

Summary of

Financial information

As per the financial statements, the University recorded a consolidated surplus of \$108.7m for 2020. This compares to a consolidated surplus of \$127.8m in 2019.

While the financial statements reflect a true and fair view of the financial position of the University and its consolidated entities in accordance with the applicable accounting standards, the University believes that the more relevant financial result is the underlying consolidated EBITDA (earnings before interest, tax, depreciation and amortisation). This represents the total funding available for debt servicing, major capital projects, and operational property, plant and equipment.

A breakdown of the items adjusted for as part of the underlying consolidated EBITDA is contained in the table at right.

Reconciliation of operating result (Income Statement In Published Financials) to underlying EBITDA			
	Consolidated 2020 \$'000	Consolidated 2019 \$'000	Variance \$'000
Net operating result before income tax as per University's published financial statements ¹	108,735	127,780	(19,045)
Income tied to major capital projects ²	(33)	(1,199)	1,166
Fair value gain on TRI Investment	643	613	30
Endowed donations to be held in perpetuity ³	(12,274)	(15,921)	3,647
Unspent investment portfolio losses/(gains) ³	(35,743)	(50,185)	14,442
UNDERLYING OPERATING RESULT BEFORE INCOME TAX	61,328	61,088	240
Depreciation and amortisation expense	165,493	174,781	(9,288)
Loss/(gain) on disposal of property, plant and equipment	8,975	16,637	(7,662)
Donated assets	(128)	(504)	376
Interest revenue (excluding interest tied to external funding)	(4,717)	(10,611)	5,894
Interest expense	15,881	14,945	936
Income tax expense	28	(2)	30
UNDERLYING EBITDA	246,860	256,334	(9,474)

¹ This is the net operating result of the consolidated entity as per the University's statutory financial statements.

² This category represents funding provided by governments and other sources for specific major capital projects. This funding is not available for the general operating expenditure of the University.

³ The majority of funds invested in the long-term managed investment portfolio are restricted funds set aside for endowed donations and bequests earmarked for purposes specified by the giver. Such donations are not available for the general operating expenditure of the University nor is the unspent increase/decrease in the fair value of the portfolio related to these endowments and bequests.

University finances

Underlying EBITDA

The underlying consolidated EBITDA moved from a surplus of \$256.3m in 2019 to a surplus of \$246.9m in 2020. While the surplus of the 2 years was similar, both revenue and expenditure were affected due to COVID-19.

Underlying income

The University's underlying consolidated income decreased by \$13.6m (or 0.6 per cent). This can be attributed to:

- An increase in the combined funding through the Commonwealth Grant Scheme (CGS), the Higher Education Loan Program (HELP), and HELP student contributions of \$7.6m (or 1.5 per cent). The number of Commonwealth-funded students fell by 1.1 per cent from 25,624 EFTSL in 2019 to 25,338 in 2020.
- A decrease in course fees and charges of \$28.2m (or 4.0 per cent). The number of full-fee paying domestic and international students fell by 2.6 per cent from 17,975 EFTSL in 2019 to 17,506 EFTSL in 2020. This revenue stream decreased by a higher rate because of a 12.5 per cent rebate provided to students unable to travel to Australia given the COVID-19-related restrictions and hence, studied offshore.
- An increase in research block grant funding of \$1.2m (or 0.7 per cent) as the University's share of total research funding across higher education providers remained steady.
- An increase in tied research, scholarship and other major project revenue of \$4.8m (or 1.1 per cent). As the underlying result does not recognise such revenue until it is expended, this rise is due to a related increase in expenditure.

- An increase in investment revenue of \$15.5m. This gain relates to an increase in the fair value of investments (excluding the portion related to endowments) during the year and proceeds from the sale of investments held by the University's commercialisation entity, UniQuest.
- An increase in scholarship and donation revenue (excluding endowments) of \$8.7m (or 24.0 per cent).
- A decrease in royalty and licence fee revenue of \$7.7m (or 19.8 per cent) largely due to a reduction in Gardasil royalties during the year.
- A decrease in the remaining revenue categories of \$15.5m (or 8.3 per cent) largely due to COVID-19-related factors and government restrictions which reduced on-campus activity. Specific areas where revenue declined included student accommodation, parking fees, gym and sport fees, field trips and activities, conference registrations, executive education, Customs House dining, and contract work.
- \$67.4m in costs associated with a Voluntary Separation Scheme (VSS) for eligible staff who left the University in late 2020.
- An increase in non-employee expenditure on tied research, scholarship and other major project income of \$2.2m (or 1.2 per cent).
- A decrease in non-research travel, staff development and entertainment expenses of \$39.1m (or 84.9 per cent) due to COVID-19-related travel and dining restrictions.
- A decrease in repairs and maintenance expenses of \$13.5m (or 17.2 per cent) due to a deferral of certain projects given the decline in total revenue.
- A decrease in the remaining expenditure categories of \$38.5m (or 8.7 per cent). Much of this related to the reduced on-campus activity with a reduction in expenses including commission payments, consultants and professional fees, consumables, motor vehicle costs, trading purchases, electricity, printing and stationery, and advertising and promotion.

Underlying expenditure

The University's underlying consolidated expenditure decreased by \$4.2m (or 0.2 per cent). This can be attributed to:

- An increase in employee expenses of \$84.7m (or 7.5 per cent). This was largely driven by the following movements within the parent entity:
 - a 1.3 per cent rise in the average number of full-time equivalent (FTE) permanent staff
 - a 15.0 per cent decline in the average number of FTE casual staff
 - salary rate increases of 2.0 per cent that occurred on 1 January 2020 in accordance with the University's Enterprise Bargaining Agreement

Capital expenditure

The University has continued to invest in major infrastructure. The total amount capitalised on property, plant and equipment, and intangibles during 2020 was \$192.0m (2019: \$311.7m).

Major capital projects in 2020 included the construction of a new chemical engineering building, student residences building and teaching building, and the development of a new Human Capital Management System.

Annual Financial statements

for The University of Queensland and Controlled Entities for
the year ended 31 December 2020

Investment Portfolio

Background

The University maintains 2 long-term managed investment portfolios – the UQ Investment Fund and the UQ Socially Responsible Investment (SRI) Green Fund. These portfolios serve two purposes.

Firstly, they hold endowments received by the University over the past century. The principal amount of the endowment is invested in perpetuity and the investment earnings are used to support a particular purpose (e.g. scholarships, prizes, chairs) consistent with the donor's intent.

Secondly, they hold a portion of annual operating surpluses generated by the University in recent years. This is known as the UQ Future Fund and the funds are invested in the long-term to provide for (1) a stream of investment earnings that can be used for innovative or strategically important teaching and learning activities, and/or (2) a reserve to draw upon to absorb a large, unexpected financial shock.

UQ Investment Fund Performance			
	Return Of Portfolio	Average CPI plus 6%	Above/(Below) Target
Return over past year	15.80%	6.90%	8.90%
Return over past 3 years	13.05%	7.71%	5.34%
Return over past 5 years	11.41%	7.53%	3.88%
Return over past 7 years	11.34%	7.42%	3.92%

UQ Socially Responsible Investment Green Fund Performance			
	Return Of Portfolio	Average CPI plus 6%	Above/(Below) Target
Return over past year	4.81%	6.90%	(2.09%)
Return over past 3 years	7.87%	7.71%	0.16%

UQ Investment Fund

The UQ Investment Fund is managed by external specialist fund managers who are required to operate within designated asset allocation benchmarks. Each has responsibilities for investments in cash and fixed interest, listed property, Australian shares, overseas shares, tactical asset allocation, and private equity. The balance at 31 December 2020 is \$707.1m. Of this total, \$323.8m relates to endowments and \$383.3m relates to the UQ Future Fund.

The investment strategy of the UQ Investment Fund is to achieve a long-term return (net of all fund manager fees) of the Consumer Price Index plus an additional 6 per cent over rolling 7-year periods. As at 31 December 2020, the fund had produced a one-year return of 15.8 per cent and a 7-year return of 11.3 per cent per annum (meeting its target).

UQ Socially Responsible Investment (SRI) Green Fund

The UQ SRI Green Fund offers an alternative to donors providing endowments. The fund will not invest in companies involved with tobacco, armaments, gaming or pornography as they are not deemed socially responsible investments. Further, the fund will not invest in companies excluded from the FTSE All-World ex Fossil Fuels Index.

The fund managers are required to operate within designated asset allocation benchmarks and each has responsibilities for investments in cash and fixed interest and Australian shares. The balance at 31 December 2020 is \$4.5m.

The investment strategy of the UQ Investment Fund is to achieve a long-term return (net of all fund manager fees) of the Consumer Price Index plus an additional 6 per cent over rolling 7-year periods. As at 31 December 2020, the produced had produced a one-year return of 4.8 per cent. A 7-year return is not yet available as the fund was first established in 2016.

CFO Statement

In preparing the financial statements, the UQ Chief Financial Officer has fulfilled the reporting responsibilities as required by the *Financial Accountability Act 2009*. He has provided the accountable officer with a statement that the financial internal controls of the University were operating efficiently, effectively and economically in accordance with section 57 of the *Financial and Performance Management Standard 2019*.

Foreword

The financial statements are general purpose financial reports prepared in accordance with prescribed requirements.

The financial statements comprise the following components:

- Income Statements
- Statements of Comprehensive Income
- Statements of Financial Position
- Statements of Changes in Equity
- Statements of Cash Flows
- Notes to the Financial Statements
- Management Certificate
- Independent Auditor's Report.

Within the above components, the financial statements have been aggregated into the following disclosures:

- University (as an entity in its own right and to which the remainder of this Annual Report refers) – column headed **Parent**
- Group (University and controlled entities: refer to Note 29 for a listing of these entities) – column headed **Consolidated**.

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Management Certificate

Independent Auditor's Report