

Finance survey
of the Higher
Education sector
Clear focus



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Foreword



Welcome to our finance survey on the higher education sector. This is the first in what we envisage will be periodic surveys to provide insight into finance personnel perspectives of the issues impacting the higher education (HE) sector in Ireland. The intention is to canvass the views of Directors of Finance, Bursars, Finance Managers and others within finance management to get their perspective of the financial operations of their institutions.

The higher education sector is poised to undergo a number of changes, not least a number of proposed alliances and mergers between institutions in the Irish HE landscape. The timing of this survey is opportune to analyse the current thinking in a sector which is undergoing significant change. Taking a snapshot in time of the perspective of financial leaders should yield benefit in informing risk and financial decision making in the coming 12 months.

It is our intention to continue to survey the higher education sector on a periodic basis to track perspectives over time. For this initial exercise we obtained feedback from 68% of the higher education sector, with respondents from all sectors of higher education including universities, institutes of technology and private colleges. We would like to increase this number of respondents in the future and welcome your comments, ideas and feedback, so that we can ensure the surveys remain relevant, insightful and of value to you

and your institution. Where relevant we have compared the results of the Irish HE finance survey to an equivalent survey conducted by our UK colleagues in 2014 on the UK HE sector.

This document provides an overview of respondents together with commentary and comparison to UK results where relevant.

We would like to express our thanks to those who took the time to complete the survey. If you wish to discuss any of the contents raised in this document please contact Eileen Healy or Mary Rose Cremin, whose contact details are provided at the back of this document.

A handwritten signature in black ink that reads "Gerard Lyons". The signature is written in a cursive, flowing style.

Gerard Lyons
Partner
Deloitte Higher Education Team

Snapshot of key findings



PREDICT RECURRENT FUNDING AS INADEQUATE

76% believe that
the recurrent fund
will be inadequate
going forward.



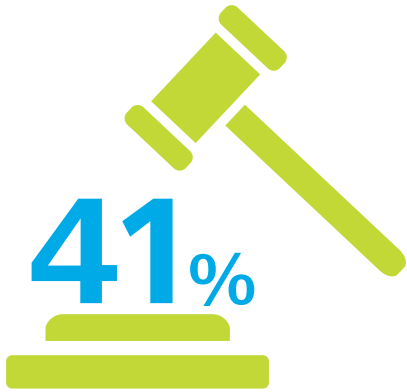
65% PRIORITISE STUDENT NUMBERS

65% rated increasing student
numbers as a strong priority.



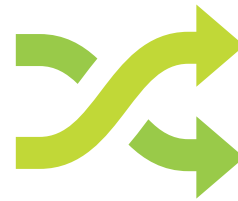
47% PRIORITISE INCREASING RESEARCH FUNDING

47% of respondents
rated increasing research
funding as a strong
priority.



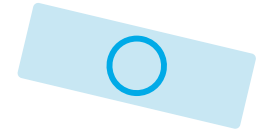
GOVERNANCE AND LEGISLATIVE STRUCTURE SIGNIFICANTLY IMPACT ABILITY TO ACHIEVE STRATEGIC PRIORITIES

41% believe that the existing Irish higher education governance and legislative structure significantly impact ability to achieve strategic priorities.



PREDICT INCREASES IN THE LEVEL OF M&As

59% of respondents predict increases in the level of M&As in the future.



PREDICT INCREASE IN PAY RELATED OPERATING COSTS

71% of respondents anticipate somewhat of an increase in pay related operating costs.

Section 1: Financial considerations

Financial prospects

The survey commenced by seeking views from respondents of the top three risks that they believe are facing higher education institutions (HEI's). These were identified as:

- Restricted recurrent funding
- The impact of changes within the sectoral landscape, such as Technological University (TU) status and mergers
- IT risks

Other concerns facing the respondents included restricted capital funding, restrictions and lack of flexibility in managing headcount, governance and legislative changes.

Despite these, and other risks facing the higher education sector, there is a cautious optimism emerging among the respondents in relation to the financial prospects for HEI's for the next three years (figure 1), slightly less than indicated by the UK survey. This perhaps reflects the uncertainty stemming from the forthcoming 2016 election, the ongoing discussions for mergers ahead of awarding technological status, and the emerging landscape for higher education.

Finance directors expressing caution in relation to financial prospects fits with the relatively high sense of uncertainty associated with external and economic activity anticipated over the next three years (figure 2). In this, Irish finance directors are more closely aligned with their UK counterparts who were also restrained in their external outlook.

Figure 1: Feeling about financial prospects for each HEI for the next 3 years

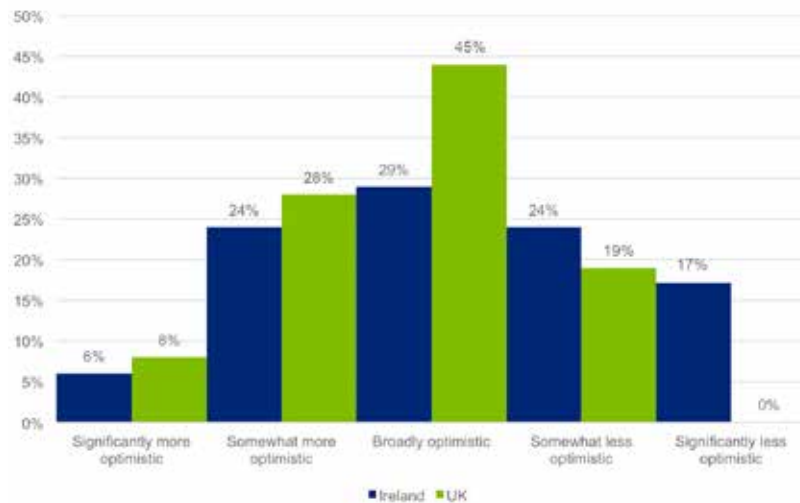
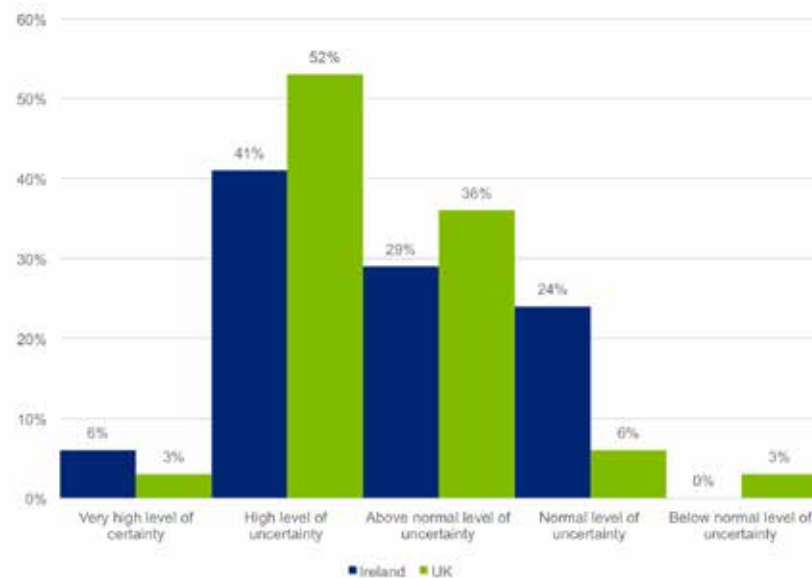


Figure 2: Feeling about the general level of external financial and economic uncertainty for each HEI for the next 3 years





Finance directors expressing caution in relation to financial prospects fits with the relatively high sense of uncertainty associated with external and economic activity anticipated over the next three years

Other financial considerations

Given that restricted recurrent funding was identified as the foremost risk it is not surprising that a significant proportion of respondents envisage a decline in the year-on-year surplus. As expected given the governance structure of HEIs in Ireland there is a general sense of low risk being carried on the balance sheet which would be different in most instances to the UK.

Figure 3: Do you envisage an increase on your year-on-year surplus?

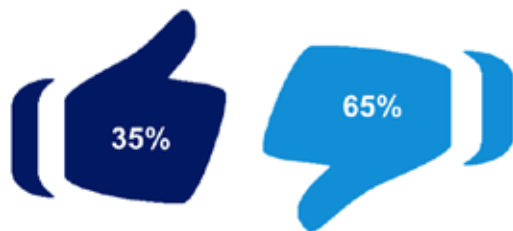
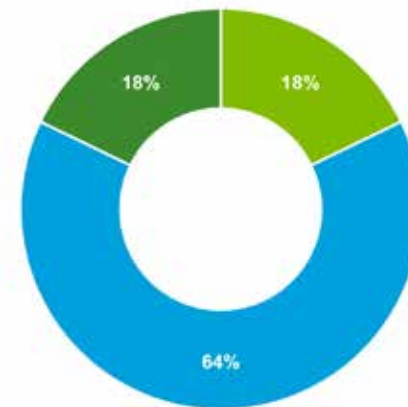


Figure 4: Do you have significant risk on your balance sheet



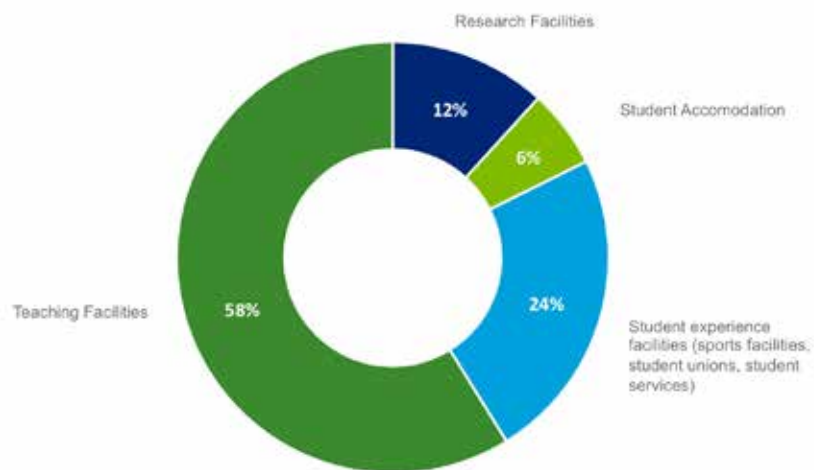
■ Moderate Risk ■ Low Level of Risk ■ No Risk

Financial risk could include investments, borrowings, uncertainty about the valuation of assets and liabilities, including pension fund assets

Capital expenditure

Along with operating costs, capital expenditure is forecast to increase. We asked the finance directors how they planned on allocating their capital expenditure over the next 10 years, and they responded as follows:

Figure 5: Where is capital funding going to be focused in your institution over the next 10 years?



Our understanding is that the HEA allocation of capital funding for the next 12 months will be relatively modest. Therefore in the absence of funding there will be challenges to HEI's investing significantly in capital programmes.

Respondents indicated three main sources of capital expenditure:

1. Funding
2. Borrowings
3. Existing reserves

In the absence of funding for capital expenditure, HEIs anticipate issues arising in a number of areas including:

- Inability to attract students (including international students)
- Inability to develop new programmes due to facilities not being fit for purpose
- IT infrastructure

Operating pay costs

Figure 6 outlines the changes to key financial metrics that are expected by the respondents over the coming 12 months.

As can be seen in figure 6, 71% of respondents are anticipating operating pay costs to “increase somewhat”. This is likely to be in response to discussions regarding public sector pay increases.

The Haddington Road Agreement runs until July 2016 and as part of that deal pay is frozen until the end of 2016. However, the Government has signaled that pay increases for the public sector could be agreed sooner if the economy remains on track.

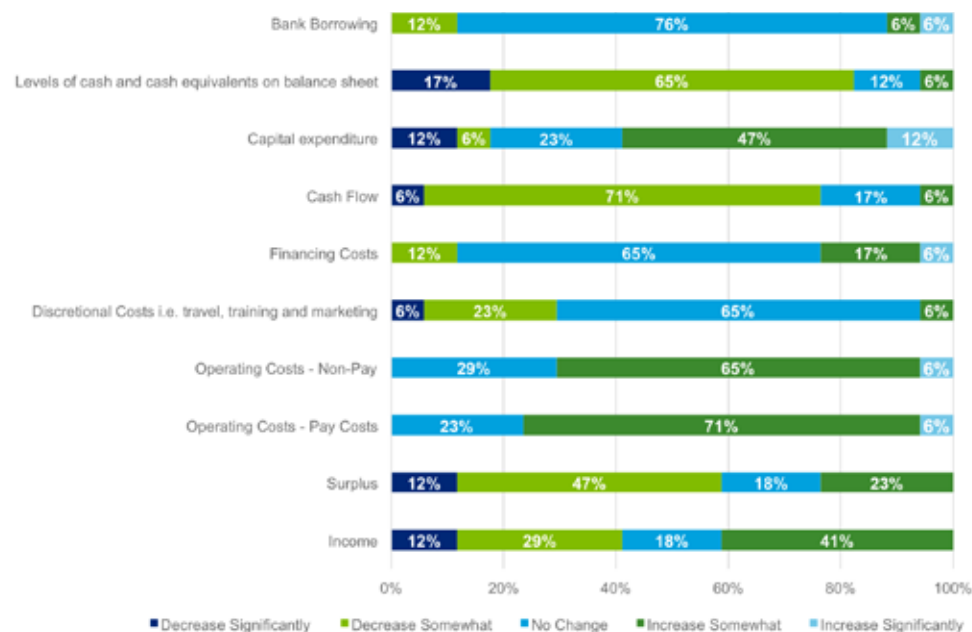
Cash flow and funding

Figure 6 also suggest that financing costs, bank borrowing and discretionary spending are not expected to change.

A concerning contradiction indicates that despite increases in operating costs and capital expenditure there is a contrasting expectation of a decrease in cash flow and cash and cash equivalents on the balance sheet. This would present significant challenges in terms of meeting operating costs in a timely manner and may lead to non-compliance with prompt payment legislation.

On the expectation that bank borrowing will remain unchanged along with reduced availability of recurrent funding it will be interesting to see how the higher education sector will respond in finding alternative sources of income.

Figure 6: How do you expect the following to change over the next 12 months?



Section 2: HEI funding

In relation to the core recurrent grant only 12% of respondents felt that the core recurrent grant would be adequate or somewhat adequate over the next two years, with 76% believing that it would be inadequate.

Respondents were split between those that are eligible for funding across each category of the relevant HEA recurrent funding model and those that are not.

Figure 7: Adequacy of the core recurrent grant

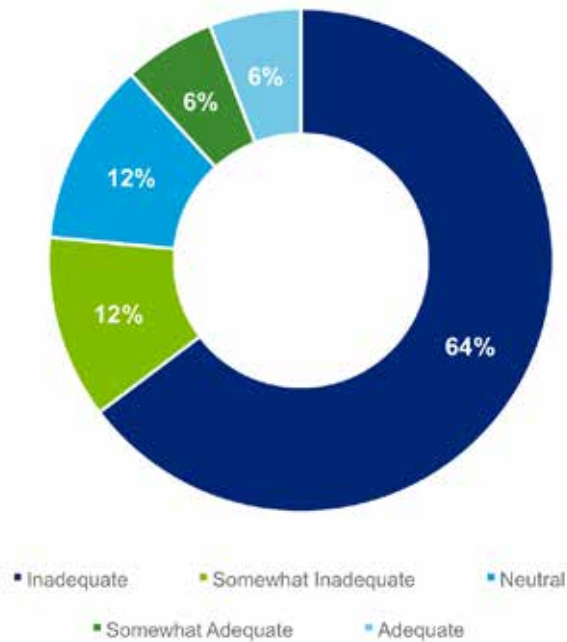
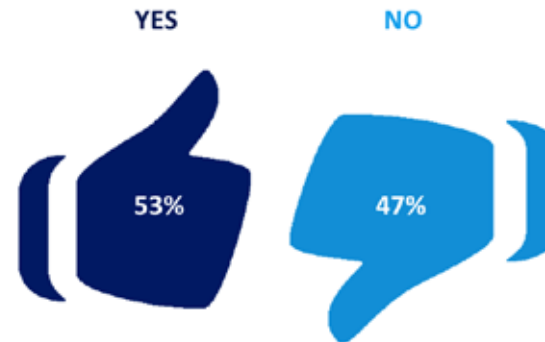
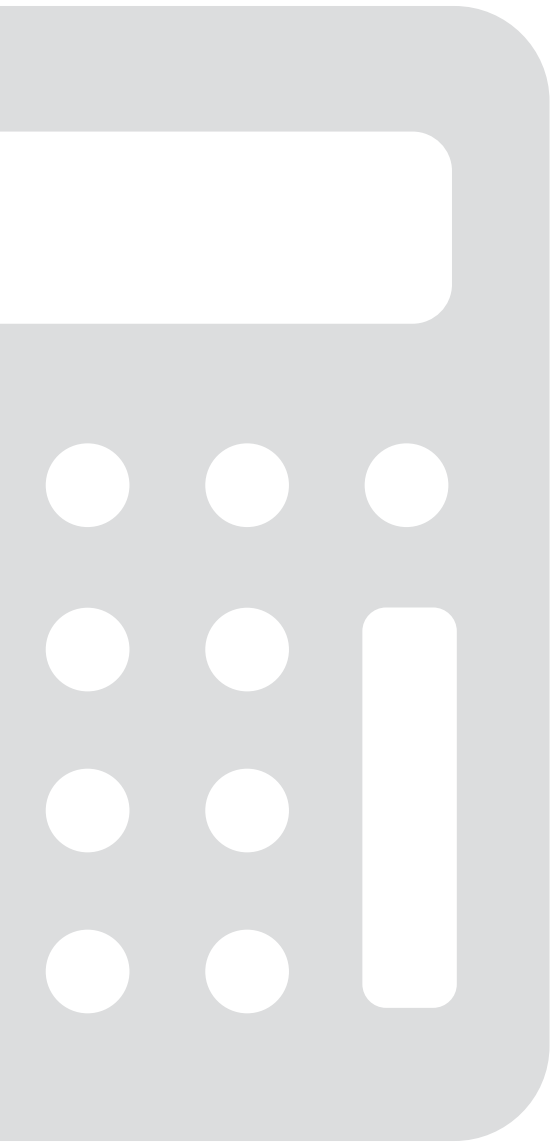


Figure 8: Is your HEI eligible for funding across each category of the relevant HEA recurrent funding model?

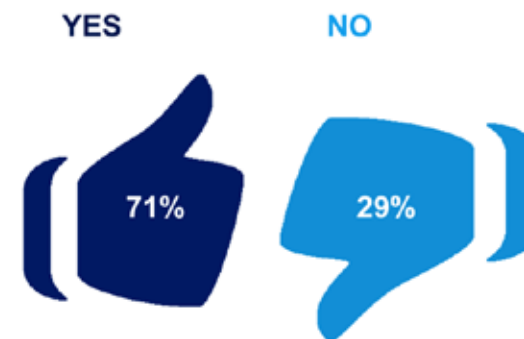




Only 29% of respondents think that they will not be able to achieve the maximum funding available based on the achievement of the targets in the *Compact Agreement*. Respondents who answered “yes” to this question commented that targets were realistic and achievable and in a general sense that they were on track to achieve all targets.

Respondents were asked for their opinion of the current funding model on student retention. The current funding model is thought to have a largely negative impact on student retention, with respondents commenting that inadequate and inflexible financial resources are impeding ability to attract students in terms of retention initiatives and inability to meet the student requirements with regards to additional supports.

Figure 9: Do you think that your HEI will be able to achieve the maximum funding available based on the achievement of agreed targets in the *Compact Agreement*?



Section 3: Priorities

When considering the areas classified as being of “Strong Priority” for the coming 12 months the strongest priority area for 2015 is increasing student numbers. This is consistent with responses provided in previous sections, particularly in line with the primary focus of capital expenditure being identified as teaching facilities.

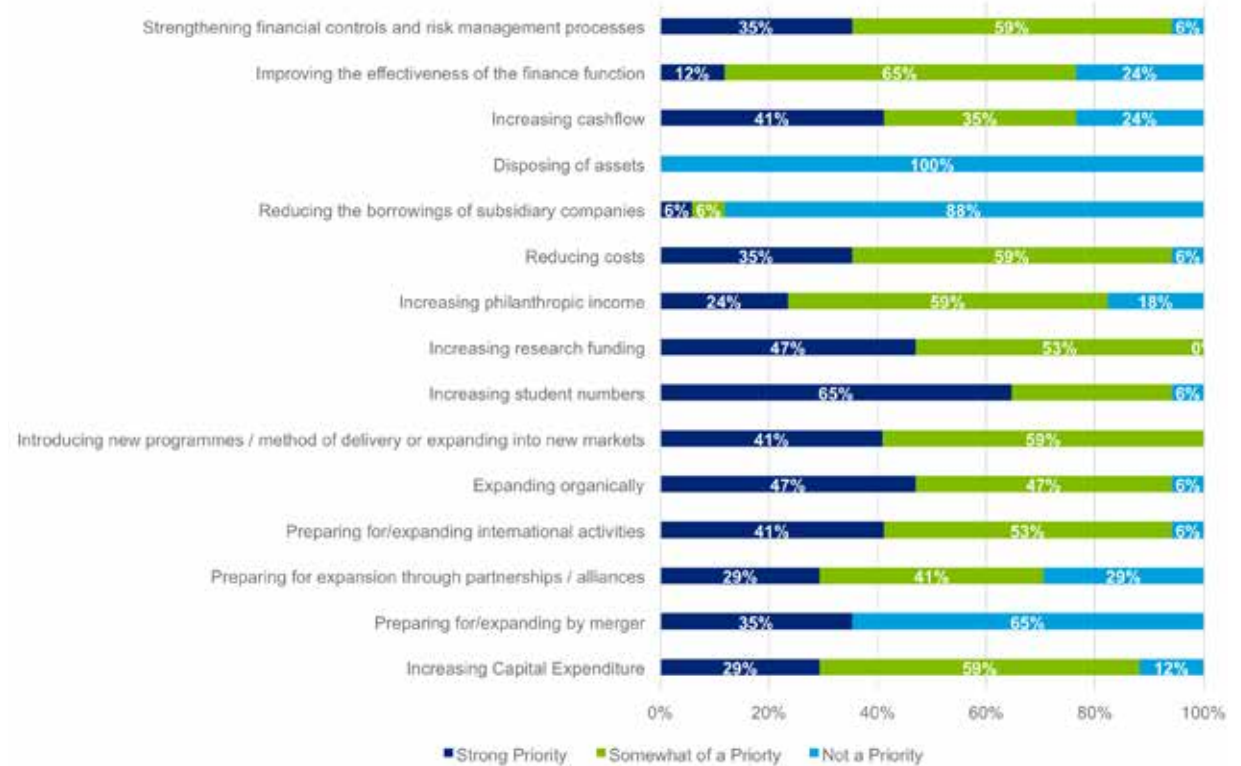
The second priority area (considering the total response) of introducing new programmes / methods of delivery or expanding into new markets is also congruent with increasing student numbers. It is clear that the focus of the higher education sector is towards increasing the offerings, and the mechanisms by which these offerings are delivered, in order to attract and retain greater numbers of students.

The results of the equivalent question in the UK ranked increasing student numbers third, behind increasing philanthropic income and increasing capital expenditure, indicating that while increasing student numbers spans multiple jurisdictions, there is greater focus in the Irish market on the mechanisms to achieve this. This is possibly linked to the relationship between the recurrent funding model and student numbers. This creates an interesting paradox for the Irish HEIs. In order to obtain a greater allocation of the recurrent fund, an increase in student numbers must be achieved. However increasing student numbers typically requires additional expenditure.

The challenge faced by HEIs is to increase student numbers without increasing expenditure.

Given this challenge and in line with developments in the UK, Irish HEI’s have an opportunity to consider smarter investments, utilise emerging technologies and existing infrastructure, in order to offer an alternative and a more cost effective higher educational experience to learners.

Figure 10: What are your key priorities for the next 12 months?



Other areas of priority as indicated by figure 10 are as follows.

Research funding

The high level of focus given to increasing research funding could be reflective of the HEIs exploring alternative revenue sources, and expanding potential opportunities to use research activity as a method of attracting and retaining students. Increasing research funding is also a key priority within the UK, with over 25% of UK finance directors highlighting this area as a strong priority.

Mergers, alliances and other forms of expansion

There is a clear segregation of those respondents who strongly prioritised preparing for / expanding through merger and those who do not prioritise this area at all. Given that the impact of changes within the sectoral landscape, such as Technological University (TU) status and mergers was ranked as the second highest risk facing HEIs, (Section 1) this indicates that those finance directors not expecting to undergo a merger are wary of the impact that these will have on their own HEIs. As this area was not remarked upon at all by the UK, it highlights the unique development of the Irish HEIs in terms of responding to government policy.

Other forms of expansion, such as through alliances, partnerships, international activity and organic expansion received a more mixed response from the finance directors, indicating that growth strategies are varied amongst HEIs.

Financial controls and risk management

An area for wider focus among respondents is in relation to strengthening financial controls and risk management processes and improving the effectiveness of the finance function. This may be reflective of the increasing restrictions from legislation and compliance requirements, and the increasing need for transparency and openness within the public sector as a whole.



Irish higher education governance and legislative structures

A very small minority of respondents felt that Irish higher education governance and legislative structures have a “somewhat positive impact” on their ability to achieve strategic priorities.

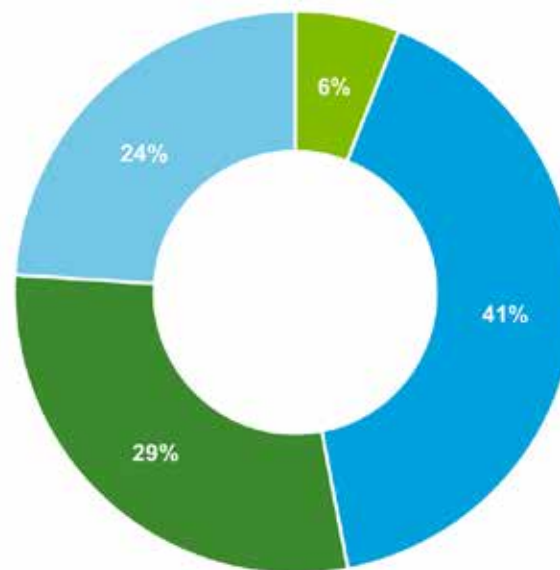
Factors identified by the majority of respondents indicated that government and legislative structures have a negative impact include:

- The continued restrictions placed on HEIs under the Employment Control Framework
- Funding cuts compounded with inability to increase borrowings
- Inflexibility in management structures including the public pay policy, fee setting and capped student numbers

One respondent commented that the current funding allocation model, while working to a year on year allocation, did not allow for alignment of strategic planning and financial management.



Figure 11: To what extent does the existing Irish higher education governance and legislative structures impact your ability to achieve your strategic priorities?



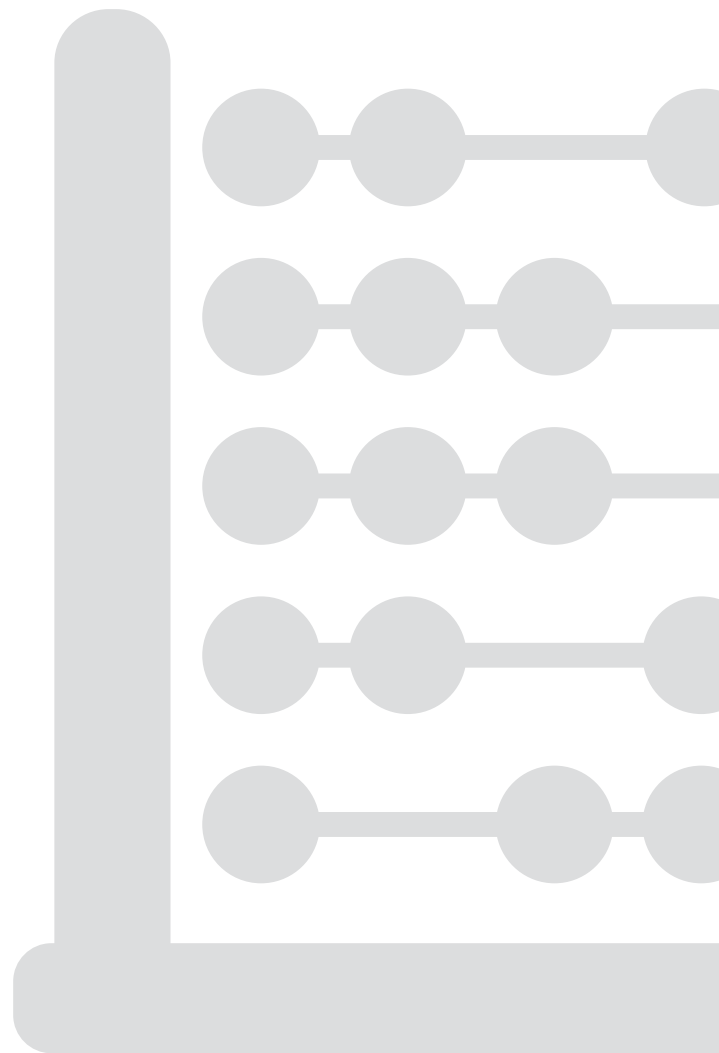
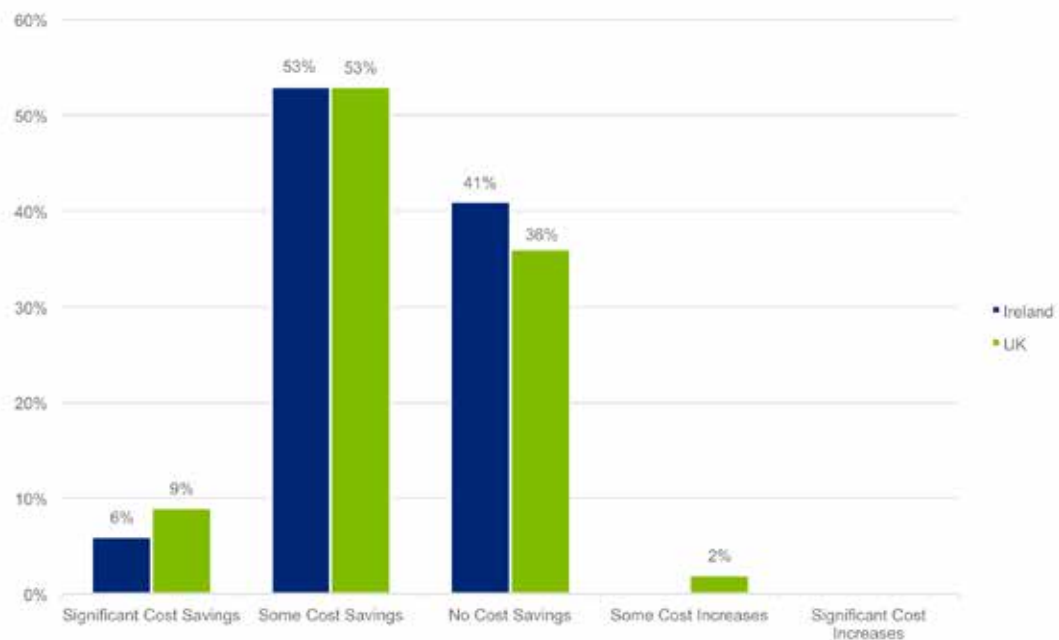
■ Somewhat Positive Impact ■ No change ■ Somewhat Negative Impact ■ Significant Negative Impact

Shared services

In 2011 Deloitte published a paper entitled "Shared services in the higher education sector" which explored the challenges and opportunities available to the sector through the implementation of shared services. This was in response to the OECD Review of the Public Service (2008) which identified the greater use of shared services in the Irish public sector as a key area for development.

In response to a question on shared services, a majority of respondents see opportunities for cost savings using a shared service provider. This is largely in line with the UK. However Irish institutions are more open to considering plans for provision of support through shared services.

Figure 12: Do you believe that significant savings can be achieved from sharing support or administrative services (e.g. through shared services or other delivery models)?

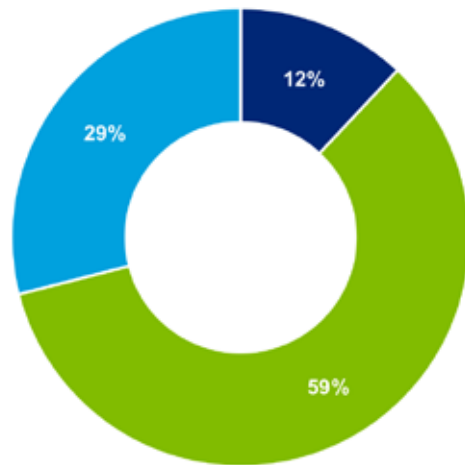


Section 4: Mergers and acquisitions

As a result of strategic direction, the model for provision of education services is changing, with mergers, strategic alliances, and regional clusters emerging, and more focus placed on alternative education delivery mechanisms such as distance learning, self study and elearning.

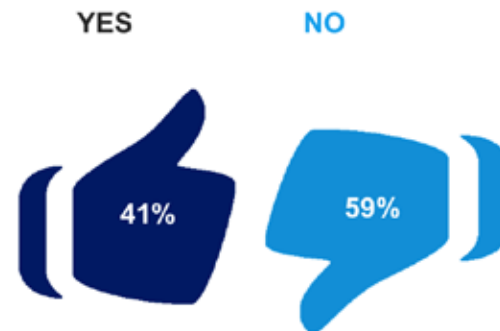
This is reflected in the respondents views on mergers and acquisitions, with over half the respondents expecting to see the levels of mergers and acquisitions in the higher education sector rise over the next 12 months and 41% of those respondents are currently looking at some form of strategic alliance themselves.

Figure 13: Over the next 12 months how do you expect levels of M&A in the higher education sector to change?



■ Increase Significantly ■ Increase Somewhat ■ No Change

Figure 14: Is your institution currently looking at a merger?



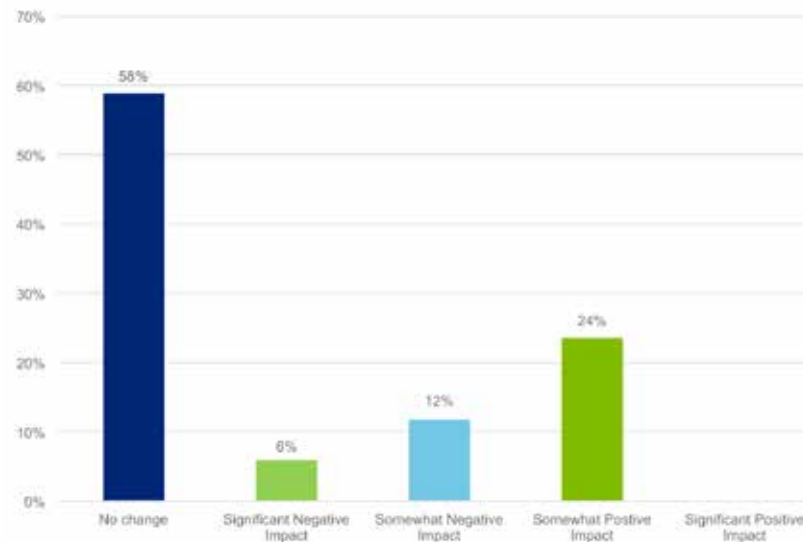
Section 5: Student numbers, recruitment and retention

A resounding 94% of respondents felt that there are government policies which negatively impact their ability to increase student numbers (domestic and international). A prime concern for respondents include Employment Control Framework (ECF) restrictions impeding recruitment, quotas placed on student numbers and reduced funding available to spend on recruitment activities.

For international students, (figure 15) despite challenges with visas, a majority of respondents did not feel that government policy had any impact on international student recruitment either across the higher education sector or in their individual institutions with 24% responding that government policy had a “somewhat positive impact” on both a sectoral and individual institutional basis.

This is in contrast to the results of the UK survey which found that *“the view remains that government policy has had a somewhat negative impact on individual HEIs but a general view that policy has a much wider impact across the entire sector”*.

Figure 15: What impact has Government Policy had upon international student recruitment across the higher education sector?

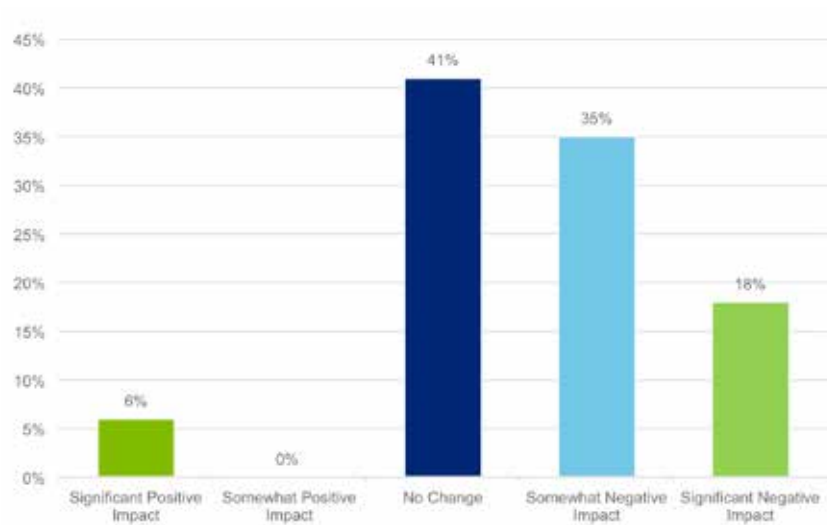


Student number controls

Student number controls aim to limit the number of students on applicable courses.

Whilst such controls are not a factor for 41% of respondents, the remaining respondents largely indicated that such controls had a negative impact.

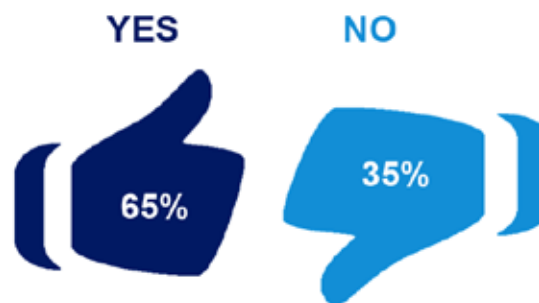
Figure 16: How have student number controls (where applicable) impacted on your HEI?



Ceilings in core funded posts

As can be seen in figure 17, 65% of respondents stated that ceilings in core funded posts have led to a reduction in the intake of certain disciplines, with Science and Computing experiencing the largest negative impact with Business and Humanities second.

Figure 17: Have ceilings in core funded posts led to the reduction in student intake in certain disciplines?



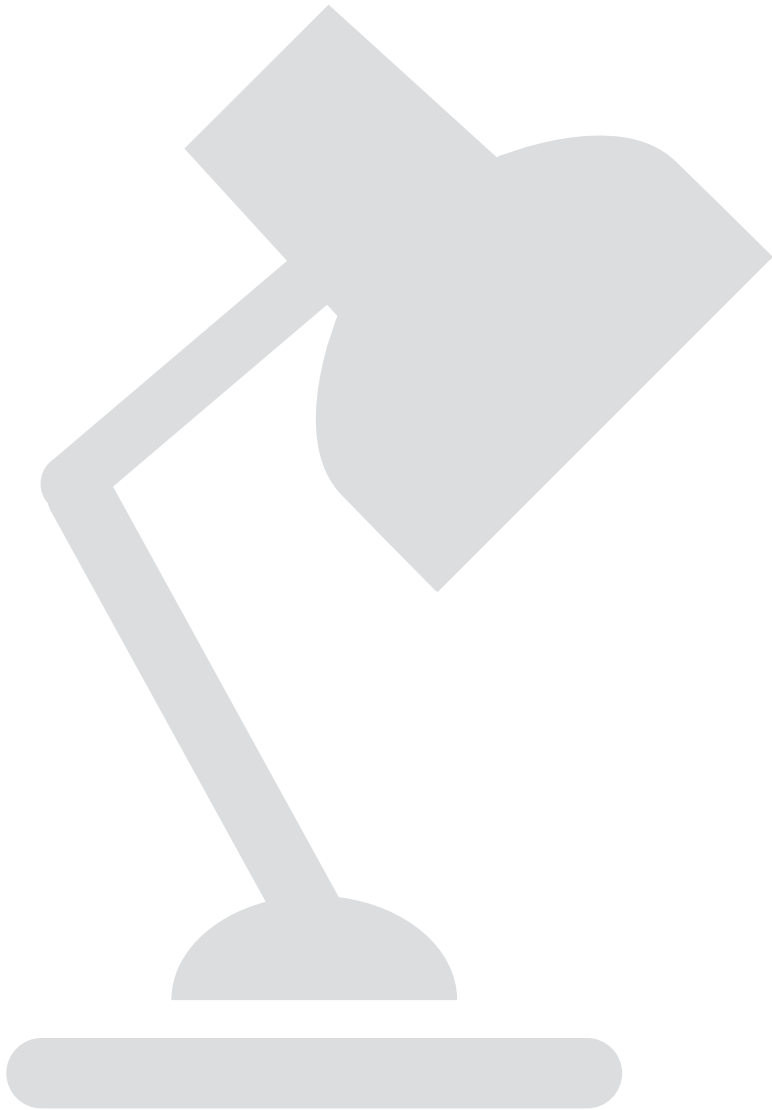
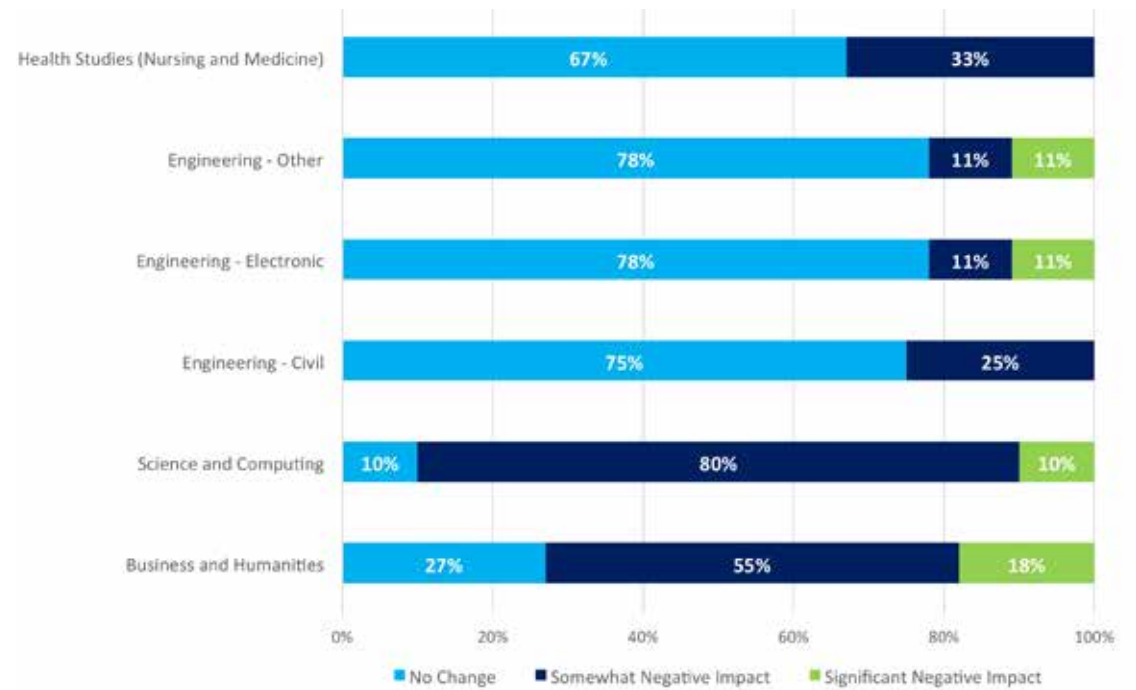


Figure 18: From those respondents who replied “yes”, in which of the following areas have ceilings in core funded posts led to the reduction in student intake in certain disciplines?



Section 6: Research activity

Respondents have experienced financial success with a wide variety of programmes including:

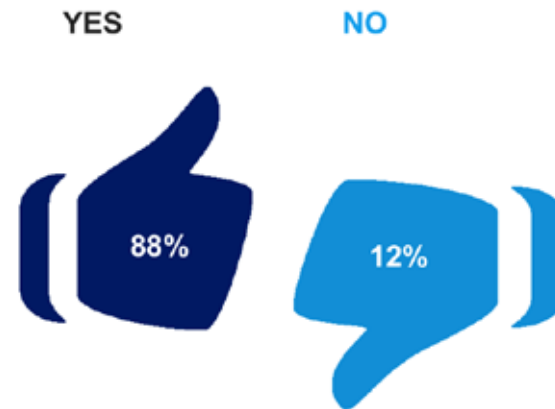
- EU Funding Frameworks
- Enterprise Ireland
- Science Foundation Ireland (SFI) Centres

88% of respondents indicated research funding is expected to increase with only 12% of respondents not anticipating the level of research funding to increase over the next three years.

Increased HEI competition for EU funds was remarked as being the key challenge to increasing research in respondent HEIs with lack of staff engagement ranked as the second most significant challenge.

Additional challenges put forward included process time, lack of coordinated response, staffing availability and the impact on teaching.

Figure 19: Do you anticipate the level of research funding in your HEI to increase over the next 3 years?



There are mixed opinions to the potential impact on availability of research funding from private providers, with 53% of respondents predicting a “somewhat negative impact” and 47% predicting “no change”.

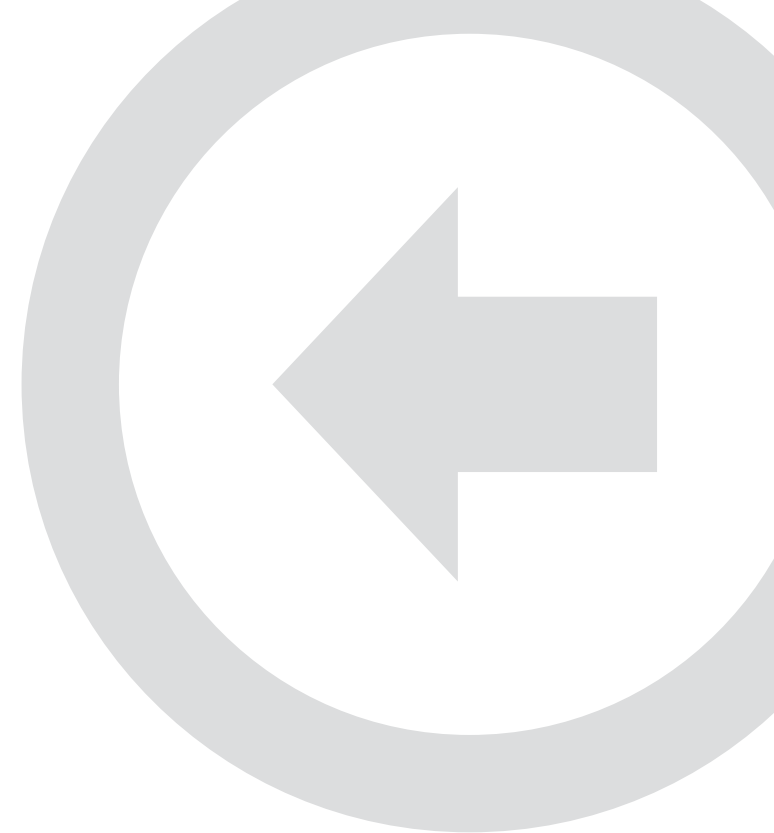
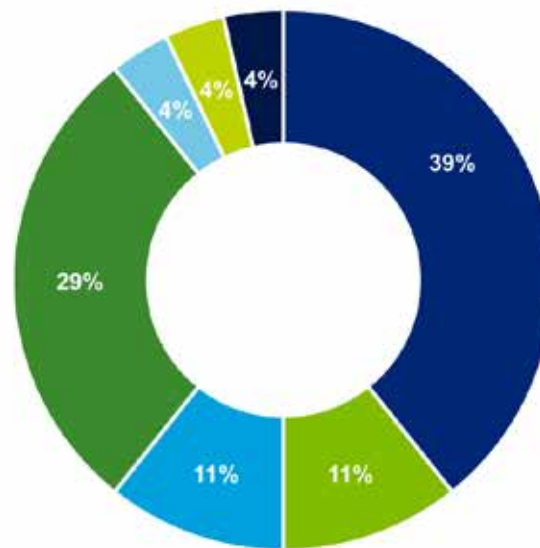


Figure 20: What are the key challenges to increasing research in your HEI?

- Increased HEI competition for EU funds
- Process time
- Lack of coordinated response
- Lack of staff engagement
- High teaching loads and a limit on staffing numbers - also lack of financial supports.
- Time to focus on research is consumed by Teaching with the reduced headcount
- Lack of track record to date

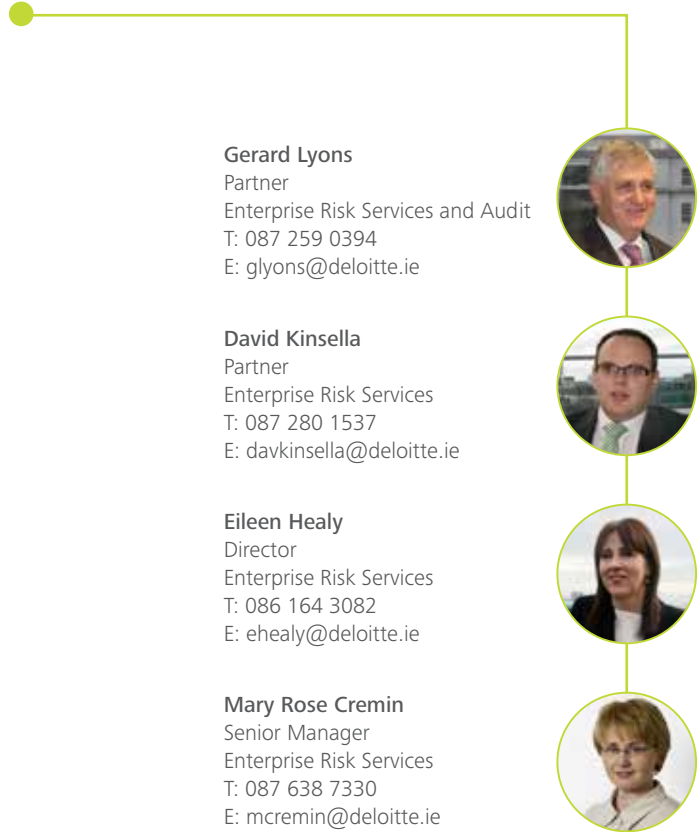


The key takeaways

- Restricted recurrent funding is seen as the foremost risk for Irish finance directors of HEIs
- A cautious optimism is emerging amongst finance directors in relation to the finance prospects for HEIs for the next three years
- The general level of financial and economic uncertainty remains high
- An overall anticipation of increasing capital expenditure and operating costs combined with decreasing cash flow and recurrent funding is driving the search for new income sources including increasing student numbers, increases in research funding and further international activity
- There is continued focus on academic quality, teaching and delivery and on the overall positive student experience
- At the same time, the current funding model is seen to be having a detrimental effect on student recruitment and retention
- Strengthening financial controls and risk management process alongside improvements in the financial function are seen as key areas for the future
- Government policy is setting the direction for HEI's in the Irish landscape and while this does not come without challenges there are opportunities ahead

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