

## **Policy Framework for Engagement with Institutes of Technology with Operating Deficits**

This policy framework sets out the roles of the HEIs and HEA and describes how the HEA will structure its engagement with Institutes of Technology who have identified operating deficits.

### **Context**

The maintenance of balanced budgets in all IOTs is a statutory requirement under Section 15 of the Institutes of Technology Act, and balanced budgets are a prerequisite for continued participation in the Employment Control Framework which has been negotiated for the higher education sector. In general, Institutes have been operating on the basis of balanced budgets. In recent years however a number of Institutes have been using accumulated reserves to balance their budgets. In these circumstances there is a need to put processes in place and metrics to trigger implementation to ensure that the underlying deficits are being addressed.

### **Key Principles**

There are a number of principles which will inform the HEA's engagement with HEIs where an operating deficit is identified:

- To ensure value for money for the public
- To ensure the financial sustainability of the higher education sector
- To protect the interest of students enrolled in HEIs
- To ensure that any intervention is appropriate and proportionate
- To work in a supportive manner with HEIs to identify measures to address operating deficits.
- To maintain a distinction between the roles and responsibilities of the HEA and the HEIs.

### **Role of the Institute of Technology**

Higher education institutions have a responsibility to address their own sustainability. Under the Institutes of Technology Act 2006, the President of the Institution is the accounting officer and is answerable to the Committees of the Oireachtas in relation to the disposal of monies. The legislation also provides that the C&AG undertake annual audits of the accounts and financial statements of the institution.

It remains the responsibility of the President, in conjunction with the Governing Body, to maintain a balanced budget and to carry into effect the necessary measures to address operating deficits, if they arise. It is critical that all necessary actions are taken to reverse deficits in an Institute in order to ensure on going sustainability.

Understanding the full economic costs associated with each activity undertaken by an institution is critical to ensuring long term sustainability. Decisions to continue or expand existing activities or introduce new ones must be based on sound data which clearly demonstrates the financial implications of choosing one course of action versus another.

Optimising income generating activities and on-going review and reform of existing structures and processes to create a more cost effective and responsive system are also critical.

A rigorous governance process and risk management strategy is essential to support financial and budgetary processes.

In situations where an institution has used accumulated reserves to achieve a balanced budget, the onus is on the institution to address issues associated with long term sustainability.

### **Role of the HEA**

The Finance Committee is appointed by the Authority to assist in its role in relation to the allocation of funding provided to the Authority having regard to policy priorities set by the Authority. The Committee also advises the Authority in relation to specific financial functions assigned to the Authority under the Institutes of Technology Act.

The Finance Committee annually reviews the outcomes from the budget meetings and issues arising. It advises the Department of Education and Skills in relation to the financial health of the sector and individual institutions, where necessary.

The System Governance and Performance Management Committee annually reviews the Governance Statements of the IOTs which identify financially significant developments affecting the Institute in the past year, including the establishment of subsidiaries or joint ventures and acquisitions, and major issues likely to arise in the short to medium term.

### **Routine Engagement with Institutions**

There are a number of ways the HEA will engage with IOTs, as a routine, in relation to their strategic and budgetary planning.

#### *Strategic Dialogue*

The annual strategic dialogue process seeks:

- To demonstrate how each institution is making its distinctive contribution to key national expectations of higher education
- To support institutions' efforts to improve their own performance – through better strategic planning and management, particularly with regard to the increasingly competitive global environment in which our institutions operate
- To demonstrate how institutions are performing against the objectives set out in their own strategic plans
- To enhance the accountability of higher education in respect of the very significant public funding allocated annually.

The HEA and HEI agree a compact as the outcome of the strategic dialogue process which will set out how the Institute's mission and goals align with national goals for higher education and agree strategic objective indicators of success against which institutional performance will be measured and funding allocated. The compact will also set out any specific requirements or conditions associated with funding provided by the HEA.

By detailing HEA funding commitments and reciprocal HEI commitments, the compact contributes to creating a transparent and accountable system of administration of State funding. The strategic dialogue meetings with each HEI will in future encompass the previous budget meetings.

#### *Budgetary process*

The HEA writes to each HEI on an annual basis informing of the recurrent grant allocation and related matters. Following receipt of the HEA's notification, the Institute prepares an annual Operational Programme and Budgets, approved by their Governing Body. The information submitted includes a budget summary detailing outturn and projected figures, other sources of income, reserves and student numbers. Consideration of the financial position of the HEI will form part of the Strategic dialogue meeting. Further meetings may be required to focus in more detail on the current and projected financial position of the institution and associated matters and the budgets submitted form the basis of the discussion.

### *Code of Governance Requirements*

In this regard, each Institute must prepare and submit to the HEA, an annual governance statement according to the approved Code of Governance.

### *Ad hoc meetings*

On some occasions, there will be a need for more focussed meetings in terms of capital development plans, course provision and other institutional matters.

The data used by the HEA to inform on the financial health of an Institute is the Institutional Compacts, the Operational Programme and Budgets and Audited Accounts. From analysis of this data, and arising from any of the above interactions, the HEA will determine what additional actions are required by the HEA and the Institute to address any financial issues arising.

### **Indicators of Risk**

The HEA's assessment of risk is based on analysis of historical data and projected budgets for three to five years. In the first instance, this assessment is carried out on receipt of the budgetary information as part of the Strategic Dialogue process. The HEA may review this information on receipt of updated information submitted quarterly throughout the year. A combination of the following metrics may be used to indicate risk:

- Actual and projected income and expenditure
- Funding model trends
- Analysis of other funding streams
- Indications of financially significant developments as submitted through the Governance Statements
- Cash in bank expressed in days as a proportion of total expenditure
- Operating Surplus/Deficit as a proportion of total income
- Discretionary reserves as a proportion of total income
- Staff costs as a proportion of total income
- Ratio of income, Exchequer: non-Exchequer
- Current assets : Current liabilities ratio
- Annual capital and maintenance spend on estates and buildings as a proportion of value of estate

## **Engagement with Institutions where an operating deficit had been identified**

### Stage One Intervention

The HEA in the first instance will engage with the institution through the strategic dialogue process to seek a common understanding of issues and identify any issues arising associated with strategic plans, collaborations with other HEIs (including the development of technological universities and/or mergers) and positioning of the institutions within the sector to gain on-going and further efficiencies.

Each Institute must prepare an annual governance statement according to the approved Code of Governance. This statement identifies financially significant developments affecting the Institute in the past year, including the establishment of subsidiaries or joint ventures and acquisitions, and major issues likely to arise in the short to medium term.

Where an operating deficit is identified, the Institute will be required to submit a financial/business plan which encompasses all income and expenditure projections for three years. The Institute must also set out a strategy and actions proposed to return the Institute to a balanced position. In this regard all strategies for the reform of the cost base (both pay and non-pay) and associated structures and practices should be considered, including rationalisation of provision, HR reform, closer collaboration with partner HEIs, expansion of student numbers and broadening of the income base.

The HEA will consider the proposed financial plan and in consultation with the Institute agree on proposed actions. The HEA will require continuing dialogue and quarterly updates on the Institute's budgetary situation during the year. Further meetings with the Institute will be held as required. The HEA may request the HEIs to appoint an independent financial expert to review the Institute's financial plan and provide independent validation of the funding projections.

The HEA will work as appropriate with the Department of Education and Skills to identify measures to assist in reforms in the sector to produce savings.

The HEA may require institutions as a condition of grant to make changes to proposed activities if there is concern that risks to Exchequer funding and the interests of students are not being addressed.

The HEIs may also be required to put appropriate training and development programmes in place in relation to strategic financial planning and institutional strategic planning.

It is envisaged that by engaging with institutions as above, the HEA will assist an institution to implement a financial plan to return the institution to a balanced budget. Such an approach has been the standard practice since the inception of the HEA and has to date operated satisfactorily.

However, if sufficient progress is not being made on implementation of the agreed financial plan the HEA will implement the interventions outlined below.

#### Stage Two Intervention

It will be deemed that sufficient progress is not being made, and that a Stage 2 intervention should be triggered, if, in the opinion of the HEA, an institution demonstrates any of the following:

- fails to engage proactively with the HEA or disclose information essential to gaining an understanding of its current and future financial performance
- is failing to implement (in a material way) an agreed financial plan to address operating deficits
- has a financial plan in place that is not returning the Institute to a breakeven position
- does not produce a contingency plan to redress the operating deficit if the agreed plan cannot be implemented
- refuses to pursue or implement obvious cost-saving measures
- is failing to implement processes to safeguard against high costs being accrued

A stage 2 intervention will involve the appointment of a person to work with the governance structure (up to and including the Chair of the Governing body) of the HEI. This person will be expected to have financial expertise and an understanding of the higher education sector.

Legislative reform is required to clarify and strengthen the HEA's role in relation to the appointment of this external expert. However the appointment of the external expert could be expedited with the agreement of the Institute by making it a condition of ongoing funding. This would require full acceptance by the Institute of the authority of the external expert to direct operational changes and implement a new financial

plan. If the HEA fails to secure the agreement of the institute in this regard, it will request via the DES that the Minister authorises a person to undertake an inspection of the institution <sup>7</sup>, a power set out within the IoT Act 2006.

The role of the external expert will involve:

- formal stress testing of the assumptions of the existing three year plan, including all funding inputs, projected student demographics, and staff numbers and remuneration increases/decreases.
- building an agreed revised financial plan to bring the Institute back into balanced budget within 3 years
- reviewing existing governance arrangements and making recommendations to the Governing Body on any action required in order to improve these arrangements.
- recommending to the Governing Body any remedial action identified in order to improve the institution's financial performance, including cost reform and process changes
- monitoring the implementation of the agreed financial plan and identifying any deviation from the agreed actions within that plan
- providing the HEA with an independent assessment of the ongoing financial performance and sustainability of the institution
- advising the HEA on any action required external to the institution in order to support its future sustainability

To assist this role, such additional information, reports and data as are required should be provided to the external expert. This may include operational cash flow, details on reserves, historical data, long term forecasts and staff cost predictions.

The HEA may require that specific information is audited and undertake or commission financial or other reviews, as appropriate, on any matters regarding the operation of the Institute.

### Stage Three Intervention

If the above processes are not working, or recommendations to the Governing Body are not being progressed, Section 8 of the RTC Act (as amended) may be invoked. This

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<sup>7</sup> Legislative reform is also required in relation to potential mergers, closure of HEIs etc

section allows the Minister, following consultation with the HEA, to make an order dissolving a governing body or removing a President and to appoint any body of persons as the Minister thinks fit to perform the functions of the governing body or any person that the Minister thinks fit to perform the role of President.

The HEA will keep the DES informed of progress made and any issues arising during all stages of the proposed Framework.

The HEA will review the framework as appropriate and no later than September 2017.