* (HEFA), the *Higher Education Support Act 2003* (HESA) or the *Australian Research Council Act 2001* (ARCA) are required to lodge their annual calendar-year audited financial statements with the Australian Government by 30 June of the following year. The Australian Government and State and Territory Auditors-General audit the annual financial statements of the higher education providers within their jurisdictions.

Guidelines for the preparation of annual financial statements are issued to higher education providers each year after consultations with the higher education sector and State and Territory finance and audit officials. Financial information extracted from the higher education providers' audited financial statements is used in DEST's finance publication, *Finance 2005: Financial Reports of Higher Education Providers*¹, and to acquit Australian Government grants.

Analysis of higher education providers' published annual financial statements for 2005 was undertaken. As in previous years, the sector-wide analysis presented in this report is based on the aggregate financial data extracted from the published financial statements of 40 publicly funded higher education providers.

The analysis encompassed three main aspects:

- operating performance;
- liquidity and financial stability; and
- capital management.

The general financial position of the higher education sector as a whole and as reflected in the higher education providers' 2005 audited financial statements remains sound.

The financial information for the tables and charts used in this section was derived from the annual audited financial statements of higher education providers.

¹¹ Available at http://www.dest.gov.au/sectors/higher_education/publications_resources/profiles/finance_2005_stats.htm

4.4 Financial Measures and Ratios

The key financial measures and ratios used in the analysis are operating margin, current ratio, borrowings, cash and investments, net assets and net capital expenditure, which are outlined in Table 48.

Table 48: Principal ratios and financial measures used

Operating margin	It measures the ability of the provider to contain expenses within the available revenue. A positive percentage for any given year indicates that total revenue exceeded total expenses for that year.	Surplus/(Deficit) Total Revenue
Current Ratio	The current ratio is a liquidity ratio. It measures the ability of the provider to meet its short term obligations. A current ratio of less than 1.0 is used as a flag indicating potential liquidity risk.	Current Assets Current Liabilities
Borrowings	Information on external borrowings of providers.	Borrowings classified under current and non-current liabilities.
Cash and Investments	Cash and mostly near liquid investments, although some are restricted investments.	Cash and investments are reported in the balance sheet under current and non-current assets.
Net Assets	Highlights a provider's total net value.	Total assets less total liabilities.
Net Capital Expenditure	Measures net investment in capital assets financed from operating surpluses, internal reserves and external sources.	Total capital expenditure less capital asset sales.

4.4.1 Operating performance

The revenue for the higher education sector has grown consistently.

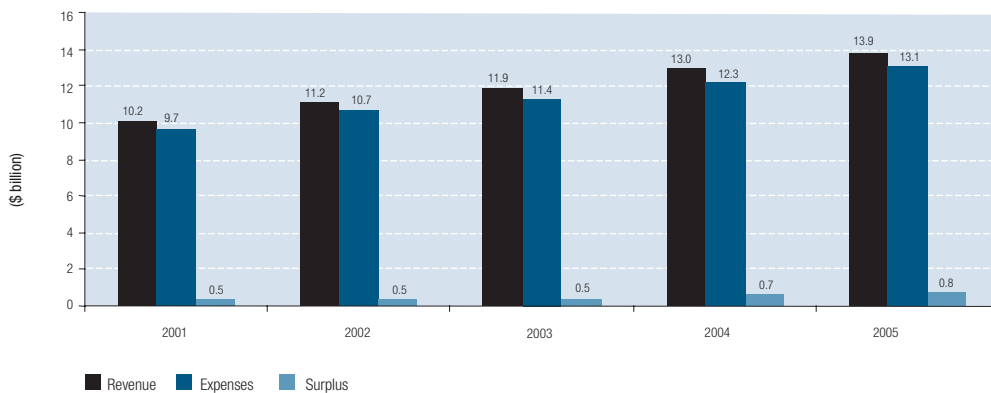
The main sources of revenue for higher education providers are Australian Government grants, Higher Education Loan Programme (formerly HECS) payments, domestic and overseas fee-paying students, other fees and charges, consultancies and contract research, investment income and other business-type activities. The major portion of expenses for higher education providers is attributable to salary and salary related costs.

Consistent with the approach adopted in previous years, the revenue and expense figures in Figure 18 exclude “deferred government superannuation income” from revenue and “deferred employee benefits” from expenses reported by higher education providers in their financial statements. These revenue and expense items often offset each other, so excluding them has no effect on the overall result. Although they are not meaningful in this context, these items are recorded in higher education providers’ operating statements to reflect any increases or decreases in their unfunded superannuation liabilities.

Sector revenue for higher education activities in 2005 continued its upward trend reaching \$13.9 billion, an increase of \$0.9 billion from 2004. The revenue for the sector including Vocational Education and Training (VET) activities was \$14.3 billion. Sector expenses were \$13.1 billion, increasing by \$0.8 billion. Including VET activities, the expenses were \$13.5 billion.

During the period 2001 to 2005, sector revenue increased by \$3.7 billion while expenses increased by \$3.4 billion. Hence, the operating result for the sector increased from \$0.5 billion in 2001 to \$0.8 billion in 2005.

Figure 18: Revenue and expenses for higher education activities, 2001-05

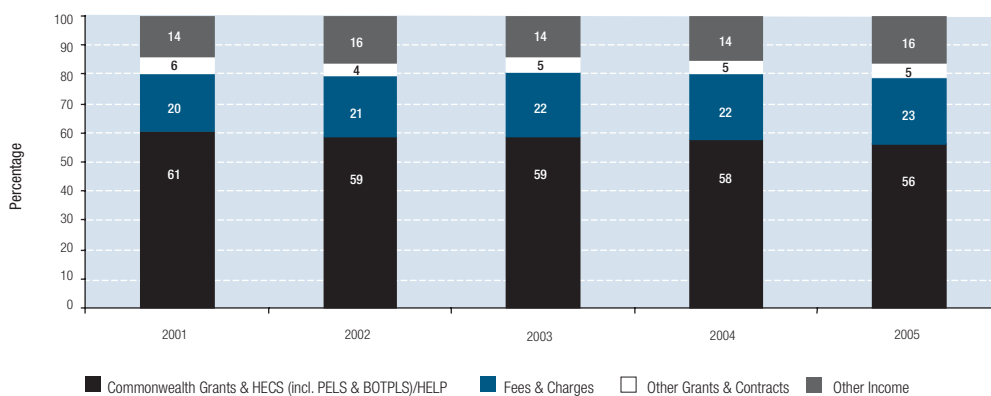


Source: Derived by DEST from the annual audited financial statements of higher education providers

4.4.2 Sources of revenue

Australian Government grants and payments under the Higher Education Loan Programme (HELP) increased to \$7.8 billion in 2005, contributing 56% to the total revenue. The proportion of higher education providers' revenue consisting of Australian Government funds (including HELP) varied considerably across the sector from about 35% for Central Queensland University to around 95% for Batchelor Institute of Indigenous Tertiary Education. Figure 19 shows the sector-wide trends in sources of revenue over the period 2001 to 2005.

Figure 19: Sources of revenue – trend analysis, 2001-05^(a)



Source: Derived by DEST from the annual audited financial statements of higher education providers

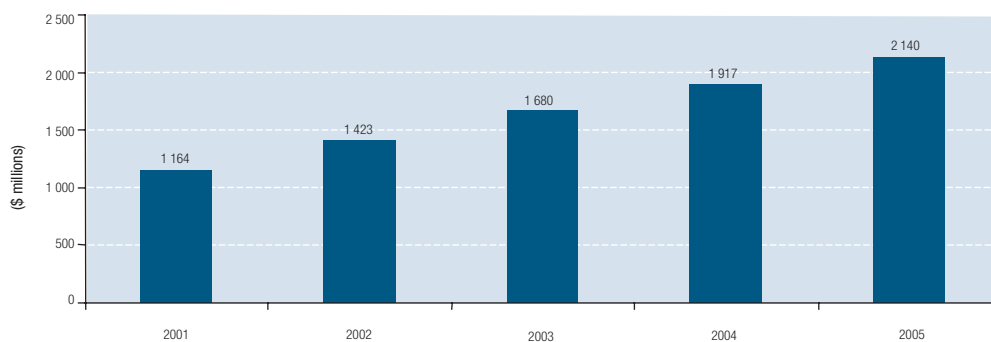
(a) Some figures do not total 100% because of rounding.

Revenue from fees and charges continues to grow with \$3.2 billion (or 23% of total revenue) being earned from this source in 2005. The major components of fees and charges were overseas student income (\$2.1 billion or 15% of revenue) and domestic postgraduate fees (\$192 million or 1% of revenue).

Revenue from domestic undergraduate fees is continuing to grow, with 28 higher education providers reporting undergraduate fee-paying course revenue totalling \$102 million in 2005, compared to 22 higher education providers generating \$44 million in 2001. Investment income accounted for a further \$577 million (or 4%) of sector revenue in 2005.

The majority of higher education providers continued to increase their revenue derived from overseas students. Overseas student revenue increased by \$223 million (or 12%) in 2005 (Figure 20). Revenue from overseas student fees has almost doubled since 2001 and now represents 15% of sector revenue.

Figure 20: Revenue from full fee-paying overseas students, 2001-05

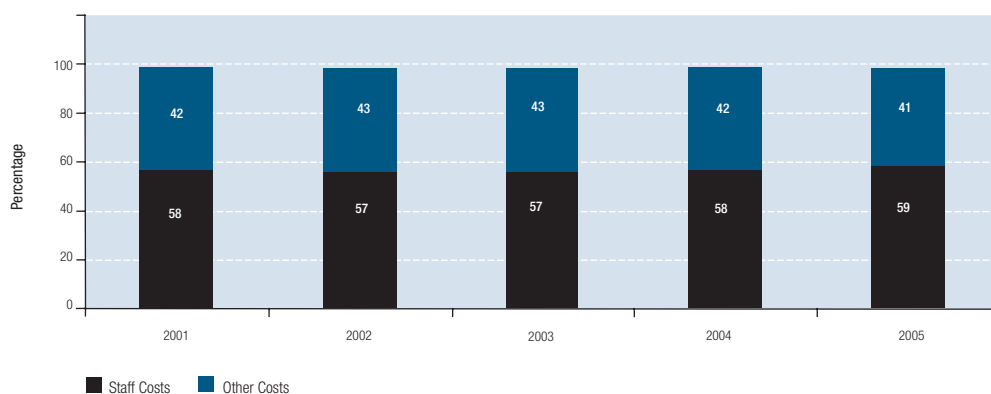


Source: Derived by DEST from the annual audited financial statements of higher education providers

4.4.3 Expenses analysis

There was an 8% rise in staff salary and salary related costs in 2005. These costs accounted for 59% of operating expenses in 2005 compared to 58% in 2001 (Figure 21).

Figure 21: Expenses analysis, 2001-05

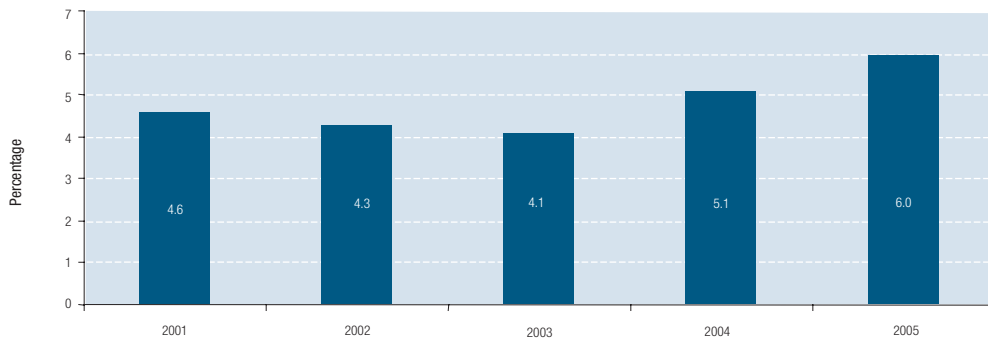


Source: Derived from the annual audited financial statements of higher education providers

The sector-wide operating margin has remained positive for the 2001 – 2005 period (Figure 22) at 6% in 2005. Higher education providers continue to earn additional revenue from non-government sources with revenue from overseas students increasing by about 12% in the last year. The majority of higher education providers have been able to contain expenses within the limits of available revenue.

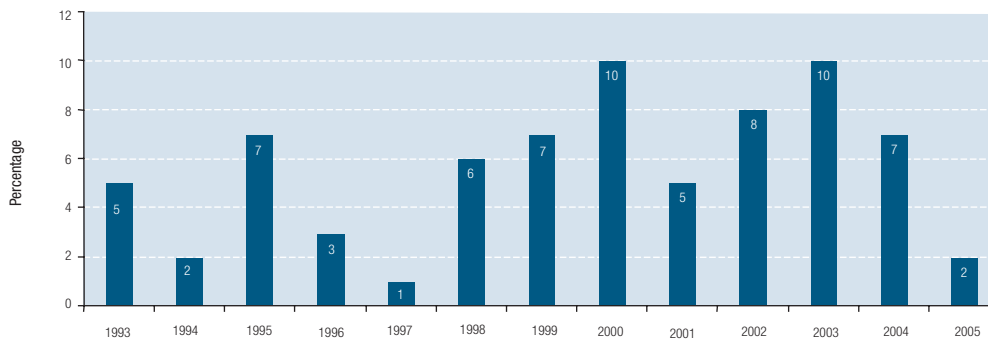
The number of higher education providers reporting deficits each year has fluctuated between one and ten since 1993 (see Figure 23). In 2005, two higher education providers recorded negative operating margins (higher education component only).

Figure 22: Operating margin, 2001-05



Source: Derived by DEST from the annual audited financial statements of higher education providers

Figure 23: Number of higher education providers in deficit, 1993-2005



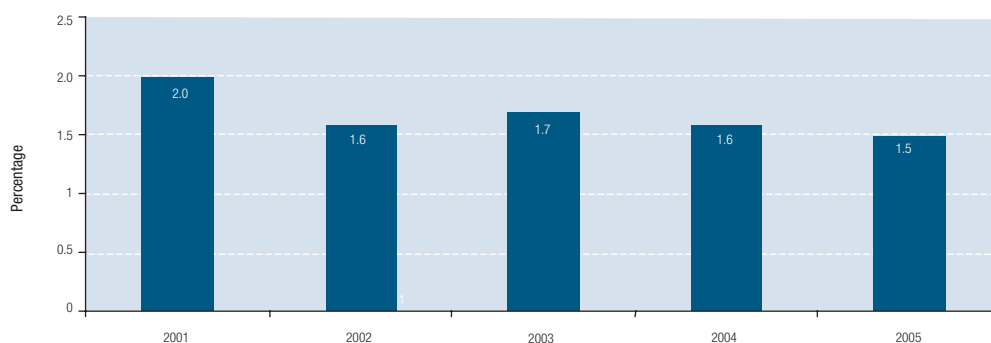
Source: Derived by DEST from the annual audited financial statements of higher education providers

4.4.4 Current ratio

The sector-wide current ratio continues to be significantly higher than the threshold of 1.0. A current ratio of less than 1.0 flags a potential liquidity risk. In 2005, current assets were 1.5 times current liabilities (Figure 24).

While the majority of higher education providers continue to perform strongly and maintain sufficient levels of liquid assets to meet current liabilities, there were four higher education providers with a current ratio of less than 0.75 at the end of 2005.

Figure 24: Current ratio, 2001-05



Source: Derived by DEST from the annual audited financial statements of higher education providers

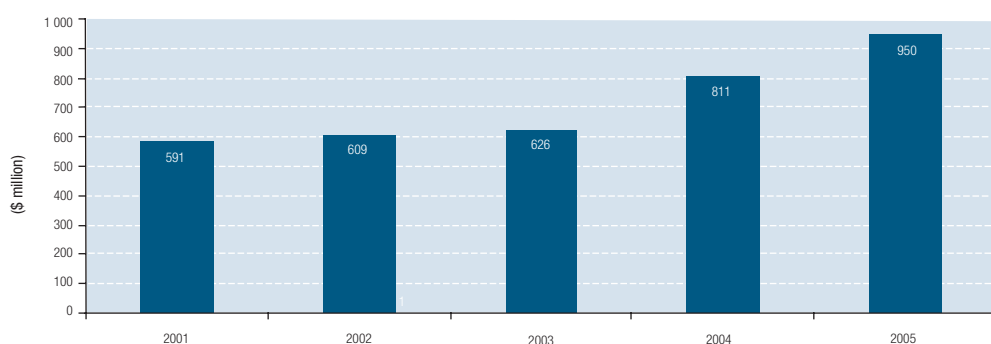
4.4.5 Borrowings, cash and investments, capital expenditure and net assets

Higher education providers continue to have low levels of borrowings even though the level of borrowings has been increasing in recent years (Figure 25). The borrowings for the sector were \$950 million in 2005, \$139 million (17%) higher than the previous year.

Net assets increased by around 5% to reach \$25.7 billion at the end of 2005. Total assets of the sector were \$34.1 billion in 2005 with capital assets accounting for \$22.3 billion.

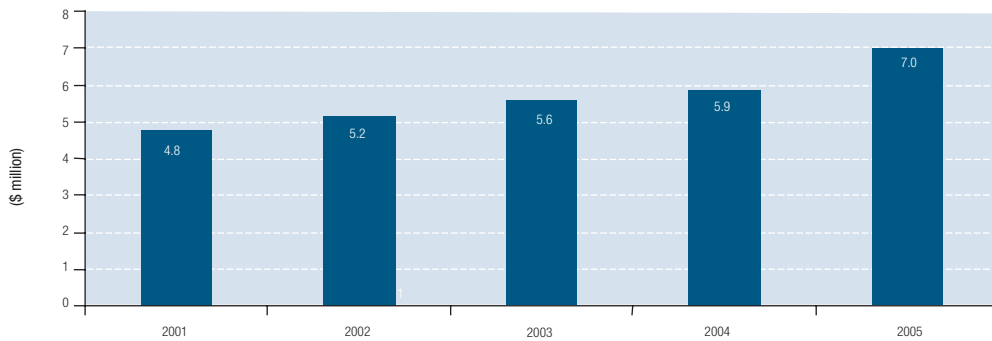
In addition to its substantial capital assets, the sector also has substantial liquid assets as measured by cash and investments. The cash and investments of the sector totalled \$7 billion at the end of 2005, an increase of around \$1.1 billion from the previous year (Figure 26). This was approximately seven times the size of external borrowings.

Figure 25: External borrowing, 2001-05



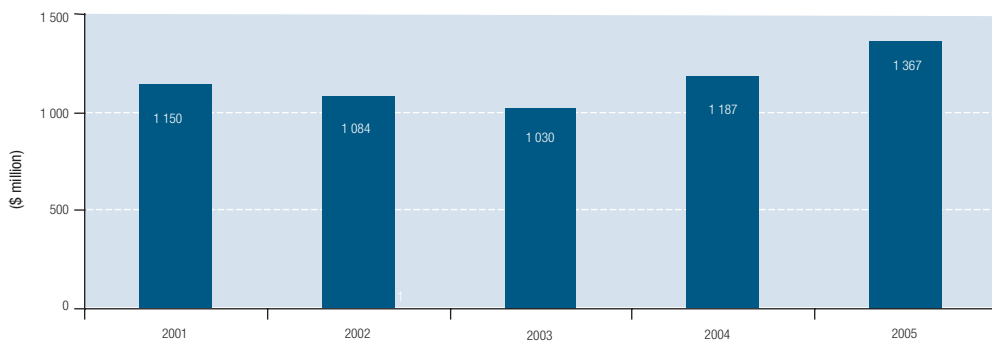
Source: Derived by DEST from the annual audited financial statements of higher education providers

Figure 26: Cash and investments, 2001-05



Source: Derived by DEST from the annual audited financial statements of higher education providers

Figure 27: Net capital expenditure, 2001-2005



Source: Derived by DEST from the annual audited financial statements of higher education providers

Over the past five years net investment in capital assets has totalled \$5.8 billion (see [Figure 26](#)), while borrowings have increased by \$359 million. Cash and investments rose by \$2.2 billion in that period. Net capital expenditure was \$1.4 billion in 2005 (see [Figure 27](#)).

The increases in cash and investments and capital expenditure are significant given the relatively small increase in borrowings. It indicates that higher education providers are not necessarily increasing their borrowings or depleting their cash reserves to fund capital expenditure, rather they are utilising their operating cash surpluses to fund capital expenditure.