

# Time for a Western Australian 'Group of Three'?

A speculative essay

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This study analyses the theoretical cost-savings that might flow from a merger of three of Western Australia's five universities. The results of the study show that an amalgamation would not only reduce costs of operation, but also improve non-current asset use and accountability. Combination reporting also allows the key stakeholders to appraise these universities' main financial activities, which appear to be maintaining a relatively high level of non-salary expenditure as a percentage of revenue and preserving a very high percentage of land and buildings as mainstay assets.

*Keywords: mergers, efficiency and effectiveness, Western Australian universities*

## Introduction

This paper explores the potential cost savings from a creation of a Western Australian Group of Three university (WAGo3), via an amalgamation of three of the five universities in Western Australia. Western Australia is Australia's largest state by land area (over 2,500,000 km<sup>2</sup>) occupying the western one-third of Australia. Sparsely populated in the rural regions, Western Australia has a population of 2.53 million, with most living in the Perth metropolitan area (1.55 million). Using one million people as the criterion for a 'city', Perth is one of the most isolated cities in the world. The nearest Australian city to Perth by air is Adelaide which is 2,100 km away. Moreover, major cities more than 3,000 km away from Perth include Jakarta, Indonesia (3,000 km), Melbourne (3,420 km) and Sydney (3,290 km).

Most of Australia's first universities were founded in the 19<sup>th</sup> century in other states (although the University of Queensland was founded in 1909), with the University of Western Australia (UWA) founded in 1911 but opened in 1913. The other four WA universities are relatively young. Harkin and Healy (2013) note that Curtin University, a former technical college, was established in 1986, Murdoch University was established in 1973 but opened in 1975, and Edith Cowan University (ECU), formerly a teachers' college, then a college of advanced education, was established in 1991. Notre Dame University was established in 1989, but it is a private university and outside the scope of this study which focuses on the potential merger of three public Western Australian universities. The University of Western Australia is the only one in the state of Western Australia to sit in the Top 100 Academic Ranking of World Universities ranking (AWRU, 2014).

We look at a merged WAGo3 comprising Curtin University, Edith Cowan University and Murdoch University. We did not include UWA in the merger because, consistent with the recent findings of Turner and Brown (2013), there appears merit in merging UWA with other relatively older and more established universities. Each of the three suggested merging universities is successful in its own right. Curtin University is renowned for its close ties to the mining giants Alcoa, Chevron, Origin Energy and Woodside Petroleum (Curtin University, 2013a); ECU has a fine nursing and midwifery research ranking (ECU, 2013a); and Murdoch University has the only internationally recognised veterinary course in Western Australia (Murdoch University, 2011). Nevertheless, according to Ernst & Young (2012), there is potential for Australian universities to lower their operating costs in order to become more competitive in the academic market.

The aim of this paper is to analyse the theoretical potential cost-savings in forming a WAGo3. This follows from the work of Turner & Brown (2013) that considered the case for a merged Australian 'Group of Seven' (Go7), which had the potential to boost the bottom line by cutting costs. Such a move could be of interest to the current Federal Government, with its Commission of Audit examining ways to decrease expenditure (Lane, 2013), and the Western Australian State Government operating from an 'Education City' of over 1.5 million people (AEN, 2013), looking to reduce government expenditure after losing its AAA credit rating (Burrell, 2013).

In accordance with the assumptions and limitations of Turner and Brown's (2013) study of the proposed 'Go7' merger of seven of Australia's major research universities, this paper deals with a speculative possibility, limiting its comments about each of the WAGo3's cultures, histories, and individual policy initiatives. The study makes no recommendation as to the legal and political means of achieving a joint WAGo3, and focuses on a monetary rather than a non-monetary valuation. It also does not look at the ramifications of a WAGo3 merger on other universities, although the results of this study could well be of interest to other universities, politicians, legislators, academic strategists and taxpayers looking for cost efficiencies on a state or national scale.

## Literature review

All four Western Australian public universities have expressed interest in the past about considering some

form of merger (Murdoch University, 2014; Stanley & Reynolds, 1994). In 1988, at the time of the so-called 'Dawkins Reforms', Murdoch University and the University of Western Australia opened up negotiations for a proposed merger (Murdoch University, 2014). In 1989, Murdoch University requested the State Minister for Education to prepare legislation to help amalgamate Murdoch University and the University of Western Australia to take effect from 1990 (Murdoch, 2014). However, in the following year the proposed legislation for the amalgamation was blocked by one vote on Christmas Eve in the Western Australian Legislative Council (Murdoch University 2013a), by the Nationals who were anxious to see an 'independent' Veterinary School maintained in Western Australia. This was a time when the 'Dawkins Reforms' replaced the binary system of universities and colleges of advanced education with a unified national system, where former colleges of advanced education and institutions of technology merged or were relabelled as universities (Meek, 1991). In 1986, Murdoch University and Edith Cowan University opened up talks for a possible merger, but again (a year later) the planned amalgamation was dropped (Murdoch University, 2013a). In 2005, merger talks between Murdoch University and Curtin University once again failed to develop an eventual amalgamation (Murdoch University 2013a). Moreover, in the same year there was speculation that a 'super' university consisting of the amalgamation of Curtin University, Edith Cowan University and Murdoch University might take place (Weber, 2005).

At the time, it was argued by the Vice-Chancellor of Edith Cowan University that such a merger would reduce costs to students and

would give Perth the draw card of Australia's biggest university. It would serve a massive number of students, at least 60,000, with some estimates at 75,000, and it would attract crucial research funding (Weber, 2005).

Nevertheless, the Vice-Chancellor of Curtin University said that

A three-way merger adds an awful lot of students to the complex. I mean, currently Curtin is 36-37,000 students. If you add Murdoch into that equation as well, we become the third largest university in the country anyway in regard to student numbers. I think that's going to be hard work (Weber, 2005).

Turner and Brown (2013) considered the advantages for a merged Group of Seven. They found that combination reporting identifies potential cost-savings in a merger, particularly in terms of salary and non-salary reductions, as well as reductions in land and property holdings.

**Table 1. Comprehensive Income of universities of Western Australia (Year Ended 2012)**

	Curtin University		Edith Cowan University		Murdoch University		Total (WAGo3)		UWA	
	\$'000	(%)	\$'000	(%)	\$'000	(%)	\$'000	(%)	\$'000	(%)
Revenue	792,438	(100.0)	378,674	100.0	328,921	100.0	1,500,033	100.0	923,771	100.0
Salaries Academic Staff	239,249	30.2	101,867	26.9	84,955	25.8	426,071	28.4	276,355	29.9
Salaries – Other Staff	195,636	24.7	112,676	29.8	85,272	26.0	393,584	26.2	237,904	25.8
Non-salary expenditure	277,177	35.0	138,527	36.5	125,699	38.2	541,403	36.1	307,468	33.3
<b>Total expenses</b>	<b>712,062</b>	<b>89.9</b>	<b>353,070</b>	<b>93.2</b>	<b>295,926</b>	<b>90.0</b>	<b>1,361,058</b>	<b>90.7</b>	<b>821,727</b>	<b>89.0</b>
Operating income	80,376	10.1	25,604	6.8	32,995	10.0	138,975	9.3	102,044	11.0
Comprehensive income (other):										
Revaluation PPE*	23,308	3.0	(962)	(0.3)	66,319	20.2	88,665	5.9		
<b>Comprehensive Income</b>	<b>103,684</b>	<b>13.1</b>	<b>24,642</b>	<b>6.5</b>	<b>99,314</b>	<b>30.2</b>	<b>227,640</b>	<b>15.2</b>	<b>102,044</b>	<b>11.0</b>

Source: Curtin University, 2013b; ECU, 2013b; Murdoch University, 2013b; UWA, 2013.

\*PPE stands for property, plant and equipment.

## Methods

Online annual reports of Curtin University, Edith Cowan University, Murdoch University and the University of Western Australia for the year ending 2012 were gathered to conduct a textual analysis of their annual reporting procedures. Consistent with the methodology of Turner and Brown (2013), textual analysis was facilitated by business combination reporting analysis, informed by auditing, accounting and investigative skills on the final accounts and statements of four Western Australian universities in terms of their performance. This allowed the analysis

...to express an opinion on the credibility of the accounts... based on evidence from the phenomena of final accounts to form opinions on the accounting and value of the accounts (Turner & Brown, 2013; p. 46).

The financial statements within the annual reports of all four universities are examined annually by the Auditor General of Western Australia, and in recent years have secured unqualified audits.

All four West[ern] Australian universities have been given a tick of approval for their financial viability despite static student demand in the resource-rich state. The Western Australian Auditor-General's report tabled in state parliament yesterday noted that all four public universities were "generally low risk" in terms of financial performance with good liquidity, diverse revenue streams, and moderate reliance on international student fees (Hare, 2013).

This study assumes that there were no significant inter-WAGo3 university transactions and that no WAGo3 university-held assets or liabilities belonging to the other two WAGo3 universities.

## Results

Table 1 shows expenditure, operating income and comprehensive income as a percentage of revenue for the WAGo3 universities and UWA. Ranging from \$328.9 million (Murdoch University) to \$792.4 million (Curtin University), the revenue from each of the WAGo3 Universities is lower than UWA's revenue of \$923.7 million. However, together, the WAGo3 generated some \$1,500m, a considerable amount of revenue for a potential merger, exceeding UWA revenue by \$576.3m.

Each of the WAGo3 Universities has considerable total expenditure, ranging from \$295.9 million (Murdoch University) to \$712 million (Curtin University), although they were each lower than UWA's total expenditure of \$821m. Together, WAGo3 Universities total expenditure is \$1,361 million and we argue that a considerable cut in total expenditure could be made with a potential merger, particularly through non-current asset sales.

In considering the individual components of expenditure, UWA's total academic salary bill (\$276 million) is above each of the academic salary bills of the WAGo3 universities, but as a percentage of total revenue it is slightly lower (29.9 per cent) than Curtin University

**Table 2. Statement of Financial Position for the four public Western Australia Universities as at 31 December 2012**

	<i>Curtin University</i>	<i>Edith Cowan University</i>	<i>Murdoch University</i>	<i>Total (WAGo3)</i>	<i>UWA</i>
<i>Current assets:</i>	\$'000	\$'000	\$'000	\$'000	\$'000
Cash	79,619	51,429	121,019	252,067	121,397
Other financial assets	99,226	98,719	13,919	211,864	0
Deferred Government Grant	3,919	2,887	0	6,806	0
Other Current Assets	32,259	33,180	7,108	72,547	63,337
<b>Total Current Assets</b>	<b>215,023</b>	<b>186,215</b>	<b>142,046</b>	<b>543,284</b>	<b>184,734</b>
<i>Non-Current Assets:</i>					
Financial Assets	324,904	69,611	48,038	442,553	487,502
Deferred Government Grant	69,667	26,816	0	96,483	0
Land	84,333	134,126	219,005	437,464	267,569
Building including Work In Progress	577,658	648,130	568,245	1,794,033	740,315
PPE	28,677	12,340	29,030	70,047	67,399
Other Non-Current Assets	32,095	24,591	16,224	72,910	115,382
<b>Total Non-Current Assets</b>	<b>1,117,334</b>	<b>915,614</b>	<b>880,542</b>	<b>2,913,490</b>	<b>1,678,167</b>
<b>Total Assets</b>	<b>1,332,357</b>	<b>1,101,829</b>	<b>1,022,588</b>	<b>3,456,774</b>	<b>1,862,901</b>
<i>Current Liabilities</i>	154,758	77,967	231,888	464,613	162,350
Deferred benefit obligations	73,586	29,703	0	103,289	0
Non-Current Liabilities	85,672	130,126	13,056	228,854	131,474
<b>Total Liabilities</b>	<b>314,016</b>	<b>237,796</b>	<b>244,944</b>	<b>796,756</b>	<b>293,824</b>
<b>Net Assets</b>	<b>1,018,341</b>	<b>864,033</b>	<b>777,644</b>	<b>2,660,018</b>	<b>1,569,077</b>
<i>Equity:</i>					
Capital and Reserves	57,851	380,519	380,911	819,281	161,976
Retained Earnings	960,490	483,514	396,733	1,840,737	1,407,101
<b>Total Equity</b>	<b>1,018,341</b>	<b>864,033</b>	<b>777,644</b>	<b>2,660,018</b>	<b>1,569,077</b>

Source: Curtin University, 2013b; ECU, 2013b; Murdoch University, 2013b; UWA, 2013.

(30.2 per cent). While UWA's 'other staff' salary bill is lower than its total academic salary expenditure, the total 'other staff' salary bill of Edith Cowan and Murdoch University exceed their respective total academic salary outlays. However, it should be acknowledged that in the case of Murdoch University, 'other staff' salaries is only slightly higher than academic salaries. Edith Cowan's figure of 29.8 per cent for 'other staff' salaries is significantly higher than the other three universities.

UWA's non-salary expenditure as a percentage of revenue earned (33.3 per cent) is less than revenue earned by the other WAGo3 universities. Well over one third of revenue is spent on non-salary expenditure by WAGo3 universities. While it is useful to recognise that some portion of the non-salary expenditure may be devoted to assisting the remit of the university's teaching and research, it is also pertinent to acknowledge that for all universities of Western Australian non-salary expenditure

**Table 3. Buildings and land with buildings to total assets.**

	<i>Buildings to Total Assets (%)</i>	<i>Land &amp; Buildings to Total Assets (%)</i>
Curtin University	43.4	49.7
Edith Cowan University	58.8	71.0
Murdoch University	55.6	77.0
UWA	39.7	54.1
Overall	47.6	60.9

Source: Curtin University, 2013b; ECU, 2013b; Murdoch University, 2013b; UWA, 2013.

is higher than academic staff salaries expenditure, with the latter expenditure directly assisting in the remit of teaching and research.

Edith Cowan University had the lowest operating income (\$25m) and comprehensive income (\$24m). This is due to their combined 'other staff salaries' and 'non-salary expenditure' as a percentage of revenue (66.3 per cent) being higher than the other Western Australian universities. Clearly, there are possible cost-savings in these areas. Murdoch University's comprehensive income was three times its operating income because of a large \$66m gain due to an upward revaluation of land and buildings.

Table 2 depicts aggregated and comparative figures for the Statement of Financial Position which provides a broad picture of the universities' assets, liabilities and equity. Total current assets of Curtin University and Edith Cowan University are each larger than UWA, and when aggregated with Murdoch University, the WAGo3 total current assets are just under three times that of UWA.

UWA, however, has considerably more non-current assets than any other university in the state of Western Australia. A potential WAGo3 merger could see WAGo3 holding \$1,050,589,000 more non-current assets than UWA. Most of the non-current assets held by the four universities are in buildings. It is noticeable that Edith Cowan University and Murdoch University have relatively few non-current financial assets. Even a merged WAGo3 would have fewer financial assets in total than UWA.

It is interesting to note that Curtin University and Edith Cowan University include an asset deferred government grant in their receivables and a liability of deferred benefit obligations in their provisions. These were for unfunded superannuation benefits, with reimbursement guaranteed by the Federal Government and amounted to \$73.6 million and \$29.7 million respectively. UWA

**Table 4. Buildings and land with buildings to total assets (excluding deferred government grants from total assets)**

	<i>Buildings to Total Assets (%)</i>	<i>Land &amp; Buildings to Total Assets (%)</i>
Curtin University	45.9	52.6
Edith Cowan University	60.5	71.0
Murdoch University	55.6	77.0
UWA	39.7	54.1
Overall	48.6	62.1

Source: Curtin University, 2013b; ECU, 2013b; Murdoch University, 2013b; UWA, 2013.

has shown a provision of \$8.4 million in the notes to the accounts, but does not show a separate amount in receivables. Murdoch University has not included a liability or an asset for these benefits. It is debatable whether UWA has shown a sufficient asset and liability.

An analysis of land and buildings of the four universities shows that the percentage of land and buildings as a proportion of total assets is also significantly higher for Murdoch University (77 per cent) and Edith Cowan University (71 per cent). A merger could significantly reduce the number of buildings needed to service the WAGo3.

As shown in Table 4, the 'buildings to total assets' ratio (excluding deferred government grants from total assets) for Edith Cowan University (60.5 per cent) and Murdoch University (55.6 per cent) are well above the 'buildings to total assets' ratio of the University of Western Australia (39.7 per cent) and Curtin University (43.4 per cent). Consistent with the 'land and buildings to total assets' results from Table 3, the results of the 'land and buildings to total assets ratio' (excluding deferred government grants from total assets) for Murdoch University (77 per cent) and Edith Cowan University (71 per cent) are much higher than the ratios secured by UWA (54.1 per cent) or Curtin University (52.6 per cent).

## Conclusion

If combination reporting analysis can be viewed as an instrument of financial comparison and contrast, it can also be regarded as a tool of expenditure and resource allocation that exposes complex state organisations to a rigorous financial probe. Part of its intricate dissemination of reality is that it represents the use of accounting and accountability techniques associated with university financial calculations.

The revenue streams from Edith Cowan University and Murdoch University are much smaller than the other two public Western Australian universities and, and while revenue size should not define a university, it is clear from the combination reporting analysis that a combined WAGo3 presents a set of joint revenue figures that exceeds University of Western Australia's stand-alone revenue by over 50 per cent. This paper makes no comment on how this pooled revenue should be spent, but it does give a joint WAGo3 a glimpse of the potential pull such income might have for either the research or teaching programmes. Moreover, the material presence of a revenue pool far in excess of UWA may attract highly-skilled academic and other staff as well as students to the *super university*.

Combination reporting analysis makes visible the roles played by universities in the deployment of allocations to human resources. For Murdoch University and Edith Cowan University, the total 'other staff' salaries exceed that for academics. While it is true that many of these 'other staff' may contribute to the research and teaching activities, the analysis does show that academics of Murdoch University and Edith Cowan University receive only a little over 25 per cent of revenue streams.

In addition, the results of the study show that three WAGo3 universities spend at least 35 per cent of their respective revenues on non-salary expenditure. Combination reporting analysis reveals that commitment to spending on administration is at the forefront of the smaller Western Australian universities.

The combination reporting analysis of this study exemplifies how buildings (and land held for buildings) by Edith Cowan University and Murdoch University are of importance. Here combination reporting analysis demonstrates how small Western Australian universities may be seen as property holders with at least 70 per cent of assets held as buildings. A merged WAGo3 might reconsider whether this proportion of property holding is sustainable for the academic pursuits of a much larger university.

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