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Working together towards financial sustainability for European universities

Preamble

Despite the tremendous diversity that exists in Europe, all universities face the challenge of sustainable funding more acutely than ever. Unprecedented massification has enormously benefited European society but is also one reason for rising costs for the sector. There is also growing awareness of the increasing costs of research. These, amongst many other factors, are driving the search for new sources of income and efficiencies to sustain the funding base.

Furthermore, the economic crisis continues to have an impact on higher education in Europe. Reduced investment capacities have triggered significant cuts in universities' teaching and research budgets in many cases. Governments are also progressively rethinking the size and shape of higher education systems and calling into question the efficiency and sustainability of current funding models.

Universities, however, need to be able to keep investing in their future academic and research activities to continue to fulfil their role in society. ***Financial sustainability is crucial and conditional on reliable, sufficient public funding, and adequate autonomy to be able to explore additional funding options.***

The purpose of this policy statement is to underline the key factors that constitute and contribute to promoting financial sustainability for Europe's universities.

Funding sources

i. Public funding remains crucial for universities

Public funding is more than a basis on which universities may develop additional income streams. Public funding provides, on average, $\frac{3}{4}$ of the income structure of universities. Additional funding sources, even when combined, do not have the potential to replace sustainable public funding for teaching and research.

ii. Student financial contributions - a controversial issue increasingly under discussion across Europe

Among possible private sources, student financial contributions are presently under discussion in many countries as they have the potential to be a significant funding source for universities. Higher education systems across Europe have very different approaches as to the appropriateness of tuition fees as a source of university funding, often depending on the specific national and cultural context, as well as on the capacity to deliver sufficient public funding. Where these exist, the collection of student financial contributions is often organised in complex

systems which differentiate between programmes, delivery modalities and types of student groups. Income generated through the enrolment of international students (outside of EU/EEA) is becoming increasingly relevant for universities in Europe. However, the capacity of universities in a large number of countries to ask national or EU/EEA students to meet parts of the costs of the teaching mission is very limited or nonexistent.

EUA considers that, if universities have the autonomy to decide on the inclusion of student financial contributions in their funding portfolio, then it is important to ensure that equal access to higher education is guaranteed. Thus, those systems/universities that include student financial contributions in their funding models need to invest in parallel in appropriate student support mechanisms.

iii. Universities need to develop their capacity to attract additional funds

Additional income often comes from contracts with the business sector, fundraising activities, provision of services and international public funds. The capacity to attract additional income is unequally shared among universities in Europe and often requires significant upfront investments. Successful income diversification strategies also depend on a strong commitment of the leadership and a focus on staff development and professional stakeholder management. All of this requires investments for which universities should be supported by public authorities.

While additional income sources may contribute to enhancing institutional autonomy and generate resources that can serve the strategic decisions of the university, they do not constitute an *alternative* to sufficient and sustainable public funding.

The role of public authorities

i. Investment in higher education

Public authorities play a key role in supporting universities' financial sustainability by providing the right framework conditions, removing barriers and setting incentives. Public authorities should first and foremost provide sufficient and reliable funding, aiming at achieving the 2% GDP target of investment in higher education proposed by the European Commission¹. The attraction of additional income by universities should not lead public authorities to reduce investment in higher education.

ii. Reinforcement of university autonomy

Granting extended autonomy to universities is also an essential step forward in this context, especially in financial and staffing matters. To generate additional funding streams, universities need efficient governance models and require flexibility and autonomy to manage their organisational structure, their finances and staff. However, institutional autonomy, although it provides the essential

¹ Communication from the Commission of 20 April 2005 - Mobilising the brainpower of Europe: enabling universities to make their full contribution to the Lisbon Strategy (COM(2005) 152 final)

conditions for the university to implement income-generating activities, may not be enough to drive such a strategy. Therefore, to enable universities to exploit their potential, it is important that public authorities provide support to facilitate the acquisition of the leadership and management skills that accompany institutional autonomy.

iii. Simplification of funding rules

Public authorities and other funders can support universities by streamlining the modalities and requirements of their funding programmes. Excessive complexity of rules and reporting obligations are deterring universities from diversifying their funding streams. 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.

iv. Funding on a full cost basis

Among funding modalities that are particularly unfavourable to higher education institutions, co-funding mechanisms carry a threat to the universities' long term financial sustainability. Co-funding contributes to widening the universities' funding gap by forcing institutions to finance part of the costs of the activities from core resources, to the detriment of much needed investments. 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.

v. Support to the implementation of full costing systems

Better knowledge and control of the real costs of both teaching and research activities is a pre-requisite for financial sustainability for universities. Implementing adequate full costing systems helps to inform the decision-making process and allows universities to price their activities better and explore avenues for efficiency measures. Coordinated approaches at national level, including support from the public authorities, have proved to be more efficient than isolated initiatives and have contributed to increasing the overall efficiency of the funding model.

vi. Creation of innovative support mechanisms

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. Other mechanisms should include tax breaks or exemptions. It is important that funding incentives set by public authorities reflect the diverse missions and profiles of universities, and not focus exclusively on rewarding research activities. Public authorities are therefore called on to invest strategically, where funds would have the highest leverage effect, and establish funding incentives for universities to engage in partnerships and encourage donations from the private sector, such as matched funding schemes.

The role of European institutions

i. Improved funding modalities

European funding programmes represent a significant source of funding for universities, whether through structural funds, the research framework programme or the lifelong learning programme. Universities are also looking towards intensifying their participation in these funding schemes. European institutions are therefore in a position to lead by example by intensifying efforts to simplify rules and improve the attractiveness of European funding programmes. This should include a shift towards funding on a full cost basis – covering both direct and indirect costs – and moving away from co-funding requirements that are detrimental to universities' financial sustainability.

ii. Support to leadership and human resources development

EUA also invites the European Commission to consider the creation of funding mechanisms to foster leadership and human resources development for higher education leaders and managers. 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.

iii. A platform for dialogue and promotion of reform

The Commission is also well-placed to engage with public authorities and other funders to foster the implementation of autonomy and funding reforms and foster a constructive dialogue with the higher education sector. EUA remains committed to its fruitful collaboration with the European Commission in this respect and calls for the continuation of the common work undertaken in the higher education funding and governance areas. EUA also calls for consideration of the issues raised in this statement in the forthcoming revision of the Modernisation Agenda for Universities.