



11. September 2013

Framework budget 2014-2016

This presents a draft of IT University's budgetary framework for 2014 to 2016.

1. The Management's recommendation

It is recommended that the Board approves the submitted budget framework and authorise the Management to prepare the budget proposal for 2014. The final budget proposal for 2014 will be presented to the Board at the Board meeting on 22 November 2013.

2. Budget expectations

The framework budget for 2014-2016 is based on the following expectations and assumptions:

The amended budget proposal for 2014 (FFL 2014), as presented by the government on 27 August, 2013 is passed by parliament, without substantial changes as regards the university.

Some of the proposed strategic investments of the university have been incorporated in the framework budget: Increase from 200 to 230 in the number of bachelor students admitted (by raising the planned number of admissions to the software development program) and the necessary recruitment of faculty. Management has allocated DKK 3.0 million in pools for "Strategic research areas and Investments". Thereof DKK 1.0 mill to strategic research areas and DKK 1.0 million to investments in efficiency projects. Further, the management has earmarked 1.0 million to a pool from which the department is intended to seek support to the education strategy and the research strategy (beyond strategic areas), development of IT infrastructure for research and education (servers, storage, databases etc.) and lab support.

The framework budget addresses the challenges which the IT University faces in meeting the goals and ambitions in the education and research strategies. A critical assumption relates to recruiting faculty members in 2014 equivalent to 16 FTE assistant, associate and full professors and 6 FTE PhD students to support the research-based teaching and the goal of acquiring more external research funding. This initiative will also address the special challenges on part-time study programmes.

Rent income from companies on the 5th floor and sale of services is maintained at current level which also applies to the cost.

Income from interest and return on the investment portfolio is included as if they will remain constant at DKK 1.4 million annually.



Table 1: Framework budget estimations for the following 3 years

Revenue	Framework budget 2014	2015	2016
Government Grants	87,860	89,110	90,360
Tuition	149,470	148,460	148,380
Research Grants (Government)	25,000	37,000	40,000
Research Grants, Private and other sources	8,000	8,000	10,000
Rental and other Income	5,140	5,170	5,220
Savings on Administration and Purchasing	-3,700	-3,600	-3,550
	271,770	284,140	290,410

As in 2013 the Finance Act Proposal for 2014 include 3-year budgeting of government grants, providing increased security regarding the budgets 2014-2016.

The IT University has decided to present the university’s framework budget for the period 2014-2016, since the uncertainty in the estimates after 2016 becomes very large.

Table 2 below displays uncertainties which are principally concerned with the financial year of 2014. For the forthcoming years, uncertainties will change in accordance with different factors just like new uncertainties relevant to the IT University will arise.

Table 2: Uncertainties and actions according to framework budget 2014

Uncertainties	Description	Possibilities	Action
1) Full-time student FTE-production	The budget framework is based on a forecast of student FTEs. However, there is a possibility that FTE production will deviate from the forecast.	From 2008-2012, reports show that the standard deviation of full-time student FTEs compared to the final budget is equivalent to 24 MSc’s and 8 BSc’s. Within this range, the revenue from full-time students could be improved or worsened with DKK 2.3 million from MSc’s and DKK 0.8 million from BSc’s compared to the budget.	In order to get the most accurate number of FTEs into the final budget, a revised forecast will be made in October when the final intake of students is known. If this results in greater changes, these will be incorporated in the final budget proposal presented to the Board in November.



Uncertainties	Description	Possibilities	Action
2) Part-time student FTE-production	The budget framework is based on the forecasted production of 123 part-time student FTEs in 2014. However, there is a possibility that the production of part-time student FTEs will deviate from the forecast.	From 2008-2012, reports show that the standard deviation of part-time student FTEs compared to the final budget is equivalent to 25. Within this range, the revenue from part-time students could be improved or worsened with DKK 3.2 million.	In order to get the most accurate number of FTEs into the final budget, a revised forecast will be made in October when the final intake of students is known. If this results in greater changes, these will be incorporated in the final budget proposal presented to the Board in November.
3) Completion bonus	The revenue from completion bonuses is not only dependent on our own graduates, but also student activities from the other seven universities in Denmark. In addition to this, there is a possibility that the recently adopted student grant reform will influence student behavior.	With the information at hand, it is not meaningful to calculate the impact of how the completion bonus will deviate from the Finance Act Proposal 2014. Reports from 2008-2012 show that the standard deviation in the number of students that trigger a completion bonus is equivalent to 12 MSc's and 8 BSc's. Within this range, the revenue from completion bonuses could be improved or worsened with DKK 0.4 million from MSc's and DKK 0.4 million from BSc's compared to the budget. In the forthcoming years, the rate of the completion bonus will rise with 9.75 percent annually resulting in greater impact on the annual budget.	Student Affairs and Programmes are carefully watching the consequences of the recently adopted student grant reform and the effects that it will have on student behavior.



Uncertainties	Description	Possibilities	Action
4) External research funds	The university's ability to attract and spend external research funds is not only affecting the number of scientific staff but also the revenue from overhead pricing.	From 2008-2012, reports show that the standard deviation in external research funds was DKK 3.7 million compared to the final budget. With approx. 62 percent of the external research funds going to salaries for scientific staff, the result could be worsened with DKK 2.3 million. In addition to this, the overhead of 25 percent could improve or worsen the revenue with DKK 1.0 million.	The Department of Finance and Personnel is working together with Research and Learning Support in order to improve the accuracy of estimating the external research funding.
5) Rent reduction	The university has requested a significant reduction in the rent for the tenancy at Rued Langgaards Vej. The costs of this request and the outcome could have significant effects on the 2014 result.	The outcome of the request could potentially improve the result with approx. DKK 5 million or reduce the result with approx. DKK 2.5 million.	The current cost of rent has been incorporated in the framework budget.

In addition to the above stated, there are a number of uncertainties which are not quantifiable at this point. This goes for the newly adopted Budget Act, which leaves uncertainty with regard to the possibility of achieving full tuition-fee from an unpredicted increase in the full-time student FTE-production. Like the completion bonus, the tuition-fee is now dependent on the total production of full-time students FTE from all eight universities in Denmark.

Furthermore, the Danish funds for research have been reduced and there might be delay in starting the Horizon2020 program (ongoing budget negotiations in EU), leaving further uncertainty with regard to the amount of external research funds that can be achieved.

Also, there is a risk, that the university will not be able to hire the required number of new faculty. In this case, on short term the university could employ other categories of teaching staff, which would result in lesser overall cost.

Some of these uncertainties will be clarified within the next couple of months, where after a brief will be put together. Nevertheless, in order to alleviate the impact of all these uncertainties, it is recommended to maintain an equity corresponding to 18 percent of the total cost during the financial year.



3. Assumptions of student rates and FTE volumes

Table 3 shows the rate assumptions, released with the budget proposal for 2013, adjusted to current prices, which are used for university education revenue.

Table 3: Assumptions of full-time student and part-time student rates

Rates (DKK 1,000)	2013	2014	2015	2016
Tuition fee, MSc students	96.5	94.9	93.1	91.3
Tuition fee, BSc students	96.5	94.9	93.1	91.3
Completion Bonus, MSc students	32.6	29.7	33.8	37.6
Completion Bonus, BSc students	60.0	54.1	59.3	67.5
Tuition fee, part-time student	45.7	44.9	44.1	43.2
Tuition fee, part-time students, former rate	50	-	-	-
Tuition fee, part-time students, present rate	85	85	85	85

It is worth noting that the completion bonus increases by 9.75 percent per year in the period. The completion bonus is finally set annually in the Supplementary Act based on the actual activity. As a consequence, the bonus partly depends on the number of its own students fulfilling the completion rate, compared to students from other universities.

In Table 4 are listed the university's assumptions of volume of student FTE 's and the completion bonuses.

Table 4: Assumptions of volume of completion bonuses and FTE 's

	2013	2014	2015	2016
Master of Science, FTE	779	797	782	788
Completion bonus, MSc	100	95	92	85
Bachelor of Science, FTE	490	508	525	539
Completion bonus, BSc	125	129	134	129
Part-time students, FTE	135	123	122	120
Revenue full-time students	122,159	123,840	121,720	121,090
Completion bonus	10,760	9,790	11,060	11,900
Revenue part-time students (tariff and tuition)	17,155	15,840	15,680	15,390
Total revenue from tuition (DKK 1,000)	150,073	149,470	148,460	148,380

Table 5 shows the admission assumptions for the coming years, the total admission per year and the distribution of students at the different programs.

***Table 5: Assumptions of admission of BSc and MSc students per programme***

Year	2013*	2014	2015	2016
DDK/DKM	139	150	150	150
DIM (EBUSS)	131	100	110	120
SDT/INT	132	110	110	110
GAMES/MTG/MMT	74	70	70	70
Bach, SWU	71	90	90	90
Bach, DMD	73	80	80	80
Bach, GBI	65	60	60	60
Total	685	660	670	680

* The expected admission in 2013

4. Conclusion

Table 6 is a draft of the IT University's framework budget for 2014 to 2016. Revenue is in current prices with a 0.5 per cent average price/wage inflator, as stated in the government's initiative. Cost of wages is calculated in current prices with an average price/wage regulation at 0.7 per cent.

The framework budget includes baseline cost and management's decisions to finance a number of strategic initiatives and the necessary recruitment of both research/teaching and administrative staff to carry out these initiatives.

Developments in operating expenses in the period reflects the overall effect of the cost of EBUSS gradually reduced as the teaching is carried out by staff at the IT University whereby payment to CBS decreases accordingly. The opposing effects of higher operating costs from increasing volume of research projects and higher depreciation as a result of the acquisition of several new systems (partly assumed) funded by the efficiency pool.

The framework budget is based on the equity by the end of 2013 cf. forecast after Q2 as well as the budget assumptions in section 2.

The approval of Finance Act will ensure government grants for the next three years while the income from tuition will remain uncertain.

The framework budget and the annual results reflect the expected revenue from the adoption of the proposed Finance Act. (FFL2014). The outlook for revenue from the government is that the level for the period from 2014 to 2016 continues in the following years.

**Table 6: Draft for the framework budget 2014-2016**

(DKK 1.000)	Forecast 2 2013	Forecast 2014	Forecast 2015	Forecast 2016
Government grants	85,239	87,860	89,110	90,360
Tuition	150,073	149,470	148,460	148,380
Research grants (Government)	20,209	25,000	37,000	40,000
Research grants, private and other sources	7,005	8,000	8,000	10,000
Rental and other revenue	5,486	5,140	5,170	5,220
Extraordinary revenue	-	-	-	-
Savings on administration and purchasing	(3,359)	(3,700)	(3,600)	(3,550)
Total Revenue	264,653	271,770	284,140	290,410
Payroll	150,073	169,379	180,722	185,604
Other operating expenses	108,739	101,013	99,271	99,790
Strategic research areas and Investments	-	3,000	3,000	3,000
Total costs	258,812	273,392	282,993	288,394
Result of the year	5,841	(1,622)	1,147	2,016
Equity	49,919	48,297	49,444	51,460
Full-time Employees (FTE)	Forecast 2 2013	Forecast 2014	Forecast 2015	Forecast 2016
Scientific Staff FTE	126	148	165	173
Part-time Lectures FTE	43	43	43	43
Administrative Staff FTE	126	134	133	130
Wage subsidy/acute job scheme FTE	3	5	5	5
Total Full-time Employees	298	330	346	351