



Radio Transcript

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TITLE: ROSS SOLLY INTERVIEW WITH THE AUSTRALIAN NATIONAL UNIVERSITY'S CHIEF FINANCIAL OFFICER MICHAEL LONERGAN.

Summary: Ross Solly interview with the Australian National University's Chief Financial Officer, Michael Lonergan discussing the ANU audited reports on the \$90 million surplus the university had last year and the proposed job cuts to university staff.

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TRANSCRIPTION

ROSS SOLLY: So, earlier on in the show, we spoke to Richard Denniss from the Australia Institute, and he's been going over the audited accounts of the Australian National University, and he's saying it doesn't make sense. He says from what the audited reports are saying, that the ANU had a \$90 million surplus last year. So, what does it all mean? Why is that the case? And why are we having job cuts? Michael Lonergan is the Chief Financial Officer at the ANU, and he's joined us here on the Breakfast Show. Good morning to you, Michael.

MICHAEL LONERGAN: Morning, Ross.

ROSS SOLLY: Thanks for joining us. So, I'm sure you probably listened in to Richard Denniss. If not, I'm sure you're aware of what they're saying. They're basically saying that you guys are cooking the books. What do you

say to that?

MICHAEL LONERGAN: Well, I just say we're not cooking the books.

ROSS SOLLY: So, the audit. So, okay, well, there we go, end of story. Thanks for coming in, but no, in all seriousness, though, let's look at the audited accounts. And in the end, you send off all your information to the Australian National Audit Office, they run their very learned eyes over it all, they come back, and if you read the audited report that's there, you have an after-tax surplus of \$90 million.

MICHAEL LONERGAN: Correct. But we then do what's called an underlying result because there is some of the revenue, as your interviewee pointed out, that is unavailable for us to spend on day-to-day operational costs. So, our investment portfolio contains a lot of endowments. And you had some very astute textures after that interview point that out. So, yes, we do receive funds from a great alumni community that we have at ANU to do some fantastic things like research and scholarships. That comes in, that earns money. And we give the earnings of those endowments over to the academics or those areas that were the purpose of those endowments. But those endowments also earn capital returns. So, that investment income that we adjust for in that underlying result is taking out, I suppose, the capital appreciation on those endowment funds because we can only spend those funds on the purpose of those endowments. Yes.

ROSS SOLLY: So, are those figures, are those endowments, is that information provided to the audit office? Yeah.

MICHAEL LONERGAN: Yes, and it's printed in our, if you read a bit further in our financial statements, we outline just exactly how much the investments for endowments. I should say there's also a very large portion of our investment portfolio sits behind our defined benefit superannuation fund. And again, the investment earnings that we're making there aren't to be spent on day-to-day expenses.

ROSS SOLLY: Okay, but so if you're providing that information to the audit office, why are they not including that in their final figure?

MICHAEL LONERGAN: Well, so as your interviewee pointed out, they are included in that \$90 million net surplus for 2024. However, and as you pointed out and asked him, what we are doing with that underlying result is looking for long-term planning. Those investment dollars, the vast majority of those investment dollars can't be spent on our teaching or research activities. They are either growing the value of those endowments or therefore our defined superannuation pension. So, what we do then is, and as rightly pointed out, sits just in front of those audited financial statements, Table 17 and this year's or the 2024 annual report. And we're very transparent about the adjustments that we are making. To then get to what was \$140 million operating deficit for 2024. And I'll just add what we are trying to get to there, Ross, is looking at the income that comes in for the year for teaching and research and match that against the expenses that we spend and on delivering those teaching and research activities. And for 2024, that had a deficit of minus \$140 million.

ROSS SOLLY: Okay, so these are funds that can't be touched for anything else. They've been especially targeted to certain areas. And so, as such, you don't believe that they should be included in the overall figure of how you're tracking financially.

MICHAEL LONERGAN: So, yeah, we should be really clear. They do sit in that \$90 million net surplus. And that is correct. But in terms of what we've got available to spend on our day-to-day operations and delivering our teaching and research- yeah, they can't be spent on that. That's correct.

ROSS SOLLY: So, what are endowments spent on, then?

MICHAEL LONERGAN: Well, they're spent on the purpose that they came in. So, you know, a donor will give us a million dollars, we then provide an investment return which is 4.5 per cent on that. So, we give that \$45,000 to

that academic for the year, and they might do some research, or they might do a scholarship and then that million dollars is earning money because it's growing over time. Because whilst it's great to get a million dollars today, we want it to grow over time such that in 10 years' time or 20 years' time, it's still delivering the same benefit.

ROSS SOLLY: Yeah, yeah, look, I get that it's a lot of money, though, Michael Lonergan, and you can't just pretend it's not there. It is still part of keeping the university ticking along and making sure that projects are still operating. You can't just exclude it completely from the overall picture and say, "oh, this is pigeon hold for certain things. So, we're going to take all that off our situation and end up with this deficit".

MICHAEL LONERGAN: But Ross, that's the purpose of those endowments. They have come in for a set purpose.

ROSS SOLLY: I get that. But I'm just wondering, I mean, are we getting a true reflection of the state of the ANU if you then just take that out of the whole system and pretend that money's not there as part of the overall pool that you have?

MICHAEL LONERGAN: Well, I keep getting back to what we're trying to do is match the teaching and research income that comes in for the year for the expenses to it. And I should add, the ANU's been doing this for at least a decade that I've looked back upon. It's very common across the sector, particularly for universities like ANU that have large investment portfolios. And then we have a year like 2024 where, you know, we made 14 per cent on our investment portfolio. So, it was a really strong year. That's not a return that one would repeat every year.

ROSS SOLLY: So, somebody wants to know, on the text line, are any parts of that investment pool for strategic purposes? Is that a section that you have?

MICHAEL LONERGAN: We do have a set of reserves. And, you know, a good example was the university had a much larger reserve as COVID came in and released a good portion of that to help the university through the COVID periods when its revenue dropped dramatically, particularly in 2020.

ROSS SOLLY: The information you provided to the auditor when you gave that forward, how specific were you in terms of exactly where the money was going to be allocated, how it was going to be pigeonholed? And does the audit office then, I mean, anywhere in their report, do they - because I haven't been through their whole audited report - do they refer to the fact that this money can't be touched for general purposed?

MICHAEL LONERGAN: We make a disclosure about that, Ross, and that is written in the notes in the financial statements of how much of the investment portfolio is earmarked for endowments. And there's a number there, and the audit office would tick that number off because, as you can well imagine, those investments are very well singled out in our portfolio. That's not just some big pot of investments. It's very well segregated across endowments. The superannuation I talk about and our strategic reserves.

ROSS SOLLY: You have the Chief Financial Officer, Michael Lonergan. Is it distressing for you that people out there are saying they don't believe you, they don't believe the figures, they think that you're hiding something from them?

MICHAEL LONERGAN: Look, Ross, we appreciate that there is some complexity when looking with our financials, so we understand that. And I have been, since I started last year, communicating with the community. We've done some finance town halls. We've presented on this particular matter about taking the \$90 million, what you see in the financial statements, what adjustments we do to get to the \$140 million deficit. We're working with the ANAO to see how we could perhaps better improve the way it's reported in our financial statements. So, look, I can understand to a point, Ross, it is somewhat frustrating that articles like the one that came out today or yesterday wasn't engaged on. I think, as the interim Vice Chancellor said, we're trying to move on here. The ANU has been spending more than it has, that it brings in annual revenue since COVID. That same calculation that we do today, that said \$140 million, you wind back in time to 2019, 2018, they were positive numbers. So, we have been using that same calculation for many years. It was not something that we changed just on a whim last year.

ROSS SOLLY: So, you stand by those accounts, you stand by your reckoning?

MICHAEL LONERGAN: Yeah.

ROSS SOLLY: You've got no problems there. And you think the Australian National Audit Office would stick by it and would not be alarmed at all that all this money that has been put aside and not been designated as part of the overall pool?

MICHAEL LONERGAN: Look, we should be really clear that the ANAO audits to the \$89 million or \$90 million net surplus. We then provide this Table 17, that's been pointed out in this report. And that's not something that they specifically audit, although they do see it. So, I don't want to speak specifically for them, but they do certainly, they do certainly see it. And as rightfully pointed out, it's not part of the audited statements. Well, that said, we are trying to work with a way that we could actually -

ROSS SOLLY: Well, why isn't it part of the audit? I mean, I'm just going back to my original question. I'm not sure I still understand. I mean, you put that as a separate table, and as you say, it's not audited.

MICHAEL LONERGAN: Yeah, that's correct, yes. Yes.

ROSS SOLLY: Why?

MICHAEL LONERGAN: Well, we're actually obligated, Ross, ANU is caught under the, or is regulated under the PGPA Act. And in there, we have to provide a set of financial statements, which we do, but there's a further clause there that says where those financial statements don't paint, I might get the language a little bit wrong here, but don't paint the complete picture. Then you are obligated to provide some additional information, and that's what we do through that Table 17. And as I say -

ROSS SOLLY: Can you understand why some people might think that that is how you might be trying to hide something or put a different gloss on something by keeping it -

MICHAEL LONERGAN: Look, I mean, I don't love the word hide. We're not trying; we're trying to be as transparent as we can on this, Ross. You know, as you pointed out, we're trying to do long-term planning here to be relying on investment income on, say, a set of assets that relate to defined benefit superannuation that we are, you know, ostensibly in pension phase runoff. So, at some point, you know, in the coming decades, they will have run off, they will have been exhausted. If we had baked that into our operational expenses, that would put the university at a very more precarious position in the future.

ROSS SOLLY: Paul of Gordon's contacted us on the text line. He says the issue is how accounting reporting works according to accounting standards. I'm not associated with the ANU, but as an accountant, I can say that what the Chief Financial Officer is saying is absolutely correct. So, there you go. There you go. That's from Paul.

MICHAEL LONERGAN: Thanks, Paul.

ROSS SOLLY: Yeah, indeed. Michael Lonergan, appreciate you coming in this morning. Thank you so much.

MICHAEL LONERGAN: Great, thanks. Thanks, Ross.

ROSS SOLLY: Michael Lonergan, who's the Chief Financial Officer at the ANU on ABC Canberra Breakfast.

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