Inquiry into the Provisions of the University of Tasmania Act 1992

Submission by John Lawrence dated 29th August 2022

This submission addresses Term of Reference 3 - The appropriateness of the Act to ensure accountable executive, fiscal and academic decision making.

In addition, some background is provided to hopefully assist the committee in its deliberations.

Universities in Australia are mostly public institutions.

However, from a reporting viewpoint, universities fall in no man's land, or more correctly perhaps, no person's land, for they aren't included with any of the three tiers of government of federal, state and local. The Australian Bureau of Statistics (ABS) gives universities a 'n.f.d' label meaning 'not further defined'.[1]

The de facto fourth tier of government, Australian publicly owned universities, control assets worth $100 billion. UTAS according to the most recent financial statements at 31st December 2021 has assets worth $1.8 billion. That's more than Tasmanian government businesses except for Hydro Tasmania and Tas Networks.

Being the forgotten tier of government has led to universities becoming a law unto themselves. I wrote about this in an opinion piece published in The Mercury on 26th September 2020 following the belated release of UTAS' 2019 Annual Report.

IF annual reports were marked like university assignments, the University of Tasmania's latest effort would receive one out of 10.

UTAS reports on a calendar year basis. The Auditor General signed off the 2019 report in February. The Board (known as the Council) adopted the report in May and sent it to the government as required. The government released the report in late August, eight months after year's end. Were it a listed company it would have been suspended.

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[1] Government Finance Statistics, Annual, 2020-21 financial year | Australian Bureau of Statistics (abs.gov.au) Table 449

Apart from the financials it's a pretty skinny report. The overview for the year occupied only six pages. Even then it contained a cut and paste from a previous offering, a Strategic Plan dated July 2019. UTAS is "not long-term economically sustainable and being economically sustainable is no easy task … At an operating level, we break even. Still, there is no surplus to see our facilities renewed for the next generation."

The brief review continued with a pastiche of proper nouns and acronyms which only an insider could possibly comprehend. Four paragraphs on risk management described how UTAS had worked collaboratively, reviewed, planned and implemented recommendations. Exactly what was implemented to address what risks wasn't disclosed.

Essentially UTAS's chosen transition to sustainability requires more students and that requires more student accommodation. Property development is now the tail wagging the education dog.

The financials confirm this. UTAS's net profit was $73 million on revenue of $777 million. This occurred pre-COVID. The core activities of teaching, research and community engagement produced a loss of $2 million. Non-core activities resulted in a $75 million profit, mainly unrealised gains on investments of $60 million and interest and dividends of $14 million. The investment portfolio was worth $442 million at year's end. Calendar year 2019 was kind to share punters.

In 2019 UTAS spent $206 million on capex. That's more than the state government if one ignores the Royal Hobart Hospital spend. Borrowings jumped from $93 million to $210 million.

There's another liability on the balance sheet — $123 million described as a "grant of right to operate" which for all intents and purposes is a borrowing. UTAS received a lump sum of $133 million in 2017 for the right to operate and receive the rents from some of UTAS's student accommodation. Essentially UTAS has swapped future rents for a lump sum payment. It is safe to assume UTAS has guaranteed future rents and is locked into a 30-year deal.

Similar deals appear to be in the pipeline. The 2018 Annual Report referred to a mooted Melville St building to accommodate 422 students. The Midcity and Fountainside hotels were also bought by UTAS for student accommodation.

A pattern is emerging. Develop student accommodation, search the globe for students, lower the grades necessary for students to pass so they stay, sell off 30 years' worth of guaranteed rent, buy more property and so on.

Sustainability also means being able to adequately fund research. Running a property scheme hoping to fund a nation's crucial investment is a sad indication we have lost our way. More is being spent on student accommodation than the government spends on social housing. Just as privatised aged care has become a property play, so too have universities. Wage costs as a percentage of total expenses have remained relatively stable at about 58 per cent. Most expenses, as one would expect, are wages. But there has been a slow and steady shift from academic wages to non-academic wages.

Over the past 10 years, academic wages, which includes teaching and research, has fallen from 56 per cent of total wages to 51 per cent. Even with scaling up, taking in more international students, the shift away from teaching and research wages has continued unabated.

UTAS has its own governing Act of Parliament. However it's not answerable to anyone. It merely has to tell the government each year what it has received and spent. Little wonder it was able to serve up such a disgracefully brief report into its perilous state. It mustn't be forgotten that the federal government is largely responsible for setting the parameters that have pushed universities in the direction all have taken. The influx of international students has crush-loaded city infrastructure, pushed up the price of inner-city housing, reduced housing availability for local workers and aided and abetted wage theft in the service economy. Nowhere is this more apparent than in Hobart.

UTAS retains its anachronistic status as a law unto itself. Its statutory obligation to act with care diligence and in good faith to further its own interests has given it carte blanche to become a property developer with a side hustle in education. It is way beyond time to overhaul the governance of such a crucial public body.

The recently released 2021 Annual Report is superficially an improvement on the 2019 edition. Gone are most of the acronyms and proper nouns that couldn't be googled, replaced with a glossy product from the PR department.

From an accessibility viewpoint however, the financial statements are just another amorphous conglomeration of numbers that one gets from **general**

purpose financial statements. In this instance the financials are tweaked to satisfy the requirements of the Australian Charities and Not-for-profits Commission Act 2012 and the reporting requirement for higher education providers. The latter are probably the reason for increased revenue details in UTAS' financials. Apart for that, the statements reveal no more than those of a private company where an obligation to report means making minimum disclosures.

The Auditor General also confirmed the 2021 financial statements were in accordance with the University of Tasmania Act 1992 but that doesn't impose any additional requirements other than reporting *"a full account of the income and expenditure of the University for the financial year to which it relates"* (sec 12). BMX clubs do that.

The one departure from the strict letter of accounting standards came at the bottom of page 48 on the 2021 Annual Report where it was revealed core activities yielded a loss of $1.2 million whereas the overall result showed net operating income of $166 million. The figures for the 2020 year were a $3.7 million profit for core activities and a $18 million profit overall. The 2020 year saw investment returns plummet following Covid.

Core activities include, we were told:

- learning and teaching;
- research, knowledge transfer and research training;
- community engagement; and
- activities incidental to undertaking the above.

Euphemisms abound in financial statements. UTAS identified $11 million of underpayment of staff wages over the past 5 years and included them as restructure costs. The note which revealed the wage shortfalls (or was it wage theft?) couldn't resist describing them as something "*which a number of Australian universities have experienced*."[2] The everyone-does-it excuse was pathetic. The 'restructure costs' weren't included in core activities which meant the loss from core activities was actually greater than $1.2 million.

At first glance UTAS' balance sheet looks OK with a reasonably low level of borrowings, and with payables and provisions one would expect from an entity operating as it does.

[2] UTAS Annual Report 2021 Note22 page 86 Annual-Report-2021.pdf (utas.edu.au)

But there are other liabilities that require a comment. Contract liabilities and other liabilities totalled $444 million at the end of 2021, up from $308 million at the end of the previous year. These amounts represent revenues received in advance, from student fees and grants (included in contract liabilities) to 30 years' worth of future rent included in other liabilities which as we have already noted are de facto borrowings.

The problem with receiving revenue in advance is ensuring the cash is available when it needs to be spent as intended. It is well known this was the problem with the Royal Hobart Hospital rebuild when $290 million of Federal grants received in advance was spent on other things whilst the hospital rebuild was still on the drawing board. There is scant information on the risks for UTAS of contract and other liabilities which represent two thirds of UTAS' total liabilities. With sustainability being the issue at hand, this is a glaring omission for a reader of the financials. Being structured around dependence on revenue in advance is something that warrants more than just a passing note.

Cash flow statements sometimes reveal realities missing from profit and loss statements. UTAS cash flow statement reveals a similar level of net operating cash in 2021 ($82 million) compared to $84 million in 2020, although the wage shortfall payments of $11 million aren't included because they weren't paid before year end.

Included in operating cash however is some revenue received in advance. As we have already noted, contract liabilities increased in the 2021 year. There was an increase of $28 million in contract liabilities relating to student fees, research grants and Australian government financial assistance. There was also a reduction in trade receivables of $8 million which further boosted net operating cash. This means the net operating cash, excluding the extra revenue in advance and the run down in trade receivables was only $44 million. How much was from core activities? The financials contain the standard accounting note reconciling profits with operating cash[3] but it would more helpful if core and non-core profits were reconciled with core and non-core cash. Then we might get more idea what UTAS does.

There is no suggestion that UTAS is heading over the cliff. And there is no wish to depart from the terms of reference with an extended analysis of UTAS' financials. The reason for the comments is to substantiate the point that UTAS

[3] UTAS Annual Report 2021 Note27 page 91 [Annual-Report-2021.pdf (utas.edu.au)]

financials don't allow a lay reader to make an informed assessment as to the sustainability of UTAS' core operations and to the prudent use of public funds.

UTAS is keen to tell us about its geographic coverage of the State. One of the first questions that comes to mind when reading the financials is what are the assets employed and the profitability and locations of the four components which make up core activities?

And what are the assets involved in non-core activities? Where is student accommodation included? What are the asset amounts and locations of student accommodation assets? What about buildings that are still searching for occupants?

None of this should be confidential information. These are public assets. We deserve to know about core and non-core activities, where they're located, what assets are involved and what do each contribute to profit. There are any number of different ways to mandate additional disclosure other than what is presented by **general purpose** financial statements. It could be a statutory requirement, via regulation or a Treasurer's Instruction to name three possibilities.

It's also time to make UTAS reportable to parliament instead of a perfunctory report to the government which sits in someone's in-tray for months before being publicly released up to 8 months after year's end. The 2021 report was certified by UTAS on 11th Feb 2022 and signed off by the Auditor General on the 16th February, six weeks after year's end. ASX listed companies lodge audited financial statement within 2 months of year's end. The same could apply to UTAS. It could be allowed another month to put together the glossy Annual Report to be released by the end of March. In the case of the 2021 report UTAS didn't forward the report to the Governor (why involve her?) till 27th April which the government then sat on for 4 months before public release. Given the government is not required to even read the report let alone respond to it why sit on it for 4 months? It just perpetuates the hang over from bygone days when the hoi polloi didn't need to be too concerned about universities because there were always reliable chaps appointed who would do the right thing.

Of UTAS's $1.8 billion in assets approximately $500 million is in shares and other managed investments and almost $1.2 billion in property plant and equipment. Of the latter most comprise land and buildings. Approximately $224 million of the latter is labelled 'service concession assets.' Whilst the assets, in this case student accommodation, is still owned by UTAS they have been handed over to a provider to run for 30 years. Rents are received by the provider who pays outgoings and pockets the balance. The quid pro quo was a payment up front by the provider. UTAS in effect sold the future entitlements to rent in exchange for a lump sum. It's just another way of raising money. But it has, presumably, locked UTAS into a 30-year deal where the provider will be guaranteed a return. If rents fall short, almost certainly UTAS will have to pay extra to the provider to ensure the guaranteed rate of return is achieved.

It is not at all clear how much UTAS has spent buying and improving property to house students. Soon after the pandemic struck, which would have taken away some of the demand. However, in the non-student community, the pandemic perversely led to rising rents and even more pressure on the homeless in Hobart.

There's $224 million listed in UTAS' financials as the book value of service concession assets after some depreciation has been claimed since 2017. Are there more assets devoted to student accommodation? There's another $64 million in capital work in progress that could well be more accommodation. We're not told. Whatever the figure is it'll be much larger than what the government spent on public/social housing.

There's nothing particularly unusual about relabelling land and building as service concession assets. The Tasmania government via Communities Tasmania has service concession assets totalling $821 million at last balance date representing the public housing stock that has been shifted across to social housing providers[4]. But this wasn't done as a way of borrowing money as was UTAS' move. The risks and benefits of what UTAS has done is not obvious from the financials.

It is unacceptable for a public body to be allowed to operate within its own bubble and be so wilfully blind to the flow on effects its policies are having.

Section 9(2) of its governing act requires UTAS *" to act in all matters concerning the University in the way it considers will best advance the interests of the University".*

Section 11B further requires "*A member of the Council is to exercise his or her powers and discharge his or her duties –*

[4] Annual Report 2020-21 (communities.tas.gov.au) Page 6 of financial statements

(a) in good faith in the best interests of the University; and

(b) for a proper purpose.

It reads like Scott Morrison's guiding principles. Little wonder UTAS was able to slip into its self-appointed role as Hobart's town planner.

It is inevitable that at some stage the self-serving rationale for UTAS's policies will include how it is earning valuable export dollars to keep us afloat.

Economist Leith van Onselen writing in Macrobusiness on March 11 2021[5] addressed the student-exports-are-good-for-us thesis when he wrote, in part:

For years the education industry and state governments have talked up the immense value of international student exports, which the Australian Bureau of Statistics (ABS) claims was worth $37.3 billion in 2019.

These exports comprised: 1) $15.9 billion of tuition fees; and 2) $21.4 billion of goods & services expenditure.…

I have regularly debunked this data for the simple fact that a large share of the international students that come to Australia pay for at least some of their expenses by working in jobs……

*By definition, money spent in Australia earned via working here is **not an export,** yet it is perversely treated as such. ………*

The mythical export figure also does not subtract funds sent home (remittances) by international students, which have grown significantly……………….

In short, any genuine calculation of international student exports would only count money that comes into Australia from overseas and would net out money sent home via remittances. The fact that the $37 billion export figure does neither of these things, and wrongly includes expenditure funded via paid work in Australia, means exports are grossly exaggerated.

Sadly, the creative accounting and propaganda surrounding education exports plays straight into the edu-migration industry's hands by inflating its worth while never mentioning the costs.

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[5] International student exports don't add up - MacroBusiness

The export argument also relies on the still widely held mercantilist belief prevalent amongst policy makers and commentators that export income is needed to pay for imports. This premise fails to understand that for the past almost forty years we have had a floating exchange rate. We no longer have a fixed exchange rate where foreign exchange needs to be hoarded to pay for imports. Exchange rates will hardly move with the so-called education exports. The prices of Harvey Norman's imported goods won't change much.

The drive to secure more international students is simply one of getting more dollars in the door. Claiming to be earning export income is sophistry with a patriotic flavour. It is ill becoming of universities to peddle such twaddle.

UTAS operates in the same space as the mooted Homes Tasmania and TAFE. Yet it is accorded privileges that allows it to do as it wishes. It's difficult to see why this should continue.

(The writer is an economist and accountant and currently a public policy researcher and writer.)