Designing Strategies for Efficient Funding of Universities

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Public funding modalities

Block grant

- Performance-based funding
  - Performance contract
  - Funding formula
    - Output-related criteria
    - Input-related criteria
- Other
  - Negotiation
  - Historically-determined allocation

Project-based funding

“Funding for excellence”

Other direct funding (including targeted funding)
Understanding Performance-based funding

- Different understandings across Europe
- DEFINE focuses on the following:

**Two modes**

- “Output-related” indicators in funding formula: e.g. degrees awarded, research contracts obtained etc.
- **Performance/**development contracts, target agreements between universities and public authorities
The importance of indicators in funding formula

• Important role of “input” related indicators

• The selection of indicators reflects or should reflect policy priorities
Introduction & evolution of funding formula

• Often introduced in the 1990s and in the 2000s, usually with revisions and adaptations since then

• May concern only the allocation of teaching funding

• Considerable disparity as to:
  ✓ the share of public funding allocated via the formula
  ✓ the weight of output criteria

• Caps / scaling factors are often used (to keep in check growth of student numbers/credits awarded)

• Thresholds/adjustments/moderating mechanisms: especially at introduction stage to avoid creating losses

• A few systems introduced funding cuts within the formula (value of indicators)
### Some risks linked to performance-based formula

<table>
<thead>
<tr>
<th>Formula characteristic</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study completion criteria</td>
<td>Decrease in quality and standards to speed up completion</td>
</tr>
<tr>
<td>Contract research criteria</td>
<td>Favoureding of applied research to the detriment of high-risk &amp; blue sky research</td>
</tr>
<tr>
<td>Bibliometric criteria</td>
<td>Disadvantage for humanities; decrease in research quality due to slicing of papers; favouring of research/publishing over teaching</td>
</tr>
<tr>
<td>Model with few indicators applied to allocate main share of public funding to all HEIs</td>
<td>Specialisation and convergence of HEIs towards political priority areas + reduction of diversity in the system; strong steering effect might interfere with institutional autonomy</td>
</tr>
</tbody>
</table>
Performance contracts

Impact on funding

- **Different types** of contracts and levels of significance (share of overall public funding) introduced in the last decade
- **Often limited impact** on funding
- **Clear impact** on future funding allocation in few systems

However:

- Complementarity with **funding formula** → reinforcing/mitigating effects
- Potential high impact on **governance & internal management**
## How performance-based is your funding system?

<table>
<thead>
<tr>
<th>Funding formula</th>
<th>Performance contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primarily input-oriented</td>
<td>Primarily output-oriented</td>
</tr>
</tbody>
</table>

| Main mechanism | BB, BE-fr, CZ, HE, HU, IE, IS, LV, NL, PT, RO, SE<sup>2</sup> | BE-fl, DK, England, EE<sup>1</sup>, FI, NO | AT | N.A. |
| Minor mechanism | PL | FR, IT, NRW, SE<sup>3</sup> | FR, HE, IE<sup>1</sup>, NL, PT | BB, DK, IS, LV, NRW |

1 in transition  
2 Teaching funding only  
3 Research funding only
Key messages for policy makers

• Be **clear** about the aims and **purpose** of the measure (redistribution or steering; main or additional funding mechanism)

• Evaluate which **aims** can be best achieved through which **measure** (input/output indicators; performance contract)

• Consult with the sector on the choice of **indicators / objectives**

• **Minimise administrative effort** for the measurement and generation/collection of data

• Watch out for **conflicting goals** and indicator

• **Avoid indicators** on which **HEIs have little influence** (e.g. graduate employment rate)

• Evaluate possible **unintended effects** and impact
Key messages for universities

• Get involved in the design of the scheme and coordinate among HEIs to voice opinion (→ NRC)
• Identify your priorities & develop an institutional strategy
• Establish strong internal QA mechanisms and foster quality culture
• Set up internal funding allocation schemes based on institutional priorities (may differ from the external one)
• If applicable, try to align the performance contract with your institutional priorities
Public funding

System level

- Funding for excellence

Institutional level

- Merger and concentration processes
- Institutional efficiency strategies

Economic context

Competition

Rising costs

Internationalisation
**Funding for excellence: objectives**

“Funding for Excellence” primarily aims at improving the visibility and competitiveness of the system in an international context.

<table>
<thead>
<tr>
<th>Objectives</th>
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<tbody>
<tr>
<td>Enhancing the competitiveness of the system’s research landscape in the context of international competition</td>
</tr>
<tr>
<td>Restructure the HE/research landscape</td>
</tr>
<tr>
<td>International visibility of the research system</td>
</tr>
<tr>
<td>Improvement of the system and related quality objectives</td>
</tr>
<tr>
<td>Internationalisation</td>
</tr>
<tr>
<td>Improvement of the HEIs’ positions in international rankings</td>
</tr>
</tbody>
</table>
## Types of mechanisms to fund excellence

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic restructuring</td>
<td>DE; FR</td>
</tr>
<tr>
<td>Centres of excellence</td>
<td>FI; NO; PL; SE</td>
</tr>
<tr>
<td>Embedded in core funding</td>
<td>UK</td>
</tr>
<tr>
<td>Included in regular competitive funding</td>
<td>DK; NL</td>
</tr>
<tr>
<td>New institutions</td>
<td>AT; FI</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>ES</td>
</tr>
</tbody>
</table>
## “Size” of excellence funding

<table>
<thead>
<tr>
<th>Country</th>
<th>Funding</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td>&lt;3 billion €</td>
<td>5 years</td>
</tr>
<tr>
<td>FR</td>
<td>&gt;7 billion € in capital grants</td>
<td>For development over 10 years</td>
</tr>
<tr>
<td>AT</td>
<td>Ca. 1 billion € federal funding to Institute of Science and Technology</td>
<td>Over 10 years</td>
</tr>
<tr>
<td>FI</td>
<td>Ca. 500 million € commitment to Aalto University</td>
<td>Over 5 years</td>
</tr>
<tr>
<td>BE</td>
<td>Ca. 300 million €</td>
<td>Over 10 years</td>
</tr>
<tr>
<td>SE</td>
<td>Ca. 200 million</td>
<td>Over 10 years</td>
</tr>
<tr>
<td>NL</td>
<td>120 million €</td>
<td>In 2013 (no timeframe info)</td>
</tr>
<tr>
<td>PL</td>
<td>73 million €</td>
<td>Distributed in 2013 for 5 years project funding</td>
</tr>
<tr>
<td>CZ</td>
<td>&lt;20 million € in one round</td>
<td>For 5 years project funding</td>
</tr>
</tbody>
</table>
Excellence schemes may have the following effects:

- **Restructuring effects** of large excellence schemes
  → reputational, financial and qualitative differentiation among HEIs
- **Regional inequalities** (DE, FR)
- **Convergence effect**: development towards one model of HEI vs. specialisation in “niches”
Areas of impact at institutional level

- Research capacity
- (Research) Administration/Management
- Internal funding allocation
- Institutional reputation
- Institutional attractiveness towards staff and students
- Recruitment of staff
- Collaboration with external partners
- Interdisciplinarity
- Other areas, if specifically targeted in the funding scheme

Need to be considered when designing the scheme
Key messages - policy makers

Policy makers should consider:

• ... the potential **systemic as well as institutional impact** when designing the scheme

• ... excellence schemes as **additional funding**

• ... seeking **synergies** with other funding mechanisms

• ... the need for **flexibility** to pursue scientific goals

• ... mechanisms to better take account of **interdisciplinary applications**

• ... an **exit strategy** for the end of the scheme
Key messages - university leaders

University leaders should consider:

• ... **administrative costs** and assess them against expected gains

• ...potential **unintended effects** at institutional level & the **possibilities to mitigate** those:
  - Institutional strategy to assess priorities
  - Internal redirection of resources
  - Internal excellence scheme with criteria according to own priorities

• ...establishing an **exit strategy** for the institution when excellence funding comes to an end
Public funding

- Performance-based funding mechanisms
- Funding for excellence

Institutional level

- Merger and concentration processes
- Institutional efficiency strategies

System level

- Competition
- Economic context

Rising costs

Internationalisation
Types of merger & concentration processes

• **By depth of integration:**
  
  - **Mergers:**
    - Large-scale, high profile mergers
    - Absorptions of small institutions
  
  - **Clustering:**
    - Around ‘hub’ universities
    - Of complementary institutions
  
  - Other types of concentration processes:
    - Alliances, consortia, strategic partnerships...
Expected benefits of mergers

- Enhanced national and international profile / attractiveness
- Expanded opportunities for teaching and research cooperation
- Stronger negotiating position with authorities / partners
- **Economies of scale**
  - More public funding
  - Rationalisation of academic course offer
  - Potential to enhance research income
  - Staffing efficiencies (long term)

Not always achieved and difficult to plan
Financial aspects of mergers

Difficulty to calculate costs due to:

- Breadth of effects
- Timescale
- Unexpected challenges in merging process (financial, managerial, HR etc.)
- Association of costs to the merger process
- Too short a time span to evaluate full economic impact

A cost analysis is rarely ever undertaken, neither before nor after a merger
### Mergers & concentration processes from a systemic perspective

<table>
<thead>
<tr>
<th>Mergers / clustering</th>
<th>No link with system restructuring</th>
<th>No significant concentration process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivated by / in line with system restructuring</td>
<td>BE-fl, BE-fr, DK, FI, FR, IE, Wales</td>
<td>EE, SE, England</td>
</tr>
</tbody>
</table>
Key messages - system level

Need for:

- **institutional autonomy**
- an **enabling regulatory framework**
- **financial support** for universities that wish to merge/cooperate more closely in some areas
Key messages - institutional level

• Put forward the **academic purpose** motivating the merger (financial reasons should not be the main driver)

• Evaluate **implementation costs**

• Examine **alternative concentration / collaboration processes** and consider the possible result in relation to costs

• Commit the **leadership** and adopt a **management plan**

• Develop an internal and external **communication strategy** and foster **transparency** to keep all staff on board
Other ways to increase efficiency

• Several measures in place at institutional level in all systems, but not necessarily **framed** as efficiency measures (except for UK)

• Often linked to **collaboration among HEIs** in various fields of activity and management

• Some case studies exist, but no comprehensive mapping at European level
Types of efficiency measures

Collaboration between HEIs and/or with other bodies:
• Shared services
• Joint procurement
• Asset sharing
• Estates management

• Process improvement
• Changes to teaching and academic practice

• Restructuring
• Organisational and workforce changes
• Financial management/Full costing

Ways to pro-actively increase efficiency at institutional level
Key messages - system level

• **Need for institutional autonomy** to enable HEIs to implement operational efficiency measures

• **Need for support** by public authorities, funders

• Policies fostering **competition** among HEIs can **undermine** collaboration

• Need for **consultation with the sector**

• Need to respect **institutional diversity**
Key messages - institutional level

• Need for **strong management and leadership**: notably in decentralised institutions

• Need for **mutual trust** among collaborating HEIs and other partners

• Need for **pro-active engagement** and collaboration among HEIs to foster ownership
EFFICIENT PUBLIC FUNDING MODELS NEED......

... sufficient and sustainable core funding

... a long-term perspective when designing funding models taking into account a suitable funding mix

... a holistic view and consideration of potential unintended effects at system as well as institutional level

... an evaluation of the funding context and regular monitoring

... continuous consultation with the sector

... need to be transparent and understandable for all actors
EFFICIENT PUBLIC FUNDING MODELS NEED......

... to enable universities to develop their own strategies to deal with changes in funding → autonomy

... incentives and support to stimulate efficiencies at institutional level

... to keep admin procedures as simple as possible and consider the implementation costs

... evaluation of effects and costs (including administrative costs) with an impact assessment at system and institutional level

... adaptation in a balanced way
Next steps in the DEFINE project

1. Public Funding Observatory Edition 2014 – released tomorrow!
2. Thematic Reports (winter 2014/2015)
3. Merger Tool
4. Funding Platform
5. Country Profiles
6. Final Publication (spring 2015)
Thank you and enjoy the conference!

9-10 October 2014, Bergamo, Italy
Strategies for sustainable funding of universities

For a more detailed analysis: DEFINE final report, spring 2015
www.eua.be(define)