University Economic Model (UEM) Implementation Framework

Presentation by

Mark Easson
Chief Financial Officer
Agenda

- **UEM**
  - Revisit existing UEM Concept Model
  - Framework to implement the UEM

- **Formulating the Budget**
  - Current Financial Context
  - Potential Cost Saving Strategies

- **Budget 2010**
  - Funding Model
  - Initiatives (other than UEM)
  - Timetable

- **Budget – Finance Forum Outline**
Strategically –
What does the UEM mean?

- Moving away from a budget process that is based on a bidding process to one where there is a rigorous assessment of the economic performance and the performance of the fundamental organisation.

- Encouraging the development of revenue and cost management so that benefits accrue to the responsible units. To clearly understand the contribution and burden of each unit.
University Economic Model

University revenue (100%)

85% allocated
(15% surplus for reinvestment)

70%
Core academic services
(59.5% of revenue)

30%
Shared and support services
(25.5% of revenue)

Income generating services
- Faculties
- Foundations
- Library
- Scholarship
- Related

Shared and support services
- Finance
- HR
- IT
- Facilities mgt: repairs & maintenance
- Student services
- University relations and marketing
University revenue (100%)

85% allocated

70%
(15% allocated for faculty reinvestment)

Core academic services
(60% of revenue)

30%

Shared and support services
(25% of revenue)

15% allocated as surplus for University-wide reinvestment

Income generating services
- Faculties
- Foundations
- Library
- Other

Shared and support services
- Finance
- HR
- IT
- Facilities mgt: repairs & maintenance
- Student services
- University relations and marketing

Surplus:
- L&T improvement initiatives
- Technology reinvestment
- Infrastructure
- Funding reserves for future large projects

Occupancy costs
- Power
- Cleaning
- Light
- Security
- Water
- Telecommunications
- Rates

University costs
- Software licensing
- Finance costs
- Workers’ compensation
- Leasing
- Patent costs
- Bank charges
- Legal fees
- Audit fees
- Insurances

Depreciation
- Major equipment
- Minor equipment

Retention in current allocation

Budget 2010 & UEM

Finance Forum, 17th July 2009
Organisational planning for implementing sustainability

University revenue (100%)

- 85% allocated
  - Core academic services (60% of revenue)
    - Income generating services
      - Faculties
      - Foundations
      - Library
      - Other
    - Shared and support services (25% of revenue)
      - Finance
      - HR
      - IT
      - Facilities mgt: repairs & maintenance
      - Student services
      - University relations and marketing
  - 30% allocated as surplus for University-wide reinvestment
- 70% (15% allocated for faculty reinvestment)

Target return to faculties $46-90M

External benchmarks % of revenue
- Finance 0.5% - 1.7%
- HR 0.3% - 0.8%
- IT 4.0% - 6.5%
- Student services
- Facilities mgt: repairs and maintenance
- University relations
- Marketing

15% allocated as surplus for University-wide reinvestment
Framework to implement UEM

• Major components of Financial Framework:
  – Gross Revenue and Cost Recovery Model
  – Reporting – Revised Reporting Structure
  – Reporting – Revised Project Code Structure
  – Reporting – Changes to “Professional Services”

• Benefits of a UEM approach
• Risks and concerns
• UEM – Implementation status
Gross Revenue & Cost Recovery Model

- Book 100% of the revenue to a Faculty if the driver of that revenue is unambiguously attributed to the Faculty.
- Revenue that is attributed to the University as a whole would be booked initially to the relevant responsibility unit.
- All University wide costs would receive an overhead allocation charged to the Faculties, but based on the drivers of resource consumption.
- Robust equity and transition arrangements – no net funding impact for 2010, though there should be upside potential for Faculties.
EXTERNAL REVENUE → FUNDING MODEL → FACULTIES

“Tax”
REDUCE VOLATILITY
E.G. CSP Floors and Caps; Dilution of drivers

EQUITY
E.G. Equalisation of PhD completions; special circumstances

STRATEGIC FOCUS
E.G. Teaching Performance

EXTERNAL REVENUE

FACULTIES

EXPLICIT OR EMBEDDED SUBSIDIES
E.G. Strategic Initiatives support

TIMING ADJUSTMENTS
e.g. To receive known allocations

"Tax"
REDUCE VOLATILITY
E.G. CSP Floors and Caps; Dilution of drivers

EQUITY
E.G. Equalisation of PhD completions; special circumstances

STRATEGIC FOCUS
E.G. Teaching Performance

EXTERNAL REVENUE

FUNDING MODEL

EXPLICIT OR EMBEDDED SUBSIDIES
E.G. Strategic Initiatives support

FACULTIES

TIMING ADJUSTMENTS
e.g. To receive known allocations

“Tax”
Standard Programs  
e.g. New appointments

UNIVERSITY WIDE Programs

EXTERNAL REVENUE

UNIVERSITY WIDE Professional Services

Strategic Initiatives  
- Revenue and Levies e.g. DVCR

FACULTIES

OVERHEADS
PSUs, CAPs, Strategic funds
Standard Programs e.g. New appointments

Status quo adjustment

UNIVERSITY WIDE
Programs

EXTERNAL REVENUE

UNIVERSITY WIDE
Professional Services

Strategic Initiatives
- Revenue and Levies e.g. DVCR

FACULTIES

OVERHEADS
PSUs, CAPs, Strategic funds

16
Budget 2010 & UEM

Finance Forum, 17th July 2009

The University of Sydney

UNIVERSITY WIDE
Programs

EXTERNAL REVENUE

UNIVERSITY WIDE
Professional Services

Standard Programs
e.g. New appointments

Status quo adjustment

Strategic Initiatives
- Revenue and Levies e.g. DVCR

FACULTIES

OVERHEADS
PSUs, CAPs, Strategic funds

Professional Services
Reporting – Revised Reporting Structure

**Faculties**

**Revenue**
- External Revenue
- DVC Strategic Allocations
- Strategic Realignment Allocations

**Expenses**
- Salaries
- Non Salaries
- University Overheads
- Capital Reinvestment Levy

**Net Faculty Result**

**Professional Service Units**
- Professional Service Units
- University Wide Costs

**Programs**
- Programs – CAPS & PSUs
- DVC Strategic Allocations
- Strategic Realignment Allocations

**Business Units**

**Capital Reinvestment Levy**

**Gross up Revenue**
- HECS
- CSP
- IGS
- RTS
- RIBG

**Existing central “taxes”**

**More analysis of Professional Services**
### Reporting – Revised Project Code Structure

<table>
<thead>
<tr>
<th>CORE OPERATIONS</th>
<th>SUPPORT OPERATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning &amp; Teaching</td>
<td>Research</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CORE</th>
<th>SUPPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEARNING and TEACHING (1)</td>
<td>RESEARCH (2)</td>
</tr>
</tbody>
</table>

- Prof. Service Staff out of “00000”
- All RIBG costs default to “RIBG” first
Reporting Changes – Professional Services

• 00000 => Teaching
  • Services
  • Administration

• 00000 => Research Overheads
  • RIBG
  • Competitive / Non RIBG
  • Research Overheads - Non Competitive Grants

• 00000 => Professional Services in separate project codes
  • E.g. Finance, HR, IT, CIS, Student Services
### Resp. Centre x Project Code Reporting Strategy

<table>
<thead>
<tr>
<th>Faculties</th>
<th>Faculty by Faculty list</th>
</tr>
</thead>
</table>

| Professional Service Units | Professional Service Units | University Wide Costs |

| Programs                           | Programs – CAPS & PSUs | DVC Strategic Allocations | Strategic Realignment Allocations |

| Business Units          | Capital Reinvestment | Levy |

<table>
<thead>
<tr>
<th>LEARNING and TEACHING</th>
<th>RESEARCH</th>
<th>PROFESSIONAL SERVICES and UWC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating e.g. Sup</td>
<td>Projects e.g. RIBG</td>
<td>e.g. IT e.g. Student</td>
</tr>
</tbody>
</table>
Benefits of a UEM Approach

• Improved Decision Making
  – Taxes should no longer influence decisions
  – Improved understanding of revenue and cost drivers of the University
  – Strengthens incentives for incremental revenue

• Strategic Alignment / Business Planning
  – UEM Reporting Framework will clearly show progress towards targets and strategic tradeoffs
  – University reporting framework aligned to new SEG
  – Facilitate improved long term financial planning

• Support Government funding initiatives
  – Full Research funding will require use of “activity based costing”
  – Accurate identification of cross subsidies & costs of disciplines
  – Alignment of finances with “conventional” business case modelling
Benefits of a UEM Approach (cont.)

• **Greater Accountability**
  – Clear line of sight to University Wide costs and the value they provide
  – Emphasis on units performing to benchmark efficiency

• **Equity of Resource Allocation**
  – Revenue based on actual activity – resources unplanned growth
  – Resources allocation methodology would now be grounded, to the extent possible, in revenue generation and resources used
  – A more explicit and understood equity adjustment

• **More Efficient / Complexity Reduction**
  – Funding model is expensive to manage – complexity and uniqueness
  – Funding Model – double handling of revenue
  – The inner workings of the current model reveal multiple offsetting cross subsidies
Risks and concerns

• Focus on allocations rather than methodology
  – We will have a status quo supported transition 2010

• Perception that current funding model is advantageous to certain Faculties
  – The objective is to deliver better resourcing for all Faculties and to make the University more effective in delivery of service

• Funding models and flow are a very emotive issue
  – Careful consultation throughout 2009
  – Experience model in a live but safe situation in 2010
  – Quality scenario modelling so the Deans understand the potential implications of the change
## UEM – Implementation status

<table>
<thead>
<tr>
<th>Elements to the UEM</th>
<th>Approvals</th>
<th>Budget 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grossing up of Existing Funding Model – Total Revenue &amp; tax</td>
<td>SORC Briefing</td>
<td>Provisionally for preparation</td>
</tr>
<tr>
<td>Revised Reporting Structure</td>
<td>SORC Briefing</td>
<td>New Templates &amp; Chart of Accounts</td>
</tr>
<tr>
<td>Agreement on Full Implications of Model</td>
<td>SEG Required – Aug / Sep</td>
<td>May be added later</td>
</tr>
<tr>
<td>Benchmarks for PSU/CAPs</td>
<td>Consultation &amp; SEG</td>
<td>Guidance only – full in 2011</td>
</tr>
<tr>
<td>Agreement on Cost Drivers and Overhead Allocation models</td>
<td>Consultation &amp; SEG</td>
<td>Subject to consultation</td>
</tr>
</tbody>
</table>
UEM implementation in 2010?

**Existing Model**

**Provisional Budget 2010 Approach**

- Gross Revenue
- Implied taxes: Overheads
- DVC Allocations

**Conversion to Full UEM**

- Professional Services & UWC
- Capital Reinvestment Levy
- DVC Allocations
- Strategic Realignment Allocations
Current Financial Context

• Current year cash flow is seriously deficient
  – Net negative cash flow of $73m
  – Forecast discretionary cash flow of $52m for 2009
  – Virtually all unfunded capital expenditure is on hold
  – Significant cash reserves have been used by 2009

• EBA pay rises of 5% will be challenging

• Legacy funding model over allocated $48m more than revenue in 2009
Cost Saving Strategies – PSUs

- Cross Functional Cost reduction groups:
  - Procurement / Finance
  - HR / Finance
  - IT
  - CIS
- Shared Services maturing – economies of scale
- Complexity Reduction
  - Structure / System Interfaces
  - PMO > Project and Inter functional Co-ordination
  - Office automation > Clarify and monitor processes
  - Policy and Procedure review
  - Cease activities that are non critical
Cost Saving Strategies – CAPs

• New Provost
• New DVC (Research)
• New DVC (Education)
• New DVC (External Relations) (VC currently acting)

• Discussions on Programs and Initiatives
  – New reporting provides better visibility of trade offs
## Budget 2010 - Existing Funding Model

<table>
<thead>
<tr>
<th>Model component</th>
<th>Key principles</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSP / HECS</td>
<td>Load by actual rate model</td>
<td>Don Taylor Model</td>
</tr>
<tr>
<td></td>
<td>Same effective tax rate %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Normal load method – 31\textsuperscript{st} March census</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intended phase out of floors</td>
<td></td>
</tr>
<tr>
<td>Teaching</td>
<td>Govt has cancelled scheme - $8m revenue ?</td>
<td>DVCE / CFO to advise</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other components</td>
<td>Safety net adjustment</td>
<td>Review new funding</td>
</tr>
<tr>
<td></td>
<td>Review new revenue</td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>% returned unchanged</td>
<td>Review new funding</td>
</tr>
</tbody>
</table>
Budget 2010 Initiatives – FTE focus

• Superannuation – 14% funding
  – For 2010 funding fixed at mid year 2009 census

• Annual Leave
  – Charge on costs – 4 weeks per year
  – Credit when staff take leave
    *You do not pay for staff when they are on leave*

• All labour “on costs” will be passed on

• Staff statistics are a new schedule
Budget 2010 Initiatives – Cash Focus

• CIS budgeting
  – Budget for carryover on work in progress at end 2009
  – Budget for new projects with invoice recorded 2010

• Use of Reserves has to be budgeted
  – We need to know what is being spent in 2010

• Faculty Capital Expenditure to be completed
  – Faculties need to budget capital expenditure – estimate equipment and other capital contributions
Budget 2010 Initiatives
No budget for 2011/12

• Performance base for 2010 needs to be established – challenging targets will be set
• UEM – implement reporting framework in 2010
• Many accounting changes e.g. new codes; moving Professional Services
• University Strategic Planning process is about to commence e.g. impact on load
• Uncertainty about new funding – Bradley / 2009 Federal Budget initiatives
# Budget Timetable

<table>
<thead>
<tr>
<th>Due Dates</th>
<th>Prepare Instructions</th>
<th>Faculty Provisional Budget</th>
<th>Due Diligence</th>
<th>Review and Consultation</th>
<th>Capex budget</th>
<th>Final reports and approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Jul</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-Jul</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17-Jul</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24-Jul</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31-Jul</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7-Aug</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14-Aug</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-Aug</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28-Aug</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-Sep</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11-Sep</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-Sep</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25-Sep</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-Oct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9-Oct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16-Oct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23-Oct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30-Oct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6-Nov</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13-Nov</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-Nov</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**APPROVALS**

- SEG: 9-Jul
- Budget Review Comm. SORC: 22-Oct
- SEG: 29-Oct
- 3 Chairs: 03-Nov
- FIC: 18-Nov
- Senate: 07-Dec

**SUPPORT MATERIALS**

- Budget Instructions: 17-Jul
- Finance Workshop: 17-Jul
- Funding Models: 22-Jul
- Faculty Targets: 22-Jul

**REPORTS**

- Provisional Submission: 24-Aug
- Formal Submission: 4-Sep
- Final Budget: 5-Oct
- Phase 3 Budget: 20-Nov