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THE UNIVERSITY OF
MELBOURNE

Melbourne acts to restrain spending and stay in the black

The University of Melbourne has today proposed an economic response program which seeks to hold down additional spending, and so ensure the University remains in a sound financial position.

Vice-Chancellor Professor Glyn Davis says the University of Melbourne reluctantly follows similar decisions on spending restraint taken by institutions here and abroad which are facing financial constraints amid challenging economic times.

“The University remains in the black, but must slow future increases in spending to ensure its long-term viability is not compromised,” he said. The University’s 2008 operating surplus was \$21.6 million and, as budgeted, another small surplus is projected for 2009.

Professor Davis believes it is imperative that the University make decisions this year, following financial advice that growth in income will likely remain modest for at least the next three academic years while costs continue to rise.

In recent times, the University has enjoyed an average annual income growth of around 10 percent. This growth has been driven by strong student demand and by excellent returns on the University’s substantial endowment, built over the past 150 years. While student demand remains at record levels, the global financial crisis has devastated annual returns from investments. On present advice, overall University income is projected to grow only modestly over the next three years.

“The loss of substantial endowment revenue has consequences for the core purposes of the institution – supporting the highest quality education for undergraduates and graduates, undertaking cutting-edge research, and serving the community through knowledge exchange,” Professor Davis said.

“Each of these activities benefits from external funding. The global financial crisis created a net reduction in investment income of \$191 million in 2008 – the largest single fall the University has experienced.”

Acknowledging that the loss of investment income is a significant blow to the University budget, Professor Davis identified other contributing external economic factors as -

- The cumulative impact of inadequate indexation of Commonwealth funding which has, since 1996, resulted in a decline in the real rate of funding of around \$6 million a year.
- The loss of domestic undergraduate fee-paying places which will cost Melbourne around \$30 million a year in revenue forgone from 2010.
- The previous government’s VSU legislation which reduced revenue by \$13 million a year and requires the University to redirect around \$6m a year from other activities to keep student services alive and viable.

The University welcomes measures in the 2009-10 Commonwealth budget to improve funding rates for undergraduate students, but notes any significant additional income will not begin to flow until 2012.

“A university is, above all, a collection of people who share a passion for ideas and education,” said Professor Davis. “In framing a response to economic difficulties, therefore, the principal focus has been on preserving educational services to students and employment for existing University staff.

“Initiatives in recent months to reduce costs have included cuts to travel, improved purchasing processes, a senior staff salary freeze announced in April, and business process reforms. Well managed, and with staff support, these initiatives can reduce the impact of staff losses. Unfortunately, they will only partially fill the gap of around \$30 million in annual expenditure that must be addressed.

“Inevitably, salaries remain the largest item in our budget, accounting for up to 81 percent of all costs in some faculties. After implementing all immediate opportunities for non-salary savings, the University has reluctantly concluded that we need to reduce total staff positions by about three per cent, or approximately 220 full-time equivalent (FTE) positions from 7325 full time equivalent (FTE) positions.”

The University will consult with staff and their representatives about the least disruptive ways to achieve these savings. It will remain imperative to ensure the effects are shared equally between the centre and faculties. Proposals include –

- an expanded range of flexible working arrangements, such as job-sharing, purchasing additional annual leave and phased retirement arrangements;
- a freeze on the hiring of external professional staff which, supported by strengthened redeployment policies, will provide enhanced career development and placement opportunities for existing professional staff;
- tightening the renewal process for fixed-term contracts for professional staff so that contracts will only be renewed where absolutely necessary; and,
- a limited voluntary redundancy program for permanent academic and professional staff where positions are no longer required.

Professor Davis said these proposals have been structured to ensure all staff are treated fairly and that no one leaves the University involuntarily. “The University is committed to protecting permanent jobs wherever possible. It will be important to retain a strong base of committed and productive staff ready for the inevitable upturn in the economic cycle.”

The planned combination of natural attrition, an external staffing freeze and enhanced placement of existing staff, and restricted renewal of professional contract positions should mean the number of voluntary redundancies offered would be minimal.

Professor Davis stressed that transparency will be integral to the ERP process – hence the care in making the causes and our course of action clear to staff. “To do otherwise would be disrespectful,” he said.

In seeking to slow down the increase in costs, the University will work with staff to ensure:

- workloads are equitably managed,
- academic standards are not compromised through loss of staff necessary to deliver high-quality academic programs,
- student course offerings will not be disrupted,
- student services continue to be supported as a priority, and
- the implementation of the Melbourne Model is not put at risk.

Professor Davis pointed out that anyone who reads the higher education press knows that the University of Melbourne is not alone in needing to respond to these shared external pressures. Other Australian universities have been adjusting staff levels and some universities in the US are shedding more than 1000 staff.

The University of California system has already shed more than 700 positions, and reduced faculty recruitment from a typical 100 positions a year to 10, cancelled its doctoral program in education, and closed its medical school’s liver transplant program. Harvard has already frozen salaries and offered early retirement to around 1600 staff.

“By taking proportionate responses now to hold down costs we will avoid more drastic measures in 2010,” Professor Davis said, acknowledging the sadness that he and colleagues in the University’s senior executive felt in conveying the unwelcome news of necessary constraint.

“We all value what the University does for students and scholarship alike. Even if Melbourne is more fortunate than most, budgets are already too tight. Each of our colleagues is a valued contributor. People work hard at Melbourne because they share its aspiration to be a public-spirited place of learning.

“The intention informing this economic response program is to secure the financial future of the university while doing everything possible to safeguard the jobs of our colleagues. With care and agreement I am confident this can be achieved.”

A two-week formal staff consultation period begins today and staff have been urged to provide feedback.

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