

**HEA**

Higher Education Authority  
An tÚdarás um Ard-Oideachas

# THE FINANCIAL POSITION OF IRISH UNIVERSITIES

AT 30TH SEPTEMBER 2003

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REPORT OF THE WORKING GROUP

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# FOREWORD

The Authority welcomes the report of the Working Group which it established to review the financial position of Irish universities. This report will be an important input to the development of a financially sustainable third level sector.

In summary the working group concludes that:

- The creation of surpluses is essential to enable universities to accumulate cash for strategic reasons;
- Current levels of surplus in the sector are inadequate;
- Universities need to make surpluses of approximately 3% of income to allow for essential investment. This is in addition to providing for depreciation;
- Universities should plan to hold in the region of 45-60 days income in the form of cash to enable them to respond to opportunities and risks and manage their activities efficiently.

The working group based its findings on the first set of draft consolidated accounts prepared by the universities. These financial statements indicate that core state funding of the universities (in the form of the block grant and the grant in lieu of fees paid through the HEA) represents approximately 54% of their total income (Exchequer funding e.g. for Research, PRTL, SFI etc. would be included in the remaining 46%). Prior to this, the published accounts focussed on the traditional core functions of the university - teaching and research. The old format of accounts showed state funding as being the main contributor (80% approximately) to activities in these areas. Consolidated accounts show us the full range of a university's activities and demonstrate that they are multi-faceted institutions managing a complex portfolio of activities in an increasingly commercial environment. Financial decisions and investments made by universities will, in many cases – and indeed should - be made without reference to state funding or control. Universities need to be able to manage their finances and assets on a more strategic basis, while at the same time be responsive to nationally identified needs and accountable to the state in respect of Exchequer funding.

A financially sustainable third level sector is essential if Irish universities are to play their critically important role in the development of a knowledge-based society. The recently published report of the Enterprise Strategy Group “Ahead of the Curve” emphasises the crucial role that the education system has to play. It is important that oversight policies and procedures for the third level sector facilitate and promote the contribution of higher education to national economic and social development. The recommendations in this report should facilitate the achievement of this objective.

The HEA notes the view of the working group that deficiencies exist in strategic and financial planning in the universities and welcomes the recommendation that the HEA should assist the universities in the development of such planning. The HEA has a statutory function in this regard under the Universities Act 1997 and is currently developing proposals in this area and the report of the working group will provide a useful input to this process.

At this stage, the HEA has only given preliminary consideration to the findings of the report, but it strongly endorses the main findings set out above. We will give further consideration to the findings and recommendations of the report in our work with the Department of Education and Science, the universities and other stakeholders in promoting the development of an internationally competitive third level sector.

I would like, on behalf of the HEA, to express our gratitude to the members of the working group, Mr Tom Boland, Mr John Donnelly, Mr Tom O'Higgins and Dr Jim Port and to the HEA Executive for the considerable amount of time and work that went into the production of this report. I would also like to thank the universities for their submissions to the group.

**Dr Don Thornhill**  
**HEA CHAIRMAN**  
**9 JULY 2004**

# SUMMARY

A world-class Higher Education system is essential to supporting the continued growth of the Irish economy, and to deliver the other social, economic and cultural objectives required by the Irish government's policy of developing a knowledge society.

A working group was set up by the Higher Education Authority to examine the levels of cash and surpluses in the seven Irish universities against the background of the 2004 Exchequer grant to universities, which was some €50m below the requirement estimated by the HEA Executive in 2003.

The group strongly endorses the findings in two recent reports (the HEA submission to the OECD review of Higher Education<sup>1</sup> and the Capital Review Report<sup>2</sup> on the crucial role that universities must play in the development of a knowledge society. In order to further this role Ireland needs a university sector that is dynamic, financially sustainable, focussed on outcomes and responsive to national needs. Both of these reports demonstrate that the Irish universities are operating at lower levels of funding than our knowledge-intensive competitor countries and suffering from inadequate investment in infrastructure. The working group is conscious that in addition to the challenges of redressing this historic under-investment, the universities operate in a competitive environment where academic staff, students, and research funding can be attracted by competition from overseas universities. These issues need to be addressed if the sector is to deliver on the national goals which are expected of it.

The group's examination of the financial environment, and of cash and surpluses in the universities leads to the following conclusions.

1. Creation of surpluses is essential to enable universities to accumulate cash for strategic investments in academic staff and infrastructure;
2. The level of surplus achieved by Irish universities is inadequate to allow them to maintain their physical infrastructure in a fit condition for modern higher education. The group's view is that, assuming the recommendations of the Capital Review Group are implemented and in addition to providing for depreciation, the universities need to make surpluses of approximately 3% of income to allow for essential investment (without a stream of government capital grants they would need to make a higher level of surplus). In the financial year 2002/03 the level of surplus was 1.5%;
3. The working group also considered the level of cash holdings appropriate to the university sector. The levels of uncommitted cash held by the universities were close to zero at the end of 2002/03. While there were apparently significant cash balances in some universities, these were generally committed to specific purposes. Overall, the group considers that the universities should plan to hold in the region of 45 to 60 days income in the form of cash to enable them to respond to opportunities and risks, and to manage their day-to-day cash flow in an efficient manner. This would amount to approximately €150m (or 15%) over the whole university income of €1bn;

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1 Creating Ireland's Knowledge Society: Proposals for Higher Education Reform, HEA, January 2004

2 The Capital Review Report, HEA, 2004

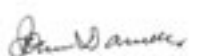
4. The universities must develop strategic plans and financial strategies which are responsive to nationally identified needs. At the same time these plans must be sufficiently robust and sophisticated for them to manage in the current environment. The first set of draft consolidated accounts prepared by the universities show that core state funding of the universities (in the form of the block grant and the grant in lieu of fees) makes up 54% only of their total income. The universities need to manage a complex portfolio of financing and activity in a semi-commercial environment, which is very different from that of fully government funded organisations like schools or health boards;
5. The universities need some security and stability in their public funding to facilitate this strategic financial planning, and they also need to be assured that their efforts in generating additional non-state income will not be penalised by corresponding reductions in government funding;
6. The new consolidated university accounts (while an accurate accounting record according with best international standards) could be misleading in terms of providing accessible forward-planning information for the universities and funding agencies. The treatment of depreciation, which is a real cost to the universities but is not funded by the government, needs to be interpreted carefully. There is a danger that this can lead those unfamiliar with the accounting details to believe that the universities are making adequate surpluses, when in fact, as the Capital Review Report has shown, they are not maintaining their assets on a sustainable basis.

The group recommends that:

- a. The government gives a clear and more stable planning horizon to the universities. Such direction could facilitate better strategic planning which in turn leads to a more efficient use of public funds;
- b. The HEA should work with the universities to develop institutional financial strategies. These strategies will include a clearer policy on their need for cash and surpluses, how these are to be generated, and how they are to be used;
- c. The HEA and the universities should work together to find ways to present the sector's financial health and sustainability in clearer evidence-based form than is contained in the published financial statements. This will aid stakeholder understanding of the true consolidated position, and provide a more informative and robust basis for policy;
- d. The universities should take stock of their strategic aspirations in the light of their ability to finance and manage their development on a sustainable basis. This will require a change in culture combined with the development of more complete strategic and professional management skills.



Tom Boland



John Donnelly



Tom O'Higgins



Jim Port

# 1

## INTRODUCTION

## Background

- 1.1 A world-class Higher Education system is essential to support the continued growth of the Irish economy, and to deliver the other social, economic and cultural objectives of the nation. It is Irish Government policy to develop Ireland as a knowledge society. The crucial role which is expected of the Irish universities in regard to this development has been elaborated by the Higher Education Authority in its submission to the OECD Review, Creating Ireland's Knowledge Society and in its recent Capital Review Report. The group strongly endorses the views of the HEA in this regard.
- 1.2 The universities have grown rapidly in recent years, and they have played a major part in supporting economic growth and other objectives of government. Participation in higher education by school leavers has increased from around 11% in 1965 to around 53% today. The universities are now beginning to develop their strategic plans which include a number of ambitious objectives – several wish for example to become competitive in research at an international level. Enabling the universities to achieve these objectives will clearly further the delivery of the Government's policy in relation to the knowledge society.
- 1.3 Over the last year or two there had been a debate about the level of cash and reserves in the Irish universities. Then in 2004, as part of national budgetary constraints, government funding to the universities was some €50m below the funding requirement estimated by the HEA Executive. There appears to have been a perception that this disproportionate reduction in funding for the university sector could be absorbed from reserves available. The questions that need to be addressed therefore are whether the levels of cash and reserves in the universities are adequate for their operational needs or whether they are too high? Where do the cash balances come from? Have inappropriate levels of cash been built up at the expense of publicly-funded activity? To answer these questions the HEA established a working group to review and report on the overall financial position of the universities.
- 1.4 A very recent report of the HEA Capital Review Group established by the Minister for Education and Science has confirmed the working group's view that the universities have a serious back-log of under-investment in buildings and equipment to support modern higher education. They also have some potentially serious unfunded pensions liabilities.

## The Review

- 1.5 The review has been produced by a working group with three independent advisers, working under HEA chairmanship and with HEA support. Details of our membership and terms of reference are in Appendix A. We met seven times between February and June 2004. We received written submissions together with a number of volumes of financial data from the seven universities in February and again in March, and we had a series of discussions with the Presidents, Financial Officers and other senior officers of each university over the two days 20th & 21st April 2004. We also drew extensively upon data from the universities already held by, or provided to the HEA.
- 1.6 The group are grateful to the universities for the constructive way they have responded to our enquiry, and to the officers of the HEA for the excellent support they have provided in helping us to analyse and interpret the financial and other relevant information from the universities.
- 1.7 The review addresses three core questions:
  - a. Why do the universities need cash and surpluses?
  - b. How much do they have?
  - c. How do their levels of cash and surplus compare with their need?
- 1.8 A supplementary question is if the levels of cash are high, have such reserves been built up at the expense of state-funded activity, or have they been generated by other university initiatives?
- 1.9 These are important questions, but they are not simple questions to answer. In order to answer them, it is necessary to take a view about the role of the universities; to take account of the extent to which their activity is not state-funded; of the amount of cash required to fund payroll and other day to day requirements; and to consider the degree to which they need the freedom to invest, to compete with other Irish and international institutions, and to make commercial judgements and take risks.
- 1.10 We consider these broader contextual and financial management issues in chapters 2 and 3. In chapter 4, we build up a picture of the current levels of cash in the universities, and in chapter 5, we discuss how appropriate these levels are, and how they have been generated. In Chapter 6 we look at Pensions and Borrowings.



2

CONTEXT

### **The Irish Economy And Society**

- 2.1 Higher Education has never been more important in Ireland – to individuals, society and the economy. Individuals who participate are enriched through personal and career development opportunities. Higher education plays a central role in promoting national well-being and the social, economic and cultural development of the country. Government and society look to the higher education and research system to deliver on important national policy goals, including enhancing social inclusion and skills levels, and promoting economic, regional and cultural development.
- 2.2 The role of education in the transformation of Ireland’s economy is highlighted by IDA Ireland’s recent marketing campaign to foreign companies - “Ireland - Knowledge Is In Our Nature”. The establishment and maintenance of a strong educational system, and the rapid increases in participation in third level education have underpinned Irish economic development.
- 2.3 Inward investment has also been critical to recent economic development in Ireland; especially in such industrial sectors as, software; electronics; healthcare; and financial services. These sectors are highly mobile. They all depend on a vibrant and internationally competitive higher education sector, which is capable of delivering a supply of suitably qualified graduates. Without this essential component of a modern economy, it could become difficult to maintain inward investment, and Ireland’s economic performance.
- 2.4 Like other countries, Ireland now faces the challenges of increasing international competition, and an ageing population with increasing expectations of state social support. At the same time, the country is engaged in addressing historic deficits in investment in national infrastructure. It therefore has to look to the future in terms of securing a competitive position in the long-term.
- 2.5 This will require continuing focussed investment in the university sector, coupled with policies to facilitate and promote the contribution of higher education to national economic and social development.

### **The International Context**

- 2.6 A recent OECD project, in which Ireland participated, has examined trends in the financial and market environment for universities, and the way universities need to be governed and managed for financial sustainability<sup>3</sup>. The report shows that, in many OECD countries the higher education systems are experiencing a combination of developments that are also familiar in Ireland. These are shown in the box below.

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3 OECD 2004 “On the Edge – Securing a Sustainable Future for Higher Education”

2.7 The central message of the OECD report is that to remain competitive and to deliver the roles the state expects of them, universities have to become more strategic; to generate additional non-state income; to borrow and invest; and to manage a more complex portfolio of activities and risks. They also have to continue to maintain the ethos of academic integrity and public service which characterise a university institution. This means a development or evolution of the business model of a university.

- If unconstrained, the costs of higher education are likely to continue to grow at a faster rate than the state funding available to support it
- Universities need a broader range of income sources
- Industry and students, as major beneficiaries of higher education, should contribute to its costs
- Universities need to become more efficient in their use of resources
- Universities need to be able to manage their finances and assets on a more strategic basis taking greater account of the needs of long-term sustainability.

“On the Edge” 2004

2.8 Under the traditional “public ownership” model of a university, institutions were fully funded by government, in cash, on a needs basis. They spent 100% of these funds on delivering their recurrent programmes. When investment was required, such as for new buildings, a case was made, and the government would fully fund such capital projects in a good year (when the economy was healthy and other priorities permit) or defer them in a less good year. If there was a major change in activity and (for example) a site had to be closed or staff made redundant, it would be the government’s responsibility to bear these costs.

2.9 Many countries have moved away from this model, partly because governments cannot afford fully to fund the level of expansion they wish to see in higher education activity, and partly because centrally planned (and constrained) public financing is not seen as an effective way to encourage an entrepreneurial and sustainable university culture.

2.10 Instead, we see an evolution to a second model, which we might call “autonomous institution”. In this, the university is still largely publicly-funded, but funded to deliver specific programmes or outcomes, and this public funding probably makes up significantly less than 100% of institutional income. In Ireland, state recurrent grants and state paid tuition fees make up 54% of total university income. The university is accountable to government for the use made of public funds, but it is expected to take responsibility for its own sustainability, including managing a portfolio of financing, and managing its own investment and risk. A significant part of the university’s investments and financial decisions will be made without direct state funding or control.

2.11 The management challenge for universities is therefore evolving from their historic “public sector” one, which was primarily about accountability and good stewardship of public funds, to one in which public accountability is still central<sup>4</sup>, but which also includes generating finance and managing commercial risks. In this regard, it is becoming increasingly differentiated from the challenge for public bodies like schools which largely exist to deliver government programmes, funded by government, and where the costs of investment and risk are also borne by government.

### The Irish Universities

2.12 The seven Irish universities make up a major part of the higher education sector. In round terms, they have a combined annual turnover of €1.1bn; they employ 11,300 staff (see Appendix B); they provide teaching and support to 85,000 students (see Appendix C); and they manage a €3.6bn asset base. In addition they have a further c. 15,000 adult and distance education students working towards university qualification. Viewed in simple business terms, they are some of the largest and most complex organisations in their respective regional communities. Table 1 provides some simple comparative statistics about the seven universities.

	<b>Turnover inc Research Income €m</b>	<b>Research Income €m</b>	<b>Student nos.</b>	<b>Insured Value of Assets €m</b>
University College Dublin (UCD)	289	33	20,000	1,016
Trinity College Dublin (TCD)	223	38	15,000	605
University College Cork (UCC)	177	41	14,000	454
National University of Ireland Galway (NUIG)	130	23	13,000	245
University of Limerick (UL)	109	13	10,000	438
Dublin City University (DCU)	99	23	7,500	581
National University of Ireland Maynooth (NUIM)	60	9	5,500	302
<b>Total</b>	<b>1,087</b>	<b>180</b>	<b>85,000</b>	<b>3,641</b>

<sup>4</sup> See “The Financial Governance of Irish Universities – Balancing Autonomy with Accountability”. HEA/CHIU December 2001

2.13 Of course universities are not simply, or primarily, businesses. They receive very significant state funding, and in many respects are still a part of the public sector. They make an essential contribution to a number of government policy objectives including:

- developing an educated population and workforce
- providing an environment which attracts inward investment
- developing new knowledge and technology to serve the Irish economy
- promoting cultural and social development
- exporting Irish education worldwide
- promoting social inclusion and lifelong learning for the Irish population.

2.14 The growth in participation in higher education over a relatively short period has been dramatic. In 1965 11% of the 18 year old cohort entered higher education. In 1992 the rate was about 36% and by 2003 it had risen to approximately 53% - a growth rate of around 2% per annum. These statistics demonstrate the consistently strong demand for higher education.

2.15 While the universities have made significant progress in recent years, we have also noted a number of weaknesses in the Irish university system, which will need to be addressed, if the universities are to remain internationally competitive, and to make a full contribution to national goals.

2.16 Some weaknesses have been highlighted by the HEA in its submission to the OECD review of Higher Education in Ireland which noted, amongst other things, that funding and investment is below that of many OECD countries, that performance is poor in some areas such as graduation rates, and that there is a relatively large number of institutions for a small country.

2.17 The recent Capital Review Report has highlighted the fact that Irish Universities have significantly less net usable space per student than their competitors overseas, and that a large proportion of the university estate is in serious need of investment to bring it into line with health, safety and access requirements.

2.18 In addition to the above weaknesses, which also concerned the group, we have noted that:

- Deficiencies exist in strategic and financial planning;
- Research is still at an immature stage of development in many institutions, and will need significant investment over a sustained period to become competitive with UK and European counterparts. The rapid growth of research planned by many institutions will pose strains on their infrastructure and management capabilities;
- Some universities have serious unfunded pensions liabilities as well as having to fund escalating pension supplementation costs from recurrent income;

- Irish universities face serious challenges in seeking to attract and retain world-class academics;
- Management and governance systems are deficient and inefficient in some institutions as was noted in the HEA submission to the OECD Review although we were encouraged to note the recent proposed reforms at TCD and UCD;
- Compared with other countries such as the UK, there is a high degree of state control over the universities (e.g. in salaries and fee-setting). Coupled with the lack of multi-annual budgeting, these factors could be seen as maintaining a culture of dependency and short-termism in university planning, and as inhibiting a more strategic and entrepreneurial culture in higher education;
- Some significant contingent liabilities exist relating to campus companies in the case of one university;
- Inadequate or minimal strategic planning to date.

2.19 These weaknesses will inhibit the full contribution which the Irish government requires from its higher education system, and they need to be addressed by the state, the HEA and the universities working in partnership.

### **Financial Management In The Universities**

2.20 As Irish universities diversify their funding sources and as they are required to take more responsibility for their own investment and risk, they need to develop the appropriate business skills and financial tools. These would include:

- Strategic planning (integrating academic and financial plans)
- Financial strategy (including planning for financing the institution)
- Capital planning and whole-life asset management
- Options appraisal and risk management.

2.21 They also need the financial freedoms to manage in a commercial environment. These include the freedom to borrow - which we note has been provided in a framework agreed under the Universities Act - and the freedom to create and retain surpluses. Without cash, it is impossible to finance any capital developments unless they are 100% state funded; it is also very difficult to respond to opportunities; and even quite minor contingencies may create financial difficulties for a university.

2.22 For the larger universities, devolution and incentives can be an important part of their financial strategy. Just as governments in many countries are giving universities incentives to become more entrepreneurial, and to generate additional non-state income, so the same processes are seen within universities between the central administration and the departments/faculties.

- 2.23 The Presidents and senior management of a large multi-faculty university are in some sense analogous to the directors of a conglomerate company with many subsidiary businesses including teaching and research in a variety of fields: medicine, engineering, business, creative arts etc. The senior management cannot personally manage each of these different businesses, and the larger universities have therefore introduced some form of devolved management regime, which gives incentives to academic departments, schools, or faculties to develop their business and generate income.
- 2.24 Experience elsewhere shows that without some incentive to do this within the university context, academics may develop these entrepreneurial areas (such as training for the corporate sector, consultancy, private practice) outside the university sector, for personal gain. The universities will suffer if this occurs.
- 2.25 Such incentives involve allowing successful academic units to retain a proportion of any surplus they generate - in departmental balances - usually to be reinvested in books, equipment, travel, research or other resources to help the department to increase its performance. This means that part of the “university funds” are outside the direct control of the centre although they are subject to normal accountability and must ultimately be spent in ways which support the strategic objectives of departments and universities.
- 2.26 As part of the context to this review, the group has noted that:
- a. The Irish universities are operating in an increasingly competitive and commercial international financial context. They have to raise funds from non-government sources; they have to bid for competitive research grants and contracts; they have to run what are effectively commercial businesses in areas like catering and conferences; they have to invest in their premises and infrastructure on a long-term, whole-life basis; and they have to continue to maintain academic quality and to compete to attract students and staff in an international market. The group has some concern as to the ability of some of the universities to manage in this changed and complex environment;
  - b. While the universities have developed well, there are a number of weaknesses in the Irish university system compared with its international competitors. These include a lower level of funding per student than in many OECD countries; a lack of consistent past investment in buildings; the relative immaturity of strategic financial planning; we believe there is a lack of realism and risk in the objectives of some of the universities; and governance and management processes exist which still need to be further modernised to support the universities’ current needs;

- c. Government core funding will remain the dominant input to the system, and the universities therefore need to be given some degree of security about the future level, and stability, of their funding to permit proper strategic planning;
- d. However, the government cannot be expected to fully fund all necessary higher education development, and so the universities have to be supported in becoming more entrepreneurial, and in developing more contract and non-state sources of income, and in managing a more complex portfolio of finance, activity, and risk.

2.27 Finally, it is important to note that 2004 was the first year during which the university financial statements (for 2002/03) are being prepared according to a new accounting format. At the time of our study, the universities had not completed preparation of their consolidated 2002/03 accounts on the new basis. However, they have all cooperated with the HEA officers to produce unaudited Income and Expenditure accounts in the new format some weeks ahead of schedule and to enable us to draw upon all other available unaudited financial data for this year.

# 3

## WHY IS CASH NEEDED IN THE UNIVERSITIES?

### 3 | WHY IS CASH NEEDED IN THE UNIVERSITIES?

- 3.1 In this chapter we consider the state of development of financial strategy in the Irish universities and the place of cash and surpluses: why they are needed, and how they are generated.

#### **Financial Strategies Of The Universities**

- 3.2 We asked to see strategic plans and financial strategies of the universities. These might have shown us what levels of cash and surplus the universities were planning to achieve, why this cash was needed, and how it would be used. This would have helped in answering the core questions for our review.
- 3.3 While the universities provided much relevant information, and endeavoured to answer our specific questions, none of them yet appear to have a comprehensive financial strategy which addresses these issues. This is a consequence of the evolution from a public sector ethos which we described above.
- 3.4 The group note that financial strategy is currently an area of development in the UK universities, with recent guidance issued by HEFCE<sup>5</sup>, and much work on financial sustainability is currently underway.
- 3.5 Some of the universities claimed that they are inhibited in strategic planning by the lack of any medium-term security of state funding. In the absence of multi-annual budgets, they say that they find it difficult to commit themselves to strategic plans, which need to have a time horizon of at least 3-5 years.
- 3.6 Accordingly the group recommend that the government find a way to give a clearer and more stable planning horizon to the universities. This could facilitate better strategic planning and may in turn lead to a more efficient use of public funds.
- 3.7 Several of the universities have nevertheless identified very clear strategic goals which they are pursuing. The group was struck by UCD's vision to establish itself as one of the top 30 European research universities. The university recognises that this is a challenging ten-year task which will require significant investment and development, not all of which can be funded by the Irish government. Other universities had different goals. Some of these appeared unrealistic to the working group.
- 3.8 We support the priority that the HEA is giving to strategic planning by the universities and note that some progress has been made since the Universities Act. However, there is more to do, and the group recommend that the next phase of work give particular attention to financial strategy as part of an institutional strategy linked to the achievement of national needs.

#### **Why Is Cash Needed?**

- 3.9 In our discussions with the universities, we identified a small number of common factors that are most relevant in determining their need to generate cash. The most important of these factors were as follows:

- Building new academic capacity
- Making strategic investments
- Maintaining and renewing physical infrastructure
- Matching external capital investments
- Managing cash flows
- Taking opportunities and managing risks

### **Building New Academic Capacity And Making Strategic Investments**

3.10 Many of the universities wish to build up their capability in research. This has been strongly facilitated by the PRTL and SFI programmes. However, they all recognise that, in the short-term at least, research will be a cash-consumer, and they therefore need to generate surpluses on other activities to “cross-subsidise” their developing research.

3.11 Some of the universities recognise the need to attract a few “academic stars” in order to maintain and build their research output and their international reputation. These high calibre academics need elevated salaries, and they also require other types of support such as new laboratories, research assistants etc. all of which have to be funded by the university in advance of seeing any return.

### **Maintaining And Renewing Physical Infrastructure**

3.12 As already noted above at 1.4 the universities have not been investing enough in development and maintenance of buildings and estates. They have a lower level of space available per student than in competitor countries, and they have backlogs of infrastructure which is either in poor condition, or is no longer at “industry standard” in terms of suitability for modern teaching and research.

3.13 The Capital Review Report has identified the need for a major programme of publicly funded capital development to address these deficiencies. The report also stresses the importance of not neglecting continuing maintenance and minor works.

### **Matching External Capital Grants**

3.14 Some of these infrastructure and development needs will be funded through government capital grants, grants from research funders, or private donors or philanthropic organisations. However, all the universities made the point to us that such external sources of capital funding rarely if ever cover 100% of the costs of a new building or facility. It is often the case that universities are unable to attract external funding at all unless they can provide some of their own resources. This is an incentive for third parties to invest. It is also good management practice, promoting value for money, if institutional own funds are also being committed.

## **Managing Cash Flows**

3.15 Public revenue grants and student fees are paid in advance. However, capital grants have generally been paid in arrears, and the same is true of most commercial income. Also, universities experience unexpected needs for cash due to delays and changes in projects. Cash flow cover for capital developments has traditionally been provided by cash flows from the non-capital element of university operations which is generally funded in advance. For example capital cash flows on the PRTL Cycle 3 programme are evenly spread over 5/6 years whereas the buildings will be completed in 2/3 years with the delays being financed from recurrent cash flows and borrowings.

## **Taking Opportunities And Managing Risks**

3.16 Cash gives universities some scope to be more entrepreneurial, to respond to opportunities, and to cope with contingencies and manage risks. Examples quoted to us included:

- The PRTL Cycle 3 pause for one year has left some institutions bearing the cost of capital expenditure commenced prior to the pause;
- strategic opportunities such as the UCD purchase of the Phillips site on its perimeter subsequent to the end of the 2002/03 financial year; in general the ability to respond appropriately to opportunities and developments at perimeter sites has been hugely important for many of the universities;
- seed funding to generate new overseas student fee income;
- the costs of preparing bids for research contracts which are unrecoverable whether or not the bid is successful;
- The costs of responding to HEA grant schemes (PRTL was noted as an example).

3.17 All these types of spending are part of the normal running expenses of a large institution. In the UK they are referred to as Support costs, to be funded as part of the costs of teaching, research and consultancy activities.

3.18 In commercial activities, the risks are greater of market down-turn, of competitive action, of adverse contract performance etc, and the potential costs might be much greater and more difficult to plan for. Institutions bear new risks when they diversify their activity and take responsibility for financing part of their own activity (e.g. through fund-raising, commercial activities, competitive research grants, part-funded EU projects and so on). The costs of this additional risk are recognised in the UK by the public funding bodies<sup>6</sup> which expect such institutions to need larger cash reserves and surpluses than a traditional “fully-funded” institution.

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<sup>6</sup> Under the UK methods used for costing activity in higher education, institutions are expected to recover a ‘cost of capital employed’ (interpreted in the HE sense as providing a fund for restructuring and development) from public sponsors.

### **How Is Cash Generated?**

3.19 Universities can generate cash through:

- (a) recurrent state grants and fees paid in advance;
- (b) donations from philanthropic organisations, Alumni etc;
- (c) surpluses on their main publicly-funded teaching and learning activity;
- (d) surpluses on commercial activity and other university-generated income (including overseas students, consultancy, contract research for industry etc);
- (e) fund raising.

3.20 In practice, of course, there is an element of all of these. However, in Ireland as elsewhere universities are most unlikely to make significant surpluses on their publicly funded activities. On the contrary, they would argue that they are incurring deficits on these – and these deficits are evidenced by the failure to maintain buildings and equipment, and the pressure to generate cash from non-government funded activity (categories b, d and e above).

3.21 It is fair to say that the Irish government, like those in other countries, depends on the universities developing these sources of private income, and many of the universities have benefited from private donations which have significantly supported the development of facilities and services which otherwise might have been funded by the state. The role of one donor (Atlantic Philanthropies) has been particularly beneficial to Irish higher education. This donor has now ended its involvement in funding higher education infrastructure. This will have a significant impact on Irish universities' potential to raise private funds, as the pool of potential donors is small and the whole business of philanthropic giving to higher education is relatively undeveloped.

3.22 While the universities may be successful in raising donations from private enterprise or individuals, such funds are usually provided for specific objectives and are not available for general purposes. (Please see Appendix D: Endowments and Foundation Fund Transfers 1999-2003.)

3.23 The universities need to work towards achieving better recovery of research overheads. We understand that a policy framework has been recommended within which appropriate provision can be made by public sector research funding organisations which will deal with this issue<sup>7</sup>. They also need to invest funds and effort to develop commercial income and philanthropic donations as a source of funding. It would be very damaging to this effort if the government allowed the impression to be gained that any success in such private fund-raising would be penalised by reductions in government funding. This would in fact cause such enterprise by the universities, and private donations to cease.

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4

HOW MUCH CASH DO THE  
IRISH UNIVERSITIES HAVE?

### Introduction

- 4.1 In this chapter, we aim to build up an understanding of how much cash the universities have, and how much they are generating. We look specifically at the levels of cash held by the universities, and how these fluctuate over the year. We also look at the surpluses they have generated in recent years, in particular in 2002/03, and what these have been used for.
- 4.2 In principle, these are not difficult questions to answer, but there are some complexities to be considered. The most important of these is that the current accounting format used by the universities in Ireland is changing and at the time of this study, the universities had not completed the preparation of their first set of consolidated accounts to the new format.
- 4.3 In the past the financial statements of the universities were prepared primarily to facilitate accountability and comparability in relation to state funding. Non-state streams of capital and current income have grown in importance. In order to meet international accounting standards and greater requirements for accountability and transparency, the universities have moved to a new format of accounts which will be applied from 2002/03. This will be in full compliance with international accounting principles. We have chosen to use the new draft consolidated accounts as the basis for our study, but it has been necessary to make some assumptions and adjustments because of this timing.
- 4.4 The changes which are being made to the format of university accounts are outlined below.

#### **New Accounting Requirements from 2002/03**

With effect from the most recently ended financial year, 2002/03, a range of accounting policy changes to the existing format of accounts of the Irish universities have been adopted which will bring the university financial statements into full compliance with Generally Accepted Accounting Principles. The main changes are as follows:

- Consolidated financial reporting: Fully consolidated accounts including all activities controlled by the university (incorporated self-financing activities, other subsidiary companies etc.) will be produced. Previously such activities beyond the core function of the universities were reported in a separate volume to the financial statements called Additional Financial Information. A HEA Funding Statement (equating to the previous format) for funding purposes and a reconciliation between this and the GAAP based accounts will also be included;
- Internal/Departmental Funds: The balance of funds held internally by Academic or other Departments at the end of the financial year will be accounted for in accordance with GAAP on an accrued expenditure basis. Balances which are not formally committed will appear either in

a restatement of opening revenue reserve for 2001/02 or in the surplus/deficit for the year. Committed balances only will appear as current liabilities;

- Capital Expenditure: Where items of capital expenditure in excess of a capitalisation threshold, usually €3,175, are incurred from recurrent income, they will no longer be reported as an expense in the Income and Expenditure account. This expenditure on minor capital works and equipment (formerly known as Transfers to Capital) must now be reported as part of the financial result on the Income and Expenditure account for the year to be transferred to the Revenue Reserve in the Balance Sheet. Such expenditure averages between €15m and €25m a year;
- Ancillary Services: Income and expenditure on Ancillary Services will be reported in the Income and Expenditure account. Previously the net income and expenditure on Ancillary Services was reported and the net result transferred directly to reserves in the balance sheet;
- Financing for student accommodation (Section 50) and PRTL (Section 843) finance schemes: FRS 5 “Reporting the substance of transactions” requires reflection in financial statements, of actual commercial effect and not legal form. This has particular importance for special purpose companies (SPCs) set up under the above legislation. For example: a university which operates student residences in accordance with Section 50 provisions has a financing package in place to buy back a student residence complex in the future, from a fund built up from student rental income. The university is required to record the residences under fixed assets and to include rental income in the result for the year although it represents committed funds and not resources available to the university;
- Depreciation: There is no funded depreciation in the funding model for the Irish university system. Depreciation was reported in the old format accounts as an expense after the calculation of the surplus/deficit for the year. But it was then neutralised by amortising back from General Reserves an exactly equivalent amount. In the new consolidated format, depreciation must be included as a normal operating expense. However, only capital grants and donations may be amortised under GAAP. It was general practice in the past to only account for capital funding on the basis of cash received. Assets that have been funded from recurrent income will continue to be depreciated but there will be no amortised funds to offset this charge. Thus in the consolidated accounts for 2002/03 depreciation is €88m while amortisation is only €44m.

4.5 The group is concerned that the complexity of the new accounting regime should be fully understood by all stakeholders and recommends that more work be done in this regard. It took intensive effort by the group to come to terms with this complexity.

- 4.6 We understand that for all of the above reasons the HEA has insisted that an account of the Core State Funded business of the universities (to be called the HEA Funding Statement) is to be separately produced as part of the consolidated accounts.
- 4.7 The two most useful indicators for this study are firstly the balance sheet cash position, and secondly, the financial surpluses generated by the universities.

#### **Levels Of Cash – Balance Sheets**

- 4.8 The most direct indication of cash is in the balance sheets of the universities prepared in their annual accounts. The most recent and the first draft consolidated accounts show the position at 30 September 2003.
- 4.9 Table 2 shows the cash and investments balances of the universities at 30 September 2003. The headline total level of cash and investments recorded was €198m.
- 4.10 However, this figure does not represent cash available to the universities for discretionary use, as there are a number of commitments also recorded against this total. These are also shown in the table.
- 4.11 The total levels of cash and net investments held by the university sector at 30 September 2003 were €198m (net investments is after deducting corresponding borrowings for Section 50 students residences), but cash commitments at the same date exceed this by €71.8m.
- 4.12 The total debtors, prepayments and capital grants receivable figure in the table at line 4 is €102.6m.
- 4.13 The total commitments at line 5 is €372.4m which is made up of the following main elements:

	€'000
Net Academic fees in advance	68.5
State Grants in advance	48.9
Contract Research in advance	49.7
Capital funding in advance	37.3
Other income in advance	9.8
Creditors and accruals	158.2
<b>Total commitment</b>	<b>€372.4</b>

- 4.14 It is clear that the cash and investments held at 30th September 2003 of €198m are therefore fully committed. The level of commitments of €372.4m have to be reduced by the Debtors and Capital Grants Receivable total of €102.6m giving a net position of €269.8m at line 6.
- 4.15 The overall cash held or working capital for the sector was therefore a negative of €71.8m
- 4.16 Table 2 also shows that there were some variations between the positions of different universities.
- TCD had the largest net cash balance at €31m (51 days);
  - Two universities (UCC and DCU) had significantly negative cash positions;
  - UCC had used €38m of cash to fund capital deficits (see note to table 2). The group would not like to see this as a regular practice and understands that it is the subject of discussion between the university and the HEA;
  - NUIG appeared to have an unusually large level of investments (€11.7m, over 90% of the sector total). These investments held by NUIG at 30 September 2003 of €11.7 million were generated from ancillary services and non-EU fee income and we understand that these funds were used post September 2003 for capital purposes.
  - Investments at all the other universities were insignificant.

#### **Variability Of Cash Flows**

- 4.17 The balance sheet figures in Table 2 represent the position on one day in the year chosen as the year-end for accounting purposes. The levels of cash on 30 September are not necessarily indicative of the cash position on any other day.
- 4.18 The group considered this with the help of an analysis of monthly cash flows over the financial year 2002/03 prepared by the HEA. This is shown at Table 3. It shows that the universities normally experience two peaks in cash levels during the year, a large one around January/February, and a smaller one in September/October each year. These are connected with the fact that fees are paid to the universities half-yearly in advance, while most costs (salaries for example) are paid out on a regular monthly basis.
- 4.19 The levels shown in the balance sheet at 30 September are therefore neither the highest nor lowest in the year and so are probably a reasonable indicator of cash levels for the purpose of this review.
- 4.20 The practice of paying universities in advance *is a sensible and necessary one* as it provides them with a small amount of cash buffer to use in smoothing their cash flows. The HEA allows them to set any interest earned against the 5% income generation target which is part of the HEA recurrent funding mechanism.

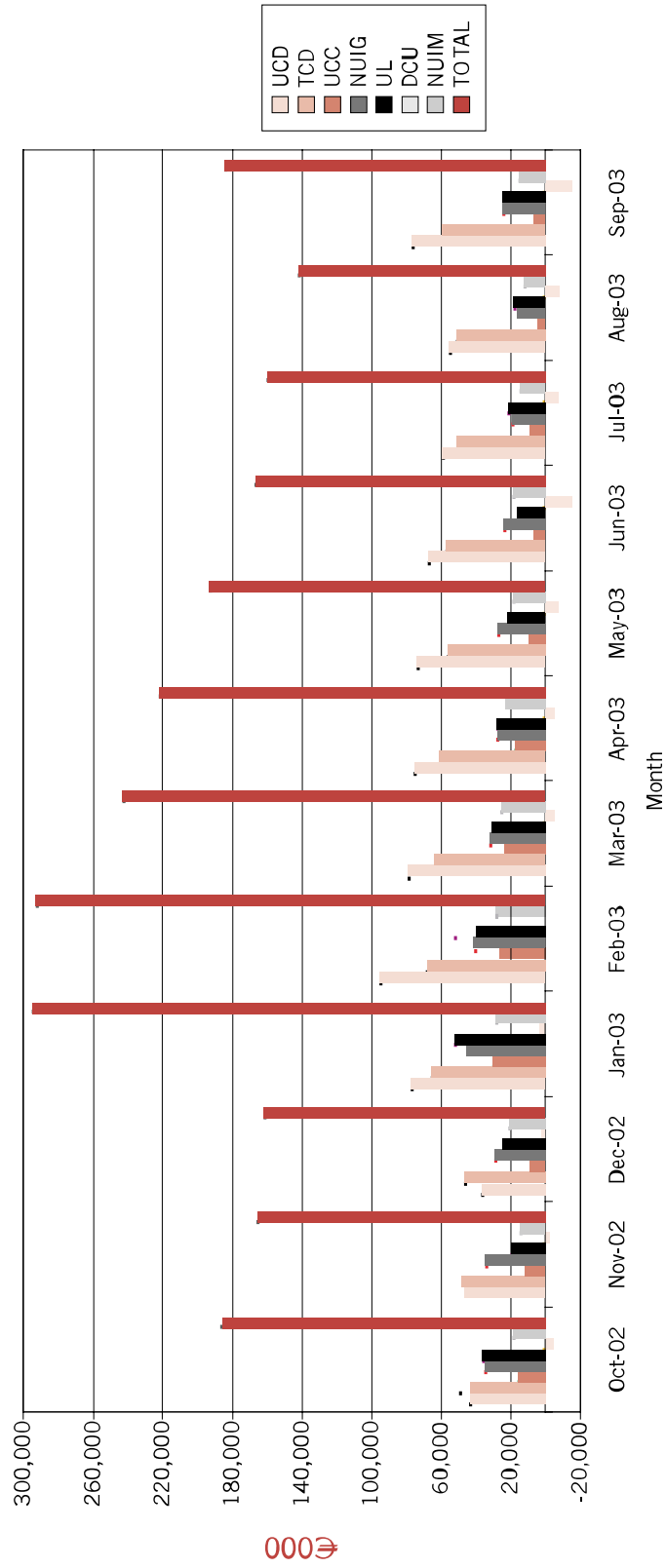
Table 2: Level of Cash and Investments held by Universities in Consolidated Accounts at 30/09/2003

	UCD €'000	TCD €'000	UCC €'000	NUIG €'000	UL €'000	DCU €'000	NUIM €'000	TOTAL
Cash	75,535	57,536	5,203	22,979	23,248	-15,523	13,955	182,933
Investments	134	139	269	11,737	2,680	0	113	15,072
<b>1. Gross Cash and Investments</b>	<b>75,669</b>	<b>57,675</b>	<b>5,472</b>	<b>34,716</b>	<b>25,928</b>	<b>-15,523</b>	<b>14,068</b>	<b>198,005</b>
<b>Commitments</b>								
2. Debtors & Prepayments	-7,810	-11,508	-13,723	-3,606	-11,334	-7,739	-3,053	-58,773
3. Capital Grants Receivable	-17,764	-22,800	-3,304	0	0	0	0	-43,868
<b>4. Total (2+3)</b>	<b>-25,574</b>	<b>-34,308</b>	<b>-17,027</b>	<b>-3,606</b>	<b>-11,334</b>	<b>-7,739</b>	<b>-3,053</b>	<b>-102,641</b>
Net Academic Fees in Advance	23,369	16,085	9,064	8,227	6,233	1,572	3,941	68,491
Net State Grant in Advance	15,614	6,900	8,528	7,830	5,645	-251	4,605	48,871
Net Contract Research in Advance	5,476	5,701	12,276	12,213	7,620	4,148	2,258	49,692
Creditors & Accruals	23,920	32,286	29,789	19,215	19,226	24,914	8,859	158,209
Capital Funding in Advance	37,325	0	0	0	0	0	0	37,325
Other Income in Advance	0	0	9,871	0	0	0	0	9,871
Deferred Expenditure	0	0	0	0	0	0	0	0
<b>5. Total Commitments</b>	<b>105,704</b>	<b>60,972</b>	<b>69,528</b>	<b>47,485</b>	<b>38,724</b>	<b>30,383</b>	<b>19,663</b>	<b>372,459</b>
<b>6. Commitments net of Receivables (5-4)</b>	<b>80,130</b>	<b>26,664</b>	<b>52,501</b>	<b>43,879</b>	<b>27,390</b>	<b>22,644</b>	<b>16,610</b>	<b>269,818</b>
<b>Working Capital (1-6)</b>	<b>-4,461</b>	<b>31,011</b>	<b>-47,029</b>	<b>-9,163</b>	<b>-1,462</b>	<b>-38,167</b>	<b>-2,542</b>	<b>-71,813</b>

Notes: (i) UCC and UL have used recurrent monies to temporarily bridge capital deficits positions. This amounts to €38M for UCC and €2.6M for UL. The amount used in this regard of €40.6M has therefore reduced the level of cash held at 30/09/03. (ii) CHIU have informed us that very tight time constraints for submission of data to the HEA meant that full analysis of GAAP accounting policies and preparation of numbers on that basis was not always possible and that accounting treatments adopted, particularly in relation to capital grants receivable over the longer term, may not be wholly consistent across the sector in the draft accounts.

Table 3: Monthly Cash Flows 2002/03

Financial Review  
Monthly Cash Flows 2002-03



## Internal Balances

- 4.21 A significant proportion of the cash balance of the universities is represented by the accumulated internal balances of devolved budget units. As discussed in chapter 2, devolved financial management is important, especially at UCD and TCD and these two universities have reported significant levels of cash balances held by their devolved budgetary units. The levels of these internal balances (from unconsolidated accounts) at 30 September each year are shown in Table 4 below. This shows that internal balances have grown significantly in recent years, and at the end of 2002/03 they were €33m at UCD, and €23m at TCD.
- 4.22 The HEA executive has been aware of the trend towards devolved budgeting in some of the universities since the mid 1990s and of the resulting generation of departmental and faculty funds. This is generally a development to be encouraged because of its impact on the overall budgetary management and cost effectiveness of the universities.
- 4.23 The total internal balances of €62m at 30 September 2003 represent a historic high point in the accumulation of these faculty funds. They can partly be explained by the success of the departments and faculties in raising Non-EU Fee Income over the last number of years (see Appendix E). The policy of encouraging growth in overseas student income has been a successful one, with benefits to the Irish economy.

**Table 4: Internal Balances at Year End from 30 September 1999 to 30 September 03 – As recorded in Unconsolidated Accounts**

	1999	2000	2001	2002	2003
	€000	€000	€000	€000	€000
UCD	23,350	28,437	29,295	28,972	33,004
TCD	5,317	8,621	11,158	14,289	23,131
UCC	2,287	1,759	2,036	3,056	4,302
NUIG	1,485	1,497	1,849	2,058	252
UL	0	1,225	1,659	1,431	1,195
DCU	0	0	0	0	0
NUIM	105	222	328	437	182
<b>Total</b>	<b>32,544</b>	<b>41,761</b>	<b>46,325</b>	<b>50,243</b>	<b>62,006</b>

- 4.24 It is important to note that the universities have identifiable commitments for a large proportion of the internal balances. For example, one university provided us with a detailed schedule of over 25 individual commitments of its nine faculties. While we understand that not all of these are formal or contracted commitments (as opposed to plans against which the faculties have been saving), it is important to understand that these faculty balances do not represent free funds awaiting an unknown future purpose.

- 4.25 The group recommend that the accountability controls in place in relation to these funds should be such as to ensure that their ultimate use is in accordance with a strategic plan for the faculty concerned and that this is linked to the university's and the national strategic agenda.
- 4.26 Nevertheless, these large internal balances could be seen as an opportunity cost for the university since they represent cash that, arguably, is not available to the university for normal operational purposes, and that may eventually be spent in ways which are not a strategic priority for the institution.
- 4.27 It is important to strike the right balance here. A moderate level of internal balances is essential for the good management of a large complex university like TCD or UCD. It would be very damaging to discourage all enterprise in faculties, or to incentivise spending by faculties just to reduce balances. Without a clear plan for their use, however, the group would be concerned if internal balances continued to grow as they have done in recent years. This is not in the universities' interest, as any case they wish to make for increased state funding is undermined to some extent if they appear to have large amounts of apparently unused cash locked away in local balances.
- 4.28 In practice, this issue will probably appear less serious in the next set of accounts at 30 September 2004, as we understand these balances will have been reduced significantly since September 2003. The universities told us that when they were faced with an unexpected restriction in recurrent state funding of the order of €50m in 2004, they had few opportunities to save such amounts quickly (since fixed costs of staff and buildings make up such a high proportion of total costs). One measure they were forced to use was to take some of these faculty funds back to the centre of the institution. TCD stated that this resulted in the cancellation of planned departmental projects which has damaged morale in the departments concerned. It was seen to have removed the incentive effect of devolution, and could therefore reduce non-government income in future years.
- 4.29 The working group believes the universities themselves should make some proper arrangements to prevent any unplanned build-up of balances, as part of their own financial strategies. Perhaps faculties could be required to state their plans for use of their balances, as part of the normal internal university planning and accountability processes.

### **Financial Surpluses**

- 4.30 Financial surpluses are not the same as cash, but they do contribute to the universities' ability to generate cash, which is relevant to our remit.
- 4.31 Table 5 below shows figures taken from the first draft sets of consolidated accounts prepared by the universities for 2002/03. These are preliminary (unaudited) figures which the universities provided to us because of their importance to our work. In fact, both the HEA and the universities have had to do considerable work to produce these figures, and the group appreciate this effort. This table reconciles the revenue reserves as shown on the HEA funding statement to that shown on the consolidated Income and Expenditure Account.

Table 5: Surplus on Draft Consolidated Income and Expenditure Account for the Year to 30/09/2003

	UCD €000	TCD €000	UCC €000	NUIG €000	UL €000	DCU €000	NUIM €000	TOTAL €000
1. Revenue Reserve	495	-893	-42	26	95	-6	37	-288
2. Transfer to Capital	4,849	5,813	4,941	7,334	1,831	1,254	555	26,577
3. Surplus on Ancillary Services/Other	733	9,390	3,336	19	3,604	713	1,338	19,630
4. Movement in Internal Balances	7,216	6,566	914	-2,302	-193	0	-17	11,946
5. Maintenance/Other Type Provisions	0	0	0	0	0	0	0	0
6. Student Levies for Capital Purposes	1,562	0	1,499	0	0	0	259	3,061
7. Deferred Grants released to Income and Expenditure	8,467	6,000	14,092	4,700	3,764	5,244	2,088	44,355
8. Depreciation	-18,412	-21,459	-21,893	-6,263	-9,520	-8,237	-2,897	-88,681
9. Total Surplus/(Deficit)	4,910	5,417	2,847	3,514	-419	-1,032	1,363	16,600
<b>10. Total Income</b>	<b>289,258</b>	<b>222,648</b>	<b>176,866</b>	<b>130,288</b>	<b>108,959</b>	<b>99,310</b>	<b>59,448</b>	<b>1,087,061</b>
<b>11. Total Surplus/(Deficit) as a % of Total Income</b>	<b>1.7%</b>	<b>2.4%</b>	<b>1.6%</b>	<b>2.7%</b>	<b>-0.4%</b>	<b>-1.0%</b>	<b>2.3%</b>	<b>1.5%</b>

### **“Bottom-line”**

- 4.32 For readers who are not interested in the finer accounting details, it may be enough to note the “bottom-line” surplus or deficit after provision for depreciation and deferred grants adjustments. This is shown in lines 9 and 11 of the table. In 2002-03 the surplus across the whole university sector was €16.6m, equivalent to 1.5% of income.
- 4.32 The surpluses generated by the three largest universities, UCD, TCD, and UCC, were respectively, €4.9m, €5.4m, and €2.8m, or 1.7%, 2.4%, and 1.6% of income.
- 4.34 We comment on these in chapter 5, but these are inadequate surpluses (Appendices F and G provide some international comparisons).

### **Accounting Details**

- 4.35 For readers who do wish to understand the accounts in a little more detail, it is worth making some additional comments on the more significant lines in table 5.

### **Line 2. Transfer To Capital**

- 4.36 The first major item line 2 “Transfer to Capital” represents expenditure during the year on minor capital works and equipment usually with a value greater than €3,175 which has been funded from recurrent income. These amounts were formerly classified in the Income and Expenditure accounts as an expense item referred to as Transfers to Capital. Under GAAP they are no longer classified as an expense and this has contributed to the surplus on the draft consolidated Income and Expenditure account for 2002/03.
- 4.37 Although this expenditure contributes to a reported surplus, it is incorrect to regard this as generating free cash available to the universities in future years. It is not. It has been spent. All universities need to spend on minor works and equipment every year as an essential part of maintaining infrastructure for teaching and research.
- 4.38 While it is not within our remit to comment on the way these items are treated in the Irish accounts, we do wish to comment that this capitalisation threshold level is very low by comparison with that used in UK universities. In the UK the threshold varies considerably among universities but it would commonly be in the range of £10,000 - £25,000 i.e. ten times the level used in Ireland.
- 4.39 Transfers to Capital must be placed in the context of the suspension of capital grants for equipment and for backlog maintenance in 2002 (Appendix H details Transfers to Capital as a Percentage of Insured Asset Value).

### **Line 3. Surplus On Ancillary Services**

- 4.40 Ancillary services are those traded services which are required to support the main mission of the universities but which the HEA has always insisted should be reported separately. These include catering, certain residential income and miscellaneous other services such as crèche facilities etc. The policy intention here is that the universities should not use public funds which were given for teaching to subsidise catering or other non-academic operations. Accounting for these separately enables the HEA to know that this is the case.
- 4.41 These ancillary services are to be run as ring-fenced operations which are not eligible for state recurrent or capital grant funding. They are run on a long-term cost recovery basis and any profits must be reinvested in maintenance, refurbishments and sinking fund requirements for the purchase of tax-financed university developments. It is therefore misleading to regard this part of the surplus on ancillary services as available to the university for general purposes.
- 4.42 A significant component of this heading which is rather different in nature is the excess over and above unit costs of non-EU student fees. As already noted, this element has grown significantly in recent years. This element has been used to fund or part-fund the development of clinical medical education facilities on campus and in the main teaching hospitals (Appendix I details Income and Expenditure on Ancillary Services).

### **Line 4. Movement In Internal Balances**

- 4.43 Internal balances include savings on Departmental budget allocations (which arguably could not have been achieved by central administration), part of non-EU fee income, income from executive education, income from American students on junior year/semester abroad etc. These balances have grown in tandem with the move towards devolved budgeting as the scale and complexity of the university business has grown.
- 4.44 Under GAAP the balance of funds held internally by Academic Departments at the end of the financial year are accounted for on an accrued expenditure basis. Balances which are not formally committed will appear either in a restatement of the opening revenue reserve or in the surplus/deficit for the year. Committed balances only will appear as current liabilities.
- 4.45 However, as noted above, in Table 4, accumulated internal balances as reported under the non-consolidated accounting format, are significant at €62m at 30 September 2003. Approximately 50% of this is formally committed.
- 4.46 The movement in internal balances for 2002/03 released as surplus to the Income and Expenditure account for UCD and TCD amounted to €13.8m. It should be noted that while these funds were not formally committed, as stated above many of them were earmarked for particular projects by the Departments and Faculties concerned. Lists of these projects together with the earmarked amounts were supplied to the working group.

#### **Lines 7 and 8. Deferred grants and depreciation**

- 4.47 Depreciation is included as an expense in commercial accounts because it represents the consumption of assets needed to run the business. Businesses have to generate sufficient income to fund depreciation before they can declare or distribute profits.
- 4.48 In the public sector, many assets are funded by government and replaced when necessary and so depreciation is not treated as an expense in the same way. Historically in the university accounts, depreciation was not an expense and it was not funded by the Irish government. The universities consume assets (buildings, equipment etc) just as any other business does, but historically, they have relied on government capital grants and other donations to replace these.
- 4.49 For bodies which are 100% state funded, this is a logical treatment in accounting terms, although arguably it has the drawback that it does not make the body using the assets aware of the costs of this. For universities, which are not 100% state funded this drawback is much more serious. They operate in a competitive environment, and when they invest in assets, they should be aiming to generate a return on those assets (through student fees, research grants etc) which should enable them to replace and upgrade the assets as required. Without this, the universities will always be dependent on government grants, and they will be isolated from the normal commercial disciplines of prudent investment and whole life asset management which are inherently necessary for any sustainable business.
- 4.50 The group is concerned that the treatment of depreciation in the university accounts has been inconsistent with the financial environment in which the universities have to operate. It is arguable that the serious back-logs of investment that the Capital Review Group has identified are at least partly caused by the fact that the government and the universities do not recognise depreciation as a normal operating expense of the universities which has to be funded on a recurrent basis. The fact that, until this year, the accounts masked this expense by treating it as a “below the line adjustment” cannot have helped in this regard.
- 4.51 More detail on the accounting treatment of depreciation and capital grants is included in the box at 4.4 and Appendix J. It will be seen that this treatment is changing in the new consolidated accounts, and this will have the effect of reducing apparent surpluses of the universities after depreciation and deferred capital grants. In general, the working group considers that this will be a move towards a more helpful indication of the true financial health of the universities in the published financial statements. However, there are also issues about the valuation of assets which should be on a current cost not a historic cost basis if management are to be given useful information on real expenditure needs, and about depreciation periods which are typically 50 years in the university sector, again this may be inappropriate as a guide to future investment needs.

4.52 Overall, the group wishes to make clear that while the new consolidated accounts may give a true and fair view of past expenditure (which is their primary purpose), they are not so helpful as a guide to the long-term sustainability of the asset base in the university sector. The group recommends that the HEA and the universities together should do some work on these issues to identify more helpful guidance that could be issued to inform university strategic planning and government policy.

# 5

## HOW MUCH CASH DO THE UNIVERSITIES NEED?

- 5.1 We define cash as “free” cash which is not required for recurrent expenditure or investment in specific projects.
- 5.2 In this chapter, we bring together our findings as we consider how much cash the universities need and how their levels of cash relate to this. In particular, we consider whether the levels of cash in the universities are significantly higher than needed. Or indeed whether they are sufficient or inadequate.
- 5.3 We also consider how these levels of cash have been generated. Have they been built up at the expense of state-funded activity, or have they been generated by other university initiatives?

#### **Role Of Surpluses**

- 5.4 The generation of a surplus on the Income and Expenditure account broadly indicates that the university is able to cover all its operating costs from its income, and to generate a cash surplus. It is therefore at face value an indication of a financially healthy institution.
- 5.5 Conversely, any institution which cannot cover all its operating costs from its income (and is thus making deficits) is in an unsustainable position, which will have to be rectified one way or another if it is to survive.
- 5.6 The group wish to emphasise that it is essential for any institution that is not 100% state funded for both capital and revenue to generate surpluses. They are a sign of well-managed institutions, not necessarily an indication of over-funding.
- 5.7 The cash generated by the universities can broadly be used in two different ways:
- i. it can be spent on capital infrastructure or other investments for the future of the university;
  - ii. it can be retained in the bank (and will thus appear as cash or investments in balance sheets) and is then available for use as working capital, and for spend in areas of opportunity and risk, as they eventuate.

#### **Levels Of Surplus And Investment**

- 5.8 The accounts of the universities, as discussed in chapter 4, suggest that in 2002/03, they were making small surpluses after allowing for depreciation and deferred grants (average surplus of 1.5% of income).
- 5.9 In earlier years, the figures were produced on a different basis and exactly comparable prior year figures are not available. We have however looked at the three material factors excluded from the surplus reported on the unconsolidated Income and Expenditure accounts for the years 2000/01 and 2001/02. These factors are Transfers to Capital, Surpluses on Ancillary Services and Internal Balances. We are satisfied that the pre-depreciation position reported for 2002/03 is not untypical and if anything is somewhat higher than in the previous two years.

- 5.10 At face value, the small surplus in 2002/03 (1.5% of income) shows a satisfactory picture for the universities. However, the group has a concern that this conclusion might in fact conceal a financial problem in the universities. The group believes that long run buildings-related costs including depreciation are understated in the financial statements. These are prepared to show a true and fair view of actual income and expenditure, not to provide guidance on what should have been spent, or on future investment needs. The difference here comes from the common use of historic instead of current costs of assets, and the practice of depreciating buildings over a period of 50 years.
- 5.11 Perhaps in non-accounting terms, we could express this by saying that the financial statements show what has been expended and how it has been funded. They do not show what the university should have expended for a sustainable future.
- 5.12 This under-reporting of depreciation must obviously be seen in the context of the bigger problem of depreciation not being funded at all. While this is primarily a funding issue and beyond the remit of the group, it is also a serious financial issue.
- 5.13 It is clear from the work of the Capital Review Group that the Irish universities face a significant financial challenge to redress the results of many years of inadequate investment in their physical infrastructure. The absence of funding for depreciation has clearly contributed to this under-investment.
- 5.14 Table 6 shows that, in recent years, the universities have been using private funds to finance a substantial part of their physical development. It suggests that over the past 5 years, universities have used private donations and funds and other sources to finance 66% of the cost of the capital development which took place over this period. This excludes student residence development. This proportion might be changed if the government introduces a new capital grants scheme for universities, but this is unlikely to cover the whole of the need.

<b>Table 6: Total Capital Receipts and Expenditure - By Year</b>						
	<b>Total</b>	<b>2001/02</b>	<b>2000/01</b>	<b>1999/00</b>	<b>1998/99</b>	<b>1997/98</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
HEA Capital Grants	213,741	54,224	59,025	52,805	25,539	22,148
Other	419,221	159,601	86,567	69,339	63,311	40,403
<b>Total Expenditure</b>	<b>632,962</b>	<b>213,825</b>	<b>145,592</b>	<b>122,144</b>	<b>88,850</b>	<b>62,551</b>

## Required Level Of Surplus And Investment

- 5.15 The universities were aware of, and quoted to us, the work done in the UK which suggests that a typical university might expect to need to invest approximately 1-2% of its insured asset value each year on planned maintenance, and a further 3-5% on periodic renewal and replacement (in addition to providing for depreciation) to ensure that buildings and facilities meet the needs of modern teaching and research. These figures assume backlogs have been addressed, and they are of course broad indications and should not be treated as targets<sup>8</sup>.
- 5.16 Each institution must work out its own needs as part of a capital asset strategy. If it has very modern buildings, or does less research, the need could be lower than the averages above. On the other hand, some disciplines such as digital media and biosciences need renewal much faster than the average, and the level of expenditure required will therefore also depend on the subject mix in the institution.
- 5.17 The level of cash that the universities need to generate will depend on what proportion of this need will be covered by government capital grants. We assume that this is unlikely to cover 100% of the need even if a new scheme is introduced.
- 5.18 There is also a need to invest in staff, systems, new methods of teaching and learning and research – all of which are essential for Irish universities to retain their competitive position.
- 5.19 Against this background, the working group recommends that the university sector as a whole should aim to generate surpluses of approximately 3% (after provision for depreciation) of total income each year if it is to remain financially and academically sustainable. This is in line with UK recommended practice and is on the basis that the Capital Review Group recommendations in relation to grants for backlogs are implemented.
- 5.20 The working group noted the level cited by the Higher Education Funding Council of England (HEFCE) in its publication “Financial Strategy in Higher Education Institutions – A Business Approach” (June 2002). In this document the level of surplus cited as being that “which many institutions would consider to be appropriate to maintain assets and to have some headroom for development” is 3-5% of total income. The HEFCE figure is after provision for depreciation, which averages around 4-5%. This equates to 7-10% before depreciation. The document states that lower levels of surplus would be appropriate if there were no refurbishment backlogs or if external capital funding were available.

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<sup>8</sup> The maintenance figure is an industry standard (RICS). The figure for renewal was calculated for the HEFCE on the assumption of a 60-year life for most academic buildings with the need for a complete refurbishment once in that period, and minor reconfigurations on a regular basis

## **Need For Cash**

- 5.21 The other half of the equation is about the cash which the universities generate as surpluses but then hold as cash. A certain level of free uncommitted cash is essential for any large organisation like a university to function. In the past, if the universities were ever 100% publicly-funded, in advance, for all their needs both revenue and capital, they would not have needed to hold significant cash. But this is clearly no longer the position.
- 5.22 The area where there could be a concern at the levels of cash in the universities relates to the cash they hold “in the bank”. As discussed in chapter 3, this is mainly required for managing short-term risk and opportunities, and for general working capital and cash flow and treasury management on routine university operations.
- 5.23 In respect of responsiveness to risk and opportunities, we would expect the universities to need a greater or smaller amount of relatively accessible cash or other reserves, depending on the size of their business and the degree of risk and volatility they face. It is not sensible to suggest an absolute value for this, but it would not be unreasonable, if universities were to keep a relatively small amount of cash available for such unexpected requirements.
- 5.24 In respect of general revenue cash management (working capital), we asked the universities what level of cash they considered they needed for their particular operations. We did not really get very clear answers on this, but some universities quoted varying levels of working capital expressed as a proportion of operating expenses between 60 and 120 days. Given the other sources mentioned above, and that the Irish universities receive their core government funding in advance on a monthly basis, we would consider that a level of cash equivalent to a maximum of 45-60 days income should normally be adequate for the purpose of day to day cash management.

## **Conclusion**

- 5.25 The group concludes that, overall, the levels of cash in the universities are relatively modest against their needs to manage large and complex organisations in a partly commercial environment. It could be argued that government grants still make up 54% of university funding, and are paid in advance. This gives the universities a degree of security which commercial businesses may not have. However, in 2004, these grants were restricted in a way not foreseen by the universities, and of course the remaining 46% of their income is less secure or predictable. Like any large organisation that is not fully state-funded, the universities have to have some free cash to enable them to respond to opportunities and to manage risks and contingencies. The levels they are holding do not appear unreasonable in this light.

- 5.26 Having said this, the group observed that there are significant differences between the universities in terms of their management of cash, and scope for improvement in their strategic financial planning.
- 5.27 In terms of surpluses which represent a sign of the universities' ability to generate cash, the picture is less satisfactory. The group are concerned that the universities are not generating sufficient surpluses to enable them to invest at the levels which are required. The findings of the Capital Review Group confirm the inadequate level of past investment, and there are other areas to be considered as well as buildings and equipment. There is probably no short-term answer to this, since any solution would probably involve a mix of government funding (both capital and revenue); restructuring and efficiency gains in the universities; and new income generation.
- 5.28 The group recommend that universities, the HEA and the government together need to develop a new understanding of how the universities should strategically plan and manage their finances. This will represent a significantly different framework from that which would be appropriate to fully state-funded organisations such as schools or health boards, where very different circumstances apply.

# 6

## POSITION OF PENSION FUNDS AND LEVEL OF BORROWINGS

### Pension Funding

- 6.1 The issue of pensions and the level of provision in pension funds are relevant to our remit. The position of the universities differs here, with the five older universities having pension funds which provide for pensions as at the date of retirement but with all subsequent increases on these pensions being provided from recurrent budgets (i.e. pension supplementation), while the two newer universities provide for the full cost of pensions including post-retirement increases from recurrent budgets.
- 6.2 The pension funds of two of the five older universities, i.e. TCD and NUIM, are constituted as separate legal trusts.
- 6.3 No pension funds have been included in the consolidated accounts.
- 6.4 Pension funds are under some pressure currently due to the trends towards a longer-lived population, higher levels of salary awards (and its knock-on impact on pensions) and poor performance of the world's stock markets in recent years.

**Table 7: Overall Position Of the Five University Pension Schemes**

		UCD	TCD	UCC	NUIG	NUIM
Date of Valuation		1/10/02	30/09/01	1/10/01	30/09/02	30/09/03
Assets	€000	351,949	217,292	183,834	161,281	34,994
Liabilities	€000	308,565	217,292	188,172	160,702	52,454
Surplus/Deficit	€000	43,384	0	-4,388	579	-17,460
Funded Ratio	%	114.1	100.0	97.7	100.0	67.0
Recommended Funding Rate	%	14.8	14.1	18.1	11.2	21.1

Note: Data taken from most recent actuarial valuations

- 6.5 It seems likely that the next set of actuarial valuations will show a significant deterioration on this position. Recent projected figures prepared by Mercer for TCD indicate that the TCD scheme's assets would now equate to between 70 and 75% of the scheme's accrued liabilities and a deficit of c.€75m, which would require a funding rate in excess of 20% of pensionable salary.
- 6.6 UCD appears to have a large surplus in their pension fund but this has to be seen in the context of 6.5 above. Were its liability for pension supplementation to be capitalised and set against the assets of the fund the overall UCD pensions deficit would be €162m.
- 6.7 The group noted in particular the escalation in the cost of post-retirement increases in pension payments, which are borne from the recurrent budget rather than from the pension fund, known as Pension Supplementation. This is a significant non-discretionary element of university budgets.

**Table 8: Pension Supplementation**

	<b>UCD</b>	<b>TCD</b>	<b>UCC</b>	<b>NUIG</b>	<b>NUIM</b>	<b>Total</b>
Year	€	€	€	€	€	
1995/96	2,769,299	1,484,324	953,573	787,238	79,687	<b>6,074,121</b>
1996/97	2,827,707	1,531,304	947,225	853,264	80,992	<b>6,240,492</b>
1997/98	2,813,740	1,566,857	991,665	909,132	91,600	<b>6,372,994</b>
1998/99	4,254,892	2,244,897	1,372,587	1,254,501	108,066	<b>9,234,943</b>
1999/00	3,984,438	2,573,759	1,497,021	1,132,606	135,895	<b>9,323,719</b>
2000/01	5,153,000	3,350,000	1,845,000	992,000	152,205	<b>11,492,205</b>
2001/02	6,143,000	4,203,000	2,391,000	2,278,000	186,255	<b>15,201,255</b>
2002/03	6,683,000	4,332,000	2,830,000	1,874,000	255,791	<b>15,974,791</b>
Budget 2004	8,180,000	5,377,000	3,485,000	1,983,000	300,000	<b>19,325,000</b>

6.8 The pensions funding issue is of course not a problem which is specific to the universities, nor one which they can be expected to solve on their own. However, it is the opinion of the group that it is clearly not the case that (a) the university pension funds have large cash surpluses, or that (b) any such funds can be regarded as a source of cash to subsidise routine operations.

#### 6.9 Level of Borrowings

Borrowings over one year were as follows at 30th September 2003:

	<b>€m</b>
UCD	36.1
TCD	30.3
UCC	34.9
NUIG	-
UL (Netted against investments)	0
DCU	44.5
NUIM	14.6
<b>Total</b>	<b>160.4</b>

These borrowings mainly relate to Section 50 student residences as part of a financing package. Amounts due by UL are netted against investments.

- 6.10 A borrowing framework for the universities was agreed in December 2001 under the Universities Act which provides that “the level of charge against the core teaching and research funds of the university in respect of the annual servicing cost of capital, defined as the cost of capital repayment and total interest costs spread evenly over the period of the borrowing based on a ten year repayment period, shall not exceed 4% of the Universities annual income”. (Annual income excludes self funded ancillary operations.) There are minimal short-term borrowings reported under this framework.
- 6.11 In the financial statements for 2001/02 of DCU a contingent liability exists of approximately €12m for letters of comfort to facilitate bank borrowings in two subsidiary campus companies.

## APPENDICES

### Appendix A

#### Membership Of The Working Group

Mr T Boland	Secretary/Chief Executive HEA (Chair of Working Group)
Mr J Donnelly	Deputy Chairman of Hypo Real Estate Bank International Chairman of HEA/Forfas Steering Group on Research Overheads
Mr T O'Higgins	Managing Director Theta Eta Advisors Ltd. Former partner PriceWaterhouseCoopers
Dr J Port	Managing Director of JM Consulting UK Author of OECD report 'On the Edge: Securing a Sustainable Future for Higher Education – the Challenges for Policy Makers and Institutions'

#### Extract from Initial Letter to Members of the Group

The areas to be covered by the review are as set out in the attached 'Terms of Reference' document. It is envisaged that the review will cover the last five years audited financial statements. Summary Income and Expenditure Accounts and Balance Sheets for the seven universities for this period will be circulated to the Working Group at its first meeting. It is envisaged that two or three further meetings of the Working Group will be required to complete the review.

The function of the Working Group will be to facilitate the review, to advise on the analysis of data which it considers necessary, and to place the findings of the review in an international context. The review will be carried out by HEA staff.

It is envisaged that the Working Group will advise on what analysis is needed and what further information should be sought from the universities in order to enable the Authority to understand the level of resources now available to the universities, how it was built up and for what purpose.

It is envisaged that any information required from the universities would be provided by way of formal written responses from the senior officers of the universities rather than through on-site interviews. The information will be gathered and analysed by the HEA executive. The executive will bring the information thus gathered back to a further meeting of the Working Group in summary form.

When the Working Group is satisfied that it has all of the data and analysis it requires, Dr Port on behalf of the Working Group will write a short paper summarising the findings, placing it in an international context and proposing policy guidelines for the future. These guidelines should be directed towards

protecting the interests of the state and enabling universities to plan and manage their affairs in a strategic manner.

In the HEA letters to the universities informing them of their provisional 2004 grant allocations the universities were informed of this review and of the fact that its findings may inform funding allocations for 2005 and later years and also that it may impact on the 2004 allocations already notified. For this reason and in order that the proposed policy guidelines be available in time to influence the 2005 Estimates process, which commences in early summer, we consider it essential that the review should be finalised not later than early June 2004.

#### **Terms Of Reference**

The review takes account of the overall financial position of each university, including level of debt, assets, reserves and financial position of pension funds. In relation to financial statements for the year 2002/03 the review will examine for each institution both the Draft Consolidated Financial Statements and the HEA Funding Statement. In relation to earlier years, the review examines the audited financial statements of each institution and in addition where it is considered relevant, examines additional financial information in relation to ancillary activities not included in the audited statements. Specifically the review encompasses the following:

1. An overall review of the Draft Consolidated Accounts and Balance Sheets of the institutions as at 30.09.03.
2. An overall review of Draft HEA Funding Statement Accounts and Balance Sheet as at 30.09.03.
3. A reconciliation between the Draft Consolidated Accounts and Balance Sheets and the draft HEA Funding Statement Accounts and Balance Sheets.
4. An analysis of Bank Balances and Cash in each institution and movements under this heading in the Balance Sheets from September 2000 to September 2003.
5. An analysis of Debtors and Prepayments, overall levels and composition of same, and movements under this heading from September 2000 to September 2003.
6. An analysis of Liabilities with particular emphasis on Internal Balances, their overall levels, their composition and funding sources, their age breakdown and movements under this heading from September 2000 to September 2003.
7. An analysis of Short-term and Long-term Debt Levels, including the main sources and main terms and conditions of finance for same and movements from September 2000 to September 2003.

8. An analysis of working capital requirements of each institution.
9. An analysis of the levels of Non-EU Fee Income of each institution from September 2000 to September 2003.
10. An analysis of Fixed Asset Capital Commitments.
11. An analysis of the overall financial position of funded pension schemes, including review of most recent actuarial evaluations, current level of annual employer and employee contributions to the scheme and comparison with past levels. In relation to both funded and pay-as-you go pension schemes review of current levels of pension costs funded through the institutions current Income and Expenditure accounts, including pension supplementation, and comparison with past levels.
12. Review of Ancillary Services from September 2000 to September 2003.

## Appendix B Staff Numbers – March 2004

	UCD	TCD	UCC	NUIG	UL	DCU	NUIM	University Totals
<b>Academic Staff</b>								
<b>Full Time</b>								
Permanent	788	492	488	399	312	252	202	2933
Temporary/Contract	93	141	84	98	105	53	48	622
<b>Total</b>	<b>881</b>	<b>633</b>	<b>572</b>	<b>497</b>	<b>417</b>	<b>305</b>	<b>250</b>	<b>3,555</b>
<b>Part Time (WTE)</b>								
Permanent	9.04	8.01	2.61	8.53	1	0	2	31.19
Temporary/Contract	15.83	32.68	29.54	20.86	2	4.1	0	105.01
<b>Total</b>	<b>24.87</b>	<b>40.69</b>	<b>32.15</b>	<b>29.36</b>	<b>3</b>	<b>4.1</b>	<b>2</b>	<b>136.20</b>
<b>Sub Total Academic</b>	<b>905.87</b>	<b>677.69</b>	<b>604.15</b>	<b>526.36</b>	<b>420</b>	<b>309.1</b>	<b>252</b>	<b>3,691.20</b>
<b>Non-Academic Staff</b>								
<b>Full Time</b>								
Permanent	942	761	687	503	309	272	201	3,675
Temporary/Contract	216	126	143	73	126	106	40	830
<b>Total</b>	<b>1158</b>	<b>887</b>	<b>830</b>	<b>576</b>	<b>435</b>	<b>378</b>	<b>241</b>	<b>4,505</b>
<b>Part Time (WTE)</b>								
Permanent	80.68	137.16	43.12	49.43	13	0	31	354.39
Temporary/Contract	26.69	30.18	61.1	29.51	38	4.5	3	192.98
<b>Total</b>	<b>107.37</b>	<b>167.34</b>	<b>104.22</b>	<b>78.94</b>	<b>51</b>	<b>4.5</b>	<b>34</b>	<b>547.37</b>
<b>Sub Total Non Academic</b>	<b>1,265.37</b>	<b>1,054.34</b>	<b>934.22</b>	<b>654.94</b>	<b>486</b>	<b>382.5</b>	<b>275</b>	<b>5,052.37</b>
Academic Permanent	797.04	500.01	490.61	407.53	313	252	204	2,964.19
Academic Temp/Contract	108.83	173.68	113.54	118.86	107	57	48	727.01
Non Acad. Permanent	1022.68	898.16	730.12	552.43	322	272	232	4,029.39
Non Acad. Temp/Contract	242.69	156.18	204.1	102.51	164	110.5	43	1,022.98
<b>Other</b>	<b>258</b>							
<b>Total</b>	<b>2,429.24</b>	<b>1,728.03</b>	<b>1,538.37</b>	<b>1,181.33</b>	<b>906.00</b>	<b>691.50</b>	<b>527.00</b>	<b>9,001.57</b>
Contract Research Staff								
Academic Staff (FT & PT)	21.5	335.81	516	238.15	111	119.02	259	1,600.48
Non Academic (FT & PT)	20.49	59.51	177	0	71	0	0	328.00
Other	371							
<b>Total</b>	<b>412.99</b>	<b>395.32</b>	<b>693</b>	<b>238.15</b>	<b>182</b>	<b>119.02</b>	<b>259</b>	<b>2,299.48</b>
<b>Total Core and Research</b>	<b>2,842.23</b>	<b>2,123.35</b>	<b>2,231.37</b>	<b>1,419.48</b>	<b>1,088</b>	<b>810.62</b>	<b>786</b>	<b>11,301.05</b>

## Appendix C Student Numbers

STUDENT STATISTICS - ENROLMENTS 2001-2002					
Student Statistics - Enrolments 2001 - 2002					
	Full - Time Undergraduate	Postgraduate	Part - Time Undergraduate	Postgraduate	Total
UCD	12,177	3,139	2,174	2,117	19,607
TCD	9,983	1,970	1,056	1,849	14,858
UCC	10,004	1,997	750	476	13,227
NUIG	8,353	1,740	1,111	374	11,578
UL	6,987	1,052	996	648	9,683
DCU	5,304	1,077	388	891	7,660
NUIM	3,670	840	649	153	5,312
<b>Total</b>	<b>56,478</b>	<b>11,815</b>	<b>7,124</b>	<b>6,508</b>	<b>81,925</b>
Student Statistics - Enrolments 2002 - 2003					
	Full - Time Undergraduate	Postgraduate	Part - Time Undergraduate	Postgraduate	Total
UCD	12,370	3,518	2,254	2,017	20,159
TCD	10,001	2,402	1,007	1,791	15,201
UCC	10,351	2,141	858	415	13,765
NUIG	8,896	2,124	1,206	480	12,706
UL	7,050	1,092	976	600	9,718
DCU	5,174	1,031	315	1,130	7,650
NUIM	3,787	920	629	138	5,474
<b>Total</b>	<b>57,629</b>	<b>13,228</b>	<b>7,245</b>	<b>6,571</b>	<b>84,673</b>

## Appendix D: Endowments and Foundation Fund Transfers 1999-2003

University Endowment Foundation and Trust Fund Accounts are not consolidated. Funds transferred from these accounts to the universities are included in the accounts of the universities in the year in which they are received. The table below illustrates the level of such funds received 1999-2003.

Financial Review – Income from Endowments / Trusts / Foundations						
	1999-2003 Total € '000	30/09/2003 Total € '000	30/09/2002 Total € '000	30/09/2001 Total € '000	30/09/2000 Total € '000	30/09/1999 Total € '000
UCD	50,857	12,220	14,571	13,557	9,460	1,049
TCD	104,203	17,053	50,145	12,892	11,470	12,643
UCC	64,505	11,081	10,980	29,768	5,532	7,144
NUIG	930	147	224	559	0	0
UL	31,963	4,240	9,562	4,359	9,562	4,240
DCU	98,332	*6,473	6,473	20,353	51,886	13,147
NUIM	23,372	15,001	2,976	2,094	0	3,301
<b>Total</b>	<b>374,162</b>	<b>66,215</b>	<b>94,931</b>	<b>83,582</b>	<b>87,910</b>	<b>41,524</b>

\* DCU 2002 Figures

## Appendix E

### Non-EU Fees

The accounting policy for treatment of non-EU fee income was as follows in the old accounting format: “Fee income is accounted for on an accruals basis and reported at EU fee levels. Non-EU fee income is included up to the EU level with any excess (up to the 2001/2002 related unit cost) being reported under Other Income. Any further excess over the 2001/2002 related unit cost is transferred to Capital Reserves.”

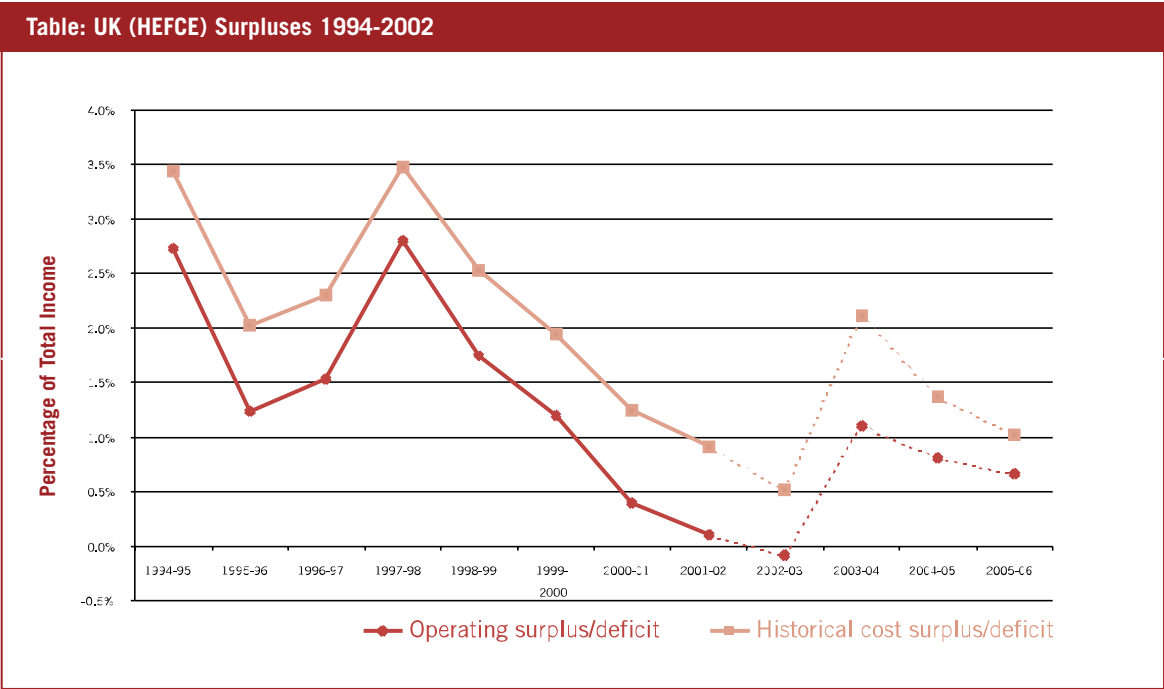
Therefore there are three elements to non-EU fee income:

1. Fees to EU level reported as fee income.
2. Fees above EU level up to unit cost level reported as Other Income.
3. Fees above unit cost level were not reported in Income and Expenditure account but were transferred directly to Capital/General Reserve through their inclusion in the Ancillary Services account. The development expenditure which was funded from these non-EU fees was also included in the Ancillary Services account.
4. Under the new accounting format all non-EU fee income will be reported as Income in the Consolidated Income and Expenditure account. Any capital expenditure funded from this source must be reported as a surplus.

The following table relates to element 3 above.

Element 3 – Non-EU Fees In Excess of Unit Costs						
		2000	2001	2002	2003	Total
Total	€000	8,426	5,780	7,676	7,900	29,781
UCD	€000	4,594	3,174	4,121	4,280	16,169
TCD	€000	2,062	1,237	2,364	2,080	7,742
UCC	€000	1,770	1,369	1,191	1,540	5,870
NUIG	€000	1,124	877	1,166	1,847	5,014
UL	€000	46	14	206	481	747
DCU	€000	0	0	0	0	0
NUIM	€000	0	0	0	0	0

Appendix F UK (HEFCE) Surpluses



## Appendix G

### Comparative Australian Data

The following tables display data from the report “University Resourcing: Australia in an International Context”. A copy of the report can be found on the website <http://www.pc.gov.au/study/highered/finalreport/>. The report considers and compares Australian universities and international universities under the headings of participation and graduation rates, financial resources, government support mechanisms, revenues, expenses, assets and liabilities, financial positions and commercial activities. The tables attached show levels of surpluses/operating margins in selected universities.

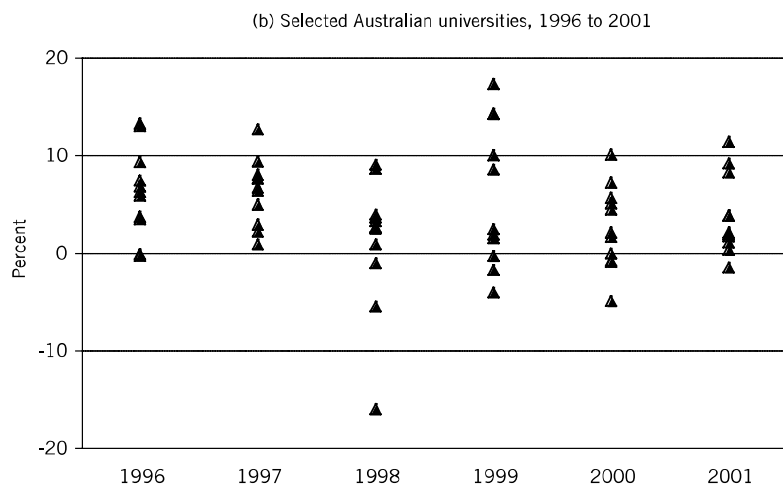
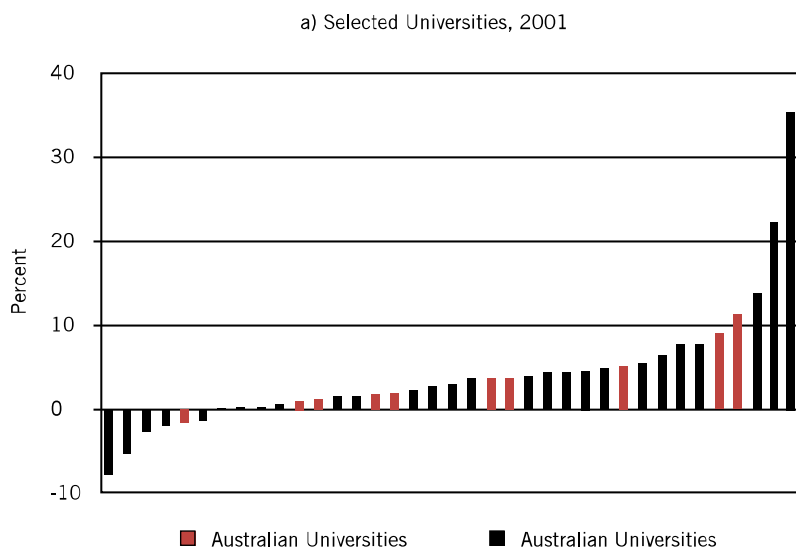
The Australian Universities are:

- The Australian National University
- Bond University
- Charles Sturt University
- Flinders University
- Murdoch University
- RMIT University
- The University of Melbourne
- The University of New South Wales
- University of Southern Queensland
- University of Tasmania
- University of Western Sydney

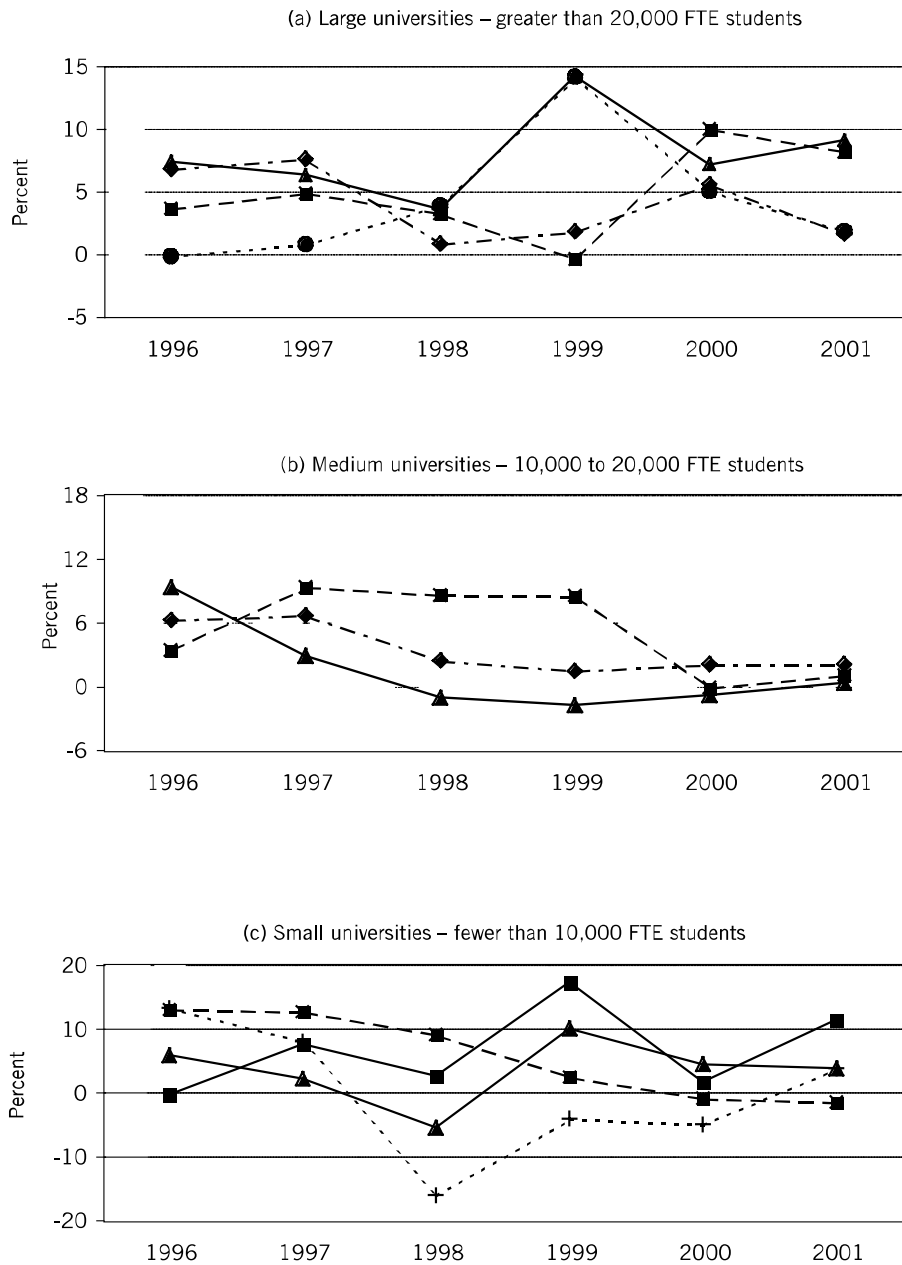
The international universities include institutions in:

- Canada (Queens University, Simon Fraser University, University of British Columbia and the University of Waterloo)
- Hong Kong (The University of Hong Kong)
- Ireland (University of Limerick and Trinity College)
- The Netherlands (University of Amsterdam and Utrecht University)
- New Zealand (Massey University, University of Otago and University of Auckland)
- Singapore (National University of Singapore and Nanyang Technological University)
- Sweden (Stockholm University)
- United Kingdom (University of Bath, University of Manchester, University of Nottingham, University of Warwick and De Montfort University)
- United States (Georgetown University, Oklahoma State University, Stanford University, University of Oklahoma (Norman Campus), University of Pennsylvania and Yale University)

**Table: Surpluses in Selected Universities 2001**



**Table: Operating Margin – Selected Australian Universities, 1996 to 2001**



## Appendix H

### Transfers to Capital as a % of Insured Asset Value

Insured Value of Buildings	Recurrent Transfer to Capital for Minor Capital Works								
	2002/03 €000s	2002/03 €000s	2002/03 %	2001/02 €000s	2000/01 €000s	1999/00 €000s	1998/99 €000s	1997/98 €000s	Total €000s
UCD	945,000	3,899	0.41	3,530	2,672	1,523	3,082	889	15,595
TCD	539,000	2,475	0.46	648	1,800	4,045	2,793	2,755	14,516
UCC	333,000	1,120	0.34	662	167	183	290	483	2,905
NUIG	195,000	2,143	1.10	1,618	2,362	0	0	879	7,002
UL	403,000	1,831	0.45	1,527	1,816	1,406	1,200	1,632	9,412
DCU	491,000	0	0.00	0	0	0	0	0	0
NUIM	272,000	0	0.00	244	215	265	0	1,600	2,324
<b>Total</b>	<b>3,178,000</b>	<b>11,468</b>	<b>0.36</b>	<b>8,229</b>	<b>9,032</b>	<b>7,422</b>	<b>7,365</b>	<b>8,238</b>	<b>51,754</b>

### Recurrent Transfer to Capital for Equipment as a % of Insured Value of Equipment

Insured Value of Buildings	Recurrent Transfer to Capital for Minor Capital Works							
	2001/02 €000s	2001/02 €000s	2001/02 %	2000/2001 €000s	1999/2000 €000s	1998/1999 €000s	1997/1998 €000s	Total (5 years)
UCD	62,994	1,220	1.9	1,048	1,086	2,650	2,273	8,277
TCD	80,976	3,224	4.0	3,733	2,759	2,747	1,620	14,083
UCC	65,534	1,682	2.6	2,299	0	2,978	3,021	9,980
NUIG	43,545	2,322	5.3	618	0	418	881	4,239
UL	29,613	312	1.1	612	937	769	1,437	4,067
DCU	42,320	254	0.6	254	2,707	1,324	1,123	5,662
NUIM	14,385	448	3.1	752	586	566	624	2,976
<b>Total</b>	<b>339,367</b>	<b>9,462</b>	<b>2.8</b>	<b>9,316</b>	<b>8,075</b>	<b>11,452</b>	<b>10,979</b>	<b>49,284</b>

**Appendix I**  
**Ancillary Services**

<b>Totals By University: Five Years 1998/99 to 2002/03</b>								
	<b>UCD €000</b>	<b>TCD €000</b>	<b>UCC €000</b>	<b>NUIG €000</b>	<b>UL €000</b>	<b>DCU €000</b>	<b>NUIM €000</b>	<b>Total €000</b>
<b>Income</b>								
Catering	15,353	22,999	12,416	8,210	0		6,082	65,061
Residences	13,910	11,921	0	0	0		835	26,666
Medical Development	15,579	9,547	14,930	7,979	0		0	48,035
Other	136,450	35,481	5,471	1,216	7,113		3,292	189,023
<b>Total</b>	<b>181,292</b>	<b>79,949</b>	<b>32,818</b>	<b>17,405</b>	<b>7,113</b>		<b>10,209</b>	<b>328,786</b>
<b>Expenditure</b>								
Catering	15,353	21,900	12,416	8,210	0		6,086	63,965
Residences	13,238	7,917	0	0	0		602	21,756
Medical Development	18,419	0	13,458	0	0		0	31,877
Other	136,080	27,259	5,289	1,216	7,114		3,255	180,213
<b>Total</b>	<b>183,090</b>	<b>57,075</b>	<b>31,163</b>	<b>9,426</b>	<b>7,114</b>		<b>9,943</b>	<b>297,812</b>
<b>Surplus/Deficit on Year</b>	<b>-1,798</b>	<b>22,873</b>	<b>1,654</b>	<b>7,979</b>	<b>-1</b>		<b>266</b>	<b>30,974</b>

Note: Data for UL is not available for 2002/03

## Appendix J

### Depreciation And Amortisation

Historically there has been no funded depreciation in the Irish university system. Therefore the system has relied on capital grants and donations for the replacement of assets.

In the format of accounts which was used by the universities prior to the year 2002/ 2003, depreciation was included in the Income and Expenditure accounts in such a way that its impact on the operating surplus/deficit was neutral.

Depreciation was charged below the line but was effectively neutralised by the transfer from the General Reserve of an amortisation amount equal to the depreciation charge.

In the new format of consolidated accounts the heading General Reserve has been replaced by two headings; Deferred Capital Grants and Revenue Reserve. Deferred Capital Grants will continue to be amortised to the Income and Expenditure account over the useful life of the assets to which they refer. Assets funded from revenue, however, must be charged in the Income and Expenditure account (via depreciation) against future revenue flows generated over the useful life of the asset.

In the new format a shortfall in capital funding will arise because of the differences in accounting treatment of certain capital expenditure. Some capital expenditure was reported on the Income and Expenditure account and was known as Transfers to Capital.

In the old format of accounts these transfers to capital from recurrent funding were simply expensed. The value of these assets was included in Fixed Assets and the same amount was also included in General Reserve. Subsequently, these assets were depreciated in the Income and Expenditure account and the General Reserve was amortised by the same amounts.

In the consolidated accounts, prior year transfers to capital from recurrent funding have had to be reclassified as Revenue Reserves.

In essence the vast bulk of Revenue Reserves on the consolidated balance sheet was the funding source for fixed assets. These assets will continue to be depreciated but there is no matching amortisation release to the Income and Expenditure account.

This has created a capital funding imbalance because the Fixed Asset account will now be higher than the Deferred Capital Grant account. There will also now be a funding imbalance on the Income and Expenditure account as there will continue to be a significant charge for depreciation which will be only partially funded by the annual amortisation of the Deferred Capital Grants account.

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