



FINANCE MANAGEMENT PLAN (currently under review)

CONTENTS

1	INTRODUCTION.....	3
2	CONTEXT FOR FINANCE AND RESOURCES MANAGEMENT WITHIN THE UNIVERSITY	4
2.1	UNIVERSITIES PRIMARY MISSION.....	4
2.2	THE UNIVERSITY’S KEY ROLE STATEMENT	4
2.3	FUNDING ENVIRONMENT	4
2.4	UNIVERSITY’S PRIORITY STRATEGIC OBJECTIVES	5
3	THE PLANNING FRAMEWORK FOR FINANCE AND RESOURCES	6
4	INCOME GENERATION/RESOURCING DIVERSIFICATION	10
5	BUDGET PLANNING AND PERFORMANCE MANAGEMENT.....	13
5.1	INTRODUCTION.....	13
5.2	BUDGET MODEL.....	15
5.3	BUDGET ALLOCATION METHODOLOGY	17
5.4	EVALUATION, MONITORING AND REVIEW PROCESS	19
6	MANAGEMENT OF INVESTMENTS	20
6.1	INTRODUCTION.....	20
6.2	MARKETABLE INVESTMENTS	23
6.2.1	<i>Long Term Investment Pool.....</i>	<i>23</i>
6.2.1.1	Objectives	23
6.2.1.2	Diversification.....	23
6.2.1.3	Investment Guidelines.....	24
6.2.1.4	Performance Measurement.....	24
6.2.1.5	Review Process	25
6.2.2	<i>Short Term Investment Pool</i>	<i>25</i>
6.2.2.1	Objectives	25
6.2.2.2	Diversification.....	26
6.2.2.3	Investment Guidelines.....	26
6.2.2.4	Performance Measurement.....	27
6.2.2.5	Review Process	27
6.3	INVESTMENT PROPERTY	27
6.3.1	<i>Introduction</i>	<i>27</i>
6.3.2	<i>Strategic Plan for Commercial Properties</i>	<i>28</i>
6.3.2.1	Objectives	28
6.3.2.2	Diversification.....	29
6.3.2.3	Investment Guidelines.....	29
6.3.2.4	Performance Measurement.....	30
6.3.3	<i>Strategic Plan for Commercial Campus Properties</i>	<i>30</i>
6.3.3.1	Objectives	31
7	SUMMARY INCOME ESTIMATES	32
8	SUMMARY CASH FLOW ESTIMATES.....	32
9	ESTIMATED RESERVE BALANCES	33

1 INTRODUCTION

The University of Western Australia, through the governing body of Senate and/or the Vice-Chancellor, has delegated responsibility for financial operations to (amongst others) Deans, Heads of School, Directors of administrative units, Financial Services and Internal Audit and their delegated officers. This delegation of financial responsibility reflects the University's devolved system of decision making and hierarchical authorisation.

Ultimately the University must comply with the financial administration, management and reporting requirements of the Financial Administration and Audit Act, 1985, the Higher Education Funding Act, 1988 and any other relevant acts, statutes, regulations and/or prescriptions. To do this, the University relies on its staff with delegated financial responsibilities to keep proper accounts and records of the income, expenditure, assets and liabilities made on behalf of the University.

This document has been prepared within this context and the framework of the Universities Strategic Plan and Operational Priorities Plan as a Finance Management Plan to complement the other University Management Plans and Cycle of Planning and Accountability. The purpose of this plan is to provide a broad focus for planning, management and quality assurance in finance throughout the University.

2 CONTEXT FOR FINANCE AND RESOURCES MANAGEMENT WITHIN THE UNIVERSITY

2.1 Universities primary mission

The University of Western Australia's Strategic Plan identifies the Universities primary mission to be

“To advance, transmit and sustain knowledge and understanding through the conduct of teaching, research and scholarship at the highest international standards, for the benefit of the international and national communities and the state of Western Australia.”

2.2 The University's Key Role Statement

“The University of Western Australia is a high quality, research-intensive university with a broad and balanced coverage of disciplines in the arts, sciences and major professions. It is characterised by a strong research and postgraduate emphasis linked to a high quality undergraduate education, across the range of its disciplines; by selected areas of research concentration; and by an international focus for its activities and standards.”

2.3 Funding Environment

Section 5 of the Strategic Plan describes the importance of funding policy to the University's role in the following terms:

“The funding arrangements currently operating in the Unified National System are characterised by a declining level of Government support in real per-student terms; by a more even spread of funds across all member institutions; by increasing contributions from students towards the cost of their education, and by an emphasis on matching funding arrangements involving non-Government bodies. For a University of the size and characteristics of UWA to flourish, it cannot rely solely on

public funds and consequently is seeking to diversify its funding sources. The University is in a strong position by virtue of its significant private investment and endowment income, to build upon this advantage to achieve its chosen role and mission. In the current Unified National System in Australia, which has moved away from elite to mass higher education, the existence and development of private support is a critical element of a successful strategy for being a world-class university.

An important aspect of increasing income from non-government sources is that this will act to protect the University's autonomy, by improving the University's ability independently to pursue its mission, thereby resisting undue interference from government instrumentalities. This approach to diversification – that is, the avoidance of overly depending on any one source of income – applies also to fee income from fee-paying overseas students. As a guide, the University would not wish to seek income from this source exceeding 15% of total income.

A further important objective of the University's funding strategy is to ensure that the funding per student does not erode over time, as this is likely in turn to erode the quality of the learning environment. In this context, income generating policies will be accompanied by careful control of student enrolments.

Within the University considerable attention has been given to establishing a funding system which incorporates greater incentives for increasing external grant income and mechanisms for rewarding research performance and postgraduate activity. Funding and budgeting strategies and techniques are seen as crucial to give effect to the University's plans”.

2.4 University's Priority Strategic Objectives

The University's current priority objectives, which are reviewed annually, are to:

- Recruit, develop and retain the highest quality staff
- Attract, develop and graduate the highest quality students

- Develop and direct resources preferentially to areas of particular strength, importance and opportunity
- Build strategic partnerships with industry and the community
- Increase and diversify the University's funding base
- Improve collaboration within the University and with other universities

Two of these priority objectives (the second and fifth) relate directly to this management plan.

3 THE PLANNING FRAMEWORK FOR FINANCE AND RESOURCES

For the purposes of structuring its strategic plan, the University has identified seven broad areas of activity as the basis for developing goals, objectives and strategies for achieving the mission and role described above. They are:

- Research and Scholarship
- Teaching and Learning
- Organisation and Management
- Finance and Resources
- Staffing and Industrial Matters
- Equity and Access
- External and Community Relations

For each of the above areas, a primary goal statement has been adopted. Each goal statement derives primarily from the University's mission statement, values and role, but is more specific in its capacity to guide the actions of the University in each broad area of activity.

The University's primary goal statement for Finance and Resources, has two components:

- To maximise the resources available to the University from a diversity of funding sources
- To optimise the efficient and effective use of scarce resources in the achievement of the strategic plans of the University and its constituent parts.

The following specific objectives and associated strategies relate to this goal:

Objectives	Strategies
1. To maximise the resources available to the University from the Commonwealth and State Governments, in particular Commonwealth research funding, capital and operating grants.	<ul style="list-style-type: none"> • Lobby DEST for formula and competitive funding which best provides for broad-based research and postgraduate universities. • Optimise the student/course mix under the parameters of the current Commonwealth funding model. • Improve performance in Commonwealth competitive research grant competition. • Lobby the Commonwealth, both directly and through the State, to provide a more favourable resource share for WA's institutions. • Improve performance in those dimensions of the Composite Index that will maximise Research Quantum allocations.
2. To increase (maximise) income from non-Government sources.	<ul style="list-style-type: none"> • Promote the fee-paying overseas student program.

	<ul style="list-style-type: none"> • Develop Alumni, professional foundation fund-raising programs. • Develop contracting arrangements for research. • Seek joint University/industry funding for courses and research projects. • Lobby the State Government to contribute more funds for the development of the State's universities. • Adopt investment and endowment management policies to protect income flows. • Charge fees for postgraduate, continuing education and professional development courses where possible.
<p>3. To allocate resources to provide flexibility for innovation, incentives for good performance, and to respond to needs, demands and responsibilities.</p>	<ul style="list-style-type: none"> • Base charges and fees on a user-pays principle where possible and appropriate. • Develop a funding model that rewards research performance, recognises teaching responsibilities, and has the capacity to accommodate change and innovation
<p>4. To develop structures and allocation mechanisms which exploit economies of scale where appropriate.</p>	<ul style="list-style-type: none"> • Amalgamate small departments below economically viable size. • Co-operate/collaborate with other institutions to achieve the efficient use of resources and facilities where appropriate. • Establish performance indicators for efficiency/resource utilisation. • Rationalise degree course structures where doing so will yield economies without sacrificing academic quality.
<p>5. To develop an effective planning and budgeting process.</p>	<ul style="list-style-type: none"> • Link the budgeting and resource allocation process explicitly to the strategic plan. • Examine cost patterns and determinants and incorporate findings into the University's

	<p>funding model.</p> <ul style="list-style-type: none"> • Establish performance indicators for efficiency/ resource utilisation. • Develop strong information systems that meet identified financial management information needs. • Maintain clear and explicit lines of academic and resource responsibility and accountability.
6. To maintain and enhance the physical (capital) resources of the University.	<ul style="list-style-type: none"> • Maintain a campus development plan and a capital management plan. • Ensure a high priority is given to building maintenance and refurbishment. • Optimise the quality and usage of space and buildings at the Crawley, Nedlands and Shenton Park sites. • Develop space utilisation plans and information systems.

Indicators, which demonstrate aspects of the University's performance in relation to the Finance and Resources primary goal, are reported in the University's Annual Report.

The new Operational Priorities Plan, for 2003-2005, identifies seven specific targets/performance indicators which relate to the diversification and expansion of the University's funding base. These are:

1. Increase total income by 8% from 2002-2005.
2. Increase unrestricted income to 60% of total income by 2005.
3. Increase unrestricted funding per EFTSU by 10%.
4. Increase fee-paying overseas student income by 20% from 2002 to 2005.
5. Increase Australian postgraduate fee-paying student income by 20% from 2002 to 2005.

6. Increase bequest and donation income by 10% from 2002 to 2005.
7. Keep operating grant funded student load within 5% of the total load target throughout the triennium.

The implementation strategies for achieving these targets are set out in the Operational Priorities Plan Resourcing and Management schedule and are embodied where appropriate in this management plan.

This Finance Management plan will continue to be carefully coordinated with other elements of the University's planning process, principally its Strategic Plan and Operational Priorities Plan, and other resource-related management plans, such as the Capital Management Plan.

The University's primary financial goal as outlined above, is addressed by the two major elements of the University's financial management – the University Budget Process and the University's Investment and Endowment/Income Generation policies.

4 INCOME GENERATION/RESOURCING DIVERSIFICATION

The University of Western Australia's ability to achieve international excellence and to be internationally competitive depends significantly on the diversification and expansion of its present funding base.

The funding arrangements currently operating in the Australian higher education system are characterised by a declining level of Government support in real per

student terms; by a more even spread of funds across all member institutions; by increasing contributions from students towards the cost of their education and by an emphasis on targeted and matching funding arrangements involving non-Government bodies.

The University's revenue objectives have been designed to maximise the resources available to the University from the Commonwealth and State Governments while expanding the income streams from non-Government sources.

The University has a strong record of effective management of its financial resources, including its investment and bequest income, to achieve the objectives of the University. Of the nation's major research universities, The University of Western Australia is one of the lowest recipients of Commonwealth funding as a proportion of total income. The University believes that in the current climate of diminishing public funding it is vital that it continues to decrease its dependency on the Government if it is to achieve its goals.

It is partly through its success in increasing non-Government income over a prolonged period that UWA has been able to sustain the capacity to initiate new developments in the face of declining per capita Government funding and to maintain the physical fabric of the University in the face of inadequate capital funding. The prudent management of resources is a central strategy in the University's quality maintenance activities.

A variety of income generation strategies is currently being pursued including increasing research income, alumni, bequest and benefaction income as well as increasing income from fee paying programs, such as award courses for full-fee paying overseas students, award courses for local fee paying postgraduate students, transnational courses and non-award courses such as professional development courses.

Increased emphasis is being placed on strengthening relationships with industry and the State Government with a view to making the University's physical and intellectual resources more accessible and to capitalise on intellectual property initiatives.

The University's ultimate purpose in diversifying its funding base is to maintain and protect its autonomy and capacity independently to pursue its chosen mission.

Over the last few years there have been significant changes in the contribution that the various funding sources supply to the University budget. Key elements include:

- the decline in Commonwealth operating grant funding in real terms, as a result of the reduction of funded load and the cessation of funding to cover the full cost of salary increases;
- the increase in income attributable to HECS payments as a result of the introduction of differential HECS;
- significant increases in research income;
- modest increases in student fee income, faculty and general income in response to the need to reduce reliance on public funding.

5 BUDGET PLANNING AND PERFORMANCE MANAGEMENT

5.1 Introduction

The University's planning process comprises the following closely integrated processes:

- Strategic Planning
- Operational and Management Planning
- Budget Planning and
- Performance Monitoring

There is a strong linkage between planning decisions, resource allocation and the achievement and monitoring of the University's goals and objectives. These linkages are embodied and described in the University's Cycle of Planning and Accountability.

The University's Budget which is introduced in approximately September each year is designed to meet current objectives and priorities, whilst the University's investment policies are designed to ensure that additional income is made available for the budget on a perpetual basis. This support is a crucial element of the University's need to be more financially self-reliant as government support reduces.

Since the early 1990s there have been major structural reforms leading to the current devolved academic organisational structure, major advances in the development of the Strategic Plan, the Operational Priorities Plan and associated Management Plans of

the University. The budget process has been modified to reflect these major developments and to give effect to the decisions they embody.

During 2001 the University conducted a review of its budget distribution model. The primary objectives for this review could be summarised as follows:

- The need to develop a distribution model that best supports the achievement of the goals of the Academic Profile – the academic plan that charts the University’s direction for the next decade.
- The need to develop a model that adequately supports the Academic restructure of the University, and
- The need to develop a model that is more attuned to the University’s external funding and reporting environment.

The review of the budget distribution model was the final phase of a three-stage review involving Academic Profile – University Structure – Budget. The Budget Model Review Working Party (the Working Party) was responsible for formulating and developing the recommended model. The proposed model was first discussed at the Planning and Budget Workshop held on 1 August 2001. In-principle agreement to proceed was given at the Workshop and the proposed model has since been modified by decisions made by the Working Party and at subsequent meetings of the Planning and Budget Committee.

Each year the Planning and Budget Committee reviews the key objectives and strategies outlined in the University’s Strategic Plan and fundamental themes of the University’s Operational Priorities Plan.

The Budget is framed in the context of achieving the above objectives and strategies in a time of decline in the University's Commonwealth Government funding, subdued economic activity, a volatile investment market and low interest rates. It is believed that the budget goes some way towards the achievement of these major goals within the constraints imposed by reduced funds available for distribution, student growth and rising cost pressures.

The Budget, once endorsed by the Planning and Budget Committee is forwarded to the Academic Board for information and comment and subsequently to the Strategic Resources Committee and Senate for final approval.

Following Senate approval, the Budget is published on the world-wide web.

5.2 Budget Model

The revised budget distribution model adopted as from 2002 has been built around the following underlying principles:

- That it must support the achievement of the key University goals and objectives.
- That it must reward excellence and success.
- That it be reasonably simple and transparent.
- That it must recognise external policy and funding arrangements as well as internal University policies, priorities and structures.

The budget model also recognises the need to:

- recognise differentially the costs of teaching and research in various disciplines;
- recognise appropriately the respective roles of faculties and academic organisational units;
- support programs and activities that will provide a positive return to the University in the future through improved and diversified income streams and enhanced links with industry, alumni and the community;
- ensure discretionary funds have been maintained to support new directions and initiatives;
- maintain the policy of preserving the real value of the University's investments through a prudent investment and income distribution policy;
- fund new initiatives to assist in “bridging the gap” between present funding levels and the funding needed to ensure the University is recognised internationally as an excellent, research-intensive University and a leading intellectual and creative resource to the communities it serves.

An important feature of the funding model is that it allocates resources to faculties which can then allocate resources to schools/centres according to their own circumstances. The important consideration is that the model is not appropriate for detailed use at highly disaggregated levels; faculties are best placed to develop methods for translating the University's plans and budget strategies into local resource decisions.

The major features of the model are:

- (i) a Coursework Teaching component which is driven by planned weighted student load;
- (ii) a Research and Research Training component with two elements (an Input component to support higher degree research teaching and to provide infrastructure to support research grants and an Output component to reward research output performance such as higher degree research completions, publications and staff distinction), and
- (iii) a discretionary component

5.3 Budget Allocation Methodology

With respect to Unrestricted Funds, major sources of income include Operating Grant funds from the Department of Education, Science and Training (DEST), investment income and income from fee paying international and local students.

For each of these income streams, direct allocations are made before the remaining income is distributed to faculties for Teaching and Research and to the Academic Services area:

- From operating funds (after deducting the capital component), there are direct allocations for Research Support Activities, University Facilities (overhead expenses) and for Community Activities.
- From investment income direct allocations are made for Senate initiatives, capital works and to the University Discretionary Fund, and
- From international student fees direct allocations are made for capital works, University Facilities and agent fee commissions.

In order to meet the objective of allocating resources to provide flexibility for innovation and to provide additional funding support for new strategic initiatives, developments and programmes which cannot be funded from direct recurrent allocations, the University sets aside approximately 2.5% of total budget allocations to the University Discretionary Fund (UDF). This fund is divided into three components as follows:

- the University Strategic Fund (USF);
- the Vice-Chancellor's Discretionary Fund (VCDF);
- the Research Matching Fund (RMF).

Allocations from these components are then approved by committees/executively and are then distributed to the relevant faculty/cost centre.

All remaining funds are distributed between the faculties for teaching and research activities and to Academic Services for the Library and Central Administration. Allocations to faculties are based on a funding model using competitive formulae with explicit elements and weights designed to translate agreed principles into resource decisions. The proportion allocated to Academic Services is determined largely on an historical basis using comparative cost data and agreed expenditure priorities for decision making. These allocations are then subject to plus or minus for any required/amended corporate changes.

Distribution of income from International Student Fees follows the same principles as operating funds. The distribution stream is kept separate so that it may be adapted to the University's budget strategy. This enables a modified funding model to be used which restricts the distribution of income to courses in which the students are

enrolled. Since 1996, teaching faculties have been required to expend 15% of their allocation on research activities.

Other sources of income not included in the funding model are Restricted Funds which are funds provided for specific purposes including Commonwealth Grants, Research Grants, Donations, Bequests and Departmental Outside Earnings.

The allocations as made to schools /centres by the Deans are reported to the Vice-Chancellor and these budgets are then monitored by the Deans and their senior administrative officers.

In order to encourage orderly spending patterns, the ability to purchase capital items and to set aside funds for sick and long service leave faculties/schools are allowed to roll-over funds from one accounting year to the next. Similarly overdrawn accounts is permitted in certain circumstances. Loans for seed capital purposes and restructuring purposes are also made available.

More detailed information on the budget model, the budget process and the distribution mechanisms used to allocate funding are outlined in the University's Estimates of Income and Distribution for 2002.

5.4 Evaluation, Monitoring and Review Process

To facilitate prudent use of funds, the following financial management practices are prescribed to the University responsibility areas:

- Preparation of an annual Income and Expenditure Budget and a five-year rolling Income and Expenditure Budget.
- Consistent presentation of budgets through developed reporting lines that flow through to the Deputy Vice Chancellor and Provost.
- Consistent preparation and presentation of variance reports to assist in timely monitoring of financial performance.

Heads of School (or equivalent) are responsible for preparing budget projections in accordance with the prescribed requirements and format. The budgets must be transparent and communicated. Heads of School (or equivalent) are also responsible for the effective management of the budget and monitoring of actual performance.

Financial Services undertakes corporate internal reporting practices to supply relevant and timely financial data to Senate, Committees, Executives and other relevant parties. Faculties, Schools, Centres and administrative units are also expected to develop an internal reporting structure to ensure effective financial control and management occurs and thus the fulfilment of the University's financial responsibilities.

Further details are available in the University's Finance Manual.

6 MANAGEMENT OF INVESTMENTS

6.1 Introduction

The University's marketable investments excluding land holdings are in the region of \$385 million. These investments represent funds contributed from a number of sources and include permanent bequests, research funds, staff benefit funds (closed to new members), investment or budget funds and funds from associated bodies such as the Student Guild.

The University's investments are managed via investment pools, each operating under a separate investment objective, combining to satisfy the overall criteria for the University investments. All fund balances within the University are pooled according to their nature and the requirements of the contributor, with funds of a long term nature being invested in the Long Term Investment Pool and funds of a short term nature invested in the Short Term Investment Pool. Short-term funds include research grants, Faculty and School balances, endowment sales proceeds and Commonwealth grants. Long-term funds include permanent bequests, staff benefit funds and capital funds.

The University's investments are managed under a Senate approved formalised Investment Policy Statement, that sets out investing guidelines such as the investment policy, performance objectives, investment restrictions, performance benchmarks and monitoring and the strategic benchmark for each pool. The Investment Policy Statement is independently reviewed and updated by an external consultant on a regular basis to ensure it is appropriate for the overall investment objective of the University.

It is the University's policy to pay interest on interest earning funds to business units if the intended period of investment is at least one year. Interest is not paid on Government grant monies or research monies unless specific contractual requirements are to the contrary. Interest earned on "non-interest earning" funds is transferred to the University's investment income account and distributed as part of the annual budget fund allocation process.

As a substantial proportion of the Short Term Investment Pool is invested in fixed interest, equities and other financial instruments which values fluctuate on a day to day basis, a substantial reserve (target 10%) known as the investment fluctuation reserve has been set aside. This reserve enables a budget interest distribution rate to be set in advance and enables the University to "smooth in" the effect of lower investment returns. The reserve is in two parts, one belonging to interest earning funds, the other to investment account funds.

The Long Term Investment Pool because of the long term nature (some in perpetuity) follows a different investment strategy from the Short Term Investment Pool. The University's Long Term Investment Pool does not maintain any reserve with the actual investment returns distributed to the capital funds. In addition, generally an annual transfer is made from the capital funds to operating funds equal to the 30 year rolling average of the net differential of the actual earnings rate above inflation as measured by CPI (appropriately 5%). The intent of this policy is to ensure that the "real" values of bequests and University capital are maintained and distributions of income are made from real income rather than nominal income. The policy also

ensures a more predictable flow of income from bequest funds enabling longer-term annual expenditure decisions to be made.

6.2 Marketable Investments

6.2.1 Long Term Investment Pool

The objectives of the Long Term Investment Pool are to achieve an earnings rate of at least inflation plus 5% pa. over rolling three and five year periods and to therefore maintain the “real” value of capital with long term growth whilst minimising risk through diversification of investments.

6.2.1.1 Objectives

- To achieve a total return on the funds invested of at least CPI plus 5% over rolling three and five year periods.
- To invest a significant proportion of the pool in growth investment where the volatility/risk is greater than cash but overall returns over the long term are higher.
- To operate within the stated asset allocations of the strategic benchmark of the pool.
- To match at least the median rate of return of diversified growth funds over rolling three and five year periods as reported in appropriate published surveys.

6.2.1.2 Diversification

In order to minimise risk a number of fund managers (currently three) are used. These managers are generally selected and retained in a manner to ensure appropriate

diversification of investment styles in relation to value, growth, style neutral and index approaches.

The managers have discretion as to the allocation of assets within and between the various asset classes, controlled to the extent of operating within the Senate approved investment mandate and strategic benchmark restrictions.

6.2.1.3 Investment Guidelines

Guidelines	Rationale
All long term funds to be managed by fund managers.	It is believed that the fund managers are able to monitor markets more closely and can react more swiftly to changes in markets.
Managers to manage approximately similar amounts.	In order to minimise risk, all fund managers have similar amounts under management. Adjustments may be made where over or under performance occurs.
Manager Restrictions.	There are no restrictions in place on alcohol or tobacco-related products as the relationship between company and product is often tenuous.

6.2.1.4 Performance Measurement

	Benchmark	Rationale
1. Total Returns	Towers Perrin survey for pooled superannuation funds	The fund is similar in nature to a superannuation fund except for its tax status.
2. Income Returns	CPI plus 5% over rolling three and five year periods.	The objective is to earn 5% per annum whilst maintaining real capital value.

6.2.1.5 Review Process

The performance of each investment pool is monitored on a monthly basis with reported performances of rolling one, three and five year averages used. The University's investment policy is reviewed and updated if necessary every two years.

6.2.2 Short Term Investment Pool

The objectives of the Short Term Investment Pool are to provide immediate liquidity and moderate growth whilst minimising the risk of a capital loss in a single calendar year.

6.2.2.1 Objectives

- To achieve a total return of at least the cash index rate plus 1% over rolling three and five year periods.
- To invest the majority of the pool in defensive assets with a predicted return higher than cash or bank bill rates and relatively low risk/volatility and a reasonable degree of predictability.
- To invest in some growth investments with a view to enhancing returns.
- To match rate of return as offered by capital stable funds after isolating effects of cash positions required for day to day operations.
- To invest in products direct which are suitable for a tax exempt body such as a University (eg convertible notes, privatisations etc) where investment is appropriate to overall objectives of the pool.

- To act as sub-underwriter in limited circumstances.

6.2.2.2 Diversification

In order to minimise risk a combination of capital stable fund managers and fixed interest managers are used. Currently two capital stable funds managers and one fixed interest manager are appointed. A proportion of between 10% and 20% of funds are invested within the long term pool and act as a balancing item and to increase exposure to growth assets. Cash is managed in-house or by cash managers and a small proportion of direct investments such as convertible notes and bonds are managed in-house.

6.2.2.3 Investment Guidelines

Guidelines	Rationale
All funds in excess of day to day requirements to be invested with fund managers with the exception of funds invested direct in special issues, opportunities etc.	Although all funds can be called on at short notice, there is a large core of funds that remain stable. Because of the tax exempt status of the University some issues not typically handled by fund managers are invested direct.
With respect to direct investments no such investment is to be more than 3% of the total pool.	In order to minimise credit risk obligations issued by any one institution.
Investments to have low risk/volatility with predictable income stream.	As funds can be called at short notice, low risk of capital loss is required. The University declares rates of interest distribution in advance at a budgeted rate.

6.2.2.4 Performance Measurement

	Benchmark	Rationale
1. Total Returns	UBSWA Composite Bond Index UBSWA 90 Day Bank Bill Index	The indices are similar in nature to the majority of assets of the fund.
2. Income Returns	UBSWA Bank Bill Index plus 1% over rolling three and five year periods.	The objective is to earn rate slightly higher than the cash rate whilst protecting capital.

6.2.2.5 Review Process

The performance of each investment pool is monitored on a monthly basis with reported performances of rolling one, three and five year averages used. The University's investment policy is reviewed and updated if necessary every two years.

6.3 INVESTMENT PROPERTY

6.3.1 Introduction

The University under the University Endowment Act 1904 (now repealed) and amendments was granted substantial land holdings with the proviso that the proceeds of any sales be reinvested in other land or buildings for revenue producing purposes. The commercial component of this property portfolio is managed and administered by

professional commercial property administrators, Lend Lease Property Investment Services (LLPIS).

The recent repeal of the University Endowment Act 1904 and amendments to the University of Western Australia Act 1911, has removed the restriction on investment of endowment capital in direct property only. As a consequence, the University is currently reducing its investment in direct property and adopting a more balanced growth investment exposure for these funds.

6.3.2 Strategic Plan for Commercial Properties

A Strategic Plan is developed each year by LLPIS in association with senior staff of the University and it is then presented to the Strategic Resources Committee for adoption.

6.3.2.1 Objectives

- To achieve annual income return greater than CPI plus 5% over rolling three and five year periods
- To liquidate commercial property holdings over the short to medium term with proceeds invested in the Long Term Investment Pool.
- To match at least the William M Mercer unlisted property index return over rolling three and five year periods.
- To provide sufficient liquidity for re-balancing and capital expenditure; and
- In the short term, to reduce the risk profile, whilst maintaining returns at or above the benchmarks.

6.3.2.2 Diversification

In order to achieve superior returns whilst minimising risk, a policy of diversification has been adopted. Although diversification would ideally be achieved through the use of commingled funds such as property trusts, the Endowment Act precluded the use of these vehicles and diversification was therefore achieved through:

- Property sub-sector mixes;
- Geographical mixes, and
- Balancing low-risk investments against return enhancing investments

The level of diversification will be reduced during periods of dis-investment.

6.3.2.3 Investment Guidelines

Guideline	Rationale
1. No single asset to constitute more than 20% of the portfolio value.	Risk reduction – to ensure adequate diversity by asset and reduce portfolio asset-specific risk.
2. No single asset to constitute less than 5% of the portfolio value.	Management efficiency – assets that are less than 5% of portfolio value will have limited impact on portfolio performance whilst demanding a disproportionate amount of management time.
3. The portfolio risk generated from development investments should not exceed 30% by value of the portfolio.	Risk reduction – property development has the potential to deliver premium returns but with higher than average risks.
4. Assets that are core investments should be viewed on a long-term basis.	Core investments will tend to exhibit risk-adjusted returns in line with the benchmark.
5. Exit strategies must be assessed for any new or existing investments and be reviewed as part of the asset plan	Developed exit strategies may improve the portfolio's liquidity and the potential to achieve a sale premium to long-term

each year.	investment value.
6. Any proposed investment must be assessed for its impact on the portfolio, both short term (one to two years) and long term (greater than three years). Impact should be assessed on income, capital appreciation and portfolio risk.	All new investments should enhance income and reduce portfolio risk to justify the cost of acquisition.

6.3.2.4 Performance Measurement

	Benchmark	Rationale
1. Total Returns	William M Mercer Unlisted Property index	To monitor the performance of both the capital base and the income return against the property market.
2. Income Returns	CPI plus 5%	An income premium of 5% to CPI has been targeted.

6.3.3 Strategic Plan for Commercial Campus Properties

As part of a long time acquisition plan for future expansion, some of the sales proceeds from endowment land sales have been used to buy properties adjacent or near to the campus. These properties are managed by a local real estate agent, Browne Grove and Associates and are generally rented on the open market. Returns are limited due to the age of the properties.

The Strategic Plan is to acquire properties that can be consolidated into one or two sites for future University expansion and to continue to acquire properties which face

streets that are adjacent to the Crawley Campus and to maximise returns from existing properties.

6.3.3.1 Objectives

- To obtain returns from properties (not used for institutional purposes) to market levels, to reduce maintenance and other expenditures to a commercial level and to maintain the properties at an acceptable level to the community.
- To increase returns by investigating alternative uses for existing properties.
- To acquire properties in accordance with the University's preferred development plan for the extended campus.

7 SUMMARY INCOME ESTIMATES

	2003 \$M	2004 \$M	2005 \$M
Commonwealth Government Grants			
- Operating	110	114	119
- Research Grants	25	26	27
Higher Education Contribution Scheme	44	45	47
Western Australian Government Grants	26	27	29
Other Research Grants and Contracts	47	50	53
Donations and Bequests	13	14	14
Investment Income	16	18	20
Fees and Charges	47	49	50
Other	21	22	22
Total Income	349	365	381

8 SUMMARY CASH FLOW ESTIMATES

	2003 \$M	2004 \$M	2005 \$M
Opening Balance	30	27	25
Income	349	365	381
	379	392	406
Expenditure			
Salaries and Related Costs	206	214	223
Supplies etc.	110	113	118
Equipment and Library Purchases	36	40	44
	352	367	385
Estimated Closing Balance	27	25	21

Notes:

1. Excludes property sales and purchases and reinvestment of funds.
2. This table is a summary of total cash flows, ie both Restricted and Unrestricted Funds. It does not reflect the facts that Restricted Income is increasing at a

much faster rate than Unrestricted Income, whereas the increases in expenditure are mainly in the Unrestricted Funds portion of the Financial Estimates.

9 ESTIMATED RESERVE BALANCES

The anticipated movement in the Capital Reserve is as follows:

	2003 \$M	2004 \$M	2005 \$M
Capital Reserve			
Balance at beginning of year	30	23	18
Movements during year	-7	-5	-5
Balance at end of year	23	18	13

Notes:

1. Figures exclude Investment Fluctuation Reserves.
2. Figures assume no abnormal transfers.