Institiúid Teicneolaíochta Phort Láirge Waterford Institute *of* Technology

PAC32-R-2553(i) B Meeting 21/11/2019

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Ms Éilis Fallon,
Committee Secretariat,
Committee of Public Accounts,
Leinster House,
Dublin 2.

Ref: PAC32-I-1643 – Request for further information re Budget Deficit

Dear Ms Fallon,

I refer to your letter dated 31st October 2019 and enclose herewith further information as requested by the Committee at its meeting on the 24th October. I can confirm that the response submitted previously was reviewed in advance by the Vice President Corporate Affairs and Finance.

Yours sincerely,

Professor Willie Donnelly
President

Encl:

Waterford Institute *of* Technology
INSTITIÚID TEICNEOLAÍOCHTA PHORT LÁIRGE

Response to queries raised at the Public Accounts Committee meeting on 24th October 2019

Difference between consolidated and Institute-only accounts

Following a report issued by the Minister for Education & Skills in July 2013 on the statutory inspection of the relationship between Waterford Institute of Technology (WIT) and a group of companies that provide services to the Institute, WIT was required to advance the acquisition and consolidation of the companies which were subject to the review as subsidiaries of the Institute. Therefore, reference to the consolidated accounts below include the financial activity of these companies of which there are two – Diverse Campus Services, which operates catering, student accommodation and transportation on WIT campus for WIT students, and WIT Social and Sports, which operates an on-campus bar. The financial consolidation commenced in year ending 31st August 2014 and the individual year-on-year differences between the Institute results and the consolidated results are explained in the sections below.

Financial Summary

Financial Year Ending 31st August 2011:

WIT first incurred a deficit in the financial year ending 31st August 2011. The operating costs in that particular year exceeded operating income by €272,000; this annual deficit was offset by an accumulated surplus of €275,000 which was carried forward from prior years. Therefore, before extraordinary or unusual items, the accumulated financial position of the Institute at 31st August 2011 was a surplus of €3,000. However, also in that year the Institute of Technology Sector was directed to write off any State Grant Debtors recorded in their financial statements. WIT had a State Grant Debtor of €2.475m carried forward from prior years; the write off of this debtor created an accumulated deficit of €2.472m (i.e. €2.475m less the €3,000 surplus from operations).

Financial Year Ending 31st August 2012:

In year ending 31st August 2012 expenditure exceeded income by €563,000. Although the Institute reduced expenditure in 2012, particularly in relation to academic departments in both pay and non-pay categories, income also reduced including income generated from international fees which decreased in the year as some international agreements came towards end of life. The Income and Expenditure account also recorded a significant reduction in research income (€4.4m). However, this mainly relates to a reduction in income associated with payments that the Institute was required to make to research partners as part of EU funding arrangements, therefore the expenditure reduced in line with the reduction in income.

The deficit for the year of €563,000 added to the accumulated deficit from the prior year of €2.475m increasing the accumulated deficit position to €3.035m at year end.

Financial Year Ending 31st August 2013:

In year ending 31st August 2013 the annual position, while still a deficit, improved slightly from the prior year, i.e. 2013 deficit €306,000 versus €563,000 deficit in prior year. Total income remained relatively stable after including the net allocation from recurrent income to capital costs to cover capital infrastructure costs – the amount allocated in year ending 31st August 2013 exceeded the amount allocated in 2012 by €619,000 hence reducing the amount allocated to recurrent costs. Overall, in this particular year, expenditure (excluding depreciation, research and student support) reduced by €243,000 versus prior year. Despite decreases in expenditure, the deficit in the year of €306,000 had the effect of increasing the accumulated deficit at the 31st August 2013 from €3.035m in the prior year to €3.341m.

Financial Year Ending 31st August 2014:

As outlined above, commencing from year ending 31st August 2014 the Institute was required to produce consolidated accounts to take account of subsidiary undertaking. The remaining analysis included within this document focuses on both the Institute results and the consolidated results which include said subsidiary companies.

It is important to note that the overall allocation to Higher Education Institutions for 2014 was reduced by 7.2%. This reduction was associated with the roll-out of the Public Service Stability Agreement 2013-2016, an increase in the student contribution of €250 per student and a €25m cash adjustment. As a result thereof the State Recurrent Grant allocation for the academic year ending 31st August 2014 reduced by €2.8m compared to the prior year. Part of the reduction in state grant income was balanced against an increase of just under €1.6m in International Tuition Fees associated with a significant cohort of Brazilian students who were funded by their own government. Unfortunately, this funding did not continue into later years. Additionally, in that year 'core' pay costs, i.e. pay costs excluding research and other self-funded activities, reduced by €2.3m reflecting the pay reductions associated with the Public Service Stability Agreement 2013-2016.

In relation to the Institute-only financial statements, a surplus for the year of €1.168m was recorded. However, a major contributing factor to this was a significant change in income recognition associated with research activity and related overhead (this equated to recognising income of €2.6m previously deferred, an increase of €1m on the prior year). It is our understanding that this change, under the direction of the Office of the Comptroller and Auditor General, related to all Higher Education Institutions and that WIT were early adopters of the change. A capital development reserve of €1.994m related to a proportion of the income recognised was created under the approved processes; hence this amount was transferred from revenue to capital reserves.

The net resulting movement in the accumulated deficit, therefore, after the transfer to the Capital Development Reserve of €1.99m, was an increase of €826,000 to an accumulated deficit of €4.167m for the Institute (before consolidation of subsidiary companies).

As mentioned above, the first set of consolidated financial statements was prepared for the year ending 31st August 2014. The impact on the operating results for the particular year was positive, hence an operating surplus of €3.7m for the year was reported in the consolidated accounts before the transfer to the capital development reserve, or €1.7m surplus after the aforementioned transfer to the capital development reserve versus a deficit of €826,000 in the Institute Statements. A surplus from the activities of the subsidiary companies (after cancelling any intercompany transactions) and translating the treatment (as required) of assets and associated depreciation to the policies of the Institute contributed to this surplus. However, while the companies held significant reserves, the treatment of these had to be translated into the accounting policies used by the Institute hence transferring revenue reserves in the subsidiary companies to capital reserves in the consolidated accounts and creating a significant negative accumulated revenue reserve/accumulated deficit of €15m. This was matched by an increase in capital reserves in the consolidated accounts.

Financial Year Ending 31st August 2015:

For the purpose for this analysis the restated 2015 figures will be relied upon. The primary difference in the restated figures rests in the change in accounting policies associated with fixed assets and capital reserves as allowed for under Financial Reporting Standard FRS102 and applied after consultation with the Office of the Comptroller & Auditor General. The effects of this will be explained below in relation to the section on the consolidated figures.

In the year ending 31st August 2015 the Institute experienced further reductions in the State Recurrent Grant (i.e. a further decrease of €1m in addition to the €2.8m reduction the prior year). Student numbers had also dipped, hence Tuition Fees were €2m less than that earned in the prior year. Some of the revenue shortfalls were compensated by an increase in other income categories including research overheads and international activity; nonetheless, income (excluding direct research funding) was down €2.2m. Furthermore, there were increases of €221,000 (.04%) in pay costs and €299,000 (2%) in non-pay costs in the year. The end result for the Institute, therefore, was a deficit for the year of €879,000 and the restated accumulated deficit before consolidation moved to €4.115m.

The consolidation of the subsidiary companies again improved the annual position to a surplus of €1.153m for the year. More significantly, as mentioned earlier, the implementation of FRS102 required a restatement of the fixed assets, particularly those associated with the subsidiary companies, thus reversing the previous effect on the revenue and capital reserves. Therefore, the cumulative consolidated revenue reserve at the end of 31st August 2015 was -€2.69m otherwise an accumulated deficit of €2.69m.

Financial Year Ending 31st August 2016:

The deficit incurred for the year ending 31st August 2016 was just under €2.6m (€1.7m worse than the prior year). A number of items contributed to this, including reductions in the "Other Income" categories of €2.7m which included a decrease in research overheads of €1.4m versus the prior year (as the accounting adjustment in prior year included previously deferred income the amounts in 2016 did not) and also a reduction of €900,000 related to international student activity (namely the Brazilian students mentioned above) although there was a direct reduction in expenditure associated with this. Tuition fee income in the year also reduced by €700,000 related to international students. Net 'core' expenditure (i.e. expenditure excluding research and other self-funded activities) reduced in the year. Included in this was an increase in pay costs of €624,000 (1%) which was offset by a reduction in non-pay expenditure of €1.1m. The accumulated deficit at year end for the Institute (before consolidation) therefore, as a result of the €2.6m deficit incurred in the year, increased to €6.7m.

The consolidated results, while worse than prior year (€1.7m deficit versus €897,000 for prior year), improved the overall result for the year from a deficit of just under €2.6m to a deficit of €1.7m. The subsidiary companies generated a surplus of €79,000 before any contribution from the Institute and before depreciation charges. The difference between the consolidated results and the Institute results as relates to transfers between capital and revenue reserves on consolidation related to fixed asset policies as previously highlighted. The accumulated deficit following consolidation of the subsidiary undertakings at the end of 31st August 2016 rose to €4.4m after taking account of the €1.7m consolidated deficit for the year.

Financial Year Ending 31st August 2017:

In the financial year ending 31st August 2017 the Institute incurred a further deficit in the year of €2.75m (before consolidation). While there was an increase in the Recurrent Grant of €1.79m (which included an allocation of €519,000 from the capital grant to offset costs associated with running the Estate), tuition fees fell by just under €1m as a result of further reductions in International Students. Research activity also moved to a break-even position as opposed to a surplus of €567,000 the prior year; this turnaround was associated mainly with the lifecycle of projects and associated overhead income. Revised pay scales were provided by the Department of Education and Skills outlining pay increases for employees effective from 1st April 2017 associated with restoration of previous FEMPI Act 2013 pay cuts. 'Core' pay costs (i.e. pay costs excluding research and other self-funded activities) for the year increased €1.7m even though there was a reduction of 26 (whole time equivalent) Academic Staff in the year. Further savings were also made in the year in operating expenditure including reductions in repairs, maintenance, travel and professional fees. As a result of the €2.75m deficit in the year the accumulated deficit (before consolidation) increased to €9.4m.

While the consolidated accounts, for reasons similar to prior year as outlined above, brought about an improvement of €857,000 versus Institute-only results, the consolidated deficit for the year was €1.9m versus €2.75m for the Institute before consolidation. Nonetheless, the accumulated consolidated deficit increased to €6.3m.

Financial Year Ending 31st August 2018:

As the audit process for year ending 31st August is not yet concluded the analysis is based on draft figures. However, it is unlikely that there will be any material changes. The Institute position showed a significant turnaround in this year with the deficit incurred in the year €132,000 (versus €2.75m for the prior year). The recurrent grant increased from €30.2m to €32.9m. Significant additional Apprenticeship blocks along with an increase in undergraduate student numbers contributed to this increase. Additional undergraduate students also drove an increase in tuition fees which increased by €1.5m versus the prior year; the Institute has experienced growth in Levels 6-8 undergraduate numbers, Springboard+ participation and also holds a significant contract for providing courses to the Irish Prison Service. 'Core' pay increased in the year by 2% (€1.3m) which was mainly related to national pay increases. Non-pay operating expenditure increased by €658,000 which included increases in essential repairs and renewal of non-capital equipment.

The deficit on consolidation increased €509,000 partly due to the cessation of a franchise arrangement hence reducing income by €549,000. Therefore, the consolidated accumulated deficit including subsidiary undertakings was €6.8m at the end of August 2018.

Financial Year Ending 31st August 2019:

The consolidated financial statements are currently undergoing a final draft stage and will be available for the Comptroller and Auditor General by the prescribed due date of 30th November 2019.

Summary:

The consolidated deficit at year ending 31st August 2018 was €6.8m of which €2.475m related to the write off of a State Debtor in 2011. The remainder deficit relates to reductions associated with cut backs in funding for Higher Education and also a diminution in tuition fee income as a result of declines in student numbers (this trend has been reversed and the Institute has achieved year on year growth over the past 4 years in undergraduate numbers). The Institute, despite making savings in both pay and non-pay could not match the income cuts with comparable expenditure savings.