

Response to discussion paper 'Defining the Future for the VCA and Music at the University of Melbourne'

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CONTACT DETAILS REMOVED BY SAVE VCA

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BACKGROUND

I wish to address the proposed structural models in the discussion paper in terms of the financial situation if the VCA remains or does not remain a Faculty of the University of Melbourne.

I am a former lecturer at the VCA, a film producer and former Manager of Film Victoria. Last year, when Dean Sharman Pretty announced she had to cut \$11 million from the VCA's budget¹, I became concerned about why this amount was so much higher than the original funding deficit caused by Commonwealth funding cuts. I started researching VCA and University historical and current accounts and asking financial questions of VCAM management and University representatives.

From this research, I have assembled some key financial information I believe needs to be taken into account when discussing possible structural options for VCAM.

For the record, I left the VCA when Management could not guarantee that the course I taught, the Post- Graduate Diploma in Film and Television (Producing), would continue in 2010. By the time enrollments were deemed high enough for the course to continue, I had committed to production work outside the Faculty.

I am providing figures for the VCA (Southbank), as distinct from the Faculty of Music (Parkville), in order to isolate information relevant to the VCA.

BACKGROUND TO THE ORIGINAL UNIVERSITY SUBSIDY TO VCA

VCA was affiliated with the University of Melbourne in 1988 in order for the VCA to be able to confer degrees. When the Commonwealth Government changed education funding policy in 2003, the VCA was left with a \$5 million deficit from 2005. As the University had benefited from the same policy changes which disadvantaged the VCA, the Commonwealth instructed the University to pay VCA \$5 million per year for five years, from 2005 to 2009. In early 2005, the University and VCA agreed to merge. A Heads of Agreement was signed which included conditions that the University would continue to pay the \$5 million subsidy for a further two years to 2011 and that the University would upgrade the Film and Television School's equipment (and make applications to government to cover this expense).

The University was required by government to subsidise VCA \$5 million annually from 2005 – 2009 and conditions of the subsequent merger included that the subsidy be extended until 2011 as well as the University paying for an equipment upgrade for the School of Film and Television.

VCA FINANCIAL POSITION PRE MERGER

VCA annual reports, audited by the state government, show VCA income pre merger sitting at an average of around \$28.7 million.

	2003 ⁱⁱ	2004 ⁱⁱⁱ	2005 ^{iv}
	\$,000	\$,000	\$,000
Revenue from Ordinary Activities			
Comm Govt Financial Assistance	15,200	14,948	15,045*
HECS	317	385	387
Post Grad Education Loan Scheme	630	821	835
Vic Govt Financial Assistance	1,310	0	17
Superannuation- deferred Govt Contributions	(555)	(654)	3,448
Course Fees and Charges	4,764	5,691	5,772
Investment Income	394	459	723
Resources received free of charge**	1,965	2,005	2,045
Other Revenue	2,940	2,490	4,657
TOTAL REVENUE	26,965	26,176	32,929
Expenses from ordinary activities	24,231	26,693	32,897
Operating Result profit/(loss)	2,734	(517)	32

* The 2005 income includes the first \$5 million subsidy from the University.

** "Resources received free of charge" is rental for the Drama and Art School sites which the University owned but, prior to merging, allowed the VCA to use rent free. The increases each year are geared to CPI.

The surplus in 2003 covered a smaller deficit in 2004 and the 2005 budget was back to a small surplus. I have not included the 2006 figures as they were not made public as an Annual Report was not prepared that year, however budgets made available to staff at the time show the College recorded a healthy surplus in 2006. It was well known by staff and the Arts community that the College ran on a very lean budget but operated within its income and continued to produce world class graduates.

Had the College absorbed the Commonwealth funding cut in 2005 ie not been subsidized by the University, the required cut would have been 18% of the VCA budget. Understandably management at VCA sought every possible solution to save cutting 18% from an already lean budget as this would have resulted in substantial cuts across the College. The result was the merger with the University to secure future financial security for the VCA.

<i>Pre merger, the VCA operated with an average income of \$28.7 million and the funding deficit of \$5 million was approximately 18% of the VCA budget.</i>

FINANCIAL BACKGROUND TO THE MERGER

On 1st January 2007, the VCA became the Faculty of the VCA and subsequently, the Faculty of the VCA and Music (VCAM). On integration, the University reported receiving \$103 million worth of assets, being the buildings and equipment on the Southbank campus.^v

Land ownership at the VCA is of interest. The Art and Drama Schools/Recital Centre block is owned by the University. The block on St Kilda Road housing the rest of the former VCA is owned by the Crown. Several buildings on the Crown land were funded through the University receiving funds on the VCA's behalf. This raises the question of which institution would own these buildings or the Art and Drama school buildings should a de-merger occur, and whether these buildings were part of the \$103 million in assets recorded by the University as part of the merger? The land owned by the Crown on St Kilda Road is prime real estate and there have been rumours for more than twenty years of the University talking with government about the land being transferred to the University's ownership.

When Professor Sharman Pretty was appointed as Dean of the Faculty, she announced she needed to cut \$11 million from the budget by 2011, comprising the \$5 million subsidy from the University plus \$6 million for rental costs.^{vi}

This was the first time the majority of VCA staff became aware that the University was charging rent and there was shock as staff did the rough calculation showing that \$11 million from \$28.7 million represented cuts of around 38%.

A budget including this level of cuts was developed, however public scrutiny of VCA affairs at the time possibly stopped its implementation. That budget was later described by the Vice Chancellor^{vii} as a "theoretical" budget prepared by the Dean to examine the effects of having no University subsidy.

Since the merger, the University has organised two infrastructure upgrades- \$5 million to upgrade the School of Film and Television's equipment (a condition of the Heads of Agreement) and \$5 million to upgrade the Elisabeth Murdoch Building.

Around this time, the University started publicizing the excessive subsidy it was providing to the VCA and how this subsidy was draining funds from other Faculties. The precise amount varies depending on which University document you look at, \$37 or \$41 million for 2007 to 2009, \$11 or \$15.6 or \$18 or \$10 plus \$xx million for 2009 and over \$30 or \$33.4 million for 2010 to 2011.^{viii} The subsidy for 2010-2011 is listed in the discussion paper as being over \$15 million per year^{ix}. There would obviously be "savings" in 2010 from over 30 VCA staff taking voluntary redundancy or early retirement packages and not being replaced.

At the time of the merger, the University reported receiving \$103 million worth of assets. This acquisition has not been factored into subsidy calculations including the VCA's requirement to pay rent to the University.

VCA has moved from having a 18% deficit pre-merger, to having a 38% deficit post-merger.

RENT AND UNIVERSITY ADMINISTRATION CHARGES

In 2006, the University introduced a new system of distributing income. Instead of income being collected centrally and distributed according to the needs of the Faculties, it was decided that each Faculty would keep their income and pay a set fee to central finances to cover administration and other University costs. One means of recovering income from the Faculties was through the University levying rent on teaching space used by each Faculty.

VCA committees involved in discussions about the merger were not made aware of the impending changes, so the Heads of Agreement does not refer to rental charges.

While charging rent to recover costs is a known business model, it has serious consequences at the VCA, with smaller student numbers and a teaching requirement for larger studio spaces in which students can paint, dance, make films, play music etc. The VCA is being charged \$250 per square metre of land, which equates to over \$6 million per year. A large portion of this goes towards the University's "futures" fund which requires that 3.5% of income is put into investment funds.^x

VCAM management has used various arguments to justify this rental amount e.g.;

- * it includes building maintenance and security
- * it is cheap for the value of the land on which VCA stands
- * that the VCA has been "indulged" in having so much space

In the leaked Faculty of the VCA and Music Business Plan Summary 2010, VCA rent is slated to rise to \$9.8 million annually.^{xi} University representatives explained to staff that the additional \$3.8 million is for utilities ie electricity, gas and water.^{xii} If correct, this represents around \$3,000 per student and staff member at the VCA, which seems an figure worth investigating. Staff also asked why the rental charge per VCA student was, on average, double that of other University students and were told that, if they used more space, the charges had to be higher, that this could not change.

Administration costs also increased post merger. To compare similar figures, administration costs listed below include professional salaries ie staff providing technical, administration and production support.

Year	VCA Administration Costs	Additional University Administration Costs	Total Admin. Costs	Percentage of Income
2006	\$11.7m	Nil	\$11.7m	47%
2007	\$6.27m	\$9.231m	\$15.5m	77.8% ^{xiii}

This change represents a \$3.8 million rise in administration costs simply through the VCA being part of the University of Melbourne.

In 2009, VCA's "contribution to University overheads" was \$14.426 million or 83% of VCA income. This represents a 55% increase in the two years after the merger.^{xiv} A startling fact is that this percentage of income is twice as expensive as other Faculties who on average paid 46.2% of their income to the University in 2009.^{xv}

Since 2007, VCA has been charged \$6 million in rent plus \$3.8 million in additional administration costs per year. In 2009 the VCA's "contribution to University overheads" (administration and rental charges) was 83% of VCA's income, compared to an average of 46% in other Faculties.

STRUCTURAL MODELS AND FINANCIAL IMPLICATIONS FOR THE VCA

The Discussion paper presents three structural models. I would like to add another two and examine the financial implications and major consequences of each model.

MODEL ONE – The existing structure: Faculty of the VCA and Music

Gains:

- Some money available for upgrading facilities
- Additional time for staff to pursue research opportunities as students at VCA for shorter time

Losses:

- VCA pays \$6m, or possibly \$9.8m or higher, in rent per year (actual figure not yet available for 2010)
- VCA pays higher administration costs (over \$3m in 2009, cost not yet available for 2010)
- Over 30 staff and 12 casual staff sacked, made redundant or given early retirement and not replaced, including several senior lecturers
- 50% or higher cuts to sessional staff in most courses
- Teaching terms reduced by 4 to 8 weeks per year
- Increased workloads for remaining VCA staff with reduced staff numbers and reduced sessional staff
- Loss of VCA brand

MODEL TWO – Separation of the VCA and Music within the University

In this option, the Faculty of Music would remain in Parkville teaching the Melbourne Model and the VCA would offer non Melbourne Model courses but remain part of the University of Melbourne.

Gains:

- The Faculty of Music retains its established and respected music teaching practices within the University of Melbourne
- The VCA retains its more practical focus and links with industry
- Additional time for staff to pursue research opportunities as students at VCA for shorter time
- Return of the VCA brand

Losses

- VCA pays \$6m, or possibly \$9.8m or higher, in rent per year (actual figure not yet available for 2010)
- VCA pays higher administration costs (over \$3m in 2009, cost not yet available for 2010)
- Over 30 staff and 12 casual staff sacked, made redundant or given early retirement and not replaced, including several senior lecturers
- 50% or higher cuts to sessional staff in most courses
- Teaching terms reduced by 4 to 8 weeks per year
- Increased workloads for remaining VCA staff with reduced staff numbers and reduced sessional staff
- Loss of VCA brand

MODEL THREE- An independent VCA with no additional funding

Gains:

- No rent or higher administration fees to be paid to the University
- Independent curriculum
- The VCA retains its more practical focus and links with industry
- VCA retains its brand
- VCA can seek endowments and other sources of income
- Re-introduction of longer teaching terms for intensive Arts practice

Losses:

- Loss of \$5m subsidy from 2011 (have to cut 18% from its budget compared to up to 38% if remain with the University)
- VCA to find mechanism through which to receive Commonwealth funding

MODEL FOUR- VCA funded federally under the Round Table Model ^{xvi}

Gains:

- No rent or higher administration fees to be paid to the University
- The VCA retains its more practical focus and links with industry
- Funding at an appropriate level for training provided
- On-going financial security
- Able to concentrate on training artists to international standards
- Able to work closely with the industry and focus on industry outcomes

Losses:

- None

MODEL FIVE – An independent VCA with additional State or Federal Funding

Gains:

- No rent or higher administration fees to be paid to the University
- The VCA retains its more practical focus and links with industry
- On-going financial security
- Able to concentrate on training artists to international standards
- Able to work closely with the industry and focus on industry outcomes

Losses:

- VCA to find mechanism through which to receive Commonwealth funding

The VCA would be in a much better financial state through de-merging from the University even if that meant taking budget cuts. There would be issues to address, such as the fact that many systems support issues in HR, finance and student administration would have to be returned to the VCA or contracted out. However, they are minor issues compared to the high cost of the VCA remaining a Faculty of the University.

Being funded as part of the Roundtable group is obviously the best financial outcome for the VCA followed by de-merging with additional funding from the Commonwealth or State government. The third most favourable option financially is to de-merge, even with no additional funding. It makes no financial sense for the VCA to remain part of the University.

CONCLUSION

The VCA has been very fortunate in securing bi-partisan support from politicians since its inception. The Victorian Liberal Party has made an election promise to fund an independent VCA through providing an additional \$6 million per year.

If this notional figure of \$6 million was sourced from either State or Federal government and given to VCA as part of the University of Melbourne, those funds would effectively go towards propping up the University's building fund and higher administration costs. The VCA would still have a large "subsidy" which the University could choose to cut ie the VCA would still be vulnerable.

If, however, \$6 million was given to an independent VCA, it would equate to the original funding shortfall plus salary increases since 2003. It would, in effect, "save" an independent VCA and allow it to continue training high quality Arts practitioners to keep Victoria a state with a wonderful and vibrant Arts industry.

ⁱ "Pretty well rehearsed in reshaping the Arts", interview with Sharman Pretty by Robin Usher, The Age, 12 April 2009

ⁱⁱ Statement of Financial Performance, VCA Annual Report 2003

ⁱⁱⁱ Statement of Financial Performance, VCA Annual Report 2005

^{iv} Statement of Financial Performance, VCA Annual Report 2005

^v The University of Melbourne Annual Report 2006, Note 36 Subsidiaries

^{vi} "Pretty well rehearsed in reshaping the Arts", interview with Sharman Pretty by Robin Usher, The Age, 12 April 2009

^{vii} This description was given at a meeting between Save VCA and the Vice Chancellor and Dean on 31 August 2009

^{viii}

<i>Year/s</i>	<i>Amount</i>	<i>Source</i>
2007 - 2009	\$37 million	27 May 2009 "Around Campus", University (of Melbourne) News
2007 - 2009	\$41 million	21 September 2009 Uninews.unimelb.edu.au/Melbourne update.php
2009	\$11 million	12 April 2009 The \$5 million plus \$6 million rent discussed by the Dean in "Pretty well rehearsed in reshaping the Arts", interview with Sharman Pretty by Robin Usher in The Age.
2009	\$15.6 million	27 May 2009 "Around Campus", University (of Melbourne)
2009	\$18 million	8 August 2009 Faculty of the VCA and Music Business Plan Summary 2010 Final draft, p4
2009	\$10 plus \$xx million for rental costs	Approx. 29 November 2009 "University Shows True Colours-Discussion Paper a Sham", Crikey. Under Finance section of a draft University of Melbourne website which accidentally went live after the Discussion Paper was released.
2010 - 2011	Over \$30 million	November 2009, "Defining the Future for the VCA and Music at the University of Melbourne discussion paper, p 25
2010 - 2011	\$33.4 million	21 Sept 2009 Uninews.unimelb.edu.au/Melbourne update.php

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- ix “Defining the Future for the VCA and Music at the University of Melbourne discussion paper, p 25
- x Figures given by the acting Head of Finance at the University of Melbourne, Alan Tait, at a VCA staff meeting on 15 September 2009
- xi Faculty of the VCA and Music Business Plan Summary 2010 Final draft, p10
- xii Meeting of interested VCA staff with University Consultant Katherine Kennedy and University of Melbourne Acting Head of Finance Alan Tait on 1 October 2009
- xiii Percentage calculated using VCA income of \$19.92m as listed in the University of Melbourne Annual Budget 2008, p 92
- xiv University of Melbourne Annual Budget 2008 2008 Faculty Allocations – University Funding Models, p36
- xv University of Melbourne Annual Budget 2008 Faculty Allocations – University Funding Models, p36
- xvi Explanation of the Roundtable model at Defining the Future for the VCA and Music at the University of Melbourne discussion paper, p12