

EUDIS Seminar: How to diversify income streams?

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Seminar outcomes

Chair: Ian Creagh, Head of Administration and College Secretary, King's College London
Chair of EUDIS Steering Committee

Speakers:

Mikel Tapia, Vice-Rector, University Carlos III of Madrid

Thomas Estermann, Head of Unit, European University Association

Adrian Graves, Registrar and Secretary, University of Salford

Kari Balke Øiseth, Director General of the Department of Research, Norwegian Ministry for Education and Research

Ramona Todericiu, Deputy Manager and Associate Professor of the Lucian Blaga University of Sibiu

Gundars Berzins, Director of Finance and planning department at the University of Latvia

Xavier Puente, Finance Director, University Carlos III of Madrid

Participants:

54 University leaders, experts and representatives from national public authorities from 20 European countries.

I. Preliminary findings from the analysis of the first dataset of the EUDIS project

Thomas Estermann, Head of Unit, European University Association

Preliminary findings of the EUDIS project are based on the first analysis of the data collected through the EUDIS online questionnaire with over 140 participating universities from 27 European countries.

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1. The data analysis shows that, while public funding accounts for about two-thirds of a university's average financial structure, universities have to manage multiple funding sources, both private and public. The main part of public funding still comes from a small number of sources, but the remaining part of the budget is highly fragmented, in some cases coming from over 100 different sources. These additional sources are increasingly performance and output oriented funding schemes and often time-consuming to secure. In particular, different and often excessively complex accountability regimes (sometimes from the same funder) lead to high costs of compliance for application, reporting and auditing. A first analysis reveals that the majority of respondents find that European funding schemes, with their heavier accountability procedures, are much more burdensome compared to national funding schemes. Qualitative data shows, though, that some countries have equally complex funding procedures.
2. Many competitive funding schemes simply do not cover the full costs of these activities and projects. With the number of these income sources on the rise, this funding gap is bound to increase, thus endangering universities' financial sustainability.
3. Universities expect this situation to become increasingly challenging as survey respondents (in the majority of countries) were pessimistic regarding public funding prospects. The two areas that are most expected to decrease are funding for teaching and funding for infrastructures.
4. Funding from the European Commission, philanthropic giving, and contracts with the private sector are expected to grow.
5. Over 80% of the surveyed universities are actively engaged in diversification of income. Those who are not either have a very high degree of diversification already, or try to expand on existing sources or lack the autonomy to do so.
6. Major obstacles to successful diversification are unfavourable regulatory frameworks (lack of autonomy), the lack of support by authorities, but also the inadequacy of the organisational structure and the low awareness among academic staff about the strategic necessity for diversification.
7. The survey reveals that current practices to diversify income include the creation of spin-off companies, targeting non-traditional learners and internal allocation mechanisms. Planned activities focus equally on internal incentive mechanisms for revenue generating activities at either departmental or individual level or the implementation of development offices.

II. Seizing regional opportunities to diversify funding and other success factors

Case study of the University of Salford, UK, presented by Adrian Graves, Registrar and Deputy Vice-Chancellor

1. The University of Salford had to reinvent itself and fully restructure its organisation without any external support. This process had been driven by a dramatic funding reduction in the 1980's and a merger without any additional funding in the 1990's which resulted in a decline in performance (according to league tables). The university rolled out a major strategic change and reform programme.
2. Major cultural changes, significant infrastructure re-alignments, investments in senior appointments from the private sector and the proactive development of mutually beneficial relationships with regional partners and national and international businesses, have all been essential elements of the strategy. The change included a move from low impact and low value partnerships towards an active development of strategic partnerships with high impact that could also drive learning and teaching as well as research and innovation.
3. The reduction of council and senate members to a manageable number has been a key element in the change process. Deans recruited through international competition are included in the top management team.
4. The restructuring and professionalisation of academic and management staff was essential to engage in an active partnership management successfully and to secure a high-scale **regional partnership** such as that with the BBC in the framework of the MediaCity project.
5. A due diligence assessed the risks involved, which were mostly financial, were the partnership to fail. The university needed to pre-finance very costly infrastructure. The project involved all faculties and was a major factor for change.
6. The strategies and actions contributed to diversify both teaching and research income, helped to drive research and innovation as well as teaching and learning and have engaged the university as a whole, thereby producing important reputational benefits.

Participants reflected in small groups on the experience of their own institutions. The following points were analysed:

- Examples of the range of development opportunities for universities in their region
- How to identify and facilitate partnership arrangements
- Optimising regional opportunities by aligning institutional values, management and governance.

The group work identified a variety of actions in diversification of income. Some examples included:

- Public-private partnerships with local and regional governments in a region that needed to reduce the high unemployment rate. Universities took the opportunity to help in the transformation towards a more knowledge-based economy. Funding came from the public authorities and the university provided the knowledge
- Lifelong learning activities, in particular in medical teaching
- Integration of a partnership with an external language course provider in the framework of an internationalisation strategy
- Engagement of students in social partnerships

Key outcomes:

- Universities need to apply a **proactive approach** in diversification and partnership building
- It is essential to identify **areas of mutual benefit** with local and regional partners
- The **academic community** needs to be engaged in the diversification strategy and its actions
- Partnerships with broader implications need to be incorporated **across the whole institution**
- Communication strategies need to enhance the awareness that the university is **creating value** for external stakeholders
- **Restructuring of governance and management** is a crucial success factor and needs to be part of the diversification strategy
- **Training and development of staff** and recruitment of skilled staff is a crucial success factor
- Resource allocation models need to provide **incentives** for income diversification

III. External incentives to diversify income

Case study: the Norwegian “Donation Reinforcement Programme”, by Kari Balke Øiseth, Director General of the Department of Research, Norwegian Ministry for Education and Research

1. The **matching funds scheme** was implemented in Norway in 2006. It was set up to foster philanthropic giving to universities, which has traditionally remained low in a country where universities are perceived as government agencies. Through this scheme, the state matches donations exceeding €0,35 million at a level of 25%. The programme is considered successful and has doubled philanthropic funding in Norway since its introduction. During the establishment of the programme the government had to argue why basic research (in Norway seen as public funding responsibility) should be partly funded privately.
2. A main objective for the programme was to keep the application and decision-making procedures as simple as possible. Decisions are usually made within 3 weeks.
3. Norway did not consider including a tax incentive measure in this programme.
4. The government made clear that this scheme would not lead to a reduction of other public funding, and that these resources were additional.

Panellists and participants reflected on the presentation in relation to their own countries with the following key messages:

- Simple rules are key for acceptance
- Tax incentives can provide an additional leverage effect
- Widening of the programme towards applied research or donations for other university activities have an even greater effect
- Small specialised government programmes can lead to a distorting effect in the institution (setting of wrong priorities)
- Some forms of endowments can also lead to challenges in the future. Endowed chairs (professorships) sponsored for a number of years (usually around 5 years) need to be funded for the remaining time from the institutions’ resources. Calculations need to be made over the whole lifecycle of the endowment.

Key outcomes

- Fundraising is a long-term investment and effort
- Increase in income from fundraising activities cannot counterbalance reductions in public funding or cuts in relation to the economic downturn
- Fundraising requires the commitment of the university leadership
- If tax benefits exist they need to be better communicated

IV. Challenges and complexity of multiple funding streams

European structural funds

Case study of the Lucian Blaga University of Sibiu, presented by Ramona Todericiu, Deputy Manager and Associate Professor

1. Romanian Higher Education has undergone tremendous changes to reform a highly centralised, unbalanced and under-funded system.
2. This modernisation process is still ongoing; Romanian universities have been given more extensive financial autonomy, which has required bringing into the institutions the necessary financial management skills. This has been accompanied by deep financial restructuring, with state authorities contributing to about only 50% of the budget of public universities, which is lower than the European average. Universities are responsible for attracting the remaining funding sources, and are therefore concerned with identifying such sources to balance the state's reduced contribution.
3. While tuition fees, attracting foreign students, or collaboration with private companies are traditional ways to diversify income, significant funding also comes from **European structural and cohesion funds**.
4. However, access to and management of these funds proves problematic in many ways. The lack of communication between the authorities and the applicants, the lack of project management skills, the complex bureaucratic procedures are elements that strongly disadvantage the institutions with fewer resources and represent a significant burden for all institutions.
5. Moreover, universities find it increasingly difficult to secure co-financing from other sources to engage in these projects.
6. Universities often lack the ability to integrate the use of structural funds in their institutional strategy.

Participants discussed the experience with European structural and cohesion funds in their own institutions.

Key outcomes:

- Applications and management of projects from structural funds are amongst the most complex and come with a high level of complexity of administrative procedures and excessive amounts of documentation
- Structural funds are implemented differently depending on the region, which creates a greater administrative burden for universities (one participant dealt with up to 4 regions)
- The high costs of managing these projects in addition to the co-financing mechanisms make structural funds an unattractive option for diversification
- Participants call for a drastic rethinking of those funds

Multiple funding streams

Case study of the University Carlos III of Madrid, presented by Xavier Puente, Finance Director

1. The University Carlos III of Madrid is a young institution. 70% of its funding comes from grants and agreements with the regional government, the majority of which is distributed on a competitive basis. However, each year funding cannot fall below the funding allocated the previous year. The funding criteria include multiple indicators (22 for the category “objectives”) and some categories have yet to be implemented.
2. Student fees represent an income source over which the university has little control as these are fixed by the regional government (except for fees at Master level).
3. The university’s income diversification strategy includes specific cooperation focused on excellence with public authorities or private companies (such as the Excellence Professors Programme) or the creation of programmes taught in English with high potential for external funding (i.e. medical engineering).
4. New activities include the creation of an alliance with other institutions with similar profiles, further internationalisation, and the use of flexible tuition fees for non-EU students.
5. However, the university operates in an increasingly difficult context as public funders foresee budget cuts in higher education and delays in due payments to the institution.
6. The management of these diverse income streams raises a number of problems. Multiple funders implement different eligibility criteria, require heavy and diverging financial reporting mechanisms, and more often than not impose late audits (some times more than five years after completion of the project). This calls for simplified grant management.
7. Suggestions for reflection include: the call for common (or less diverse) eligibility terms; a common, simple, but acceptable database for researchers’ CVs; reduction of paperwork; lighter technical reports; only one expenses statement instead of several different ones; acceptance of one audit by other funders and restrictions to research procurement.

Key outcomes:

- Funders need to take action to streamline eligibility conditions and accountability requirements in order to reduce the administrative burden on universities
- There is an urgent need to reform European funding schemes as well as some national schemes
- Professional management by a stable, committed leadership team is a key element for the successful implementation of an income diversification strategy

V. Challenges and opportunities of the economic downturn

Monitoring by Thomas Estermann, Head of Unit, European University Association

Case study of the University of Latvia, presented by Gundars Berzins, Director of Finance and Planning Department

1. Together with its collective members, the National Rectors' Conferences, and selected public authorities responsible for funding universities, EUA monitored the effects on public policy, public funding, private funding and students' reactions. This revealed that, though budget cuts in public funding have become a general trend, there is a great diversity of situations in Europe. In the short term, universities in some countries benefited from stimuli packages. In this context it was also found that adopting a proactive approach is crucial. This includes the need for improved communication strategies towards public authorities and society in general as well as a sometimes challenging internal restructuring.
2. Depending on the national context the economic downturn calls for an institutional response from the universities. This can take place in the following fields: institutional strategy; management, skills and training; organisation and processes; communication.
3. Apart from the obvious challenges involved, in a number of cases, the economic crisis is also proving to be a period of innovation at institutional level, enabling universities to re-prioritise and focus their activities.
4. A detailed case study of the University of Riga showed that Latvian universities are in a very critical situation. The government has cut the 2009 budget for higher education so that it now barely represents 35% of the initial plan. Universities have embarked on a "survival strategy", which has resulted in the difficult task of reducing costs in the fairest manner throughout the university, without endangering regeneration of the activities, in a context of falling student enrolment. All infrastructure investment has been put on hold.
5. Internal communication is a key element within this process which involves salary cuts and increased workloads, as well as major restructuring of academic programmes. The crucial issue lies on how to come out of this difficult situation without damaging a long-term development.

Key outcomes:

- In many European countries, the economic downturn is having an impact on the authorities' commitment and ability to fund higher education and research
- The crisis calls for universities to establish coordinated, strategic institutional responses
- In this context, income diversification becomes a necessity but is hindered by the lack of available alternative sources
- More detailed information on www.eua.be/eudis

Panelists concluded that now was the right time to reduce bureaucracy; in a context of economic crisis, it is especially relevant to ensure that all the money spent on higher education effectively goes to teaching and research.

Authorities have also an important role to play in equipping universities with the necessary management tools to take a proactive approach to income diversification. Internally, higher education institutions need to define clear strategies supported by their leadership and management teams, to which they must associate all categories of staff. Diversification imbedded in the universities' strategy also needs to foster a culture change in the institution. Creating a sense of purpose and fairness will help undertake the necessary long-term steps to start building the structures and skills to generate and diversify income. In order to achieve that, universities need to understand and implement a professional stakeholder management and proactively define themselves as partners for authorities and the private sector.

VI. Key issues and Recommendations

Universities activities:

- Diversification needs time and investment
- Invest in institutional human capital to further enable institutions' capacity and competence to engage in income diversification
- Establish and nourish strong leadership and management
- Create a professional stakeholder management
- Cultural change needs to include soft factors
- Increase the use of untapped potential within the universities

Government and funders activities:

- Diversification cannot and should not replace public funding
- Universities need to have the right framework conditions – autonomy in particular in financial aspects, human resource management and design of governance structures and leadership development
- In reviewing Higher education regulation, consider the incentives/disincentives for income diversification
- Necessity to simplify funding rules in order to reduce costs
- Establish funding incentives to engage in partnerships and foster donations from private sector

European Funders:

- Simplification of funding schemes needs to be turned from a political will into reality
- Need to reform structural funds to increase their attractiveness
- Co-financing requirements can put institutional sustainability at risk and need to be gradually replaced by funding on a full cost basis
- Engage with Government and funders to create incentives for governance and autonomy reforms and further income diversification