

Auditing For The Australian Capital Territory

The Auditor-General is head of the Auditor-General's Office. He and his Office act independently of the Government. The Office assists the Auditor-General to carry out his duties, which are set out in the Audit Act 1989, by undertaking audits of management performance and the financial statements of public sector bodies. The aim is to improve public sector management and accountability by firstly, ensuring the Legislative Assembly and the electorate are provided with accurate and useful information about the management of public sector resources and secondly, by providing independent advice and recommendations for improving the management of public resources.

PA96/17

26 September 1996

The Speaker
Australian Capital Territory
Legislative Assembly
South Building
London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

In accordance with the Authority contained in the Auditor-General Act 1996, I transmit to the Legislative Assembly my Report titled "Australian International Hotel School".

This audit was conducted with the assistance of the private accounting and consulting firm, Price Waterhouse, and managed in the Audit Office by Mr Greg Martin.

Yours sincerely

John A. Parkinson

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1. REPORT SUMMARY

1.1 INTRODUCTION

This Report presents the results of a performance audit of the establishment and operations of the Australian International Hotel School (AIHS).

The AIHS is intended to be a self-funding, degree-granting hotel management educational institution. It was formally established in early 1994 through amendments to the Canberra Institute of Technology Act 1987. The Canberra Institute of Technology (CIT) acquired the Hotel Kurrajong in Barton which, after extensive refurbishment, is being used by the AIHS as a teaching school and a training hotel. It is a fully owned ACT Government authority. The AIHS commenced accepting students at the beginning of 1995.

Extracts from an information brochure outlining the AIHS' attractions, operations and facilities are provided at the conclusion of this Chapter.

As part of the processes leading to the making of the various establishment, development and operational decisions, the AIHS project was subject to comprehensive and sustained reviews and analyses. The extensive scrutiny is evidence of the attempts which the past and current Governments have made to ensure the project was sustainable prior to taxpayers' funds being committed. Unfortunately, many of the positive and optimistic projections drawn from the reviews and analyses have not eventuated.

The scope of the audit did not extend to an assessment of the quality of the AIHS educational program or the delivery of that program. For this reason, nothing in this report can be construed as criticism of the quality of the AIHS educational program or its delivery.

1.2 REASON FOR THE AUDIT

Performance audits are carried out by the Auditor-General's Office in order to provide the Legislative Assembly with independent opinions on the effectiveness and efficiency of the management of public sector activities and resources.

The AIHS suffered significant losses in the years ended 31 December 1994 (\$3.3m) and 31 December 1995 (\$5.1m). It has suffered further major losses through 1996.

The acquisition of the Hotel Kurrajong and its refurbishment were funded by a loan by the Government to the AIHS. The operating losses incurred to date are also being funded through this Government loan.

At the time the Government gave in-principle approval for the AIHS (December 1992), the amount to establish and cover initial operating costs was estimated at \$12.5m. In April 1993, when the Government gave its firm approval to establish the AIHS, the amount needed was estimated at \$16.9m and the maximum loan was set at that amount. As a result of escalating costs, the maximum approved loan amount was increased to \$20.4m in December 1993. The approved maximum loan amount was further increased to \$27.8m in August 1995. The actual amount owing at 30 June 1996 was \$23.1m.

It was decided that this audit should be conducted as a result of the AIHS' continuing losses and related community concerns which have emerged over the growing size of the AIHS' debt and its considerably lower enrolments than projected.

Australian International Hotel School

1.3 AUDIT OBJECTIVES

The overall objectives of the audit were to provide independent opinions to the Legislative Assembly on whether:

- the establishment of the AIHS was implemented in accordance with the Government decisions;
- design and construction processes for the AIHS building and site works were effectively managed;
- the early operations of the AIHS conformed with the projections and other data provided to the Government during the establishment decision-making process;

- the arrangements in place to finance the AIHS' establishment costs and operating losses are appropriate;
- AIHS charges for fees are comparable with other organisations providing similar services;
- AIHS management has developed an organisation which is delivering services efficiently; and
- the latest independent assessment provided to the Government of the viability of the AIHS' operations was produced using an appropriate methodology and was based on relevant, accurate and complete information, and whether the AIHS' current operations are consistent with the independent viability assessment.

The audit also included an assessment of the future viability of the AIHS. Comments are also provided on the appropriateness of the governance and senior management structure of the AIHS.

1.4 AUDIT OPINIONS

Implementation of Establishment Decisions (*Chapter 2*)

The audit opinion formed in relation to whether the establishment of the AIHS was in accordance with the Government's decisions is:

- *in most respects, the establishment was implemented in accordance with Government decisions.*

Entrance to Hotel Kurrajong

The following was noted:

- the Government approved that negotiations should take place with relevant interested institutions in relation to formal education ties, however, in-depth negotiations only occurred with one institution (Cornell);
- the Memorandum of Understanding made with Cornell contained agreement that affiliation fees payable to Cornell would be some \$2m in excess of the amount included in earlier submissions and financial projections on which the Government's approval in-principle for establishment of the AIHS has been based. The higher amount was subsequently ratified by the Government;

- Purchase of the Hotel Kurrajong in October 1993, although carried out in accordance with Government approval, occurred prior to the full extent of the costs of affiliation with Cornell and refurbishment of the Hotel being known. These costs would have significantly altered the results of earlier viability studies; and
- Although Government decisions included a reference that, in order to minimise the risks arising from the AIHS project, Hotel refurbishment should include options for alternative uses, the alternatives which were incorporated into the actual refurbishment of the building did not reduce the financial risks to any material extent.

Hotel Kurrajong Cost Over-Runs (Chapter 3)

The audit opinion formed on the refurbishment of the old Hotel Kurrajong to convert it to premises suitable for the proposed operations of the AIHS is that:

- *management was generally poor in relation to controlling costs and variations towards the end of the project and this contributed to cost and time over-runs occurring.*

The cost over-run was approximately \$700,000.

The audit opinion is based on the following findings:

- the time-frame pursued for completion of the refurbishment increased the inherent risks of running over budget or over time, risks which were realised with an over-run of budget and delay in completion;
- the cost over-run can be partially attributed to the failure of the private firm appointed as Construction Manager to correctly forecast the estimated costs to complete the project. This

contributed to decisions for extra building works variations being taken when effectively no budget was available;

- the failure of the Construction Manager to correctly forecast the final costs of completion can be attributed to several factors, some of which were beyond its control;
- given the “commercial” nature of the AIHS project and the responsibility of management to manage it in such a way, it is considered that CIT management should have insisted that the Construction Manager keep and report current, accurate and complete costings; and
- the impact in terms of time and costs of the numerous variations ordered by CIT and its advisors was not properly estimated by the Construction Manager and approved by CIT prior to the variations being actioned.

Early Operations Compared with Projections, Etc. (Chapter 4)

The audit opinion formed in relation to the comparison between actual operations and projections made prior to the commencement of operations supporting the case for establishment of the AIHS is that:

- *the comparison shows that overall the assumptions and amounts used as the basis for initial projections were badly estimated.*

The audit opinion is based on the following findings:

- the ability to attract enrolments, and therefore the generation of tuition revenue, was significantly over-estimated in initial projections prepared to support the case for establishment of the AIHS;

- costs of establishing the AIHS were significantly under-estimated in all projections supporting the establishment of the AIHS;
- the costs of the affiliation with Cornell were significantly under-estimated in the projections submitted to Government to support the establishment of the AIHS; the estimates were subsequently increased and approved by the Government;
- the significant increase in the estimates for enrolment numbers and tuition fees, presented in the submission to the Government as support for the \$3.5m increase in funding sought and approved in December 1993, was not financially justified by the increased involvement agreed with Cornell; and
- the costs of refurbishing the Hotel Kurrajong were under-estimated in submissions leading to the Government approving the establishment of the AIHS; the estimates were subsequently increased and approved.

If projected revenue and other estimates had more closely approximated actual levels, the financial projections would have indicated the project was not viable in terms of the AIHS being able to repay its debt within a reasonable time-frame.

Arrangements to Finance the AIHS (Chapter 5)

The audit opinion on the arrangements in place to finance the establishment and early operations of the AIHS is that:

- *the financial structure with only interest-bearing debt funding and no equity was not appropriate for a venture requiring significant initial capital investment such as the AIHS.*

It was also noted that:

- the current fixed interest rate chargeable on the debt funding is favourable to the AIHS.

Comparison of AIHS Fees with Other Institutions (*Chapter 6*)

The audit opinion formed from the comparison of the AIHS' course fees with charges by other institutions is that:

- *the cost for an AIHS student is very high in comparison to all other hospitality and/or hotel management courses available in Australia except for Bond University which is slightly higher.*

The opinion is based on the following findings:

- there are a wide range of Australian universities offering degree courses which could be seen as alternatives for the AIHS course;
- for Australian students attending a degree course at an Australian university in 1996 which could be seen as an alternative for the AIHS degree, costs are less than \$2,500 p.a. (total of \$7,500 for a three-year degree); the AIHS degree total costs are \$58,950;
- total fees for full-fee paying diploma courses available from other institutions are significantly less than for the AIHS degree;
- a wide range of Australian institutions other than universities, ranging from non-expensive TAFE courses through to full-fee paying private institutions, provide hotel and/or hospitality diploma courses;
- for overseas students, Australian University degree courses which could be seen as alternatives for the

AIHS degree are considerably cheaper than the AIHS degree; and

- AIHS fees are competitive with overseas universities.

The fees comparison was based on 1996 fee schedules. The comparison with Australian public universities will change from 1997 due to implementation by the Commonwealth Government of new funding arrangements for universities including allowing the universities to offer full-fee paying places to Australian students.

Efficiency of Operations (*Chapter 7*)

The audit opinion in relation to the AIHS' efficiency of operations is that:

- *in light of low enrolments, management have contained costs through 1995-96.*

It is also noted that:

- the high capital investment made in relation to the small size of the AIHS and Hotel Kurrajong operations will continue to generate a higher fixed component in its cost structure than other institutions providing similar services; and
- as the AIHS does not have anywhere near capacity enrolments, and to date has not had reliable financial management information systems, it is not possible to draw any conclusion as to whether the services are being provided in the most efficient manner. (The accounting systems have been significantly improved recently.)

Consultants' Independent Financial Analysis (Chapter 7)

The audit opinion formed in relation to the financial viability report prepared by consultants in June 1995 was that:

- *if the consultants had projected enrolments closer to levels actually achieved, it is likely their conclusions would have been different.*

The audit opinion on the consultants' report is based on the following findings:

- the viability report by private consultants in mid-1995 (i.e. when the AIHS had been operational for approximately four months only) employed an appropriate methodology and was based on the financial and other information available at the time;
- the levels of enrolments actually achieved to date are significantly below those assumed in the viability report;
- the inherent risks of the enrolment projections being inaccurate was increased substantially by the fact that there was a lack of empirical evidence to support or discredit the enrolment projections; and
- certain other of the consultants' assumptions in the viability report were not achieved.

It is observed that the consultants recognised the existence of the risks in their analysis and recommended that a further viability review should be conducted following the finalisation of Term 1 of 1996 enrolments.

Future Viability (Chapter 9)

The audit opinion on the future viability of the AIHS is:

- *on the basis of the current level of the AIHS' borrowings, current expenditure patterns and enrolments, the AIHS will not be a "commercially" viable organisation in the foreseeable future; and*
- *the AIHS may eventually be "viable" in terms of being able to generate an accrual profit, i.e. have sufficient revenue to cover its operating costs, if it is not required to meet interest payments, however on the enrolment projections used in the audit, the profit will not occur for several years.*

The basis of this opinion is provided in *Chapter 9*.

Governance and Senior Management (*Chapter 10*)

During the audit, the opportunity was taken to observe the governance and senior management structure of the AIHS.

The legislation which established the AIHS provides that the Director of the CIT is also to be the AIHS Director and have overall management responsibility and accountability for the AIHS operations. An interim Management Advisory Board was created, however it has no responsibility or accountability. Its role is purely advisory as its name implies. Although the legislature requires that the Director "have regard" to the advice of the Board, the advice need not be acted upon. A "permanent" Board has never been appointed and this would have had a consequential effect on the Board's activities and influence.

Effectively, the structure, as established, provides for the AIHS' overall management responsibility and accountability to lie with one person. This person is also the Chief Executive of the CIT and can therefore

devote only a portion of time and concentration to the AIHS.

Given the complexity of establishing a new educational institution in a competitive environment with the requirement that the institution's full costs must be covered by revenue generated from operations, the governance and senior management arrangements in place seem unrealistic.

It is the audit's opinion that a Statutory Authority or Territory Owned Corporation with a fully accountable Board of Directors and a full-time Chief Executive responsible to the Board would be a much more effective and accountable arrangement.

1.5 SUMMARY

The previous Government committed itself to establishing the AIHS project on the basis that it was commercially viable. If the Government had not been convinced it was viable, it is unlikely that the establishment would have ever commenced.

In mid-1995, when it was realised that additional funds were required, the current Government questioned the project's viability, however the Government was again convinced that the project was viable and extra funds were approved.

In the private sector commercial environment, a business would only be considered viable if it is able to meet its commitments year in, year out.

A viable business will meet both its operating and financial costs (i.e. borrowing costs). Surplus funds will be re-invested in the business to improve the business' long term productive assets. Funds should also be injected into the business to increase long term productivity.

The business should also demonstrate management and financial expertise and competency, including the management of marketing and financial risk.

Unfortunately, the AIHS does not fit these descriptions. It has been unable to service all its operating and financial commitments and it is unlikely that it will be able to do so in the foreseeable future.

The failure to adjust for the impacts of failures to meet revenue shortfalls on the AIHS' viability ever since the conception of the AIHS does not demonstrate strong management skills or understanding of the operating environment. It is acknowledged that some important remedial actions have been taken by AIHS management, however these have only partly compensated for the shortfalls in revenue.

To 30 June 1996, \$1.9m has been spent on marketing to yield 52 full-fee paying students, which is equivalent to \$36,500 of marketing per student. This indicates that marketing to date has not been effective. In relation to this comment, AIHS management have requested that the following be included in this Report:

“this ignores the array of AIHS marketing activity described in the 1995 Annual Report and its growing effectiveness. If marketing outlays are related to applications, then on this single performance measure, it cost \$20,000 per application in 1995, and \$2,700 in 1996 to date. In fact, marketing outlays are as much an investment with multi-period pay-off rather than simply recurrent. This understanding underlays AIHS targets to achieve a marketing cost of less than \$1,000 per application, and then per student over the next few years”.

The financial risk of this project has never been properly estimated and therefore managed. It has always been a project with extremely high operating leverage, i.e. the majority of its costs are fixed. If expected demand is not achieved, these fixed costs cannot be avoided. Shortfalls in revenue have meant, and will continue to mean, that commitments including interest expense are being funded from further borrowings.

The AIHS' student enrolments have fallen well short of early projections in the first two years of operations. This has jeopardised the whole project by accelerating and increasing the need for further debt funding to service fixed expenditure costs including interest.

Unfortunately, the position is that the AIHS is now unlikely to ever be a "commercially" viable proposition in the sense originally intended.

There has been a substantial investment of taxpayers' money into what is now a commercially non-viable project. At 30 June 1996, this investment equates to approximately \$205 per ACT rate-payer or \$23m in total and is still rising. The decisions to invest in the project on the misconception that it would be commercially viable in a relatively short period have led to the need for difficult decisions to be made now on the future of the AIHS.

1.6 FUTURE ACTIONS

Introduction

Although this examination of the AIHS was an audit and therefore was not designed to provide direction for the AIHS' future, certain major issues were identified which, in the opinion of the audit, should be addressed. These are outlined following.

Financial Arrangements

The findings from this audit demonstrate that continuing with the current Government financial policy for the AIHS is clearly unrealistic. Currently, the Government policy for the AIHS is that it operate on a “commercial” basis, generating sufficient revenue to meet all operating costs and also pay interest on the loan advanced to meet its establishment costs and operating losses and also to repay the loan in a reasonable period. The findings in this Report illustrate that this cannot be achieved unless circumstances change dramatically.

The Government needs to identify financial arrangements acceptable to it which, while enabling the AIHS to progressively establish itself, will place pressure on the AIHS’ management to ensure it operates efficiently. The arrangements should be such that within a short period (say, two years), there should be no further draw on the Territory budget. This will require budgeted reductions in expenditure and stringent control to ensure the budget is met.

From the findings of the audit, the range of new financial arrangements which could be considered is limited. Relieving the AIHS of future interest payments and also a substantial portion of its loan repayments is an option. This could be achieved by conversion of all or part of the loan balance to equity.

If financial arrangements cannot be identified which are acceptable to the Government, alternative actions such as closure and disposal will need to be taken. Some possible options are outlined in *Chapter 10* of this Report.

Governance and Senior Management

A finding of this audit was that the governance and senior management arrangements for the AIHS were

inappropriate. If the Government can identify suitable financial arrangements which are acceptable to it, urgent action should be taken to alter the existing AIHS management organisation by creating a Statutory Authority or Territory Owned Corporation to direct and be accountable for AIHS operations. The legislation should sever the links between the CIT and the AIHS.

Marketability of Degree Course

If the AIHS continues to operate, action needs to be taken to improve the marketability of the AIHS main product, its degree course, to potential students. Enrolments have not eventuated commensurate with the high levels of market expenditure which have been made.

One aspect of the degree “product” which would be deterring potential students (particularly Australian students) is price. As findings of the audit disclose, the AIHS price is the highest in Australia for hospitality and hotel management courses, except for the Bond University degree course. The price of the AIHS degree should be subject to early examination.

A second aspect is recognition of the AIHS degree by potential Australian students. Currently, a degree issued by the AIHS has little recognition compared with, say, a degree from an Australian university, such as the University of New South Wales or Monash University. Some type of arrangement with a recognised university which enabled the AIHS degree to be a degree from that university would be beneficial. It is therefore suggested that an affiliation of this nature should be pursued. The costs involved in such an arrangement would need to be taken into account.

Positive Support

If the Government elects to continue the AIHS, a further factor which needs to be addressed is to ensure in the minds of potential students that there is no doubt the AIHS will continue to operate. Negative publicity in the past has undoubtedly created uncertainty in the minds of potential students. If the Government can identify acceptable financial arrangements enabling the AIHS to continue to operate, then positive statements of support should be provided by the Government and all parts of the ACT Public Sector in order to offset the damaging publicity which it has received.

Students and Facilities

EXTRACTS FROM AIHS INFORMATION BROCHURE

The world class, university-level Australian International Hotel School is located in Canberra, the national capital of Australia.

The School is fully affiliated with the School of Hotel Administration at Cornell University in Ithaca, New York. Cornell University is one of America's "Ivy League" universities and its School of Hotel Administration is the world's leading institution in its field.

Affiliation with Cornell's Hotel School provides the AIHS with an outstanding hospitality business management course, access to one of the world's leading hospitality libraries, the participation of a world class faculty, and in addition the opportunity to study for one semester at Cornell.

As a result, the AIHS offers a Bachelor of Hotel Management course of the very highest quality.

The AIHS has close industry ties and is guided by an Advisory Board of senior hospitality industry executives, and leaders in education and business.

The AIHS offers a unique university degree program which blends theory and practice within its own commercially operated hotel. This is the first time such a course has been available in the Asia-Pacific region.

Global Tourism - A Career Where Your Future's Guaranteed

Hospitality today is a multi-billion dollar global industry.

Revenues from travel and tourism in the Asia-Pacific region have been predicted to grow by 7.8% annually for at least a decade. In Australia, the 3.35m visitors in 1995 will rise to 6.3m in 2000 and 7.6m by 2003.

By 2003, at least 160,000 new jobs will be created in the Australian hospitality industry. In addition, new positions will be created in the leisure and corporate travel industry, theme parks and casinos, convention centres and hideaway resorts, clubs and cruise ships.

Throughout the Asia-Pacific region, the industry is undergoing similar growth and many countries are experiencing a lack of suitably educated managers.

Managers who possess high levels of people skills and business competence and who are able to adapt to increasing change and complexity in the global market-place will be in high demand.

The AIHS' Bachelor of Hotel Management will equip you with all of these abilities and skills and more.

A World Class Centre of Learning

The main focus of the AIHS campus is a beautifully restored heritage listed building built in 1927 to accommodate parliamentarians and their staff. The graceful, pavilion-style building has undergone a complete \$11.6m refurbishment to be transformed into a shining example of the art-deco period.

The building houses a range of lecture and tutorial rooms, highly sophisticated computing facilities, and the Library and Information Resource Centre. The Centre has a collection of printed and audio-visual materials which focus on management, particularly in the hospitality and tourism industries.

The Library is on-line to the Library of Cornell's School of Hotel Administration which has one of the world's largest library collections of hospitality-related materials. On-line access is also available to a wide range of electronic data-bases and world-wide documentary delivery systems.

Putting Theory Into Practice - A Key Component of the Bachelor of Hotel Management

The Australian International Hotel School is the only university-level institution in the Asia-Pacific region to operate its own commercial hotel, restaurant and function facility.

In the Hotel Kurrajong, you will have your first experience of running a hotel early in your studies during a third term in-house internship at the Hotel.

The Hotel Kurrajong is a 4½-star boutique hotel with elegant guest rooms, an award-winning brasserie-style restaurant and an attractive bar which has become one of the highlights of the Canberra social scene. The Hotel is leading Australia in innovative energy-saving and environmentally sound management practices and has been selected by the Environment Protection Agency as a model for the service industry of Australia.

Campus Life

All students live on campus for the first year. As you settle into the School and progress through the Program, you will develop relationships with both faculty and other students which will form the basis of an important network of contacts as you begin to develop your career.

Residential facilities consist of comfortable, fully serviced single or twin rooms, approximately half of which have ensuite facilities.

A member of faculty resides on campus, in the student residence, to give advice and counselling.

Your accommodation has facilities that include:

- a fully equipped gymnasium;
- comfortable student lounges;
- entertainment areas;
- a dining room;
- student bar with pool table;
- an outdoor barbecue area;
- laundry facilities; and
- group study rooms.

The campus is located within walking distance of Manuka, the high point of Canberra's cafe scene, and provides easy access to a range of sporting facilities including tennis, cricket, golf, cycling, sailing and roller-blading.

Residency includes all meals.

On-campus residence provides you with the opportunity for intensive study and for developing a sense of professionalism. This is complemented by 7-day access to the Library and Information Resource Centre and computing facilities.

International Students

The AIHS has an international mandate and welcomes students from the Asia-Pacific region and around the world.

About 40% of AIHS students are from overseas countries.

As the language of instruction at the AIHS is English, the School requires that students have an English competency in the order of 580 TOEFL (Test of English as a Foreign Language), 60 IELTS (International English Language Testing System) or an ASLPR (Australian Second Language Proficiency Rating), submitted as part of their application.

Students who need to improve their English language can undertake English language tuition through the AIHS.

Students of the AIHS are required to submit results from any standardised test from their academic institution. Such tests might include TER (Tertiary Entrance Ranking) or SAT (Scholastic Assessment Test) or A-Level examinations.

Australian Government regulations allow an international student to work for up to 20 hours each week. Students of the AIHS are given priority of placement for casual employment in the School and its operating Hotel, Hotel Kurrajong.

Our Degree Is An Investment In Your Future

An AIHS degree is an investment in your future career and one which will pay quick returns in an employment market hungry for highly qualified hospitality professionals.

Students applying to join the AIHS are not required to show their ability to pay fees during the selection process. The AIHS wants the best students and a number of ways have been developed to assist many students to meet the cost of fees.

Scholarship funds are available to qualified applicants. Such scholarships are awarded on the basis of the student's financial need, industry experience, or outstanding prior academic achievements.

For Australian residents, the Advance Bank also offers a range of flexible and innovative loan facilities specially designed for AIHS students and their parents. These specially designed financing packages include reduced interest rates, attractive repayment schedules, liberal collateral arrangements, and the waiver of bank fees.

Australian and New Zealand students who meet the Government's criteria are eligible for Austudy and Abstudy.

A Quality Institution - A Quality Student

The AIHS has three intakes of students each year - in January, May and September.

Applicants are chosen for their aptitude for the industry and their academic ability, with an emphasis placed on subjects such as English, Mathematics, Science and Computing at the Australian Year 12 level or equivalent.

Supplementary subjects such as tourism/hospitality, politics, social sciences and writing are also considered to be valuable.

Competency in a foreign language is useful as the ability to converse in a second language is a course requirement for graduation.

All applications are examined by an Admissions Committee. The Committee looks for intellectual and managerial potential as well as commitment to the hospitality industry. Applicants also undertake a personal interview as part of the admission process.

Mature-aged students are accepted on the basis of their relevant experience in the hospitality industry and general educational background.

An Exceptional Portfolio of Subjects and Experience

The AIHS' Bachelor of Hotel Management, which is accredited by the ACT Accreditation Agency, is traditionally a four-year commitment. However, the School offers it in an accelerated mode over three years of full-time study.

The program consists of nine 13-week terms - six of these are rigorous academic experiences complemented by three work experience placements. This course design minimises the time committed to the degree, enabling graduates to enter the workforce a year earlier than other 4-year degree programs.

The academic program has been developed jointly by the AIHS and the School of Hotel Administration at Cornell University. Part of the program can be undertaken on campus at Cornell in the USA.

Combining such extraordinary resources has produced a dynamic program designed to mould highly capable hoteliers, equipped with both academic and practical knowledge.

Graduates of the AIHS Bachelor of Hotel Management can apply for entry to Cornell's Masters Program in the USA and a range of other graduate programs offered at exceptional universities around the world with which the AIHS has relations. The AIHS also offers study abroad opportunities in North America and Europe.

2. IMPLEMENTATION OF ESTABLISHMENT DECISIONS

2.1 INTRODUCTION

The audit included an assessment of whether the establishment of the Australian International Hotel School (AIHS) was implemented in accordance with Government decisions. The scope of the task encompassed a review of documented decisions made by the Government and the actual implementation of those decisions by Canberra Institute of Technology (CIT) management and others involved in the establishment of the AIHS. This Chapter presents the results of the assessment. Comment is also provided on the implications of certain of the implementation actions.

2.2 AUDIT APPROACH

The approach to this task involved the collection and review of documentation evidencing the decisions of Government. Assessment of the implementation of those decisions was carried out by examination of relevant files and other records and discussions with officials.

It is accepted that as the project was formulated and progressed, the usual discussions and consultations at Ministerial and Chief Executive Officer levels would have taken place prior to the preparation of the various submissions to Government. For obvious practical reasons, these discussions and consultations are not canvassed in this Chapter.

2.3 SIGNIFICANT FINDINGS

- *In most respects, the establishment was implemented in accordance with Government decisions;*

- *The Government approved that negotiations should take place with relevant interested institutions in relation to formal education ties, however, in depth negotiations only occurred with one institution (Cornell);*
- *The Memorandum of Understanding made with Cornell contained agreement that affiliation fees payable to Cornell would be some \$2m in excess of the amount included in earlier submissions and financial projections on which the Government's approval in-principle for establishment of the AIHS had been based. The higher amount was subsequently ratified by the Government;*
- *Purchase of the Hotel Kurrajong in October 1993, although carried out in accordance with Government approval, occurred prior to the full extent of the costs of affiliation with Cornell and refurbishment of the Hotel being known. These costs would have significantly altered the results of earlier viability studies; and*
- *Although Government decisions included a reference that, in order to minimise the risks arising from the AIHS project, Hotel refurbishment should include options for alternative uses, the alternatives which were incorporated into the actual refurbishment of the building did not reduce the financial risks to any material extent.*

2.4 ESTABLISHMENT DECISIONS

The Government's overall decision to establish the AIHS was made mainly through three sets of approvals. These are identified in the following part of this Chapter, together with the audit's assessments of implementation.

In-Principle Approval to Establish the AIHS (23 December 1992)

Decisions Taken

In this approval, the Government:

- (a) agreed in-principle to the establishment of the AIHS on a full-fee basis;
- (b) agreed that CIT may negotiate with relevant international institutions on formal education ties;
- (c) agreed that AIHS may offer educational programs up to and including degree level;
- (d) agreed that AIHS be established as a non-profit company limited by guarantee with appointment of members and directors subject to Cabinet consideration;
- (e) agreed to the CIT pursuing negotiations with the Commonwealth with a view to leasing the Hotel Kurrajong at no cost or on other such terms agreed by Chief Minister and the Minister for Education;
- (f) agreed that CIT borrow up to \$150,000 from the ACT Borrowing and Investment Trust (ACTBIT) for further establishment work;
- (g) noted that an independent financial analysis has indicated the project generating positive cash flows within three years; and
- (h) agreed that a further submission be brought to Government with detailed financial implications and update on decisions (b) and (e).

Implementation of the Decisions

Decision (a) was the overall approval for preliminary stages of the project to commence. In fact, considerable work had already been conducted in order to produce the submission seeking the approval in-principle. The Government's approval effectively allowed this work to continue.

Decision (b) was implemented through negotiations resulting in a Memorandum of Understanding (MOU) being signed with the School of Hotel Management at Cornell University in the USA. The Government's approval was to negotiate with relevant international institutions, however Cornell was the only institution with whom in-depth negotiations were undertaken. Other institutions were contacted but, with one exception, negotiations did not progress past seeking information on whether the institutions would be interested in an affiliation. At least one (a Swiss School) disclosed a keen interest. It is understood that this interest was pursued to the point of ascertaining possible fees and possible linkages to a US University.

Progress on negotiations with Cornell, including the Memorandum of Understanding, was the subject of continuing discussions with ACT Government agencies on both the costs and benefits. The Memorandum of Understanding was signed on the understanding that the amount indicated was not a binding legal commitment and would require subsequent Government decision.

Decision (d) approved the formation of a company limited by guarantee to carry on the operations of the AIHS. A subsequent Government decision, however, was taken to establish the AIHS as a separate legal entity under the CIT. While the initial decision to establish the AIHS as a company limited by guarantee was not pursued, the subsequent decision has been effectively implemented.

Decision (e) was effectively pursued with the Hotel being acquired for \$1m in October 1993.

The \$150,000 referred to in *Decision (e)* was taken up and expended.

Decision (g) noted that an independent financial analysis had indicated the project would generate positive cash flows within three years. In a later Chapter, it is shown that this analysis was based on poor information and proved to be inaccurate. The inaccuracies were the result of inadequacies in the information including assumptions provided to the consultants rather than failure to perform their assignment competently.

Approval to Establish the AIHS (19 April 1993)

Decisions Taken

In this approval, the Government:

- (a) agreed to the establishment and operation of the AIHS in conjunction with an international academic partner;
- (b) agreed that the CIT legislation be amended to establish the AIHS as a separate legal entity with the Director, CIT, as its head, a separate management and academic board, and be fully accountable to Government, reporting annually on its performance;
- (c) agreed that flexible employment provisions be developed for AIHS including limited term contracts and recognition as a local bargaining unit;
- (d) agreed to the Government providing up to \$16.9m as a repayable advance for establishment costs being \$13.8m for

- acquisition and refurbishment and \$3.1m for establishment and operating costs;
- (e) agreed to the Government providing up to \$2m in funding to match private sector contributions conditional on certain thresholds;
 - (f) agreed that the final financing arrangements be determined by the Treasurer;
 - (g) agreed that commencement of building works be conditional upon agreement being reached with an international partner;
 - (h) agreed the CIT acquire the Hotel Kurrajong on terms and conditions most favourable to the ACT on the basis the price is within the range \$0.825m to \$1m (or three by \$0.365m p.a.);
 - (i) noted that to minimise the risks arising from the project, the refurbishment of the Hotel will incorporate options for alternative uses;
 - (j) noted that the CIT has commenced negotiations with the private sector for assistance with the establishment and operation of the AIHS;
 - (k) noted that CIT is progressing negotiations with the preferred academic partner, the School of Hotel Administration at Cornell University with agreement expected mid-1993; and
 - (l) noted that a further submission would be made in four months' time reporting on progress including acquisition of the Hotel Kurrajong, outcome of negotiations and establishment of the AIHS.

Implementation of the Decisions

The April 1993 Government decisions represent the formal approval for the establishment of the AIHS. It was at this point that the Government dedicated \$16.9m in funding for the project and also authorised the acquisition of the Hotel Kurrajong.

Decision (a) specified that the AIHS be established in conjunction with an international academic partner. The exact nature of this partnership is not specified in the decision, however, the December 1992 decision had indicated that the negotiation of “formal education ties” could occur. The April 1993 submission to the Government states in part, “*AIHS seeks to obtain from Cornell assistance in course development, access to faculty where Australia lacks expertise, and international recognition of the AIHS programs for which it would pay a negotiated fee*”. This would indicate an academic partnership only was envisaged and not some other form of financial partnership or joint venture arrangement. As stated earlier, effectively negotiations were only conducted with Cornell.

Decision (b) was effectively implemented with the necessary legislative amendments being passed by the Legislative Assembly on 21 April 1994.

Decision (c) has been implemented with staff generally being employed on limited term contracts.

Decision (d) approved funding up to \$16.9m for the establishment of the AIHS. This amount was fully expended. A later Government decision related to the establishment of AIHS increased the funding approved by \$3.5m to \$20.4m. Further increases have also been approved.

Decision (e), although agreed, has not been implemented as sufficient private sector contributions have not been attracted to the AIHS.

Decision (f) relates to financing which is reviewed in a later Chapter of this Report.

Decision (g) required that commencement of work on the Hotel Kurrajong was conditional on agreement being reached with an international partner. However, the formal signing of the affiliation agreement on 22 March 1994 was preceded by the acquisition of the Hotel Kurrajong on 1 October 1993 and the commencement of refurbishment works in early 1994.

Although agreement with the international partner - Cornell - was reached in late 1993, the signing of the formal legal agreement apparently had to await the visit of the Cornell Dean to Australia for an official signing ceremony. It is understood that the refurbishment work commenced with the Government's full knowledge of the signing timetable.

According to advice provided to CIT by the ACT Government Solicitor, the Memorandum of Understanding (MOU) between Cornell and CIT, signed on 30 September 1993, was considered to stop short of a legally binding agreement. Accordingly, it is arguable whether the conditions required to commence refurbishment work had actually been satisfied at the time of work starting.

Had the agreement documented by the MOU with Cornell fallen through or the Government rejected the additional costs requested in December 1993 and approved in *Decision (d)*, the CIT would have been left with the Hotel Kurrajong property which would have had no practical alternative uses without considerable capital expenditure.

Decision (h) to acquire the Hotel Kurrajong was effectively implemented on 1 October 1993 by the purchase of the Hotel Kurrajong from the

Commonwealth for \$1m. It is noted that this was at the upper limit of the range approved by the Government.

Acquisition of the Hotel Kurrajong, while implemented effectively, was prior to a formal agreement being reached with an international institution. This opened up the project to financial risk as key assumptions underlying the viability of the project, namely affiliation and refurbishment costs, were to increase considerably. The acquisition of the Hotel in October and the signing of the MOU with Cornell in September 1993 involved more than \$3m and consequently effectively committed the Government to proceeding with the establishment of the AIHS.

Decision (i) covered the matter of alternate options for the building to minimise risks which could arise from the project. An attachment to the submission provided to the Government addressed the “*worst case*” scenario should the AIHS fail to attract the projected enrolments. The submission stated that the refurbished Hotel Kurrajong could be used by the CIT to provide student accommodation and provide a training facility for the expansion of CIT hospitality courses. This alternative use for the Hotel Kurrajong was further stated to have an annual deficit of some \$770,000, but to also generate future savings in the region of \$14m in capital outlays if new facilities were to be built by the CIT. The source of these estimated figures is unknown.

The refurbishment did include rooms and standards that permitted alternate uses, as has subsequently occurred. The AIHS, through its Hotel Kurrajong, has generated “function” revenue from alternate use of these rooms since opening through to July 1996. This type of alternate use, while beneficial, could not be considered to be sufficient to meet the “alternative uses” envisaged in the Government approval.

Decision (k) was implemented with the Cornell affiliation arrangements being in place in 1994.

Approval for Extra Funding (22 December 1993)

Decisions Taken

In this approval, the Government:

- (a) agreed to the provision of \$3.5m in additional funding as a repayable capital advance to cover higher refurbishment costs and an increase in affiliation costs with Cornell;
- (b) agreed that refurbishment works on the Hotel proceed;
- (c) agreed the Chief Minister make a public announcement and host a formal signing of the agreement in early 1994; and
- (d) agreed that CIT provide quarterly reports to Treasury on the financial aspects of the AIHS.

Implementation of the Decisions

Decision (a) was an approval for \$3.5m extra funding. The April 1993 Government decision had approved funding up to \$16.9m for the establishment of the AIHS. The MOU negotiated with Cornell University and signed on 29 September 1993 and the increase in the initially estimated cost from \$10.0m to \$11.1m for the refurbishment of the Hotel Kurrajong rendered the existing approved \$16.9m significantly less than the actual emerging establishment costs. The additional \$3.5m made the total approved funding \$20.4m. Comment on the increase in affiliation fees is included in *Chapter 4*.

The submission to Government in December 1993 for additional funds was made at a stage where the AIHS

project had already progressed to a point where its termination would have had adverse consequences for both CIT and the Territory's educational standing. In addition, breaking the MOU with Cornell would have impacted the ability of the CIT to pursue affiliation with any other internationally recognised partner.

The audit has been advised that prior to the signing of the MOU, progress of the negotiations with Cornell were subject to frequent briefings to the responsible Minister and consultations with Treasury officials and Chief Minister's Department executives. It was also advised the other agencies agreed with the higher sum.

Decision (b) was implemented with commencement of the refurbishment in early 1994. Cost over-runs occurred in the refurbishment. Comment on these cost over-runs is provided in *Chapter 3*.

In relation to *Decision (d)*, it is understood that the requirement for quarterly financial reports to be provided to Treasury has been met.

2.5 CONCLUSION

In most respects, the establishment of the AIHS appears to have been implemented in accordance with the decisions of the Government. However, the timing of submissions to Government and the activities in relation to the establishment, indicate that some of the decisions made by Government tended to ratify activities already well under way. Arguably, this had seen the project pass the point of no return, even though additional risks and large cost increases were emerging which impacted the project's overall viability. The likely cost of the affiliation with Cornell, in particular, appears to have been seriously under-estimated.

3. HOTEL KURRAJONG REFURBISHMENT COST OVER-RUNS

3.1 INTRODUCTION

A fully operational hotel was seen as an essential part of the AIHS project. The old Hotel Kurrajong was selected to fill this role, however extensive refurbishment of the old Hotel was necessary to make it suitable for use in the project. The total cost of the refurbishment was \$11.785m which included a cost over-run over the approved budget of \$685,000 (6%).

The audit included a review of the management processes used for the refurbishment project. This Chapter presents the results of that review.

3.2 AUDIT APPROACH

The approach to this task involved reviewing all correspondence, submissions and reports which documented the refurbishment of the Hotel Kurrajong.

Interviews and discussions were held with senior officials from ACT Public Works Branch of the Department of Urban Services, as well as senior officials of CIT and AIHS.

3.3 SIGNIFICANT FINDINGS

- *Management was generally poor in relation to controlling costs and variations towards the end of the project and this contributed to cost and time over-runs occurring;*
- *The time-frame pursued for completion of the refurbishment increased the inherent risks of running over budget or over time, risks which*

were realised with an over-run of budget and delay in completion;

- *The cost over-run can be partially attributed to the failure of the private firm appointed as Construction Manager to correctly forecast the estimated costs to complete the project. This contributed to decisions for extra building works variations being taken when effectively no budget was available;*
- *The failure of the Construction Manager to correctly forecast the final costs of completion can be attributed to several factors, some of which were beyond its control;*
- *Given the “commercial” nature of the AIHS project and the responsibility of management to manage it in such a way, it is considered that CIT management should have insisted that the Construction Manager keep and report current, accurate and complete costings; and*
- *The impact in terms of time and costs of the numerous variations ordered by CIT and its advisors was not properly estimated by the Construction Manager, nor were the costs approved by CIT prior to the variations being actioned.*

3.4 PROJECT MANAGEMENT DELIVERY METHOD

ACT Public Works (ACTPW) was retained in June 1993 by the CIT to act as Project Manager for the refurbishment of the Hotel Kurrajong. Under the terms agreed, ACTPW would appoint specialist consultants for the design and construction of the facility. The total budget at this stage was set at \$10m.

The “*Project Management*” delivery method was chosen for the refurbishment as it was believed to be the most suitable due to the tight time-frame involved. Under this method, the client engages an agent to manage the whole project and the agent splits the work into multi-contracts which can be packaged when and as necessary.

The advantages of this method were cited as:

- allows for changes in the scope of work;
- permits design, construction, commissioning and occupation of many parts of a project to progress at the same time;
- packages for work are let progressively;
- facilitates the most competitive prices; and
- costs can be controlled by varying standards or omitting work if a cost or time over-run is expected.

However, this delivery method has disadvantages which were acknowledged by CIT in a minuted note in early 1993 when appropriate delivery methods were being debated. Specifically:

- unless a profit motive is built in, there is no incentive for the managing agent to reduce costs;
- it can promote false expectation in the minds of the client that changes can be made without affecting project cost and duration;
- the final cost may be significantly different to early estimates; and

- it is demanding on client (requires quick decisions and knowledge of implications of decisions).

The outcomes of the refurbishment project have highlighted both the advantages and disadvantages of the delivery method chosen. Had an increased lead time for the opening of AIHS been available, the cost over-run may have been averted by selecting a different delivery method. However, different delivery methods, given the nature and timing of the project, may have also generated additional unexpected costs.

3.5 INITIAL COSTING OF REFURBISHMENT PROJECT

A private firm was appointed as Design Consultant by ACTPW on 3 August 1993.

A Value Management (VM) study was undertaken in September 1993 as initial design studies had costed the project between \$12.225m and \$13.681m, and this was in excess of the estimated budget at the time. The VM study concentrated mainly on the building as the design studies had estimated the cost of the building at \$8.829m (at best) while the approved budget was \$6.9m. At the conclusion of the VM study, the building cost was estimated at \$6.996m. The VM study also identified a requirement for a basement which had not been included in the initial design studies.

Subsequent to the VM study, it was clear that the current approved budget for the refurbishment was inadequate and that a submission for increased funding would need to be put to the Government. The request for extra funds (\$1.1m) was made and approved in December 1993.

3.6 MONITORING OF CONSTRUCTION PROGRESS

A private firm was appointed as Construction Manager by ACTPW on 16 November 1993.

The refurbishment of the Hotel commenced on 10 January 1994 with the removal of asbestos.

The refurbishment project was monitored by regular meetings of a Project Control Group (PCG). The PCG was made up of representatives of the Construction Manager and the Design Consultant as well as AIHS senior management and ACTPW representatives. The PCG met in the earlier stages of the refurbishment at least fortnightly and towards the end of the project on a monthly basis. The PCG reviewed the status of the project and also dealt with issues as they arose.

The Construction Manager provided a detailed monthly report which addressed the status of the project in both completion and financial terms and also included photographs.

The Project Manager (ACTPW) also prepared a monthly report which gave an executive summary of the project's progress as well as overall financial details. Financial details of the project were recorded in the ACTPW costing system.

3.7 BUDGET OVER-RUN

The cost over-run became known to CIT on 23 December 1994 when the Construction Manager foreshadowed a cost over-run of some \$260,000. The majority of the over-run was reported on 14 February 1995 when the Construction Manager issued its January cost report. The report indicated that the budget had been exceeded by \$605,182.

On 18 May 1995, the Construction Manager advised that the over-run had risen to \$684,036. The additional costs incurred after January relate to expenses relating to contracts which were not completed until around March 1995. There were also some items of fittings, furniture and equipment (FF&E) that had not been accounted for.

The reports submitted by the Construction Manager were reviewed by ACTPW. The analysis performed by ACTPW notes that *“PCPL has undertaken its duties of Superintendent and has acted properly for the works to be done given the client requests and the need to meet a critical program and complete the works. Whilst the Construction Manager may have failed to provide proper advice to the Principal, it was not negligent in discharging the duties of the Superintendent and acted with authority, noting that the client representative was involved in all decisions”*. In addition, the brief notes *“CIT has been provided with works to the value of the over-run”*. The analysis also acknowledged that a *“climate of continual change”* existed during the project.

The CIT response to this brief was that regardless of whether CIT has been provided with works to the value of the over-run, the sustained failure to alert anyone to the prospect of over-run meant that CIT never had reason to substantially scale back its requests for changes and additions to the project.

In relation to this matter, CIT management have advised that CIT had accepted the ACTPW recommendation for the selection of Construction Manager, and that neither the Manager’s progressive reports, ACTPW comments, nor prior experience provided any ground for doubting the quality of the Project Manager’s costing processes until late December 1994.

3.8 REVIEW OF PROJECT OUTCOMES BY AN INDEPENDENT CONSULTANT

As a result of the over-run, a suitably qualified Independent Consultant was retained by ACTPW to review the outcomes of the project and the circumstances which led to the over-run.

The Independent Consultant concluded that the quality and functionality aspects of the project delivered better than expected outcomes.

The time-frame for completion of the project slipped from September 1994 to January 1995. The Independent Consultant said that the following had a significant impact on the time-frame:

- late start in construction;
- extension to scope of works to include basement and roof plant rooms as well as the reconfiguration of hotel suites (A and B Blocks) after lay-outs were agreed and construction was well under way;
- late completion and approval of sketch plans;
- the timing of the involvement of Cornell University advisors and appointments to the AIHS after design solutions had already been agreed;
- standard of contract documentation; and
- late finalisation of FF&E.

The Independent Consultant identified several factors which contributed to the budget over-run:

- handling of changes/variations did not include an appropriate level of evaluation and costing prior to work proceeding on site;

- the contingency sum was considered too low for this type of project (it should have been in the region of 7.5%, not just under 5%) and was reduced by too much, too early in the project;
- the number of variations (in excess of 480) close to the conclusion of the project resulting in a backlog of processing and therefore reporting of variations;
- the Construction Manager provided insufficient resources which resulted in inaccurate reporting of the anticipated final end cost of the project by the Manager because variations were not being chased and processed;
- inadequate documentation of the student accommodation blocks resulting in a large number of variations; and
- reliance on the Construction Manager for in-house cost planning after Final Sketch Plan (FSP) approval had been given.

The Independent Consultant apportioned blame for the factors leading to the over-run to all significant parties to the project.

According to the Independent Consultant, CIT:

- instigated numerous (and a number of significant) changes, even during the latter stages of the project;
- did not advance the development of Furniture, Fittings and Equipment (FF&E) during the early stages of the project and should have appointed a hotel manager earlier to assist in this process;
- did not exercise sufficient control with respect to the input of special advisors to CIT and AIHS;

- did not support the proposal to appoint a specialist consultant for FF&E (this fact is contested by CIT); and
- did not maintain adequate contingency allowances.

According to the Independent Consultant, ACTPW in its role of Project Manager:

- did not advance the development of FF&E during the early stages of the project;
- did not adequately scrutinise cost reporting information supplied by the Construction Manager;
- did not implement appropriate change management procedures (although these were proposed); and
- did not implement an appropriate contingency management strategy.

According to the Independent Consultant, the Construction Manager:

- incorrectly forecasted the end cost of the project;
- failed to process variations in a timely manner which contributed to the incorrect forecasting of costs;
- should have addressed the issue of inadequate tender documentation even at the expense of some loss of time for certain packages of work; and
- did not have the resources or expertise to manage the FF&E process; allocation of resources to this left the main contract resources depleted.

According to the Independent Consultant, the Design Consultant:

- did not bring to a timely conclusion the Final Sketch Plans in order to achieve approval and sign off;
- under-resourced the project in early stages; and
- prepared incomplete contract documentation for tender which resulted in numerous variations.

According to the Independent Consultant, a consulting firm engaged to handle FF&E:

- took an excessive amount of time to schedule and subsequently detail the FF&E;
- were directly responsible for numerous delays associated with the FF&E component; and
- experienced great difficulty in designing the FF&E within the allocated budget.

The CIT management response to the Independent Consultant report contests the majority of the points made in relation to CIT. In fact, CIT management does not accept the report to the extent they have requested that a copy of their response “must be attached to all copies of the report”. The CIT management response in many parts states “because this statement is wrong (in part / for the most part, and questionable in the remainder), the whole report therefore lacks credibility”. The CIT response also states on a number of occasions, “..... *it in no way should be used as an excuse for the Construction Manager and ACTPW advising CIT when they did of the budget over-run*”.

3.9 FINAL OUTCOME OF THE INDEPENDENT CONSULTANT REVIEW

The final outcome from the review and the advice of ACTGS was that no legal action was pursued by ACTPW or CIT. On 9 October 1995, the Construction Manager sent a “Without Prejudice” letter to ACTPW with a self-assessment of their performance. The letter details many of the explanations that were previously put forward and also accepts that their cost reporting was below standard. They offered to reduce a portion of their fee that related to cost control management (net \$12,118), offset to a certain extent by an “over-delivery” on their part in regard to time control. This offer was accepted by CIT.

3.10 AUDIT REVIEW OF DOCUMENTATION

A review of correspondence, reporting and minutes of meetings throughout the course of the project supports the majority of the conclusions drawn in the Independent Consultant’s report. There are numerous references in the project correspondence indicating concern from both the Construction Manager and ACTPW about the progress of key facets of the project and the impact of CIT and its advisors on the design process, which in turn was impacting the production of “For Construction” drawings. Concern regarding the performance of the Design Consultant and the consultant for FF&E was also highlighted early in 1994.

Problems with FF&E were highlighted as early as March 1994 when the timeliness aspects of completion of the FF&E schedules were raised. Concern with FF&E continued to be raised and in May, ACTPW, in their Project Manager’s report, stated that the FF&E component would have significant cost over-runs. By August 1994, the final FF&E schedule was submitted showing a cost over-run of \$288,000. The Construction Manager said that

the inadequacy of the FF&E budget had been demonstrated early on and that CIT had undertaken to buy some items of FF&E second-hand, but this did not occur.

3.11 CONCLUSION

A review of the Project Manager's and the Construction Manager's monthly reports indicates that they were generally informative and, read in conjunction with PCG minutes, indicate that a good reporting and monitoring framework was in place. As the Construction Manager and the Project Manager were reporting on two different budgets, the information contained in the Construction Manager's report was not easily reconciled to the Project Manager's report. However, it appears that the client, CIT and AIHS, was fully aware of the differences and was not misled in any way.

While the reporting framework appeared to be present and operating for most of the project, it is also apparent that this activity broke down towards the end of the project resulting in incomplete cost information being used as a basis for decisions.

No Construction Manager's report was provided at the end of November and it was in this period that the emerging cost over-run would have shown in the report.

The over-run cannot be attributed solely to a single factor or a single party. A review of the project from inception to conclusion indicates the cost over-run was the cumulative effect of many factors.

Overall, it can be concluded that the tight time-frame pursued resulted in a high risk of the refurbishment going over budget and time and therefore the project required careful and close management. As it eventuated, management towards the end of the

project was generally poor in relation to controlling costs and variations and this resulted in the risks of cost and time over-runs being realised.

4. EARLY OPERATIONS COMPARED WITH THE PRE-COMMENCEMENT PROJECTIONS

4.1 INTRODUCTION

The audit included an assessment of whether the early operations of the AIHS conformed with the projections and other data provided to the Government during the establishment decision-making process. The scope of the task encompassed a comparison of early operations of the AIHS with projections and other data provided to Government during the decision-making process. This Chapter provides the result of the assessment and also some issues noted while undertaking the assessment.

4.2 AUDIT APPROACH

The approach to this task involved documenting the data and projections which were provided to Government during the decision-making process and comparing them to the actual operations of the AIHS to 31 December 1995, i.e. the end of the first year of operations, as evidenced by audited financial statements and other information prepared by management.

For the purposes of this task, data and projections provided to Government are deemed to be those projections, data, reports or other information provided in submissions to the Government or in attachments to the submissions.

4.3 SIGNIFICANT FINDINGS

- *The comparison shows that overall the assumptions and amounts used as the basis for initial projections were badly estimated;*

- *The ability to attract enrolments, and therefore the generation of tuition revenue, was significantly over-estimated in initial projections prepared to support the case for establishment of the AIHS;*
- *Costs of establishing the AIHS were significantly under-estimated in all projections supporting the establishment of the AIHS;*
- *The costs of the affiliation with Cornell were significantly under-estimated in the projections submitted to Government to support the establishment of the AIHS; the estimates were subsequently increased and approved by the Government;*
- *The significant increase in the estimates for enrolment numbers and tuition fees, presented in the submission to the Government as support for the \$3.5m increase in funding sought and approved in December 1993 was not financially justified by the increased involvement agreed with Cornell;*
- *The costs of refurbishing the Hotel Kurrajong were under-estimated in submissions leading to the Government approving the establishment of the AIHS; the estimates were subsequently increased and approved; and*
- *If projected revenue and expenditure estimates had more closely approximated actual levels, the financial projections would have indicated the project was not viable in terms of the AIHS being able to repay its debt within a reasonable time-frame.*

4.4 PROJECTIONS AND DATA PROVIDED DURING DECISION-MAKING PROCESS

Introduction

The projections and data on which the Government based its decision to establish the AIHS were provided in three distinct stages:

- (i) in the initial submission to Government (December 1992) on which the “in-principle” approval to establish the AIHS was based;
- (ii) in the April 1993 submission to Government on which was based the firm decision to proceed with the purchase of the Hotel Kurrajong and the establishment of the AIHS and to provide funding of \$16.9m for the project; and
- (iii) in the submission to Government (December 1993) on which the decision to provide \$3.5m in additional funding was based.

December 1992 Government Decision

The initial submission to Government on 19 December 1992 was not supported by a detailed financial analysis. It did, however, provide an estimate of costs of \$12.5m, comprising refurbishment and fit-out works of \$10m, provisions of initial working capital of \$1.4m, and financing costs of \$1.1m. Subsequent events as described later in this report proved the requirement to be much greater than \$12.5m.

The submission also contained extracts of a demand market study completed by a firm of marketing consultants. The extracts seem to have emphasised the positive aspects contained in the report. Negative points were either excluded or referred to vaguely.

Further comments on this aspect are provided towards the end of this Chapter.

It was also noted that the submission contained a preliminary discussion of possible international affiliations (in an attachment to the submission). The attachment showed that initial discussions with Cornell had indicated a fee “in the order of US\$5-6m over a period of three to four years”. Costs of this magnitude were not taken into account in the initial financial model submitted to Government in April 1993.

April 1993 Government Decision

The approval for the establishment of the AIHS was granted in April 1993. The approval was for funding at \$16.9m to be made available for the AIHS. This approval was based on a detailed submission to Government, which was supported by a number of attachments including a financial model prepared by a private firm of financial consultants, a risk analysis and an independent “existence of market” report from a well known firm of economic consultants.

The detailed independent financial analysis referred to in the submission to the Government was presented as strong evidence that the project would quickly generate surpluses (three years). It is understood that both the content of the financial analysis and its presentation to the Government were the subject of detailed discussions and agreement with officials from Treasury and the Chief Minister’s Department.

The financial consultants’ report concludes “*the project is financially viable*”. However, it also concludes that “*the rate of return, whilst adequate to support the project’s overall viability, would not, in our view, be sufficient to attract private investment*”.

The economic consultants were requested by CIT to provide advice on the existence of a market for the AIHS. The consultants' advice was that there was sufficient evidence regarding the existence of a market to justify proceeding with the AIHS. Further comments are provided on the consultants' market report at the conclusion of this Chapter.

December 1993 Government Decision

In December 1993, the Government approved an additional \$3.5m in funding. This increased the total funding approval to \$20.4m. The increase was to cover higher than anticipated affiliation costs with Cornell and the increase in refurbishment costs. This submission was supported by a major change in the assumptions underlying the original financial model which had been used in obtaining the Government's decision to establish the AIHS (April 1993). The submission asserted that the additional costs of affiliation with Cornell and increases in the cost of refurbishment (see *Chapter 3*) would be more than offset by large increases in the number of enrolments achievable and increased tuition fee charges which would be generated by the greater involvement of Cornell. Further comment on the affiliation fees is provided later in this Chapter.

This decision dramatically varied the estimates etc., on which the earlier decisions were based. Because of the extra costs, major additional revenues needed to be generated and this was to be achieved according to the submission through increasing the fee chargeable by approximately 20% and the projected enrolments by 33%. *Tables 4.1 and 4.2* show the changed estimations in more detail.

The submission to the Government was supported by a summary of the impact of the changed estimates on the financial model used for the April 1993 submission. A detailed model was not provided, nor were these important changes in estimates supported

by any independent assessment. The only support was a summary of the financial impact of the changes which was prepared by CIT management. The summary was not independently reviewed.

Detailed financial analyses were not attached to the December 1993 submission, however it is understood they had been provided to the key agencies involved (Treasury and CMD) and were the subject of extensive discussion with them. The financial summary provided to Government was the negotiated result of those discussions.

4.5 ASSUMPTIONS AND OUTCOMES AS AT THE END OF 1995

A summary of a comparison of the projections and data provided to Government in April 1993 and also the revised projections provided in December 1993 with the actual results achieved is contained in *Table 4.1* and *Table 4.2*. The actual results of the operations have been extracted from the audited financial statements for the years ended 31 December 1993, 1994 and 1995. The information available in the audited financial statements has been supplemented by financial reports and other information prepared by AIHS management.

AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 4.1 Revenue Projections and Actuals From Early Operations

Enrolments Revenue	April 1993 Projection	December 1993 Projection	Actual 31/12/95 (i)
Enrolments - Term 1/1995	30	40	9
Enrolments - Term 2/1995	30	40	7
Enrolments - Term 3/1995	30	40	9
Enrolment - Term 1/1996	30	40	12
Enrolments - Term 2/1996 (ii)	30	40	10
Enrolments - Term 3/1996 (ii), (iii)	30	40	11
Tuition Fee (Per Annum)	\$15,000	\$17,000 - \$20,000	\$17,700
Tuition Revenue (iv)	\$900,000		\$303,361
Boarding Fees Per Term	\$3,150		\$3,320
Boarding Revenue	\$567,000		\$169,360
Rooms in Hotel	20 (38) for Year 2		26
Occupancy in Hotel	40%		51%
Average Rate Per Hotel Room	\$84		\$122.50
Room Revenue	\$245,280		\$460,900
Covers Per Week	940		880
Average Cover Charge	\$15.23		\$19.57
Food and Beverage Revenue	\$939,633		\$1,077,421
Total Revenue	\$2,651,913		\$2,105,171

Table 4.2 Cost Projections and Actuals from Early Operations

	April 1993 Projection	December 1993 Projection	Actual 31/12/95 (i)
Salaries and Related Costs	\$2,349,773		\$3,340,750
Communications, Marketing and Travel	\$820,758		\$1,998,927
Affiliation Costs	\$340,000		\$1,114,764
Other Costs	\$1,660,610		\$1,493,504
Interest Costs	\$1,317,197		\$1,991,209
Depreciation	0		\$600,235
Refurbishment/Capital Costs	\$8,828,000	\$11,100,000	\$12,106,262
Acquisition Cost	\$1,000,000	\$1,000,000	\$1,000,000
Debt at End of Year	\$13,390,657		\$20,210,000
Deficit at End of Year 1	\$3,836,425		\$8,434,218

Notes

- (i) Figures to the end of December 1995 except for student enrolments.
- (ii) Term 2/1996 and Term 3/1996 do not include "Semester in Australia" students.
- (iii) Term 3 enrolments not yet finalised.
- (iv) Tuition revenue is net of scholarships which amounted to \$21,794 for the year ended 31 December 1995.

Comparison Of Projections To Actual Operations

As the preceding table illustrates, the initial enrolments and financial operations of the AIHS were significantly different from the projections and data provided to Government as support for decisions to establish the AIHS. At the end of 1995, after the first year of operations, the operating result of the AIHS project was some \$4.6m behind the projections submitted to the Government in April 1993 and some \$6-7m behind the revised projections submitted in December 1993. The revenue and expense items which have contributed to the variation from the original projection are as summarised in *Table 4.3*.

Table 4.3 Revenue and Expense Items Contributing to Variation From April 1993 Projection

	\$m
Negative Movements From Projections	
Student Fees	0.89
Salaries and Related Costs	0.99
Communications, Marketing and Travel	1.17
Affiliation Costs	0.77
Interest	0.67
Depreciation	<u>0.60</u>
	<u>5.09</u>
Positive Movements From Projections	
Hotel Revenue	0.35
Other Costs	<u>0.17</u>
	<u>0.52</u>
Increase in Projected Deficit	\$4.57m

Brief comments on each of these revenue and expense items follow.

Enrolments and Student Fees

The failure to attract the level of enrolments anticipated in the initial projections represents the largest long term shortfall for the AIHS. The impact of the low early enrolments will have an impact on future revenues as the first year's small intakes move through successive years. At 31 May 1996, the enrolments for the 1996 intakes stood at 15 and 8 for Terms 1 and 2 respectively, with another 11 students enrolled in the May intake under the "Semester in Australia" program. This represents a total deficiency of some 102 students in comparison to the April 1993 projections and 142 on the December 1993 model. The introduction of the "Semester in Australia" program was a joint AIHS/Cornell initiative

introduced to offset the shortfall in degree course enrolments.

Reference needs to be made to the negative publicity appearing during 1995 and 1996 in relation to the AIHS. This publicity has apparently been availed of by the AIHS private “for profit” competitors to influence potential students away from the AIHS. The actual impact of this on enrolment numbers cannot be estimated.

Salaries and Related Costs

Actual expenditure on salaries and related costs incurred during the establishment phase were far greater than the estimates made in the submissions to the Government. The estimates were too low considering the amount of “start-up” work involved in opening not only an educational facility but also a fully operational hotel with food and beverage outlets. The initial estimate of salaries and wages for the initial year of the AIHS project was \$286,250 (including on-costs). The financial statements for the years ending 31 December 1993 and 31 December 1994 (i.e. before operations commenced) disclose \$389,328 and \$602,383 respectively, a difference of some \$700,461.

For the year ending 31 December 1995, actual salary costs exceeded projected costs by \$285,516. The Hotel was not fully operational until March 1995 which would have been expected to contribute to lower annual costs.

Communications, Marketing and Travel

This area of expenditure represents the largest contributor to the project deficit to 31 December 1995. It is evident that the original financial projections submitted to Government grossly underestimated the resources required to market a brand

new educational institution to national and international markets. The enrolment levels achieved to date also seriously question the effectiveness of this expenditure and highlight the difficulty of establishing a full-fee paying institution in the “market-place”.

Affiliation Costs with Cornell

The actual amount paid to Cornell was significantly greater than was projected when the Government gave approval to establish the AIHS.

The December 1992 submission, on which the Government’s “approval in-principle” decision for the AIHS project was formulated, contained the following:

“in the case of Cornell, the fee based on initial discussions is anticipated to be in the order of \$5-6m over a period of three to four years”.

The financial model submitted to the Government in April 1993 estimated the Cornell affiliation fee at \$250,000, however the signing of the Memorandum of Understanding in September 1993 established the cost at US\$3.0m. While this is less than the \$5-6m discussed in December 1992, it is significantly more than the figure used in April 1993.

In relation to this matter, CIT management have advised that the initial fee discussed (\$5-6m) was suspected to be an “ambit” requirement and this was confirmed when more detailed discussions with Cornell got under way in early 1993. The fee that then looked likely (\$250,000) was based on a fairly modest set of CIT expectations as to what services Cornell would be willing to provide.

The December 1993 submission addresses the additional involvement Cornell was to have. The submission states:

“In addition to initial assistance with curriculum development, access to faculty and the international recognition of its program initially envisaged, SHA (Cornell) will:

- (i) place its name on the testamur, thus giving the AIHS degree the highest international recognition;*
- (ii) allow the use of the SHA name in AIHS marketing and provide marketing assistance and market intelligence, both during the establishment and ongoing operations;*
- (iii) assist in writing, reviewing and updating the AIHS curriculum;*
- (iv) provide regular monitoring of curriculum, faculty and student performance;*
- (v) develop learning materials for the AIHS program and provide annual updates;*
- (vi) assist with the recruitment of the Dean and other academic faculty;*
- (vii) provide AIHS faculty development services including access to SHA programs;*
- (viii) provide SHA library access and other information services to the AIHS;*
- (ix) assist with the development of policies and practices for the AIHS;*
- (x) provide advice and assistance with obtaining sponsorship, including the support of SHA*

alumni in the establishment and ongoing operation of the SHA programs; and

(xi) provide architectural advice on the refurbishment of the Hotel Kurrajong”.

Of the additional involvement listed, it is considered that only (ii) and, to some extent, (i) would realistically have any short term impact on enrolments and tuition fees. It could be conceivably argued that the impact of the changes will be beneficial in the longer term, however the claim that major increases in enrolments would arise from the first intake of students was clearly not well founded.

Since the commencement of operations, the impact on enrolments of the affiliation with Cornell has been significantly less than expected. It had been generally assumed that, given the reputation of Cornell in the world tertiary hospitality education field, the Cornell affiliation would produce considerable early enrolments. This expected early impact did not occur, however there are some benefits now emerging from the affiliation through students being referred to the AIHS from Cornell. In relation to these benefits, AIHS management estimates that the AIHS/Cornell “Semester in Australia” program and referrals of Cornell applicants to the AIHS should, on conservative estimates, generate additional net revenue of some \$2.0m over the balance of the agreement with Cornell.

The fee, payable over five years, is fixed in the contract signed with Cornell. The terms of the contract are such that unless Cornell grants relief, the fee must be paid.

Interest Costs

The higher than projected interest costs shown in *Table 4.3* are the result of higher refurbishment costs

in conjunction with the timing of the work. The initial April 1993 financial model was based on the refurbishment being done in three stages over a two-year period. The actual interest costs have been offset to some extent by the Government agreeing to a lower interest rate of 8.5% compared with the original intentions of around 12% for long term borrowing.

Depreciation

The depreciation costs used in the April 1993 model appear to have been based on rates which reflected the length of the lease of the building. These rates, however, were clearly not realistic. The rates were applied to the initial lower estimated cost of refurbishment and take into account the timing of construction then being proposed. The actual depreciation charges reflect the higher refurbishment costs and the timing of the construction which was completed before operations commenced. The actual depreciation charge also reflects the shorter useful life of many of the items purchased such as computer and office equipment, as well as building fit-out which generally requires refurbishment in around seven to ten years.

Hotel Operations

The operations of the Hotel, for both room revenue and food and beverage, have exceeded the initial projections of April 1993. In relation to room revenue, this has been the result of having 26 rooms available in comparison to the 20 allowed for in the initial year of the April 1993 model, and better than expected occupancy and room rates. However, to accord with projections for future years, the Hotel will have to achieve consistently higher occupancy and room rates to compensate for the lower number of rooms. The original model assumed that the Hotel would eventually have 38 rooms rather than the 26 actually available. Food and beverage revenue was better than projected, mainly due to a higher charge

per cover which was marginally offset by the lower number of covers sold.

4.6 MARKET DEMAND STUDIES

Earlier in this Chapter, reference was made to market demand studies which were used to support submissions to Government for the establishment of the AIHS. Some comments in relation to two studies follow.

Initial Marketing Consultancy

As indicated earlier, the extracts provided to the Government from the initial marketing report seemed to emphasise positive points, but either excluded or vaguely referred to negative points.

The initial study's conclusion, which was not attached to the submission to Government, is reproduced following.

“As we see it, the market is close to balance between future demand and supply of facilities and a new school should be based in the centre with the greatest demand and the highest reputation for academic excellence and hotel training. This also reflects the tendency of Australian students to stay within the home state if possible.

Internationally, a new school can share in the national marketing programs, but will be dependent on building a reputation unless linked to an existing institution.

In the short term, domestic demand for a competitively priced diploma program may enable the school to secure a share of a market which is seen as relatively limited in size and subject to strong economic pressures. In the longer term, a degree program will be essential and be internationally

competitive and attract a share of overseas students of, say, 40% of the student body.”

A reading of this conclusion (and the remainder of the report) generates the view that as the existing Australian market was relatively limited in size and subject to strong economic pressures, “market demand” by Australians in the short term for a tertiary institution such as the AIHS was not great.

Later Marketing Consultancy

Reference was also made earlier in this Chapter to the report by a major consulting economics firm on “market demand” which was used as supporting evidence to proceed with establishment of the AIHS.

The major conclusion of the report was as follows:

“from the evidence available to us and on the assumption that the affiliation with Cornell University is successfully negotiated, we consider that the AIHS would be competitive in terms of course content, quality and price, relative to both domestic and international competitors. It is on that basis that we consider there is sufficient evidence regarding the existence of a market to justify proceeding with the AIHS”.

The report stated that demand studies previously undertaken paid too much attention to forecasting the growth in tourism employment rather than focusing on the likely market share of the AIHS. The report states *“the future success of the AIHS is the competitiveness of the AIHS, as this will determine its ability to attract students, whether they come from the existing market or from growth in demand for hospitality managers”.*

The report states that *“competitiveness of the AIHS”* will determine its success but the submissions to

Government make little reference to the need to compete, giving greater emphasis to the “*uniqueness*” of the AIHS course attracting students.

Loss of Relevance of the Market Studies

It must be noted that the two market studies lost the major portion of their relevance when the December 1993 decision was taken that fees charged would be significantly higher than previously anticipated. Both the market studies were based on a fee of \$15,000 p.a., however the December 1993 decision lifted the fee to more than \$17,000 p.a.

4.7 HOTEL KURRAJONG REFURBISHMENT COSTS

As presented in *Chapter 3*, the refurbishment costs of the Hotel Kurrajong were significantly greater than estimated when AIHS establishment decisions were being made. The additional refurbishment cost has had a significant impact on the viability of the AIHS.

4.8 CONCLUSION

The independent financial study concluded that the project would become non-viable “*should cash flows decrease by more than \$650,000 per annum*”. The April submission to the Government concluded that “*..... the AIHS would remain viable even with an increase in total net costs of \$650,000 per annum*”. *Table 4.2* in this Chapter shows that by December 1995, the cash flows had decreased by some \$4m from those in the study. Had more reasonable cost estimates been used, it is unlikely the project would have been shown as viable using the consultants’ financial model.

The early operations of the AIHS did not conform to the data and projections provided to the previous Government during the establishment decision-making process. Overall, the assumptions and

amounts used as the basis for initial projections were badly estimated.

The deviations from projections generated progressive approvals from Government to commit further funds. At the “in-principle” approval in December 1992, the amount was \$12.5m. The April 1993 “approval to establish” decision raised the amount to \$16.9m and the December 1993 “additional funds” decision further increased the amount to \$20.4m.

5. FINANCIAL STRUCTURE

5.1 INTRODUCTION

An objective of the audit was to assess whether the financing arrangements in place to fund the AIHS establishment costs and initial operating losses are appropriate. This Chapter addresses the outcome of the assessment.

5.2 AUDIT APPROACH

The approach to this task involved reviewing the current financing arrangements in place for the AIHS and assessing the effect of those arrangements.

Alternative financing arrangements are not considered in this Chapter. They are outlined in *Chapter 9*.

5.3 SIGNIFICANT FINDINGS

- *The financial structure of AIHS, with only interest-bearing debt funding and no equity, was not appropriate for a venture requiring significant capital investment such as the AIHS; and*
- *The current fixed interest rate chargeable on the debt funding is favourable to the AIHS.*

5.4 CURRENT FINANCING ARRANGEMENTS FOR THE AIHS

Introduction

The AIHS is currently funded by the ACT Government on a 100% debt basis. The interest rate has been set at 8.5% fixed (from 15 November 1994) for the remaining life of the loan. The loan is

categorised in the 31 December 1995 annual financial statements of the AIHS as being in two parts:

	\$
Operating Capital Advance	7,425,000
Capital Refurbishment Advance	<u>12,785,000</u>
	<u>\$20,210,000</u>

The ACT Government has agreed to provide loan funding of up to \$27.8m for the AIHS until the end of 1997-98. The annual additional funding approval is set at:

	\$
1995-96	3.4m
1996-97	2.1m
1997-98	<u>1.9m</u>
	<u>\$7.4m</u>

At 30 June 1996, borrowings totalled \$23.1m.

The majority of the loan bears interest at 8.5% per annum. There are no additional fees such as facility fees or draw-down fees which would commonly be charged by a private sector lender.

Under the terms of the financing arrangement set by the Government in 1995, \$3.7m (50%) out of the additional \$7.4m in increased funding is to be provided by CIT. The arrangement is that funds from CIT will be provided at the reported 90-day bank bill rate plus a 0.5% premium. At 30 June 1996, CIT funding accounted for \$1.5m.

Capital Intensive Nature of the AIHS Project

The AIHS is a capital intensive operation. This is illustrated in the 31 December 1995 balance sheet which shows at that date, non-current assets (\$12.6m) represented 97.6% of total assets.

It is unusual for a capital intensive project, such as the AIHS, to be 100% debt funded. Normally, it would be expected that some permanent capital, or its equivalent, would be invested in the operation by its owners. This would have the impact of reducing the interest expense, although this would then lead to the question of other reward for the capital provider.

Although no “correct” level of permanent capital for an entity such as the AIHS can be precisely calculated, a contrast with organisations with which it is competing gives a clear illustration of the difference in the AIHS capital structure from what would be expected. The two contrasted organisations have fixed capital which represents between 90% and 61% of the total assets employed by the entity.

Table 5.1

	Capital \$m	Total Assets \$m	Capital %
Bond University (i)	95	105 (liabilities)	90
Blue Mountains (ii)	8	13	61
AIHS	-	12.9	-

- (i) Bond is limited by guarantee to a nominal amount of \$50, the “capital” is by way of unsecured, non-interest bearing loans from the sponsor corporations of \$95m as at 31 December 1994.
- (ii) Capital is shareholders’ funds extracted from the annual return to the Australian Securities Commission of Mawland Education Pty Limited for year ended 30 June 1995.

It is noted that none of the submissions made to Government in relation to the establishment of the AIHS made reference that its proposed financing arrangements were unusual for an operation of its nature.

Favourable Interest Rate

The rate of interest payable on the AIHS loan at 8.5% p.a., fixed for the life of the facility, compares to prime fixed rates of around 9% which might be attainable from private sector lenders, to which would need to be added a risk premium of around 3% (treating the AIHS as a private entity and ignoring any

Government guarantee) and a fee structure of around 75 basis points, giving a total cost of around 12.75% p.a. From the AIHS perspective, the interest rate on the current funding arrangement is therefore significantly better than would be available to a private organisation.

Impact of the Interest Payable

Even though the interest rate is favourable, the amount of interest payable is an onerous and growing burden for the AIHS. For the year to 31 December 1995, AIHS had an interest expense of \$1.5m or 21% of total operating expenses for the year. In the year to 31 December 1996, the interest expense is budgeted by management to be \$1.9m or 32% of total operating expenses.

Deferred Fee Payment to Cornell and Foreign Currency Exposure

The payment of the amounts due to Cornell has been deferred to 2000-01. It is expected that US\$1.0m will be outstanding to Cornell as at 31 December 1996, which is to be repaid in annual instalments of US\$200,000.

Following negotiations in 1995 with Cornell University, there was agreement to reduce the annual establishment fee component by \$200,000 for each of three years from 1995-96.

Cornell has agreed that repayment of the amounts foregone plus an interest charge of 7% p.a. would begin when average enrolments reach 40 per intake. This deferral was agreed in recognition of the financial impact of lower enrolments in 1995. Also, Cornell agreed to reduce the tuition fee advances from contracted fixed amounts to actual fees earned on tuition leading to three-year estimated savings of \$600,000.

The deferral of the amounts due to Cornell is effectively an interest-bearing borrowing which is being used to minimise the draw upon ACT Government funds.

The fees payable to Cornell expose the AIHS to foreign currency fluctuations. No steps have been taken to hedge this exposure. History is not necessarily a guide to future foreign currency fluctuations, but the US\$ rate against the Australian dollar at 30 June 1995 was 71.00c, and 12 months later at 30 June 1996 it was \$78.39, giving a favourable movement for the AIHS over the year of 10.4% (this ignores the rapidly changing rates on a daily basis and is the bank selling rate for smaller transactions; a better rate might be negotiable for larger transactions). An unfavourable movement of this magnitude, 10.4%, would increase the cost to the AIHS of the annual fee to Cornell by some \$26,500.

This approach to foreign exchange risks reflects agreement with ACT Treasury as to the most appropriate approach, given offsetting risks on Cornell outlays and on student revenue and the cost of hedging.

ACT Government

In the context of annual tertiary education, outlays of \$52m (CIT budget 1995-96, inclusive of AIHS costs), the ACT's 1995-96 budget for additional net borrowings of \$62m, and the need to fund a facility of up to \$27.8m for the AIHS, are a significant drain on the resources of the ACT Government.

As the interest rate of 8.5% payable by the AIHS is fixed, the Government carries the risk of additional costs if interest rates rise.

5.5 CONCLUSION

The current financial structure of AIHS, with interest-bearing debt funding and no equity, is not the structure which would be expected in such a capital intensive venture. The fixed interest rate of 8.5% is beneficial from the perspective of the AIHS for the interest-bearing portion of funding.

6. HOTEL AND HOSPITALITY COURSE FEES AND CHARGES

6.1 INTRODUCTION

There are no Australian institutions offering courses which would be direct substitutes for the AIHS degree, however the AIHS does not seem to have been able to clearly differentiate its course and its advantages from others. Because of this, in the minds of potential students, lower priced courses from other institutions may readily be seen as alternatives for an AIHS degree.

The audit included comparisons of the fees being charged by AIHS with Australian and overseas institutions providing hospitality or hotel management courses. The level of fees obviously has a significant impact on competitiveness of the AIHS to attract students and therefore price comparison is important. This Chapter provides the result of the comparisons.

6.2 AUDIT APPROACH

The approach to this task was to establish the criteria against which AIHS could be measured by identifying a sample of Australian and overseas institutions who provide educational products which may be seen as competing.

Pricing and product information from other institutions was obtained and collated. A comparison was then undertaken of charges levied by the AIHS with competing institutions, taking into account the qualification/award received.

The comparison was based on the 1996 position. The Commonwealth Government is in the process of making major changes in the ways in which public universities are to be funded, including allowing the

universities to offer full-fee places to Australian students. This will alter the future comparative situation and may assist the AIHS' price competitiveness.

6.3 SIGNIFICANT FINDINGS

- *The cost for an AIHS student is very high in comparison to all other hospitality and/or hotel management courses available in Australia except for Bond University which is slightly higher;*
- *There are a wide range of Australian universities offering degree courses which could be seen as alternatives for the AIHS course;*
- *For Australian students attending a degree course at an Australian university in 1996 which could be seen as an alternative for the AIHS degree, costs are less than \$2,500 p.a. (total cost \$7,500); the AIHS degree costs in total \$58,950;*
- *Total fees for full-fee paying diploma courses from other institutions are significantly less than for the AIHS degree;*
- *A wide range of Australian institutions, ranging from non-expensive TAFE courses through to full-fee paying private institutions, provide hotel and/or hospitality diploma courses;*
- *For overseas students, Australian University degree courses which could be seen as alternatives for the AIHS degree are considerably cheaper than the AIHS degree; and*
- *AIHS fees are competitive with overseas universities.*

6.4 AUSTRALIAN INSTITUTIONS CONFERRING DEGREES

Courses on offer from Australian institutions which confer degrees are detailed in *Table 6.2* at the conclusion of this Chapter. The comparisons are with a large number of degree courses. No institution offers an exactly similar course to that of the AIHS, however some of the courses are likely to be assessed as alternatives for an AIHS degree course in the minds of prospective students and their parents.

For Australian students, all the courses except Bond University and the AIHS fall under the Higher Education Contribution Scheme (HECS) which in 1996 had a set cost per year of \$2,442. This compares with the AIHS fees of \$18,600 for the first year, excluding accommodation. This cost difference is a significant barrier for Australian students who are not used to paying full fees.

The Bond University Bachelor of Hospitality Management degree course is the only substitutable course which requires the payment of higher fees than the AIHS.

6.5 AUSTRALIAN INSTITUTIONS CONFERRING DIPLOMAS

Courses on offer from TAFEs and private institutions which confer diplomas rather than degrees are detailed in *Table 6.3* at the conclusion of this Chapter. The courses are all much cheaper than at the AIHS, ranging from modest TAFE costs of \$500 p.a. to over \$19,000 p.a. including compulsory accommodation for full-fee paying courses. A number of the colleges offer the opportunity to study for a university degree once the diploma course has been completed, with the extra study varying from six months to a year.

In many cases, the prospective students for these courses are likely to be those not meeting the

academic requirements for entry to a degree course including to the AIHS.

However, prospective students with the necessary academic requirements for university entry may be attracted to the shorter courses (generally two years, though some are two and a half or three years) and the opportunity of starting full-time work a year earlier than degree students.

6.6 COMPARISON WITH OTHER AUSTRALIAN FULL-FEE PAYING INSTITUTIONS

Table 6.1 compares the total fees payable for an AIHS degree with other full-fee paying institutions. The table illustrates that the AIHS costs significantly more than all the other institutions except Bond University.

Table 6.1 Total Tuition Cost Comparison with Other Australian Full-Fee Paying Institutions

Institution	Qualification	Maximum Payable	Minimum Payable
International College of Hotel Management, Adelaide (i)	Associate Diploma + Diploma + Degree (2, 3 or 4 Years)	\$54,500	\$45,000
Blue Mountains International Hotel Management School (ii)	Dual Diploma in Hotel Management	\$46,350	n/a
Bond University (i)	Bachelor of Hospitality Management	\$61,170	\$56,760
Regent College (i)	Diploma in Hospitality	\$27,095	n/a
International College of Tourism and Hotel Management, Manly (i)	Diploma in Hospitality Management	\$34,400	n/a
Australian International Hotel School	Bachelor of Hotel Management	\$59,790	\$58,950

Notes

- (i) For the purposes of comparison, first year only board costs have been included.
- (ii) Blue Mountains includes accommodation for duration of 2.5 years.

6.7 OVERSEAS INSTITUTIONS CONFERRING DEGREES AND DIPLOMAS

The fees for a sample of overseas institutions which offer courses from diplomas to degrees were also identified. The degree courses in particular could be considered direct substitutes for Australian students who are prepared to pay for private tuition and also overseas students who might otherwise consider the AIHS. The courses are set out in *Table 6.4* at the conclusion of this Chapter. The table shows that the AIHS fees are competitive with overseas institutions.

6.8 CONCLUSION

The curriculum content and structure of the AIHS degree course is attractive, together with the on-campus hotel and restaurant and the industry placement. However, there are less expensive degrees; the University of Queensland (HECS fees only), for example, offers an on-campus motel and restaurant. Virtually all of the institutions (degree and diploma) which could be regarded as competing with the AIHS offer industry placements as an important part of their courses.

To date, the AIHS has not been successful in differentiating its course from others by its added quality and other benefits. This would clearly lead to potential students identifying other courses as alternatives for the AIHS degree. This makes pricing most significant in gaining market share.

As illustrated in this Chapter, the cost for an AIHS student is very high in comparison to all other hospitality and/or hotel management courses available in Australia, except for Bond which is only slightly higher than the AIHS.

The fees for the AIHS remain a significant barrier to Australian students. Unless wider acceptance of

full-fee paying eventuates and/or the Government significantly increases the fees for public universities, this resistance will continue. The revised funding arrangements being put into place by the current Commonwealth Government will allow Australian universities to offer full-fee paying places to Australian students from 1997. This may affect the “resistance”.

In terms of overseas students, the fees at the AIHS appear reasonable and competitive with overseas institutions, ignoring the costs of travel, however the cost of a degree at an Australian university is quite a lot cheaper for overseas students than at the AIHS.

AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.2 Australian Institutions Awarding Degrees in Hotel Management or Closely Related Qualifications

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	TUITION & OTHER COSTS				WEEKS PER TERM	SPECIFIC HOTEL MANAGEMENT UNITS	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TUITION FULL COURSE	TUITION OVERSEAS	ACCOMMODATION			
Australian International Hotel School, Barton, Canberra, ACT	Bachelor of Hotel Management	3 Years	Year 12 + Direct Application	Year 1: \$18,600 Year 2: \$13,450 Year 3: \$17,000	\$49,050	\$49,050	\$9,900	13 Weeks Per Term With 3 Terms Per Year	Yes	Cornell University (USA)
Bond University, Gold Coast, QLD	B. Hospitality Management	2 Years	Direct Application + Resume + Year 12	\$24,600	\$49,200	\$49,200	\$7,560 to \$11,970	14 Weeks Per Semester With 3 Semesters Per Year	No	University of Guelph (Canada); New York University (USA); Caesar Ritz Hotel School (Switzerland); Schiller University (Europe); International College of Tourism & Hotel Management; Australian International Hotel School (Australia)
Edith Cowan University (Churchlands Campus), Churchlands, Perth, WA	B. Bus (Hotel Management)	3 Years	University Entry via TISC	\$2,442	\$7,326	\$31,800	\$4,900		Yes	No
Griffith University (Gold Coast Campus), Southport, Gold Coast, QLD	B. Hotel Management	3 Years Including 600 Hours Industrial Experience	University Entry via QTAC	\$2,442	\$7,326	\$30,000			Yes	No
La Trobe University (Albury-Wodonga Campus), Wodonga, VIC	B. Bus (Hospitality Management)	3 Years + 24 Weeks Work Experience	University Entry via VTAC	\$2,442	\$7,326	\$36,000		14 Weeks Per Semester (2 Semesters Per Year)	Yes	Wilham Anglis College of TAFE

AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Northern Territory University, Casuarina, Darwin, NT	B. Hospitality Management	4 Years Including 300 Hours Work Placement	University Entry	\$2,442	\$7,326	\$30,000	UFEES \$300	14 Weeks Per Semester	No	University of East Timor; University of Maunran; University of Patimuya; University of Trandirasi; University of Nusatrandusa (Indonesia); Hong Kong Polytechnic University; Nanyang University (Singapore)
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AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.2 Australian Institutions Awarding Degrees in Hotel Management or Closely Related Qualifications (Continued)

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	TUITION & OTHER COSTS				WEEKS PER TERM	SPECIFIC HOTEL MANAGEMENT UNITS	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TUITION FULL COURSE	TUITION OVERSEAS	ACCOMMODATION			
Royal Melbourne Institute of Technology (RMIT), Melbourne, VIC	B. Applied Science (Hospitality Studies)	4 Years Including 1 Year Work Experience	University Entry via VTAC + Attendance at Course Information Session	\$2,442	\$7,326	\$42,000		14 Weeks Per Semester, 2 Terms Per Semester	Yes	Kolej Metropolitan (Malaysia); La Salle College (Singapore); William Anglis College, East Gippsland; Community College of TAFE (Australia)
Southern Cross University (Coffs Harbour Campus), Coffs Harbour, NSW	B. Bus (Hotel & Catering Management)	3 Years Including 24-Week Internship	University Entry via UAC or QTAC or Prior Study at Tertiary Level	\$2,442	\$7,326	\$39,000	\$1,980 to \$2,340	14 Weeks Per Semester, 2 Terms Per Semester	Yes	University of Humber (UK) + Internships in London & Chicago
University of NSW, Kensington, Sydney, NSW	B. Commerce (Marketing + Hospitality Management)	4 Years (Including 1 Year at Kenvale College for Operational Training + 1,200 Hours Approved Work Experience Over 4 Years)	University Entrance via UAC + Questionnaire + Personal Statement	\$2,442 + \$1,800 Operational Training (Once-Off)	\$9,126	\$37,800	\$2,100 to \$4,620	14 Weeks Per Semester	Yes	No
University of Queensland (Gatton College), Lawes, QLD	B. Bus (Hospitality Management)	3 Years Including 80 Days Vocational Experience	University Entry via QTAC	\$2,442	\$7,326	\$30,600	\$4,220 to \$4,950	14 Weeks Per Semester (2 Terms to a Semester)	Yes	No
University of South Australia, Underdale, Adelaide, SA	B. Bus (Tourism & Hospitality)	1 Year	Diploma of Business (Tourism Management) at Adelaide TAFE; or Diploma of Business (Hospitality Management) at Regency TAFE; or Diploma of Hotel Management by Swiss Hotel Association; or equivalent; apply via SATAC	\$2,442	\$7,442	\$14,500		14 Weeks Per Semester, 2 Terms Per Semester	Yes	Adelaide TAFE, Regency TAFE, Swiss Hotel Association

AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.2 Australian Institutions Awarding Degrees in Hotel Management or Closely Related Qualifications (Continued)

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	TUITION & OTHER COSTS				WEEKS PER TERM	SPECIFIC HOTEL MANAGEMENT UNITS	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TUITION FULL COURSE	TUITION OVERSEAS	ACCOMMODATION			
University of Western Sydney (Hawkesbury), Quakers Hill, Sydney, NSW	B. Hospitality Management	3 Years + 400 Hours Approved Industrial Experience	University Entry Via UAC O/S HSC Equivalent; or Year 12 or TOEFL 570, IELTS 6.0 Min.	\$2,442	\$7,326	\$31,500	\$1,820 to \$3,920	14 Weeks Per Semester, 2 Semesters Per Year	Yes	No
Victoria University of Technology (Footscray Campus), St. Albans, Melbourne, VIC	B. Bus (Catering & Hotel Management)	4 Years Including 1 Year Work Experience	University Entry via VTAC	\$2,442	\$7,326	\$45,000		14 Weeks Per Semester, 2 Terms Per Semester	Yes	No, but Work Experience Available from US, Canada & UK Hotels
<u>KEY</u>										
			HECS	Higher Education Contribution Scheme (Australian Residents Only)						
			O/S	Overseas Student Fees (Overseas Students Only)						
			QTAC	Queensland Tertiary Admissions Centre						
			VTAC	Victorian Tertiary Admissions Centre						
			TISC	Tertiary Institutions Centre (WA)						
			AHRP	Australian Hospitality Review Panel						
			UAC	NSW Admissions Centre						

AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.3 Australian Institutions Awarding a Diploma in Hotel Management or Similar Qualification

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	TUITION & OTHER COSTS			WEEKS PER TERM	SPECIFIC HOTEL MANAGEMENT UNITS	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TUITION FULL COURSE	ACCOMMODATION			
Canberra Institute of Technology (CIT), Reid, Canberra, ACT	Associate Diploma of Hospitality / Diploma of Business Hospitality	2 Years / 3 Years Respectively + Work Experience Component	Year 12 & Completion of Advanced Certificate & Associate Diploma in Hospitality	\$880	\$1,760		8 Weeks Per Term or 19 Weeks Per Semester	Yes	Associated with the University of South Australia (B. Bus) & University of Canberra (B. Arts in Tourism)
International College of Hotel Management, Adelaide, SA*	Associate Diploma in Hospitality / International Hotel Management Diploma / Degree	2 Years / 3 Years Respectively (Includes 22 Weeks Work Experience Per Year)	SACE + Direct Application	\$17,500 Including Accommodation 1st Year Only, then for Years 2 & 3, \$13,750 Per Year, Accommodation Extra @ \$175 Per Week	\$45,000	\$9,100	45 Weeks Per Year	Yes	Swiss Hotel Association Hotel School (Switzerland); Le Cordon Bleu Ecole de Cuisine of Paris (France); University of South Australia; TAFE, SA (Regency Institute)
International College of Tourism & Hotel Management, Manly, Sydney, NSW	Diploma in Hospitality Management	2 Years (Includes 30 Weeks Work Placement in Terms 3 & 4)	Year 12	Terms 1 & 2: \$9,750 (Includes Accommodation); Term 3: \$1,250 (Includes Accommodation); Term 4: Nil (Work Experience); Terms 5 & 6: \$9,750 (with Accommodation) or \$6,825 (without Accommodation)	\$34,400	\$2,925 Per Term for Terms 5 & 6 If Chosen	14-15 Weeks Per Term for 6 Terms	Yes	Hotel Consult, Cesar Ritz (Switzerland & US); International College of Hospitality Administration (Brig., Switzerland)
Kangan Institute of TAFE (VIC) (formerly Broadmeadows College of TAFE), Melbourne, VIC	Diploma in Tourism (Hospitality)	2 Years	Year 12 & Completion of Advanced Certificate & Associate Diploma in Hospitality Management	\$550	\$1,100		28 Weeks Per Year	Yes	No

AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.3 Australian Institutions Awarding a Diploma in Hotel Management or Similar Qualification (Continued)

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	TUITION & OTHER COSTS			WEEKS PER TERM	SPECIFIC HOTEL MANAGEMENT UNITS	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TUITION FULL COURSE	ACCOMMODATION			
Kenvale College, Randwick, Sydney, NSW	Advanced Diploma in Tourism & Hospitality Management	3 Years (Including 3000 Hours Work Experience)	Year 12 + Satisfactory Completion of 1 Week Trial Work Experience + Completion of Introductory Certificate & Advanced Certificate	\$7,500	\$22,500	Accommodation Available at \$75 to \$150 Per Week	9 Weeks Per Term (36 Weeks Per Year)	Yes	International College of Hospitality Administration (ICHA) (Switzerland); Oxford Brooks University, University of Buckingham (UK); University of Massachusetts, Widener University (US)
Lorraine Martin College, Darlinghurst, Sydney, NSW & Brisbane, QLD	Advanced Diploma (Hospitality Management) / Diploma of Business (Hospitality Management)	65 Weeks / 50 Weeks Respectively	Year 12 + Work Experience	\$9,975 Total / \$8,975 Total	\$9,975 Total / \$8,975 Total		50 Weeks Per Term	No	Hospitality Industry Association Inc. College (QLD); Griffith University (QLD)
Macleay College, Sydney, NSW	Diploma in Hospitality Management	1 Year + 600 Hours Paid Employment	Direct Application + Year 12 or University Degree or Mature Age	\$11,900	\$11,900		9 Weeks Per Term or 18 Weeks Per Semester	Yes	Widener University, Purdue University, California State Polytechnic (US)
Metropolitan Business College, Sydney, NSW	Diploma in Hospitality Management	57 Weeks + 600 Hours Work Experience	Completion of Certificates 2 & 4 in Hospitality	\$12,152	\$12,152		12 Weeks Per Term Average	No	No
Perth School of Hospitality & Tourism, Perth, WA	Advanced Diploma of Hospitality Management	2 Years + 700 Hours Work Experience = 2½ Years	Year 12 + Completion of Certificate in Hotel Operations, Advanced Certificate in Hotel Operations, TOEFL 500 or IELTS 5.0	N/A	\$15,500	\$4,000	50 Weeks Per Year	Yes	Edith Cowan University; University of South Australia; Griffith University; Adelaide School of Hospitality & Tourism (Australia); From 1997 - Hotel Institute, Montreaux (Switzerland)

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Regency Institute (TAFE, SA), Regency Park, Adelaide, SA	Advanced Diploma of Business (Hospitality Management); Advanced Diploma Available from June 1996	3 Years Including 6 Months Work Experience	Stage 2 of SACE or Certificate in Hotel & Catering Operations or 6 Months Work Experience in the Industry or via SATAC	\$1,000 1st Year but \$5,000 Total Over 3 Years (\$1,667 Per Year Average)	\$5,000		10 Weeks Per Term or 20 Weeks Per Semester for 6 Semesters	Yes	University of South Australia
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AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.3 Australian Institutions Awarding a Diploma in Hotel Management or Similar Qualification (Continued)

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	TUITION & OTHER COSTS			WEEKS PER TERM	SPECIFIC HOTEL MANAGEMENT UNITS	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TUITION FULL COURSE	ACCOMMODATION			
Regent College, Chippendale, Sydney, NSW	Advanced Diploma in Tourism & Hospitality Management	1.5 Years (With Fast-Track Work Modules) Available from June 1996, Includes 21 Weeks Work Experience	Year 12 & Completion of Certificate Courses	\$6,650	\$19,950	\$6,800	10 Weeks Per Term (With 4 Terms Per Year)	Yes	
Ryde College of TAFE (Northern Institute of TAFE, NSW), Ryde, Sydney, NSW	Diploma in Hospitality Management	2 Years + 600 Hours Work Experience	HSC or Equivalent / Advanced Standing for Those With Level IV Certificate in Hospitality / > 18 Years Old	\$510	\$1,020		370 Hours Per Semester (2 Semesters Per Year)	Yes	No
Southbank Institute of TAFE (TAFE, QLD), South Brisbane, QLD	Diploma of Hospitality Management	2 Years Including 6 Weeks Work Experience	Year 12 (Apply via QTAC) or 1,000 Hours Hospitality Experience or Completion of Approved Tertiary Courses	\$653	\$1,306		6 Months Per Semester at 2 Semesters Per Year	Yes	No
The Adelaide Hospitality & Tourism School, Adelaide, SA	Advanced Diploma of Hospitality Management	2 Years	SACE	\$10,880 Total: 1st 6 Months \$3,520, 2nd 6 Months \$1,260, Last 12 Months \$6,100	\$10,880	\$5,320 to \$15,960	12 Weeks Per Term (4 Terms Per Year)	Yes	University of South Australia; Perth Hospitality & Tourism School
The Australian College of Travel & Hospitality, Melbourne, VIC	Diploma of Hospitality Management	2 Years Including 600 Hours Practical Experience	Year 12 & Completion of Advanced Certificate in Hotel Management & Catering Operations / > 18 Years	\$8,950	\$17,900	\$6,000	40 Weeks Per Year @ 10 Weeks Per Term	Yes	Hotel Consult, Caesars Ritz (Switzerland)
The Blue Mountains International Hotel Management School, Leura, Sydney, NSW**	Dual Diploma in Hotel Management / Advanced Diploma in Hotel Management Available from February 1996	2½ Years Including 46 Weeks Total Industrial Placement	HSC + Personal Statement	\$15,450 Per Semester for Semesters 1, 3 & 5 Only; Semesters 2 & 4 are Industrial Placement Semesters Where No Fee Is Payable	\$46,350	Cooking & Housekeeping Uniforms Included in Tuition Fee; Accommodation Included in Tuition Fee for Semesters 1, 3 & 5 Only	22 Weeks Per Semester (Average)	Yes	International Hotel & Tourism Training Institute (Switzerland); Surrey University, University of Bournemouth (UK), Southern Cross University (Australia); Johnson & Wales University, Rhode Island (USA)

AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.3 Australian Institutions Awarding a Diploma in Hotel Management or Similar Qualification (Continued)

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	TUITION & OTHER COSTS			WEEKS PER TERM	SPECIFIC HOTEL MANAGEMENT UNITS	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TUITION FULL COURSE	ACCOMMODATION			
The Pan Pacific Hotel Career Development Institute, Broadbeach, Gold Coast, QLD	Associate Diploma of Hospitality	1½ Years Including 6 Months Work Experience	Year 12 + Over 18 Years + Hold Current Driver's Licence	\$10,200	\$10,200		This is a full-time course with no lecture breaks.	Yes	Griffith University (QLD)
Western Australian Hospitality & Tourism Training Centre, Bentley (South-East Metropolitan College, TAFE, WA), Bentley, Perth, WA	Associate Diploma in Hospitality / Diploma of Hospitality	2 Years / 3 Years Respectively	Year 12 or Completion of Advanced Certificate of Hospitality Supervision or Equivalent / > 18 Years Old	\$565	\$1,695	\$3,876 to \$4,522	14-Week Semester (2 Terms Per Semester)	Yes	No
William Anglis Institute of TAFE (TAFE, VIC), Melbourne, VIC	Diploma of Hospitality / Advanced Diploma of Hospitality Management	2 Years / 3 Years Respectively Including 600 Hours Work Experience	Apply via VTAC + Pre-Selection Assessment + Completion of Pre-Requisite Certificate Courses	\$500	\$1,500		38 Weeks Total with 9½ Weeks Average A Term @ 4 Terms Per Year	Yes	RMIT (VIC)
William Blue Hotel Management School ("Billy Blue"), North Sydney, NSW	Dual Diploma: Advanced Diploma in Hospitality Management & Diploma in Hospitality Management	2 Years	HSC + > 18 Years Old + Direct Application	\$8,900	\$17,800	Accommodation Available @ \$130 to \$220 Per Week, \$30 Less Without Food	20 Weeks Per Semester	Yes	Nil
Williams Business College, North Sydney & Parramatta, NSW	Diploma in Hotel Management	1 Year (Including 600 Hours Work Experience)	Year 12	\$7,925	\$7,925		10 Weeks Per Term @ 4 Terms Per Year	Yes	No

KEY

- * Also offers a B. Bus (Hotel Management) in association with the University of South Australia; this is one extra year of study on the Dual Diploma.
- ** A further 6 months study is available at University of Bourne-mouth (UK) for a B. Arts (Hospitality Management).
- SACE South Australian Equivalent to Year 12 Leaving Certificate
- SUIT Black & White Uniform
- VTAC Victorian Tertiary Admissions Centre
-? There are two Terms per Semester.
- SATAC South Australian Tertiary Admissions Centre

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Table 6.4 Overseas Institutions Awarding Degrees in Hotel Management or Similar Qualification

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	SUMMARY OF TUITION & OTHER COSTS				WEEKS PER TERM	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TOTAL TUITION COST OVER COURSE	OTHER COSTS	TOTAL TUITION COST IN AUST.\$		
Buckingham University (UK)	Bachelor of Science (Hons) in Business Studies (International Hotel Management)	2 Years (Including 6 Months Work Placement)	Min. 2 Passes at "A" Level or 1 "A" Level + 2 "AS" Levels or Suitable IELTS Score	£9,460	£18,920	Accommodation £2,680 Per Year + UCAS Application Fee £5 + Living Costs £3,000 Per Year	Aust.\$37,069	41 Weeks Per Year (4 Terms Per Year)	Nil
Ecole Hoteliere SSH, Lausanne (Switzerland)	Advanced Diploma in Hotel & Restaurant Management	3½ Years	Age: 18-25, Good English Skills, Accredited Diploma, Entry Exam & Experience	SFr.27,960	SFr.97,860	Accommodation	Aust.\$99,099	N/A	Nil
Ecole Hoteliere Vieux Bois (Switzerland)	Diploma	1½ Years	Age: 20-30, Completed Apprenticeship & Experience	SFr.20,040	SFr.30,060	Meals & Texts are Inclusive of Tuition Fee; Accommodation Extra	Aust.\$30,441		Nil
Guelph University (Canada)	Bachelor of Commerce (Hotel & Food Administration) / Bachelor of Commerce (Co-Op Program)	4 Years / 5 Years	International Baccalaureate 28; or GCE Passes in 5 Subjects, 2 at "A" Level; or TOEFL 600; or IELTS 6.5	Cn.\$2,450	Cn.\$9,800 / Cn.\$12,250	UFEEES Cn.\$470 + Accommodation Cn.\$2,560 + Food Cn.\$2,500 + Miscellaneous Cn.\$1,800	Aust.\$9,079 / Aust.\$11,349	2 Semesters Per Year	Nil
Hong Kong Polytechnic University (Hong Kong)	Bachelor of Arts (Hons) in Hotel & Catering Management; Higher Diploma in Hotel Management	3 Years / 3 Years Sandwich Course (Includes 16 Weeks Industrial Experience / 6 Months Internship)	HKCEE Grade C or Above in Maths / HKCEE Grade C or Above in English	HK.\$37,600 / HK. \$28,200	HK.\$112,800 / HK.\$84,600	Accommodation Extra (Approximately HK.\$70,000 to HK.\$95,000 Per Year)	Aust.\$18,386 / Aust.\$13,790	May to September Each Year	Nil
Johnson & Wales University (US)	Associate Degree in Science / B. Science	2 / 4 Years	TOEFL 550	US\$11,982	US\$23,964 / US\$47,928	General Fee US\$375; Orientation Fee US\$65; Accommodation US\$4,983 to US\$5,157 with Optional Weekend Meal Plan for US\$609	Aust.\$30,376 / Aust.\$60,753	3 Terms Per Year	N/A

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Nanyang Technological University (Singapore)	MBA in Hospitality & Tourism Management	1 Year	A Good Bachelor's Degree, At Least 2 Years Management or Professional Experience, Acceptable Score in GMAT & TOEFL (If Applicable)	SGP.\$9,000	SGP.\$9,000	Rego. Fee SGP.\$51.50; Exam Fees SGP.\$154.50	Aust.\$8,049	3 Trimesters Per Year	N/A
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AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.4 Overseas Institutions Awarding Degrees in Hotel Management or Similar Qualification (Continued)

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	SUMMARY OF TUITION & OTHER COSTS				WEEKS PER TERM	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TOTAL TUITION COST OVER COURSE	OTHER COSTS	TOTAL TUITION COST IN AUST.\$		
Oxford Brookes University (UK)	B.Sc (Hotel & Catering Management)	4 Years (Based on 23 Modules) with 40 Weeks Supervised Work Experience	IELTS 6.0 or TOEFL 550	£6,075	£24,300	Accommodation for £2,650 fully catered for 42 weeks; Admission Fee £50; UCAS Application Form Request Fee £5	Aust.\$47,608	42 Weeks Per Year Divided Into 4 Terms	Florida International University; University of Massachusetts; Virginia Polytechnic Institute; University of Rhode Island; University of Northern Colorado; California State University; University of South Florida (US); Curtin University (Aust.)
Purdue University (US)	Masters of Science	1 Year	TOEFL 550	US\$9,290	US\$9,290	Application Fee US\$30 + Accommodation US\$9,550	Aust.\$11,776	2 Semesters Per Year	Nil
Swiss Hotel Association Hotel Management School, Les Roches (Switzerland)	Diploma in Hotel Management / Bachelor of Arts (Hospitality Management)	3 Years / 4 Years	Age: 18 to 25, Good English Skills, Secondary School Certificate; or IELTS 5.5; or TOEFL 500 / Completion of the Diploma	SFr.20,750	SFr.62,250 / SFr.83,000	Accommodation + Texts + Computer Included in Tuition Fee; Inscription Fee SFr.500 + Acceptance Fee SFr.3,000 / Accommodation Extra During Degree Program: SFr.4,000 p.a.	Aust.\$63,038 / Aust.\$84,050	2 Semesters Per Year (16 Weeks Per Semester)	N/A
University of Bournemouth (UK)	Bachelor of Arts (Hons) in Hospitality Management	4 Years (Including 40 Weeks Work Experience)	IELTS 6.0 or TOEFL 550	£6,250	£25,000	Accommodation Extra	Aust.\$48,981	N/A	N/A
University of Surrey (UK)	B.Sc (Hons) International Hospitality & Tourism Management	4 Years (Including 1 Year "Professional Year"	Honours Degree or Post-Graduate Diploma + Experience in Field + Proof of English Ability	£8,500	£34,000	Accommodation £4,498 to £4,758 Per Year	Aust.\$66,614	5 Weeks Per Semester at 2 Semesters Per Year	N/A

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Widener University (US)	Bachelor of Science (Hospitality Management)	3 Years (Including 1,400 Hours Industry Experience)	Direct Application + Successful Receipt of US Visa + TOEFL 500	US\$13,560	US\$40,950	Accommodation US\$5,910 to US\$6,730 + Application Fee US\$25 + Enrolment Deposit US\$200	Aust.\$51,907	2 Semesters Per Year	68 Schools Internationally Including AIHS (Aust.), Kenvale & Macleay College (Aust.)
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AUSTRALIAN INTERNATIONAL HOTEL SCHOOL

Table 6.4 Overseas Institutions Awarding Degrees in Hotel Management or Similar Qualification (Continued)

INSTITUTION	QUALIFICATION ORDERED	DURATION OF COURSE FULL-TIME	ENTRY REQUIREMENTS	SUMMARY OF TUITION & OTHER COSTS				WEEKS PER TERM	AFFILIATIONS / ARTICULATIONS WITH OTHER INSTITUTIONS OVERSEAS
				TUITION PER YEAR	TOTAL TUITION COST OVER COURSE	OTHER COSTS	TOTAL TUITION COST IN AUST.\$		
<u>KEY</u>									
			N/A	Data not available.					
			Applic. Fee	Application Fee					
			Accomm.	Accommodation					
			*	Includes costs such as accommodation, texts, uniforms, but not living and food expenses unless otherwise indicated.					

7. EFFICIENCY OF OPERATIONS

7.1 INTRODUCTION

The audit was intended to include a review of the comparative efficiency of AIHS operations with other tertiary institutions. This was not practical due to the stage of development of the AIHS and its lack of reliable financial management information. This Chapter, however, provides some comments based on the limited review practical on whether the AIHS is delivering its educational and hotel services efficiently.

7.2 AUDIT APPROACH

The approach taken to this task was to establish the criteria against which the AIHS could be measured in terms of the efficiency of their current operations, both from an educational and a hotel perspective. Where possible, making allowances for the specific nature of the AIHS operations, a comparison was undertaken between industry benchmarks and the AIHS.

7.3 SIGNIFICANT FINDINGS

- *In light of low enrolments, management have contained costs through 1995-96;*
- *The high capital investment made in relation to the small size of the AIHS and Hotel Kurrajong operations will continue to generate a higher fixed component in its cost structure than other institutions providing similar services; and*
- *As the AIHS does not have anywhere near capacity enrolments, and to date has not had reliable financial management information systems, it is not possible to draw any conclusion as to whether*

the services are being provided in the most efficient manner. (The financial management information systems have been significantly improved recently.)

7.4 HOTEL OPERATIONS

The Hotel Kurrajong is quite unique in that it offers deluxe accommodation from a 26-guest-room facility. Hotels of equivalent standard usually have in excess of 150 rooms as this number of rooms is generally regarded as being necessary as a minimum to cover the overhead and operational costs of providing a high standard of accommodation and service.

There are rare examples of successful small five-star hotels. Nevertheless, taking into account the level of capital investment in the Hotel Kurrajong and its very small capacity, it is inevitable that it will be an inefficient operation in comparative terms.

In addition to the inherent problems with small size, difficulties in assessing efficiency were encountered because of the lack of reliable information to split costs accurately between hotel, restaurant, school and other areas. Nor was it possible to obtain costing of inventory and therefore gross margins. The financial management information systems have recently been improved.

7.5 ACADEMIC SERVICES

The AIHS has been in operation since the start of 1995 and has not achieved anywhere near capacity enrolments. As such, comparison with other established educational service providers operating at or near full capacity is very difficult. The AIHS has a low number of students compared to the faculty resources. This is due to the fact that costs of running a unit course are relatively fixed, no matter how many students may be undertaking the class.

By way of illustration, the following sets out some key indicators comparing the AIHS to the average of a sample of 15 Australian universities and TAFE institutions:

	Average	AIHS
Academic Salaries Per Student	\$2,702	\$3,345
Non-Academic and Support Staff to Total Staff	51%	88%
Academic Staff to Total Students	6%	15%
Non-Current Assets Per Student	\$11,851	\$216,477

In relation to faculty staffing, the AIHS appears to have been reasonably successful in containing costs as far as possible by employing a number of strategies including:

- use of adjunct faculty for specialised units;
- use of faculty on sabbatical from Cornell (much cheaper than permanent hire); and
- combining classes wherever possible.

The AIHS' higher capital investment per student figure will continue to be a significant difference between the AIHS cost structure and other institutions. The per student figure shown in the table (\$216,477) was calculated from the number of enrolled AIHS students in the second semester of 1996. If the AIHS were to operate at near capacity (say, 340 students), the capital cost figure per student would still be around \$38,000 and still significantly greater than the average of others. This means that the AIHS will continue to have a high fixed component in its cost structure. It should be noted that most of the AIHS capital investment is in the Hotel operations, not the academic services.

7.6 CONCLUSION

While a conclusion on the comparative efficiency with which the AIHS Hotel and educational operations are being conducted cannot be reliably made, it can be concluded generally that the AIHS appears to be trying to contain costs in light of low enrolments. The AIHS is not near student capacity and as such costs are naturally going to be disproportionate to the number of enrolments or revenue generated.

The small size of the Hotel's operations makes it an inherently inefficient organisation in comparative terms to other hotels operating at similar standards. Similar standard hotels have considerably more residential accommodation than the Hotel Kurrajong.

8. JUNE 1995 CONSULTANTS' REPORT ON VIABILITY

8.1 INTRODUCTION

In mid-1995, the Government approved further increased funding for the AIHS to \$27.8m. The Government, before approving the increase, required that an independent consultant conduct a viability assessment of the AIHS' future financial performance. Predominantly relying on the results of this assessment, which were positive, the Government approved the increased loan. Because of the significance given to the consultants' assessment, this audit included an examination of the private firm's assessment. The results of the examination are contained in this Chapter.

8.2 AUDIT APPROACH

The methodology used by the consultants in the preparation of the financial viability report was documented and evaluated. The audit approach included a comparison between the projections and actual operating results generated since the consultants' report in order to determine the short term accuracy of the projections made.

A copy of the spreadsheet model used by the consultants was reviewed for errors in calculations, etc. The basis for revenue and expenditure projections and the other assumptions underlying the model were examined. Where necessary, the impacts of any corrections needed to the model were estimated for longer term effects on the AIHS' future viability.

8.3 SIGNIFICANT FINDINGS

- *If the consultants had projected enrolments closer to levels actually achieved, it is likely their conclusions would have been different;*

- *The viability report by private consultants in mid-1995 (i.e. when the AIHS had been operational for approximately four months only) employed an appropriate methodology and was based on the financial and other information available at the time;*

- *The levels of enrolments actually achieved to date are significantly below those assumed in the viability report;*

- *The inherent risks of the enrolment projections being inaccurate was increased substantially by the fact that there was a lack of empirical evidence to support or discredit the enrolment projections; and*

- *Certain other of the consultants' assumptions in the viability report were not achieved.*

8.4 THE CONSULTANTS' METHODOLOGY

The consultants' work included the following:

- review of financial budgets prepared by the management of the AIHS for the years ending 30 June 1996 to 1998;

- review of the initial feasibility study and associated reports; and

- discussions with AIHS management.

The consultants elected to use a viability model prepared by the then financial controller of the AIHS in a spreadsheet format. This model had provision to alter a number of the underlying assumptions such as enrolment numbers, interest rates, inflation rates, and hotel operations as well as budgeted operating expenditure and salary expenditure.

It is also noted that the consultants consulted an expert in the educational field referred to them by the Director, AIHS, to assist in the review of enrolment details.

Overall, the methodology employed by the consultants in undertaking the viability assessment is considered reasonable.

A number of factors present in this particular case increased the inherent risk of the projections being inaccurate; most notably:

- the fact that the AIHS was a new institution operating in a specialised field for which there was no comparable Australian institution with the same structure and education product; and
- the lack of empirical evidence to either support or discredit enrolment projections.

It is noted that the consultants recognised and referred to these risks in their report and made the following recommendation:

“we recommend that an annual review is conducted of the viability of the AIHS as student enrolments are critical to its success. The next review should be undertaken after the 1996 student intake for Term 1. Budgets setting out operating projections (on an accrual basis), estimated statements of financial position and cash flows should be prepared at that stage”.

8.5 CONSULTANCY TERMS OF REFERENCE

The Terms of Reference for the consultancy were as follows:

“the consultant is to assess the financial viability of the AIHS. In undertaking this review, the consultant will determine and report on the financial viability of the AIHS project and the appropriateness of increasing the current loan limit. In undertaking this review, the consultant should:

- (a) review the current AIHS financial budget for revenue and expenditure for the years 1995-96 - 1997-98; and*
- (b) report on changes, if any, required to ensure that costs of the project are attributed and reflected in the project’s accounts”.*

8.6 CONSULTANCY’S CONCLUSIONS

The final version of the consultants’ viability report was delivered to the Chief Minister’s Office on 16 June 1995 and was submitted to the Government on 3 August 1995. The submission to the Government also contained a number of revenue and marketing initiatives which were identified by AIHS management subsequent to the receipt of the consultants’ report.

The consultants’ conclusions included that:

- the 1996-1998 student enrolments being projected by AIHS management were over-optimistic. The consultants provided a set of projections which they considered more likely to be achievable;
- all the significant costs for the project were reflected in the budgets prepared by AIHS management;

- the AIHS in the long term was a viable project;
- the consultants' projections of student enrolments would lead to a loan balance of \$28.2m by June 1998, rising to a maximum of \$29.4m in the year ended 30 June 2000; and
- it was appropriate to increase the loan limit from \$20.4m to \$29.4m because the AIHS needed time to establish itself as an educational institution and without the additional funds, which may not be able to be obtained from other sources, the AIHS could not continue operating. If the AIHS was not given the chance to establish itself, then the ACT Government's substantial investment would, to an extent, be lost.

8.7 COMPARISON OF CONSULTANTS' PROJECTIONS TO ACTUAL OPERATIONS

In order to assess the short term accuracy of the estimates used in the consultants' viability report a comparison was undertaken of the consultants' projections against the actual financial results achieved to 30 June 1996. The following table summarises the results.

Table 8.1 Projections Versus Actual Results for the Year to 30 June 1996

Classification	Consultants' Projection (iii) \$	Actual \$	Variance - Favourable / (Unfavourable) \$
Student Revenue	1,258,450	716,367	(542,133)
Hotel Revenue	1,947,947	2,134,863	186,917
Other Revenue	335,000	49,129	(285,871)
Total Operating Receipts (i)	3,541,397	2,900,359	(641,087)
Total Expenditure (ii)	7,653,288	7,116,196	537,092
Total Surplus/(Deficit)	(4,111,891)	(4,215,837)	(103,946)

Notes

- (i) Actual tuition fee revenue has been adjusted to take into account fees in advance and tuition fees receivable at 30 June 1996 and is therefore consistent with calculation of tuition fees in projections. All other revenue is presented on a cash basis.
- (ii) Expenditure amounts are presented on a cash basis except for interest which is calculated on an accruals basis. Expenditure excludes capital expenditure and any allowance for depreciation.
- (iii) As per financial model used to calculate amounts in Attachment A of consultants' financial viability report.

The \$104,000 unfavourable total variance is comprised of a favourable \$537,000 expenditure variance and an unfavourable revenue variance of (\$641,000), mainly caused by a major shortfall in student enrolments. The full effect of the shortfall in student revenue from enrolments will extend over the full three years which it takes for students to move through the course.

Better than projected income from Hotel operations has also reduced the impact of student enrolment shortfalls on the revenue variance.

Comments on the revenue items follow.

Student Revenue - Enrolment Numbers

The following table sets out the enrolments projected by the consultants in May 1995 and the actual enrolments achieved to the date of this Report.

Table 8.2 Projected Versus Actual Enrolments

Projection - Dated	Term 3 - 1995	Term 1 - 1996	Term 2 - 1996	Term 3 - 1996
Consultants - June 1995	15	26	16	26
Actual	7	15	8	15(i)
“Semester in Australia”	0	0	11	8(i)

Notes

- (i) “Semester in Australia” students are full-fee paying but are only enrolled for one term. The AIHS is hoping to continue to generate such enrolments so that they become the equivalent of full-time degree intake students.

Table 8.2 illustrates that enrolments have fallen well short of the consultants’ projections. Consequently student revenue is well short of projections. The actual enrolments achieved represent between 46% and 57% of the consultants’ projections.

Hotel Revenue

The results for the Hotel operations have exceeded the consultants’ projections. This appears to be due to the success of attracting functions business in combination with better than expected room rates and average cover prices. However, it also noted that much of the functions business is due to the use of lecture rooms which will need to be used by students as additional intakes move into the AIHS. This will have an impact on future revenue generation from this source.

Average Hotel Kurrajong occupancy rates are around 65% to 70%, which compare favourably with the Canberra average occupancy rate of around 65% for all accommodation and 70% to 75% for four and five-

star hotels (source: Australian Bureau of Statistics, Tourist Accommodation, ACT, 8635.8). Given the current economic climate in the ACT, it is considered that there is limited opportunity for growth in occupancy levels and therefore any significant increase in room revenue.

Other Revenue

The generation of Other Revenue is down significantly on projections. Projected Other Revenue was primarily made up of Industry Support (\$150,000), Grants/Donations (\$75,000) and additional use of student rooms (\$62,500). These revenue sources have not eventuated to any significant level.

Conclusions from Comparison of Actual with Projected

The consultants' viability report in May 1995 concluded the AIHS was, in the long term, a viable project using their projected enrolments. *Table 8.2* illustrates that over the one-year period since the projections were made, the actual enrolments have significantly failed to reach the levels projected by the consultants. Had the consultants been able to project student numbers closer to those actually achieved, then their conclusion as to the AIHS being viable in the long term would almost certainly have been reversed.

8.8 EVALUATION OF THE MODEL AND ASSUMPTIONS USED BY THE CONSULTANTS

The audit evaluation of the model used by the consultants revealed some factors which, if they had been taken into account, would have altered the longer term projections of the consultants. These factors follow.

Revenue

Advanced Standing Students

Revenue generated from students enrolled with advanced standing was based on a schedule prepared by AIHS management. Advanced standing status exempts students from completing certain units. This reduces the fees payable by those students.

AIHS management projections were based on an assumption that advanced standing students would be exempt from 10 units. Of the 20 remaining units to be completed for the degree, the AIHS projections applied the full academic tuition fees. This, however, does not take into account that Terms 4 and 7 of the course are externships.

A lower tuition fee is payable for externships. It is understood that some students with advanced standing would be exempted from the Term 4 externship due to previous industry experience. However, the AIHS advised that it would be very unlikely for anybody to be given credit for the Term 7 management externship.

The cumulative negative impact of this inappropriate assumption on the AIHS projected revenue to the year 2001 could range up to \$438,200 (if students with advanced standing were required to complete both externships).

Revenue from advanced standing students was therefore overstated in the consultants' model used to assess the viability of the AIHS.

Scholarships Assistance

Awarding of scholarships can reduce revenue earned from student enrolments. Scholarships are generally

awarded for academic or industry excellence and are reviewed annually. At 18 July 1996, the AIHS had awarded scholarships to the value of \$450,000, of which approximately \$380,000 is being funded by the AIHS itself. One scholarship is funded by Optus.

For the year ended 31 December 1995, scholarship assistance was granted to the total value of \$113,000 with the impact on the 1995 revenue being \$29,794. As stated, by 18 July 1996, the total value of AIHS scholarships awarded had increased to some \$380,000, including Term 3 of 1996 enrolments. This is estimated to have an impact of reducing revenue by some \$95,000 p.a. over the next three years before taking into account future scholarship arrangements.

The AIHS budget papers for 1996 indicate the annual allowance for AIHS funded scholarships is now \$150,000. This cost is equivalent to six additional full-fee paying students who must be enrolled every year to cover the shortfall in tuition revenue.

The consultants' projections, which were based on forecasts supplied by AIHS management, contained an annual allowance for AIHS funded scholarships of \$22,000 for 1995 and \$25,000 p.a. in each year thereafter. The consultants therefore overstated revenue by \$210,000.

Salary Costs

The loan projection assumed a 3% inflation rate to apply to salaries from the 1996 year onwards. However, *Schedule 3.2* used for salary costs does not include the inflation-adjusted amount for administration salaries for 1996. The impact on the model is a \$27,343 understatement in salary costs for 1996.

Capital Expenditure

The projections prepared to support the financial viability report do not contain an allowance for future capital works such as a refurbishment of the Hotel or the extension or addition of other facilities. The consultants' report included comments that capital expenditure would be required although this was not quantified.

A review of standard industry practice indicates that premium standard hotels are refurbished every seven to ten years. If these costs had been included in the consultants' model, which would probably be significant, the result would also have shown increased borrowings needed, interest charges payable, and would also have extended the estimated repayment period.

8.9 IMPACT OF ASSUMPTIONS USED BY THE CONSULTANTS

The latter part of the Chapter has outlined some assumptions used by the consultants which, under closer evaluation and with hindsight, have proved not to be valid. If the negative impact of these on the consultants' projections is taken into account, the projected year of the AIHS returning a profit would have been extended by an additional year and the AIHS loan increased. Inclusion of the cost of refurbishment capital expenditure at some future stage to maintain the current standard of the Hotel Kurrajong would also increase the pay-back period.

8.10 CONCLUSION

The consultants' financial viability report undertaken in June 1995 employed an appropriate methodology and is based on the financial and other information available at that time. However, the inherent risk of the enrolment projections not being achieved was increased substantially by the fact that there was a

lack of empirical evidence to support or discredit the enrolment projections.

With the benefit of a further year passing since the consultants prepared their report, it is apparent that their projections have proved not to be accurate in the light of actual events. Consequently, the projections have shown to be too optimistic. Certain inappropriate assumptions also led to revenue being overstated in the model used to predict future loan requirements for the AIHS.

If, at the time the projections were prepared by AIHS management and reviewed by the consultants, it was foreseen that:

- student enrolments would have been at their present levels; and
- additional expenditure on items such as scholarships would have been required to achieve even those levels;

it is probable that the consultants would have reversed their conclusion.

9. FUTURE VIABILITY

9.1 INTRODUCTION

The audit included an assessment of the future viability of the AIHS, taking into account actual enrolment and financial results since the consultants' assessment described in the previous Chapter. The results of the audit viability assessments are presented in this Chapter.

9.2 SIGNIFICANT FINDINGS

- *On the basis of the current level of the AIHS' borrowings, current expenditure patterns and enrolments, the AIHS will not be a "commercially" viable organisation in the foreseeable future; and*
- *The AIHS may eventually be "viable" in terms of being able to generate an accrual profit if it is not required to meet interest payments, however on the enrolment projections used in the audit, the profit will not occur for several years.*

9.3 AUDIT APPROACH

A spreadsheet model was developed. The spreadsheet model was used to estimate the various levels of enrolments required to achieve several definitions of "viability".

9.4 ANALYSES OF FUTURE VIABILITY OF THE AIHS

Introduction

It is of critical importance to understanding the assessments in this Chapter that "viability" be clearly defined. The AIHS is an unusual entity as it is not a

Government agency providing a community service, nor is it a standard commercial business with an equity base and the usual tax imposts of the private sector or the unfettered control to operate independently of Government. As such, the meaning of “viability” may not have the same meaning to all readers. This audit therefore identified more than one “viability” concept for analysis.

The analyses performed involved estimating what level of enrolments are required to meet each of the conceptual definitions of viability. The analyses were based on existing expenditure patterns. No provision was made in the analyses for future re-fits which will be needed to maintain the Hotel at its current standard.

Government Policy Viability Requirements for the AIHS

The financial policy set by the Government for the AIHS at its establishment was that it should operate commercially as a full cost recovery organisation. On this basis, the identified annual operating results arrived at using Australian Generally Accepted Accounting Principles (GAAP) would be an appropriate indication of viability. Accordingly, the first viability assessment made was whether the AIHS possessed:

- (i) The ability to achieve and maintain accrual accounting profits, i.e. operate commercially in a financial sense.

Other Concepts of Viability

In some situations, Government agencies may be considered viable if they can generate enough revenue to meet their outgoings on operations as they fall due without being required to meet outgoings such as capital costs, finance costs, etc. For this reason, three further concepts of viability which could possibly be

applied to the AIHS were identified and analyses prepared to assess whether the AIHS could meet these viability concepts. The viability concepts identified were whether the AIHS has:

- (ii) the ability to achieve and maintain positive cash flows with interest remaining payable;
- (iii) the ability to generate sufficient cash flows to repay both interest and principal on borrowings completely in a twenty-year time-frame from now; and
- (iv) the ability to generate accrual accounting profits if interest on its outstanding loan liability were no longer payable.

Additional Analyses

The four preceding analyses were conducted on the basis of existing expenditure patterns. Two additional analyses were conducted to show the effect on required student numbers if the AIHS were to significantly reduce its operating costs. These analyses assessed:

- (v) the ability to achieve and maintain positive cash flows from operations if interest were no longer payable and costs were reduced; and
- (vi) the ability to achieve and maintain positive cash flows from operations if interest were no longer payable, costs were reduced and fees charged were also reduced.

9.5 ESTIMATES OF FUTURE ENROLMENT NUMBERS

It was essential for the conduct of the analysis to estimate future enrolments. The enrolment projections developed for the audit to the year 2000

are shown in *Chart 9.1*. All student numbers are on a full-fee paying equivalent basis.

The audit projections used are intentionally conservative. The earlier Chapters have shown that all past estimates of future enrolments have proved to be extremely optimistic, having not been achieved by a large degree. The audit projections have been estimated by taking actual arithmetic increases in net full-fee paying student numbers in the respective terms of 1995 and 1996 and then projecting these increases forward to future years by simple addition. While these projections are conservative, it is considered that they are also achievable. It must be noted that audit's student number projections are heavily dependent upon the referrals of students from Cornell University continuing at the same level as has occurred in the past for future years.

Student number projections in *Chart 9.1* show that if the current rate of increase in enrolments continues, it

would be anticipated that 200 students would be attending the college by the end of the year 2000. Although not displayed in the chart, calculations show that the number of full-fee paying student enrolments could reach approximately 240 students by the year 2001.

Some students from overseas attend the AIHS for one semester under an arrangement titled "Semester in Australia". These students generate revenue and have been included in enrolment projections in addition to regular enrolments. However, those who are Cornell University students are not required to pay tuition fees to the AIHS and these have been excluded from the analyses.

The granting of scholarships can have a significant effect on tuition fee revenue. The current situation is outlined to illustrate the potential financial impact of scholarships. Out of the 62 students enrolled to date, 28 have received some sort of scholarship assistance funded by the AIHS. This has included three fully-funded enrolments, four at 50% of total tuition fees, two at 33% of total tuition fees and the balance between \$2,000 and \$10,000, depending upon circumstances. This means that the AIHS receives the equivalent fees of 52 students even though 62 students are enrolled. To allow for the effect on income of scholarships, the enrolment numbers in the audit projections have been adjusted to equivalent full-fee paying students.

AIHS management have requested that the following be included in this Report in relation to the audit's enrolment number projections:

"AIHS understands the reason for the adoption of intentionally conservative projections of future student enrolments, but notes that the methodology and assumptions effectively ignore the demonstrably superior experience in 1996. Enrolments are almost double that of 1995, and applications to date are

almost three times that of 1995. The conversion rate from applications to enrolments has been a steady 60% in general, and even 20% for the first set of Cornell referrals. Subject to public reaction to this Report, and the Government's consequential decisions, total enrolments of full-fee equivalent students by end 1997 would significantly exceed the projections used in this Report. The first AIHS graduates at end 1997 will further enhance the marketing of the program. In a real sense, the conclusions reached on viability substantially depend on the significant degree of conservatism in the underlying projections".

Notwithstanding the AIHS comment, as taxpayers' funds are involved, the use by the audit of conservative projections is considered appropriate.

9.6 GOVERNMENT POLICY VIABILITY REQUIREMENT

(i) The Ability of the AIHS to Achieve and Maintain Accrual Accounting Profits Under Existing Financing Arrangements

This definition coincides with the Government's current policy expectations for the AIHS. If expenditure patterns remain unchanged, the AIHS would require in excess of 340 full-fee paying students with fees totalling over \$8.5m to be viable in this sense.

The position with achieving an accounting profit is portrayed in *Chart 9.2*.

For the 360 capacity to be achieved, it would involve 120 students being enrolled in each of the three years of the course. The residential accommodation available for all students is limited to 119. Unexpected increases in enrolments in any one year would require additional accommodation to that currently available at the AIHS. The admission of “Advanced Standing” students directly to Years 2 or 3 may assist with overcoming the accommodation constraints to some extent.

Is This Concept of Viability Achievable?

Chart 9.1 shows that enrolments by the year 2000 are estimated to be around 200 (i.e. less than 60% of the required number). Clearly, unless some dramatic action is taken to make the AIHS degree more marketable to potential students, the number of

students reaching 340-360 is not achievable within a reasonable time-frame if it is achievable at all.

Based on the current enrolments and expenditure patterns, the unavoidable conclusion is that the chances of the AIHS being commercially viable, as envisaged in the Government's policy for the AIHS, cannot be regarded as achievable.

An additional constraining factor is that the required number of full-fee paying students to produce an accounting profit (340) is so close to the facility's currently designed capacity (360) that significant profits could never be generated unless the building design and/or the education program are changed.

9.7 OTHER VIABILITY ANALYSES

(ii) The Ability of the AIHS to Achieve and Maintain Positive Cash Flows With Interest Remaining Payable

This analysis shows that if enrolments can reach and be maintained around 305 full-fee paying students, paying in aggregate around \$7.5m, the AIHS would be generating sufficient cash in a year to meet its cash requirements for normal operating costs, plus the annual interest owing on its outstanding loan. This result does not provide any income to cover depreciation of the assets of the AIHS valued at over \$12m or repayment of the loan.

The relationship between student enrolments and cash requirements for operating costs including interest are displayed in *Chart 9.3*.

Is This Concept of Viability Achievable?

Chart 9.1, which sets out enrolment projections shows that if the current rate of increase in enrolments is projected forward, student numbers will be around 200 by the end of the year 2000. This is significantly short of the 305 required to achieve this concept of viability.

It can be concluded that the AIHS will not achieve positive cash flows including paying interest for at least five years and probably more.

(iii) The Ability of the AIHS to Generate Sufficient Cash Flows to Repay Both Interest and Principal on Borrowings Completely in a Twenty-Year Time-Frame from Now

To repay borrowings and interest fully by 2017 would require that in 2001 the AIHS be able to achieve full-fee paying student enrolments of 305 students, generating some \$7.5m in fees. This number would need to be sustained until the year 2017.

This position is represented in *Chart 9.4*.

Is This Concept of Viability Achievable?

As previously stated, there is considerable doubt that 305-plus students can be achieved based on enrolment projections as shown in *Chart 9.1*. The conclusion is

that this definition of viability is therefore not achievable.

(iv) The Ability of the AIHS to Generate Accrual Accounting Profits if Interest On Its Loan Liability Were No Longer Payable

To achieve this view of viability, around 220 full-fee paying students would be required to be enrolled, generating \$5.4m in student revenue.

Chart 9.5 shows this view of viability.

Is This Concept of Viability Achievable?

The trend of increases in enrolments depicted in *Chart 9.1* shows that by the year 2000, enrolments may be approaching 210. Although still short of the

required 220, given the conservative nature of the audit projection, it can be concluded that the AIHS could possibly become viable using this definition of viability, although this will occur after the year 2000.

9.8 ADDITIONAL ANALYSES BASED ON REDUCING OPERATING COSTS

Introduction

The preceding analyses were all based on current expenditure and fee charge patterns continuing. The following two examples are provided as examples of the effect of changing these patterns. The first analysis represents fee charging patterns remaining as they are but with expenditure reduced. The second analysis illustrates the effect on required student numbers if fee charges and expenditure are both reduced.

Flows

(v) The Ability to Achieve And Maintain Positive Cash from Operations if Interest Costs Were No Longer Payable and Costs Were Significantly Reduced

As would be expected, this analysis produces a significantly smaller number of students than for the previous analyses. Full-fee paying students of approximately 180, with fees totalling \$3.7m, would be necessary to achieve this result.

The result of this analysis is represented by *Chart 9.6*.

The enrolment projections based on historic trends at *Chart 9.1* indicate that the required 180 students, although not reached by 1999, would be reasonably likely to be reached by early 2000.

It should be noted that this number of students will result in no payment of interest. The AIHS would need to demonstrate that costs could be cut and the new budget rigidly adhered to. Tight control over expenditure not dissimilar to that practised in commercial receiverships would be necessary. Budget adherence would be assisted by placing limitations on future loan draw-downs.

Flows **(vi) The Ability to Achieve And Maintain Positive Cash from Operations if Interest Were No Longer Payable, Costs Were Reduced and Fees Charged Were Also Reduced**

As shown in *Chapter 6*, the fees charged by the AIHS are higher than all but Bond University. This analysis was performed to assess the effect on student number requirements if the fee to be charged was reduced to \$46,000, which is roughly equivalent to the fee charged by one full-fee paying organisation which is operating successfully.

The number of students required in this scenario is around 200. Given that the fee of \$46,000 would be far more competitive than the current \$58,000, it is possible that enrolments would accelerate from past levels.

The analysis shows that the combined strategy of reducing fees and reducing costs could be a useful area to thoroughly investigate.

The result of the analysis is represented in *Chart 9.7*.

9.9 OVERALL CONCLUSION ON ACHIEVEMENT OF VIABILITY

The following table summarises the number of full-fee paying students required under each of the analyses conducted based on current expenditure patterns outlined in the earlier parts of this Chapter.

Table 9.1

Viability Concept	Student Numbers Required	Student Revenue Required (m)
(i)	340	8.5
(ii)	305	7.5
(iii)	305	7.5
(iv)	223	5.4

As can be seen (from *Chart 9.1*), projections of enrolment numbers to the year 2000 barely meet the most easily achievable of the viability analyses. The analyses indicate that the AIHS could only be viable as defined in viability concept (iv) by 2000. Under this concept, interest would not be paid, and depreciation on refurbishment costs could not be covered for at least five years. The other viability concepts (including the Government's policy viability requirement) cannot realistically be considered as achievable.

Under the current 100% debt funding arrangements, it is concluded that the AIHS is not currently viable in terms of breaking even in a "commercial" sense or in the sense of having the ability to repay borrowings and interest.

The AIHS may eventually be able to achieve the level of enrolments required for the project to generate accrual profits if interest is not payable, however on the student projection used in the analyses, this will not occur until the year 2000.

The two additional analyses performed produce a reduced required student number which could be achievable. To achieve results, however, necessitates reducing costs significantly in one case, and in the other reducing both costs and fees charged. It is not known whether AIHS management could reduce costs to the levels necessary.

10. STRATEGIC ALTERNATIVES

10.1 INTRODUCTION

In assessing alternatives potentially available to the Government, the principal options appear to be as follows:

- continue to operate the AIHS in its current form, which would entail funding the annual operating shortfall until such time as student enrolments generated sufficient revenue to cover operating costs;
- partial or complete sale of the AIHS or the Hotel Kurrajong to either a private sector investor or another educational institution;
- close the AIHS and dispose of the Hotel Kurrajong site as is;
- private sector borrowing to replace the ACT Government's loan; and
- introduction of some private sector capital.

10.2 SIGNIFICANT FINDING

- *Although several options can be considered for the future of the AIHS, determining its future will be a difficult task.*

Continuing in Present Form

Continuing to operate the AIHS in its current form would necessitate the conversion of a significant portion of debt into equity. This would make the AIHS more consistent with other commercial

enterprises and would also convey stability to the market-place and prospective students.

A variation would be for the capital to have the possibility of repayment some years ahead, provided that certain clearly defined conditions were met, such as cash flow levels and student numbers. This is an option which could be examined further, however the implications would need to be carefully considered.

Partial or Complete Sale

The partial or complete sale of the AIHS or the Hotel Kurrajong could take many variations which would need to be the subject of a detailed market analysis. The tax complications as well as the lack of profits would more than likely rule out the complete sale of the AIHS to the private sector. It is also unlikely that another public educational institution would be interested in acquiring the AIHS at a reasonable price for the ACT Government.

The option of selling the Hotel Kurrajong as a going concern and leasing back some of the facilities to run the AIHS could be a possible alternative, however, for such a purchase to be attractive to a private sector investor, there would probably need to be substantial capital work done by the purchaser to make the Hotel operations economically viable, such as significantly increasing the number of rooms, adding parking facilities and other improvements consistent with a four or five-star hotel property, such as a swimming pool. It is not known whether such improvements to the Hotel are economically feasible or whether heritage restrictions would impede or prevent any developments.

The cost of such improvements would affect the prospective sale price of the Hotel Kurrajong and would also impact on the way the AIHS operates. It would probably mean moving residential students,

administration and some facilities off-site to a nearby location. It might also mean that the AIHS would have to be linked to a major hotel chain, a factor which may detract from the Hotel Management degree and potentially impact upon the affiliation with Cornell.

If the sale and lease-back of the Hotel Kurrajong were feasible, then there are potentially a number of benefits:

- (i) divestment of a hotel business which is essentially a non-Government activity;
- (ii) opportunity to recoup some of the costs incurred in establishing the AIHS and potentially setting up a revenue stream through the collection of various Territory business taxes;
- (iii) AIHS students would have access to a full-scale operational hotel; and
- (iv) other flow-on economic benefits to the ACT economy.

Closure of the AIHS and Sale of Hotel Kurrajong

The closure of the AIHS and sale of the Hotel Kurrajong as is would alleviate the need for extra funding to be injected into the AIHS. However, the likely costs of closure would be high in addition to realising a significant loss on the project.

An independent valuation of the Hotel Kurrajong undertaken in July 1995 placed the value in the region of \$3m to \$6m with vacant possession. The audit has no current information as to whether a sale price in this range is achievable.

The political and financial costs of closure of the AIHS and disposal of the Hotel Kurrajong would be

significant. Costs would include refunds of student fees, compensation, employee termination costs, Cornell affiliation termination costs, selling costs and other costs between the time of the decision and the actual closure and then the time of actual disposal. The extent of these costs is difficult to realistically estimate and, in some cases, costs could result from legal action over any closure. It is possible that such costs would exceed the sale value of the property.

Private Sector Borrowing to Replace the ACT Government's Loan

Private sector borrowing from a bank or similar institution would only be at significantly increased interest cost and, without a Government guarantee, it is unlikely that a commercial lender would provide funds for the AIHS as it would be rated as too high a risk. Private sector funding of this nature is therefore not a possible option.

Introduction of Some Private Sector Capital

The likely contenders for introduction of significant private sector capital are few. Cornell is an obvious contender given their existing level of involvement and background, but whether they would be interested in contributing significant capital is unknown. An Australian university would be an attractive option, particularly if they had some involvement in the award of the degree, which is currently to be conferred by CIT. Whether Australian universities would have the equity funds available in the current economic climate is unknown.

10.3 CONCLUSION

It is not the function of this audit to recommend how the future of the AIHS should be decided. The options outlined are provided for readers'

information. One thing is clear - determining the AIHS' future will not be a simple task.

11. GOVERNANCE AND SENIOR MANAGEMENT STRUCTURE

11.1 INTRODUCTION

The management responsibilities for the AIHS are set out in the Canberra Institute of Technology (Amendment) Act 1987 which established the AIHS as an educational institution. This Chapter outlines the arrangements and provides some comments on their appropriateness.

11.2 SIGNIFICANT FINDING

- *Taking into account the diverse and complex management tasks associated with the establishment and operations of the AIHS, it is considered that the existing governance and senior management arrangements are not appropriate.*

11.3 MANAGEMENT ARRANGEMENTS

AIHS Director

As provided in the Canberra Institute of Technology (Amendment) Act 1987, the Director of the CIT is automatically the Director of the AIHS. The CIT Director is appointed by the responsible Minister. The Director, subject to the Act, has general responsibility for the management of the AIHS. The Act provides that the Director can be directed (in writing) by the responsible Minister in relation to AIHS functions.

The Management Advisory Board

The Act establishes a Management Advisory Board for the AIHS. The Board's function is to advise the Director on a wide range of matters relating to AIHS

operations. The legislation requires that the Director must “have regard” to the advice. The Board may also report in writing to the Minister on any matter relating to the functions of the AIHS.

An interim Management Advisory Board was appointed in early 1994. It met four times in 1994, four times in 1995 and to date in 1996 has met two times. A “permanent” Board has never been appointed.

AIHS Dean

The Act also provides for the Director to appoint a Dean of the Hotel School. The Dean is to manage the affairs of the AIHS in accordance with the general directions of the Director. The Dean must also “have regard” to the advice of the Management Board.

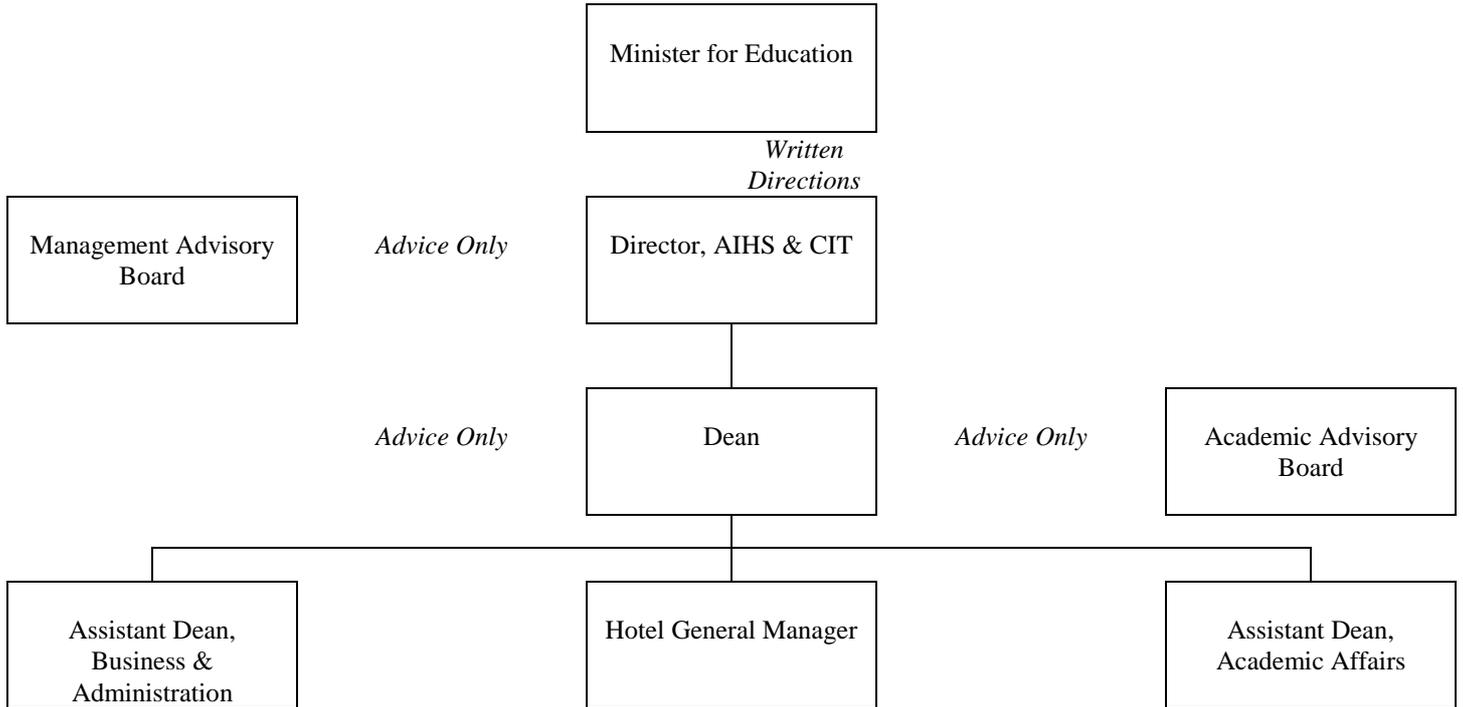
Academic Board

There is also provision in the Act for an Academic Board to advise the Dean on matters related to education, learning, research or the academic work conducted by the AIHS.

Governance and Senior Management Structure Diagram

In diagrammatic form, the governance and senior management structure can be shown as follows.

Table 11.1



11.4 AUDIT COMMENTS

The structure outlined is inappropriate, taking into account the complexity and diversity of the tasks involved in establishing the AIHS and progressing it to a high quality academic institution operating on a full cost recovery basis.

The governance structure places the major responsibility for the AIHS with the Director of the CIT. Effectively, this has resulted in the major management responsibility for the AIHS being undertaken on a part-time basis. In retrospect, this has clearly not allowed the necessary continuous time to be devoted to the difficult task of managing the AIHS.

The Management Advisory Board, as established, has no accountability for its efforts and decisions. It is primarily “advisory” and although the Director and Dean must “have regard” to its advice, they do not have to act on it. The Board has met only 10 times

and this has been through a period of great difficulty for the AIHS. This indicates that the Board has not been a “driving” force in directing or guiding the AIHS. Review of the Board’s minutes reveals that its deliberations have been intense and serious on the AIHS problems. Nevertheless, the Board’s essentially advisory nature (and also possibly its “interim” form) seems to have led to limited follow-through on matters emerging from its deliberations.

The audit view is that the current structure is inappropriate. For the AIHS to have effectively addressed its situation, it would have been more suitable for the legislation to have established it as a Statutory Authority or a Territory Owned Corporation with a Board of Directors fully accountable for its operations. A full-time Chief Executive Officer, possessing a suitable mix of commercial and academic experience, should have been appointed and have been accountable to the Board for the full range of AIHS operations. To some extent, the Chief Executive Officer’s role would be a combination of the current functions allocated to the Director and the Dean.

It is also considered that confusion has been created in the “market-place” by the AIHS’ legislative links to the CIT. It would have been better if the AIHS had been established with its own legislation identifying clearly that it was not a subsidiary of the CIT.

Annexure

Reports Published in 1992

- 1 Information Technology Management Policies in the ACT Government Service
- 2 Financial Audits with Years Ending to 30 June 1991
- 3 GAO Annual Management Report for Year Ended 30 June 1992
- 4 ACT Board of Health - Management of Information Technology
- 5 Budget Outcome Presentation and the Aggregate Financial Statement for the Year Ended 30 June 1992
- 6 Financial Audits with Years Ending to 30 June 1992

Reports Published in 1993

- 1 Management of Capital Works Projects
- 2 Asbestos Removal Program
- 3 Various Performance Audits Conducted to 30 June 1993
 - Debt Recovery Operations by the ACT Revenue Office
 - Publicity Unaccountable Government Activities
 - Motor Vehicle Driver Testing Procedures
- 4 Various Performance Audits
 - Government Home Loans Program
 - Capital Equipment Purchases
 - Human Resources Management System (HRMS)
 - Selection of the ACT Government Banker
- 5 Visiting Medical Officers
- 6 Government Schooling Program
- 7 Annual Management Report for the Year Ended 30 June 1993
- 8 Redundancies
- 9 Overtime and Allowances
- 10 Family Services Sub-Program
- 11 Financial Audits with Years Endings to 30 June 1993

Reports Published in 1994

- 1 Overtime and Allowances - Part 2
- 2 Department of Health
 - Health Grants
 - Management of Information Technology

Annexure (Continued)

Reports Published in 1994 (Continued)

- 3 Public Housing Maintenance
- 4 ACT Treasury - Gaming Machine Administration
- Banking Arrangements
- 5 Annual Management Report for Year Ended 30 June 1994
- 6 Various Agencies - Inter-Agency Charging
- Management of Private Trust Monies
- 7 Various Agencies - Overseas Travel - Executives and Others
- Implementation of Major IT Projects
- 8 Financial Audits with Years Ending to 30 June 1994
- 9 Performance Indicators Reporting

Reports Published in 1995

- 1 Government Passenger Cars
- 2 Whistleblower Investigations Completed to 30 June 1995
- 3 Canberra Institute of Technology - Comparative Teaching Costs and Effectiveness
- 4 Government Secondary Colleges
- 5 Annual Management Report for Year Ended 30 June 1995
- 6 Contract for Collection of Domestic Garbage / Non-Salary Entitlements for Senior Government Officers
- 7 ACTEW Benchmarked
- 8 Financial Audits With Years Ending to 30 June 1995

Reports Published in 1996

- 1 Legislative Assembly Members - Superannuation Payments / Members' Staff - Allowances and Severance Payments
- 2 1995 Taxi Plates Auction
- 3 VMO Contracts
- 4 Land Joint Ventures
- 5 Management of Former Sheep Dip Sites
- 6 Collection of Court Fines

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