THE UNIVERSITY OF SYDNEY

Dr Michael Spence
Vice-Chancellor and Principal

18 December 2012

Ms Linda Lavarch
Chair
NFP Sector Tax Concession Working Group
By email: NFPReform@treasury.gov.au

Dear Ms Lavarch,

Not-For-Profit Sector Tax Concession Review

The University of Sydney is pleased to provide the attached brief submission in response to the excellent Not-For-Profit (NFP) tax concession discussion paper released by Treasury in November 2012 to stimulate debate and inform the Working Group's initial phase of consultations.

We strongly support the policy objective of making Australia's system of NFP tax concessions simpler, fairer and more effective in targeting scarce available funds to maximise the social good and encourage greater levels of giving to the sector by Australians.

Our comments are intended to complement the more detailed submissions that will be made on our behalf by the peak body representing Australia's 39 universities, Universities Australia, and Ernst & Young on behalf of a subset of universities. As those submissions will address many of the technical aspects of the reform options canvassed in the discussion paper, our input seeks to provide context about our legal structures, charitable purpose and activities; funding sources and key challenges; how the current tax concessions arrangements support us in the pursuit of our public good mission; and key areas where we see scope for improvements.

While the University is a large and complex organisation with diverse activities and income sources, we do not aim to make profit. Whenever we do deliver a net operating margin, the funds are reinvested to support the pursuit of our social good objectives as set down by our enabling Act of the NSW Parliament, and by our current strategic plan. This may be in the form of teaching or research infrastructure, affordable student housing, scholarships to enhance equity of participation and excellence, or knowledge transfer and community engagement activities. While a large proportion of our revenues are now derived from 'private' sources (student fees, philanthropy and commercial ventures), our overall ability to deliver on our social objectives remains highly dependent on the direct and indirect public funding we receive in the form of grants and tax concessions from the Commonwealth and State governments. Furthermore, well documented funding challenges facing Australia's universities mean that we are increasingly looking to grow income from philanthropy in order to enable us to pursue strategic initiatives where our plans align with the interests of donors.

We are therefore keen to ensure that any reforms to the NFP tax concessions framework continue to support Australia's public universities in recognition of the critical contribution they make to society, the economy and the innovation system through their education, research and diverse community engagement activities. We are also keen to see the Review deliver reforms that encourage all Australians, but particularly high wealth individuals, to donate more to Australian universities.

The Australian university sector is now a $23 billion dollar a year ‘knowledge industry’, employing more than 100,000 tax-paying academic and professional staff, and generating $15 billion in export revenue for the nation through the provision of education services to international students both in Australia and offshore. Moreover, it is now well understood that over their lifetimes university graduates cost governments less, pay more taxes than people without such qualifications, and deliver intergenerational transfers in social and economic wellbeing. With Australia responsible for just 3 per cent of world’s knowledge generation, having a highly educated population and strong innovation system enables us to understand, adapt and apply the vast majority of new knowledge that generated elsewhere. It is partly because of the positive spill-overs such as these that the Australian Government is pursuing policies designed to dramatically increase the number of Australians with university degrees, particularly from low socio-economic backgrounds.

As a result of global and national trends in high education and research, Australia’s higher education sector is rapidly transforming. In addition to Australia’s 39 public and private universities, there are currently some 134 other registered higher education providers, with these comprising a mix of religious institutions, private for profit organisations, international university branches, TAFEs, professional associations and community organisations.

Complicating matters further, most of Australia’s research-intensive universities are heavily involved in health and medical research, invariably in collaboration or competition with public and private hospitals, and medical research institutes which are treated differently for the purposes of FBT, and possibly some other state and federal tax concessions.

There are complex issues of competitive neutrality in the higher education and related health and medical research sector in particular, which need to be addressed separately by the Review in recognition that together these sectors represent a discrete, yet economically and socially vital subset of the broader NFP sector.

We therefore see this Review as a once in a decade opportunity for Treasury to work with the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISTR), the National Health and Medical Research Council (NHMRC), the university and broader higher education and health and medical research sectors to develop an integrated *‘Higher Education and Health and Medical Research Sectors’ Tax Concession Reform Package’* capable of introducing a rational and coherent framework of tax concessions for these sectors so that they can underpin the growth of Australia’s knowledge economy in the Asian Century.

We trust the Working Group finds the attached information useful as its looks to design a better NFP tax concession system for Australia.

Yours sincerely

(signature withheld for electronic distribution)

Professor Ann Brewer
Acting Vice-Chancellor

Summary

Australian universities may be few in number compared to the entire NFP sector, but they are of great significance to society and the economy due to the scale of their activities, and the underpinning contribution that their education, research and associated public good activities make to the national innovation system. Together Australia's 39 universities have revenues in excess of $23 billion, employ more than 100,000 academic and general tax-paying staff and generate billions in export income. Our universities deliver large positive spill-overs by educating students, generating new knowledge and transferring it for economic, social and cultural gains. There are therefore sound public policy rationales for scarce taxpayer funds to be dedicated to support higher education and research as opposed to competing priorities.

The Treasury discussion paper makes a compelling case for Australia to reform its system of tax concessions for NFP organisations to reduce complexity, increase transparency, efficiency and equity between organisations operating in the same or similar sectors of the economy. This will, however, be difficult to achieve within a fixed funding envelope without adversely affecting some organisations, given the degree to which many NFPs currently rely on tax concessions to make possible what might otherwise be financially unviable operations that are nevertheless of great benefit to society.

The Australian higher education landscape is transforming rapidly in response to global trends in education and research, as well as local policy reforms focused on expanding participation and enhancing quality through more robust regulation. There are currently some 173 registered higher education providers delivering higher-degree qualifications in Australia, with Australian universities representing just 20 per cent of these but accounting for 94 per cent of student enrolments. Australia's registered higher education providers have diverse legal structures and missions, and range greatly in both the size and breadth of their operations. Multi-billion dollar institutions employing thousands of staff, enrolling tens of thousands of students and conducting research in a vast array of academic disciplines, are regulated alongside very small organisations offering highly specialised courses to a handful of students and conducting little or no research at all.

Australian higher education providers also vary greatly in their eligibility for government support in the form of direct grants or indirectly, for example, through eligibility to enrol students entitled to HECs or FEE-HELP loans or through access to a range of concessional tax arrangements. Moreover, research-intensive universities such as the University of Sydney compete and collaborate with a variety of government and other non-university NFP research organisations, particularly in the health and medical research fields though not exclusively, where differences in eligibility for State and Commonwealth grants and tax concessions sometime distort behaviour, reducing rather than fostering collaboration.

Like all Australian public universities, the University of Sydney is constrained by regulation and the limitations of public funding, in its ability to recover the full costs of many of its core teaching and research activities. We sustain many loss-making public good activities by diversifying our income sources and through a complex web of cross-subsidisation that is expensive to administer. While we support the objectives of the NFP Tax Concession Review, we are keen to ensure that its outcomes do not adversely impact on our capacity to pursue our public good mission. To the extent that the removal of any of the tax concessions we currently access would reduce our revenues, or increase our costs, we would inevitably be forced to make cuts to programs that deliver significant benefits for society.

We therefore believe there is a strong case for the Working Group and Treasury to work with other relevant agencies to ensure that the outcomes of the Review deliver an integrated package of reforms for the Australian higher education and public good research sectors, as a discrete subset of the broader NFP sector, designed to create an operating environment where they can grow stronger and underpin Australia's knowledge economy in the Asian Century.

Legal and tax status, objectives and mission

The University was established as a body corporate by an Act of the NSW Parliament in 1850. It has as its *object "the promotion, within the limits of the University's resources, of scholarship, research, free inquiry, the interaction of research and teaching, and academic excellence*.' Under our current strategic plan, our statement of purpose is *"to create and sustain a university in which, for the benefit of both Australia and the wider world, the brightest researchers and the most promising students, whatever their social or cultural background, can thrive and realise their full potential."* Due to our NFP status and the nature of our activities the ATO has endorsed us as a charitable institution entitled to GST concessions, income tax exemption and Deductible Gift Recipient endorsed status. Unlike some NFPs involved in similar activities we do not receive substantial FBT exemptions, though we are entitled to relatively modest exemption for the on-costs of staff parking at their place of work. We are required to pay State pay-roll taxes and make other contributions to the State and local governments, perhaps most significantly in relation to the development of land and infrastructure for student housing or other capital projects.

Support for the Review's objectives

The University of Sydney strongly supports the policy objective of ensuring Australia's system of tax concessions for the NFP sector is as coherent, fair, simple and effective as possible in providing benefits to society. As documented by the discussion paper, the current arrangements suffer from complexity, inefficiency and anomalies stemming from many decades of incremental and apparently *ad hoc* changes. The goal of shifting the tax concession system to one that is more integrated, rational and principles-based, and which provides strong incentives for Australians to support the NFP sector through giving, is highly desirable.

Opportunities and risks

The requirement imposed by the Australian Government for the Review - that any reforms must be cost-neutral within the total existing funding envelope of support provided through tax concessions for NFPs - will make it very difficult to achieve meaningful change without impacting negatively on some parts of the NFP sector and the communities they serve. We are therefore very keen to engage with the Working Group to ensure that any reforms arising from the Review deliver a net positive outcome for Australia's public universities, and do not result in damaging unintended consequences for a sector that underpins the innovation system through its education, research and associated community engagement and knowledge transfer activities.

While small in terms of the number of institutions (just 39), the university sector is significant in terms of the contribution it makes to society and the economy. The discussion paper mentions foregone tax revenues of between $4 and $6 billion as result of current NFP tax concessions. In 2011 total Australian university revenues exceeded $23 billion and employed more than 100,000 people. With around 60 per cent of university revenues typically expended on salaries and wages, universities generate substantial income for the Commonwealth and states through income, capital gains and consumption taxes. Moreover, the provision of education services to international students has grown rapidly over the last decade, such that it now the nation's largest services 'export' earner, ranking fourth overall behind key commodities. It is also well acknowledged that over their lifetimes university graduates will generate substantially more tax revenue for the Government than people without such qualifications, and cost taxpayers less in terms of outlays for social security, health and other services.

THE UNIVERSITY OF SYDNEY

We see significant potential for the Review to strengthen the university sector's capacity to contribute to the nation through the provision of high quality education, research and associated services. Nevertheless, we also see risks that reforms of the type contemplated in the paper could (albeit unintentionally) harm our capacity to pursue our charitable objectives and compete effectively in what is increasingly becoming a global higher education sector where competition for the best students, educators and researchers is intense. In this regard we are conscious of the damage that was done to our capacity to recruit talent in academic disciplines and professional fields of recognised national skills shortage recently through amendments made by Treasury to the Living Away From Home Allowance.[1]

Revenues, funding sources and shortfalls

The University is a large and complex organisation, engaged in diverse activities directed towards the common goal of pursuing its public good objectives as set out in its enabling Act and reflected through its strategic plan. The fact that our regulatory compliance framework includes more than 100 Federal and State Acts or regulations with which we must comply, points to the breadth of our activities and the complexity of the operating environment faced by Australia's large, comprehensive research-intensive universities.

In 2011 the University employed some 7,006 academic and general staff, enrolled in excess of 50,000 students across 16 faculties, and reported more than 4,600 research publications. Our operating revenues for 2011 were just under $1.6 billion, while we paid our staff some $895 million in salaries and recorded a net operating result of $92.6 million.

It is important to note, however, that our net operating result included funds that are not available for general purpose operating costs or capital expenditure. For example, most gifts must be invested in perpetuity and used in strict accordance with the wishes of donors. Some investment income must be retained to maintain the real value of our endowment. Capital grants are received for specific infrastructure projects, and a range of research and education grants must be applied to specific projects. After excluding these accounting 'surpluses' related to specific purpose funds, in 2011 our net available operating margin was actually a deficit of $77.4 million. Moreover, whenever we do return a net operating 'surplus', the funds are reinvested to support our educational and research activities, for example, by meeting shortfalls in the actual costs of core activities, building or maintaining infrastructure, providing additional scholarships for students, enhancing outreach with schools and regional communities, or improving the overall quality of the educational and research services we offer.

Noting comments in the discussion paper such as *"It might also be argued that NFPs that are entitled to refunds of franking credits are likely to be large, well-resourced NFPs and that perhaps the tax expenditure could be used in a way that benefits a broader range of entities"* (p.15) it is important that Treasury understands that Australia's public universities operate in an environment where funding for many of their core public good activities falls well short of the reasonable costs provision.

This reality has been recognised by successive government reviews including the Bradley Review of Higher Education, the Cutler Review of the National Innovation System, the Higher Education Base Funding Review, and the Transparent Costing Exercise undertaken by the Australian Government as part of the Sustainable Research Infrastructure Initiative. More recently the Group of Eight universities has produced analysis of aggregate funding trends, adjusted for inflation and changes in student and staff numbers, which shows that the real value of block funding support for university research has declined by

[1] http://sydney.edu.au/about/government/submissions_2012.shtml#LAFHA

4 per cent over the period 2004-2011, while funding per research student (a core area of responsibility for research universities) has declined by 23 per cent in real terms since 2001.[2]

In the face of the base funding challenges we have experienced over the last decade or more, we have managed to sustain our diverse education, research, cultural, sporting, knowledge transfer and community engagement activities by seeking out alternative sources of income (primarily international student fees, investments and philanthropy, but also research commercialisation and other activities); by making hard choices about funding priorities; and by employing a complex web of cross-subsidies between profitable and un-profitable activities. Moreover, we currently face an infrastructure backlog maintenance liability of some $390 million, while our student to staff ratios have increased significantly in many disciplines over the last decade or more, as have the proportions of staff on temporary contracts.

It would be simplistic in the extreme to assume that because of our size and the diversity of our income streams, we can continue to contribute to society in the way we do without access to tax concessions of the type we are currently grateful to receive. We remain largely reliant on direct and indirect (in the form of tax concessions) financial support from the Commonwealth in order to sustain a wide variety of activities that could not be supported without this assistance. Moreover, unlike for-profit higher education providers, or other private sector organisations, the government regulates the fees we can charge domestic undergraduate students, even in disciplines where it is has been well documented that base funding falls well short of the actual costs of provision.

Appendix A provides an overview of the university's financial performance in 2011.

The growing importance of philanthropic income to the University

Over the past two years, over 91 per cent of our philanthropic funds raised (approximately $158M) came from donations of over $1,000 or more. In 2011, 100 gifts of $50,000 or more accounted for $69 million or 87 percent of total donations, while more than 18,500 small gifts accounted for $4 million or 5 per cent. Some 99.9 per cent of gifts received were for specific purposes required by the donors (scholarships, defined research initiatives etc) indicating that the vast majority of gifted funds are not available for use by the University to support general purposes.

This pattern of major giving to universities, with gifts restricted for specific purposes, is both consistent with international trends, and unlikely to lessen in the years ahead. Any reforms to the current tax concession arrangements for gifts, and the related treatment of dividends from gifted funds once invested, should therefore take into account that giving to the sector is heavily dominated by higher wealth individuals with greater discretionary income. Any diminution of tax credits for these individuals is likely to have serious consequences for the future of philanthropic giving to Australia's universities, while the introduction of more favourable tax arrangements targeted at this group would be likely to increase the total value of donations made to universities.

In this regard we note that both the Bradley Review of Higher Education and the Base Funding Review recommended that the Australian government introduce reforms to enhance philanthropy targeted at the higher education sector. The Bradley Review recommended that the Australian Government establish a 'matching funding' scheme as a means of stimulating giving, while the Base Funding Review recommended that seed funding be provided to improve the capacity of institutions to attract donations.

[2] The Group of Eight, *Go8 Background 31: Higher Education Financing*, December 2012

Neither recommendation has been acted upon. If increasing levels of giving by Australians to the higher education sector is a policy priority for the Australian Government, there would appear to be a need for an integration of relevant fiscal and taxation policies to ensure that they work coherently to provide an environment conducive to stimulating giving to Australia's universities by all Australians, but particularly by high wealth individuals. Reform in this area has been the subject of policy discussion and debate in higher education circles for a decade or more. This Review represents the latest opportunity for meaningful action to be taken.

Appendix B provides a snapshot of giving to the University in 2011.

Competitive neutrality issues

The higher education and research 'market'

Australia's higher education sector is rapidly transforming in response to local and global forces, with reform of the regulatory, funding and tax frameworks occurring but tending to lag behind the pace of change. In addition to Australia's 39 public and private universities, there are currently some 134 other registered higher education providers, with these comprising a mix of religious institutions, private domestic and international organisations, international university branches, TAFEs, professional associations and community organisations.

As a result, the sector now comprises very small niche providers offering a handful of courses on a not-for-profit or for-profit basis and conducting little or no research. These small providers are now regulated by the Tertiary Education Quality and Standards Agency (TEQSA) according to an interim Higher Education Standards Framework. They operate in highly competitive markets for students alongside very large, comprehensive universities such as the University of Sydney, which offer hundreds of undergraduate and postgraduate degrees across a large range of disciplines, while sustaining public good research and cultural activities, the costs of which often exceed available funding.

Moreover, the university sector comprises providers with different backgrounds and resulting tax treatments. Most, like the University of Sydney, are established as public good institutions by Acts of State or Territory Parliaments, and in the case of the Australian National University – the Federal Parliament. A small number are private institutions, with different backgrounds and legal standings, and some eligible for tax concessions not available to the 'public' or 'state' universities due to their origins and connections with religious organisations, even though they are engaged in essentially the same or similar educational and research activities.

Complicating matters further, most of Australia's research-intensive universities are heavily involved in health and medical research, invariably in collaboration or competition with public and private hospitals, and medical research institutes, which are treated differently for the purposes of FBT and some other taxes such as state pay-roll taxes in some states. For example, a researcher employed by a university but based physically in a medical research institute (MRI) or hospital is currently not eligible for FBT tax concessions, but would be eligible if employed by an MRI or hospital to do exactly the same research. Differences in the tax treatment of different organisations engaged in the same higher education and research activities do not always appear to be rational or conducive to collaboration where that may be the best way of maximising outcomes for society. Moreover, differential tax treatment can sometimes create perverse incentives and tensions between organisations, which are often competing for staff from the same limited pool of expertise.

Access to dividend imputation franking credit rebates

Similar issues of competitive neutrality and likely impacts on investment behaviour need to be considered in relation to the proposals contained in the discussion paper to remove or limit the availability of franking credit rebates for some NFPs. Access to this concession assists the University's Endowments to pursue its long term investment objectives of preserving and growing the capital of its endowed funds. Excluding universities from access to the rebate would place them at a disadvantage (in respect of dividend income taxation) compared with both individuals and the 'for profit' sector, in that the latter parties are generally able to claim the franking credits as an offset against taxable profit.

Excluding any universities from the dividend imputation rebate would therefore appear to be odds with the policy objective of achieving competitive neutrality. Moreover, the current franking credit rebate scheme for NFP appears well aligned with the stated core principles of such concessions: fairness, simplicity, effectiveness and encouraging individuals to give.

Strengthening the Australian higher education and research sectors

There are clearly complex issues of competitive neutrality in the higher education and related health medical research sector, that need to be addressed separately by the Review in recognition that together these sectors represent a discrete, yet socially and economically vital subset of the broader NFP sector.

We recommend that the NFP Tax Concession Working Party and Treasury work with the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISTR), the National Health and Medical Research Council (NHMRC), the university and broader higher education and health and medical research sectors to develop an integrated *"Higher Education and Medical Research Sectors' Tax Concession Reform Package"* capable of introducing a rational and coherent framework of tax concessions for these sectors so that they can underpin the growth of Australia's knowledge economy in the Asian Century.

Appendices	**A**	The University of Sydney, Financial Review of 2011
	B	The University of Sydney, Philanthropic Support 2011

FINANCIAL REVIEW OF 2011

The University recorded a net operating result of $92.6 million for the year ended 31 December 2011 ($113.7 million in 2010) after impairment of available-for-sale assets of $19.8 million (2010: $3.9 million).

The net operating result included surpluses which are not available for general purpose operating costs or capital expenditure. For example, certain philanthropic funds must be invested in perpetuity, some investment income is retained to maintain the real value of our endowment, capital grants are received for specific infrastructure projects, and a range of research and education grants must be applied to specific projects.

After excluding the surpluses from specific purpose funds, the 2011 net available operating margin was a deficit of $77.4 million (2010: deficit $15.7 million).

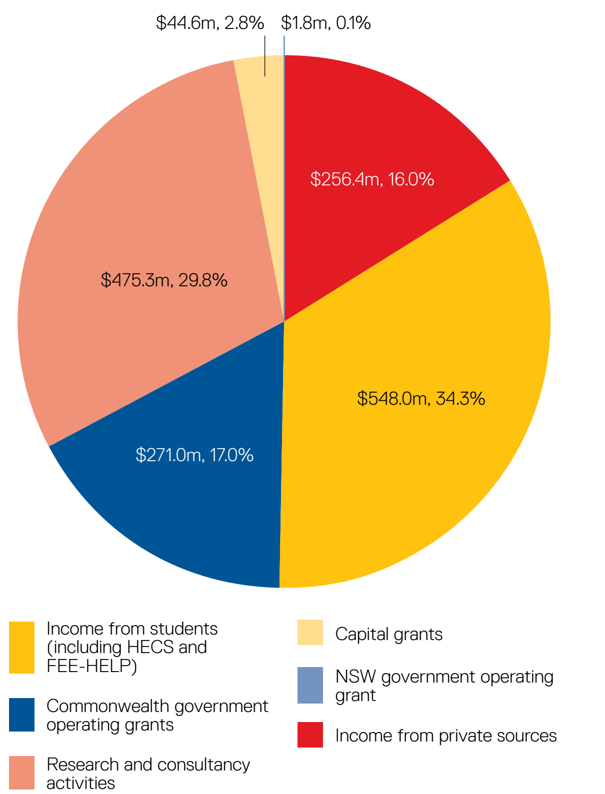
	2011	2010	Increase for 2011
	$M	$M	$M
Operating revenue [1]	1,597.1	1,505.6	91.5
Operating expenses [2]	1,484.7	1,388.0	96.7
Operating result	**112.4**	**117.6**	**(5.2)**
Impairment of available-for-sale assets	(19.8)	(3.9)	(15.9)
Operating result after impairment	**92.6**	**113.7**	**(21.1)**
Adjusted for:			
Philanthropic funds [3]	(72.2)	(33.6)	(38.6)
Investment funds [3]	(10.9)	(32.7)	21.8
Capital grants [3]	(54.5)	(44.3)	(10.2)
Specific purpose grants [3]	(32.4)	(18.8)	(13.6)
Net available operating margin [4]	**(77.4)**	**(15.7)**	**(61.7)**

[1] For further information, see Section 1 on operating revenue (below).
[2] For further information, see Section 2 on operating expenses (page 148)
[3] Figures include internal rate of return and reflect net margin. Certain philanthropic and investment funds are restricted and unavailable for general use.
[4] The 2011 result includes a reassessment of library depreciation, which resulted in a negative impact of $46.7 million.

1. OPERATING REVENUE

The 2011 operating revenue of $1,597.1 million was $91.5 million more than in 2010. The major components of the increased revenue were as follows.

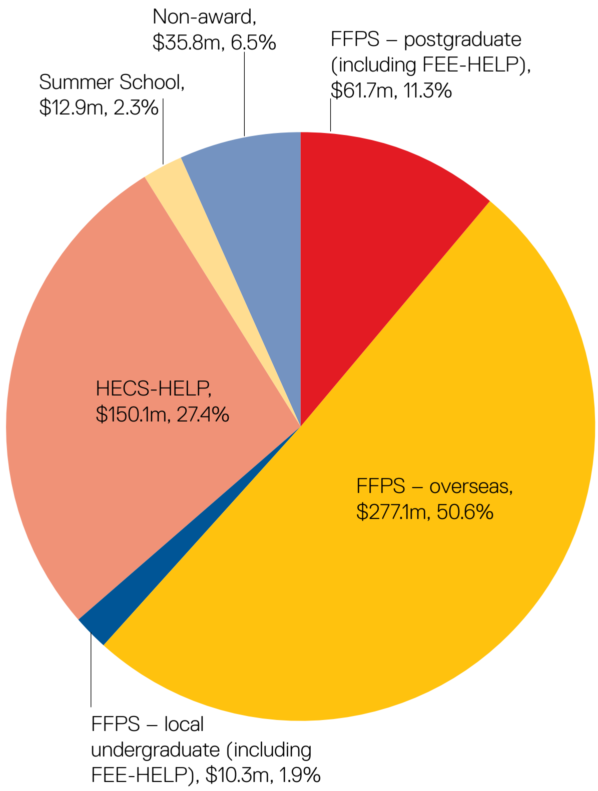
	2011	2010	Increase for 2011	
	$M	$M	$M	%
Income from students (incl. HECS and FEE-HELP)	548.0	538.3	9.7	1.8
Commonwealth government operating grants	271.0	264.9	6.1	2.3
Research and consultancy activities	475.3	455.8	19.5	4.3
Capital grants	44.6	23.8	20.8	87.4
NSW government operating grant	1.8	1.9	(0.1)	(5.3)
Income from private sources	256.4	220.9	35.5	16.1
Total	**1,597.1**	**1,505.6**	**91.5**	**6.1**

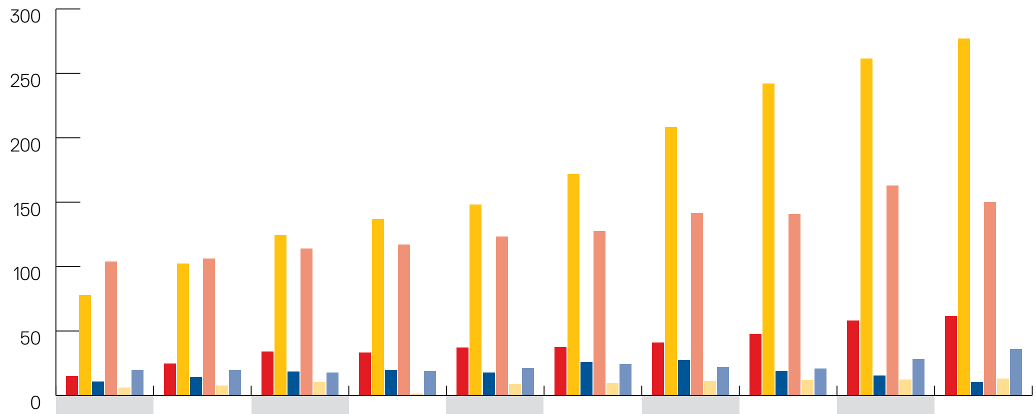


1.1 INCOME FROM STUDENTS

The $9.7 million increase in revenue from students was mainly attributable to additional fees from overseas students of $15.6 million (up 6 percent), which was offset to a large extent by a decrease of $12.8 million in HECS-HELP income from government and students.

Full fee-paying students (FFPS) continued to provide significant sources of income to the University, and continue to account for a larger proportion of income than that derived from HECS-HELP payments.





	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
FFPS – postgraduate (including FEE-HELP)	14.9	24.5	34.1	33.2	37.1	37.6	40.8	47.5	58.1	61.7
FFPS – overseas	77.9	102.2	124.3	136.8	148.1	171.9	208.1	241.8	261.5	277.1
FFPS – local undergraduate (including FEE-HELP)	10.7	14.2	18.6	19.6	17.6	25.9	27.4	18.9	15.5	10.3
HECS-HELP	103.9	106.2	113.8	117.1	123.3	127.6	141.3	140.8	163	150.1
Summer School	6	7.6	10.2	1.5	8.8	9.7	11	11.8	12.1	12.9
Non-award	19.7	19.6	17.5	19	21.2	24.3	22	20.8	28.2	35.8

1.2 COMMONWEALTH GOVERNMENT FUNDING

The overall level of funding from the Commonwealth increased by $50.3 million in 2011, or 7.8 percent, to $692.3 million.

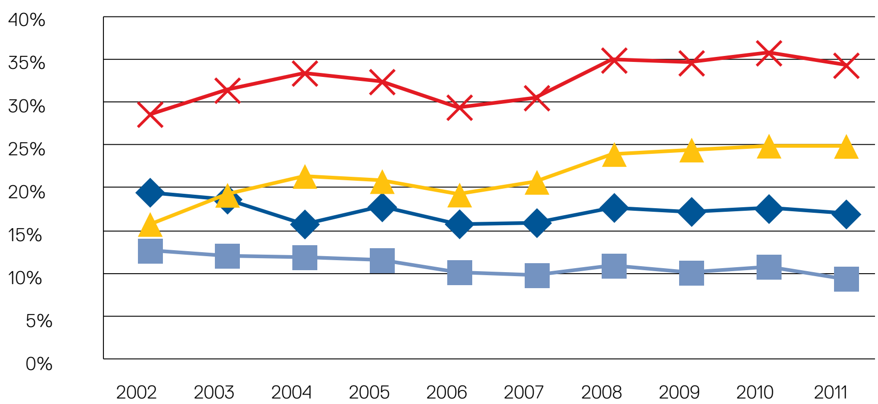
Funding from Commonwealth research schemes increased by $23.4 million, constituting comparable increases in amounts across the various categories. In addition, there was a significant increase of $20.8 million in capital funding, with the increase in teaching and learning operating grants being nominal.

The continued growth in income from student fees/HECS, and the relative decline of funding received from Commonwealth operating grants, means that the proportion of University revenue received from HECS and student income has grown considerably since 2002 (2011: 34.3 percent; 2002: 28.6 percent). Most of this increase is attributable to student income. The proportion of University revenue received through Commonwealth operating grants has declined over the same period (2011: 17.0 percent; 2002: 19.5 percent).

The following graph sets out the continual financial pressure on the University arising from the ongoing decline in financial support from the Commonwealth.

	2011 $M	2010 $M	Increase for 2011 $M
Australian Research Council	72.6	66.8	5.8
Department of Industry, Innovation, Science, Research and Tertiary Education (DIISR) research funding	142.8	136.9	5.9
Scholarships	26.5	19.4	7.1
Other Commonwealth agencies: research	134.8	130.2	4.6
Subtotal Commonwealth research funding	376.7	353.3	23.4
Teaching and learning operating grants	271.0	264.9	6.1
Capital funding	44.6	23.8	20.8
Total Commonwealth funding	**692.3**	**642.0**	**50.3**

University revenue sources as a percentage of total revenue



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commonwealth operating grant	19.5	18.7	15.8	17.8	15.8	16.0	17.7	17.3	17.6	17.0
HECS-HELP	12.7	12.1	11.9	11.6	10.2	9.8	10.9	10.1	10.8	9.4
Student income (excluding HECS)	15.8	19.2	21.4	20.8	19.2	20.7	24.0	24.5	24.9	24.9
HECS-HELP + student income	28.6	31.4	33.4	32.4	29.4	30.5	34.9	34.6	35.8	34.3

1.3 RESEARCH AND CONSULTANCY ACTIVITIES

Income received by the University for research, collaborative research and consultancy activities increased by $19.4 million in 2011, or 4.3 percent, to $475.3 million. Commonwealth research funding of $376.7 million represented 79.3 percent of the total funding in this category.

The major sources of funding within research and consultancy activities were as follows.

	2011	2010	Increase for 2011
	$M	$M	$M
Commonwealth research funding (see section 1.2)	376.7	353.3	23.4
NSW government research grants	18.0	14.1	3.9
Industry research grants	20.8	17.2	3.6
Foundations and individual research grants	15.1	19.1	(4.0)
Local collaborative research funds	18.5	22.4	(3.9)
Overseas collaborative research funds	16.5	19.5	(3.0)
Consultancies	9.7	10.3	(0.6)
Total research and consultancy income	**475.3**	**455.8**	**19.4**

1.4 NSW STATE GOVERNMENT GRANTS

Grants provided by the NSW government increased by $3.8 million, or 23.8 percent, to $19.8 million in 2011, attributable mainly to an increase in research grants received from the Cancer Institute of New South Wales.

	2011	2010	Increase for 2011
	$M	$M	$M
Research grants	18.0	14.1	3.9
Operating grants	1.8	1.9	(0.1)
Total NSW government grants	**19.8**	**16.0**	**3.8**

1.5 INCOME FROM PRIVATE SOURCES

Income from private sources was $256.4 million in 2011, an increase of $35.5 million, or 16.1 percent, from 2010. The increase was mainly due to a 103.9 percent increase of $40.4 million in philanthropic income to $79.3 million, which was partially offset by a drop in investment income of $12.7 million to $76.3 million.

The major components of this income group were as follows.

	2011	2010	Increase for 2011
	$M	$M	$M
Investment income (including realised gains/(losses))	76.3	89.0	(12.7)
Contributions from external organisations	30.7	27.8	2.9
Commercial and other activities	48.1	45.7	2.4
Other fees and charges	16.1	14.3	1.8
Philanthropic income including donations and bequests	79.3	38.9	40.4
Sponsorship income	5.9	5.2	0.7
Total income from private sources	**256.4**	**220.9**	**35.5**

2. OPERATING EXPENSES

The 2011 operating expenditure of $1,484.7 million was $96.7 million, or 7 percent, higher than that for 2010.

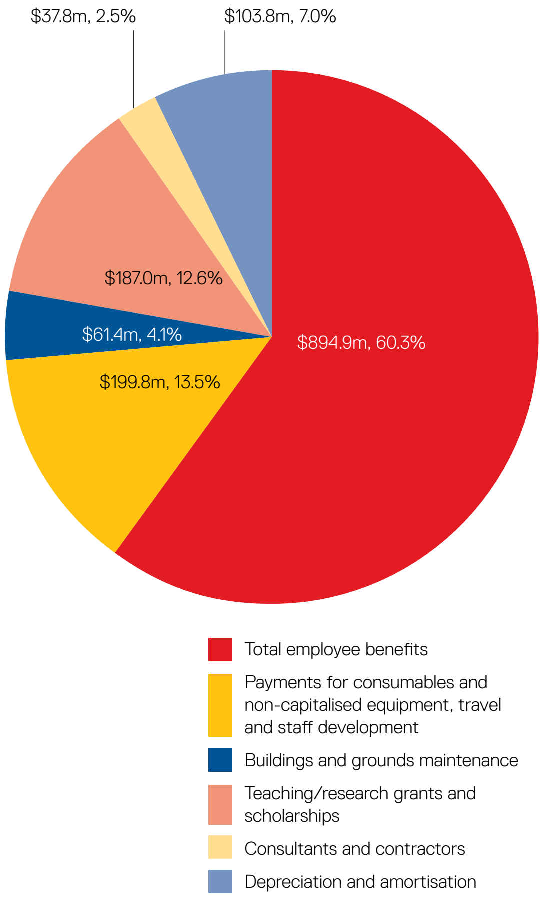
The increase of $49.9 million in employee expenses was 5.9 percent higher than the expenses for 2010. Of the overall increase in employee costs, $35.9 million related to academic and $14 million to non-academic employee costs. The increase in employee-related costs was mainly due to salary increases of 2.5 percent in January and July 2011.

Depreciation and amortisation expenses rose by $33.7 million (48.1 percent). This is the net effect of additional depreciation charged on the library collections and a reduction in the depreciation charges on equipment and software due to reassessment of the estimated effective useful lives of assets.

In addition, the University entered into capital expenditure commitments totalling $248 million (2010: $70.7 million).

	2011	2010	Increase for 2011	
	$M	$M	$M	%
Salaries	708.6	679.3	29.3	4.3
Payroll on-costs	186.3	165.7	20.6	12.4
Total employee benefits	894.9	845.0	49.9	5.9
Payments for consumables and non-capitalised equipment, travel and staff development	199.8	202.3	(2.5)	(1.2)
Buildings and grounds maintenance	61.4	53.6	7.8	14.6
Teaching/research grants and scholarships	187.0	181.0	6.0	3.3
Consultants and contractors	37.8	36	1.8	5.0
Depreciation and amortisation	103.8	70.1	33.7	48.1
Total expenses	**1,484.7**	**1,388.0**	**96.7**	**7.0**

Expenses from continuing operations 2011



3. EXPENDITURE ON ASSETS

In accordance with the 2011–15 Strategic Plan, the University has committed to a long-term capital expenditure plan to assure its future sustainability as a leading research-intensive university. This includes funding for state-of-the-art buildings, information and communications technology, and library infrastructure to support the University's core teaching and research activities.

	2011	2010	Increase for 2011
	$M	$M	$M
Non-current assets			
Land and buildings	6.8	3.5	3.3
Equipment	20.9	19.5	1.4
Capital works (software)	27.2	20.1	7.1
Capital works (buildings)	128.3	42.1	86.2
Other	10.4	12.3	(1.9)
	193.6	**97.5**	**96.1**

Some of the additional capital expenditure incurred in 2011 was due to the commencement of major projects such as the building for the new centre for obesity, diabetes and cardiovascular disease (formally named in early 2012 as the Charles Perkins Centre), Nepean Clinical School and a number of projects funded by federal government schemes such as the Better Universities Renewal Fund.

Where the capital expenditure was greater than the operating surplus, the balance was funded from reserves.

4. EQUITY

The total equity of the University at 31 December 2011 was $3,361.2 million, $52.8 million higher than at end-2010.

The three major components of the total equity are as follows.

- Restricted funds, which include the unexpended portion of funds received through the income statement and which have specific statutory restrictions on their use. The net operating income included $62 million of restricted use funds relating to bequests, capital preserved trusts, scholarships and prizes.
- Reserves, which are revaluation reserves and relate to revaluation of land and buildings and available-for-sale financial assets. There was a net decrease of $28.5 million in 2011 in these reserves, mainly on account of the reduction in the available-for-sale revaluation reserves.
- Retained earnings of $2,361.1 million, made up of the initial revaluation reserve of $1,660.5 million created in 1992 and the cumulative net operating surpluses excluding reserves at 31 December 2011.

A comparison of balances of equity with 2010 and their movement is set out in the following table:

	2011	2010	Increase for 2011
	$M	$M	$M
Restricted funds *	751.4	689.5	61.9
Reserves	248.7	277.2	(28.5)
Retained earnings *	2,361.1	2,341.7	19.4
Total equity	**3,361.2**	**3,308.4**	**52.8**

* Note there has been a change in presentation of restricted funds for 2010. Refer to note 33 of the annual financial statements.

5. THE UNIVERSITY OF SYDNEY OPERATING STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

Comparison to budget		[2011]		[2012]
Parent entity – University	Budget	Forecast	Actual	Budget
	$'000	$'000	$'000	$'000
Revenue and income from continuing operations				
Australian government financial assistance:				
Australian government grants	691,541	700,602	692,300	765,652
HECS-HELP – Australian government payments	136,931	116,799	115,951	130,529
FEE-HELP	42,852	42,852	44,037	49,374
SA-HELP [1]	0	0	0	2,500
New South Wales government financial assistance	14,988	19,103	19,745	20,223
HECS-HELP – student payments	39,254	34,475	34,234	38,528
SA-HELP – student payments [1]	0	0	0	7,500
Fees and charges	362,571	356,391	369,929	376,252
Investment revenue	62,962	77,667	76,142	70,245
Royalties, trademarks and licences	2,409	2,016	2,379	2,294
Consultancy and contract research	82,550	77,616	80,644	82,443
Other revenue	42,034	72,591	85,177	59,962
Other income	88,587	88,805	76,402	88,575
Gains/(losses) on disposal of assets	(1,430)	(9,003)	200	(9,016)
Total revenue and income from continuing operations	**1,565,249**	**1,579,914**	**1,597,140**	**1,685,061**
Expenses from continuing operations				
Employee-related expenses	892,221	892,861	894,861	965,126
Depreciation and amortisation	73,423	73,423	103,830	112,172
Repairs and maintenance	55,251	59,236	61,392	60,895
Impairment of assets [2]	0	0	860	0
Other expenses	206,289	199,013	198,908	202,977
Grant and scholarship expenses	89,319	90,161	90,506	96,725
Consultants and contractors	32,099	33,973	37,804	26,590
Teaching and research grants	83,507	88,110	96,567	81,963
Total expenses from continuing operations	**1,432,109**	**1,436,777**	**1,484,728**	**1,546,448**
Operating result before income tax	133,140	143,137	112,412	138,613
Income tax benefit/(expense)	0	0	0	0
Impairment of available-for-sale assets [2]	0	0	(19,808)	0
Operating result after income tax and impairment of available-for-sale assets for the year	**133,140**	**143,137**	**92,604**	**138,613**
Operating result attributable to members of the University of Sydney	**133,140**	**143,137**	**92,604**	**138,613**

Notes

(1) New student amenities levy to be introduced in 2012.

(2) The approved budget/forecast, where possible, has been adjusted above to take account of the year-end presentation of accounting adjustments, including fixed asset purchases and depreciation, to provide a meaningful comparison. However, other year-end statutory accounting requirements (eg impairment of assets) are not included in the development of the approved budget/forecast. All financial assets are subject to an annual review of impairment. When an available-for-sale financial asset is impaired, the amount of cumulative loss is removed from equity and recognised in the income statement.

6. INVESTMENTS AND INVESTMENT PERFORMANCE

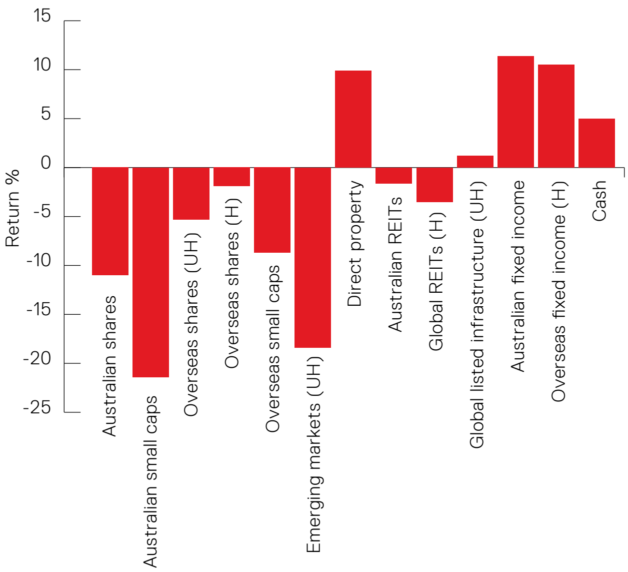
As detailed in Chart 1 (right), most growth-orientated investment assets generated negative returns in 2011.

The above returns reflect in part concerns surrounding the European debt markets, and an associated downturn in economic activity in the European region. In addition, investor sentiment was adversely impacted by uncertainty surrounding growth in China and the United States. However, in the latter stages of 2011, positive economic data emerged from the United States, and the Chinese authorities appeared to have avoided a 'hard landing'. Concerns about global growth were exemplified by the Reserve Bank of Australia's decision to reduce official interest rates from 4.75 to 4.25 percent, and in the process to move to a more neutral monetary policy setting. The Australian dollar finished the year largely unchanged from its levels at end-2010, both against the US dollar and on a Trade Weighted Index basis.

The investment performance of the University's Long-Term Endowment Portfolio, which amounts to approximately $732 million, was favourable relative to the internal approved benchmark (see Chart 2 right), outperforming over both the rolling one and three-year periods. Key contributors to the outperformance over the three-year period included: a general outperformance by the domestic listed equity managers; outperformance by the fixed interest sector as the widening of credit spreads during the global financial crisis began to unwind; and tactical asset allocation deviations away from the target asset mix embodied in the benchmark by the Investment and Capital Management team. The Long-Term Endowment Fund portfolio also outperformed the NSW Treasury Corporation 'Hour Glass Long-Term Growth Facility' (the nominated statutory benchmark for the University's Long-Term Endowment Portfolio) over the one-year (4.8 percent outperformance) and three-year periods (2.9 percent per annum outperformance). This outperformance is primarily attributed to differences in asset allocation, with the 'hour glass' facility having a higher exposure to listed equity sectors.

Table 1 on the following page provides a peer-based comparison (on an after-fees basis) of the performance of the University's Long-Term Endowment Portfolio's over one and three-year rolling periods, including the performance relative to the NSW Treasury Corporation Long-Term Funds Facility.

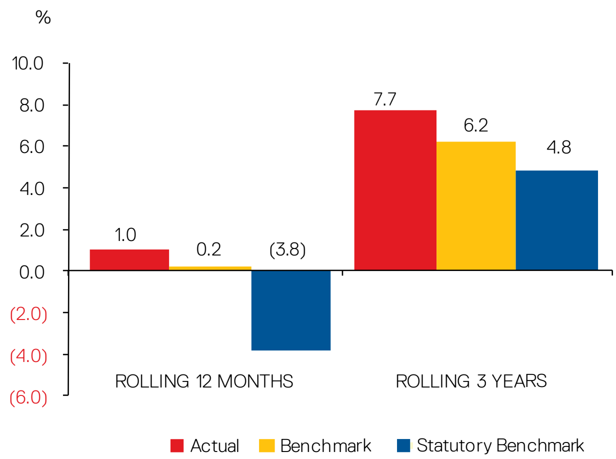
Chart 1: The investment environment: asset class returns



12 months to December 2011

Data source: Thomson Financial Datastream; MSCI. Data provided 'as is'.

Chart 2: Long Term Endowment portfolio performance – rolling 12-month returns as at end-December 2011



Notes:

- University portfolio returns are after external management fees and include franking credits. External management fees are approximately 70 basis points per annum across the Long-Term Endowment Portfolio. The University portfolio returns have been adjusted downwards to reflect the equivalent Treasury Corporation fixed interest sector external manager fee.
- Unless otherwise stated, reference to a benchmark in this report refers to a benchmark approved by the Investment and Commercialisation Committee, a committee of Senate.
- 'Statutory benchmark' refers to the NSW Treasury Corporation Hour Glass Long-Term Funds Facility. NSW Treasury Corporation reported returns are after external manager fees. These returns have been adjusted upwards to reflect performance before internal Treasury Corporation administration fees.

Table 1: Long-term Endowment Portfolio performance against peers – rolling one and three-year periods ended December 2011

Period	University of Sydney Long-Term Endowment Portfolio	NSW T-Corp, Long Term Growth Facility	Superfunds Mercer Employer Super, Balanced Growth (60–80% growth) Median	Superfunds Top Quartile Mercer Employer Super, Balanced Growth (60–80% growth) (ie top 25%)
1 yr	1.0%	(3.8%)	(1.6%)	(0.6%)
3 yr, p.a.	7.7%	4.8%	5.6%	6.8%

Note: All results are after underlying manager fees, and before administration costs. Superannuation returns have also been 'grossed up' for taxation.

7. CREDITORS' PAYMENT PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2011

	March quarter 2011		June quarter 2011		September quarter 2011		December quarter 2011	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Percentage of accounts paid on time:								
by number of invoices	87%	80%	89%	80%	89%	80%	91%	80%
by value	86%	80%	91%	80%	91%	80%	91%	80%
	($'000)		**($'000)**		**($'000)**		**($'000)**	
Amount of accounts paid on time (excluding investments)	$118,411		$106,017		$137,159		$144,708	
	($'000)		**($'000)**		**($'000)**		**($'000)**	
Total amount of accounts paid (excluding investments)	$137,886		$116,931		$150,380		$158,932	

Notes:

- The University's standard payment terms are 30 days.
- Payment performance percentages exclude lead-time factors associated with invoices directly receipted by the business unit.

8. SUMMARY OF REAL ESTATE OWNED OR OCCUPIED BY THE UNIVERSITY

The University classifies its land and buildings into the following categories:

- teaching and research land
- commercial teaching and research properties
- teaching and research leased land
- commercial farms
- student housing.

TEACHING AND RESEARCH LAND AND PROPERTIES

The major teaching and research facilities of the University, located on the Camperdown/Darlington Campus adjoining Parramatta Road and City Road in Sydney, cover a total of 50.6 hectares.

In addition, several teaching and research facilities are located away from these premises. University-owned lands include:

- Former Law School Building, 173–175 Phillip Street, Sydney
- Faculty of Health Sciences, East Street, Lidcombe
- Brain and Mind Research Institute, Mallett Street, Camperdown
- Camden Campus (Faculty of Veterinary Science and Faculty of Agriculture, Food and Natural Resources)
- Australian Archaeological Institute at Athens and Thessaloniki, Greece
- University-owned and commercially operated farms throughout eastern Australia (covering a total area of approximately 10,313 hectares) which support the teaching and research activities of the faculties of Agriculture, Food and Natural Resources, Science, and Veterinary Science.

Teaching and research properties are classified into two subcategories by the University. The first, the non-commercial teaching and research component, represents land which is subject to specific restrictions, including land grants, zoned special use and/or specific contractual arrangements. The book value of this land, on the accounting standards cost basis, was $171 million as at 31 December 2011 (2010: $168.4 million).

The second subcategory (properties held for teaching and research which are not subject to specific constraints on use) is classified as 'commercial teaching and research' properties. These properties were valued on the accounting standards fair value basis at $209 million (2010: $200.1 million) as at 31 December 2011.

The total value of non-commercial teaching and research land and the commercial teaching and research properties held by the University as at 31 December 2011 was $380 million.

TEACHING AND RESEARCH LEASED LAND

The University occupies a number of sites on long-term leases, licences and agreements in New South Wales for entities such as:

- Sydney College of the Arts (SCA) at Rozelle
- Sydney Conservatorium of Music in central Sydney
- The Plant Breeding Institute at Narrabri and other field stations
- University teaching and research hospitals
- science faculties at Australian Technology Park, Redfern.

COMMERCIAL FARMS

The University operates two commercial farms that support teaching and research activities. The farms, which are located in the north-west and Southern Highlands areas of New South Wales, are valued on a fair value basis. The value of these farms was $18.6 million as at 31 December 2011.

STUDENT HOUSING

The University owns a total of 70 halls of residence properties providing student accommodation in the vicinity of the Camperdown/Darlington and Camden campuses. It also owns an 18-unit residential block at Kingswood that accommodates 44 students studying at the Nepean Clinical School at Penrith.

The student housing halls of residence were valued on a fair value basis at $71.3 million as at 31 December 2011.

INVESTMENT PROPERTIES

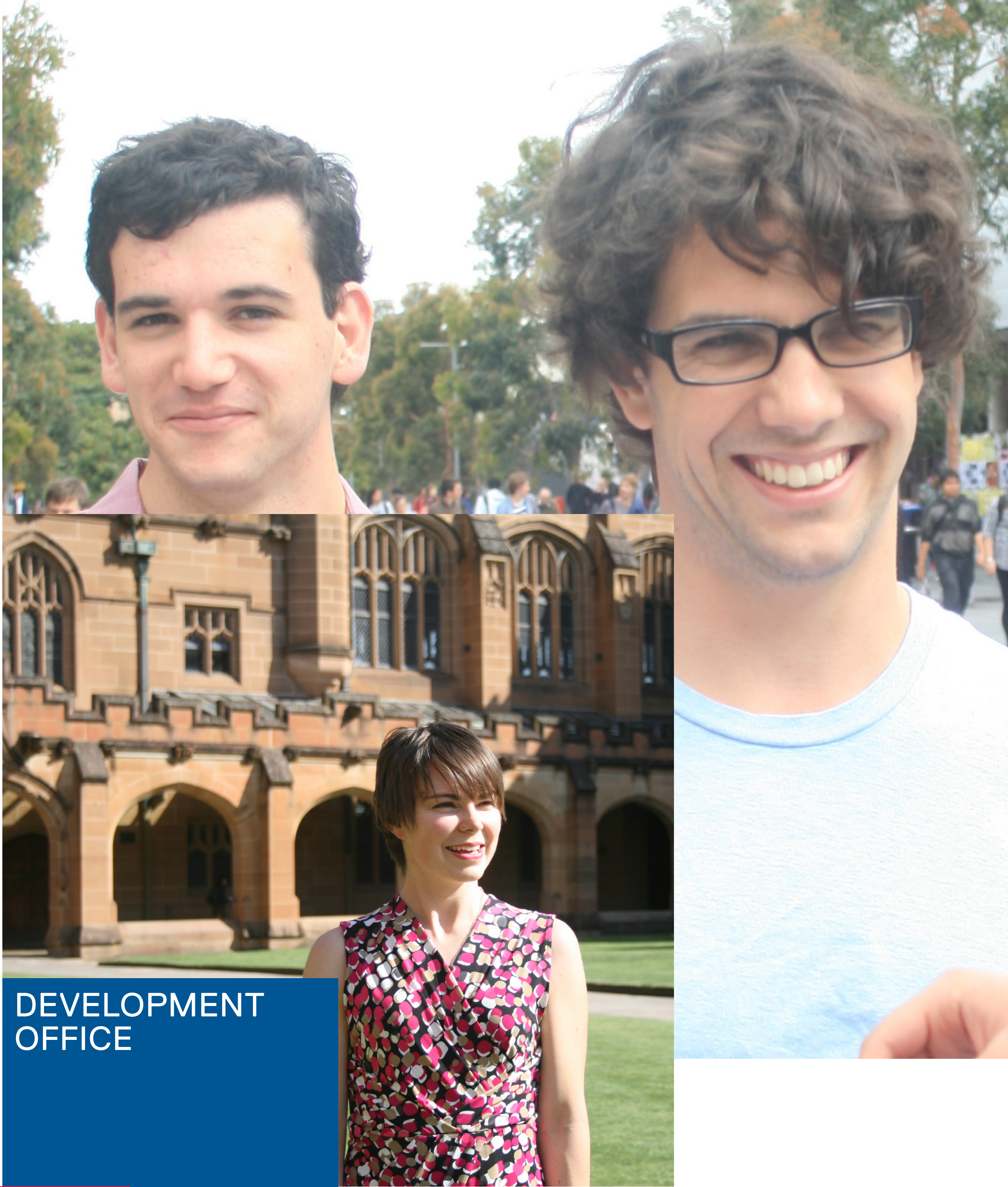
Nil, properties sold in 2011 (2010: 13.8 million).

9. ANNUAL FINANCIAL STATEMENTS FOR SUBSIDIARIES

Please refer to note 41 of the financial statements of the University for details of subsidiaries.

The financial statements for the subsidiaries will be available at **sydney.edu.au/about/publications/annual_report** once this annual report has been tabled in the NSW parliament.

APPENDIX B



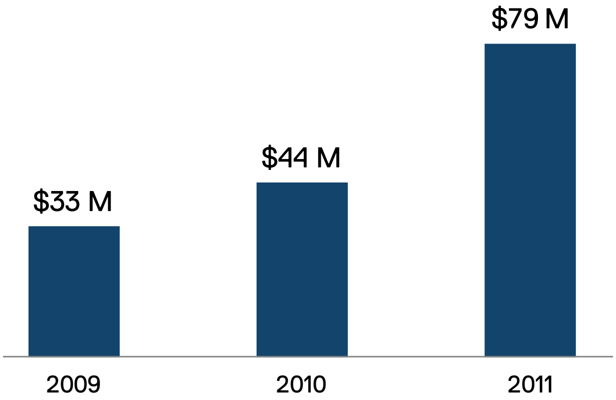
DEVELOPMENT
OFFICE

THE UNIVERSITY OF
SYDNEY

2011 REPORT TO THE ACADEMIC COMMUNITY

A REMARKABLE YEAR
EXECUTIVE SUMMARY

Many of our teaching, research and student achievements were made possible through the generosity of individuals who continually affirm their confidence in the University through transformational gifts. In 2011, philanthropic support to Sydney exceeded $79 million. This is more than any other Australian University has ever received in a year. As we head into 2012 the future looks bright as we again challenge the innovative minds within the University to build on their knowledge and achieve great things for Australia and the wider world.

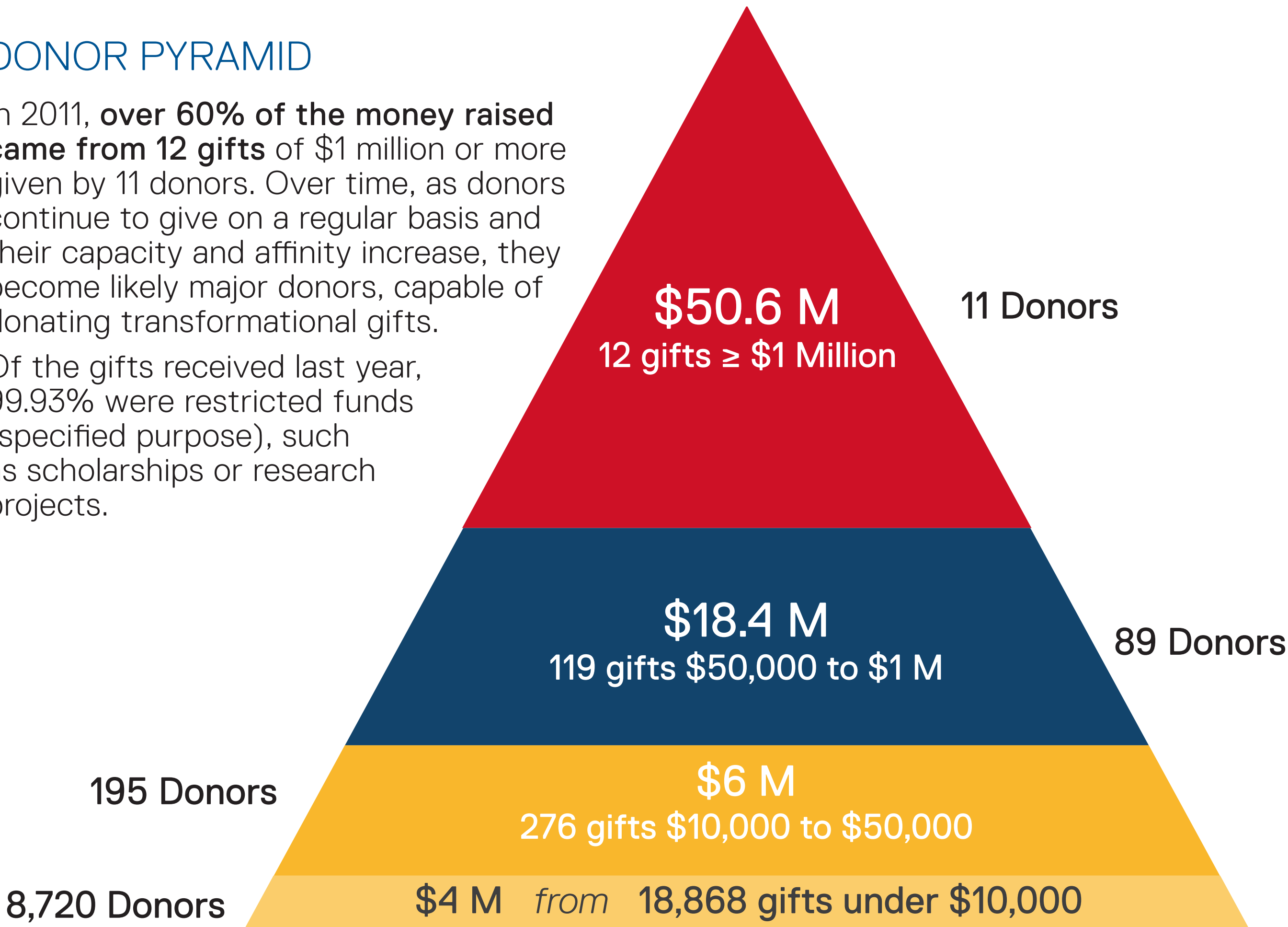


The figures above include income from bequests.

DONOR PYRAMID

In 2011, **over 60% of the money raised came from 12 gifts** of $1 million or more given by 11 donors. Over time, as donors continue to give on a regular basis and their capacity and affinity increase, they become likely major donors, capable of donating transformational gifts.

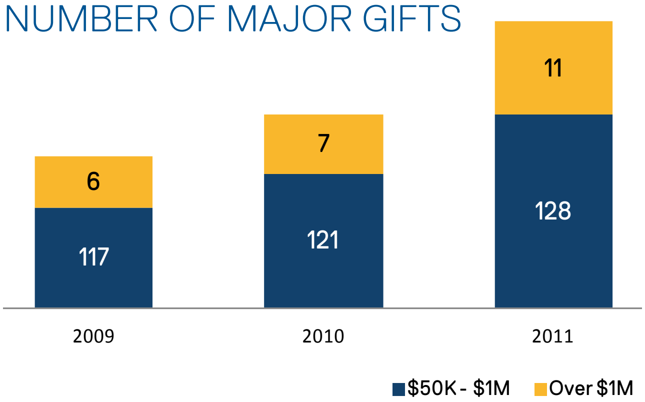
Of the gifts received last year, 99.93% were restricted funds (specified purpose), such as scholarships or research projects.



MAJOR GIFTS

ALIGNING WITH DONORS' PASSIONS

NUMBER OF MAJOR GIFTS



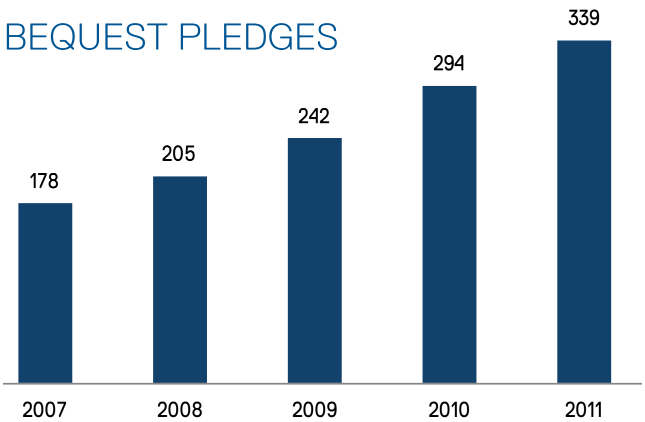
Major gifts over $50,000 are strategic, transformational donations that make a tremendous impact on the work of the University and align with the interests of passionate donors. Last year, the number of **gifts over $1 million** outnumbered any year.*

BEQUESTS

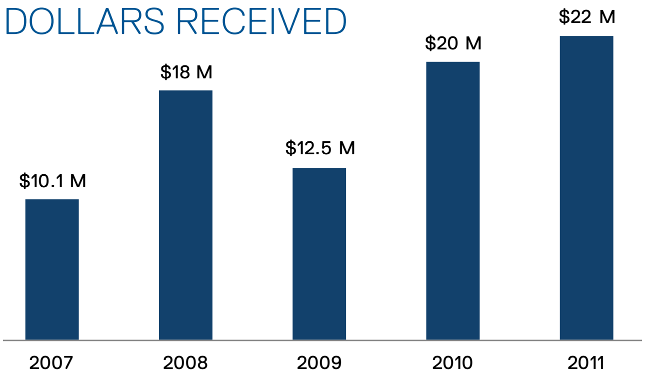
FOR THE BENEFIT OF FUTURE GENERATIONS

Since 2007, **income from bequests has more than doubled**, with over 300 alumni and friends pledging a gift to the University in their will. Membership in the Challis Bequest Society gives these special donors an opportunity to see the lasting impact of their generosity.

BEQUEST PLEDGES



DOLLARS RECEIVED



**The number of donors varies from the number of donations as an individual donor can make several gifts and multiple donors can make a joint gift.*

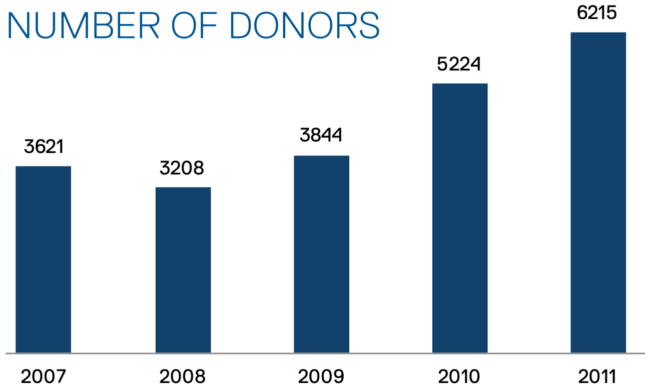
SYDNEY DEVELOPMENT FUND

GROWING THE DONOR BASE

The Sydney Development Fund (SDF) organises University-wide fundraising appeals, generating donations from our alumni and friends. In 2011, more faculties, foundations and units participated in SDF-led appeals than ever, raising **over $1.5 million** for University causes, growing the donor base by **more than 18%**.

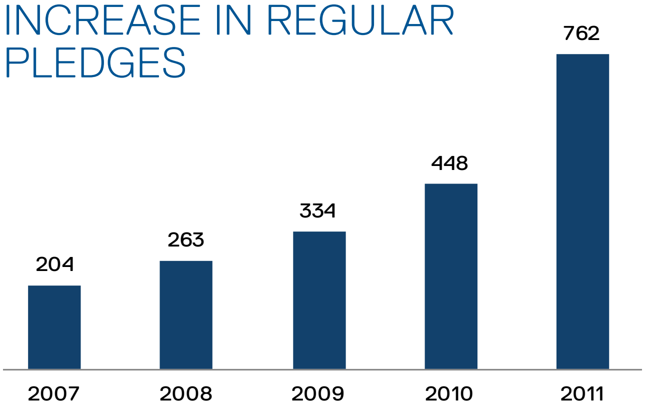
The SDF has been recognised by the Fundraising Institute of Australia for donor renewal appeals, winning awards at both the State and National levels.

NUMBER OF DONORS



The figures above exclude donations for the Melanoma Foundation, which ceased to fundraise in 2009.

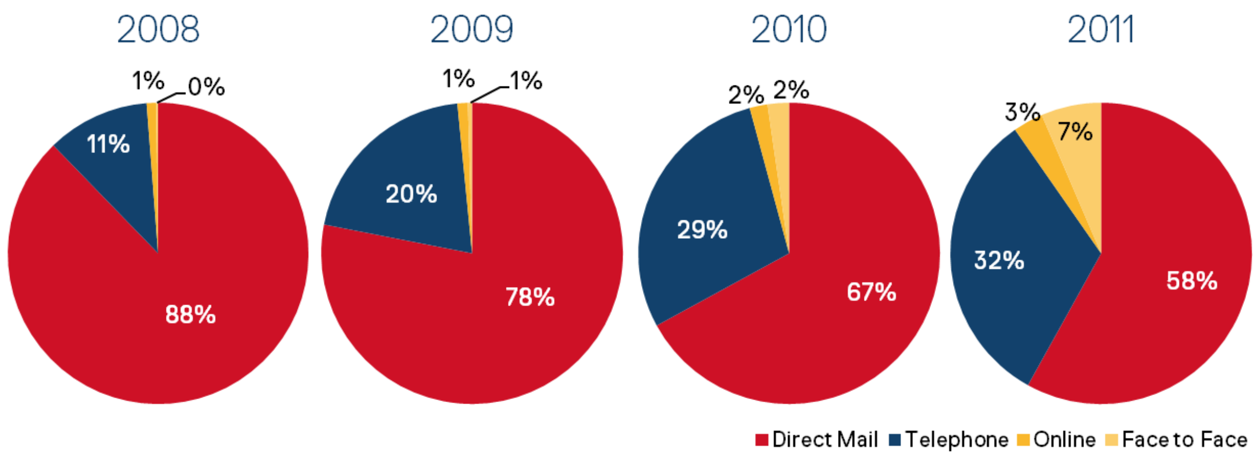
INCREASE IN REGULAR PLEDGES



Regular pledges - monthly, quarterly or annually recurring gifts - are a cost-saving and efficient form of increasing philanthropic dollars. In 2011, the number of these gifts received grew over 70%.

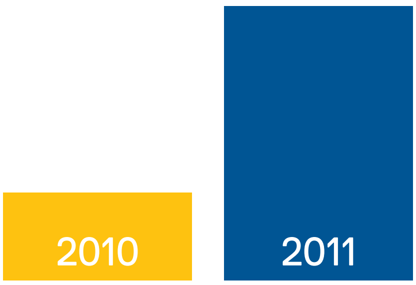
EVOLVING METHODOLOGIES

The SDF utilises several methods for acquiring and retaining donors. Previous to 2008, the SDF primarily raised funds through direct mail solicitations to alumni and friends. With the introduction of telephone and face-to-face fundraising in recent years, the number of new donors has increased as the types of activities have diversified.

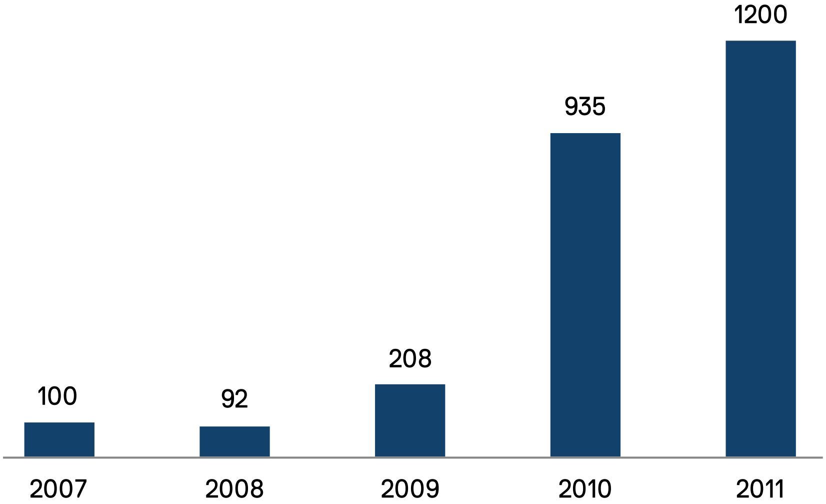


BRIDGING THE GAP

The Student Alumni Association (SAA) organises fundraising and engagement activities, strengthening ties to the University amongst future young alumni and educating current students about the importance of philanthropy. From 2010 to 2011, the **number of student donors tripled** from 116 to 363, with 8% giving again in 2011.



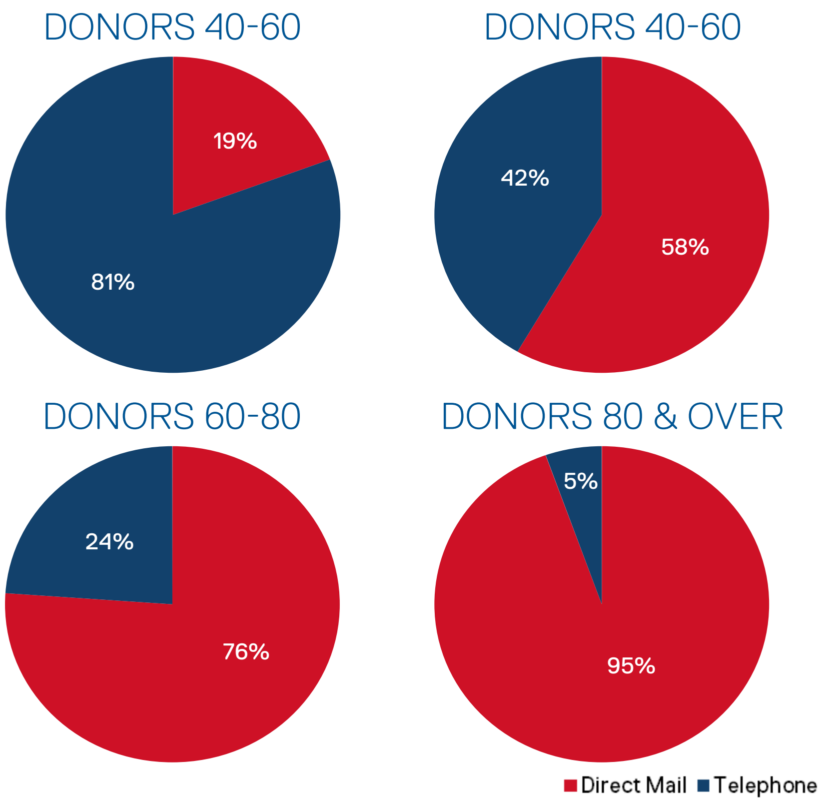
DONORS UNDER 40



By engaging with younger alumni, we establish longer-term philanthropic relationships, developing a stronger habit of giving among alumni and a greater potential for future major gifts. This cohort is most responsive to telephone appeals.

FINDING THE RIGHT MIX

Whilst telephone fundraising has grown significantly, **direct mail remains integral** to annual fundraising, especially with donors aged 40 and over. By utilising the right communication mix, we are able to maximise the dollars raised whilst effectively reaching out to our constituents. In future appeals, we will continue to test responsiveness to various appeal techniques.



2011
AT A GLANCE

JANUARY	The Sydney Development Fund launches the University's first telephone program of the year, engaging current students with thousands of alumni.
FEBRUARY	The first bequest pledge of the year is received. During 2011, a further 54 bequest pledges are made to the University.
MARCH	Student fundraising commences with the beginning of the academic year; the Student Alumni Association and student societies welcome over 300 new student donors during 2011.
APRIL	*Sydney Annual* reaches 6,000 donors, 50% more than the previous year.
MAY	The end of financial year Tax Appeal goes out to 130,230 alumni and friends, generating the most donors in the history of the appeal.
JUNE	Picasso's *Jeune fille endormie* sells at Christie's in London for $20.6 million to fund research into obesity, diabetes and cardiovascular disease.
JULY	Bursaries and loans support 177 students in financial need in July alone. Throughout the year, 1024 donors contributed $109,968 to the Student Support Fund. Many more scholarships – both hardship and merit-based – were also funded by donations in 2011.
AUGUST	Science alumnus John Hooke donates $5 million to endow a new academic chair of nanoscience in the School of Physics.
SEPTEMBER	Daniel Petre donates $2 million to appoint a chair of prostate cancer research, championing collaborative cross-disciplinary medical research.
OCTOBER	The $8.6M Nancy Roma Paech Bequest is designated to Rangeland Science programs within the Centre for Carbon, Water & Food. The Annual Challis Bequest Society Lunch includes more guests than ever before, exceeding 100.
NOVEMBER	The Annual Donor Recognition Event welcomes an unprecedented attendance in the Great Hall.
DECEMBER	Sydney closes the year with record numbers: 8900 donors, 12,000 gifts and $74 million received.

LOOKING FORWARD

Continuing on the success on last year, 2012 is poised to be another landmark year for the University of Sydney.

SYDNEY ANNUAL REPORT TO DONORS PUBLISHED IN APRIL

In the coming months, the Donor Relations Manager will publish *Sydney Annual*, our Report to Donors, highlighting a number of the University's many successes from 2011. This provides an excellent opportunity to thank all of our donors and report on the impact of their generosity.

10,000 DONORS

Through regular appeals, specialised events and strategic planning, the SDF will increase the donor base by 20% and deepen engagement with Faculties, foundations and units throughout the University to welcome more new donors into our community.

LAUNCH OF 1850 SOCIETY

In 2012, the Development Office will establish the 1850 Society, a mid-level donor program supporting University activities via substantial, regular and flexible gifts. This Society will recognise donors to the University who make an annual financial contribution of between $10k and $50k. The establishment of the 1850 Society presents a potentially high impact, lower investment opportunity to substantially increase the University's engagement and donations from mid-level donors and it is expected that this early engagement with them will yield the delivery of major gifts to the University in the longer term.

INCREASE IN MAJOR GIFT SOLICITATION

Our dedicated team of Development Officers will continue to collaborate with academics and senior leadership to cultivate relationships with major gift prospects, identifying opportunities to align their passions with University projects.

THE CAMPAIGN FOR SYDNEY

The Campaign for Sydney continues to build momentum across campus. Consultation with academic leadership across the faculties has been completed and key funding opportunities identified. The University's strategic priorities for the Campaign will be consolidated at a mid-year leadership retreat before the public launch of the Campaign later in 2012. The newly formed Campaign Volunteer Leadership Board will provide ongoing counsel on the implementation of our Campaign strategy.

Tim Dolan
Director of Development
T +61 2 8627 8830
E tim.dolan@sydney.edu.au

DEVELOPMENT OFFICE

THE UNIVERSITY OF SYDNEY

Produced by the Development Office, the University of Sydney, January 2012. The University reserves the right to make alterations to any information contained within this publication without notice.

ABN 15 211 513 464
CRICOS 00026A