

# An introduction to the European University Association's work on financial sustainability

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In this paper, Professor Jean-Marc Rapp, President of the European University Association, reviews the Association's work on the topic of financial sustainability in the light of the developments that have had an impact of universities in Europe in the recent years. That includes general trends such as massification and rising costs for higher education; but also the economic crisis that continues to affect the sector today. The paper also explains the connections between the EUDIS study on income diversification and the European policies in the field of modernisation of higher education. The European University Association takes the view that financial sustainability is crucial and conditional on reliable, sufficient public funding, and adequate autonomy to be able to explore additional funding options.

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## 1 Introduction

EUA's Experts Conference "Towards financially sustainable universities II: diversifying income streams" was an important milestone of the EUDIS project, co-funded by the European Commission. In this project, EUA partnered with *HUMANE*, the network of university heads of administration; the *Bavarian State Institute for Higher Education Research and Planning*, and the *University of Bologna*, which hosted the conference.

The EUDIS project belongs to the second part of a work agenda that EUA set up some years ago around the topic of financial sustainability of European universities. This work is structured around three pillars, or key ideas:

- Universities must be able to identify and better understand the costs of all their activities and projects;
- Universities must maintain a reasonably diversified income structure to mitigate risks and enhance autonomy;
- But this cannot be achieved without sufficient and sustainable public funding.

This project came to a close in February 2011 and collected highly valuable data across Europe, through an online questionnaire to which many European universities responded, but also through site visits and through the constant monitoring of the impact of the economic crisis on universities' activities and financial structures. EUA is in a privileged position to achieve these tasks, with its membership of over 800 higher education institutions in 46 countries and the national rectors' conferences of 35 countries in Europe.

During the conference, EUA shared the findings of this project and invited high level experts from Europe and beyond to debate around the different conditions and aspects of income diversification. Participants from nearly 40 countries attended the event to share their expertise, whether as university leaders, national and European policy-makers, researchers, or partners. The conference therefore helped EUA elaborate clear messages and conclusions to inform policy-making both at national and European levels.

It is important to underline a few key points to better situate the importance of financial sustainability for universities in Europe in the context of EUA's work.

## **2 Universities' financial sustainability under threat**

The costs of higher education and research have been growing rapidly. The reasons for this are well known; advances in the field of technology, particularly ICT and its wider usage in higher education and research, a growing participation rate, new societal demands on institutions, rising pension costs and tougher quality requirements are increasing costs and necessitate additional financing.

Despite the fact that universities are at the centre of knowledge creation and development, which itself is seen as one of the main motors of economic growth, public funding of higher education in most countries is not increasing or at least not increasing enough in real terms. "Massification" has led to the fact that the higher education budgets per student are relatively low in most European countries compared to Europe's competitors. Despite declarations of intent to increase spending on higher education and research, it is not very likely that public expenditure will grow significantly on average in Europe and therefore be able to keep up with rapidly inflating costs in the years to come. One of the reasons for this is that higher education and research have to compete with other priorities in public budgets (security, health, etc.). Demographic trends and an aging population point to the fact that the health sector is likely to take priority over higher education.

The recent economic downturn has furthermore contributed to the decision in many European countries to decrease the levels of investment in higher education and research. Such trends are particularly worrisome for universities across Europe, whose continuing dependence on public funding puts their future sustainability under pressure.

All the above reasons are forcing universities to respond by taking action. The first step is for universities to master their cost structures and identify the full costs of their activities for both internal and external purposes. While calling for vital additional financial support from public authorities, who have a responsibility for the universities'

long-term financial sustainability, universities also need to increase and diversify alternative sources of funding.

### **3 EUA's work on financial sustainability**

Since the launching of its *Glasgow Declaration* in April 2005, entitled "Strong Universities for a Strong Europe", EUA has addressed the issues of autonomy, accountability and funding through promoting conferences and workshops, and engaging its members in an evidence-based debate on improving university governance and leadership competencies and updating funding structures.

Since 2006, EUA is conducting ambitious research on universities' financial sustainability. This issue was first addressed in a study "Towards Full Costing in European Universities", showing the need for supporting the implementation of full costing in Europe's universities. These findings are now taken further by the project "European Universities Implementing the Modernisation Agenda" (EUIMA), which promotes the implementation of full costing in European universities. A number of country workshops will bring together all relevant stakeholders to stimulate coordinated approaches on national and regional levels. Study visits to experienced universities will take a very hands-on approach and support those who have to implement full costing.

EUA's *Lisbon declaration*, adopted by its members in 2007, stressed the association's commitment to "identifying supplementary revenue streams for universities and to promoting modes of governance that support optimal transparency in financial management." EUA also committed to undertake "more comprehensive mapping of current public funding models, of their legal and financial environments, and of the supplementary income streams available."

This is what the EUDIS study is focusing on, looking at raising awareness of and identifying good practices in the field of diversification of income streams in universities across Europe.

Financial sustainability also plays a major role in EUA's current work on university autonomy. Institutional autonomy is strongly connected to the topic of income diversification. The ability to freely allocate and manage financial resources, to establish partnerships and raise income from the private sector, are crucial elements that fully contribute to the universities' long-term financial health.

This agenda is summarised in two of the 10 key success factors that EUA and its members identified in the *Prague Declaration* last year, which states the importance of "Increasing and diversifying income: to achieve financial sustainability, by implement-

ing 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."

It also underlined the need to "Shape, reinforce, and implement autonomy: universities need strengthened autonomy to better serve society and specifically to ensure favourable regulatory frameworks which allow university leaders to design internal structures efficiently, select and train staff, shape academic programmes and use financial resources, all of these in line with their specific institutional missions and profiles."

Finally, the EUDIS project has in particular provided crucial input for the European University Association's policy position on higher education funding released in April 2011. Entitled "Working together towards financial sustainability for European universities", the position underlines the key factors that contribute to promoting financial sustainability for Europe's universities.

#### **4 Current policy processes**

At European level, the *Modernisation Agenda* from 2006 pointed to 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 reminds us that the Commission proposed that governments spend at least 2 per cent of GDP (including both private and public funding) on higher education.

In this Agenda, the Commission also calls for more output-oriented funding and 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.

This Modernisation Agenda is now being reviewed and new objectives will undoubtedly be proposed by the Commission during autumn 2011. Evidence from the EUDIS project also substantiates part of EUA's response to the European Commission's consultation on the Modernisation of Higher Education in Europe. EUA's response highlights the factors that the association believes are crucial in the years to come for supporting universities' further development, and thus for determining the strategic direction of higher education, research and innovation in future. The response highlights the need for reliable and sufficient public funding as well as improved funding mechanisms, such as funding on a full cost basis and further simplification, in particular at European level.

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.

The conclusions of the conference and the findings of the EUDIS project are contributing to and underpinning EUA's future policy recommendations in this regard.

## **5 Debate on funding simplification**

In parallel to these developments, European policy-makers have grown aware of the need to *simplify Commission funding*, especially for research. This is of major importance for universities, who are beneficiaries of the 7<sup>th</sup> framework programme and its soon-to-be successor. EUA is taking an active role in these discussions and has just recently contributed to a series of events on simplification of funding regulations organised by the EU Trio Presidency (Spain and Belgium in 2010, Hungary in 2011). EUA has also represented the higher Education sector's views in dedicated hearings in the European parliament and informed the general rapporteur on the university sector's views for the report on simplification.

EUA argues that simplification needs to cover the full funding cycle and that rules need to be consistent, stable and respect the diversity of Europe's universities. EUA also calls for an urgent change in the implementation and interpretation of rules based on trust, as argued in EUA's response to the consultation on the review of the financial regulation, the rules of which apply to Commission funding.

EUA's work with its member universities, the EUDIS project and the previous work on funding have contributed and will contribute to gathering all the necessary evidence to take part in such forums and activities at European level.

## **6 Economic crisis**

Finally, income diversification in higher education cannot be discussed in isolation to the national circumstances. By mid-2009, it did not seem that the financial crisis had a strong impact on higher education across Europe; however, EUA's continuous monitoring has shown that the situation, although very diverse from country to country, has evolved in such a way that many European countries have had to proceed to cuts in higher education and / or research funding. In some countries, the crisis has also had an effect on the balance between autonomy and accountability. In some

cases, governments try to go back to more direct steering mechanisms or set up more regulations, in particular in relation to funding. Governments are being keener to provide funding targeted at the achievement of specific objectives, often in line with national priorities, thus curbing the ability of universities to freely manage their funds.

When governments use targeted investments and funding to promote certain subjects or research, they need to be aware that, with declining general university budgets, this can result in counterproductive effects. Governments have the responsibility to ensure that all areas are sufficiently catered for.

On the other hand, in the light of the crisis, public authorities seem to be growing more aware of the need for higher education to develop a reasonably diversified funding structure, attracting funding from other sources including the private sector. In no case however can such "new" funding be a substitute for public funding. The findings of the EUDIS project will show this very clearly. Public authorities have a responsibility to ensure the financial sustainability of its universities and therefore basic funding should come from the common budget. However, to mitigate risks entailed by excessive dependency, it is important for universities to develop a funding portfolio spreading over different sources. Governments need to support this by providing the right framework conditions and adequate incentive mechanisms.

## **7 Conclusion**

This summarises, in essence, EUA's vision of how to approach the funding challenges that universities are or will be confronted with in Europe. Universities 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 importance of reducing the funding gap and making funds work more effectively for teaching and research, as well as of maintaining the goal of achieving the 2 per cent GDP target of investment in higher education, cannot be reiterated often enough.

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