

Department of Finance and Personnel

September 3, 2015

## Framework Budget 2016 - 2018

This presentation concerns the IT University's budgetary framework for 2016 - 2018.

### 1. The Management's recommendation

It is recommended that the Board approves the submitted budget framework and authorize the Management to prepare the budget proposal for 2016. The final budget proposal for 2016 will be presented to the Board at the Board meeting on 19 November 2015.

### 2. Budget expectations and assumptions

The Framework Budget for 2016 - 2018 is based on the following expectations and assumptions:

- The Budget Proposal Act for 2016 (FFL 2016), as presented by the Government on 25 August 2015 is passed by Parliament, without substantial changes as regards the university.

**NB:** This remains highly uncertain as the Government has announced that the Budget Proposal Act for 2016 must be seen as a technical budget proposal and that the Governments priorities first will be publicly announced by the end of September.

If the Government priorities announced by the end of September deviates significantly from the present Budget Proposal Act for 2016 the Management will present a new Framework Budget for 2016 – 2018 to the IT University's board.

- Admission of students and student activity will be as shown in table 3 and table 4. This includes the stop for admissions to diploma as of 2015. Furthermore, the IT-University expects an increase in part time students as the university is exploring how to attract and admit more part time students.
- Recruiting and hiring proceeds as planned in 2016.
- Rental income from companies on the 5<sup>th</sup> floor and sale of services will rise from DKK 1.8 million to DKK 2.2 million which implies that there are no more vacancies.
- Income from interest and return on the investment portfolio provide a return of DKK 1.4 million annually.
- Spending of external research funding follows the current forecast of DKK 29.3 million in 2016. This differs from the target stated in the development contract that each senior scientific FTE must contribute with DKK 0.8 million in 2016 equivalent to DKK 50 million. However, a large number of the senior scientific personnel is starting their careers at the IT University during 2016 and is therefore not expected to contribute significantly to spending of external research funding in 2016.
- There will not be diversions between salaries and other operations in the departments without the Management's approval.

Table 1 on the next page presents the IT University's Framework Budget for 2016 to 2018.

The Budget Proposal Act for 2016 include 3-year budgeting of government grants, providing increased security regarding this part of the budgets from 2016 - 2018. Hence, the IT University has decided to present the university's Framework Budget for the period 2016 - 2018, since the uncertainty in the estimates after 2018 becomes very large after the 3-year period.

The Framework Budget is based on the equity by the end of 2015 according to forecast Q2 2015 as well as the budget assumptions above. Revenue and operating expenses is regulated with a 1.0 per cent average price/wage inflator, as stated in the Government's initiative. Payroll cost is calculated in current prices with an average price/wage regulation at 0.7 per cent.

The Framework Budget includes baseline cost and the 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 other operating expenses in the period reflects the overall effect of the cost from the EBUSS study programmes gradually reduces as the teaching is carried out by staff at the IT University whereby payment to Copenhagen Business School decreases accordingly.

The new lease for Rued Langgaards Vej 7 has resulted in a significant reduction in the university's annual rent. However, the new lease commits the IT University to perform interior building maintenance estimated to an annual average cost of DKK 1.5 million from 2016 and forth.

Compared to the IT University's Budget 2015 the Framework Budget 2016 – 2018 shows a significant drop in revenue. This is caused by the change in external research forecasting which was based on the strategic target in Budget 2015 whereas it is based on the actual forecast in Framework Budget 2016 – 2018.

As part of the preparation of the future quality policy the department management will develop new quality standards for each study programme, including an increase in the VIP/DVIP-ratio over the next few years. If the VIP/DVIP-ratio is to be increased by hiring of more VIP-personnel instead of part time lecturers the result will be an increase in total wage costs. As an example, a three percent improvement on the VIP/DVIP-ratio due to part time lecturers being replaced by VIP-personnel will increase annual wage costs by potentially DKK 1.7 million, all other things being equal. However, the head of department expects no significant raise in wage costs. This is possible, as the external research spending target of DKK 50 million most likely will not be fully met, thus making VIP-personnel in some sections available for more teaching.

**Table 1: Framework Budget 2016 – 2018**

<b>Revenue (DKK 1,000)</b>	<b>Forecast 2 2015</b>	<b>Forecast 2016</b>	<b>Forecast 2017</b>	<b>Forecast 2018</b>
Government Grants	88,254	90,165	90,074	89,984
Tuition	146,816	148,001	144,683	147,406
Research Grants (Government)	15,891	20,517	23,933	23,933
Research Grants, Private and other sources	9,174	8,793	10,257	10,257
Rental and other income	1,800	2,200	2,200	2,200
Financial income	1,800	1,400	1,400	1,400
Other income	3,273	3,244	3,244	3,244
Extraordinary income*	11,446			
Savings on Administration and Purchasing	(3,700)	(3,697)	(3,679)	(3,668)
<b>Total Revenue</b>	<b>274,754</b>	<b>270,623</b>	<b>272,112</b>	<b>274,756</b>
* The extraordinary income in 2015 was caused by the refunding of rent in previous years at Rued Langgaards Vej 7.				
Payroll	157,316	174,774	175,467	176,570
Other Operating Expenses	97,913	91,068	93,018	92,529
Strategic Research Areas and Investments	742	3,000	3,000	3,000
Financial cost	5	5	5	5
<b>Total Costs</b>	<b>255,976</b>	<b>268,847</b>	<b>271,490</b>	<b>272,104</b>
<b>Result of the Year</b>	<b>18,778</b>	<b>1,776</b>	<b>622</b>	<b>2,652</b>
<b>Equity</b>	<b>67,341</b>	<b>69,117</b>	<b>69,740</b>	<b>72,392</b>

<b>Full-time Employees (FTE)</b>	<b>Forecast 2 2015</b>	<b>Forecast 2016</b>	<b>Forecast 2017</b>	<b>Forecast 2018</b>
Scientific Staff FTE	138.18	152.02	156.81	156.64
Part-time Lectures FTE	43.62	45.96	45.96	45.96
Administrative Staff FTE	129.65	129.83	128.79	128.79
<b>Total Full-time Employees</b>	<b>311.45</b>	<b>327.81</b>	<b>331.56</b>	<b>331.39</b>

Part of the tuition revenue comes from completion bonuses, which are adjusted to student completions at all Danish universities as in previous years. Furthermore, from 2015 to 2020 the completion bonus per student is increased significantly each year, if the universities meet the Government target for student completion time set forward in the student progress reform.

The present Framework Budget assumes, that the student progress reform will proceed without any substantial changes. According to the Government Appropriation Act of 2015, the IT University is to reduce student completion time by 1.0 months in 2016, 1.6 months in 2017 and 2.1 months in 2018. If the IT University does not meet the target reduction, a part of the increased completion bonuses is reduced.

At present, the IT University does not expect to fully accommodate the Government target for student completion time right away. In the Framework Budget, the IT University estimates no reduction of student completion time in 2016, a 0.5 months reduction in 2017 and the target reduction of 2.1 months in 2018. If the IT University does not succeed in reducing the student completion time as estimated, the university will miss completion bonuses corresponding to DKK 2.4 million in 2017 and DKK 10.8 million in 2018.

### 3. Assumptions of student rates and FTE volumes

Table 2 below shows the rate assumptions, released with the Budget Proposal Act for 2016 used for the university's education revenue.

**Table 2: Assumptions of full-time and part-time student's rates**

<b>Rates (DKK 1,000)</b>	<b>Forecast 2 2015</b>	<b>Forecast 2016</b>	<b>Forecast 2017</b>	<b>Forecast 2018</b>
Tuition fee, MSc students	94,500	93,100	91,724	90,369
Tuition fee, BSc students	94,500	93,100	91,724	90,369
Tuition fee, exchange students	4,800	4,724	4,654	4,585
Completion Bonus, MSc students*	33,367	31,976	34,423	54,781
Completion Bonus, BSc students*	50,051	47,925	51,634	82,172
Tuition fee, part-time student (MHS)	44,600	43,800	43,153	42,515
Tuition fee, part-time student (ME)	40,700	39,200	38,621	38,050
Tuition fee, part-time student (ILM)	32,100	31,600	31,133	30,673
Tuition fee, part-time students, former rate	50,000	50,000	50,000	50,000
Tuition fee, part-time students, present rate	85,000	85,000	85,000	85,000

\*For 2015 and 2016 the completion bonuses has been adjusted according to the student completion time reduction model set forward by the Government. In 2017 the completion bonuses has been adjusted with 28.8 percent.

Table 2 above shows that the completion bonus for MSc and BSc students is expected to be somewhat lower in 2015 and 2016 due to the student completion time reduction model set forward by the Government. None the less, the completion bonus is finally set on the Supplementary Act based on the actual activity of all universities altogether. As a consequence, the bonus partly depends on the number of the IT University's students fulfilling the completion rate, compared to students from other universities.

Table 3 below shows the university's assumptions regarding student FTE production, bonus triggering MSc's and BSc's and the revenue derived hereof.

**Table 3: Assumptions regarding student FTE production, bonus triggering MSc's and BSc's etc.**

Production	Forecast 2 2015	Forecast 2016	Forecast 2017	Forecast 2018
Master of Science, FTE	777	796	740	729
Bonus triggering, MSc	133	100	96	96
Bachelor of Science, FTE	508	530	540	523
Bonus triggering, BSc	136	137	153	145
Scholarships, FTE	7	7	7	7
Exchange students, FTE	90	110	115	115
Part-time students, FTE E2010	3	0	0	0
Part-time students, FTE E2010 and forth	71	73	79	85
Part-time students, FTE ILM	29	37	42	45
Revenue from tuition (DKK 1,000)				
Revenue full-time students	122,499	124,102	118,049	113,774
Completion bonus	11,135	9,763	11,205	17,174
Exchange students	429	520	535	527
Part-time students, tuition	4,103	4,266	4,609	4,880
Part-time students, tariff	8,650	9,350	10,285	11,050
<b>Total revenue from tuition</b>	<b>146,816</b>	<b>148,001</b>	<b>144,683</b>	<b>147,406</b>

Table 4 shows the admission assumptions for the coming years, the total admission per year and the distribution of students at the different programs.

**Table 4: Assumptions of admission – students per programme**

Year	Forecast 2 2015	Forecast 2016	Forecast 2017	Forecast 2018
MSc, DDK/DKM	135	143	143	139
MSc, DIM (EBUSS)	127	120	130	130
MSc, SDT/INT	104	110	110	110
MSc, GAMES/MTG/MMT	48	50	50	50
<b>Total MSc</b>	<b>414</b>	<b>423</b>	<b>433</b>	<b>429</b>
BSc, SWU	90	90	90	90
BSc, DMD	69	66	63	59
BSc, GBI	60	60	60	60
<b>Total BSc</b>	<b>219</b>	<b>230</b>	<b>230</b>	<b>230</b>
Master and Diploma (part-time)	124	155	160	160
<b>Total</b>	<b>757</b>	<b>808</b>	<b>823</b>	<b>819</b>

#### Strategic opportunity:

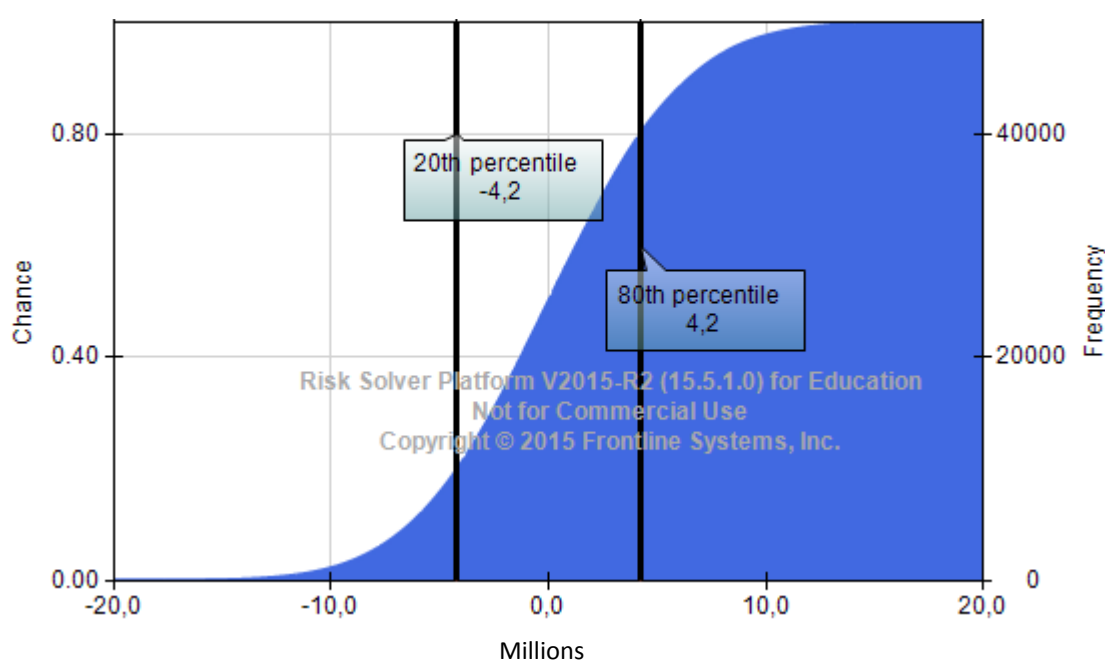
The demand for skilled IT workers in Denmark is high. Hence, the Management plans to examine the possibility of significantly increasing the admission of students on the software development programmes from summer 2016 onwards.

The next section displays uncertainties which are principally concerned with the financial year of 2016. For the forthcoming years, uncertainties will change in accordance with different factors as new uncertainties relevant to the IT University will arise.

## 4. Uncertainties related to framework budget 2016

The uncertainties, which could affect the IT University's financial framework, includes production of full-time and part-time student FTE, number of MSc's and BSc's that trigger completion bonuses, external research funding, self-insurance, financial income, Government regulation and educational reforms. Figure 1 below displays a simulation where some of these uncertainties have been compared to the Framework Budget result.

**Figure 1: Uncertainties related to framework budget 2016**



The simulation indicates that the probability of the actual result being at least DKK 4.2 million less than the budgeted result of DKK 1.8 million is approx. 20 percent. Equally, the probability of the actual result being at least DKK 4.2 million more than the budgeted result of DKK 1.8 million is approx. 20 percent.

In addition to the above stated, there is some uncertainties which are not quantifiable at this point. Most importantly, this goes for the Budget Proposal Act that the Government will present ultimo September and the final Budget Act that the Government will ratify during October and November.

The brief *uncertainties related to framework 2016* elaborates further on uncertainties included on the simulation and other at present unquantifiable uncertainties.

These uncertainties will be clarified within the next couple of months, after which a new 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.