EUA PUBLICATIONS 2011

Financially Sustainable Universities II

European universities diversifying income streams

Thomas Estermann & Enora Bennetot Pruvot

EUA
European University Association

Education and Culture DG
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With the support of the Lifelong Learning programme of the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

ISBN: 9789078997245

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EUA European University Association
HUMANE Heads of University Management & Administration Network in Europe
IHF Bayerisches Staatsinstitut für Hochschulforschung und Hochschulplanung

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Foreword

Financial sustainability is one of the key challenges for Europe's universities and this project report is another milestone of EUA's work agenda on this topic. While universities need to understand better the full costs of their activities and should maintain a reasonably diversified income structure, it is clear that financial sustainability cannot be achieved without sufficient and sustainable public funding.

The EUDIS project provides an analysis of the status of income diversification in European universities and identifies the external and internal hurdles to the development of successful income diversification. It identifies best and transferable practices that improve the framework conditions for universities and their ability to act strategically in this area.

The current drastic pressures on higher education budgets across Europe make this report a timely contribution to the ongoing debates on how to fund universities' activities, by looking in particular at the potential of complementary income sources.

Significantly, the project reveals that public authorities play a key role in supporting income diversification by providing the right framework conditions, removing barriers and setting the right incentives. Granting more institutional autonomy, simplifying national and European funding and moving towards funding on a full cost basis are among the most important actions to set these right conditions.

Funding incentives such as matched funding schemes can play a very important role to increase private investment in higher education, but are still a much underused tool. We hope that the best practice examples of this report will encourage policymakers to establish similar schemes.

The study also confirms the crucial importance of leadership and management in implementing a successful diversification strategy and calls for support and investment to help in the development of these capacities.

Finally, I would like to thank the partners of this project, and all the universities who dedicated so much time and effort to provide data and expertise to this project.

We look forward to further assisting Europe's universities in their efforts to achieve the financial sustainability necessary to fulfil their academic missions and wider role in society.

Professor Jean-Marc Rapp
EUA President

Acknowledgements

The analysis and recommendations of this report are based on a wide range of data collected through complex questionnaires, workshops, conferences and site visits. EUA is deeply grateful to the many persons in universities who agreed to contribute to this project, in particular those who filled in the main questionnaire and those who hosted site visits which provided crucial qualitative information.
We are grateful to the partners of the project, the Heads of University Management and Administration Network in Europe (HUMANE), the Bavarian State Institute for Higher Education Research and Planning and the University of Bologna for agreeing to join EUA in this endeavour and their continuous support over the two years of the project.

EUA would like to thank the Steering Committee members for the time and expertise they dedicated to the EUDIS project[1]. Their multiple perspectives as a team proved to be invaluable to help tackle the complexity of this project, to identify key issues in their countries and to conduct the site visits. From the beginning, their enthusiasm, commitment and critical reflection on the analysis and conclusions were crucial success factors.

We are in particular indebted to Ian Creagh, Chair of the Steering Committee, for his extraordinary commitment to the project, for leading the workshops, a number of site visits and the final conference to a successful outcome, for his invaluable comments on drafts of this report and his good spirit throughout this challenging project.

Enora Bennetot Pruvot, co-author of the report, deserves particular acknowledgement for being at the heart of the EUDIS project. Her dedicated work in the data analysis, the preparation of all project events, the study visits and bringing together all the complex information ensured the success of the project.

Finally, EUA would like to acknowledge the financial support of the European Commission Directorate-General for Education and Culture, who co-funded this project under the Lifelong Learning Programme.

Thomas Estermann
Head of Unit

[1] *See the Annex for the detailed list of the Steering Committee members as well as participating institutions.*

Executive summary

Introduction

1. Financial sustainability is one of the key challenges for Europe's universities and therefore constitutes the focus of the present work conducted by EUA and its partners. The European Universities Diversifying Income Streams (EUDIS) project follows EUA's first study on financially sustainable universities, which looked at the development of full costing in European universities and the ways to improve their capacity to identify better the full costs of all their activities. Maintaining a healthy degree of diversity in the funding structure is another important step for universities to achieve financial sustainability.

2. The EUDIS project understands income diversification as the generation of additional income (through new or existing funding sources) that contributes to balancing the income structure of the institution. It is a tool to achieve financial sustainability, if the conditions in which the universities operate allow and require it. In turn, financial sustainability aims to ensure a university's academic goals are reached by guaranteeing that the institution produces sufficient income to enable it to invest in its future academic activities.

3. This study considers the distribution and diversification of funding sources in general and in particular within the categories of public funding and of additional (other) funding sources. The latter includes income generated from contracts with the private sector (research contracts and education-related activities), philanthropic funding, income generated by the provision of services (rental of facilities, residences, catering, consultancy, libraries, museums...) and income through financial activities.

The status of diversification

4. Direct public funding continues to be the most important income source for universities in Europe, representing, on average, close to three quarters of an institution's budget. Direct public funding mostly comes to the university as a block grant. Public authorities tend to resort to funding formulae for this purpose, which increasingly include performance criteria. In parallel, public authorities increasingly tend to use competitive and targeted funding, a trend which has been exacerbated by reduced investment capacity. Co-funding requirements, whereby institutions are requested to finance part of the activities, are also becoming more frequent, putting an additional strain on universities' core resources. Universities largely expect public funding for teaching to decrease over the coming years.

5. Student financial contributions, or fees, represent a significant income source in some countries. Their importance varies greatly however, depending on the legal framework in which universities operate. While in many European countries universities can charge fees for some groups of students, their level is often regulated by the state and in some cases contributes only a small percentage to a university's income. Student populations are often segmented according to academic level or different criteria (national origin, on-campus or distance studies, part-time or full-time, language of classes, etc), painting a complex picture across Europe. Student financial contributions have the potential to constitute a large income source, considered by those who can charge them as fairly predictable and giving the university the ability to invest over the long term. Although different perceptions and traditions exist across Europe on the inclusion of fees in the funding model for higher education, the debate is gaining relevance in most countries – especially in view of the economic downturn – and will continue to be at the heart of the debate around funding models for higher education in the coming years.

6. Additional sources represent more than 10% of the budget of a majority of universities. Institutions expect to receive more income from more sources in the future. This particularly includes philanthropic funding, with many universities across Europe developing their fundraising capacities. While foundations are the universities' main partner in this context, companies and alumni are also getting more involved. Generally contracts with industry generate more income than fundraising, especially through contractual

research (5-7% compared to 3-4%). Income raised from the provision of services averages 4% of a university's income structure, but the ability to generate such funds is highly differentiated across Europe. Autonomy, experience and expertise to provide consultancy or facility-related services play an important role in generating such income.

7. The European Union offers non-negligible income to many universities mostly through structural funds and its Framework Programme for Research and Development (4% on average). Universities widely expect to receive more income from this source in the future, although substantial increases of the amounts available are unlikely to occur in the coming years. Competition among universities for this funding will therefore become more acute, in a context where traditional income sources are expected to stagnate or decrease.

Autonomy and income diversification

8. The capacity of universities to generate additional income relates to the degree of autonomy granted by the regulatory framework in which they operate. This relation was tested for the organisational, financial, staffing and academic dimensions of autonomy. The data collected revealed that financial autonomy, which is perceived as the lowest of these four aspects, is the most correlated with the capacity of the universities to attract income from additional funding sources. Autonomy in staffing matters, and in particular freedom in recruiting and setting salary levels of academic and administrative staff, is also positively linked to the degree of income diversification.

9. However, while policymakers themselves see autonomy reforms as an important driver to foster income diversification, accounts by those university leaders interviewed concur in considering autonomy more as a pre-requisite. Conversely, diversified income structures may also contribute to enhancing the autonomy of an institution, mitigating the risks associated with dependence on a given funder. Additional resources enable universities to invest strategically in otherwise overlooked areas, helping to unbind institutional priorities from external objectives.

10. Universities identify a number of hurdles in their regulatory framework that hinder income diversification. Inadequate governance structures and the inability to change them, financial restrictions as to the funding cycle, or inflexible staffing regulations impede universities from exploiting their potential and develop new funding streams.

Breaking down barriers to income diversification

11. Inadequate funding modalities may have a negative effect and create powerful disincentives for universities to seek additional funding sources. An excessive administrative burden and uncertainty associated with these sources – whether public or private – is one hurdle, which is especially relevant in the context of competitive funding schemes. Simplification of administrative processes and requirements associated with funding programmes is therefore of key importance. Simplification of rules will ensure that both financial and human resources are released for the primary objectives of excellent teaching and research. This should be underpinned by proportionate accountability measures as well as consistent rules and terminology across programmes.

12. This study identifies the frequency of co-funding requirements as possibly the major obstacle to income diversification in higher education institutions. This type of mechanism, whereby a funder only finances part of a given activity, often results in the university having to match the missing funds from its core budget. Not only does the main public funder tend to resort increasingly to co-funding modalities, but so do other complementary funders. Indirect costs are, as a result, systematically underfunded, adding pressure on the institution's financial sustainability over the long term. Co-funding is therefore a risk associated with income diversification. However, solutions to compensate the institutions for this funding gap become exceedingly complex to engineer in a highly integrated international environment. The only sustainable option is therefore to generalise funding on a full cost basis.

European funding schemes

13. European funding schemes are among the most complex funding programmes available to universities. European structural funds and the Framework Programme for Research and Innovation are the two main sources of European funds for higher education institutions and present similar characteristics. The diversity of instruments and associated rules, the heavy administrative processes and accountability requirements, and finally the systematic use of co-funding deter a growing number of universities from participating in these programmes. However, in a context of stagnating national funding, not many universities can afford to disregard such schemes, even under unattractive funding models. This, in turn, will broaden the funding gap of their research activities.

14. In some countries, public authorities have developed mechanisms to support universities applying to European funding programmes, for instance funding the preparation phase of a project or by providing the missing part of the funding. However, if such schemes are not coordinated among member states, they may contribute to creating an unlevel playing field for universities across Europe, with some countries providing more comprehensive support than others. Simplification of rules and procedures as well as moving towards funding on a full cost basis of these schemes appear as the only sustainable solution in the long run.

Support and incentives to income diversification

15. Matched funding schemes, whereby public money comes to match money raised from the private sector by the university, are seen by universities as a desirable incentive mechanism to foster income diversification. These schemes are or have been used in countries such as Canada, the USA, and New Zealand, but remain the exception in Europe. Modalities may be diverse but these measures have often proved their effectiveness in increasing the participation of the private sector in higher education through philanthropic funding. Key principles for success include simplicity of rules, broad definition of university activities and types of donors eligible for matched funding and a guarantee not to reduce core funding. Accompanying tax incentives and capacity-building funding are desirable for an even higher leverage effect.

16. Leadership, management and skill development matter enormously when developing a successful income diversification strategy, in view of the transformations reshaping higher education in the last decade. Public authorities can support this transition by providing, directly or through intermediaries, management development programmes. However, the United Kingdom is the only European country that has invested significantly in the creation of a dedicated structure which promotes a culture of organisational learning and champions examples of excellent governance and management in British universities.

17. Public authorities also influence income diversification strategies through the modalities under which they deliver funding to the universities. An incentive may be the inclusion of specific criteria in funding formulae, encouraging external funding, or the extended use of competitive funding. It is important though, if such criteria are used, to include mechanisms to counterbalance the effects of co-funding, for example through top-up grants. Funding formulae may have a direct, intended effect (through the inclusion of the amount of external funding received by the institution in the funding formula), or a knock-on effect due to the attraction of international staff and students as a result of successes in excellence initiatives.

Drivers of income diversification

18. Universities face external challenges, such as pressures on public budgets, globalisation and internationalisation of higher education, which increase competition but also provide new opportunities for activity expansion. These evolutions also drive institutions to seek additional funding from other sources. Income diversification may be strategically used to develop activities and respond to new missions, as it may reinforce the position of an institution on the local, national or international stage by supporting its competitiveness.

19. Risk management constitutes a major driver for income diversification for universities in Europe. The perception that it is necessary to spread financial risks is commonly shared among universities, especially in the light of the consequences of the economic crisis and on the basis of pessimistic expectations regarding future trends in funding coming from "traditional" sources. Developing additional funding streams becomes necessary to mitigate negative consequences of a sudden drop in income or to fuel further growth of the institution's activities.

20. Universities also tend to approach income diversification as a means to gain more flexibility in their internal financial management. Income generated by the institution often responds to different rules in terms of allocation, types of use allowed, etc. There is a commonly shared perception that additional income sources may involve fewer administrative requirements, although this is not necessarily so in reality. High fragmentation of public funding exacerbates this issue, with different public funders often having complex and different rules and requirements. This demands swift action by public authorities to streamline funding modalities across the different funding entities.

Internal obstacles to income diversification

21. Inadequate structures and decision-making processes hamper universities' income diversification efforts. This ranges from large, inflexible governing bodies to the distribution of tasks and chains of communication between the central level and the faculties. While the legal framework may impede major changes, universities have the possibility to turn to other options to create more efficient structures to support diversification. The fragmentation of human resources and expertise relevant to income diversification – for instance contacts with philanthropic funders – creates additional difficulties. Finally, the unevenness of income generation possibilities across faculties is also something that needs to be properly addressed at central level so as to defuse internal tensions.

22. Rethinking the distribution of tasks and integrating new staff profiles in the university is necessary to foster income diversification. This includes upgrading research administration services and creating fully-fledged fundraising structures. The creation and development of science parks and spin-off companies also constitutes a priority for many universities, calling for adequate internal support. Universities also increasingly seek to reach non-traditional student populations to develop a new range of activities that can be priced closer to market value.

23. The various communities that make up a university look at income diversification from different angles. The perception that there is a need to develop activities that can sustain the academic mission of the institution remains limited, while a common concern lies in the fear that pursuing additional income would infringe on the academics' autonomy or distract them from their core research and teaching missions. It is therefore essential to ensure that the income diversification strategies and activities of the institution are in line with its mission and profile. But it is equally important to communicate within the institution the need for a sustainable funding base of the university's activities.

Full costing - Understanding the costs of all activities

24. Strategic tools are available to universities to achieve financial sustainability. As a first step, universities must be able to identify the full costs of all their activities, to assess the degree to which these costs are covered by the funding source, and whether engaging with a given partner results in a profit or a loss for the institution. This should inform the decision without conditioning it: pursuing an activity may be relevant if other sources can be found or if a return of investment can be foreseen in the long term. The information provided by full costing systems also further allows universities to adopt appropriate efficiency measures.

Efficiency measures

25. Efficiency measures contribute to freeing up resources that can be reallocated into strategic investments. The average cost structure of a European university is mainly composed of personnel costs – usually from 60% to 90% – leaving a rather limited margin of manoeuvre for the universities (considering

the relatively modest staffing autonomy of most universities); however, there is scope for increasing efficiency and therefore releasing resources. Crucially, any measure intended to reduce costs must take into consideration the quality of services and academic standards. The project identified potential in the area of "services and management", through both internal measures as well as through cooperation.

A strategic approach to income diversification

26. Diversification should begin with a strategic analysis of the status quo, the institutional strengths, specificities and opportunities, as well as a scan of the competitive environment. Pre-existing additional income streams should be included in the overall evaluation. Apart from undertaking an appropriate analysis of cost effectiveness and risk of various activities, institutions need to assess the appropriateness of these activities in relation to the universities' mission and culture.

27. The university leadership's commitment to this process is of crucial importance. The leadership is best placed to project a vision and build the case for diversification activities, as well as engage the broader university community in the process. University leaders also play an important role in shaping the necessary change processes related to diversification, be it a cultural change or an organisational change.

28. Many activities to increase and generate new income sources need new expertise, which does not necessarily always exist within the institution. Universities may recruit professionals from outside the sector or invest in the development of staff to acquire these skills. When external staff is recruited, it is important that they understand the specificities of the research and education environment or are integrated in an established team. Professionalisation is relevant at all levels, including human resources management, knowledge transfer activities, research administration, financial management, etc. A gradual approach to structured development of staff capacity may be best adapted considering the fact that the potential to invest in human resources is reduced in times of financial constraints. Given the high relevance of building up these skills for successful income diversification however, targeted support from governments towards this end would have a high leverage effect.

29. The success of income diversification strategies largely depends on the ability of the institution's leadership to communicate effectively with the university community as well as with external stakeholders. Universities need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options. External communication should also contribute to reinforcing the image and specific profile of an institution. Communication can also usefully be undertaken at sector level, upholding the value of higher education for the wider economy.

30. Those universities that have adopted a broader approach to income diversification have usually accompanied this with structural changes in the institution – creation of specific teams or dedicated structures, including streamlining governance bodies for more efficient decision-making. These processes are informed by adequate tools including accounting and costing data. Finally, the leadership, on the basis of all of the above, may embed appropriate incentive mechanisms in its strategy, focusing on staff or faculty level (consultancy credits, income-sharing terms, modalities of spin-off creation).

Efficient stakeholder management

31. Universities need to adopt a structured approach to stakeholder management, be it through its contractual relations with industry or with philanthropic funders. In the latter case, foundations are the most important partner for universities. Foundations have a lot to offer to the higher education sector, especially in terms of innovative funding channels, risk tolerance and support of cross-disciplinary approaches. It is fundamental however that these funds are not seen as a substitute for public funding – therefore foundations should make it a priority to adopt approaches that are different to those of public funding agencies. Public authorities have a role to play in fostering partnerships between universities and foundations, by setting the adequate regulatory framework for interaction (financial autonomy, tax incentives and matched funding schemes).

32. Besides public authorities, the universities' main partner remains the business sector. The project has shown that several models for cooperation exist, and that moving from a project-based collaboration to long-term structured strategic partnerships remains a challenge for most universities. The choice of the cooperation model should result from a careful analysis of the assets of the university but also from the opportunities offered by its local and regional environment, including its socio-economic characteristics, demographic trends, etc. Universities can also be proactive in generating their own corporate networks by contributing to the development of start-up companies.

33. Advantages of collaboration with industry include transparent relationship management models, facilitated interaction with the business community (entry gate), and the implementation of customer-oriented management. The challenge for universities is to move away from "isolated islands of activity" towards a university-wide, inclusive approach with their partners. These types of activities also require that universities ensure consistency between their core mission and the external funds being pursued. Universities should be wary of placing an excessive focus on short-term cooperation to the detriment of basic research. Legal matters such as intellectual property rights and compliance with the partner's communication and recruitment policies may represent additional challenges.

Impact of the economic crisis and funding trends

34. The results of EUA's continuous monitoring of the crisis clearly show that European higher education systems have been affected very differently and at different stages of the crisis. It has become clear however that few higher education systems have been unaffected. Latvia and the United Kingdom are emblematic cases, with extensive cuts in public funding, but the situation is also alarming in a number of other European countries. While institutions in most countries still report being faced with uncertainty and expect further – and possibly deeper – cuts to come in the forthcoming months and in the years following 2010, the example of England tends to prove that cuts are likely to have a significant restructuring effect in many higher education systems around Europe. As governments struggle with austerity measures and balancing their deficits, the full extent of effects on higher education systems around Europe still remains to be seen. Furthermore, the cuts in public spending tend to translate into higher education budgets rather later as a result of different budgeting periods.

35. Public funding is not only diminishing in many countries, but also changing in the nature and form in which it is provided to universities. It is increasingly subject to conditions for its allocation or accompanied with growing accountability requirements. This has given public authorities increasing steering power over universities, which can have counterproductive effects as it can significantly contribute to reducing universities' autonomy and their capacity to manage their own funds freely. Such developments are worrisome as they can hinder universities' capacity to successfully overcome the crisis. The universities' ability to respond effectively to the ongoing economic situation has largely depended on the level of their institutional and, more especially, their financial autonomy.

36. The relevance and acuteness of the funding question clearly appear as key features of the upcoming reforms in the European higher education landscape. To provide some solutions for the challenges identified in this study, all actors – including national and regional governments as well as European funders and universities – will need to take on their role to lead the path towards financially sustainable universities. This project proposes a set of recommendations to each type of stakeholders to enable them to do so.

Definitions

Additional income/funding streams: All sources other than direct national/regional public funding and student financial contributions are considered in this report as "additional funding streams" or "additional income sources". It includes income generated from contracts with the private sector (both research contracts and education-related activities), philanthropic funding, income generated by the provision of services (consultancy, rental of facilities, residences, catering, libraries, museums...) and income through financial activities. It also considers efficiency measures.

Block grant: financial grants meant to cover several categories of expenditure such as teaching, ongoing operational costs and/or research. Universities are responsible for dividing and distributing such funding internally according to their needs (the flexibility may be curtailed by minor restrictions).

Co-funding: in this report refers to funding for which the main funder requires the beneficiary institution to raise a proportional amount of the full cost of the activity or project being funded, from its own budget or another public or private source.

Competitive funding: funds allocated to institutions through competitions following applications (proposals) submitted to a competitive selection process. These funds are usually attached to a project or are targeted towards the achievement of specific objectives or priorities defined by the funder.

Cost sharing: Cost sharing in higher education refers to a shift in the burden of higher education costs from being borne exclusively or predominately by government, or taxpayers, to being shared with parents and students[2].

Full costing: the term "full costing" refers to the ability to identify and calculate all direct and indirect costs of an institution's activities including projects.

Funding formula: algorithm based on standard criteria to calculate the size of public grants to higher education institutions for teaching and/or ongoing operational activity and, in certain cases, research. Criteria include input components and/or performance indicators.

Income diversification: generation of additional income (through new or existing funding sources) that contributes to balancing the income structure of the institution.

Indirect costs: costs that have been incurred for activities, but which cannot be identified and charged directly to each individual activity. A similar term is "overhead".

Lifelong learning activities include the following (whether credit-bearing or not):
- Continuing education for adults
- Professional development courses for those in employment
- Pre-bachelor preparatory courses
- Bridging courses to Master's level
- Courses for senior citizens
- Distance learning courses
- Special support and counselling services for lifelong learning students

Matched funding scheme: initiative from public authorities whereby public money comes to match money raised from the private sector by the university (on a 1 to 1 ratio or on a lower ratio, not necessarily within the framework of a project).

[2] Johnstone, Bruce D. *Cost Sharing in Higher Education: Tuition, Financial Assistance, and Accessibility in a Comparative Perspective,* Czech Sociological Review, 2003, Vol. 39, No. 3.

Philanthropic funding: funding obtained from foundations, corporate donors, or individuals acting independently from government and for the public benefit by supporting the university's activities through grants or non-financial means (donation of land, buildings…) or by operating their own programmes.

Project-based funding: universities apply for funds and the application is estimated on the basis of meeting the set of criteria and/or on the basis of competition between other institutions.

Student financial contributions: is a generic term including both "tuition fees" as annual contributions paid by students to cover all or part of tuition costs in higher education; and "administrative fees", as contributions of students to different administrative costs (entrance fees, registration fees, certification fees).

Targeted funding: funding earmarked for the achievement of specific goals set by the public authorities. It may be allocated through competition or directly attributed to the university. Co-funding requirements may apply.

1. Introduction

Financial sustainability will be one of the key challenges for universities in the next decade: only those institutions that have sound financial structures and stable income flows will be able to fulfil their multiple missions and respond to the current challenges in an increasingly complex and global environment. Indeed, financial sustainability is not an end in itself; it aims to ensure a university's goals are reached by guaranteeing that the institution produces sufficient income to enable it to invest in its future academic and research activities. Income diversification is a tool to achieve these goals if the conditions in which the universities operate allow and require it, taking account of the diverse contexts.

EUA's recent work has identified three basic pillars, both complementary and interdependent, that are essential to ensure financial sustainability and fulfil the missions of the universities:

I. Universities should be able to identify and understand better the costs of all their activities and projects

II. Universities should maintain a reasonably diversified income structure to mitigate risks and enhance autonomy

III. Universities need sufficient, reliable and sustainable public funding with appropriate accountability mechanisms.

The massification of higher education, additional and tougher accountability requirements, new societal demands on institutions, and rising costs of human resources (pension costs, etc.) are only some of the triggers for increased costs that universities are confronted with.

While a majority of universities in Europe are not able to fully take into account those costs because, as EUA's 2008 study "Financially sustainable universities: Towards full costing in European Universities" revealed, they cannot properly identify them, a rising awareness and knowledge of the full costs has also exposed the underfunding of teaching and research in a number of countries.

In parallel, prospects are poor to see public funding catch up with these trends. One of the reasons for this is that higher education and research have to compete with other priorities in public budgets (security, health, etc.) in a context of constrained resources. Despite declarations of commitment from ministers to confirm higher education as an area with public responsibility (Leuven/Louvain-la-Neuve Communiqué 2009:§4), it is not very likely that public expenditure will grow sufficiently to close this widening funding gap. The financial crisis, which started in 2008, and the continued economic downturn have furthermore forced many European governments to decrease the levels of investment in higher education, putting universities' finances even more under pressure.

All of the above calls for universities to take urgent action to preserve their financial sustainability. With the EUDIS project, EUA and its partners are seeking to contribute to the development and enhancement of European universities' financial sustainability, in particular by looking at what needs to be done to foster the increase of additional funding sources.

The EUDIS project forms the second part of EUA's work on the topic of financial sustainability of European universities. It was carried out between October 2008 and January 2011 and co-funded by the European Commission, Directorate-General for Education and Culture under the Lifelong Learning Programme. EUA has partnered with the Heads of University Management and Administration Network in Europe (HUMANE), the Bavarian State Institute for Higher Education Research and Planning and the University of Bologna to take a look at diversification of income in European universities from an institutional perspective. The project results seek to inform national, regional and European policy makers on how best to facilitate a sensible diversification of income streams and to provide useful examples of best practice for universities to apply successful diversification strategies.

It is crucial to stress that income received from additional funding sources cannot replace sufficient public funding. The analysis of the state of play in terms of income diversification shows that the potential to increase additional income sources within a short period is limited, while certain reductions in public funding contribute to widening a gap that additional income sources cannot be expected to close.

It is therefore necessary that all actors, universities and their funders work together to develop the basis for a sound financial future of Europe's universities.

1.1 EUA's work on financial sustainability

Since 2006, EUA has been conducting ambitious research on universities' financial sustainability. In its 2007 Lisbon Declaration, EUA stressed its commitment to "identifying supplementary revenue streams for universities and to promoting modes of governance that support optimal transparency in financial management." In parallel, the first study "Towards Full Costing in European Universities" analysed the ability of universities to identify the full costs of all their activities and identified a need for support in the development of full costing[3] in Europe's universities.

Through this project, it has become clear that full costing allows universities to take a more systematic approach to activity analysis and costing; it improves internal resource allocation, strategic decision-making based on a better understanding of investment decisions and benchmarking possibilities. Finally, it enhances the institution's ability to negotiate and price activities, which leads to higher recovery of project costs and thus contributes to financial sustainability. Building on this experience, a strand of the project "European Universities Implementing their Modernisation Agenda" (EUIMA-Full Costing, 2009-2011) looks to fostering the development of full costing in European universities with a variety of activities.

EUA has also explored the issue of funding in relation to institutional diversity in a recent report[4]. This study demonstrates that parity of esteem among different institutional types or missions can only be possible if a variety of funding incentives are available and if there is significant funding to support the expanded functions.

Equally, financial sustainability has played an important role in EUA's work on university autonomy. In the framework of the project "Towards Full Costing in European Universities", a small pilot sample was used to analyse the link between institutional autonomy and income diversification. EUA's work "University Autonomy in Europe I: Exploratory Study"[5] further showed that the ability to allocate and manage financial resources freely, to establish partnerships and raise income from the private sector are crucial elements to ensure a university's long-term financial health.

This study forms the basis of the Autonomy Scorecard[6], a two-year project (2009-2011) that aims at developing a benchmarking tool for university autonomy (on the national level) across Europe. Where possible and relevant, the present report makes use of the preliminary findings of this project.

In its 2009 Prague Declaration, EUA and its members identified ten key success factors for European universities in the next decade. One of them states the importance of *"increasing and diversifying income: to achieve financial sustainability, by implementing sound accounting practices that identify the full costs of all activities, diversifying the income portfolio and securing adequate public funding, thus providing the basis to fulfil the university's core missions over the long term."*

Also of high relevance to the topic of financial sustainability, EUA's work on the **simplification of funding** programmes has provided input to the present analysis. This work seeks to identify inappropriate

[3] See Definitions, p.14.
[4] EUA, by Reichert S., *Institutional Diversity in European Higher Education – Tensions and challenges for policy makers and institutional leaders,* 2009.
[5] EUA, *University Autonomy in Europe I: Exploratory Study,* 2009.
[6] More information on the Autonomy Scorecard project is available on EUA's website.

accountability mechanisms for national and international public funding and suggests alternative adequate rules and regulations of funding. As the main representative of Europe's universities, EUA has taken an active role in this debate and provided evidence from its studies and through consultation with its members for the improvement of the European Research funding programmes – in particular the rules and regulations of the European Union's Seventh Framework Programme (FP7)[7]. The preliminary analysis of this study has already informed EUA's contributions to the midterm review of FP7 and the simplification debate. In this framework, EUA also takes part in the stakeholders' platform on "Common principles for responsible external research funding", the aim of which is to facilitate a progressive alignment of the terms and conditions of external research funding. It gathers research funders and research institutions through their European umbrella organisations, and is supported by the European Commission in this process.

1.2 European policies

At European Union level, various communications and actions have addressed the issue of funding and diversification. The European Commission's **Modernisation Agenda**[8] adopted in May 2006 pointed at nine areas where action would help universities to modernise. One of these points states the need to "reduce the funding gap and make funding work more effectively in education and research", and proposes that governments spend at least 2% of GDP (including both private and public funding) on higher education. In this Agenda, the Commission also recommends more output-oriented funding and calls for universities to take responsibility for their financial sustainability, including proactive diversification of funding, albeit restricted in the Agenda to the research mission of the university. The European Council reaffirmed these points in 2007 in a resolution[9].

The review of the "Modernisation Agenda", the outline of which is expected to be released in 2011 in a Commission Communication, is likely to include new objectives and elements.

The European Union has also set the frame for its "2020 strategy", which is to follow the Lisbon Strategy. Building on its Prague Declaration, EUA has submitted a response on behalf of its members to highlight the role of universities in advancing the European Knowledge Society. Stressing the need for increased investment in higher education and research, EUA has called for clear investment targets to ensure the progress of all member states towards agreed objectives.

On the related topic of simplification of funding programmes for research, the European Commission released in 2010 a series of communications on the topic ("Simplifying the Implementation of the Research Framework Programmes", April 2010; "More or less controls? Striking the right balance between the administrative costs of control and the risk of error", May 2010). This has provided further input to the debate on funding simplification among European institutions, a priority of the Trio EU Presidency (Spain, Belgium and Hungary), and to which EUA has actively contributed.

National authorities have also been implementing new policies and measures related to higher education funding. Almost all European countries have, in some form, addressed the issue of financial sustainability, whether directly or indirectly. Policy documents tend to follow the broad guidelines of the Modernisation Agenda and look towards performance-based funding, and sometimes include objectives to encourage the diversification of income streams. (See also Eurydice 2008).

[7] Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013).
[8] Communication from the Commission to the Council and the European Parliament, "Delivering on the modernisation agenda for universities: education, research and innovation", May 2006.
[9] Council Resolution, "Modernising universities for Europe's competitiveness in a global knowledge economy", November 2007.

1.3 Recent European studies

There are a growing number of studies addressing the topic of funding of higher education, although rarely with a strong focus on the topic of diversification. Most studies look at funding models and methods, their impact on outputs and the relation of funding and autonomy. Aghion et al. for example in "Higher Aspirations: an agenda for reforming European universities"[10] analyse the relation between performance in rankings, status of autonomy and levels of public funding. In their conclusions they suggest increasing the funding for universities by 1% of the European Union's GDP over the next ten years and increasing university autonomy, as autonomy and funding are mutually reinforcing factors to increase performance. Referring to this study during the project's final conference, Philippe Aghion reinforced this message by highlighting that public authorities need to engineer comprehensive reforms accordingly, with special attention to governance structures. Particular importance must be given to members of governance bodies, who must have the necessary skills to steer the university's strategy, including its financial aspects, in the best way possible.

These findings have been further explored and confirmed by Jo Ritzen, President of the University of Maastricht and former Dutch Minister of Education, Culture and Sciences. In his recent book "A Chance for European Universities"[11], Dr Ritzen argues for three lines of change, two of them being "moving the organization of universities from the bureaucratic to the innovative" and "rebalancing the financing system so that the public budget cuts of the past decades can be met by private sources".

Recent publications by CHEPS[12] addressing governance and funding reforms provide an overview of funding reforms in European higher education in the last decade and analyse the links between governance and funding reforms and various performance indicators. This work also includes a literature review on the topic of funding.

A Eurydice study on higher education governance in Europe (2008) also addresses the topic of funding within the framework of governance. In its conclusions, the report states that *"The incentives (for diversification) implemented by the public authorities and the level of autonomy and restrictions which apply to HEIs are likely to have an influence on the amount of private funding obtained."*[13]

Finally, income diversification is approached in a study analysing the relationship between university entrepreneurialism and the Europe of Knowledge[14]. The project, led by the International Institute of Educational Planning of UNESCO, considered a restricted sample of 27 institutions based on 1994-2004 data. It stresses the importance of university autonomy and of the design of adequate funding incentives to foster income diversification, as well as flexible management of human resources.

1.4 Objectives of the study

While calling for vital additional financial support from public authorities, which have a responsibility in the universities' long-term financial sustainability, universities also need to increase and diversify additional sources of funding. This process naturally involves the university leadership, the university community at large and the public funders – whether regional, national or European – that design the regulatory frameworks in which higher education institutions operate. In this context, the EUDIS project seeks to map the status of income diversification in European universities. This includes examining internal and external

[10] Aghion P. et al., *Higher Aspirations: an agenda for reforming European universities,* Bruegel Blueprint Series, Volume V, Belgium, 2008.
[11] Ritzen J., *A Chance for European Universities,* Amsterdam University Press, 2010.
[12] *Progress in higher education reform across Europe – Governance and funding reform,* 2010. Report commissioned by the Directorate General for Education and Culture of the European Commission to a consortium led by the Centre for Higher Education Policy Studies (CHEPS).
[13] Eurydice, *Higher Education Governance in Europe,* 2008, p.108.
[14] Shattock M. (ed.), *Entrepreneurialism in Universities and the Knowledge Economy,* Society for Research into Higher Education & Open University Press, 2009.

hurdles to the development of successful income diversification strategies and identifying best, transferable practices that improve the framework conditions for universities and their ability to act strategically in this area.

In this context, income diversification is understood in its broadest meaning and components. However, the EUDIS project sought to focus on additional funding sources, i.e. income sources other than direct public funding and student financial contributions. The latter source has been the topic of many recent studies which have fed into the debate on cost sharing in higher education. The project therefore explores the different sources of income that are available to universities through teaching, research and innovation or other types of income generating activities. The study analyses, for instance, how contracts with the private sector, philanthropic funding, the provision of services and financial activities may generate additional income. Importantly, the project also considers efficiency measures to be part of the wider income diversification and generation strategy of an institution. It also investigates the challenges that diversified funding brings for managing and governing institutions, as well as the impact of autonomy on the ability to broaden the funding base.

As a consequence, beyond providing an updated overview of the state of play in income diversification in higher education, the EUDIS project aims at generating the data and knowledge necessary to bring operational assistance to university leaders and managers who seek to start diversifying and broadening the funding base of their institutions.

Universities are also highly dependent on external conditions to exploit their potential in terms of income generation; therefore it is an objective of this project to analyse the conditions and external factors that allow institutions to develop new funding streams successfully.

Findings of the project on appropriate success factors and framework conditions will also allow EUA's collective members, the National Rectors' Conferences, to raise awareness among public and private stakeholders about the need to improve the external conditions to fully enable institutions to diversify their financial structure. With this project and its regular monitoring of the impact of the economic crisis on higher education, EUA also has as an objective to contribute to the debate among European stakeholders and institutions on university financial sustainability in challenging times.

1.5 Methodology

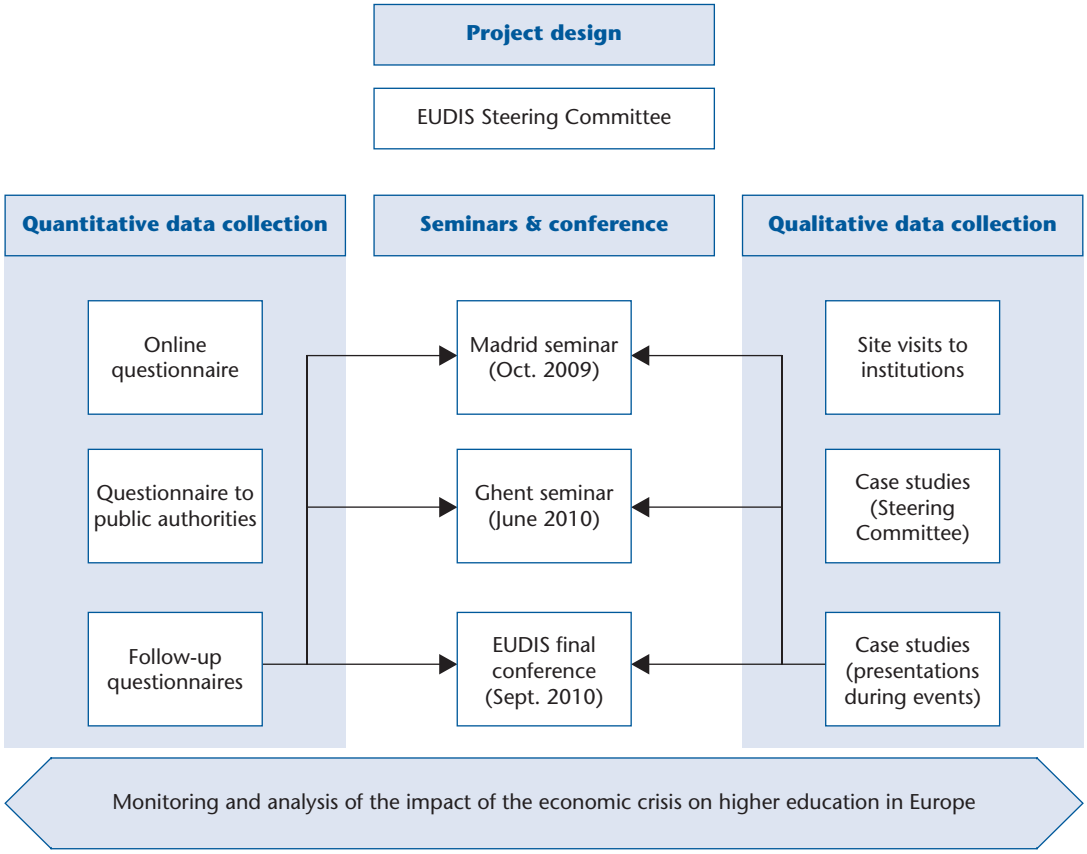
The project has been designed as part of the work that EUA carries out on university financial sustainability and governance. It therefore builds upon the previous and parallel activities mentioned earlier and comes as a logical second step after the project "Financially sustainable universities: Towards full costing in European universities" and its follow-up EUIMA-Full Costing project, which look at the cost side of the financial structure of universities. Results of the work carried out on the topic of autonomy also feature in this report, deriving both from the "University Autonomy in Europe I: Exploratory Study" and the subsequent "Autonomy Scorecard" project, in particular in the analysis of the link between increased autonomy and the ability of universities to diversify their funding structure. The present analysis also makes use of data collected through EUA's Trends 2010 report[15].

An important starting point for the project was the selection of an international steering committee reflecting, to a reasonable extent, the diversity of European universities and of EUA's membership in particular. The variety of the members' backgrounds helped build the appropriate mix of expertise necessary to provide guidance throughout the lifetime of the project.

This section further details the different elements of the methodology and tools used to collect information in the framework of the project.

[15] EUA, by Sursock A. and Smidt H., *Trends 2010: A decade of change in European higher education,* 2010.

Figure 1 – Project structure



Online questionnaire

A major data collection exercise was carried out between May and September 2009 in the form of an online questionnaire widely distributed to EUA's member universities and beyond. This questionnaire succeeded in gathering complex financial data from over 100 European universities spread over 27 countries (See Annex). The survey fed data into the project on the following areas:

- Institutional profile (size, missions, subjects covered...)
- Financial structure (income received from public and private sources detailed in categories)
- Expenditure
- Evolution and expectations regarding both income and expenditure
- Frequency and importance of co-funding mechanisms (from public and private funders)
- Income diversification (obstacles and challenges; mechanisms to foster diversification)
- Perceived degree of institutional autonomy
- Regional environment: opportunities to enter into partnerships with regional stakeholders
- Impact of the economic crisis on institutional activities and relations with income diversification strategy.

The questionnaire made it possible to collect data from institutions representing about 2 million students (about 800,000 full time equivalents) and 260,000 staff. In financial terms, universities that responded to the questionnaire claimed a total combined income of 20 billion EUR, of which a considerable 13 billion EUR came from direct public funding (both national and regional). In the report this source is referred to as the *"online questionnaire"*.

National authorities' questionnaire

The EUDIS project also sought to take into account the public funders' perspectives on the matter. In cooperation with the Czech Presidency of the Council of the European Union in the second semester of 2009, the meeting of the Directors General of the ministries of education and of the Presidents of the Rectors' Conferences provided an excellent opportunity to collect input from government representatives. The questionnaire included five questions:

1. What are the sources of university funding and what are their relative shares as a proportion of overall funding?
2. What measures have been implemented by your ministry/government to enhance diversification of income in higher education? Are universities allowed to generate income, e.g. by charging tuition fees, setting up firms or using their patents?
3. Should public funding of higher education motivate HEIs to increase the quality of higher education? What instruments (of public funding) are used in your country to increase the quality of higher education? If there are none, what instruments would you suggest?
4. What impact does the financial crisis have on university funding in your country, if any?
5. Do you have experience with public funding of higher education based on the contractual principle? What is the definition in your legislation, what is the proportion of this type of funding, compared to formula funding? And what is the practical experience?

The representatives of 27 higher education systems responded to this question, providing first-hand input into the analysis. It must be noted however that the funding framework in most countries has undergone, at times, major changes since June 2009 and that continued monitoring was therefore necessary (See Chapter 5, p.79).

Site visits and case studies

In addition to the tools described above, the project design included from the start a number of site visits and case studies. It was clear that a comprehensive approach was needed to assess better how income diversification features in the general institutional strategy of universities. A series of site visits was therefore prepared to ascertain from institutional stakeholders how they form financial strategies to diversify their income while taking account of their mission and priorities. Universities were selected by the Steering Committee on the basis of a number of criteria including geography, academic profile (orientation towards research or not), size, or other specificities (such as reforms being implemented). Institutions were selected in several rounds to take into account the preliminary findings of the quantitative data collection, allowing visiting teams to gather more insights on specific topics.

The site visits were organised between December 2009 and September 2010. Delegations of the Steering Committee visited the following institutions:

- University of Maastricht, the Netherlands (December 2009)
- University of Loughborough, United Kingdom (January 2010)
- Munich University of Applied Sciences, Germany (March 2010)
- Technical University of Darmstadt, Germany (April 2010)
- Trinity College Dublin, Ireland (May 2010)
- University of Warsaw, Poland (September 2010)
- University Paul-Valéry Montpellier 3, France (September 2010)

Visits consisted in a one-day series of interviews with the university leadership team, including the Rector, Vice-Rectors, Head of Administration, Director of Finance, Director of Academic Affairs, Director of Planning, Director for Alumni Relations/Fundraising, Director of Marketing & Communication, etc. The main objectives

of the site visits were to gain an understanding of the institutional attitudes about income diversification and to assess the state of implementation of mechanisms fostering such diversification, as well as to understand the impact of the current economic crisis on institutions. The site visits also provided the host institutions with the opportunity to discuss and reflect on the university's strategy with European peers, as well as promote the institution's best practice to the wider European higher education community.

Such visits not only allowed the project team to explore in depth the impact of funding reforms on the institutions but also made it possible to place income diversification in the wider framework of the university's activities, especially in relation to both teaching and research. They proved extremely useful in collecting additional information and qualifying hypotheses drawn out of the analysis of the quantitative data. Site visits provide a large part of the content of the *"features"*, which examples illustrate the points made in the present report.

Besides site visits, case studies also included the Steering Committee members' institutions. Each of them provided input on particular issues related to income diversification.

Steering Committee members' institutions
- Autonomous University of Barcelona, Spain
- BA School of Business and Finance, Latvia
- Karlsruhe Institute of Technology, Germany
- King's College London, United Kingdom
- LMU Munich (Ludwig-Maximilians Universität), Germany
- Masaryk University, Czech Republic
- University of Bologna, Italy
- University of Trento, Italy

Seminars

University Heads of Administration and Directors of Finance responded to short, focused questionnaires during two seminars. The first one was held in Madrid in October 2009 and the other was combined with the Annual Conference of HUMANE in June 2010. This brought an additional 70 contributions from diverse universities which helped complete the quantitative analysis, through questionnaires, case studies and discussions. Although the online questionnaire had achieved remarkable diversity in terms of institutional profiles and country distribution, this new input greatly helped to address questions left unanswered and to explore unforeseen avenues that appeared when analysing the respondents' comments.

The EUDIS seminar held in October 2009 was hosted by the University Carlos III de Madrid. Fifty European university leaders and managers as well as public authorities' representatives gathered for this two-day workshop. The seminar included selected case studies around various topics of income diversification and interactive sessions with panels and group work. Sessions notably focused on how to create successful partnerships with both public and private actors at regional level and seize these opportunities to diversify funding; how best to exploit incentive measures set up by public authorities towards this goal; how to face the challenges created by the economic crisis and how to seize opportunities for restructuring and efficiency gains. The case studies presented during the seminar were subsequently integrated into the qualitative analysis and feature as examples of best practice.

The second seminar was held in the framework of the HUMANE Annual Conference that was hosted by the University of Ghent in June 2010. Entitled *"Urgency and Strategy – Universities' Funding, Future and the Crisis"*, the seminar aimed at exploring trends in solving problems related to funding and management of funding in the light of the economic downturn and associated budget cuts affecting higher education in a number of European countries. The questionnaire submitted to the participants focused on the role of public funders and the institutional strategy. In the following analysis, this questionnaire is referred to as the *"Ghent survey"*, and its results are combined with the identical questionnaire submitted to the participants during the final Bologna conference.

Final conference

Although originally planned and organised for 22-23 April 2010, the conference had to be postponed due to the unexpected disruption in air traffic due to the volcanic ash cloud over Europe at that time. Rescheduled in September with an almost unchanged programme, the conference provided a stage for both validation and dissemination of the findings of the EUDIS project. The format of the conference reflected two major dimensions of the study, by focusing on "frameworks and conditions for diversification" – highlighting the role and responsibility of public authorities in this area – and exploring practical avenues for income diversification in universities. With an attendance of about 160 university leaders and managers, policy makers and experts from 40 countries in Europe and beyond, the conference was instrumental in collecting final quantitative data to support the results of the analysis. The questionnaire submitted to participants of the conference is referred to in this report as the *"Bologna survey"*. As explained above its results are combined with the Ghent survey as the questions were identical.

Monitoring the impact of the economic crisis

EUA started to monitor informally the impact of the economic downturn as early as 2008, when the main consequences for higher education in Europe were limited to the losses suffered by a number of British universities whose endowments had been affected by the financial crisis. This monitoring was then formally carried out in collaboration with EUA's collective members, the National Rectors' Conferences. As the crisis spread over Europe and moved from the financial markets to hit the real economy, the reduced investment capacity of a number of countries started to affect higher education through budget cuts and triggered or accelerated significant changes in the nature of public funding, such as the increased use of targeted and competitive funding schemes. The full analysis is provided in the Chapter 5 of this report. The tools used within the EUDIS project (seminars, questionnaires) provided high-quality, updated input from university leaders and managers, bringing in the institutional perspective on this matter. In the framework of EUDIS, the analysis focuses on the link between the evolution of funding frameworks caused or accelerated by the economic downturn and the capacity of universities to diversify and broaden their funding base.

1.6 Challenges and constraints

The present report is an outcome of an ambitious and difficult project; it was faced with limitations and could not avoid some pitfalls, which have however not significantly reduced either the range or validity of the analysis.

In such a project primarily concerned with financial aspects, the first and most important task was to collect sufficient data in an appropriate way. However, the sheer nature of the information that the project required made designing a questionnaire that would be both as complete and as simple as possible considerably challenging. In addition, the questionnaire needed to ensure a common understanding of the terms used, in particular regarding financial terminology.

Because of the diversity of regulatory frameworks for higher education across Europe, and although concepts and questions were designed to envisage as many possibilities as the project team could foresee, obviously not all scenarios could be included. Therefore a number of other options surfaced only after collecting input from the respondents. Comparing university budgets across Europe also proved difficult as budgets do not necessarily include the same items (in some countries universities do not have responsibility for staff costs, pensions, maintenance of buildings). To enhance comparability, income linked to university hospitals was excluded from the analysis.

The lack of commonly understood financial terminology across Europe also raised significant difficulties, especially when concepts were interpreted differently in spite of explanatory statements, depending on the national framework. It was indeed a remarkable challenge to design categories that would fit most

institutions' accounting practices, as well as to decide on how detailed the data needed to be for analysis purposes. Wherever it clearly appeared that interpretations diverged significantly, the data had to be discarded or used with much caution. An example is the term "matched funding scheme", which was often confused with "co-funding requirements", probably due to diverse experiences of such schemes (while matched funding schemes exist in a minority of European countries, like the United Kingdom, Norway and Finland (with a one-off scheme), a number of universities from other areas did state that they were benefitting from such system). However, although uniformity of nomenclature is not presently obtainable, the analysis offers a degree of accuracy that confers its conclusions validity at such a level of international comparison.

Another noteworthy issue was that of the confidentiality of some of the information provided by respondents, where the law did not foresee that all financial information of the institution should be made public. This is the reason why most of the information provided in this report is presented as aggregates. Importantly, the responses provided in the questionnaire were not meant to be official statements from the institutions. Where examples are provided, these result from the numerous case studies analysed in the framework of the project.

2. Mapping the status of diversification

The term diversification can have different meanings but, within the funding context, it most often refers to the distribution of different funding sources within the overall income structure of a university. In this context three broad categories (although with a variety of terms) are usually defined. They refer to **public funding** (or taxpayer funding), **private funding** through student financial contributions (or tuition fees, household expenditure) and **other funding** sources (or other private funding, alternative or additional income sources, third party funding). This categorisation also reflects that the first two sources usually provide the biggest part of the funding structure of an institution.

This study deliberately applied a broad definition of income diversification. It wants to explore the distribution and diversification of funding sources in general and in particular within the categories of public funding and of "other"/"additional" funding sources. The latter includes income generated from contracts with the private sector (mostly research contracts, but also for education-related activities), philanthropic funding, income generated by the provision of services (consultancy, hiring out of facilities, residences, catering, libraries, museums...) and income through financial activities. To show the relevance of European funding better and separate it from national/regional public funding, the analysis included this in the category of additional income streams, although formally a specific form of public funding. It also reflects the institutional perspective, as European funding is usually seen as additional income.

Finally, diversification in this study is not only defined as the shift from one source to another existing or new source but also the increase of one or more existing income sources with the effect of contributing to balancing the income structure of the institution. The study further included the potential of efficiency and cost saving measures, which can also be seen as being part of income diversification as it reflects the strong connection between income and costs.

Income diversification:
Generation of additional income (through new or existing funding sources) that contributes to balancing the income structure of the institution.

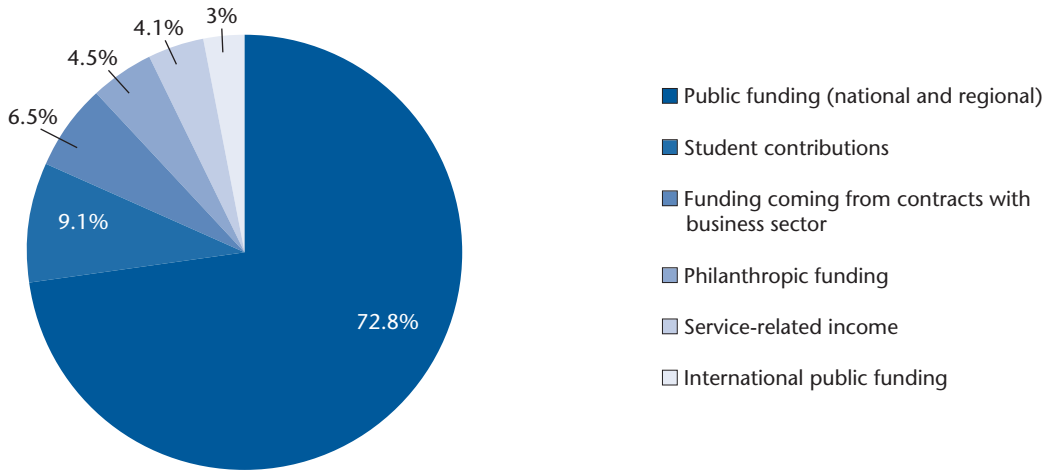
Figure 2 – Diversification scenarios according to funding source

	Public sources		Private sources
	Block grant/ line-item	Project/targeted funding	
Increase of existing funding	Increase in core public funding	Diversification	Diversification
Creation of new funding stream	Diversification of public funding		Diversification

2.1 Average income structure & funding trends

While data is accessible, to a certain extent, at system level through the UNESCO-OECD-Eurostat (UOE) data collection on education statistics[16], no updated information exists at institutional level across Europe today. The analysis for this section of the report therefore primarily draws on the project's quantitative data collection, with the results of the online questionnaire as the main source.

Graph 1 – Average income distribution



Source: online questionnaire

2.1.1 Public funding

Direct public funding continues to be the most important funding source for many European universities. This naturally varies among higher education systems[17], but the overwhelming majority of universities taking part in the quantitative data collection heavily relied on direct funds provided by their relevant public authorities, whether regional or national. In the year 2008, direct public funding accounted for over two-thirds of the average university's income structure.

This is largely consistent with recent system-level OECD findings[18], which state:

> *"In 2007, the share of public funding at the tertiary level represented on average, 69% in OECD countries. On average among the 17 OECD countries for which trend data are available for all reference years, the share of public funding on tertiary institutions decreased slightly from 78% in 1995 to 76% in 2000 and to 71% in 2006 and 70% in 2007. This trend is apparent primarily in non-European countries where tuition fees are generally higher and enterprises participate more actively, largely through grants to tertiary institutions."*

Through the collection of information both at system and at institutional level, it has become possible to identify trends in the nature of funding and the responses of universities to this evolution. Alongside block grants, universities may receive additional public funds through open competition as project-based funding, or as targeted funding. The present section analyses each of these funding types and how higher education institutions adapt to them.

[16] OECD.Stat Extracts, available at http://stats.oecd.org
[17] While the present report refers most often to "countries", one should note that higher education systems do not always coincide with national borders. Higher education systems in federal states for instance may present significantly different characteristics.
[18] OECD, *Education at a Glance 2010 – OECD indicators, 2010, p.228.*

Block grants and funding formulae

Universities in Europe mostly receive direct public funding through block grants. In this study, a block grant is defined as a financial grant which covers several categories of expenditure (such as teaching, ongoing operational costs and research activities). In this framework, universities are mainly responsible for the internal allocation of funding according to their needs (although minor restrictions may apply). On the other hand, a small percentage of the surveyed universities received direct public funding as a line-item budget, whereby funding is pre-allocated to cost items or activities by the funding authority. This is consistent with the findings of EUA's Exploratory Study on University Autonomy in Europe, which showed that 26 European countries mainly resorted to block grants, while only seven used line-item budgets[19].

Block grants may be calculated in different ways and based on historical data, input factors (number of students, staff, square metres...) or output factors (success rate, publications, research contracts). There seems to be a general trend over Europe to consider the use of at least partly output-based funding formulae. One commonly used system consists of calculating the block grant on the basis of a combination of these options, with the funding formula covering a share of the total public funding that can vary greatly across countries (around 25% in Switzerland, 40% in Denmark and 65% in Latvia). Germany or Italy revealed a much more differentiated picture across institutions, with sub-national entities (Länder or regions) maintaining different higher education systems.

Feature 1 Public funding calculations for French universities under the "SYMPA" system

Since 2009, performance indicators have been included in the calculation of the funding received from the Ministry of Higher Education and Research. Activity-based funds still represent 80% of the grant (this part is linked to the number of students taking exams and the number of academic staff with publishing activities). The remaining 20% is based on performance (5% for teaching, 15% for research, mostly calculated on the basis of student success rates, but also including the future student employability). Beside performance indicators, a small share of this budget is also negotiated between the university and the Ministry, taking into account external resources attracted through research exploitation, employability after doctorate level, external recruitment, and real estate management[20].

The increased use of output-based funding formulae is in line with the public authorities' search for more efficiency in funding allocation, especially in times of significant budget constraints and reduced investment capacity. It seeks to reward excellence which it measures against a series of criteria, which inevitably inform the institution's internal strategic and academic decisions. In this regard, although block grant funding allows the university to maintain internal financial autonomy, it does influence the institution's choices through the funding formula. An example of this is provided by the Research Assessment Exercise (RAE) in England which rewards "internationally leading activities". As a result of this, institutions have primarily developed partnerships with international companies rather than with regionally or locally rooted businesses. In general terms, the financial and reputational consequences of the RAE results strongly influence institutional behaviour. What is more, the national research councils use critical mass and good research track records as criteria for awarding research grants so that research will be strengthened further. Any institution would thus gain a great deal more by investing in its best research niches rather than in focussing too much on alternative dimensions of missions.[21]

Funding coming from the next most important public source (in most cases regional entities, except for federal states where higher education is a decentralised competence, in which case federal funding is a secondary source) proved to be much more focused and heavily project- and contract-based.

[19] EUA, *University Autonomy in Europe I: Exploratory Study*, Ch. 3, p.19.
[20] Adnot P. and Dupont J. L., *Mise en place du volet budgétaire et financier de la loi n° 2007-1199 du 10 août 2007 relative aux libertés et responsabilités des universités et nouveau système d'allocation des moyens aux universités (SYMPA),* July 2009, p.15.
[21] EUA, *Institutional Diversity in European Higher Education – Tensions and challenges for policy makers and institutional leaders,* Ch. 7, pp. 122-143.

In the context of the economic downturn, several governments have taken steps to cut their overall budget for higher education, while re-introducing part of the amounts saved under different, targeted funding modalities. Examples include Ireland, where budget cuts to the sector (decrease of 5.4% in 2009 and 9.4% in 2010) were accompanied by additional funding for re-qualification schemes for the unemployed. In the United Kingdom, specific funds were designed to foster participation in the so-called "STEM" subjects (science, technology, engineering and mathematics) while universities saw their overall grants significantly reduced.

Targeted funding

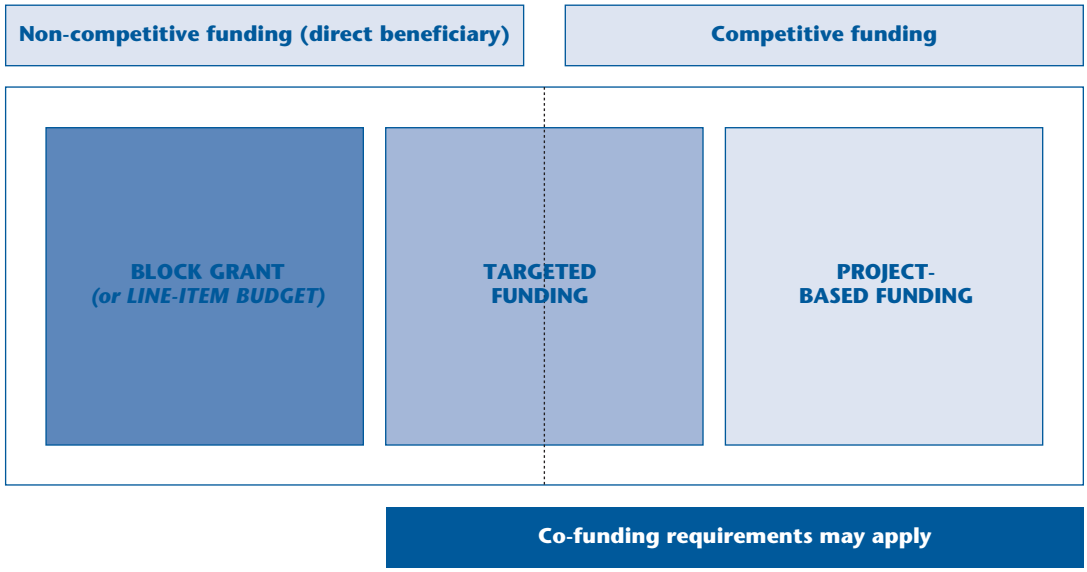
This trend, which consists in reallocating funds from the block grant to specific funding lines, was also confirmed by senior university managers: 74% of the respondents surveyed in June 2010 agreed with the statement "the main funding authority increasingly resorts to targeted funding". This in turn affects the university's ability to make strategic choices in the internal allocation of its funds, thereby restricting its autonomy. Indeed, targeted funding often aims at achieving specific objectives in line with strategic national priorities.

Project-based funding

Additional funds may be allocated through project-based funding, which in most cases are allocated through competitions organised by specific bodies. In a framework where block grants do not increase or actually decrease, these competitions become highly relevant for universities as a source of income – their success rate in these competitions may even be included in the criteria used in the funding formula of their block grant.

With the relative share of competitive funding in the income structure increasing, universities respond to the new challenge by investing in their research support capacities. This involves, as found out in the project's site visits, creating or strengthening positions and departments specialised in monitoring funding opportunities and assisting academics in writing and submitting ever more complex applications for funds.

Figure 3 – Modalities of public funding (simplified)[22]



[22] The graph does not intend to reflect the relative importance of each type of public funding available to universities, as this greatly varies across higher education systems.

Figure 3 depicts in a simplified way the possible channels for public funding flows into the university. In most cases the block grant makes up the major part of this funding. Project-based and targeted funding may be subject to co-funding requirements, and are organised through competitions (although targeted funding may be directly attributed). It is important to note that funds may flow from one category to the next and that this process is highly dynamic and in constant change.

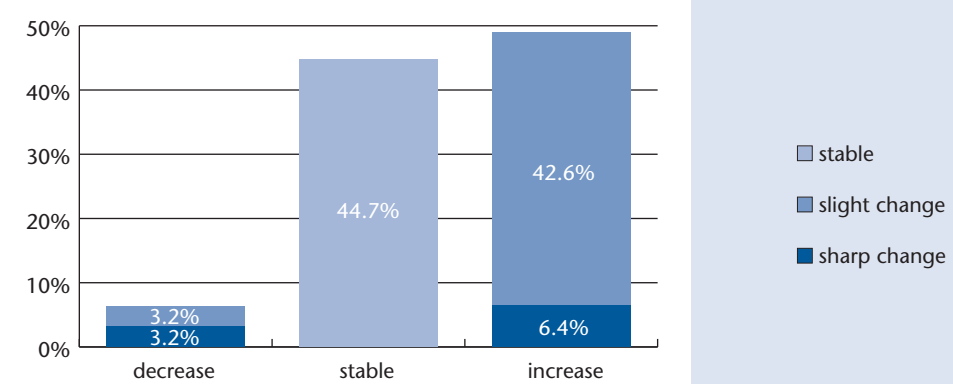
Co-funding

Another trend detected in the framework of this project in relation to the nature of funding consists in the higher proportion of co-funded projects and activities. Co-funding refers in this report to funding for which the main funder requires the beneficiary institution to raise a proportional amount of the full cost of the activity or project being funded, from its own budget or another public or private source. The quantitative data collection showed that a majority of universities deal on a daily basis with co-funding requirements, whether for most or part of the public funding they receive.

Co-funding, however, can potentially harm the university's financial sustainability, especially if it becomes the rule for a significant part of the funds received from public authorities. Indeed, co-funding requires that the university seeks part of the funding elsewhere – however in most cases universities resort to resources from their core budget. The online survey revealed that 65% of the respondents co-funded these activities from block grants and generally core public funding, while 35% resorted to a mix between core and "additional" resources coming from the private sector or from fees. This in turn reduces the university's capacity to invest in its future, diminishing the amount of "unconstrained" funds available to finance facilities and equipment[23].

This issue is all the more relevant in a context where universities widely expect the number of income sources – potentially requiring co-funding from universities – to grow or at least remain stable, as illustrated below.

Graph 2 – Expected evolution of number of income sources



Source: online questionnaire

2.1.2 Private funding

Student financial contributions

While student financial contributions[24] are not the focus of this study, they potentially represent a major source of income to fund the teaching mission of the universities. Indeed, if public authorities wish to move away from funding higher education and towards subsidising it, i.e. share the cost of higher education with

[23] See also the section "Funding modalities hindering income diversification", p.47
[24] See Definitions, p.14

other funders, financial contributions from the students constitute the most directly available source. It is however a choice that pertains to the public authorities and society in general. This is also a decision closely related to the design of the fiscal policy of each country. It reflects the choice of a society to finance higher education either through taxes, contributions from future graduates, or through indirect tax incentives. Funding coming to the university in the form of fees also often include some type of public subsidy (through scholarships or preferential loans). The design of such systems is therefore largely, in most cases, outside the remit of universities. As a consequence, the present study does not seek to expand on this funding source[25] but includes some observations resulting from the analysis of the sample and some considerations linked to income diversification, given the importance of this source of income for universities in a number of European countries.

Feature 2 The abolition of tuition fees in Ireland

Trinity College, in Dublin, has a fair degree of diversification but is, according to its leadership, still too dependent on state funding which is allocated on a yearly basis. The introduction of a "free fees" scheme for undergraduate students has reduced the College's financial flexibility and has impacted on its financial autonomy. Overall, the exchequer funding rate per student has been eroded significantly over the past number of years due to real reductions in state funding and increased student participation rates. The continued call for a contribution from undergraduate students for their tuition fees is therefore a very important element of the College's diversification strategy.

The responses collected showed that student financial contributions generally represented less than 10% of the university's income. However, it is important to note that the sample includes a number of countries where student contributions do not exist (Norway), exist only for some students (such as non-EU/EEA students in Denmark since 2006 and in Sweden as of 2011) or are very low (France). Conversely, student contributions make up a significant (Spain with 13%, Latvia with 16%) or even a large part of the income received by the universities (about 25% for the English universities surveyed[26]). A small number of universities from different countries received more than 50% of their income from student contributions; the data provided by these institutions is treated separately when relevant.

The share that student financial contributions represent over the total income of the university is directly linked to the level at which the fees are set. Previous EUA analysis showed that universities are not generally responsible for setting the level of student financial contributions – in at least 22 European countries, public authorities either decide solely on the matter or forbid tuition fees[27]. However, the picture is significantly more complex than usually assumed and there is evidence of an emerging trend towards the creation of differentiated fees systems. Increasingly, public authorities and universities distinguish between student populations, be it via academic level (Bachelor, Master, Doctorate), or according to the terms of study (for example):

- Full-time/part-time students
- On-campus/distance-learning students
- Returning students (for a second qualification)
- Students exceeding regular duration of studies
- Students enrolled in courses not included in the study programme
- Students enrolled in courses taught in a foreign language
- International students (for EU countries: students coming from non-EU/EEA countries outside the framework of bilateral conventions)

Previous EUA studies have pointed out the increasing relevance of the "Master market"[28]. Programmes run

[25] Eurydice, the European network gathering information on education systems and policies, has compiled comparative data on the level and nature of student financial contributions in its study *Key data on higher education in Europe,* 2007 Edition.

[26] This is consistent with the system-level data published by Universities UK which calculates that full-time UK and European student fees make up for 15% of the total income on average, part-time UK and European student fees 2% and non-European student fees 8%, for a total of 25%. UUK, *Higher Education in facts & figures,* 2009 (based on Higher Education Statistics Agency (2009): *Finance Plus 2007/08*).

[27] EUA, *University Autonomy in Europe,* p.23

in English in non-Anglophone European countries are predominantly Master programmes, for which fees vary extraordinarily, with a trend however towards the extinction of the fee-free Master[29].

The distinction between home and international student populations has become increasingly common throughout Europe, with only a few countries not charging international students specific tuition fees. In Sweden, such fees will be introduced as of 2011, with universities free to set the fee levels on the basis of full cost coverage. In Finland, the government has initiated a "trial period" until 2014 during which universities will be free to charge higher fees to non-EU/EEA students in Master level courses taught in foreign languages. In the Netherlands, where fees charged to national and EU students are limited by a ceiling set by the government (1 672 EUR/year for Bachelor and Master studies for 2010-2011), the cap on fees for non-EU/EEA students was lifted in 2006 and universities can now set their own fees. (They can amount from 6 000 EUR/year to 32,000 EUR/year at Bachelor level). Since 2010, Dutch universities have been also allowed by the government to charge higher fees for students wishing to study for a second Bachelor degree.

Respondents to the questionnaire were asked to differentiate between tuition fees and administrative fees according to the student population (home and EU students; international, non-EU students). The absence of separate categories in the internal accounting system sometimes led to an overestimation of the first category ("tuition fees for home and EU students"), but findings generally indicate that fees collected from home and EU students tend to represent an extremely high proportion of the total student financial contributions. Fees paid by international (non-EU/EEA) students are set separately from the fees for domestic and EU students; because they are often set at a significantly higher level (see above – in the Netherlands non-EU/EEA students would pay a fee at least three times higher than the fee charged to national/EU students), they represent a noticeable share of the total amount of fees collected – on average about 10%. The English universities typically received higher than average income from international students (sometimes a third or up to almost half of the amount collected).

Reported amounts often included both tuition and administrative fees. Indeed, as previous EUA work has shown, administrative fees may represent significant amounts – sometimes higher or "replacing" tuition fees. High shares of administrative fees were reported by universities in Croatia, the Czech Republic, France, Germany and Italy (from a quarter to the total amount of fees collected). One should note however that administrative fees collected by universities do not necessarily constitute an income for the institution, as it may be intended for other entities such as social insurance organisations (as may be the case in France or some German Länder).

This overview shows that student financial contributions have the potential to constitute a large income source, which is considered by those who can charge them as a sustainable source that offers a degree of predictability and gives the university the ability to invest over the long term. However, the range covered in the sample is rather wide, with complex, highly differentiated systems. In many European countries, decisions in this area are largely out of the hands of universities and outcomes may bring less "financial space" than originally foreseen, depending on the level of fees. The nature of fees as income generated from private sources is also rather ambiguous, as part of it can be considered as indirect public funding through public subsidies, beneficial student loans, and/or grants.

The debate on how the teaching mission of universities should be financed and whether the funding model should include tuition fees became apparent during the project's lifetime and was also a topic during the final conference and site visits. There are different views across Europe on the choice of the funding model for higher education. While cultural and historical traditions play an important role in shaping perceptions on this matter, it is also important to note that the debate is gaining relevance in most countries – especially in the light of the economic downturn – while retaining specific characteristics depending on its national context. For instance, one can observe that European countries are moving in different directions: while the Nordic countries, where free access to higher education for all is a key principle, are starting to consider and implement fees for foreign students, Ireland[30], Austria and some German Länder (such as North-Rhine Westphalia) have decided to abolish fees for their domestic students. In all these cases, such changes were initiated at political level but have not ended the debate on the sustainability of the system, and pressure

[28] EUA, by Davies H., *Survey of Master degrees in Europe,* 2009, Ch. 10.
[29] Ibid, p.63.
[30] At Bachelor level (see Feature 2).

to reintroduce fees persists. Major shifts are also expected in the United Kingdom following the release of Lord Browne's government-commissioned review[31], whose recommendations include the removal of the cap on tuition fees from 2012 complemented with extended scholarships and a preferential grant system. In combination with the foreseen budget cuts, this would entail tremendous changes in the United Kingdom's funding model for higher education.

While in this case the introduction of higher fee levels is associated with a decrease in public funding, it is worth noting that in other systems where fees have been introduced, this was either accompanied with the guarantee that state funding would not be reduced and that the additional income would be earmarked towards the improvement of the university's services to its students.

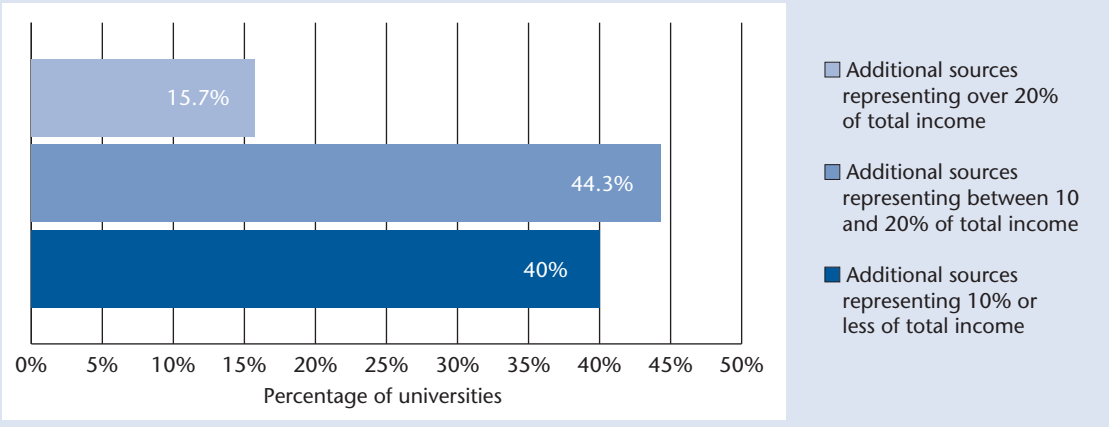
This brief analysis only sketches out some of the complexity of the various ways public authorities and universities approach student financial contributions across Europe[32]. Throughout the project, it clearly appeared that this question will continue to be at the heart of the debate around funding models for higher education in the future.

Other income streams

All streams other than direct national/regional public funding and student financial contributions are considered in this report as "additional funding streams" or "additional income sources". Main sub-categories include income generated from contracts with the private sector (mostly research contracts, but also for more education-related activities), philanthropic funding, income generated by the provision of services (consultancy, rental of facilities, libraries, museums...) and financial activities. Funding received from international public organisations (chiefly European Union funding) is also considered in this section.

These sources together account for nearly 20% on average of the total income structure. About half of the sampled universities receive between 10 and 20% of their income from such sources. Far from being insignificant, the generation of additional or "third-party" income clearly appears as more than a mere side-product of the university's main activities. Some universities declared having up to a quarter of their income generated through these sources. However, this obviously does not compare with the share that direct public funding continues to represent in the universities' income structures.

Graph 3 – Share of additional income sources over total income



Source: online questionnaire

It must be taken into account that not all sampled universities were able to differentiate between the income categories that were presented in the questionnaire. An example is the inclusion of income received from public competitive funding schemes either in public funding or in "other sources".

[31] Securing a sustainable future for higher education – An independent review of higher education funding & student finance, Review Panel chaired by Lord Browne, 12 October 2010.
[32] As this study seeks to focus on elements on which universities have a substantial margin of manoeuvre in a majority of European countries, student financial contributions will be disregarded in most of the following analysis.

Contracts with private partners

Contracts with private partners (for both research and teaching activities) generate, on average, between 5 and 7% of the universities' income and therefore constitute the largest "additional" source. This varies significantly among institutions though, with several indicating less than 1% of their total income coming from such contracts, and at the other end, universities reporting between 10 and 25%. The latter group is distributed across Europe, with several French, Dutch, Slovenian, and German universities receiving more than 10% of their total income from contracts with private partners. This amounts to 25% for an Irish institution. Although universities of technology feature well in this group, they do not make up its majority, suggesting that comprehensive universities may develop partnerships with the private sector as successfully as universities of technology.

Philanthropic funding

Figures show that philanthropic funding still makes up a small component of European universities' income structure. It typically amounts to between 3 and 4% of the total income of the university, with noticeable exceptions, notably in the United Kingdom, where some universities generate close to 10% (or in one case over a quarter) of their budget through philanthropic sources. It was also interesting to see that it is not only universities in the United Kingdom that fare well in philanthropic funding. Sweden, Italy and France are countries where some universities reported higher-than-average success with philanthropists and alumni.

In general, universities could not break down their philanthropic income into sub-categories. Among those who could, it appeared that income received from foundations and charities was the most important component of this type of funding. This includes competitive grants allocated by entities such as the Wellcome Trust in the United Kingdom[33]. Another major source of philanthropic income is the business sector itself, notably through donations, sponsorships of buildings or academic chairs. This was especially relevant in Spain. Fundraising with alumni and individuals remains largely underdeveloped, with universities underlining the lack of a donor culture. Most institutions' fundraising structures are still at an embryonic stage.

Service-related income

British universities tend to stand out of the sample when considering the income generated through services, with these activities representing, for some institutions, between 10 and 25% of their total income. This contrasts with the average 4% that this type of income usually represents over the total income structure of a European university. This British singularity may be explained by a favourable framework, granting institutions in the UK a relatively high degree of financial autonomy: on the scale ranging from 1 to 5 that was proposed to the respondents of the online questionnaire, British universities attributed themselves on average a score of 3.8, significantly higher than the average of the sample at 2.8. In particular, British universities have a good capacity of founding for-profit entities or being shareholders in such entities, which fosters the development of services. Part of the explanation for this success may also rest with the ability to recruit staff that have adequate skills to help the business flourish.

Income generating services comprise the management of conference facilities, catering and accommodation (including student residences), which often make up most of this type of income. Consultancy services generally represented the second highest source on average, followed by educational services and commercialisation of research results. Income generated through the provision of cultural services (concert halls, theatre, museums, libraries, etc) remains much lower. Institutions usually seek to cover running and lifecycle costs of these services, i.e. making profit is generally not the primary aim of these activities.

One should also note that service-related income will necessarily remain low in higher education systems where universities are not responsible for student accommodation or catering, such as in Germany or France. In the latter case these tasks are operated by an institution placed under the supervision of the Ministry for Higher Education and Research.

[33] This contributes to explaining the high proportion of philanthropic funding reported by institutions operating in the United Kingdom. In some cases international funding was also integrated into this category.

Feature 3 The University of Loughborough, a service-oriented institution

The University of Loughborough is an advanced institution in the development of "commercial activities" or services that are consistent with its academic mission. Its range of activities includes:

- *A consultancy office, which generates about 1 million GBP a year*
- *A "Science & Enterprise Park" and a "SportPark"*
- *A fully-owned subsidiary "Imago Ltd" with an annual turnover of 8 million GBP, which manages all of the university's commercial activities.*

Beside conferencing services (which have been developed to such extent that the university today is the first provider in the region), these activities also comprise the rental of sports facilities, in line with the academic strength of the university in sports engineering. The profit these services generate is re-invested in supporting the academic activities of the university.

Universities also reported amounts generated through active treasury and financial management (for instance debt-financing mechanisms, public private partnerships which allow the university to obtain more favourable interest rates through cooperating with other stakeholders) and property sales. This type of activity requires very specific financial expertise but may yield strong returns for the institution[34]. It clearly appeared nonetheless that this is not feasible yet for many universities, and that the expertise and experience necessary to successfully engage in these activities is still missing.

Feature 4 Leveraging income through property management

Trinity College Dublin continually generates non-exchequer revenue through its estates activities. With this extra income, the institution can finance or co-finance research and other activities that would otherwise not be possible.

One strategy that the university has developed is to swap current floor space that is not ideal for academic purposes with other facilities thereby increasing the rental income from prime locations.

Trinity College also used its purchasing power to buy property at declining market prices which it can further develop. On some of these facilities the institution yields a rate of return in excess of the cost of finance from the associated rental income.

Trinity College is also trying to leverage the value of its facilities and sites through strategic cooperation with developers. Developers contribute through their excellent know-how and TCD uses its purchasing power and good rating to provide competitive funding conditions.

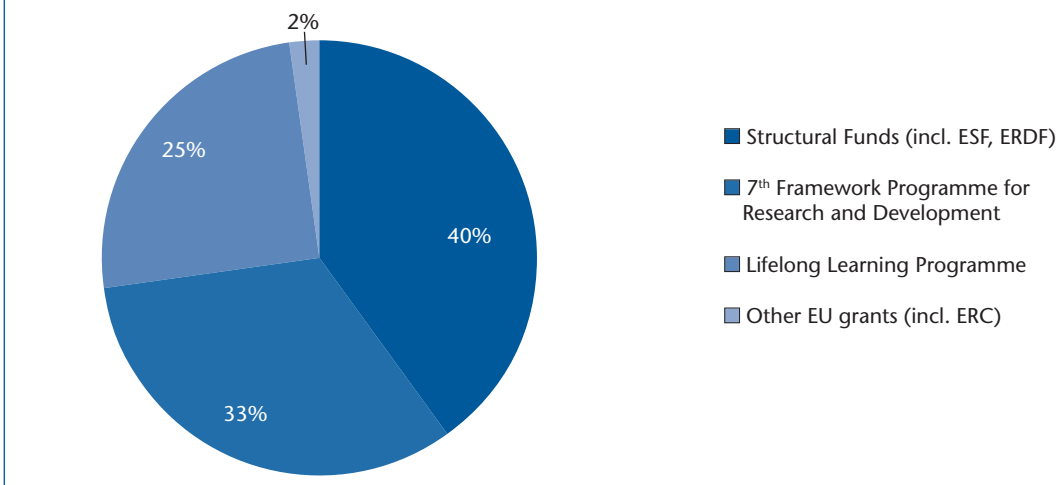
International public funding

International public funding is considered under this category, as it is usually perceived in the university's accounting practices as an additional income source. This type of funding generally makes up for between 3 and 4% of the total income structure of the university. This category appears to be almost exclusively made up of European funds. Graph 4 reflects the average structure of the European funding received by an institution. Structural funds, including the European Social Fund (ESF) and the European Regional Development Fund (ERDF), make up two-fifths of this income; funding from the European research programmes account for a third, and the Lifelong Learning Programme just about a quarter of the total. These are extremely crude

[34] See Feature 18 Some examples of management professionalisation, p.70.

estimates though, which had to be extracted from a rather uneven sample. Indeed, numerous universities did not keep track of the income in a way that would enable them to distinguish between the different proposed categories. Furthermore, a significant part of the sample was still getting income from projects started under the 6th Framework Programme for Research and Development, which officially ended in 2006.

Graph 4 – Average structure of European funding



Source: online questionnaire

Some universities that are strongly integrated into the European Research Area score very highly in European research funding, such as the University of Coimbra, the University of Leiden or the Swiss Federal Institute of Technology of Lausanne. Alternatively, universities from countries that recently joined the European Union benefit from significant European structural funds distributed by their national or regional public authorities (accounting for between 5% and almost 20% of their total income structure). Those universities that have the highest shares of European funding coming from structural funds usually have a lower-than-average share of FP7 funding.

Efficiency measures

The present analysis also considers efficiency measures in the context of income generation and diversification, as it contributes to freeing up resources that can be reallocated into strategic investments. Universities also acknowledge that full cost recovery of research activities goes hand in hand with the achievement of efficiency objectives, contributing to reducing indirect costs while preserving the quality of services provided as well as academic standards.

The average cost structure of a European university is mainly composed of personnel costs (usually between 60% and 90%), where the margin of manoeuvre of the universities is rather limited because of the relatively modest staffing autonomy of most universities today. However universities may work on optimising tasks to increase efficiency and therefore release resources. In the "services and management" area, observed examples include internal efficiency measures as well as devices to cut costs through cooperation:

Internal efficiency measures

- **Restructuring of academic units:** simpler structures tend to reduce administrative costs. The University of Loughborough has, for instance, restructured departments into schools and removed faculties, creating more cost-effective and academic-oriented structures.

- **Centralising services:** the university central administration may be better placed than faculties to negotiate with certain suppliers and streamline contracts with external providers (facilities management, IT services). An example of this is provided by Trinity College, Dublin, which established a list of "preferred suppliers" with whom prices were negotiated.

- **Outsourcing of services:** some non-core activities, such as security services, may be performed by external providers at a reduced cost for the university.

Cost-cutting cooperation measures

- **Sharing services** with other universities: this can include a variety of activities of different magnitude. A common practice is to combine the "weight" of several institutions to increase purchasing power when buying from external providers. This can be achieved through light modalities, with a group of universities working together, to more structured approaches such as establishing autonomous organisations. These practices are however conditional on the quality of the service provided and on the number of "subscribers" to the service offered, which contributes to lowering the cost (which makes it sensible to organise this at system level). In some countries public organisations have been created to buy services for all public sector actors. It may also be optional for universities to use the services of these organisations (Austria). Other shared services include pay roll services (Finland, Germany, United Kingdom), estates management, travel planning, security, student health and accommodation booking, human resources development.

- **Sharing equipment** with other universities: the shared use and maintenance of heavy equipment improves access to expensive equipment for participating universities at reduced cost (e.g. acquisition of supercomputers in Austria, see Feature 5).

- **Sharing facilities:** In some cases, a number of universities share their facilities either amongst themselves to make optimal use of their space capacity or with other non-educational businesses to exploit them outside normal use hours (use of lecture halls as cinemas, rental of parking space in evenings, etc.)

- **Public-private partnerships** allow universities to generate higher returns (for instance on property development projects).

Feature 5 Increasing high performance computing at Austrian universities

In the Autumn 2009, the University of Vienna, the University of Natural Resources and Life Sciences of Vienna and the Technical University of Vienna pooled resources to acquire a 2 million EUR high speed IT facility named "Vienna Scientific Cluster I", which is currently part of the 200 fastest supercomputers in the world. This was the result of double pressure on the universities to be competitive at international level while, at the same time, saving money.

The cooperation between the three institutions has made it possible to make an optimal use of existing resources, freeing up money for further investment. The universities intend to pour up to six times more money into this IT facility in the long term, including the purchase of a second cluster. In June 2010, the Ministry of Research announced that it would support this collaboration by investing 12 million EUR to build up the capacity of the existing infrastructure[35].

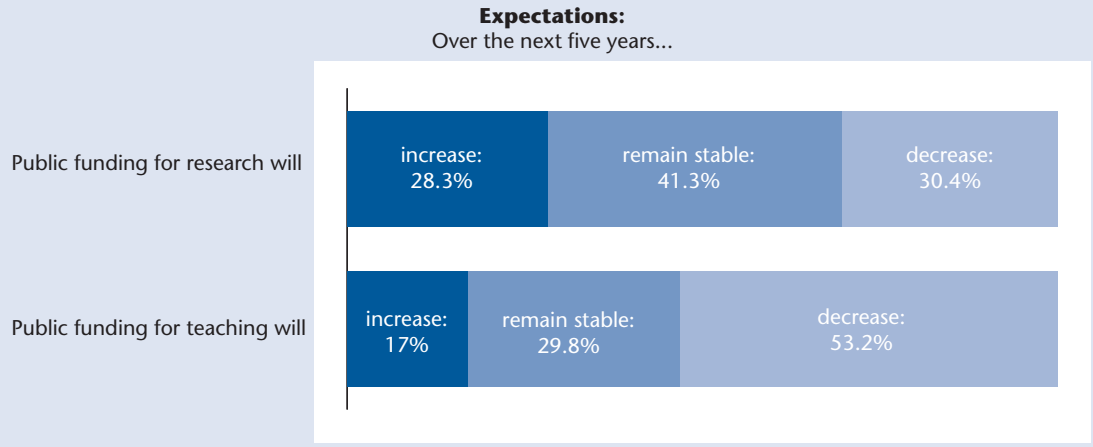
[35] DiePresse.com,"Universitäten sparen gemeinsam Geld", 1 June 2010, and "Zwölf Millionen Euro für Supercomputer der Wiener Unis", 17 June 2010.

2.2 Perceptions

The EUDIS project aims at gaining an overview of the universities' perceptions and expectations rather than attempting complex comparisons over different periods. In the online questionnaire, participants were asked to rate how a series of income streams had been evolving in the past five years. The outcome of this is that most respondents perceive that all income streams have been increasing in absolute terms (but not necessarily keeping up with rising costs in real terms)[36].

However, when asked about how they expected funding streams to evolve in the near future, participants had differing views. A clear majority of universities anticipate that the smallest sources will continue growing (European and philanthropic funding), while being more pessimistic about the largest source – national public funding for teaching, facilities and research. Some comments made an explicit link between these bleak prospects and the impact of the financial crisis that was already affecting some higher education systems in the summer 2009. However and perhaps as an effect of the crisis, expectations differ markedly for public funding, with university representatives expressing in a separate survey their concern for funding for teaching rather than for research.

Graph 5 – Expectations of university managers on public funding patterns



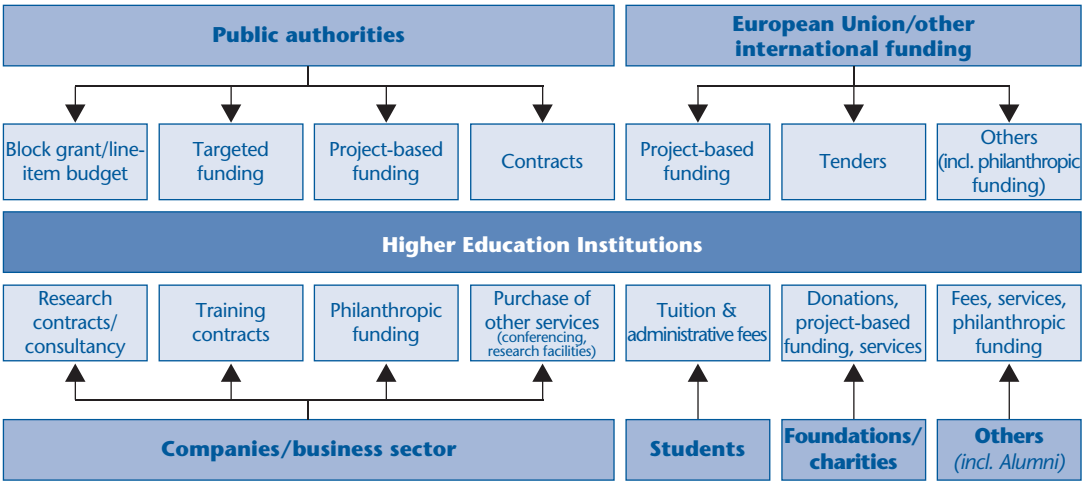
Source: Ghent and Bologna surveys

In general, universities widely expect supplementary funds to come from additional, rather minor sources to compensate for the absence of increase in public funds (most often perceived as decreasing or stable at best). However, given the current average distribution of funds and the short- to medium-term income generation potential of funding streams such as fundraising activities, outcomes could fall short of many hopes. This will also be the case for many universities that expect a growth in their income from European funding sources. Observers tend to consider it unlikely that the amount of European funding available will grow in the next financial period 2014-2020. Rather, more universities will enter the competition for the same amount of funding. The success rate in these competitive funding schemes also very much depends on the extent to which universities have the adequate support structures and skills to succeed in these applications. Only those universities who are prepared for this might be able to increase income from this source.

[36] Although not fully comparable because based on a much larger sample, the findings of the Trends 2010 report corroborate the present analysis to some extent, highlighting the high share of respondents mentioning increased research funding from international sources and from private sources as some of the most important developments in the funding of their institution in the past five years. EUA, Sursock A. and Smidt H., *Trends 2010: A decade of change in European higher education,* 2010, p.23.

The relative decrease in public funds, in relation to inflating costs, is creating a widening funding gap which puts universities' financial sustainability in danger. "Additional" sources cannot match this gap, nor should they replace the state's commitment to provide adequate and reliable funding of higher education. These expectations nonetheless indicate that university leaders and managers are fully aware that additional funding streams exist and are worth being explored. The summary chart below provides an overview of the main funding sources and modalities available to most universities in Europe.

Figure 4 – Income sources and funding modalities

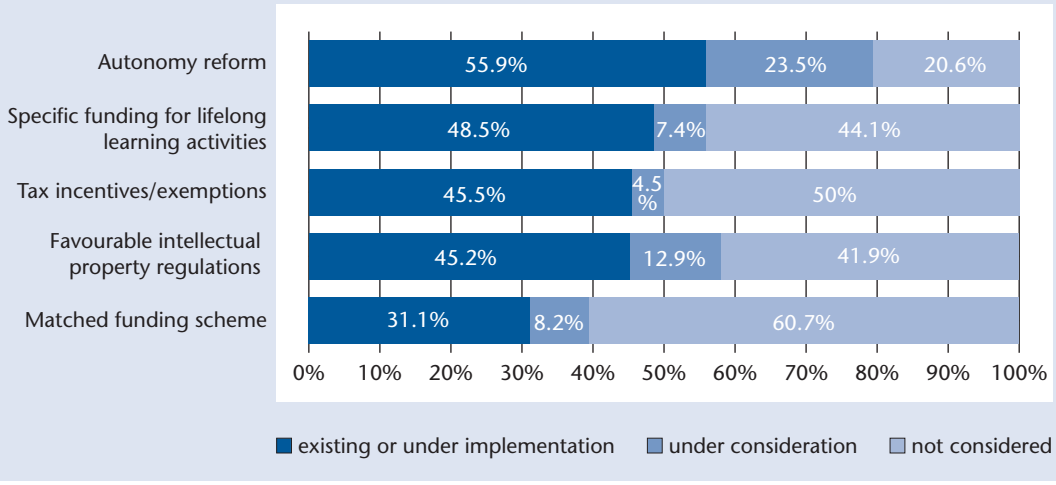


3. The role of public authorities

3.1 Authorities fostering income diversification

Public authorities have a role to play in supporting income diversification for universities. The graph below summarises the responses of the surveyed universities to the question "what do public authorities do to help your institution to diversify its funding?" While the proposed mechanisms are not necessarily primarily meant to foster this process, they have the potential to do so, if accompanied by the proper support.

Graph 6 – Measures taken by public authorities to foster income diversification



Source: online questionnaire

3.2 Regulatory frameworks & institutional autonomy

One of the aims of the present study is to explore the link between income diversification and the degree of institutional autonomy of the university. This section analyses firstly, the relation between these two concepts and finds a positive link between income diversification and autonomy. It then explores the shortcomings of the current situation in terms of university autonomy in Europe. EUA's Autonomy Scorecard will give a precise picture of autonomy in many higher education systems in Europe and therefore will point to areas for improvement in this matter.

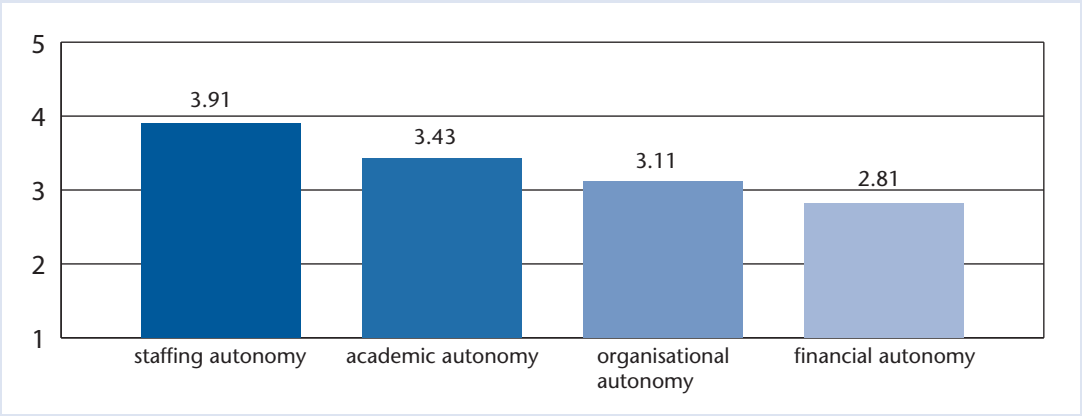
3.2.1 Autonomy and income diversification

Universities will only be able to pursue additional income streams if the regulatory framework in which they operate allows them to. Universities that can enter into partnerships with private partners, or have the ability to create for-profit entities, or can borrow or raise money on the financial market, will be more successful in pursuing and developing additional funding streams. Therefore, autonomy constitutes a prerequisite for the implementation of successful income diversification strategies.

In the project "Towards full costing in European universities", EUA explored, with a pilot sample of universities, the link between institutional autonomy and income diversification. The findings suggested a positive correlation between the degree of autonomy and a more equal distribution of funding from different sources.

The present study wishes to reflect an institutional perspective and therefore focuses on the perceptions of university leaders and senior managers rather than on a system-level analysis of the regulatory framework. The latter task is carried out by the parallel Autonomy Scorecard project. Respondents were therefore asked to indicate to what extent they considered their institution was free to carry out certain tasks, by giving it a score on a scale of 1 to 5 (with 5 representing complete freedom of the university). On the basis of EUA's definition of university autonomy[37], these questions were categorised under four main dimensions: organisational, financial, staffing and academic autonomy, using the different elements of EUA's autonomy study.

Graph 7 – Average autonomy score per dimension



Source: online questionnaire

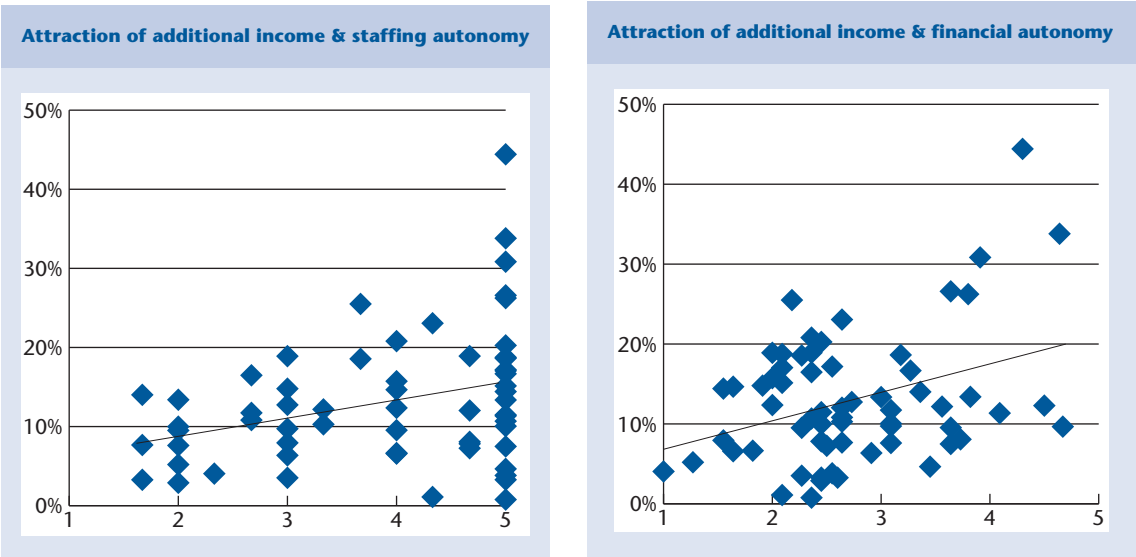
The available quantitative data on the perceived degree of autonomy shows that on average, financial autonomy is perceived as being lower than the other three dimensions. In its previous work EUA had shown that European universities were still lacking sufficient financial autonomy. It is important to note however that these are scores based on self-perception at institutional level, which may explain, for instance, the rather high degree of perceived autonomy in staffing terms. Earlier analysis carried out at system level has shown that the civil servant status of the staff in many countries and the inability of universities to control their overall salary costs limit their staffing autonomy[38]. EUA's Autonomy Scorecard will provide further input at system level, painting a more precise picture of the state of play on that topic.

The scores obtained were analysed in conjunction with the share of income generated by "additional funding streams" (all funding streams with the exception of public funding and student financial contributions). The relation between each autonomy indicator and the different types of additional funding streams was also observed in order to test work hypotheses. The results need to be considered with caution given the limitations of the sample but allow for a number of conclusions.

Results confirmed that a positive correlation exists between the degree of diversification of the university's income structure and its perceived degree of staffing and financial autonomy. Noticeable positive correlations can be found in particular between income diversification and the ability of the university to invest in stocks and shares on the financial market, to borrow from banks or to carry over financial surpluses. The possibility for universities to recruit academic and administrative staff freely is also positively linked to the degree of income diversification. These findings tend to confirm the hypothesis whereby the capacity for the universities to set up an adequate staffing policy and to operate as independent financial actors is a necessary condition for the successful implementation of an income diversification strategy.

[37] EUA, *Lisbon Declaration – Europe's Universities beyond 2010: Diversity with a common purpose,* 2007, p.6.
[38] In 19 countries out of 34 included in EUA's *Exploratory Study University Autonomy in Europe I* (pp.29-30), part or all of the staff had civil servant status (although this was being phased out in some cases). Overall salary costs were fully or partially determined by the State in 9 cases, and universities were not able to decide on individual salary levels in 14 countries (or only for some staff categories).

Graph 8 – Attraction of additional income and perceived staffing & financial autonomy



Source: online questionnaire

Universities that receive a significant part of their income from **contracts with private partners** (through contractual research or education) are also those that appear to have more autonomy in allocating public funding within the institution. One possible interpretation of this relation is that research undertaken for industry or business partners usually does not cover the full cost of the activity, which means that universities need to be able to reallocate resources towards these activities.

The capacity to attract **philanthropic funding** appears related to the possibility for the institution to found other legal entities (foundations) and to carry over financial surpluses and build up reserves. The analysis also revealed a negative link between the share of philanthropic funding in the income structure of the universities and the ability to charge – and decide on the level of – tuition fees. It may be possible to interpret this relationship by the lack of perceived need for universities that receive fees to engage in fundraising activities, or by the reluctance of alumni in continental Europe to "pay twice", i.e. to donate to the university after having paid for their education. The relationship is not valid for the British universities, given that they all charge fees and have developed fundraising strategies earlier than most continental institutions.

Detailed analysis also revealed that the share of income generated through **services** is positively linked to the degree of perceived staffing autonomy, and more precisely to the university's ability to recruit staff freely (whether academic or administrative). A positive relationship also exists between the generation of this type of income and the ability of the university to borrow money. The capacity to borrow is doubtless an important factor in helping universities to kick-start activities which can be later turned into income-generating services.

The sample did not reveal any noticeable relationship between the different indicators of autonomy and the capacity to attract funds from international public entities. This absence of linkage may be accounted for by the more limited data available from the surveyed universities on the international funds they receive, especially as EU grants are often managed at faculty level. Also, the distribution of structural funds (which often make up for a large share of international funding) is largely independent from the regulatory framework in which the beneficiary university operates.

The French autonomy reform initiated in 2007 offers a concrete example of how improved autonomy fosters diversification. The reform has given those universities that have the new status the possibility to create satellite legal entities. About 30 foundations have been created in three years, collecting a total of about 62 million EUR from private partners, and by mid-2010 another 30 institutions were working on their foundation projects. Funds raised will allow universities to finance scholarships and chairs as well as projects for which funding had been insufficient.

Autonomy: a pre-requisite to income diversification

Policymakers themselves see **autonomy reforms** as one important driver to foster diversification. When asked "which measures have been implemented by your ministry/government to enhance diversification of income in higher education?", government representatives[39] first mentioned autonomy reforms which allowed universities to acquire property, raise fees, conduct commercial activities, exploit patents, etc.

This is confirmed to some extent by the universities' contributions to this study. However, additional qualitative input to the analysis suggests that autonomy may be best qualified as a pre-requisite to income diversification rather than a driver per se. Institutional autonomy, although it provides the essential conditions for the university to implement income-generating activities, may not be enough to drive such strategy. Indeed, ownership of buildings by the university does not necessarily lead to active property management.

Feature 6 Towards property management for French universities

As part of the ongoing autonomy reform, the French public authorities have recently transferred to universities the responsibility and competence for human resources management. In a second phase, universities will own their facilities, although this has so far remained optional. This transfer aims at granting the universities the ability to include property management within the global institutional strategy and help consolidate their identity brand name and attractiveness.

However, up to mid-2010, only nine universities out of 83 had expressed their interest for such transfer. Some observers underline the complexity of the process, and the difficulty for universities to bring themselves up to speed with property management and maintenance techniques including the design of strategic plans[40]. Discrepancies between the autonomy reform in the higher education sector, which states that universities can own their buildings on a voluntary basis, and the general state policy on management of public buildings, are part of the issue. The government has created a centralised structure that owns and manages all state buildings and properties, including university facilities and land. In an effort to rationalise the use of these buildings, this structure is to collect rent from users, including universities – potentially as of 2012. The incentive is therefore for universities to become owners, but they are so far largely deprived of the necessary human and financial resources to take on these new responsibilities. This would tend to show that there is a need to support the teams in the acquisition of the necessary skills in order for the university to make full use of this new competence and engage in active property management.

Therefore, the perception that extended autonomy would justify reductions in public funding (on the basis that universities are better equipped to raise their own funds) is flawed; to make full use of these competences, it is important that authorities provide some type of support to facilitate the acquisition of the new necessary skills that accompany institutional autonomy.

More autonomous universities through income diversification

There is a link between the degree of autonomy and the dependence on a given funder or authority. As seen earlier, universities receive the highest share of their income from public funding sources. This creates a dependence towards public funders, which grows as the share increases.

It has to be pointed out that this is not seen in all countries as a problem. In some Nordic countries or some German Länder, like Bavaria or Baden-Württemberg which traditionally had and still have a stable public funding, the common view is that reliance on state funding is less restrictive, in terms of autonomy, than other sources of funding, that may be more difficult to secure and less reliable over the long term. This

[39] Questionnaire submitted to Directors General for Higher Education in June 2009 in cooperation with the Czech Presidency of the European Union.
[40] Le Monde, "Le transfert du patrimoine immobilier intéresse-t-il les facs ?", 6 August 2010.

view is not shared however in countries that have seen the balance between public and private funding changing and public authorities simultaneously placing more accountability demands on universities, which are accompanied by additional regulations and scrutiny powers. In these cases, diversifying income streams becomes a crucial part of maintaining a university's autonomy and its resultant freedom of manoeuvre.[41] The context in which higher education institutions operate therefore contributes to shaping perceptions around this issue.

The analysis of all the data shows though that pursuing and maintaining additional funding streams helps to mitigate the risk created by being too dependent on one funder, reducing the sensitivity of the institution to major funding shifts or reductions. (See also the section on Risk management p.61).

This is particularly relevant in a context of economic crisis, where cuts in public funding may create significant shortfalls that put many universities' financial sustainability at risk; all the more so as they have not developed other, additional funding streams.

When raising significant additional funds, universities also improve their ability to invest strategically in activities or academic fields that may be comparatively less favoured in competitive funding schemes or in times of reduced state investment capacity. This allows them to pursue long term strategies which are less dependent on the funders' priorities and thus allows for a greater degree of autonomy.

3.2.2 Regulatory barriers to income diversification

A crucial barrier to income diversification in most European countries is the **regulatory framework:** universities are subject to limitations set by law that prevent them from exploiting their potential and developing income generating activities. These legal constraints were viewed as an obstacle to income diversification by the majority of the senior university managers surveyed in the project seminars and by 61.4% of the online questionnaire respondents. It is noteworthy that grievances related to the regulatory framework address the different dimensions of autonomy.

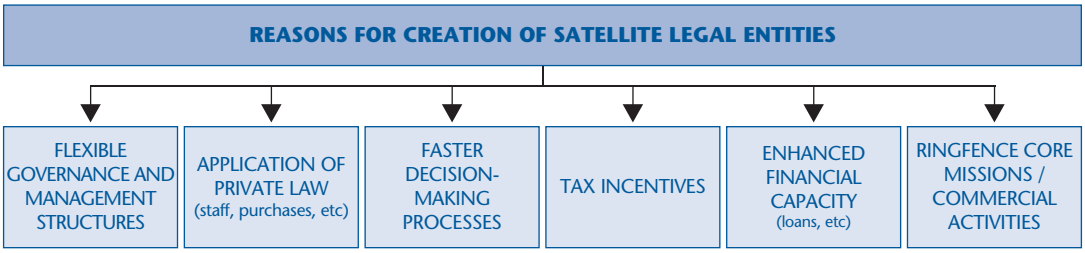
Recurrent criticism refers to inadequate governance **structures**, the framework of which is often set by law. In 29 out of the 34 countries examined in EUA's Autonomy Study[42], universities had little or no capacity to modify the organisation of their governance bodies. In a minority of countries, the regulatory frameworks forbid universities to include external members in their governing bodies, which is one of the ways for institutions to develop long-term partnerships with key stakeholders.

The capacity to create satellite entities, such as foundations, also greatly impacts on the ability of the institution to diversify its income structure. Interestingly, in those higher education systems where universities are allowed to create other legal entities, the main cited reasons for setting these up concern organisational and financial flexibility, meaning that universities resort to these entities to overcome obstacles. The figure below shows that the need for flexible governance and management structures, along with faster decision-making processes and generally more flexible regulations under private law, are key drivers in the creation of these entities. They also allow universities to benefit from extended financial capacities, enabling them to contract loans for instance. Out of the 34 higher education systems surveyed in EUA's exploratory study on autonomy, 12 forbid universities to borrow from banks. More favourable taxation regimes and the wish to separate the core missions of the university from its commercial activities also explain why universities may choose to establish external legal entities. These structures, such as foundations, may also provide an adequate frame to engage external partners with the university.

Some respondent universities described highly developed networks of satellite entities, sometimes with several dozen or hundreds of companies and foundations.

[41] Nigel Thrift, Vice-Chancellor of the University of Warwick, keynote speech given in the opening plenary session of the Experts Conference held in Bologna on 13-14 September 2010.
[42] EUA, *University Autonomy in Europe I: Exploratory Study,* 2009, p.12.

Figure 5 – Reasons for creation of separate legal entities



Generally, there seems to be room for improvement on this matter in Europe; responses to the online questionnaire placed the "perceived degree of autonomy to found for-profit entities or be a shareholder in such entities" at a rather low 2.67 on a scale ranging from 1 to 5, with 5 representing complete freedom of decision for the university. EUA's Autonomy Scorecard will further investigate this issue and give a system-level overview on the ability of universities to found legal entities.

In terms of **financial matters**, systems such as Scotland, where universities are not allowed to raise student financial contributions, close some avenues to diversify and generate income. In Ireland, the abolition of tuition fees for undergraduate students has increased the inflexibility of state funding. The "grant in lieu of tuition fees" is allocated on a yearly basis, thereby reducing the university's planning capacity. Moreover, while it should make up for the lost student financial contributions, it does not reflect the original base price per student and is therefore not a motivation to increase student numbers.

When reforms of the regulatory framework seek to enhance the universities' financial capacity, it is important that they take an integrated approach. Leaving aside key elements of financial autonomy may actually impact negatively on the university's financial sustainability. A university that is responsible for the maintenance and development of its buildings and facilities but has not been granted the capacity to borrow from banks may face a challenging situation. This is the case of the Technical University of Darmstadt, which receives 20 million EUR annually for facilities – although this was originally meant as investment money, the university needs to use it for maintenance purposes. This prevents the university from engaging in active property management which could have generated significant efficiency measures (efficient buildings with lower maintenance and energy costs). It also penalises the institution by forcing it to allocate any "unconstrained" income to facilities, including significant parts of income meant to cover indirect project costs (which are already unable to cover the university needs as they are capped at 20% of the direct costs or less in projects with industrial partners).

Other shortcomings in the financial area include the fact that universities are not allowed to own their buildings, or restrictions to research procurement for universities in comparison to research & technology institutions (RTO), as was mentioned in the Spanish context.

Some university managers also underlined the fact that institutions cannot design their own proper **staffing policy** that would make it possible to recruit the adequate staff profiles, supporting the income diversification efforts. This issue is strongly related to the fact that in a majority of European countries[43], all or part of the university staff have civil servant status, which is heavily regulated and tends to prevent universities from fully controlling their salaries. The inadequacy of the regulatory framework may therefore hinder the university's ability to recruit expert staff.

[43] EUA, *University Autonomy in Europe I: Exploratory Study,* 2009, p.29.

Feature 7 Staffing autonomy at the Technical University of Darmstadt

In 2005, the Parliament of Hessen granted a specific status to the Technical University of Darmstadt, making the institution one of the most autonomous universities of Germany. In 2009, adaptations were made to the status, which will remain in force at least until 2014. Its new status has allowed TU Darmstadt to design fast and efficient recruitment procedures for both academic and administrative staff. Speed, flexibility and responsiveness are perceived as the major advantages of autonomy by the leadership.

The university has now more freedom to set salaries and can include incentives for staff by rewarding income-generating efforts. However, there are shortcomings in this new regulatory framework. Since 2010 staff members are employees of the university and newly recruited staff do not have civil servant status. But the funding provided by the State of Hessen until now has only covered the "active part" of the careers, leaving the university with the burden of pensions. Current negotiations with the State should help solve this issue.

3.3 Funding modalities

3.3.1 How funding modalities drive income diversification

Public authorities have a number of possible levers to foster income diversification for universities through funding mechanisms.

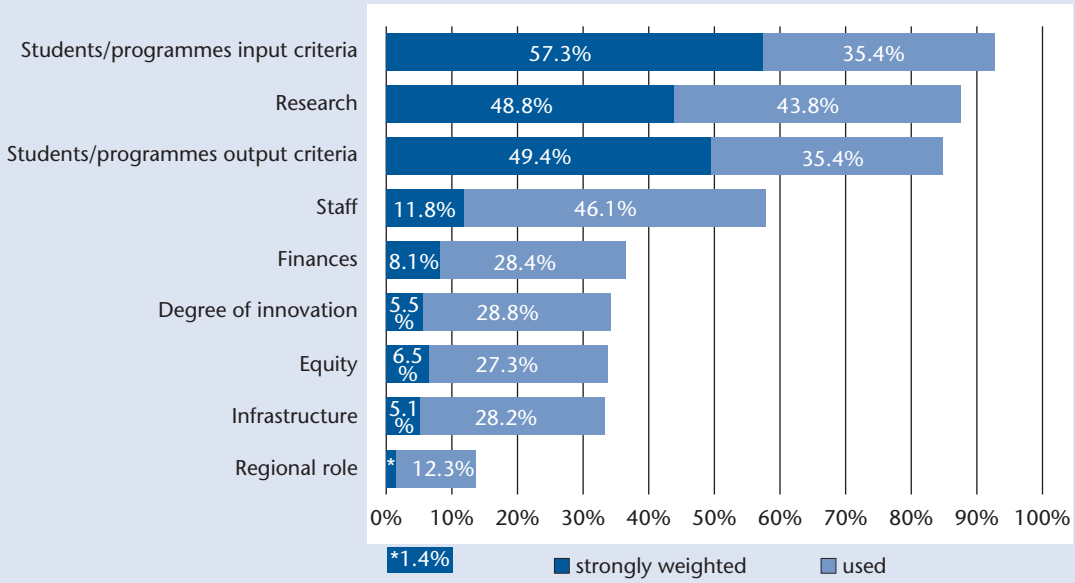
The inclusion by public authorities of certain criteria in **formula-based funding** can also be a driver for universities to search for additional income sources – whether intentionally or not. In some countries the number or amount of income from additional sources is used in the allocation formula. This is the case for instance – and to different extents – in Switzerland, Poland, Denmark and Norway. Such criteria may consider the number of research contracts, amount of competitive research funding (also from public sources), amount of external income generated through knowledge transfer. However, including these elements in the formula may harm an institution's financial sustainability, if these other funders only operate through co-funding mechanisms. A strong incentive to pursue such sources might lead to an increasing funding gap of the institution if there is no mechanism to counterbalance this with other public funding, for example through "top-up grants"[44]. Mechanisms that include such a formula as an incentive to increase income from potential co-funding sources therefore need to provide a compensation scheme; otherwise, such a mechanism would lead to undermine the financial sustainability of the participating universities, contributing to the creation of "downward spirals" affecting the institutions.

Formula-based funding can also work as a driver, even if the specific formula itself was not aimed at directly fostering the increase of income from additional sources. Sometimes formulae that seek to foster the increase of knowledge transfer activity, collaboration with business and industry or innovation activities also indirectly contribute to the increase of income from such activities.

The following graph shows which parameters are included in formula funding and how they are weighted. Student-related parameters (both input and output) are often decisive in the overall calculation. This can have a knock-on effect on diversification of income in cases where universities may charge tuition fees – seeking new students leads to an increase in both core public funding and student financial contributions.

[44] See example in Slovakia, Feature 11 p.53

Graph 9 – Funding formula parameters



Source: online questionnaire

The use of **project funding** (mostly competitive) also drives diversification, in particular diversification within the category of public funding. The analysis of the state of play shows an increase of funding from competitive sources. Very often these schemes fund research projects, but sometimes other activities are funded as well (such as the Innovation fund in the United Kingdom).

Excellence schemes like grants from the European Research Council or national excellence initiatives like in Germany (Excellenz Initiative) or Denmark (UNIK) can also be seen as drivers for diversification. Very often such schemes not only provide a direct source of additional funding but also have a knock-on effect to increase other funding sources. They tend to trigger or include the recruitment of high calibre staff, which in turn helps to increase other funding sources. This can be a better success rate in public funding through funding formulae (more citations) or an increase of collaboration activities or knowledge transfer and spin-off activities.

Other **targeted funds** also lead to diversification within the category of public funding. They often aim at increasing access and quality, or at fostering mobility. They are allocated through competition, negotiation or distribution to all universities.

3.3.2 Funding modalities hindering income diversification

The modalities of funding allocation by public authorities, but also by private entities, may also constitute a major hindrance to successful income diversification. A key concern of universities is indeed the excessive administrative burden that the search for new funding streams may bring about. The study shows that often small income sources generate a disproportionate amount of paperwork and administrative difficulties, which are costly in terms of staff time.

A problem of particular importance concerns **audits** performed by public authorities. The sheer multiplicity of audits creates supplementary administrative burdens for the universities, diverting staff from their normal activities. Universities may also be audited several years after completion of the project; this further complicates the process by making more difficult the interpretation of rules that may have been amended in the meantime. Staff turnover may raise additional difficulties, as the auditors may not be able to meet the staff responsible for a project long completed.

Feature 8 The shift towards a "control" culture in Ireland

The economic crisis has had multiple impacts on the Irish higher education institutions. Significant reductions in public funding over the last few years have been accompanied by a greater degree of accountability in terms of compliance and reporting. Several national research funding schemes have moved from a sample audit to a 100% control model. This increased audit activity on a national as well as on a European level impacts on regular operational activity. The growth in bureaucratic procedures in research funding schemes creates additional pressure on the institutions' financial sustainability. It triggers higher indirect costs which are insufficiently covered, therefore contributing to the growth of the funding gap.

The increased use of **competitive funding schemes** by public funding authorities also implies additional non-scientific work related to the submission of proposals and, importantly, brings in a relatively high degree of uncertainty which in turn complicates financial planning.

A Finnish university testifies to this time-consuming complexity:

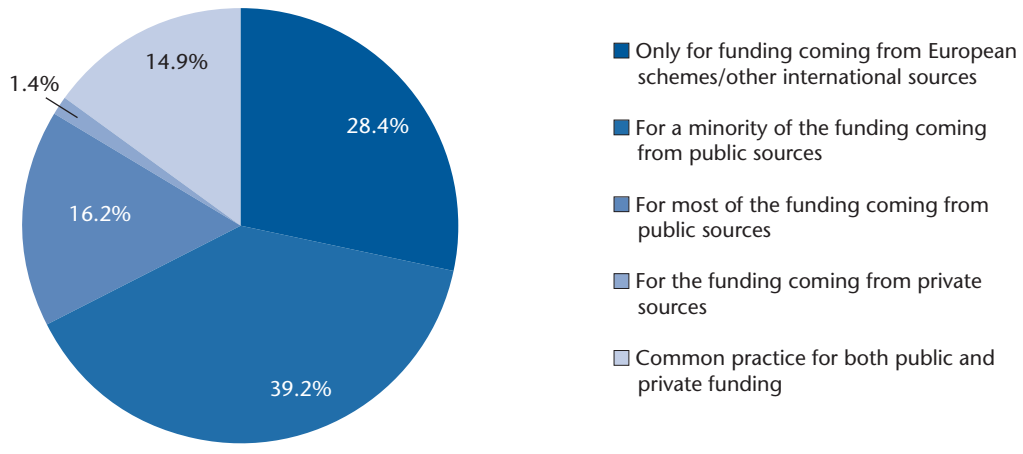
> *"The most important challenge in our case is that the work involved in developing e.g. project proposals for different funding programmes takes time away from the core activities such as research, and sometimes with no results if the proposal does not get funding. Also, even if the project is funded, its preparation period is not funded. Despite the support services for project administration offered by the university, the application process can be frustrating to the academics, whose main priority is science, not the paperwork involved.[45]"*

Another threat to the universities' financial sustainability stemming from funding modalities lies with **co-funding requirements**[46]. 86% of the university representatives who took part in the Ghent and Bologna surveys declared that co-funding requirements apply to at least part of the programmes financed by the main authority.

Moreover, co-funding of activities seems to have become common practice throughout Europe, with 57% of the respondents to these surveys agreeing that their main funding authority used co-funding requirements for a higher share of the funding.

Data from the online questionnaire also reveals that the frequency of co-funding mechanisms is rather high, with 15% considering co-funding as "common practice", and an additional 55% dealing with co-funding for part or most of the funding coming from public sources.

Graph 10 – Frequency of co-funding requirements

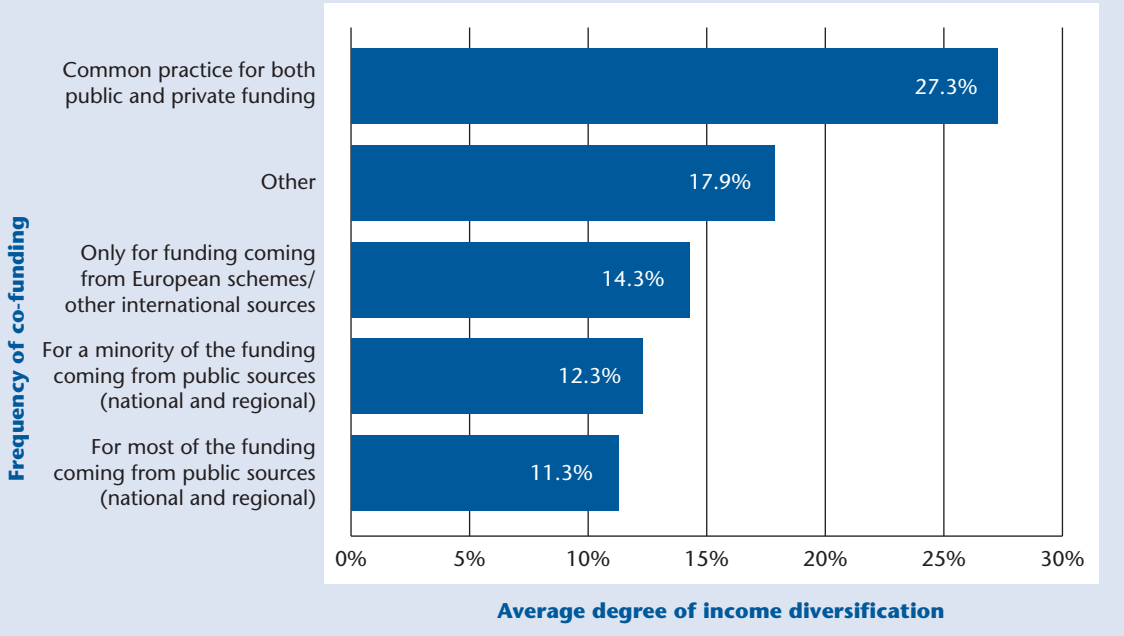


Source: online questionnaire

[45] Response extracted from the online questionnaire
[46] See section on Public funding, p.30

The analysis of the data also clearly shows a link between the frequency with which co-funding requirements occur and the degree of income diversification of the institution (as shown by the relative share of income generated through "additional income sources" over the total income). This suggests that additional income sources only rarely fund activities on a full-cost basis, requiring from the university that it self-finances part of a project, for instance. This often means that indirect costs[47] are only partially – if at all – covered by the external funder.

Graph 11 – Relation between co-funding and income diversification



Source: online questionnaire

However, collected evidence shows that universities do not consider co-funding as a driver for income diversification. In most cases, when faced with co-funding requirements, universities will use resources from their core budget, leading to underinvestment in facilities and equipment. Therefore, with only partly-funded activities and projects on the rise, the funding gap of an institution is bound to increase, thus endangering the universities' financial sustainability.

Co-funding is therefore not a driver but a risk associated with income diversification, which needs to be reduced by encouraging funders to finance activities on a full-cost basis (See p.57).

Feature 9 "Succeeding to death": the dangers of co-funding

Since 2003 the block grant that the Technical University of Darmstadt receives from the State of Hessen can be divided between a core grant (80%) and a "performance budget" (20%). The performance budget indicators are calculated on the average performance of the three previous years. An important part of the performance budget is dependent on a scheme akin to a "third party income matching scheme", whereby the State adds 0.50 EUR for each Euro coming from additional funding sources (with notable exceptions). It is however expected that in the next negotiations, this scheme will be capped, in the light of the strong capacity of the university to attract such funding.

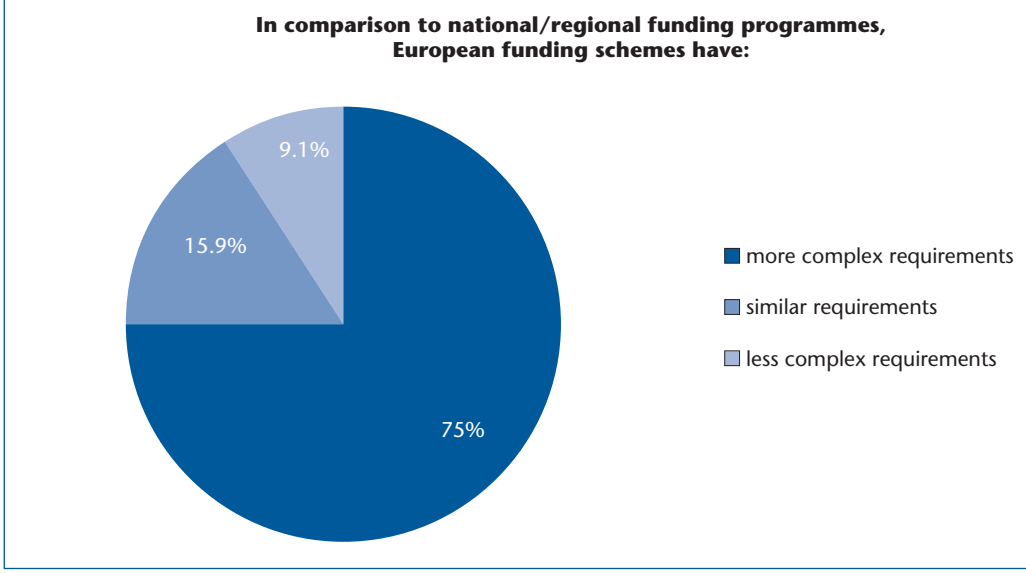
At the same time, funding from industry and from the DFG (which make up the most of TU Darmstadt's income generated from additional sources) never covers more than 20% of indirect costs (of which 50% go to the central level). Therefore uncontrolled development of contractual research actually threatens the financial sustainability of the institution, which is forced to subsidise these activities from a stagnating core budget.

[47] See Definitions, p.14

3.4 European funding schemes

While the multiplication of indirect public funding sources, at national, regional and sometimes local level, creates internal management and administrative difficulties for universities, sometimes requiring them to maintain different accounting systems, the hurdle is even higher when considering European funding schemes. Indeed, a majority of the surveyed university representatives perceive European funding programmes as more difficult to access and more complex to manage than their national counterparts. This is extremely harmful for these schemes, considering the importance they have gained over the years, and especially for participation in the framework programme for research, which is widely recognised as a sign of research excellence and international cooperation.

Graph 12 – Perceived complexity of European funding schemes



Source: Ghent and Bologna surveys

3.4.1 Seventh Framework Programme for Research and Innovation (FP7)

Much complexity is induced by the sheer number of different funding instruments that exist within each funding programme, and especially so in the case of FP7. The diversity of instruments within FP7 and the corresponding variety of eligibility criteria, participation requirements, financial and administrative rules, create a level of complexity that constitutes, in effect, a very high entry barrier for universities, in particular from the new member states. In addition to that, the excessive bureaucratic costs entailed by participation in FP7 projects, in combination with co-funding requirements, deter more and more universities from keeping up their level of participation. EUA has consistently called for simplification of European research funding programmes (See p.57).

This trend is quite worrisome considering that highly renowned technical/research-oriented universities gradually turn away from these programmes, thereby mechanically decreasing the quality of the research financed by the European Union. This was evident in the Innovative Medicines Initiative Joint Undertaking (IMI) which was launched in May 2007. Many universities immediately expressed concerns about IMI's intellectual property rights policy and its funding model, which differed from FP7 rules. As a result, some leading European universities refrained from participating in the scheme.

However, many universities seeking EU funding because of reduced national public budgets will apply even to unattractive funding models. This development could lead to two worrying developments: the high quality of applications could suffer, and those institutions applying for unfavourable funding sources would broaden the funding gap for their research activities.

3.4.2 European structural funds

Structural funds[48] also raise major concerns. They have become a non-negligible source of funding for many universities across Europe, both for education and research activities. For the new member states to the European Union, this process has been very fast, as this source has been accessible to them only since their accession to the EU (2004 and 2007). Therefore this requires an important effort of adaptation for the different staff groups of the universities. An example of the relevance of these funds for a university is provided in the Feature 10.

Feature 10 European structural funds at Masaryk University

Masaryk University, based in Brno in the Czech Republic, is a comprehensive university with nine faculties and over 40,000 students. While the institution had already received some funding from structural funds in the period 2004-2006, the current programming period 2007-2013 represents an important opportunity for the university. At national level, two operational programmes are directly relevant for higher education institutions endowed with a total envelope of 4 587 billion EUR (85% financed by the EU, 15% financed from Czech state budget):

- *The Operational Programme Research and Development for Innovation is intended to help increase Czech research capacity and upgrade research equipment by providing funding for research infrastructure as well as the basic start-up funding for the operation of these new research facilities.*
- *The Operational Programme Education for Competitiveness is focused on human resources development, support of innovation of study programmes and curricula as well as training programmes for university staff and development of a new generation of young scientists.*

Participation in projects funded by the structural funds is of high importance for Masaryk University as this is a major source of additional financial sources. Indeed, while the university's 2009 budget represented about 232 million EUR, approved structural funds projects (for an average duration of three years) amounted to 51 million EUR. The university also submitted a further 259 million EUR worth of projects, mostly dedicated to capital expenditure (acquisition of buildings, equipment, software).

Furthermore, core funding for education and research from the Czech Ministry of Education, Youth and Sports is expected, at best, to remain stable in the coming year, but will more probably decrease slightly as a result of the financial and economic crisis. Therefore, in the regions eligible for these funds, structural funds will be the only source of investment into new buildings and equipment for universities for several years.

While this additional funding is considerable, the university is also aware of the risk and obligation this represents, given the challenges connected to this funding source. Therefore the university has created a Project Support Office in 2008, now comprising six fulltime staff, which deals with all projects financed from structural funds at the university. It is a department of the rectorate that looks after administrative, financial and other risks associated with the projects. It also gives methodical guidance to faculties, departments and individual project teams. The office is closely connected to the University management, especially to the bursar and the Vice-rector for Strategy and External Relations. The Project Support Office also manages cooperation of expert departments such as Financial, Personnel, Legal, Public Tender, Infrastructure Development Office, etc. in order to provide full and coordinated support for all projects and prevent risks. In addition to that, the university also established a network of faculty coordinators to have a broader coordination within the university and to be closer to individual project teams.

[48] As they are channelled through national or regional authorities, these funds may be sometimes considered and categorised as national and not European funds in the accounting system of some universities.

Challenges associated with the management of structural funds and observed by universities throughout the project include:

- Lack of uniformity in interpretation of rules

Given the importance of structural funds in the university budget, stability, predictability and uniform interpretation of rules are a pre-requisite for the successful implementation of the project. However, personnel changes in managing authorities are common, leading to changes in manuals and interpretation of rules, sometimes several times within the same year.

- Excessive reporting requirements

Structural funds are based on shared management by the European Commission and the member states. Therefore, the process of setting-up the financial, administrative and reporting rules for these funds necessarily involves many steps and inputs from different authorities. At the end of that chain, the beneficiary has to deal with excessive and sometimes unnecessary reporting requirements, such as sending multiple copies of documents, providing additional documents to justify personnel costs (not only timesheets but also copies of work contracts, salary slips, copies of bank statements certifying that the financial transfer has taken place, etc).

- Technical financial requirements

Universities have to set up a separate bank account for every project (which often leads to the creation of dozens of bank accounts per institution) where all project costs and revenues have to be recorded. However, having separate accounts for every project makes it impossible to have any efficient cash management at the university level. It also leads to reporting issues, when institutions cannot "unbundle" salary costs and pay them separately from the various projects accounts.

- Co-funding and "hidden" co-funding

Although universities (given their public status) are usually eligible for 100% funding from structural funds, this is not always the case and universities have to co-finance some projects from their core budget. In many cases, universities cannot simply turn away from such funding, even under these conditions, as structural funds often represent important opportunities to reach for needed investment into the buildings and research equipment.

However, the universities' financial contribution to these projects goes beyond fulfilling the co-funding requirements. Experience shows that "hidden" co-financing often exists, including ineligible preparation costs, social benefits of the personnel, low salary categories (below average), etc. Another example can be restrictions in buildings, e.g. costs for establishing a cafeteria/canteen in a new building or creating parking space around the building are not eligible for financing under structural funds, even though not providing such a service is impossible for the university.

Good practice exists at national level in Europe to foster income diversification by offering support to universities applying to European funding programmes, and most notably FP7 (See Feature 11 for an example). One can see that if such schemes are not coordinated among member states, they will contribute to create an unlevel playing field for universities across Europe, with some countries providing more comprehensive support than others.

Feature 11 National support to participation in European funding schemes

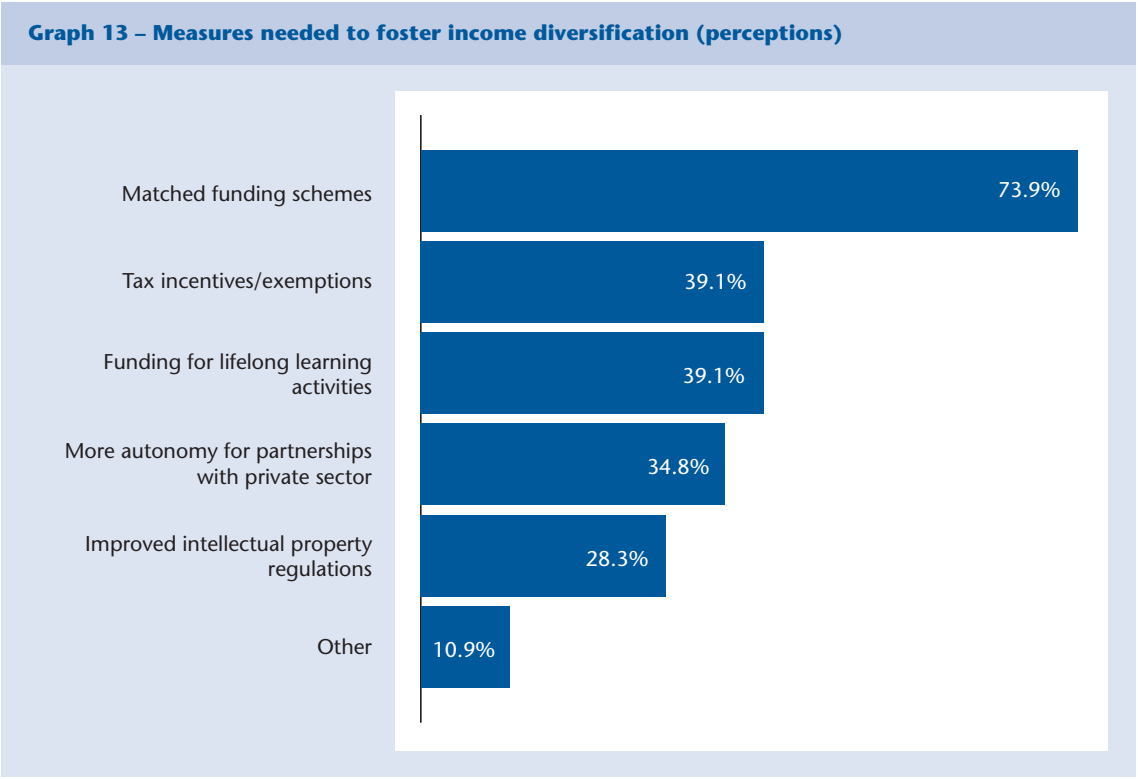
The Slovak Research and Development Agency has developed an innovative programme which provides national applicants to FP7 with funding compensating for the costs induced by the preparation phase of the project. This is undertaken through a yearly call for application, which was endowed in 2010 with close to 700,000 EUR. The Agency focuses on specific types of actions and funding schemes and bases its decision to reimburse such costs on the evaluation of the submitted application carried out by the European Commission.

The Slovak Research and Development Agency also offers "national co-funding" in complement to the grant of the European Commission under FP7 to foster the participation of Slovak teams in European research.

3.5 Setting the right incentives to foster income diversification

The data analysis shows a general lack of support by public authorities for universities in relation to income diversification (See p.40). However, where support exists, it is most often considered as a crucial success factor. The graph below details some of the measures that universities perceive as necessary to encourage income diversification in their institutions.

Graph 13 – Measures needed to foster income diversification (perceptions)



Source: Ghent and Bologna surveys

3.5.1 Matched funding schemes

Matched funding schemes[49] appear as the most popular measure for income diversification. 84% of the questioned university managers consider this as an important incentive mechanism. This is somewhat surprising given that such schemes have only been implemented in the United Kingdom and Norway. Finland has designed a one-off matching scheme for the newly created foundation universities but has not launched a long-term scheme. Given the great success of these schemes in the countries where they have been implemented, matched funding schemes are a mechanism that all public funders should consider. The schemes set up in Wales and Norway are analysed in more detail in Features 12 and 13. The analysis shows that these two schemes are similar in nature and objectives but that they differ markedly in some key areas.

Feature 12 The Norwegian "Donation Reinforcement Programme"

The "Donation Reinforcement Programme"[50] 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. Direct public funding typically makes up between 70 and 75% of the universities' total budget.

Through this scheme, the state matches donations exceeding 0.35 million EUR at a level of 25%. It has first focused on donations by enterprises and private individuals, and from 2007 has also taken into account donations by foundations and charities.

Conditions for donation eligibility:
- *Donations must be targeted at long-term basic research*
- *Donations cannot fund research activities that directly benefit the donor's business*
- *Donations must amount to a minimum of 3 million NOK (about 0.35 million EUR)*

Process:
- *The donor and receiving institution agree on formalities and use of donation*
- *The receiving institution must complete a simple application form*
- *The receiving institution must guarantee that donations qualify for reinforcement*
- *A decision is normally made within three weeks*
- *The Research Council of Norway distributes donation reinforcements*
- *"Reinforcement" is paid to the institution that receives a donation*
- *The receiving institution must submit a financial report*

Status of donations:
2006 – 531 million NOK (~63 million EUR)
2007 – 193 million NOK (~23 million EUR)
2008 – 238 million NOK (~28 million EUR)

The programme is considered successful and has doubled philanthropic funding in Norway since its introduction. A main objective for the programme was to keep the application and decision-making procedures as simple as possible. The Norwegian authorities did not consider including a tax incentive measure in this programme.

[49] See Definitions, p.14
[50] Summary of the presentation of Kari Balke Øiseth, Director General of the Department of Research, Norwegian Ministry for Education and Research, given during the EUDIS seminar held in Madrid on 16-17 October 2009.

Feature 13 The Matched Funding Scheme for Voluntary Giving in Wales

In Wales, the Ministry for Education announced in December 2008 the creation of a scheme to support Welsh universities to extend their fundraising efforts and stimulate further investment in higher education from private investors. The scheme would encourage Welsh universities to increase and expand their fundraising capacity and give incentives to voluntary giving from alumni and other individuals by guaranteeing additional government matched funding. This announcement followed the launch of a similar scheme in England earlier in 2008. The Matched Funding Scheme for Voluntary Giving[51] is based substantially on the similar scheme in England, with particular amendments to reflect the smaller size and circumstances of the higher education sector in Wales.

Structure

The Higher Education Funding Council for Wales has set aside funding from its Strategic Development Fund for a period of three years starting from 2009/10, at the following amounts 1.5 million; 3.5 million; and 5 million GBP to support the Scheme.

The matched funding scheme has two tiers, each with a different funding ratio and cap:

Tier 1: for the least-experienced fundraising institutions and those looking to build capacity from a low base. Every 1 GBP raised is matched in full up to the level of a fixed cap.

Tier 2: for those institutions with existing development programmes. Every 2 GBP raised is matched by 1 GBP up to the level of a fixed cap.

Matched funding is paid annually for the previous year. The level of funding actually paid depends on the tier an institution pertains to and amounts to the level of the cap for that tier. Institutions have freedom to decide how matched funding is spent, within certain limits.

Eligibility

The following forms of giving are eligible for matched funding:

- *Actual gifts of cash*
- *Gifts of shares, with their cash value fixed on the value of the share at the date of donation*
- *Gifts from small/medium-sized charitable trusts or foundations that donate less than 60 million GBP a year*
- *Gifts through HEIs' own non-consolidated development trusts*
- *Corporate gifts and overseas gifts, where it fits within the above categories*
- *Gift Aid.*

Gifts from Research Trusts and foundations are eligible if these are gifts, not contracts, and if they are not restricted for very specific purposes. Legacies and gifts in kind are not eligible for matching.

The Norwegian scheme appears more limited and restrictive than its Welsh counterpart, which also reflects a different cultural background and approach to fundraising – with the Welsh scheme being modelled after the existing system in England while the Norwegian one can be considered as a creation without a model.

During the establishment of the programme, for instance, the Norwegian government had to argue why basic research should be partly funded privately – in Norway this is widely seen as a public funding responsibility. The government also had to make clear that this scheme would not lead to a reduction of other public funding, and that these resources were additional.

In Norway beneficiary universities and donors must agree on the use of the donation. It has to be allocated to long-term basic research and it cannot benefit the donor directly. Universities in Wales have more freedom to

[51] Summary of the presentation of Philip Gummett, Chief Executive, Higher Education Funding Council for Wales, given during the Experts Conference held in Bologna on 13-14 September 2010.

use the matched funding that is provided afterwards. There is, for example, no direct link in terms of *internal allocation* between the private money raised and the matched funding received. The Welsh system has a sophisticated, two-tiered approach that enables it to differentiate between universities that have developed a certain fundraising capacity and those who have not been able to so far. It includes therefore a capacity building element within the funding available for the scheme by providing an additional one-off payment of 20,000 GBP to each institution in the first tier to build capacity in fundraising.

The following key principles for successful matched funding schemes were extracted from the comparison of these systems, the evaluation of the existing schemes by public representatives and the discussions held throughout the project with university leaders and managers:

- Simple rules are key for acceptance
- There should not be a limit to the university activities that can be matched
- A broader range of donors can have a greater effect
- Tax incentives can provide an additional leverage effect
- Public authorities need to make clear that matched funding will not lead to a reduction of other public funding
- Mechanisms should include funding for fundraising capacity building within universities

3.5.2 Support for leadership development and professionalisation

The evolution of the university's missions, an increasingly competitive environment, new demands and new activities have contributed to the transformation of the higher education sector in the last decade. This change naturally calls for strengthened leadership and a wide range of management skills. Public authorities can support this transition by providing either direct funding to universities to set up development programmes or by setting up specialised bodies dedicated to providing services of support and advice on leadership, governance and management. Leadership development programmes can help foster the exchange of best practice and equip current and future university leaders and managers with the skills to help them deliver continuous improvement and respond to current and future challenges. Although a lack of appropriate skills has been underlined by the universities as a key obstacle to income diversification and as an area where support is needed, very few support mechanisms exist today in European countries. The questionnaire submitted to university managers in June 2010 revealed that most respondents did not receive any type of external support to develop and train staff.

The only country in Europe that has invested in setting up a specific body to develop leadership and management skills for university leaders and managers is the United Kingdom, with the Leadership Foundation for Higher Education (LFHE). The English, Welsh and Scottish Founding Councils provided the seed money to support an initiative led by Universities UK to set up a body that provides professional and targeted leadership development. The foundation commissions and delivers high quality programmes for university leaders and managers, as well as members of governing bodies and audit committees. It also promotes a culture of organisational learning and reflection and champions examples of excellent leadership, governance and management within UK higher education institutions, so that they are showcased as model organisations.

Given the high importance of this success factor, not only for income diversification, but also for facing the current and future challenges of higher education leadership and management, this would be an investment for public authorities which would provide a high return for higher education funding in general.

3.5.3 Improved funding modalities: simplification and funding on a full cost basis

While diversification within the public funding sector can also help to mitigate risk and decrease dependency on one single funder, the uncoordinated fragmentation of funding sources also poses great challenges for universities – particularly competitive funding schemes at both European and national levels. Indeed, such schemes tend to have different accountability regimes (sometimes despite being set up by the same funder) and there are often high costs of compliance for application and reporting procedures. In addition, one of the problems highlighted previously is that many competitive funding schemes simply do not cover the full costs of these activities and projects.

Previous EUA work has shown that European funding schemes play an important part in shaping national funding schemes. Therefore, the European Union needs to lead the move to cover the full costs of research and other activities better, simplify the rules for such schemes and look for ways to reduce participation costs for universities. The different funding bodies need to engage in a dialogue to look for ways to coordinate and simplify rules and accountability procedures. Such simplification principles need to be thoroughly implemented – not only for the rules themselves but also in their interpretation and execution. This in turn will ensure that the money saved through simpler procedures can be spent directly on teaching, research and innovation.

Simplification

The evidence collected throughout the project clearly points to excessive bureaucracy and complexity in funding modalities as a major obstacle in the implementation of a sustainable income diversification strategy for many universities in Europe. The quantitative data, case studies and contributions from EUA's research policy working group revealed a great need to make progress in European and national efforts to simplify funding schemes. Both the growing trend towards using competitive funding on national level and the pressure on universities to seek additional, mostly competitive, funding schemes demonstrate that this problem is certainly not going to disappear in the next decade.

In 2009 and 2010 the simplification debate on European level reached new levels, with increased cooperation among the different institutions to discuss the future steps necessary to reach real simplification of European funding. The following recommendations for simplification have been made by EUA on behalf of the university sector, drawing from an analysis of EUDIS data and related EUA work:

- Accountability measures accompanying funding programmes need to be balanced and proportionate and must be based on mutual trust.

- Simplification needs to involve the entire process from application to reporting and post control measures like audits.

- Rules of participation developed under FP7 should apply to all related funding streams created afterwards, rather than designing specific rules for each additional programme. Diversity should only remain where it is absolutely necessary (taking into account for instance the difference between higher education organisations and companies).

- A common terminology across all funding schemes needs to be developed; unclear and sometimes conflicting regulations need to be removed and guiding documents made clearer.

- All rules, regulations and documents should be available from the start of the programme and remain stable throughout its lifetime – changes within the life of the programme should be avoided. Financial regulations need to take into account the diversity of accounting methods in Europe's universities and should therefore accept different methods of identifying activities, cost objects, cost drivers, cost basis and staff time allocation, rather than imposing a one-size-fits-all system.

- Different calculation methods to identify indirect costs should be recognised as equally valid. The **implementation** and interpretation of these regulations need to be governed by the guiding principles of simplification. Trust has to be nurtured through a continued dialogue between funders and beneficiaries, taking into account the breadth of the universities' missions.

European funding programmes need to lead by example by simplifying and streamlining their rules as suggested above. Coordination with national funding schemes must be enhanced through better cooperation between the different funders, as exemplified by the work carried out by the stakeholders' platform on "Common principles governing external funding of research".

Feature 14 Simplifying financial transactions for universities in the Netherlands

In a context where direct public funding has stabilised while competitive public funding and contractual research with the private sector have increased, there is a growing tension in the Netherlands around covering indirect costs. Dutch companies do not consider that it is their responsibility to cover such costs in the framework of contractual research. However, research which is not priced on a full-cost basis could be regarded as unlawful state subsidies to the national industry.

To improve transparency on this matter, the Department of Finance has developed a uniform framework for all government grants, including research. Accountability requirements are proportional to the size of the grant (under 25,000 EUR; between 25,000 EUR and 125,000 EUR; over 125,000 EUR). This framework is to be implemented by all departments by 2012. Since 2009 auditing has also been simplified in the framework of the "single information single audit" principle. This aims at avoiding duplication and harmonising Dutch and European accounting basics as far as possible.

The government has also concluded agreements with the universities and their main other funders to clarify cost-related terminology. In parallel, the public authorities are fostering the implementation of full costing systems in universities to increase transparency (which funders pay which parts of an activity)[52].

Funding on a full cost basis

The findings of the EUDIS project clearly show that universities are concerned, in the medium and long term, about increasingly having to accept carrying out activities that are only partly funded. This is all the more relevant when new, additional funding sources or traditional funders turn to co-funding, requiring from the university that it self-finances part of a project. The increase of these co-funding sources is going to widen the funding gap and will lead in the long term to a massive backlog in investment as universities try to cover the missing part from the shrinking source of public funding or refrain from investment in facilities or staff. All national funders and European funders need to solve this problem urgently as the analysis has shown that universities will – due to a lack of alternatives – turn to additional sources which mostly only co-fund projects. As the analysis has shown however, co-funding is not a driver for diversification. While individual funders argue that co-funding allows them to fund more activities, the project shows that this is starting a vicious circle by which institutions will have to chase more and more co-funding sources, thus widening the funding gap. The increasing ability to identify the real costs of activities will also show that the amount of underfunding in European universities is even higher than expected.

[52] Summary of the presentation of Michael Jansen, Policy Adviser, Ministry of Education, Culture and Science of the Netherlands, given during the Experts Conference held in Bologna on 13-14 September 2010.

In a national or regional context, the main funder may compensate the institutions that receive funding from competitive sources that do not cover the full costs of an activity (Canada has developed such schemes). But solutions in an increasingly international funding environment are much more complex. If European funding does not cover the full costs of the funded projects, this will lead to an unlevel playing field for universities across Europe. Some countries for example have designed compensation programmes by which they cover the missing costs from European funding. In some countries, universities may recover value added tax which is not (or very rarely) eligible in European funding programmes. The only practical solution for this problem to be solved is to turn to funding on a full cost basis, even if that were to have consequences on the number of projects being funded.

Universities need to convince their funders that funding on a full cost basis is justified for all of the reasons argued for above, while guaranteeing funders that universities also seek to implement efficiency measures and adopt optimal administrative processes. Funding on a full cost basis should not contribute to rewarding inefficient use of resources. It is therefore important for universities to communicate transparently to funders on measures taken to drive internal efficiencies.

Development of full costing

The identification of the full costs of all university activities is a crucial tool in the implementation of a diversification strategy. Institutions need to be able to see whether an additional source covers the costs of an activity, and if the institution makes a profit or a loss by engaging with the partner. In the latter case, it still might be relevant to pursue this activity if other sources can be found or if a return of investment can be foreseen in the long term. The development for full costing systems is therefore an essential tool in diversification.

EUA has addressed this issue in the first part of its work on universities' financial sustainability in the report *Financially Sustainable Universities: Towards Full Costing in European Universities.* The study showed that some countries or universities are well ahead of others in terms of the **development of full costing systems.** Development ranges from countries, such as the United Kingdom and the Netherlands, where a uniform but flexible system has been introduced in more or less all universities, to countries where none of the universities have developed full costing systems, such as Slovenia or Croatia.

The study revealed that support by public authorities or funders for the introduction of full costing systems is essential if significant progress is to be made in the years to come.

In many cases, however, there has been no external governmental support, and although there are countries where considerable progress has already been made to develop and implement full costing systems in universities, there is also a large number of countries with no countrywide coordinated development and a significant number of universities unable to identify the full costs of their activities.

Given the status of development revealed by this study, EUA further suggested providing support to help universities implement full costing systems. Through the EUIMA project[53], and with funding from FP7, EUA is supporting a series of country workshops throughout Europe designed for university management, funders, research councils and governments specifically to increase the development of full costing initiatives within universities and also to support its development at the national level. National governments should also step up their efforts to support the development of full costing in order to improve the sustainability of the system.

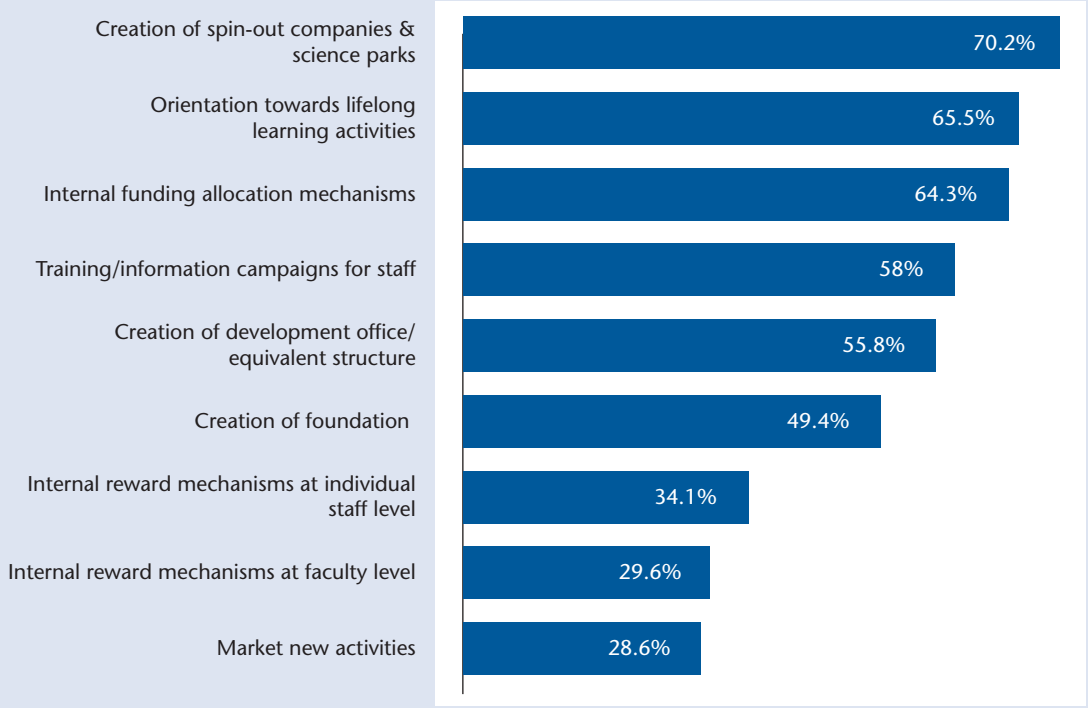
[53] European Universities Implementing the Modernisation Agenda – EUA project financed by the European Commission under the 7th Framework Programme for Research and Development (2009-2011).

4. Universities

4.1 Universities diversifying income streams

The following graph illustrates the strategies and mechanisms currently used by universities throughout Europe to foster income diversification. While it is important to note that such activities and mechanisms are not necessarily undertaken by universities with the objective of diversifying income, they offer a potential for income generation. The creation and development of spin-off companies and science parks may bring about a series of advantages related to the reinforcement of research capacities and closer links with private partners, but they clearly also offer prospects of additional income derived from research exploitation. However, although these activities may often produce income, they may more rarely generate profit, considering the full costs incurred. A revealing example is that of the Palmenia Centre for Continuing Education in Helsinki, the largest lifelong learning institution attached to a university in Europe. Lifelong learning activities are largely perceived as having the potential for income generation by enabling universities to target new student populations. However, the example of the Palmenia Centre shows that even such a large and well-established institution still does not allow the university to recover all the costs incurred for this activity, even though it has also successfully exported its programmes to other countries. Currently, the income flowing into the Centre covers about 90% of the associated costs[54].

Graph 14 – Strategies and mechanisms set by universities to foster income diversification



Source: online questionnaire

[54] Presentation of Kauko Hämäläinen, Director of the Palmenia Centre for Continuing Education, University of Helsinki, Finland, given during the Experts Conference held in Bologna on 13-14 September 2010.

4.2 Drivers of income diversification

General economic context

The general economic context is an important driver as pressures on public budgets lead to reductions in public funding (See also Chapter 5 p.79) This factor has been mentioned in the different questionnaires submitted to universities during the project as well as in the workshops and the final conference as a strong driving force for institutions to pursue additional income sources. Another indication is the interest this project has generated, in particular in those countries where cuts in public funding have been introduced or announced. The policy agenda, set by public authorities at different levels (including at European Union level), also drives certain types of cooperation – for instance between academia and business – which also have an effect on income diversification for universities.

Globalisation and internationalisation

Globalisation and internationalisation, which are the consequences of the continued expansion of the demand for higher education across the globe, also constitute drivers of diversification, in particular in relation to the increased mobility of both staff and students across Europe and beyond. This simultaneously creates new opportunities and expands the field of competition for universities, which need financial means to improve their attractiveness. Internationalisation represents a substantial cost for universities, especially in the research area but it also creates new income possibilities. While in Europe only few countries have traditionally raised a relevant proportion of income from international students, more and more universities now see this not only as a means to increase reputation and quality but also as a growing source of income. In the last few years, this has not only been the case for universities in the United Kingdom, Germany, France and the Netherlands, but universities from other countries have also been seeking the opportunity to generate revenue from international students. A degree of caution is appropriate though, considering that excessive vulnerability towards a small set of countries might destabilise the funding model in case of major changes. Internationalisation has also provided possibilities for activity expansion, for instance fostering "cross border" research collaboration, which has also become a more important form of increasing income in recent years. The European Framework Programmes for Research have provided a strong incentive with additional funding to increase collaborative research activities across borders.

Risk management

For universities, risk mitigation is a powerful driver for the strategic pursuit of new funding sources. Respondents of the online questionnaire as well as the university managers questioned[55] mentioned risk management in particular as a reason for their efforts to diversify income. Many universities reported that income received from the main funding authority had been decreasing in recent years. Pessimistic views on how teaching and research funding will evolve in the future also reinforce the perception that spreading risks is crucial.[56]

Additionally, the economic downturn has compounded these expectations. In this context, universities in Europe typically find themselves in a position where developing additional funding streams becomes a requirement if they are to fuel further growth in their activities. It is worth noting that this perception is shared by universities across different countries, regardless of the percentage of GDP allocated to higher education. Universities in Portugal, Ukraine, Switzerland, the Netherlands, Germany, Italy or the United Kingdom all shared this rationale.

[55] Madrid survey.
[56] Ghent and Bologna surveys.

Mission expansion

Income diversification and generation may be part of a strategy to make funds available for academic development, be it teaching or research activities. At this point, income diversification comes to support the expansion of the institution's missions – by providing new resources to foster the achievement of new or pre-existing tasks. Expectations placed on universities today have never been greater; "by striving for excellence in teaching, research and innovation, by offering opportunities to diverse groups of learners, and by providing the optimal creative environment for the talented young researchers that Europe needs, universities are increasingly central to future growth and to the consolidation of Europe's knowledge society"[57]. However these increased expectations are often not matched with significant additional financial means.

The development of research activities remains one of the main reasons for universities to diversify their income structure – not least because opportunities to create new income flows from research activities appear relatively straightforward, for instance through the creation of spin-out companies, contractual research with private partners or participation in the European research programmes. This in turn contributes to strengthening the institution's research capacities. Aside from research and teaching, universities may seek to generate additional income to improve internal processes, quality standards or internationalisation activities.

Feature 15 Developing research through third-party funding

The Munich University of Applied Sciences (MUAS) provides an example of mission expansion dependent on the generation of third-party funding.

Although the institution is legally and financially heavily dependent on the Bavarian government, there is no sense of emergency to change the situation as the Land offers prospects of stable, reliable funding. However, the transition phase in which the dual higher education system of Germany is finding itself has triggered a structural evolution that could lead universities of applied sciences (UAS) to have to consider new funding sources. In 2006, UAS gained the right to include research as one of their institutional missions. They have also started to set up Master programmes, although they cannot provide any Doctoral programmes aside from joint programmes with universities.

Setting up Master programmes requires conducting some research on campus, and the prospects for public funding for this purpose appear limited. In the absence of a framework – or of any general sponsoring of research activities – allowing the university to address this challenge properly, third-party funding has become a significant source of income to develop research activities at MUAS, mainly through contracts with small and medium-size regional companies. Income derived from tuition fees has also allowed the university to create research support positions on a permanent basis, something that is difficult to achieve exclusively through projects of limited duration.

Essentially, the development of the research mission of the university seems to depend on the ability of the university to obtain more leeway in its staff expenditure and unblock funds with no strings attached.

The quest for flexibility

A strong motivation for many universities to diversify their income also lies with the wish to avoid the administrative burden that often comes with public funding. Income generated through commercial or fundraising activities is perceived as being comparatively easier to manage and can be allocated internally without restrictions. Contracts with private partners also tend to be regarded as more straightforward

[57] EUA, *Prague Declaration 2009 European Universities – Looking forward with confidence.*

than those with public authorities. However, expectations are not always matched by the actual funding modalities used by the private sector, which tends to limit its contribution to partial funding of the activities it seeks to support (See p.47).

This paradox is exacerbated by the often diverging accountability requirements between public funders, either from different entities or at times within the same ministry. Repeated remarks made by respondents in the online questionnaire were further substantiated by subsequent data collection, with over 68% of surveyed university representatives agreeing with the statement "Accountability and reporting requirements tend to differ a lot between public funders"[58]. Importantly, several universities mentioned that the smaller public funding programmes often came with more complex participation and reporting rules. It is therefore crucial that public funders streamline their participation rules, accountability and reporting requirements, and engage in a dialogue with other funders and universities to establish rationalised, simplified funding modalities. This will in turn foster income diversification within public funding, encouraging universities to seek different public partners without being deterred by multiple and complex requirements.

Enhancing competitiveness

The search for enhanced internal flexibility is coupled with a perception that income diversification goes hand in hand with improved competitiveness on the national and/or international stage. Additional income often stems from participation in competitive schemes organised indirectly by public authorities, which are usually highly regarded, or through contractual research with private partners. The latter in particular may create the basis for broader cooperation schemes such as strategic alliances with business and industry, contributing to the reinforcement of the position of the university not only in financial terms.

Feature 16 The University of Salford and the MediaCity project

After conducting an analysis of its existing partnerships, the University of Salford realised that these were poorly stewarded, brought little added value to the university and only slight reputational benefits. As part of its strategy to change its internal culture, the university leadership chose to focus on strategic, high-impact partnerships that could contribute to the diversification of the institution's income streams, enhance synergies between learning, teaching, research and innovation, and bring high reputational dividends.

The University of Salford therefore became actively involved in the MediaCityUK project, which consists in the creation of an environment dedicated to the needs of creative and digital industries and in which the BBC is a prominent partner. Although the participation in such a large project involved important (mainly financial) risks, those were carefully assessed and the University took the decision to finance costly infrastructure on the site.

Benefits from the participation in the MediaCityUK project included:

- *Research and Innovation Partnerships (Industry, Universities, Government)*
- *Training and Education Partnerships*
- *Diversification of revenue streams*
- *Closer relationships with Government and Industry*
- *Reputational and branding benefits at national and international levels*

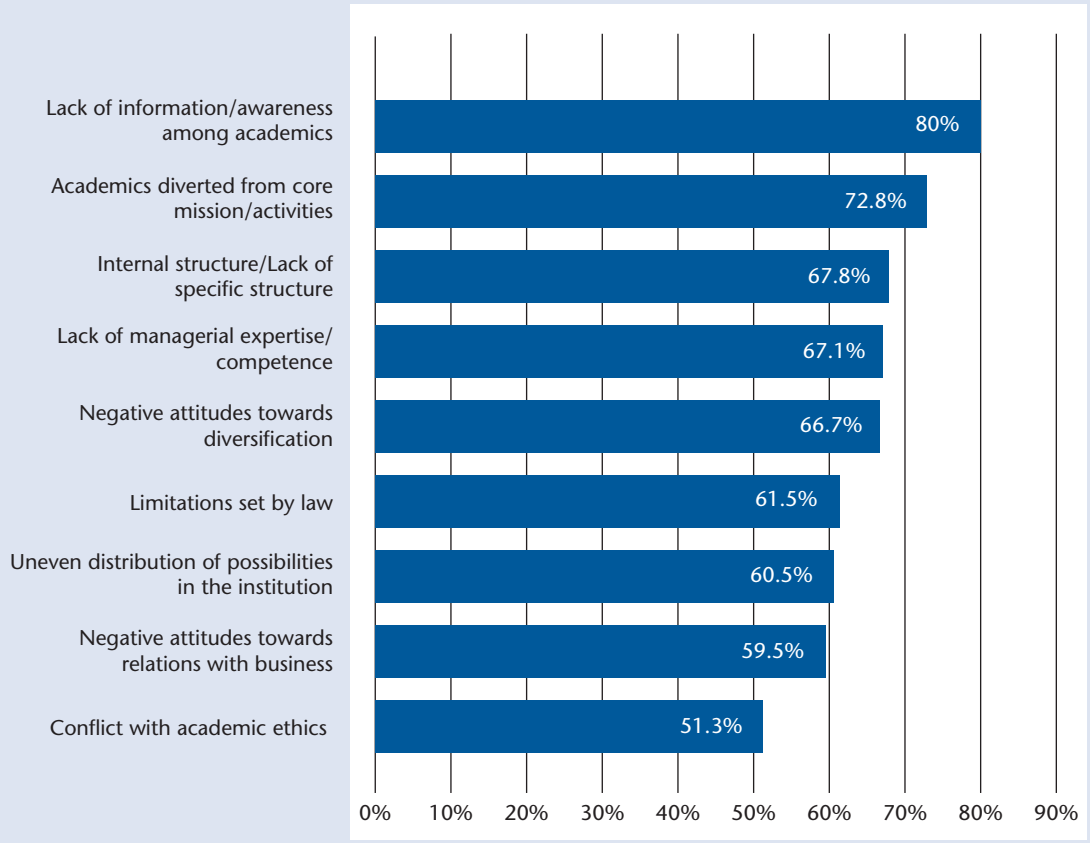
Importantly, the project, transversal by nature, closely involved all faculties of the University, helping to foster a cultural change towards the implementation of new ways of working (cross-functional management, performance management) and new values (collaboration, innovation, focus on outputs).

[58] Ghent and Bologna surveys.

4.3 Internal pitfalls and obstacles

During the project it became apparent that universities mostly consider that they operate in a way that is unsuitable for the development of successful income diversification. University leaders and managers widely acknowledged that internal obstacles to income diversification were equally important as external constraints. These hindrances can be further detailed in the following categories.

Graph 15 – Perceived obstacles to income diversification



Source: online questionnaire

4.3.1 Governance structures and processes

Governance structures and decision-making processes were often considered inadequate to enable the institution to embark on a successful income diversification strategy. 68% of the online questionnaire respondents saw inappropriate structures as an obstacle to income diversification. 15% of the participants believed it was a "major obstacle". Comments referred to large governance bodies under the principle of collegial representation whose decision-making processes tend to be ill-adapted to supporting effective income diversification (relations with external stakeholders, strategic investment decisions, etc). Universities also highlighted that decision-making was often difficult in this area because of the lack of readily available data to inform strategic choices. This can perhaps be illustrated by the fact that many participant universities did not categorise income in ways that provide them information on, for instance, the composition of their private income or the type of income-generating services at central level.

The distribution of tasks and income, as well as the communication between the university's central administration and its different units (most often faculties) can also represent a challenge or an obstacle to the implementation of a consistent income diversification strategy.

For most of the universities considering income diversification, the fragmentation of human resources, contacts, knowledge and expertise remains a major obstacle to overcome. The responsibility for income diversification and generation often lies with the faculties' top management, or may even be the task of the individual academics. In the latter case, these often operate in isolation. The lack of framework and assistance explains a certain resistance to embark on these activities, with the lack of time and the fear of excessive bureaucracy remaining major concerns. Only a minority of surveyed universities have reported that the central leadership (Rectorate, Presidency) is responsible for the income diversification agenda, either collectively (as the governing body) or through a dedicated vice-rector position for instance. Many respondents highlighted the fact that without the enthusiasm, vision and commitment of the leadership team, it was hardly possible to design a coherent income diversification strategy.

Feature 17 Internal resource allocation at Maastricht University

The model promoted by Maastricht University is one of a delicate balance between centrally-led initiatives and the necessity to foster a sense of ownership and commitment by the faculties. Faculties are the main direct beneficiary of the university budget (80%). The central office may provide them with seed money to start new academic programmes, and offers the technical support they need (in relation to contractual research or international student recruitment). Finally, funds from the central budget may be used as incentives for the faculties to develop their own revenue streams (the central office provides additional funds to reward faculties for securing external grants, for instance). Therefore about 85% of the budget for central administration reaches the faculties.

However, co-funding modalities of research grants require that the university leadership take decisions regarding which research lines should be pursued, as co-funding comes from the central budget and is diverted from education missions. There is therefore a perception of tensions that need to be addressed by the central level in cooperation with the faculties.

One of the success factors for the institution seems to lie in its consistent and focused implementation of its strategy. This is complemented by a coherent recruitment of professional staff in key areas and a sound marketing of its strengths.

Finally, universities that wish to develop additional funding streams must address the issue of the unevenness of income generation possibilities across faculties. It is a common perception that technology-oriented faculties will be better able to raise income from external funders than social sciences faculties, especially through contractual research. However, the analysis of the data provided by the surveyed universities shows that, although those universities that focus on research as part of their mission generally have a higher share of income from additional funders, it also appeared that comprehensive universities are as able as universities of technology to negotiate contracts with private partners. Site visits provided interesting examples of such cases. At the University of Warsaw, the Faculty of History has recently provided important funds to the University through its institute of Archaeology, which the public authorities have commissioned to conduct preventive excavations ahead of road construction works. Similarly, the Faculty of Philosophy and Sociology won a tender to carry out a study on behaviours and expectations among the Polish population ahead of the European Football Championship co-organised by Poland in 2012.

4.3.2 Development of skills and support mechanisms

Universities in Europe need to develop new skills if they are to diversify their income structures. A majority of the surveyed institutions are aware of this: 80% considered the lack of information and awareness about income diversification an obstacle, and 67% felt the same about the lack of managerial expertise and competence.

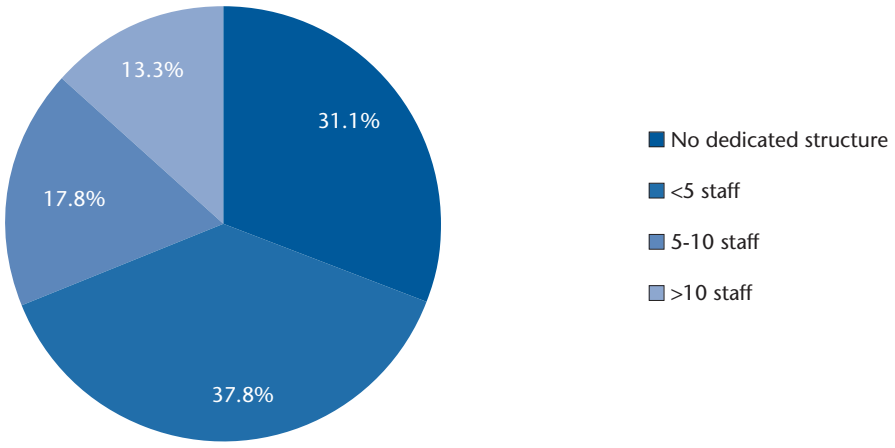
This was largely echoed in the other data collections, with respondents underlining the unprofessional management of income generating activities. During the site visits, it appeared from discussions with university leaders that many were dealing with the task of stocktaking and streamlining the different and often numerous partnerships that the university had accumulated through the years, often on the personal initiative of different staff members. This illustrates the "lack of stewardship" that eventually undermines the potential strategic and financial benefit of such collaborations.

Similarly, a university leader explained how it had been necessary to review the institution's financial management after it was found that all income received from private partners only generated daily-based interests (this was then optimised through better cash management). Another university had to convince faculties to place their private income with banks and use their public funding first since the latter could not generate interest. These examples show that much potential income generation already lies with universities but requires proper expertise and skills to be developed into credible income streams.

Rethinking the distribution of tasks and integrating new staff profiles into the university is therefore necessary to foster income diversification. Academics cannot be expected to take on such tasks efficiently without proper support.

Integrating new staff profiles to support income diversification strategies includes upgrading research administration services and creating fully-fledged fundraising structures. The project surveys show that these structures remain at an embryonic stage in many universities, while a large number do not have any dedicated unit within the central administration.

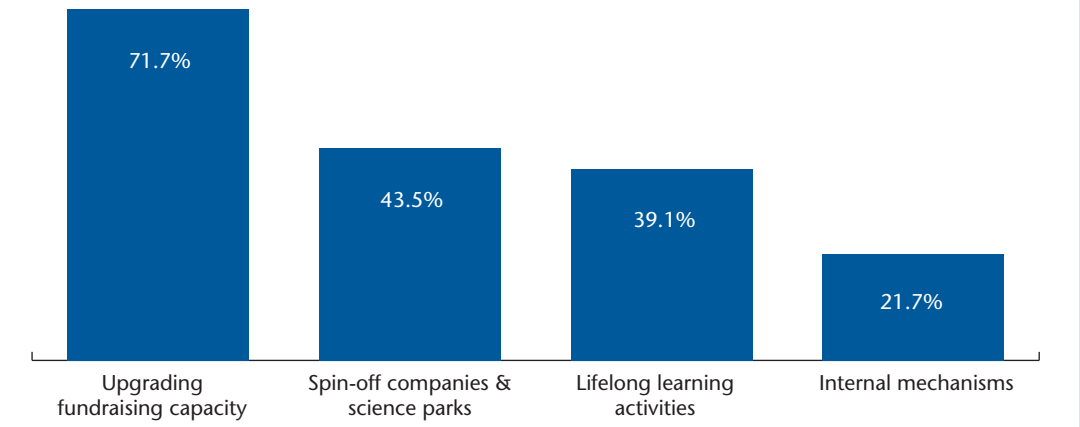
Graph 16 – Fundraising structures



Source: Ghent and Bologna surveys

The data summarised in Graph 17 takes up the different priorities of the surveyed institutions in relation to income diversification (and only captures those areas where universities have a significant margin for manoeuvre, therefore excluding student financial contributions). It reveals that there is a strong awareness among universities that upgrading their fundraising capacities is crucial to enhance income diversification. The creation and development of science parks and spin-off companies also constitutes a priority for many universities and calls for adequate internal support. Reaching out to non-traditional student populations to develop a new range of activities that can be priced closer to market value came as a priority of almost equivalent importance in the sample.

Graph 17 – Priority areas to address in order to enhance income diversification



Source: Ghent and Bologna surveys

Although this may be less perceived as a priority, it is also crucial for universities to develop adequate internal mechanisms to foster income diversification. One possibility may be to include the ability to attract external funding, or "enterprise activities" in the promotion criteria for staff. Some universities have developed a more integrated approach to income diversification by embedding it in the institution's budget process.

At Loughborough University, the deans are asked to identify and prioritise saving and investment opportunities (type of support needed, etc) when drafting the development plan of their faculties. Importantly, it is made clear that savings do not necessarily mean budget cuts, but can be implemented through holistic approaches, for instance by streamlining contracts with suppliers. This process is secured by assuming a certain level of enterprise and fundraising growth in all development plans. Transparency has also been a key success factor, with important work conducted on keeping academics informed and making them aware that surpluses are needed to sustain development.

4.3.3 Expectations and attitudes towards income diversification

The different questionnaires submitted to university representatives throughout the project reveal that concerns towards income diversification or relations with the private sector remain a major issue in universities and tend to hinder the development of income generating activities. This does not only involve the academic community but also the university management – both are perceived as lacking understanding for the need to develop activities that can sustain the academic mission of the institution. A common concern lies in the fear that the pursuit of additional income would infringe on the academics' autonomy or distract them from their core research and teaching missions.

This highlights the importance to align diversification and income generation with the mission and profile of the institution and to ensure that income generating activities do not infringe upon academic integrity. But it is equally important to communicate within the institution the need for a sustainable funding base of the university's activities. In most European countries, the cultural and long-lasting link to public funding has made it largely irrelevant for academics to be concerned about the financial sustainability of their institution. Sometimes, the strong identity and autonomy at faculty level has also led managers and academics to have little interest in the institution as a whole, which makes it more difficult for the central leadership and administration to steer and implement a consistent income generation strategy across the university.

It is also important to note that the generation of additional, external income may be considered as a sign of quality in some disciplines – for instance in engineering – while it is not perceived as such in others.

4.4 Embedding income diversification in the institutional strategy

The analysis for this section draws on the quantitative analysis as well as on the site visits and case studies. A variety of elements contribute to the successful diversification of income and it is usually a combination of these various elements that lead to success.

4.4.1 Strategic approach

The analysis revealed that one of the institutional key success factors is for the diversification strategy to be rooted and embedded in the overall academic strategy and mission of the institution. The project cases showed that institutions that included income diversification in their strategic development plans linked with concrete action plans were more aware of income diversification throughout the institution. These institutions also carried out more activities leading to greater diversification or generated higher income from additional income streams. The elaboration of such an approach also reflects that the broader university community has been involved in the development and that there is thus a greater consensus on activities for and commitment to income diversification.

It is important to stress that income diversification or income generation should never be seen as a goal in itself. The underlying aim is always to support the main mission and activities of an institution and to contribute to financial sustainability. Ultimately income generating activities should lead to returns in the long or the short term. Of course, this can include non-financial returns.

Diversification should therefore begin with a strategic analysis of the status quo, the institutional strengths, specificities and opportunities, as well as a scan of the competitive environment. Most institutions have already developed additional income streams but it is important to include these in the overall evaluation.

Apart from undertaking an appropriate analysis of the cost effectiveness and risk of various activities, institutions need to assess the suitability of these activities in relation to their mission and culture. Not all activities will fit all institutions. The diversity of profiles missions and cultures will have a high impact on the choice of activities.

The analysis should furthermore include an evaluation of the expertise necessary to implement these activities successfully and, if this expertise is unavailable, set up a plan on how to gain it.

4.4.2 Leadership

Leadership is another key factor that will determine a university's capacity to diversify its income. Successful examples of diversification were almost always coupled with a leadership that is highly committed and has a very good understanding of the diversification agenda.

The case studies showed that leadership is not only about efficiently handling a complex financial environment or management issues. The capacity to project a vision and build the case for diversification activities as well as the ability to engage the broader university community in the process is also of crucial importance. The latter aspect is critical, as almost all income generating activities that are related to research or educational activities need the engagement of the academic community.

In institutions with a highly decentralised governance structure, leadership capacity is also crucial to obtain the necessary commitment for income generation from other activities. This was particularly relevant in universities where the decision-making power in relation to the use of university estate and equipment is devolved to faculties or institutes. In such cases, the central leadership must be able to oversee the use of these facilities and services, so that their potential for income generation is adequately developed and exploited. Leadership also plays an important role in shaping the necessary change processes related to diversification, be they cultural or organisational changes.

The risk of failure is high when income generating activities are not fully endorsed by the university leadership, which should take ownership and direct responsibility whenever possible. For instance, several studies confirm that the attitude of academic leaders towards philanthropic funding is a crucial factor for the development of fundraising as a successful source of income. The project's case studies confirm this: in all universities with a successful track record in fundraising, such as Loughborough University, King's College London and Istanbul Technical University, the Vice-Chancellor or Rector took an active role in fundraising activities.

The direct engagement of the leadership is also a decisive success factor for increasing investment from local or regional public sources. Of course, management support and professional expertise are necessary to prepare projects and support the leadership. Nonetheless, the case studies tend to show that the way in which the university leadership engages in promoting and supporting these activities often creates the necessary impetus and makes a difference.

4.4.3 Human resources development/Professionalising management

The case studies demonstrate that human resource development and the existence of sound managerial skills and practices are essential for successful income diversification. Many activities to increase and generate new income sources require new expertise that does not necessarily always exist within the institution. When it comes to the implementation of diversification strategies, expert and skilled staff often makes the difference. The case studies showed a variety of strategies to gain the necessary capacity. Universities may recruit professionals with the relevant skills from outside the sector or experienced staff from other more developed institutions; they may also invest in staff development to acquire these skills. When external staff is recruited, it is important that they understand the specificities of the research and education environment or are integrated in an established team. Some activities may be outsourced to external consultants who can offer expertise and help in getting the activity started. However, again, the case studies showed that the right mix of staff (external, internal, consultants) leads to success.

EUA has identified the importance of professionalised management structures and staff in many projects. The successful implementation of income diversification activities similarly requires investment and development at all levels and staff categories, including management, support staff as well as academic staff in management or governing functions. The following selection can only give a small flavour of the broad range of this:

- Human resource managers play a key role by developing profiles for new staff categories, by recruiting and retaining new staff with new skills and by developing staff to fulfil new and extended roles. They are also crucial in providing information on appropriate external development programmes.

- Knowledge transfer activities need the expertise of staff that are skilled in negotiating with external partners, have knowledge of legal contractual aspects as well as intellectual property rights.

- Expertise is needed if the university is to find its way through the enormous amount of opportunities available to increase competitive funding in particular from research funding. Project managers must possess the right skills to write successful proposals and develop complex work programmes with multiple international consortia throughout the project cycle (including reporting and post-audit phases). Project case studies also showed how such expert staff can help academic staff to develop successful proposal writing skills.

- Professional staff is needed to develop and increase philanthropic funding successfully through fundraising activities.

- To generate income through financial operations and investment, university finance departments often seek to recruit additional staff that have developed expertise outside the university sector. Many activities are also related to new ways of financing expansion or development of facilities or technical tools. This requires staff experienced in debt financing and various legal possibilities such as leasing arrangements etc.

- Activities to generate income from services such as conferences, catering, and franchising activities equally need experienced staff.

- The project also revealed the importance of a strong **coordinating function** in the implementation and management of diversification activities. Examples from the project showed a variety of approaches. The focal point can be either the top or senior management team or a team specifically created for that

purpose which usually comprises different senior managers. In some cases, the coordinating function may be taken up by a single senior staff member, such as a Vice-Rector with direct responsibility, the Head of Administration or the Finance Director. The size of the institution and the usual management culture obviously have an impact on the choice of approach.

Feature 18 Some examples of management professionalisation

University of Edinburgh

Universities are recruiting development and alumni professionals, but all staff need to be able to exploit their respective networks to raise income. The University of Edinburgh has provided managers of its Veterinary School with leadership development training on successful networking through development, alumni and fundraising activities. The university's new Veterinary School has been built entirely from development and alumni funds, a significant part of which was raised by the School managers. This in turn generated interest among other university staff to emulate this practice.

Trinity College Dublin

At Trinity College, the change of focus of the financial function from being a "compliance function" to an "enabler function" had a high impact on the implementation of diversification, which also improved the relationship with the academic community.

The finance function played an important role in three activities related to diversification: new income generation, cost management and treasury management by placing cash in strategic investments. Income generation activities include:

- *Bank concession: the College tendered the exclusive right for a financial institution to provide banking facilities for five years in return for a concession fee. The bank is also paying rent on space at market rate.*
- *Loan funding: to fund a large project, the College sources a very competitive flexible loan from the European Investment Bank. This enabled the College to start the project two years earlier through the loan facility.*
- *Cost management: Trinity College reduced the number of its suppliers and is seeking to move towards a strategic function of procurement.*

One of the challenges regarding the structured development of staff capacity is the fact that universities often look at additional income sources when the current funding is under pressure. The potential to invest in human resources under these circumstances is sometimes reduced and universities cannot always develop staff in an ideal way. Some case studies showed that universities apply a more modest strategy by gradually building up staff capacity. Taking the example of fundraising, it was frequently found that the process started with the recruitment of a professional experienced in marketing and relations management and that, once this initial phase was completed, capacities were further developed by recruiting more staff and setting up a more formal structure.

At this point, it is important to point out the absence of governmental support programmes. Given the high relevance of building up these skills for successful income diversification, targeted support from governments towards this end would have a high leverage effect.

Feature 19 Developing fundraising structures

Although it has developed a strong alumni network and is successful in partnerships with large companies, Maastricht University still has considerable untapped potential in terms of raising additional funds. Indeed, although work on alumni relations is only starting to take philanthropic funding into consideration, it can build on well established alumni circles. Similarly, Maastricht University is now exploring more "regional" philanthropic opportunities. The University has invested in capacities and structures by establishing a department in charge of these issues and recruiting a fundraising director with strong links to the regional community. The University also largely benefits from the commitment of its President, who has supplied the institution with extensive international experience.

4.4.4 Communication

The study reveals that communication is an important factor in relation to income diversification that has often been underestimated. The following chapter analyses communication on different scales (internal, external and sector-wide communication), which all play an essential role in fostering income diversification.

Internal communication

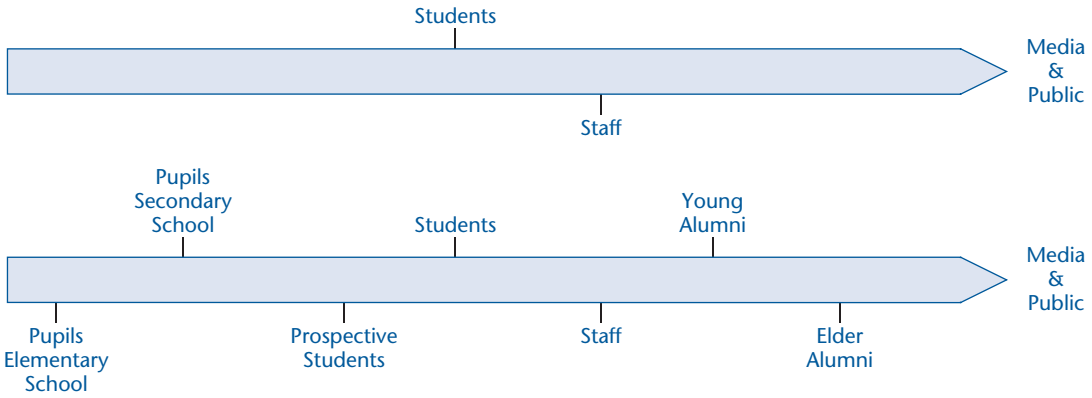
Diversification is not a process that can be carried out in isolation or by means of a top-down approach. To be successful, the whole institution needs to be involved and be aware of the purposes, aims and actions pursued. Many activities for diversification also need to be undertaken in cooperation with leadership, management, administration and academic staff. Internal communication plays a crucial role in achieving this. Internal communication is also critical to implement efficiency measures successfully.

External communication

Through this process, the university makes the much needed link between all its internal activities and the outside world. The project workshops and conference revealed that potential funders (private donors, investors or the business community) are often simply not aware of the range of activities undertaken by universities, which makes it difficult for them to evaluate potential funding options. It is therefore essential to ensure that the external environment knows about the activities of the institution.

Communication activities also need to convey the institution's profile and demonstrate what sets it apart from other universities. They ideally build on the identified strengths and, on that basis, develop the brand and reputation, which is a precondition for attracting additional income sources. The figure below illustrates how the target groups for a university's communication activities have evolved and multiplied over time; institutions now face a variety of external stakeholders towards whom it needs to communicate effectively.

Figure 6 – Communication – former and new models[59]



Source: Bologna conference

Sector-wide communication

Sector-wide communication is mostly undertaken through representative organisations like national rectors' conferences or university organisations. Cooperation with other stakeholders should not, however, be detrimental to a task that needs to remain focused on institutional cases. During the project's lifetime an increase of these types of activities in various countries could be observed. They play an important role in showing what the higher education sector achieves. Success stories regarding public or private funding are particularly important in times of economic downturn as they help to increase confidence in the sector

[59] Extracted from the presentation prepared by Dr Ulrich Marsch, Head of Corporate Communication, Technical University Munich, for the Experts Conference held in Bologna on 13-14 September 2010.

and contribute to diversification. Universities should therefore not underestimate the value of their own contributions to such activities.

Feature 20 Communicating through the economic downturn

The representative organisation for universities in the United Kingdom, Universities UK, has been active in releasing short, focused reports and leaflets emphasising the role of universities in the British economy in the context of the economic downturn. "Standing Together – Universities helping business through the downturn" is one such publication. It highlights how higher education institutions can support local firms through innovation, knowledge transfer, training and workforce development. The publication also underlines the active role of universities in the local economy as major purchasers. Importantly, a large share of the report is dedicated to examples of success stories and includes the details of the contact persons for each member university in charge of relations with business, thereby providing an easy entry gate to the university.

In February 2010, Universities Scotland likewise published "Innovating our way out of recession", which also highlights what universities do to help the wider community through cultural and societal engagement and beyond support to students or business.

UUK has continued to gather information about its member institutions' activities in the field. A telling example of how universities have committed to help local business is provided by Newcastle University. The institution released its "10 steps to boost the local economy", including making it easier to work with the university as suppliers or clients; creating jobs in construction by maintaining the university's programme of investment in its campus; bringing forward other capital projects; investing in improvements to energy efficiency; a business voucher scheme; and reducing payment time to all suppliers by nine days. The University of Derby has invested 250,000 GBP in a skills development fund set up to benefit the region's firms by offering financial support to help them provide training and skill-building opportunities to their staff during the current economic downturn.

Such examples are widely advertised at local, regional and national level, helping to raise the profile of universities as full-fledged, proactive stakeholders in the national economy.

4.4.5 Structures and tools

The analysis conducted by the university might also include an analysis of the current organisational and decision-making structure of the university. The study revealed that universities that have taken a broader strategic approach were more inclined to accompany this by organisational changes. These obviously varied from forming teams or bodies being in charge of the implementation to creating new departments or offices. In some cases a restructuring of the governing structure (reduction of members in decision making bodies, reduction of committees) had also a positive impact on diversification and income generation.

Information and analysis tools play an increasingly important part in modern university management. It goes without saying that, for diversification and generation of income, the right information and communication tools are crucial for success. This includes accounting and costing information, information on potential sources of income and funding as well as appropriate information on funders and donors. Data warehousing and integrated software tools will, however, require appropriate in-house expertise, which shows again the importance of human resources.

4.4.6 Incentive mechanisms

Leadership, management capacity and internal communication are all key aspects. However, in addition to those success factors, it is desirable to design a set of incentive mechanisms in order to increase the commitment of the academic community to the diversification project. A diversity of incentive mechanisms exists, mostly operational at two levels, either by rewarding staff directly or through providing incentives at faculty/institute level.

Academic staff may be allowed to undertake research and consultancy activities and retain some of the generated income. In many cases, the assumption is that academic staff would already be engaged in these activities in some way. Institutions that officially encourage their staff to take these activities forward benefit from this in several ways: income generation can be seen as a success-related component of an academic salary, which in turn allows the institution to keep the overall salary levels in control. The incentive mechanisms also channel some of the activity undertaken by the academic/researcher back into the university. Sharing of the generated income is organised by setting a distribution factor between the academic and the university or by charging a specific cost rate for using facilities and equipment. Other modalities included sharing the profit not on an individual basis, but on faculty basis. The shared income can then be managed autonomously by the faculty.

Universities may also encourage the creation of spin-off companies by diminishing the share of profit going to the university or by providing free professional support to these entities in their set-up stage.

Many universities include successful income generation activities into the institution's Resource Allocation Model (RAM). It was important though to see that universities are aware of unequal opportunities to generate income – this was considered to be an obstacle for 61% of the respondents to the online questionnaire (See Graph 15, p. 64).

Feature 21 Examples of incentive mechanisms

- Seed money for new initiatives
- Participation in generated income at faculty/department level
  Example: consultancy policies of university may foresee that the income generated by academics may either go to the academic him/herself, but with a "university levy", or return fully to the department concerned.
- Reward for income generation at staff level
- Inclusion in internal resource allocation model
  Example: amount of income generated from external sources included in the performance indicators to calculate the faculty budget.
- Staff incentives
  Example: inclusion of incentives in individual salaries based on income generation performance; inclusion of income generation performance in promotion criteria; sabbaticals dedicated to entrepreneurial activities.
- Investment in facilities
  Example: investment in multi-function facilities, such as lecture/conference halls, residence and catering facilities.
- Other incentives
  Example: internal tendering of amounts donated to the university by industrial partners.

4.5 Stakeholder management: relations with private partners

Universities and their different communities are in contact and network with a variety of actors, but there is rarely a structured approach to stakeholder management. Once again, an analysis of the status quo and a focus on strengths will help to improve this.

4.5.1 Fundraising from philanthropic sources

Findings of the EUDIS project suggest that universities expect philanthropic funding to become increasingly important in the future; in the project's sample, it represents on average 3 to 4% of a university's budget (See section on Private funding, p.34). A broad range of types of funding may be found under this category: funds donated by individuals, whether alumni or not, for general or specific purposes; donations received from philanthropic trusts (foundations, charities), often targeted towards the achievement of defined objectives; and finally, income received from philanthropic bodies that fund research on a (quasi) competitive basis. Data revealed that income received from foundations and charities was the most important component of this type of funding, followed by donations from the business sector. Many universities are starting to develop fundraising activities targeting alumni, although most deplore the lack of a donor culture, especially in continental Europe.

During the Experts Conference[60], it was argued that, for many universities, this recent focus on philanthropic funding requires them to reconnect with their earlier traditions, as many were founded through donations. However in Europe there are still "psychological" obstacles towards fundraising; even though there may be a culture of giving, there is no culture of asking, especially in relation to universities.

Universities need to tackle this challenge proactively by addressing the issue of internal structures (building up fundraising and alumni relations professional skills) and by making fundraising a responsibility of the leadership – the latter is a clear expectation of donors. Another crucial point is the need for universities to understand the needs and strategic thinking of philanthropists, moving away from "donations" to long-term "investments"[61]. These are efforts and investments that need to de developed over time and on a sustainable basis.

[60] Presentation by Joanna Motion and Miles Stevenson, CASE, at the Experts Conference on 14 September 2010.
[61] Presentation by Mathias Terheggen, UBS AG, Switzerland, at the Experts Conference on 14 September 2010.

Feature 22 The design of a fundraising strategy at Istanbul Technical University

The leadership of Istanbul Technical University (ITU), faced with declining public funding, increasing student population and a need to upgrade research and teaching infrastructure in the 1980's, saw a need for additional income generation to solve these issues. ITU designed its fundraising strategy as a multi-stage process. It first focused on student facilities, teaching environment and academic support facilities. In a second phase, fundraising was targeted at improving research infrastructures and supporting research activities. Finally, in the third phase, priority was given to the creation of an endowment that in turn ensured the sustainability of the mechanisms created in the first two phases.

The strategy brought unprecedented funding for investments for R&D and infrastructure obtained from alumni and other resources (industry, additional state funds).

Success factors were identified in a triangle "Strong reasons – Devoted people – Committed stakeholders". For the university, these were:
- *Strong need for change*
- *New administration with clear vision and mission statement*
- *Capacity for change and reform*
- *Definition of the projects and their benefits to ITU's reforms*
- *Strong statement for additional and external funding*
- *Strong commitment to control external constraints*
- *Restructuring the system to use the external funding*
- *Creating efficient, effective and progressive task forces to realise projects*
- *Transparency in all the processes*

External success factors included:
- *Existence of strong and influential alumni in industry and business world*
- *Alumni's strong commitment for ITU projects*
- *Media contribution to support this fund raising project*
- *Establishment of integrated alumni networks through foundations and associations*
- *Spreading alumni councils at departmental and faculty levels to increase the interaction and extend donations.*

The role of foundations[62]

Foundations in Europe have an essential role to play in supporting teaching and research activities of universities. They are key funders who are able to develop innovative approaches and partnerships, and who are not restricted by usual funding channels. This is of increasing importance as problem-solving requires more and more that academics take on cross-disciplinary approaches, for which it may be more difficult to find adequate funding.

Foundations also work, like universities, in a longer-term perspective than governments or businesses tend to. Combined with their autonomy, this enables these entities to be more tolerant to risk associated with, for instance, breakthrough research, and to focus on objectives rather than processes. Foundations can therefore bring real added value by funding activities in areas that are maybe overlooked by public funders.

There are challenges associated with funding by non-profit organisations. One is that philanthropic funding could be seen as a substitute, rather than an additional source, by public authorities. Foundations may fight this perception by behaving differently from public funding agencies. However this should not serve as an argument to justify funding the direct costs of the universities' activities exclusively, as opposed to

[62] This analysis also builds on conclusions of the 2009 Stakeholders' Conference of the European Forum on Philanthropy and Research Funding, to which EUA actively contributed. EUA is also represented in the Steering Committee of the European Forum on Philanthropy and Research Funding and continues to provide the views of universities in this area.

funding at least part of the associated indirect costs as well, on the premise that foundations should not take responsibility for the university's financial sustainability.

Foundations can cooperate with universities beyond research funding, helping for instance in capacity-building. Examples of innovative partnerships between universities and foundations going beyond research projects are provided below.

Feature 23 German foundations funding the improvement of research and higher education systems

The Stifterverband foundation, founded in 1920 as a private industry´s joint initiative for supporting research and higher education in Germany, aims to improve the quality of the science and higher education system. The foundation, through its activities, advocates for the creation of independent universities within a competitive environment. It seeks to foster the quality, career orientation and international approach of university education. The foundation also wishes to encourage collaboration between scientists and industry.
One of the foundation's programmes launched in 2010 funds university initiatives that contribute to the development and successful implementation of autonomy reforms. The main aim is to support the necessary change processes to make better use of increased autonomy within institutions. The Stifterverband, that funds this programme in cooperation with the Siemens Nixdorf foundation, takes up one of the most important aspects in turning governance reforms into a success by fostering a culture of change.

The Volkswagen Foundation and the Mercator Foundation launched an initiative in 2009 with which they aim to strengthen the teaching mission at German universities by encouraging them to use the possibilities of the Bologna Process more flexibly. With this funding line they aim to support universities in the development and testing of new curricula for Bachelor's programmes, establish groups or expert competence centres for teachers and fund international conferences, workshops and symposia.

Public authorities have a role to play in fostering partnerships between universities and foundations, by setting the adequate regulatory framework for interaction. This includes broad financial autonomy for universities, but also incentives such as the matched funding schemes (see p.54 for developed examples) and tax incentives.

Finally, both universities and foundations need to be better informed about the cooperation and partnership possibilities that exist between them. An important point is also for universities to communicate efficiently towards this type of potential funders to enhance awareness around the university's activities, missions and goals (see previous section on Communication).

4.5.2 Partnerships with business

EUA explores university-business partnerships in other works[63], which include the development of Responsible Partnering Guidelines as well as an in-depth analysis of collaborative doctoral research. The present section seeks only to reflect the variety of situations that the project came across, while highlighting common pitfalls and success factors.

Case studies throughout the project clearly showed that there is no one-size-fits-all approach when collaborating with industry. Moving from a project-based cooperation to long-term, structured strategic partnerships remains a challenge for most universities. **Several models** may (co-) exist. The "major investment" model relies on the university's capacity to attract a large funder to commit to a medium to long-term project of common interest. Success is partly conditional on the setting the university can offer (local research infrastructure, cross-border area, etc) and on the university's own strengths. Clustering

[63] For an overview of the work carried out by EUA on university-business partnerships, consult www.eua.be

among complementary universities may also facilitate strategic interaction with partners from industry. This enables universities to provide business with a wider range of skills, making them a more suitable partner for an industry more and more interested in investing in training highly specialised future staff. The choice of the cooperation model should result from a careful analysis of the assets of the university but also from the opportunities offered by its local and regional environment, including its socio-economic characteristics, demographic trends, etc. Importantly, universities surveyed during the project testify that establishing long-term collaborating frameworks remains difficult, even for long-standing universities of technology.

Another, innovative model is indeed the creation by the university of its own corporate network. The incubator of Delft University of Technology, for instance, helped to develop 72 start-up companies, which now employ over 200 staff and have a yearly revenue of 11 million EUR. The University has also developed other innovative types of services for the industry, such as leasing out research facilities – this in turn helps generate the income necessary for the maintenance of equipment such as experimental nuclear reactors, wind tunnels, aerospace facilities or water basins for marine research.

Collaboration with industry offers significant **advantages** to universities. Clear and transparent relationship management models are certainly a positive element; private funders facilitating interaction with further industries and decision-makers also benefit the university by giving the institution "business credibility credentials" and by acting as an entry gate to the business community *(funder snowball effect)*. Importantly, the university has to understand the needs seen from industry perspectives, to the benefit of the presentation and management of its own brand and cluster of activities through offering a more customer-oriented approach. The challenge for universities is then to move away from the "isolated islands of activity" towards a university-wide, inclusive approach with its partners.

Pitfalls in collaborating with industry include the lack of consistency between the university's core missions and the external funds it seeks, raising the issue of the independence and objectivity of the research carried out by the university *(implicit agenda risk)*. Interestingly however, some universities mentioned having to face the same risk with studies contracted by public authorities. An excessive focus on short-term cooperation with business may also for instance also put in jeopardy the attention given to basic, curiosity-driven research. In long-term, structured partnerships, challenges may arise from legal matters (it is crucial to settle the issue of the ownership of intellectual property rights) or in terms of governance (representation of funders in the governing bodies). Collaborations with large companies may mean that the university needs to comply with corporate policies regarding communication and recruitment.

Steps to develop and implement diversification

1. Identify the strengths & specificities of the university to develop a branding strategy – strategic approach

2. Analyse perspectives for income generation of your activities

3. Invest in people, leadership and management

- Professional human resources & staff recruitment – bringing experts in, including from outside higher education
- Investment in new positions at all levels (from research administrative support to fundraising director and vice-rector for enterprise)
- Define leadership roles, both academic and professional

4. Communicate

- Internally (creating the case for change and raising awareness)
- Externally (projecting the brand)

5. Change structures and organisation

- Creation of specific units like Advancement/development/fundraising office
- Reorganisation of governance structure or specific competencies for groups within governing bodies
- Investment in information tools to guide what is done, how it is done and whether it is being achieved
- Good data and reporting/monitoring systems are crucial

6. Provide internal incentives

- Individual rewards and incentives – e.g. promotions, remuneration
- Faculty/departmental rewards – e.g. commercialisation revenue apportionment
- Seed money for new initiatives
- Making things easy for academics through better support

5. Impact of the economic crisis on European universities

EUA has been monitoring the evolution of the economic crisis and its effects on higher education systems in Europe since its onset in 2008.

The monitoring has been conducted in close cooperation with the EUA collective members, the National Rectors' Conferences who have given continuous feedback on developments within their national higher education systems. To complement this information, national governments and individual universities' representatives were also consulted and they could also provide input on various occasions through EUDIS study visits as well as other EUA events and contacts. The continuous feedback from various sources provided up-to-date reports of the situation and highlighted the evolving nature of the effects the crisis has had on higher education across Europe.*

The main objective of the monitoring was to look at the impact of the crisis on universities' public funding and to identify in particular the trends in public funding across Europe. It has also studied whether and how the crisis has affected the nature of public funding and how such shifts are influencing universities at institutional level. The impact of the crisis on universities' private sources of funding was also monitored, although the lack of available data makes it difficult to identify clear trends. Nonetheless, the collected evidence points to changes taking place especially in relation to tuition fees, collaboration with industry as well as philanthropic funding and funding from donations.

5.1 Overall findings

The results of the continuous EUA monitoring of the crisis clearly show that European higher education systems have been affected very differently, which reflects to some extent the impact that the crisis has had on their respective national economies. Some countries, such as Norway and France for instance, have benefitted from stimulus packages provided by their governments at the beginning of the crisis, although these have not always been used to relieve the effects on teaching and research as core university activities.

Furthermore, European countries have been affected at different stages of the crisis. In some countries universities have seen the impact of the crisis as early as the beginning of 2009 while others were affected only later or, in a few isolated cases, have only experienced little direct impact so far.

At the time of writing this report it has become clear however that the economic crisis has left few higher education systems unaffected. While institutions in most countries still report being faced with uncertainty and expect further - and possibly deeper - cuts to come in the forthcoming months and years following 2010, some countries, such as the United Kingdom, prove that cuts are likely to have a significant restructuring effect on higher education systems around Europe. As other governments struggle with austerity measures and balancing their deficits, the full extent of effects on higher education systems around Europe still remains to be seen. Furthermore, the cuts in public spending tend to hit higher education budgets with somewhat of a delay as a result of different budgeting periods, which will make further monitoring and in-depth analysis essential.

* This chapter builds on information collected until November 2010. For updates, see www.eua.be

5.2 Trends in public funding

The monitoring has focused in particular on the impact of the economic crisis on universities' public funding, which on average represents close to 75% of European universities' financial structures. As the present report has shown thus far, there are clear signs that universities are increasingly diversifying their income structures; however, their reliance on public funding means that any change in this funding source can potentially have the highest impact. The analysis conducted on the basis of collected data shows that some trends regarding public funding for higher education in Europe can be identified, revealing how government authorities have responded to the economic crisis.

It should be pointed out however, that nationally collected data, especially on the depth of budget cuts is often partial, as it does not always consider the changes in inflation or the increases in the costs of universities' activities. It is also difficult to compare such data across countries as different methodologies are used in measuring and assessing the effects.

Despite this, the monitoring has been able to identify six main categories which show the effect of the economic crisis on public funding across Europe.

Major cuts to public funding of higher education were first observed in Latvia, where an initial cut of 48% at the beginning of 2009 was followed by a further cut of 18% in 2010 stemming from the recommendations of the International Monetary Fund and the World Bank to reduce public funding of higher education drastically. The cuts have put serious pressure on the Latvian higher education system, demanding major changes and structural reforms to be introduced in the forthcoming years.

In Italy, universities' public funding is expected to be reduced by close to 20% by 2013, dashing previous expectations of a more gradual cut of 10% over the same period. However, the cut will also have the effect of diminishing universities' income from tuition fees, which are limited and cannot exceed 20% of their total public funding. The situation appears critical as some 25 universities already face a default in the near future. The situation is also critical in Greece, where the government has set a target to cut universities' academic and maintenance budgets by 30%, however leaving universities the choice of how to implement these savings themselves.

The last to join the category of major cuts is the United Kingdom, where it has become clear that higher education will have to take up to a 40% cut of its current budget until 2014-2015, as announced in the 2010 Comprehensive Spending Review. Most of this cut will affect universities' teaching budget, which will be reduced by up to 79%. Clearly this has serious long-term consequences for the future funding of UK higher education. It has now become evident that the high cost resulting from the loss of public funding will be covered by private contributions from students and is likely to follow recommendations proposed by the Browne Review in October 2010. Scotland, whose higher education system is different from the rest of the United Kingdom, has not remained unaffected and has also announced cuts of about 16% of the higher education budget for 2011.

Cuts between 5 and 10% have been introduced in Ireland, for example, where a cut of 9.4% in 2010 followed a 5.4% cut the previous year. The situation is becoming all the more worrisome as the measures taken to protect the Irish financial sector in 2010 will undoubtedly have dire consequences on the public budget for higher education. Cuts of similar magnitude have also been introduced in Iceland where a 6-7% cut in 2011 is expected to follow a 5% cut from 2010; in Estonia with a 10% cut in 2010 (in addition to a 7% cut in 2009), as well as in Romania with 10% and in Lithuania with 8% cuts in previous years.

Cuts up to 5% have been observed in many countries of Eastern and South Eastern Europe, including the Czech Republic (where the cut is estimated at 2-4% of public funding), Croatia, Serbia and the Former Yugoslav Republic of Macedonia.

So far, **no direct cuts or minor cuts only** have been reported by the Nordic countries, including Norway, Sweden, Finland and Denmark, or by the Netherlands, Poland and Switzerland. Nonetheless, many universities across these countries give accounts of facing indirect impacts on their funding structure. In some cases, such as in Norway and the Netherlands, financial pressures seem to stem especially from increased student numbers, the cost of which is already having an impact on universities' financial sustainability. Such increases in the student numbers may also affect the universities' different activities, if the increases are not reflected in correspondingly higher budgets.

In many countries, **governments have discarded previous commitments to increase funding**. In Hungary the government has cancelled plans announced in 2007 to increase overall university funding, which will leave universities with 15% less financial support than previously expected. Both communities in Belgium have also reported that their regional governments have abandoned previous plans to increase funding. In the Flemish community of Belgium, universities are coping with a three-year funding freeze which has replaced a previously promised increase of approximately 10%; while the French speaking community has seen the investment of 30 million EUR planned to be invested over 8 years now extended over 15 years. Similarly, in Austria, plans by the government to increase higher education expenditure by 2% between 2013 and 2015 have now been scrapped, as negotiations have clearly shown that a budget cut will be inevitable for this same period. In Spain however, modified investment plans have mostly affected its universities' research capacities.

In contrast, some European **governments have upheld their commitments**, or indeed provided new investments to fund higher education.

France's announcement of the "Grand Emprunt" (national loan) has seen a significant increase in overall higher education funding, which comes as part of a large investment in key priority areas, especially teaching and research. In 2010, 11 billion EUR were foreseen for investments to improve the overall quality of higher education and 8 billion EUR invested towards developing research. A further 8 billion EUR had been foreseen to create new university campuses of excellence or go towards restructuring existing ones. The prospect for 2011 remains positive, as a further increase of the budget by about 4.7 billion EUR, mainly to raise the attractiveness of career personnel, support of university reform, student social policy and increased resources for research, has been foreseen. However, since a major part of the investments foreseen by the "Grand Emprunt" consist of capital contributions, this means that the actual amount received by universities ultimately depends on the financial markets and is likely to be significantly smaller.

Another case where funds for higher education have been raised over recent years is Germany. Though higher education funding in Germany is largely provided by Länder authorities, the federal government has been increasing investments to support the financial security of German higher education and research institutions. The investments will provide an additional 800 million EUR under the renewed Higher Education Pact which will support growing student numbers until 2015. The federal government will also invest a further 2.7 billion EUR from 2012-2015 through the German Excellence Initiative, as well as provide additional funding through the 5% per year increase for the Innovation and Research Pact until 2015. Federal authorities with state support will also guarantee further financial resources over the next ten years as part of a Pact to Increase the Quality of Teaching; which comes in parallel to a 2% increase in current levels of student support via the Federal Student Finance Act. On the other hand, it seems that these developments may also have an impact on the structure of the German higher education funding model in the future. As it becomes apparent that some Länder plan to cut or have already cut their higher education funding for 2011, the increases in federal funding will, to some extent, alleviate this loss while also shifting the balance in the provision of funding between the Länder and the Federal authorities.

In the case of Portugal the situation is mixed, as a recent agreement between the government and rectors will provide a greatly needed investment of 100 million EUR for higher education which will alleviate the burden of cuts from previous years. This positive development may be halted by expected salary cuts in public administration that will affect university staff.

5.3 Effects at system & institutional level

While the data on the depth of budget cuts gives a good overview of the state of play of public funding in Europe, the monitoring has also studied the broader and more subtle impacts of the crisis on European universities, looking in particular at the **changes and shifts in the nature of universities' public funding.**

One of the main findings revealed by the EUA analysis is the complex picture of how reduced public funding has been allocated **across university missions**, which shows that in most cases, teaching and research are often affected unevenly.

Effects on teaching

Teaching has, on average, been more affected than research activities. This has been noted especially in the United Kingdom, Estonia, Latvia, Hungary and the Flemish community in Belgium, which have been faced with direct cuts to their teaching budgets.

In times of financial constraints universities are also facing further pressures in the form of growing demand for higher education. In addition to the demographic changes causing this increase, high demand has also been exacerbated by the economic crisis, when rising unemployment levels drive more people into seeking education to increase their competitiveness on the labour market. In many countries this had caused reduced spending per student (per capita), sometimes even when the universities have not experienced direct cuts to their budgets. Such reductions have been identified in Hungary, the Czech Republic, Cyprus and the Flemish community in Belgium.

The combination of growing student numbers and reduced spending represents a major concern for maintaining the quality of higher education. While needing to balance public budgets, governments are therefore faced with conflicting priorities such as increasing access[64] on the one hand and maintaining the quality of the higher education system on the other. To maintain the quality of their higher education system, introducing caps on available student places is being considered in the Netherlands. In the United Kingdom such a cap has been set for the academic year 2010/11, though this may still change as the major cuts and reshaping of the system take effect. On the contrary, Ireland plans to foster participation in higher education through funding re-qualification schemes for the unemployed. The scheme aims to provide more people with the chance to gain relevant new skills, although the scheme's desired effect on higher education could be diminished by the impact of the high overall budget cuts which have put pressure on Irish universities.

At institutional level, signs of just how deep the impact of diminished teaching budgets will be have already started showing across Europe. Evidence shows that in some universities, budgetary restraints have already caused universities to close some offered programmes, so far reported only from the United Kingdom, or close down smaller or associated university departments, like in Estonia or Spain.

Many universities across Europe are also undergoing mergers; either of entire institutions, like in Iceland; or of individual departments and faculties such as has been observed in Latvia and in Denmark, where smaller language departments have come under specific threat due to funding pressures. Another example of measures considered to increase cost efficiency is the possibility for smaller local institutions to offer programmes for which degrees would be awarded by more prestigious universities, which has been proposed in the United Kingdom. On the other hand, the threat of funding cuts has driven some universities, reported by some Scottish and English universities, to seek new income streams by opening or strengthening activities in existing campuses abroad, as part of a strategy to attract more international graduates.

Reduced funding has also led some universities to reduce the number of their academic and/or managerial staff, which will have important consequences on their teaching capacities. This has either happened through hiring freezes, such as in Latvia, Ireland, and Italy, or through redundancies, which have been reported in the latter three as well as Hungary and the United Kingdom; and are also threatening many positions in Austria. In addition, where it has been possible, universities have had to introduce salary freezes, such as in Estonia,

[64] Increasing access to higher education is a specific goal of the Europe 2020 Strategy. As one of the five headline targets, the document proposed that at least 40% of the younger generation should have a tertiary degree. ("Europe 2020 – A strategy for smart, sustainable and inclusive growth", Communication from the Commission, March 2010)

or resort to lowering their staff's salaries, as has been the case in Greece, Ireland, Spain, Portugal and Latvia, where salary reductions have been undertaken across the entire public sector.

Bigger classroom sizes and staffing shortages have also had an impact on universities' support infrastructure and services. In Ireland in particular, universities have had to cut back on library operating times and resources as well as counselling hours and other support services offered to students. Austria and Poland have experienced reduced investments in the renovations of university equipment and real-estate property, which has further affected university operations.

Effect on research

On the other hand, the crisis has also affected universities' research activities. Research has been affected more in comparison to teaching activities in the Netherlands, Spain and Austria. The case of the Netherlands reveals that funding for research and innovation has diminished despite previous ring-fencing of these funds. In Spain this has been experienced through a slower pace of research funding announcements and the reduction or suspension of some research funding programmes. In Austria, despite the increase in universities' general funding for the current period, cuts have affected the budget of the Austrian Science Foundation, which has now ceased to fund universities' indirect costs. This is a worrying setback in the development of the sustainable funding of Austrian universities' research activities. In addition, Austrian universities expect funding to shift significantly towards applied research which is likely to impact further universities' research missions, especially in relation to basic research.

In contrast, some countries have specifically protected research funding or have raised the funds for particular research activities. Such cases, which have been identified in Denmark, Ireland, Norway, and Portugal, as well as examples from other countries, have revealed that funding is increasingly targeted to achieve specific objectives, usually in line with strategic national priorities. Similar policies can be observed in Finland, Poland and the United Kingdom, where, in the latter case, funds continue to support participation in the "STEM" subjects (science, technology, engineering, mathematics). The move towards more targeted funding has given governments around Europe increasing steering power over universities, which can lead to curtailing universities' ability to act more autonomously.

Furthermore, funding authorities also seem to resort increasingly to competitive funding tools, a development which has been fostered and accelerated by their reduced investment capacity. Competitive funding schemes can achieve positive effects such as increasing quality and stimulating efficiency when introduced carefully and considering the nature of the complete funding system. On the other hand, when coupled with reduced university funding, they can endanger universities' financial sustainability, especially when grants do not cover the full costs of the activity for which the funding is awarded. Such mechanisms often require the university to use their own resources, or gain additional funding from other vital sources, leading to a vicious circle and widening of the funding gap. An example from Denmark shows that when a part of universities' block funding was transformed into competitive grants individual universities were left unable to pay the salaries of all their tenured staff, as grants had to be won by individual scientists and therefore bypassed the central university administration. The increase in competitive funding also brings the threat of excessive fragmentation of funding sources, which can additionally harm the sustainability and autonomy of universities, when combined with the time-consuming application and reporting processes, as described in more detail in the section on Funding modalities hindering income diversification p.47.

Effect on university autonomy

The changes described above clearly reveal that public funding is not only diminishing, but also changing in the nature and form in which it is provided to universities. As described above, the monitoring has shown that public funding is increasingly provided subject to conditions to its allocation or accompanied with growing accountability requirements. This has given public authorities increasing steering power over universities, which can have counterproductive effects as it can significantly contribute to reducing universities' autonomy and their capacity to manage their own funds freely.

Such developments are worrisome as they can hinder universities' capacity to overcome the crisis successfully. The monitoring of the impact of the crisis on European universities has clearly shown that the universities' ability to respond effectively to the ongoing economic situation has largely depended on the level of their institutional and especially, financial autonomy. In this sense autonomy is seen as the pre-requisite to overcome the crisis successfully by allowing universities the freedom to allocate their funds strategically, and protect those areas that are crucial to the fulfilment of their institutional missions.

5.4 Private funding

The monitoring also collected some evidence on the impacts of the economic crisis on universities' private funding sources. As this report has argued throughout, private income sources are becoming increasingly important and help universities diversify their income streams and contribute to their overall financial sustainability. The economic crisis has, in many ways, exacerbated the need for additional funding sources, making all the more clear that private sources of income will play an essential role in building sustainable strategies for the development of universities and higher education systems.

In many countries, the crisis has fostered and intensified public debate about private sources coming from student financial contributions. These discussions tend to focus on the introduction or increase of tuition fees, which would help universities reduce the funding gap exacerbated by the economic crisis. Despite the resistance that this has encountered in some countries, in particular from students and others who argue that higher education should remain a public good, it is obvious now that changes are taking place. Even in the Nordic countries such as Sweden and Finland, where society and politicians used to be in strong agreement about the need for higher education to remain exclusively publicly funded, universities have now started to introduce tuition fees for international students. (See section on Private funding p.30).

In the United Kingdom, where tuition fees have been in place for some time, the government has proposed raising fee levels almost threefold, to as much as 9 000 GBP. While the proposals suggest universities should be discouraged to charge more than 6 000 GBP, they will be allowed to charge the maximum amount in exceptional cases, granted they ensure mechanisms to fund more undergraduates from poorer backgrounds. To ensure that the general rise in fee levels will not affect demand or discourage people from entering higher education, the proposals also foresee a comprehensive loan and subsidy system to be set up, from which tuition would be paid to universities upfront on behalf of the students. The mechanism would also allow them to start repaying the costs of their learning and possibly, living support received, once their earnings are sufficiently high.

The impact of the crisis on other types of private funding is less clear as data is more complex and more difficult to collect and analyse. Although the analysis initially showed no direct impact on collaborative projects between universities and industry, an increasing number of individual accounts from universities in Austria, Belgium, Finland, Germany, Norway, and Switzerland report difficulties in starting new projects of this sort. Similarly, universities in Portugal, the Netherlands and the United Kingdom have reported individual cases, where projects with partners from the industry have been discontinued.

Accounts collected from philanthropic and other foundations show that their funding base has also been affected by the crisis, which has had an impact on their donating capacity. Reduced income from philanthropic funding has been observed by universities in Cyprus, Finland, Portugal and the Netherlands. In parallel, other countries have also experienced a drop in private income coming from alumni donations and fundraising activities. In the United Kingdom, these have fallen by one fifth according to some estimates[65]. Despite measures being taken by universities to spread out the impact of reduced income from these sources over the forthcoming years, this will have a prolonged effect on universities' budgets and could affect their ability to diversify their income streams in the future.

[65] Shepherd J., "Donations to universities down in recession", guardian.co.uk, 26 May 2010.

6. Conclusions

- The EUDIS project sought to map the status of income diversification in European universities. It examined external and internal hurdles to the development of successful income diversification and identified best, transferable practices that improve the framework conditions for universities and their ability to act strategically in this area. Income diversification is indeed one of the mechanisms to achieve financial sustainability, which is not a means in itself but allows universities to invest in their future academic and research activities. Only financially sustainable universities will be able to fulfil their academic missions and wider role in society in the future.

- Despite the tremendous diversity that exists in Europe, all higher education systems face the challenge of designing sustainable funding models more acutely than ever. The unprecedented massification phenomenon has enormously benefited European society but is also one reason for rising costs for the sector. This, amongst many other factors, has driven the search for new sources of income and efficiencies to sustain the funding base. To take on these tasks, universities have grown aware of the need for new professional management and sometimes for changes in governance structures.

- While there is potential to increase complementary funding raised from private sources, the study showed that they cannot replace sufficient public funding, either in the long or in the short term. They remain limited in scope and their growth often requires important upfront investments. It was also found that not all universities have the same potential to explore new income sources, which has to be taken into account. Among possible private sources, student financial contributions have a potential to bring significant resources into the system. The availability of this particular source is however highly contingent on the funding model chosen for higher education in each system, with various approaches to tuition fees across Europe. The economic downturn has nevertheless contributed to sharpening the debate on the introduction or increase of this source in a number of countries.

- The study revealed that many universities in Europe have already diversified their income structure to some degree. The collected data showed that additional funding sources such as contracts with the business sector or indeed philanthropic funding represent a higher percentage of a university's income structure than commonly assumed. Although the extent to which the income structure is diversified varies widely across institutions, there is evidence that income diversification is not the prerogative of a few countries. However, the regulatory framework in which universities operate does have an important influence on their ability to diversify income.

- It appears clearly that public authorities play a key role in supporting income diversification by providing the right framework conditions, removing barriers and setting incentives. Granting extended autonomy to universities is an essential step forward in this context. The findings show that financial and staffing autonomy especially foster diversification. The ability to generate additional funding streams requires flexibility and autonomy for universities to manage their organisational structure, their finances and staff. However, this only creates the background against which public authorities need to provide additional support.

- Public authorities and other funders can support income diversification in universities further by streamlining the modalities and requirements of their funding programmes. This study has confirmed that excessive complexity of rules and reporting obligations are deterring universities from diversifying their funding streams. Among funding modalities that are particularly unfavourable to higher education institutions, co-funding mechanisms carry a threat to the universities' long-term financial sustainability. Public authorities need to lead by example and fund activities on a full cost basis, thereby refraining from widening the funding gap that is a growing and widely underestimated problem for universities across Europe.

- The analysis showed that incentives and support mechanisms remain limited in many countries. Matched funding schemes, for example, tend to create favourable environments for universities' potential to generate income and have successfully contributed to the rise of private investment in higher education. Funding incentives set by public authorities should also reflect the diverse missions and profiles of universities, not focusing exclusively on rewarding research activities.

- The development of leadership and management professionalisation are of particular importance in this context. Facing the challenges of today and tomorrow requires university leaders and managers to acquire new skills to engage in new activities and reach out to new partners. At operational level, this also demands the integration of new staff profiles, in particular in the areas of research management, fundraising, human resources, communication and financial management. National and European funders need to step up efforts to support universities in developing adequate training programmes towards this end.

- Universities themselves have also scope to diversify their funding base. A pre-requisite is for them to get better knowledge and control of their real costs by implementing the adequate full costing systems to inform their decision-making processes and better price their activities, simultaneously revealing the extent of their chronic underfunding and exploring avenues for efficiency measures.

- The economic crisis has had and continues to have an impact on higher education systems in Europe. Many governments have been faced with reduced investment capacities, and that has led in certain cases to major debates as to the sustainability of current funding models for higher education. The diversity of political and historical backgrounds in Europe suggests that there will be no uniformity in the outcomes, leaving nonetheless scope for comparative analysis.

- The relevance and acuteness of this question clearly appear as a key feature of the upcoming reforms in the European higher education landscape. To face these challenges all actors, governments, national, regional and European funders and universities will need to take on their role to mark the path towards financially sustainable universities.

7. Recommendations

7.1 Universities

Integrate

Integrate income diversification in your institutional strategy

- Apply a proactive approach in diversification and identify opportunities
- Incorporate partnerships with broader implications across the whole institution
- Engage the academic community in the diversification strategy and its actions

Invest

Invest in people

- Invest in the development of institutional human capital to improve further capacities and competences to engage in income diversification
- Establish and nourish strong leadership and management

Incentivise

Incentivise faculties & staff to take an active part in income diversification

- Increase the use of untapped potential within the universities
- Design resource allocation models that provide incentives for income diversification at faculty/departmental level (performance agreements, development plans)
- Provide incentives that foster the commitment of the academic staff to the strategy

Interact

Interact smartly: set up professional stakeholder management

- Create a professional stakeholder management (create a "brand" around the university)
- Enhance the awareness that the university is creating value for external stakeholders and identify areas of mutual benefit with local and regional partners

7.2 Public authorities

Invest

Invest in higher education

- Provide sufficient and reliable public funding and ensure that complementary funding will not replace public funding
- Aim at achieving the 3% GDP target of investment in Higher Education
- Invest in leadership development training for higher education leaders and managers

Introduce

Introduce the right framework conditions

- Increase institutional autonomy in particular in financial aspects, human resource management and capacity to design governance structures
- Establish funding incentives to engage in partnerships and foster donations from the private sector such as matched funding schemes

Integrate

Integrate & simplify funding rules

- Simplify funding rules in order to reduce costs
- Streamline eligibility conditions and accountability requirements to reduce the administrative burden on universities
- Reduce co-funding requirements and replace wherever possible by funding on a full cost basis

7.3 European Institutions

Intensify

Intensify simplification efforts

- Implement measures fostering simplification of funding schemes
- Increase the attractiveness of structural funds

Invest

Invest in European higher education

- Streamline eligibility conditions and accountability requirements to reduce the administrative burden on universities
- Reduce co-funding requirements and replace wherever possible by funding on a full cost basis

Involve

Involve all funders

- Engage with governments and funders to create incentives for governance and autonomy reforms and further income diversification
- Create funding mechanisms to foster leadership and human resource development for higher education leaders and managers

7.4 All funders

- **Take action to streamline eligibility conditions and accountability requirements in order to reduce the administrative burden on universities.**

Annex - Contributions

1. Steering Committee & EUA staff

Steering Committee Members

- **Davide Bassi**
  Rector, University of Trento, Italy

- **Luisa Consolini**
  Director of Central Information Services, University of Bologna, Italy (until August 2010);
- **Giovanna Filippini**
  Head of International Relations, University of Bologna, Italy (as of August 2010)

- **Ian Creagh**
  Head of Administration & College Secretary, King's College London, United Kingdom

- **Dietmar Ertmann**
  Vice-President and Head of Administrative Affairs, Vietnamese-German University Consortium (VGU), Germany

- **Petr Fiala**
  Rector, Masaryk University, Czech Republic (represented by Ondrej Hradil, CEITEC Project Deputy Director)

- **Gustau Folch**
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- **Thomas Estermann**
  Head of Unit, Governance, Autonomy and Funding

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  Project Officer, Governance, Autonomy and Funding

2. Participating institutions

a. On-line Questionnaire (May-September 2009)

- Graz University of Music and Dramatic Arts, Austria
- Vrije Universiteit Brussel-VUB, Belgium
- University of Mons-Hainaut, Belgium
- Ghent University, Belgium
- University of Rijeka, Croatia
- Masaryk University, Czech Republic
- College of banking, Prague, Czech Republic
- Palacky University, Olomouc, Czech Republic
- European Polytechnic Institute, Ltd, Czech Republic
- University of Pardubice, Czech Republic
- University of West Bohemia, Czech Republic
- University of Copenhagen, Life Sciences, Denmark
- Aalborg University, Denmark
- Aarhus University, Denmark
- University of Tartu, Estonia
- Theatre Academy, Helsinki, Finland
- Lappeenranta University of Technology, Finland
- National Polytechnic Institute of Toulouse, France
- University of Montpellier III Paul Valéry, France
- Ecole Centrale de Lyon, France
- University of Haute-Alsace, France
- Henri Poincaré University, France
- Paul Cézanne University – Aix-Marseille III, France
- University of Technology of Troyes, France
- Claude Bernard University Lyon 1, France
- Paris 12 Val de Marne University, France
- University of Cergy Pontoise, France
- Free University of Berlin, Germany
- University of Karlsruhe, Germany
- University of Siegen, Germany
- University of Applied Sciences of Aachen, Germany
- University of Stuttgart, Germany
- Julius-Maximilians-University Würzburg, Germany
- University of Kaiserslautern, Germany
- University of Bayreuth, Germany
- Dresden University of Technology (TU Dresden), Germany
- Bucerius Law School, Germany
- University of Applied Sciences Mittweida, Germany
- University of Konstanz, Germany
- University of Münster, Germany
- Leuphana University Lüneburg, Germany
- Central European University, Hungary
- University of Pannonia, Hungary
- Trinity College Dublin, Ireland
- National University of Ireland Galway (NUI Galway), Ireland
- Dublin Institute of Technology, Ireland
- University of Genoa, Italy
- University of East Piedmont "Amedeo Avogadro", Italy
- Free University of Bozen-Bolzano, Italy
- University of Naples "L'Orientale", Italy
- University of Trieste, Italy
- University of Trento, Italy
- Camerino University, Italy
- University for Foreigners of Perugia, Italy
- University of Salerno, Italy
- University of Pavia, Italy
- University of Milan Bicocca, Italy
- University of Bologna, Italy
- University of Modena and Reggio Emilia, Italy
- University of Verona, Italy
- International School of Advanced Studies, Italy
- University of Siena, Italy
- University of Insubria, Italy
- University of Language and Communication, Italy
- Universita IUAV di Venezia (Universitario di Architettura di Venezia), Italy
- University of Rome Tor Vergata, Italy
- Catholic University of the Sacred Heart, Italy
- University of Florence, Italy
- University of Cagliari, Italy
- Roma Tre University, Italy
- Carlo Cattaneo University (LIUC), Italy
- University of Latvia, Latvia
- Daugavpils University, Latvia
- Liepaja University, Latvia
- Riga Stradins University, Latvia
- Jazeps Vitols Latvian Academy of Music, Latvia
- Riga Teacher Training and Educational Management Academy, Latvia
- Rezekne Higher Education Institution, Latvia
- Latvian Academy of Sport Education, Latvia
- Riga Aeronautical Institute, Latvia
- BA School of Business and Finance, Latvia
- Vilnius University, Lithuania
- University of Amsterdam, Netherlands
- Maastricht University, Netherlands
- Open University of The Netherlands, Netherlands
- University of Twente, Netherlands
- Leiden University, Netherlands
- Norwegian University of Science and Technology, Norway

- University of Silesia in Katowice, Poland
- Opole University of Technology, Poland
- Gdynia Maritime University, Poland
- University of Lodz, Poland
- University of Coimbra, Portugal
- University of Lisbon, Portugal
- Petroleum-Gas University of Ploiesti, Romania
- "Petru Maior" University, Romania
- West University of Timisora, Romania
- University-Higher School of Economics, Russia
- University of Ljubljana, Slovenia
- University of Nova Gorica, Slovenia
- University of Navarra, Spain
- Technical University of Catalonia, Spain
- Carlos III University of Madrid, Spain
- Foundation UAB (Autonomous University of Barcelona), Spain
- Pablo de Olavide University, Spain
- University of Cantabria, Spain
- National University of Distance Education (Open University), Spain
- University of Girona, Spain
- Pompeu Fabra University, Spain
- University Rovira i Virgili, Spain
- Stockholm School of Economics, Sweden
- University of Gothenburg, Sweden
- Royal College of Music in Stockholm, Sweden
- Karlstad University, Sweden
- Uppsala University, Sweden
- Lund University, Sweden
- Umeå University, Sweden
- University of Lausanne, Switzerland
- University of Neuchâtel, Switzerland
- Zurich University, Switzerland
- Swiss Federal Institute of Technology at Lausanne, Switzerland
- University of Bern, Switzerland
- University of Lucerne, Switzerland
- Kocaeli University, Turkey
- V.N. Karazin Kharkiv National University, Ukraine
- Kharkiv National University of Economics, Ukraine
- Ternopil State Ivan Pul'uj Technical University, Ukraine
- University of St Andrews, United Kingdom
- Anglia Ruskin University, United Kingdom
- King's College London, United Kingdom
- Edinburgh Napier University, United Kingdom
- Roehampton University, United Kingdom
- University of Warwick, United Kingdom
- Oxford University, United Kingdom
- St George's University of London, United Kingdom
- University of Liverpool, United Kingdom

b. Madrid Seminar, 16-17 October 2009

Case Studies

- University of Latvia, Latvia
- Norwegian Ministry of Education and Research, Norway
- Lucian Blaga University of Sibiu, Romania
- Carlos III University of Madrid, Spain
- The University of Salford, United Kingdom

Participating institutions

- Vienna University of Technology, Austria
- Ghent University, Belgium
- Catholic University of Leuven (KU Leuven), Belgium
- Vrije Universiteit Brussel-VUB, Belgium
- Foundation UAB (Autonomous University of Barcelona), Catalonia
- University of Cyprus, Cyprus
- University of Veterinary and Pharmaceutical Sciences, Czech Republic
- University of Copenhagen, Denmark
- Ministry of Education and Research, Denmark
- University of Helsinki, Finland
- Ecole Centrale de Lyon, France
- Ecole Normal Supérieure, France
- University of Karlsruhe, Germany
- University of Siegen, Germany
- Trinity College, Dublin, Ireland
- University of Bologna, Italy
- University of Trento, Italy
- Carlo Cattaneo University (LIUC), Italy
- School of Business Administration, Turiba, Latvia
- Riga Technical University, Latvia
- Latvian Rectors' Council, Latvia
- Vilnius University, Lithuania
- Mykolas Romeris University, Lithuania
- University of Maastricht, Netherlands
- University of Groningen, Netherlands
- University of Lisbon, Portugal
- University of Minho, Portugal
- University of Arts and Design Cluj-Napoca, Romania
- University-Higher School of Economics, Russia
- Open University of Catalonia, Spain
- University of Navarra, Spain
- University of Valencia, Spain
- Royal University College of Music in Stockholm, Sweden
- University of Warwick, United Kingdom
- King's College London, United Kingdom
- University of Kent, United Kingdom
- Glasgow Caledonian University, United Kingdom

c. Ghent Seminar, 17-18 June 2010

Case Studies

- CERI (Centre for Education Research and Innovation), OECD, Belgium
- University of Cyprus, Cyprus
- University of Helsinki, Finland
- Theatre Academy, Finland
- University of Montpellier III Paul Valéry, France
- Karlsruhe Institute of Technology (KIT), Germany
- University of Iceland, Iceland
- King's College London, United Kingdom

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- University of Copenhagen, Denmark
- Aalto University, Finland
- Ecole Centrale de Lyon, France
- University of Konstanz, Germany
- University of Iceland, Iceland
- International School of Advanced Studies, Italy
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- Mykolas Romeris University, Lithuania
- Vilnius University, Lithuania
- University of Groningen, Netherlands
- University of Amsterdam, Netherlands
- University of Lisbon, Portugal
- University of Valencia, Spain
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- University of Warwick, United Kingdom

d. Final EUDIS conference, Bologna, 13-14 September 2010

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