Part 5

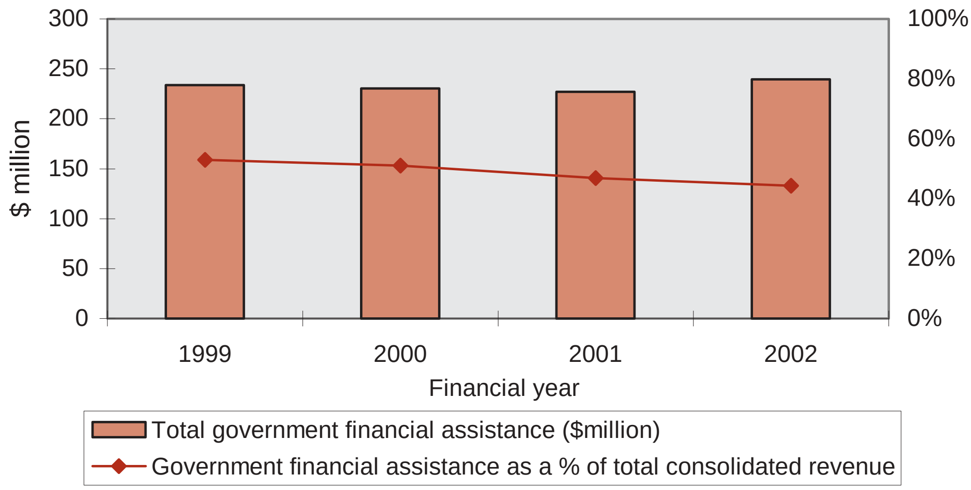
Specific issues impacting on RMIT’s financial position

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.

CHART 5A
RMIT CONSOLIDATED GOVERNMENT FINANCIAL ASSISTANCE



		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
Total government financial assistance	($million)	**233.7**	**230.4**	**226.9**	**239.7**
Total operating revenue	($million)	441.5	451.8	483.9	541.1
Government financial assistance as a percentage of total consolidated revenue		**52.9%**	**51.0%**	**46.9%**	**44.3%**

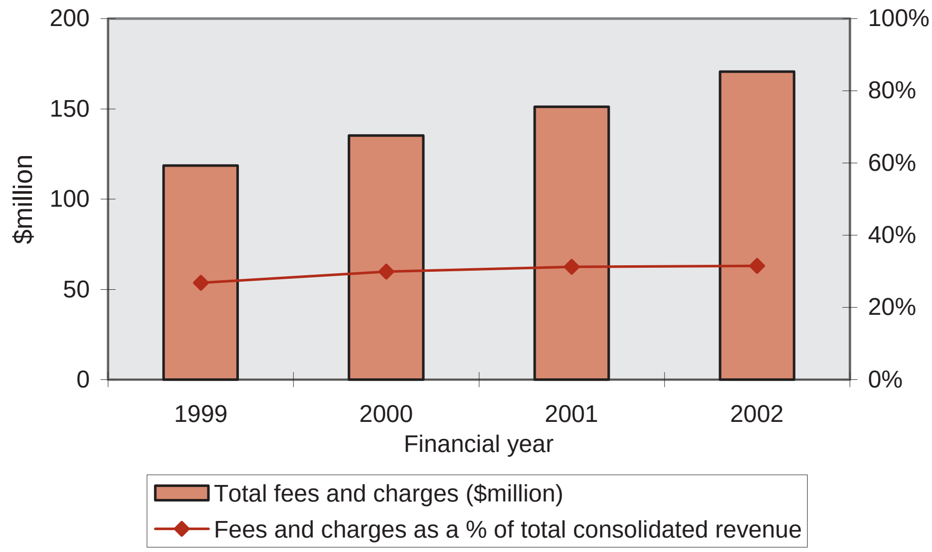
Source: Victorian Auditor-General's Office, based on information drawn from RMIT's audited financial statements.

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*
Fees and charges	($million)	**118.5**	**135.2**	**151.1**	**170.6**
Total operating revenue	($million)	441.5	451.8	483.9	541.1
Fees and charges as a percentage of total consolidated revenue		**26.8%**	**29.9%**	**31.2%**	**31.5%**
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.

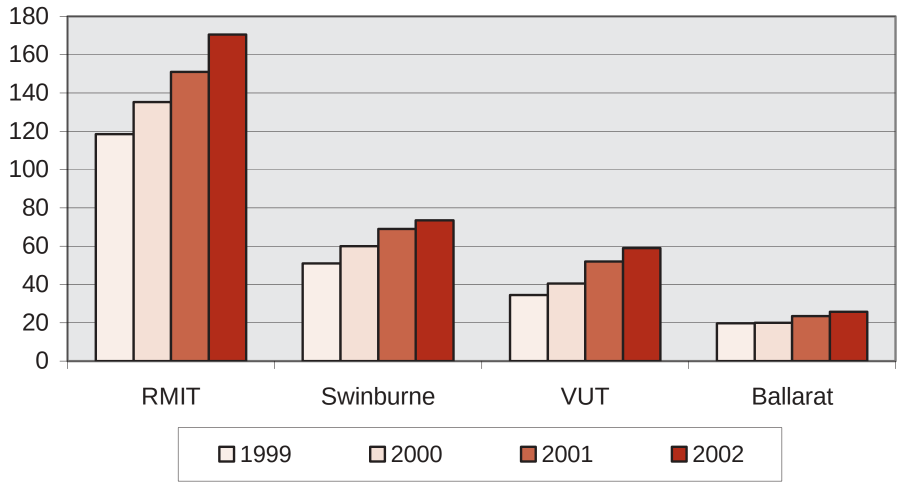
5.5 **The chart demonstrates that revenue from fees and charges has increased by $52 million over the 4 year period 1999 to 2002, and has grown relative to total revenue.**

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.

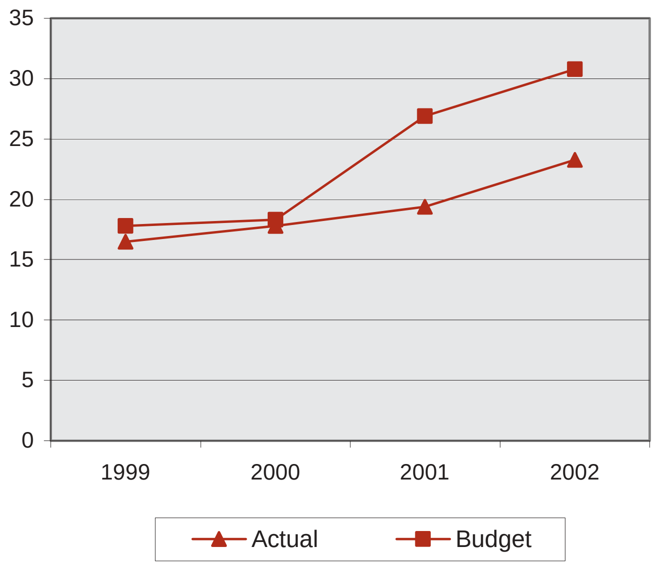
TABLE 5E
DUAL-SECTOR UNIVERSITIES – ANALYSIS OF GROWTH IN RESEARCH INCOME

	1999	*2000*	*2001*	*2002*
RMIT -				
Total research income ($million)	15.6	17.7	19.0	23.9
Percentage of total revenue	3.5%	3.9%	3.9%	4.4%
Swinburne				
Total research income ($million)	8.0	11.4	12.0	19.4
Percentage of total revenue	4.3%	5.4%	5.1%	8.0%
VUT				
Total research income ($million)	8.8	9.7	8.0	8.0
Percentage of total revenue	3.7%	3.9%	3.0%	2.9%
Ballarat				
Total research income ($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.

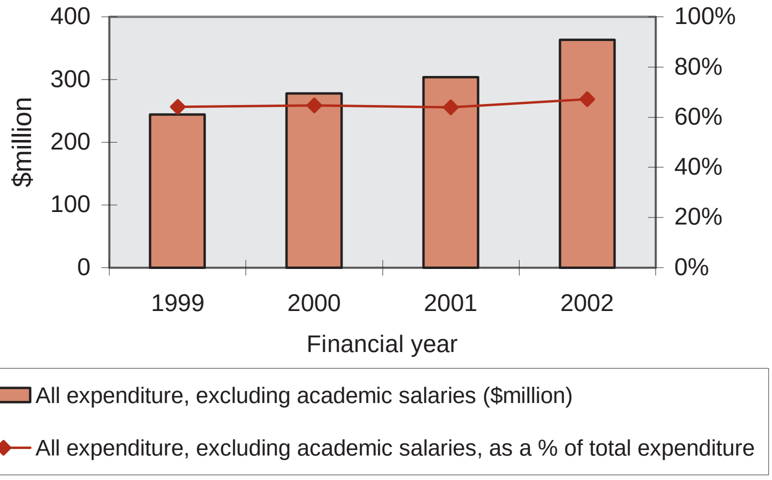
5.17 **The financial performance of RMIT's Research Centres for the 2002 financial year disclosed that 2 Centres had been closed and that the overall operating result for the year was a loss of approximately $1.4 million. In addition, the I-Cubed organisational unit recorded an operating loss of $2.1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



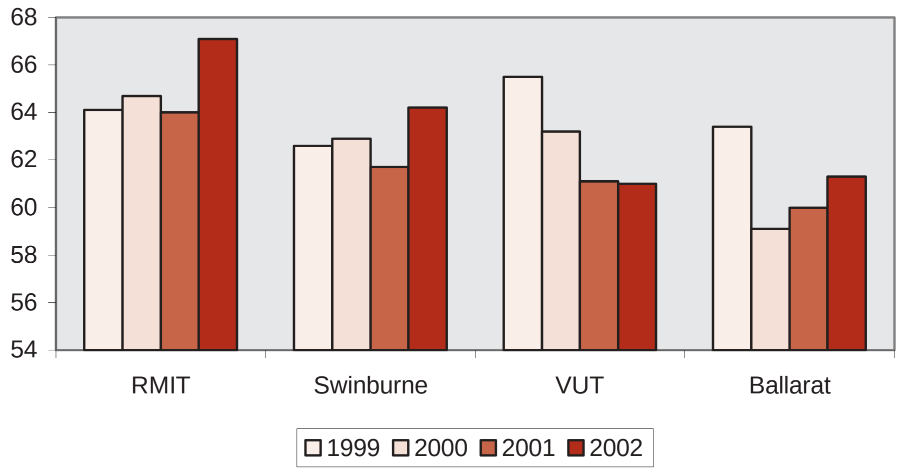
		1999	*2000*	*2001*	*2002*
All expenditure excluding academic salaries	($million)	**244.3**	**277.7**	**304.0**	**363.4**
Total expenditure	($million)	381.2	429.2	475.3	541.4
Percentage of total expenditure		**64.1%**	**64.7%**	**64.0%**	**67.1%**

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*
RMIT -				
All expenditure, excluding academic salaries ($million)	244.3	277.7	304.0	363.4
Percentage of total expenditure	64.1%	64.7%	64.0%	67.1%
Swinburne -				
All expenditure, excluding academic salaries ($million)	115.6	126.1	136.6	154.6
Percentage of total expenditure	62.6%	62.9%	61.7%	64.2%
VUT -				
All expenditure, excluding academic salaries ($million)	152.9	157.7	156.1	158.8
Percentage of total expenditure	65.5%	63.2%	61.1%	61.0%
Ballarat -				
All expenditure, excluding academic salaries ($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.

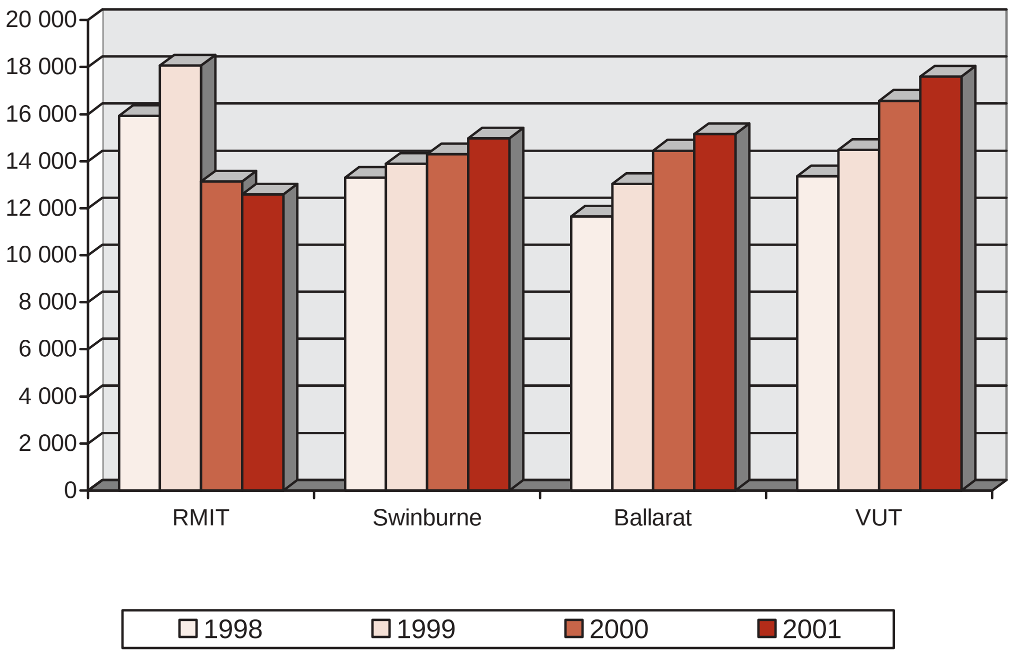
5.22 **The chart reveals that RMIT has incurred proportionately higher overheads or support services costs than the other dual-sector universities for the majority of this period. A positive movement in this measure, consistent with that achieved by VUT and Ballarat University, would translate into reduced 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)



	Student contact hours per teaching FTE (hours)			
	RMIT	*Swinburne*	*Ballarat*	*VUT*
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**.

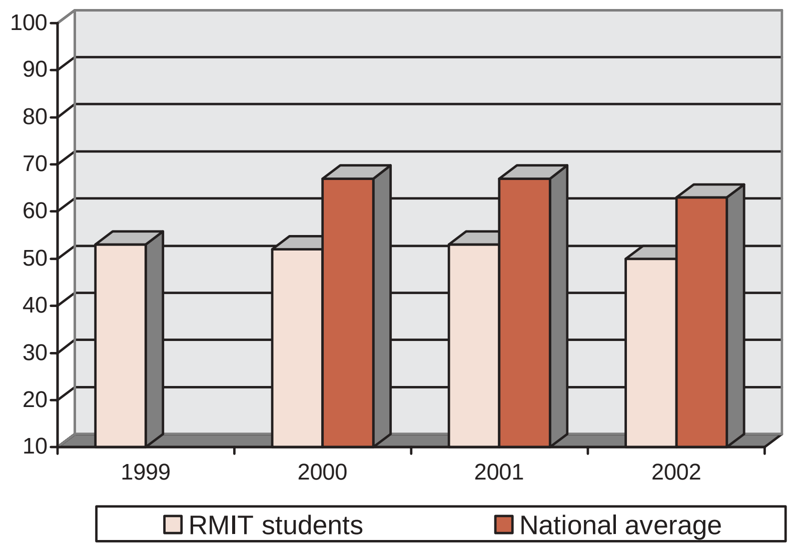
5.25 The 2002 outcome for RMIT University indicates that 13 119 student contact hours were delivered by each teacher (FTE) - a slight improvement on 2001 but still a long way short of that achieved in the other dual-sector universities.

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.

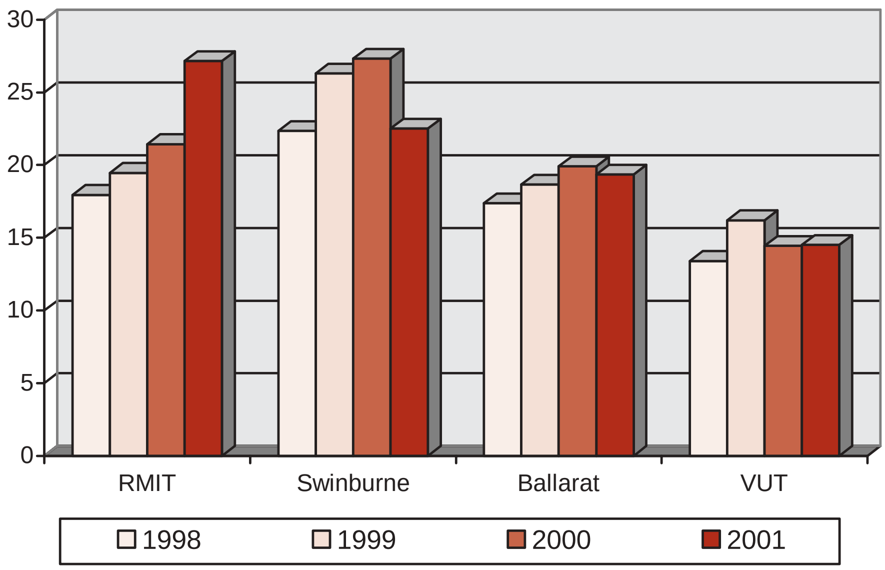
5.28 While student contact hours delivered by each teacher is considerably lower than the other dual-sector universities, the satisfaction level expressed by RMIT's TAFE students has been consistently and significantly below the national average.

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)



	RMIT	*Swinburne*	*Ballarat*	*VUT*
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.

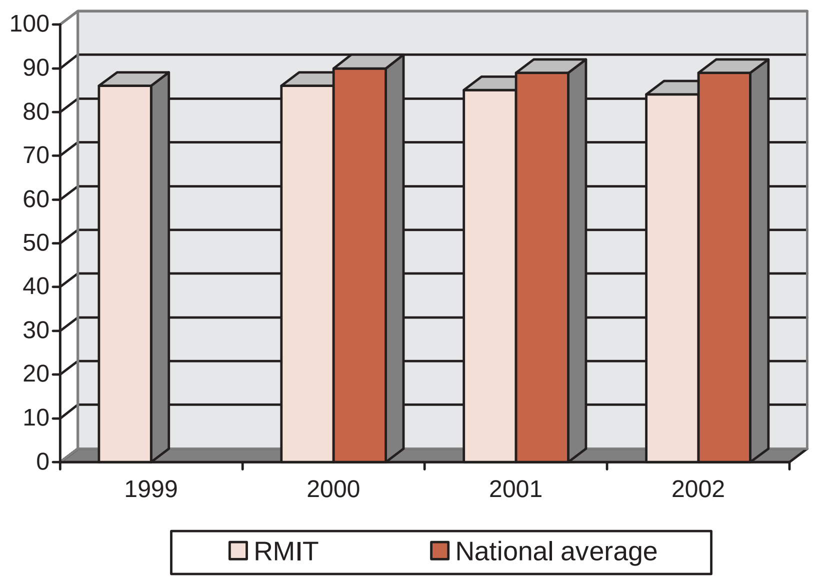
5.30 During this period, RMIT has shown an increased student load per academic staff member. Compared with the other Victorian dual-sector universities, RMIT University had the highest average student load delivered by each academic staff member in 2001.

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.

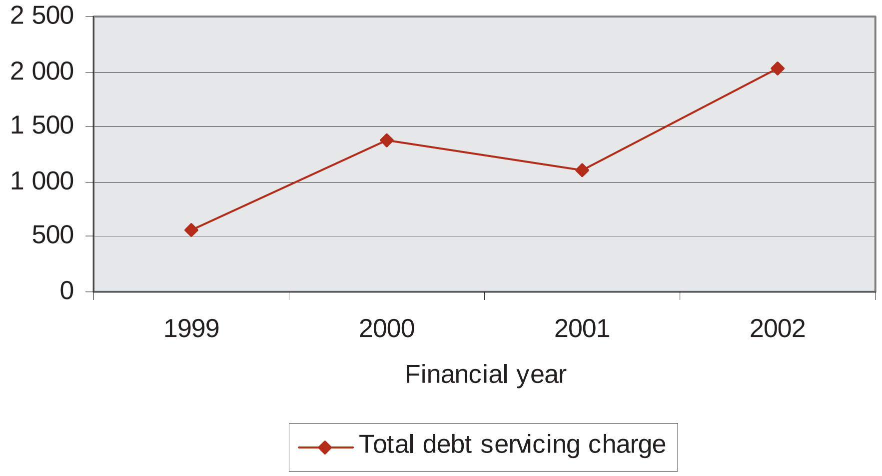
Source: The Client Experience Questionnaire is administered by the Graduate Careers Council of Australia.

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
Total	**19.2**	**26.6**	**19.6**	**31.5**	**20.5**

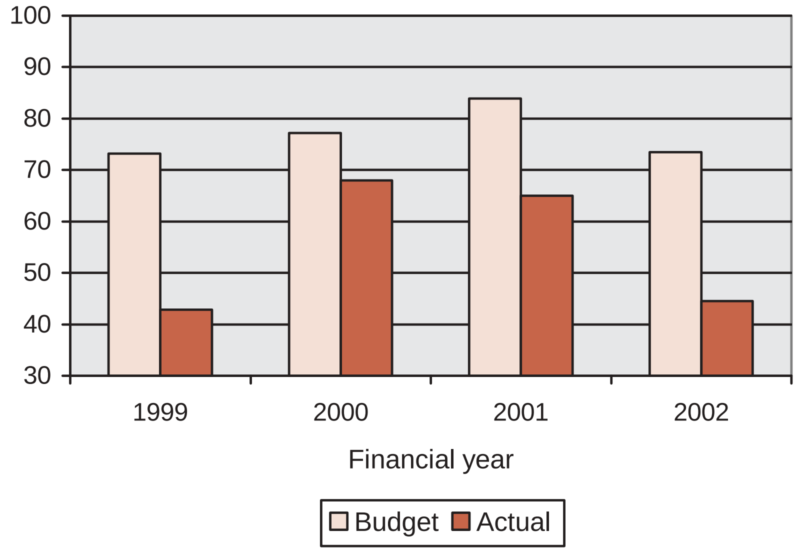
Source: RMIT.

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 5O discloses trends in RMIT's budgeted and actual capital expenditure over the period 1999 to 2002.

CHART 5O
RMIT'S CAPITAL EXPENDITURE – BUDGET AND ACTUAL
($million)



Year	*Budget*	*Actual*	*Variance*
	($m)	*($m)*	*($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.**

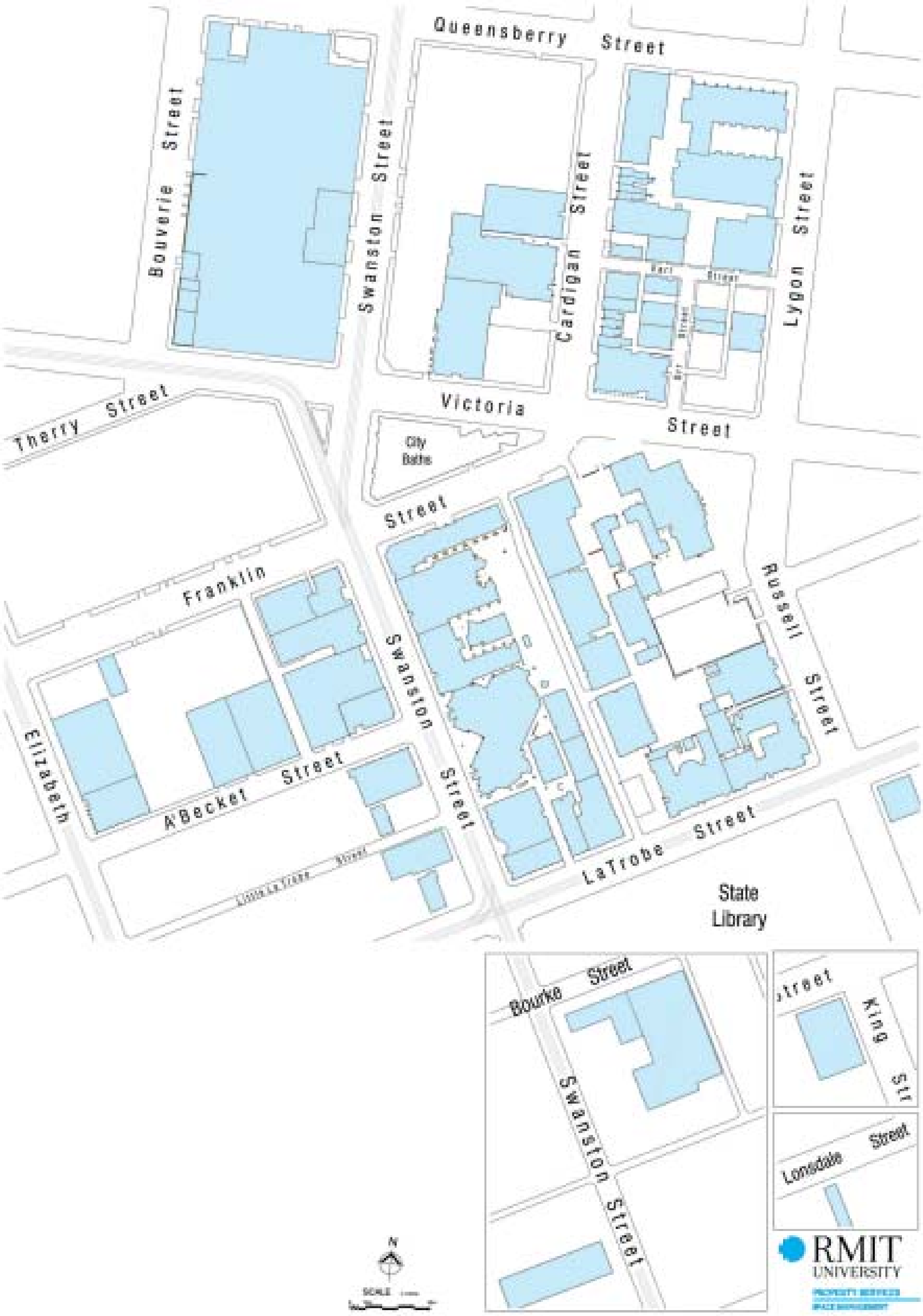
5.41 **The RMIT Council has approved successive capital expenditure budgets as part of the annual budget approval process. If the capital expenditure items and projects included in these budgets over the past 4 years were essential to the achievement of the University's strategic plans, including its 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

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.

OVERALL COMMENT

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.