

ILLUSTRATION OF THE EFFECTS OF THE CHOICE OF MODEL ON APPARENT PROFITABILITY

This analysis is based on a mythical university¹ with 24,500 EFTSU distributed across 4 faculties. While some of these students pay amounts which are above the total received for Commonwealth Supported students, the University chooses to retain this premium for re-distribution outside the model used for the teaching load.

Thus, the attributed teaching income is calculated as the total funding which would have been paid to the University through the government and student contributions if all students had been Commonwealth Government Supported students.

FACULTY	EFTSU	Average CGS Total per EFTSU ²	Attributed University Teaching income (millions)
Faculty of Science	4000	\$20678	\$82.71
Faculty of Business & Economics	10500	\$10883	\$114.27
Faculty of Human Sciences	4000	\$13604	\$54.42
Faculty of Arts	6000	\$10883	\$65.30
Total	24500	\$12927	\$316.70

The University chooses to distribute a total \$99.73 million to the Faculties as provision for their teaching load, retaining the remaining \$216.97 million for other purposes.

There are two possibilities for treating the retained \$216.97 million. One possibility is to treat this as percentage tax on the attributed teaching income, and so retaining a fixed proportion of the income for university overhead. This percentage tax would be calculated as $\$216.97 \text{ million} \div \$316.70 \text{ million} = 68.5\%$

The other possibility is to treat this as the fixed cost per student of providing for the overhead costs of the teaching environment provided by the University for the benefit of the student. This fixed cost would be calculated as $\$216.97 \text{ million} \div 24500 = \8856 per EFTSU .

¹ Any similarity to Macquarie University is not entirely coincidental.

² In Macquarie University terms, the figures here represent average weightings of 1.9, 1.0, 1.25 and 1.0 respectively for the four mythical faculties in the Faculty Funding Model.

These two methods lead to very different results. Under the first model with overheads proportional to attributed income, the amounts distributed to the Faculties for their teaching load would be calculated as follows.

FACULTY	Attributed teaching income (millions)	68.5% contribution to overhead (millions)	Distributed income to Faculty (millions)
Faculty of Science	\$82.71	\$56.67	\$26.05
Faculty of Business & Economics	\$114.27	\$78.29	\$35.98
Faculty of Human Sciences	\$54.42	\$37.28	\$17.14
Faculty of Arts	\$65.30	\$44.74	\$20.56
Total	\$316.70	\$216.97	\$99.73

Under the second model with overheads distributed proportional to the numbers of students taught, the amounts distributed to Faculties for their teaching load would be calculated as follows.

FACULTY	EFTSU	\$8856 per EFTSU contribution to Overhead (millions)	Distributed income to Faculty (millions)
Faculty of Science	4000	\$35.42	\$47.29
Faculty of Business & Economics	10500	\$92.99	\$21.28
Faculty of Human Sciences	4000	\$35.42	\$18.99
Faculty of Arts	6000	\$53.14	\$12.16
Total	24500	\$216.97	\$99.73

As can be seen, the choice of model makes a dramatic difference in the income of the various faculties, which, in turn, of course, alters the perception of the University of the apparent profitability and viability of each faculty.

It should be noted that Macquarie University follows the first method in its Faculty Funding Model.