

Financiación de las instituciones europeas de educación superior

Funding of European higher education institutions

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Resumen

En el documento se describe cómo se financian actualmente las universidades europeas y analiza las muchas barreras que actualmente impiden a las universidades de la búsqueda de fuentes adicionales de ingresos. La sostenibilidad financiera futura depende no sólo de la financiación pública fiable y suficiente, sino también de la autonomía y el apoyo necesarios para explorar con éxito las opciones de financiación complementarias. Este documento se basa en el informe “Financially Sustainable Universities II: European Universities Diversifying Income Streams” (EUDIS) publicado por la Asociación de Universidades Europeas en 2011.

Palabras clave

Financiación; europa; educación superior.

Abstract

The paper describes how European universities are currently financed and analyses the many different barriers currently preventing universities from pursuing additional income sources. Future financial sustainability depends not only on reliable, sufficient public funding, but also on the autonomy and support necessary to successfully explore complementary funding options. This paper draws on the report "Financially Sustainable Universities II: European Universities Diversifying Income Streams" (EUDIS) published by the European University Association in 2011.

Key words

Funding, europa, higher education

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1. Introduction

Financial sustainability is one of the key challenges for Europe's universities today. Despite the tremendous diversity that exists in Europe, higher education systems are increasingly under pressure due to rising student populations, declining public funding and mounting costs of teaching and research activities, and therefore facing the same challenge of designing sustainable funding models.

Since 2006 the European University Association (EUA) has been conducting ambitious research on the topic of financial sustainability. The EUDIS study builds upon previous work developed by EUA on university financial sustainability and governance, and has involved major data collection in over 27 European countries. Quantitative data were collected through several questionnaires to university representatives and public authorities and qualitative data through site visits to universities and in-depth case study contributions at seminars and conferences.

This paper aims to provide an overview of the study while exploring some of the key findings of this research¹. It provides an overview of how European universities are currently funded and further explores the challenges that universities face today in relation to the way they are funded and the framework conditions needed for attracting additional funding sources.

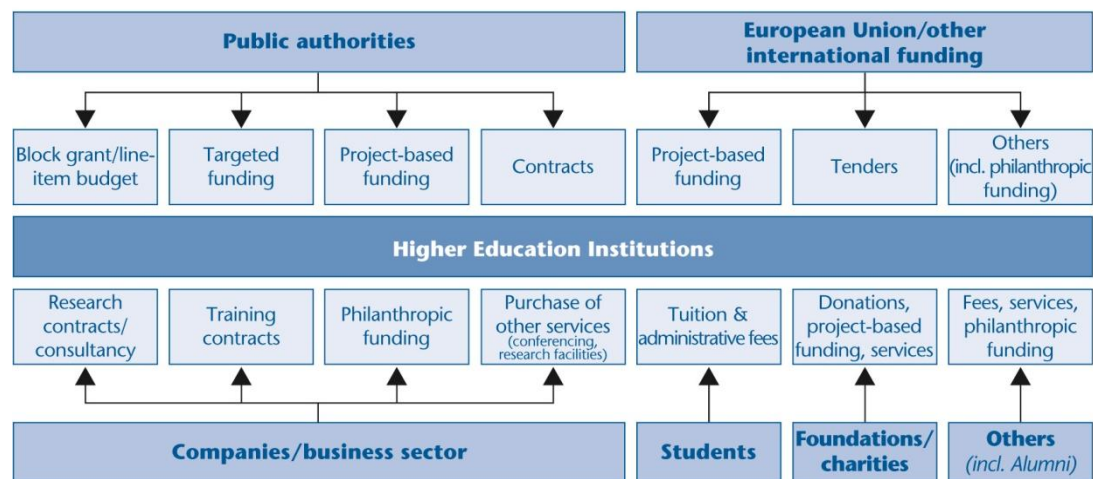
2. The way Europe's universities are funded

Europe's universities are funded from a variety of different sources. A broader categorisation includes funding from national or regional public authorities, funding from

¹ The report "Financially sustainable universities II: European universities diversifying income streams" is available on EUA's website: www.eua.be/eudis.

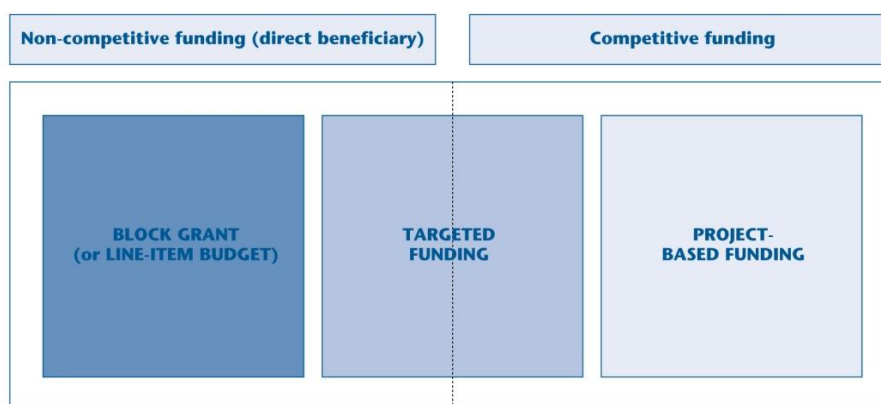
students (and their families), funding from companies (business and industry), funding from foundations and charities and funding from the European Union or other International sources. The figure below shows the diversity of entities/institutions from which universities may receive funds and the variety of means through which these funds may be delivered to the university.

1 - Income sources and funding modalities



In Europe, direct public funding continues to be the most important income source for universities, representing, on average, close to three quarters of an institution's budget. This is largely consistent with data from the OECD². Direct public funding mostly comes to the university as a block grant, leaving the leadership with the responsibility of internal allocation of resources. Public authorities tend to resort to funding formulae to determine these grants, increasingly taking output-based criteria into account. In parallel, public authorities use more and more competitive and targeted funding, a trend which has been exacerbated by reduced investment capacities.

2 - Modalities of public funding (simplified)



² OECD, Education at a Glance 2010 – OECD indicators, 210, p.228.

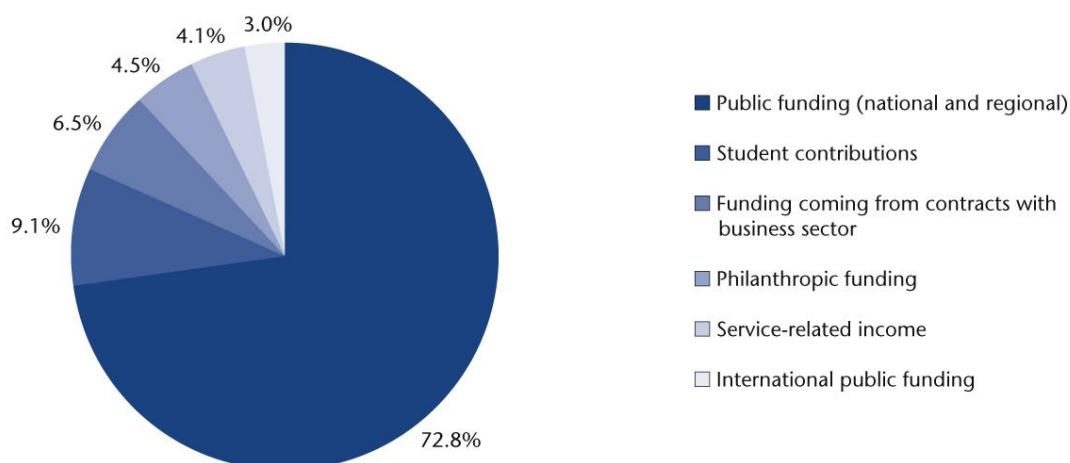
Student financial contributions or fees have the potential to constitute a large income source. Such an income source is considered by those who can charge them as fairly predictable, and therefore give the university the ability to make long term investments. Its importance varies greatly, however, depending on the legal framework in which universities operate. In some countries like England (25% on average) or Spain (13% on average), it represents a significant income source. In many other European countries, although universities can charge fees on selected groups of students, the fee level is often regulated by the state, and therefore in some cases the income from fees contributes only a small percentage of a university's total 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. Although different perceptions and traditions exist across Europe on the inclusion of fees in the funding model for higher education, the debate around the balance between fees and student support is gaining relevance in most countries – especially in view of the economic downturn – and will continue to be at the heart of the discussion around funding models for higher education in the coming years.

Additional sources (all other sources other than public funding and student financial contributions) represent almost 20% of the budget of a majority of universities. In some cases, this type of funds amount to between a fourth and a third of the institution's income structure. Contracts with private partners represent the largest additional source with an average of 6.5%. It varies significantly between institutions though, ranging from 1% to 25% of the income structure. Philanthropic funding amounts to 4% of the total income of a university on average, with some universities generating close to 10% of their income from this source. While universities in the United Kingdom are generally more successful in their fundraising activities, there are also successful examples in other countries, although mostly in Northern- Western Europe.³ Foundations are the universities' main partners in this context, but companies and alumni are also getting more involved. Income generated 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. Some British universities receive between 10 and 25% of their total income from this type of activities. Financial and staffing autonomy, experience and expertise to provide consultancy or facility-related services play an important role in the institution's capacity to generate such income. Management of conference facilities, catering and accommodation (including student residences) represent the largest part of this income source, followed by consultancy services, educational services and commercialisation of research results.

International public funding is almost exclusively made up of European funds, such as the Structural Funds, the European research framework programme and the Lifelong Learning Programme.

³ European Commission, "Giving in evidence, Fundraising from philanthropy in European universities, COM (2011), p.100.

3 - Average income distribution



3. Funding challenges

Discussions on funding models must take account of the related challenges with different sources of funding that need to be overcome if Europe's universities are to continue to provide high quality teaching and excellent research.

Impact of the economic crisis

EUA has been monitoring⁴ the evolution of public funding to higher education since the onset of the economic crisis in 2008. Since public funding represents on average close to 75% of the universities' financial structure, reductions from this source immediately have an important impact on the functioning of the institutions. The continuous feedback that EUA collected from various sources provided up-to-date reports of the situation and highlighted the evolving nature of the effects the economic crisis has had on higher education across Europe.

Critical situations have been observed in a number of countries.

In the period between 2008 and 2012 public funding was cut by more than 10% in the Czech Republic (-14%) Greece (-25%), Hungary (-20%), Ireland (-20%), Italy (-12%), Latvia (-19%), England (-10%). England is a specific case amongst these countries as it is undergoing major changes at system level. Its higher education system is being re-engineered around a student-centred approach. The move is intended to foster the efficiency of the system. While funding for research is stabilising, teaching funds will be essentially removed as of 2012. This follows previous cuts in 2010 in teaching budgets and in capital funding. The reduction in public funding is meant to be covered by private contributions from students (up to £9,000 per year). Under the new system, students would benefit from loans backed by the public authorities, repayable after graduation on an income-contingent basis. While the public authorities have committed

⁴ Updates of EUA's Public Funding Observatory are available at <http://www.eua.be/eua-work-and-policy-area/governance-autonomy-and-funding/public-funding-observatory.aspx>

to transfer the funds from calculated tuition fees directly to universities, there remains much uncertainty as to how this will work and what the consequences for higher education institutions will be over the long term.

Looking at the more recent period between 2010 and 2012 funding for universities was cut by more than 10 % in Spain (-10%) and Portugal (-12%).

Universities in the Nordic countries are generally in a better situation although a common concern (also shared by universities in a majority of European countries) lies with the absence of compensation for inflation and sometimes for pay rises.

When adjusting the public funding figures for 2008-2012 for inflation, for many countries a more serious picture is revealed. Inflation worsens the effect of funding cuts and mitigates the effects of a funding increase. Therefore when looking at the inflation-adjusted public funding figures only seven systems out of 20 have a better funding situation in 2012 than in 2008 (Germany, Norway, Sweden, Austria, Belgian French-speaking Community, France, Netherlands), while 13 systems have a lower funding level in 2012 than in 2008 (Croatia, Poland, Portugal, Slovakia, Czech Republic, Spain, Greece, Hungary, Ireland, Iceland, Italy, Lithuania, United Kingdom – England and Wales).

The impact of public funding cuts on the management and functioning of universities is multiple. In many countries, and in particular those most severely affected, staffs have been laid off, salaries have been reduced, and hiring freezes have sometimes been put in place. The academic courses offered to students, contact hours, library opening hours and student services have often been reduced. The extent to which students receive subsidies from the public authorities has also been affected. Moreover, budget cuts have also had an impact on infrastructure maintenance.

Increasing co-funding requirements

The increasing trend to resort to co-funding requirements is another challenge to universities' financial sustainability. Co-funding requires that a university raises a proportional amount of the full cost of the activity or project being funded, from its own budget or from another public or private source. Data from the EUDIS study showed that a majority of universities deal on a daily basis with co-funding requirements, whether for most or part of their public funding. Both European and national public funders increasingly use co-funding requirements by either funding only a certain percentage of the direct costs or just a part of the indirect costs of an activity (especially in competitive funding schemes). This is a threat to the universities' financial sustainability, especially if it affects a significant part of their public funding.

Indeed, co-funding does not necessarily lead to leveraging funds from other sources; in most cases, universities have to resort to using resources from their core budget. The EUDIS survey revealed that 65% of the respondents co-funded these activities from core public funding, while 35% resorted to a mix between public and private funds. The reason for this is clear – it is very difficult to raise funds from private funders to cover a part of the indirect costs of a project whose core activities are already funded. This, in turn, reduces the university's capacity to invest in its future, diminishing the amount of "unconstrained" funds available to finance facilities, equipment or staff.

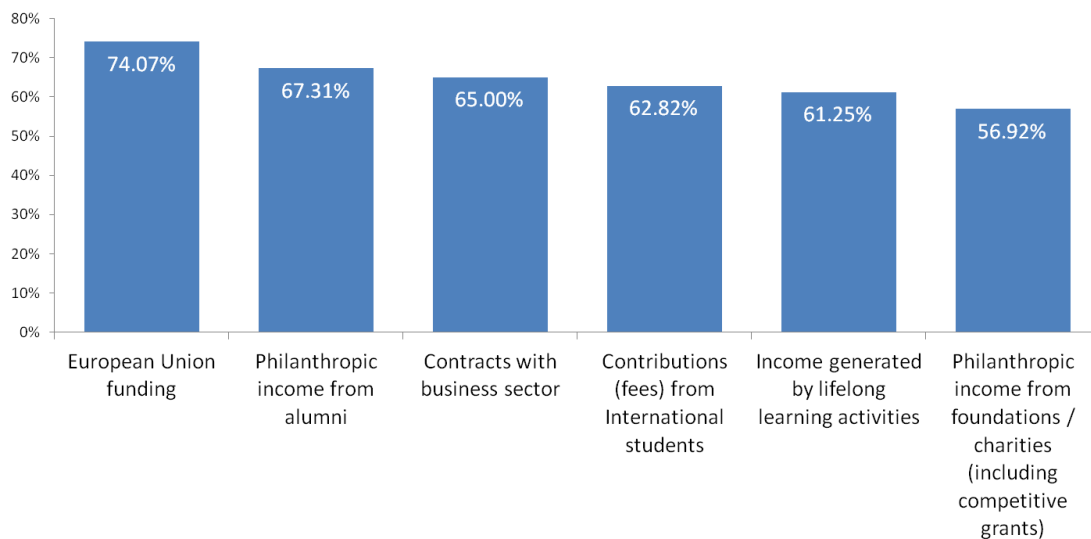
Complex financial management

Attracting new funding sources often translates into complex financial management. Some universities have well over one hundred different income sources, which have, in many cases, very diverse accountability regimes. The higher education community does not expect this trend to slow down or reverse. On the contrary, a majority of the respondents in the project's survey believes that the overall number of sources will increase. Universities therefore need to invest a lot of time and resources on financial and project management if they want to obtain these funds, whose application, contractual, reporting and reimbursement procedures often differ widely. In reality, "small income sources" can often generate a disproportionate amount of paperwork and administration which in turn raise the operational costs for universities.

European funding schemes

The European Union offers non-negligible income to many universities, who 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 very next 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.

4 - Income sources most widely expected to grow in the medium term



European funding schemes are an important, but also 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, as well as the systematic use of co-funding are a major concern for universities considering participation 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.

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 result in an unlevel playing field for universities across Europe, with some countries providing more comprehensive support than others in the competition. Simplification of rules and procedures and moving towards funding on a full cost basis of these schemes appears to be the only sustainable solution in the long run.

4. Creating adequate funding conditions

Public authorities have not only a key role in providing adequate funding conditions, but also in supporting universities to attract additional sources of funding. They should also set appropriate incentives and support mechanisms to build up the capacity of universities to respond to new funding opportunities.

The importance of adequate regulatory frameworks: autonomy

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 in the EUDIS study. 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 attraction of additional funding.

Funding modalities

Inadequate funding modalities at system level may have a negative effect and create powerful disincentives for universities to seek additional funding sources. An excessive administrative burden coupled with 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 from administration and redirected to meet 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.

Incentives like matched funding schemes

Matched funding schemes, whereby public authorities reward universities for their success in raising funds from the private sector, are an innovative incentive mechanism to foster the attraction of additional funding. In such a scheme, public authorities may provide funds either to a full or proportional amount to the funds raised from the private sector by the university itself. These additional public funds may be granted to the

general budget of the university, without necessarily being attached to the completion of a designated activity. These schemes are or have been used in countries such as Canada, the USA, New Zealand, but rarely in Europe. Only the United Kingdom, Norway and Finland have used such funding incentives. 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 giving. Key principles for success include simplicity of rules, broad definition of university activities and types of donors eligible for matched funding and a guarantee of not reducing core funding. Accompanying tax incentives for the donors and capacity-building funding for universities to develop fundraising instruments and strategies are desirable for an even higher leverage effect.

Development of full costing

Appropriate strategic tools play a crucial role in achieving financial sustainability. Universities must first have a tool that enables them 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.

Support to leadership development and professionalization of management

Leadership, management and skill development matter enormously when developing a successful strategy to attract additional funding sources. In order to face the challenges of today and tomorrow, university leaders and managers are required 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. 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 to promote a culture of organisational learning and to champion examples of excellent governance and management in British universities. Therefore, there is need for national and European funding organisations to step up efforts to support universities in developing adequate training programmes towards this end.

5. Conclusions

Although sustainable public funding remains an essential pillar of the financial sustainability of Europe's universities, public authorities also play a key role in supporting universities in attracting additional funding sources by providing favourable framework conditions, removing barriers and setting incentives. Granting extended autonomy to universities is an essential step forward in this context. The ability to generate additional funding streams hinges on the flexibility and autonomy given to universities to reform their organisational structure, and manage their own financial and staff matters.

However, this only creates the background against which public authorities need to provide additional support.

Universities, in turn, need to integrate income diversification in their institutional strategy and must invest in people in order to strengthen their capacities and competences to engage effectively in income diversification activities. This is conditional on the establishment of strong leadership and management.

All actors, including public authorities, private funders, EU institutions and universities, have to foster a culture of trust. It is through trust that it becomes possible for them to work together towards the improvement of the legal and funding frameworks in which higher education institutions operate, and towards the common goal of enhancing the sustainability and efficiency of the European higher education systems.

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