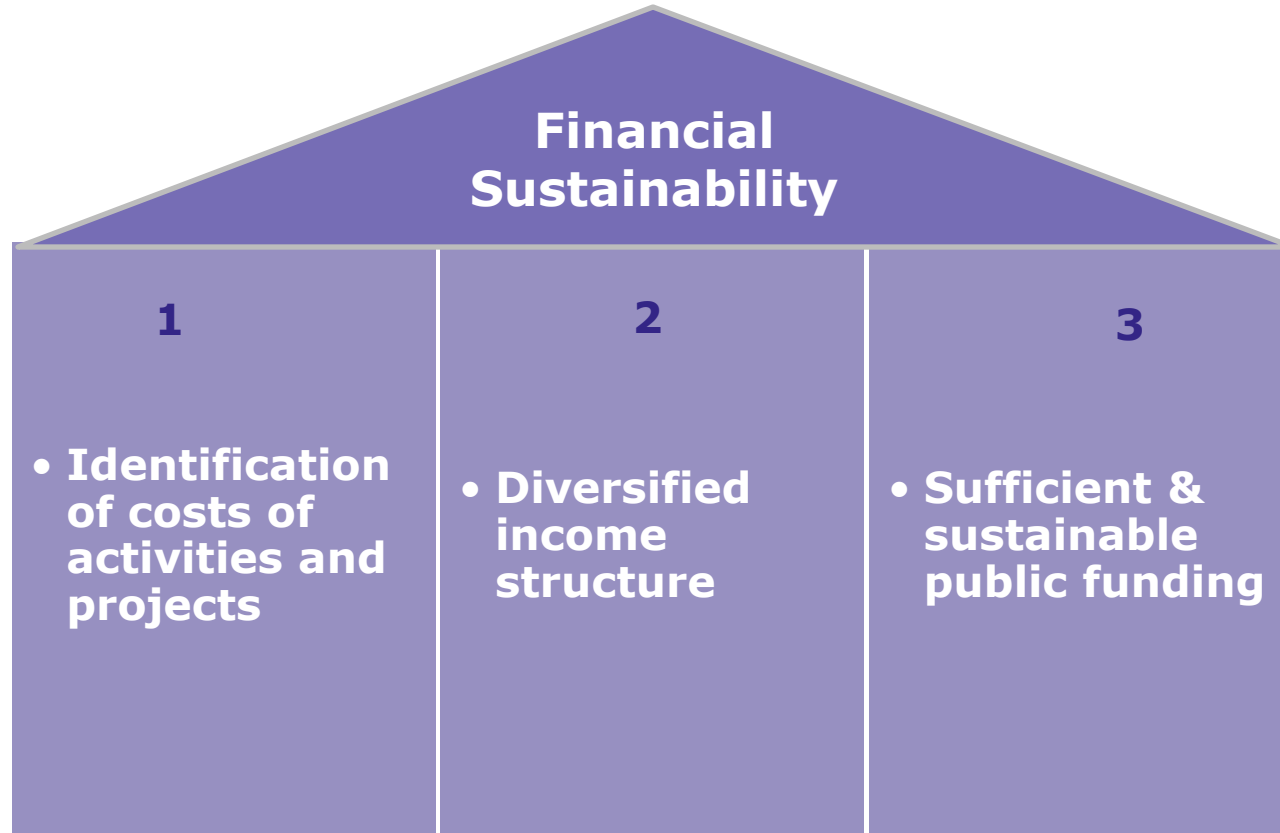


# Full costing and the financial sustainability of universities: Setting the overall context

Country Workshop: CROATIA  
“Universities Implementing Full Costing”  
University of Zagreb, Croatia  
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- Collect evidence for the debate on universities' financial sustainability through analysis of institutional data and funding patterns from institutional perspective

## Full Costing: Overview

- Funding Context: Financial sustainability
- Funding Trends
  - Competitive Funding
  - Diversification of Income Streams
  - Impact of Economic Crisis on European Universities
- Full Costing
  - Diversity
  - Drivers, Benefits, Obstacles
  - Role of External Support
  - Coordinated approach to full costing
- Recommendations

## The funding context

- Challenging environment
  - ✓ Globalisation (global markets for HE and Research)
  - ✓ Growing competition
- Growing demands on universities
  - ✓ Growing participation rate
  - ✓ Contributions to economic growth and innovation
- New technology and new potential for teaching and research
- Growing costs of research and teaching
- Economic downturn and public deficit spending
- Reduced public funding ...4...

## Trends in funding

- More competitive funding
- Growing number of public funding sources
- Increase in non-governmental funding from diverse sources
  - ✓ Research revenues (private)
  - ✓ Philanthropy
  - ✓ Lifelong Learning
  - ✓ Property revenues
  - ✓ Other services

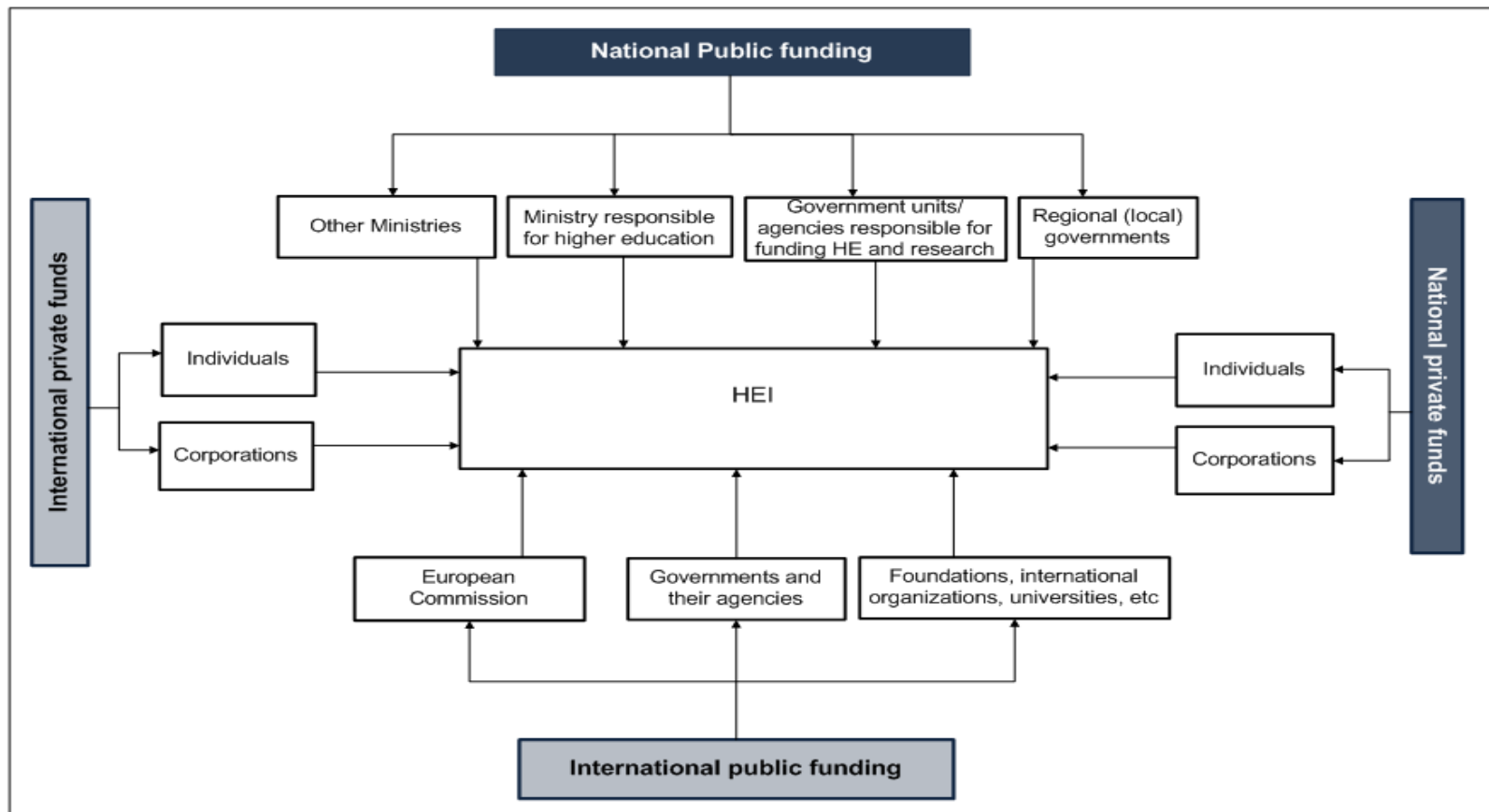
## Challenges of increase in competitive funding

- Majority of competitive research funding often does not cover the full costs of the activity/project
- Need to fill the funding gap using other sources
  - ✓ Pressure on infrastructure and equipment
  - ✓ Financial sustainability in danger
- Growing funding gap

## Challenges of increasing number of funding sources

- Increasing number of funding sources (up to 800!)
- Increase of funding sources for small percentage of the overall budget
- Differing accountability regimes (even from same funder)
- High costs of compliance for application & reporting procedures
- Interrelation of all funders

## Diversity of funding sources





## Monitoring of the economic crisis

- Diversity of situations in Europe but long term trend worrying
  - ✓ Direct cuts to public budgets
    - Major cuts: Latvia
    - Heavy cuts from 5-10%: Italy, Ireland, UK, Estonia, Lithuania, Romania
    - Cuts up to 5%: Czech Republic, Poland, Croatia, Serbia and Macedonia
  - ✓ Previous government commitments to increase funding discarded (HU,BE-nl, ES, AT)
  - ✓ Previous government commitments to increase funding upheld (DE, FR, PT)
  - ✓ No strong direct impact on public funding (SE,NO,DE,FI,NL)
- Structural changes
  - ✓ Uneven impact on teaching and research
  - ✓ Increase in targeted competitive funding
  - ✓ Impact on universities' autonomy
  - ✓ Universities' private funds income also affected

# Overview of full costing

- Towards Full Costing in European Universities:
- Selected key findings

**Terminology**

**Diversity**

**Development  
of full costing**

**Drivers**

**Benefits**

**Obstacles**

**Role of  
external  
support**

**Importance of  
funding  
schemes**

**Accountability  
and  
Complexity**

- Recommendations to universities, national governments and European institutions

## Understanding the terminology

- Lack of a commonly understood terminology in accounting and of financial terms in the HE sector in Europe
- Diverging interpretation and adaptation influenced by:
  - ✓ EU FPs
  - ✓ Management accounting theory (ABC)
  - ✓ TRAC in the UK
  - ✓ National context
  - ✓ Ability to define costs as direct, define cost objects and allocate them

### **FULL COSTING**

**ability to identify and calculate all direct and indirect costs of an institution's activities including projects**

## Diversity of approaches to full costing in universities

Legal status

Size

Profile

Ownership of property

Governance structure

Funding structure

Costing structure

Level of autonomy

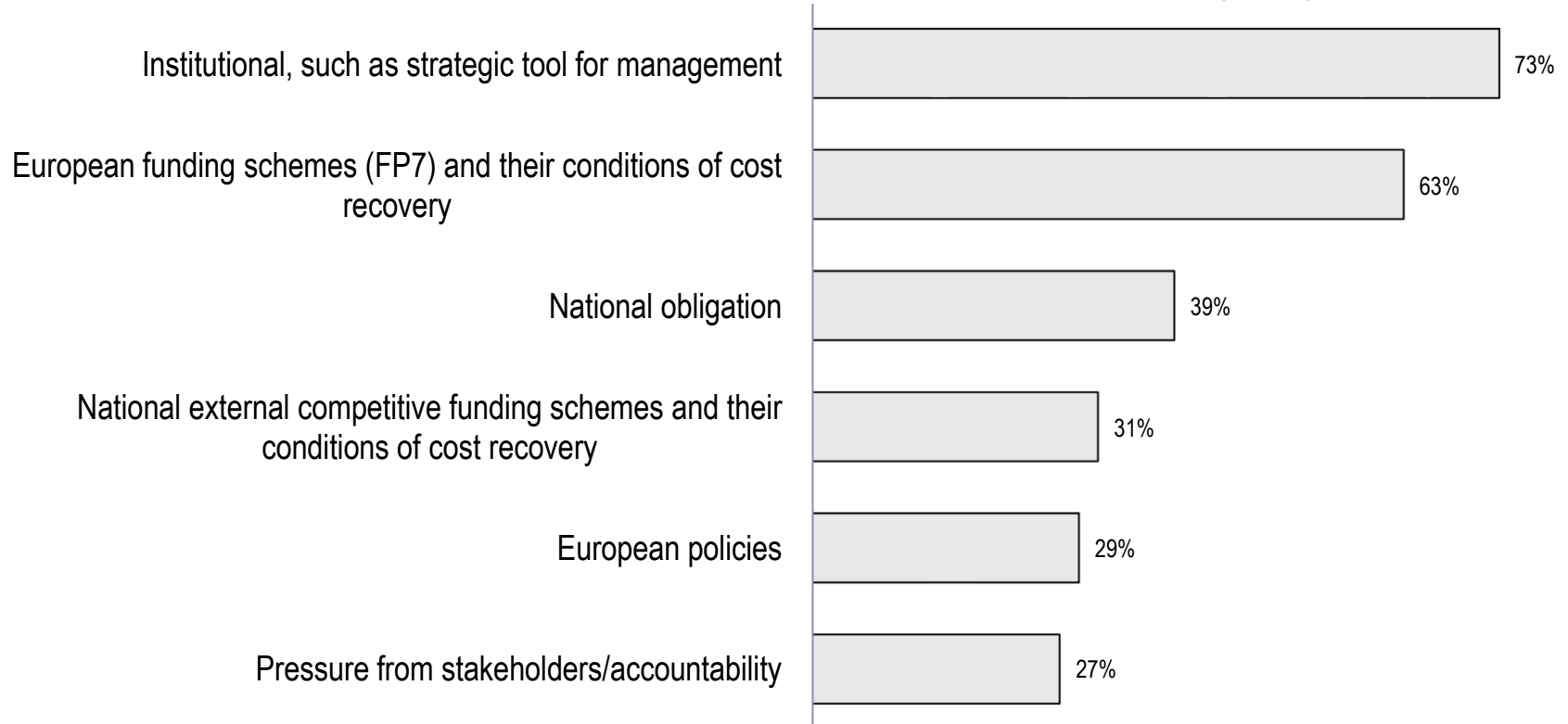
- Variety of approaches to full costing development, design and implementation reflects diversity of university structures and missions
- Analysis of these elements helps benchmarking and finding similar universities for exchange of best practice

## State of play in full costing development

- Huge diversity in development both in countries and universities:
  - ✓ No implementation of full costing (PL, HR, TR)
  - ✓ Development/implementation process started (SE, IE, AT, CZ, BE-nl)
  - ✓ Full costing implemented (UK, NL)
  - ⇒ All 3 stages comprise a broad spectrum
- Partly conditional on
  - ✓ quality of different databases
  - ✓ information systems
  - ✓ types of costing models already existing
  - ✓ External support received
- National coordinated initiatives & financial support from government = faster development

## Drivers of full costing implementation

% of institutions recognising the driver



## Benefits of full costing

### UNIVERSITIES

- Improved strategic decision-making
- More efficient internal resource allocation system
- Systematic approach to activity analysis and costing
- Enhanced ability to negotiate and price activities => higher cost recovery
- Benchmarking possibilities

### NATIONAL LEVEL

- Better accountability => improves mutual trust => helps transition towards enhanced autonomy
- Better understanding of public deficits
- Contributes to better development of funding system

## Obstacles to implementation of full costing I

### Institutional obstacles

- Resistance towards change
- Resistance towards managerial approach
- Concerns over time accounting
- Lack of leadership commitment
- Inefficient internal communication
- Decentralised university structure

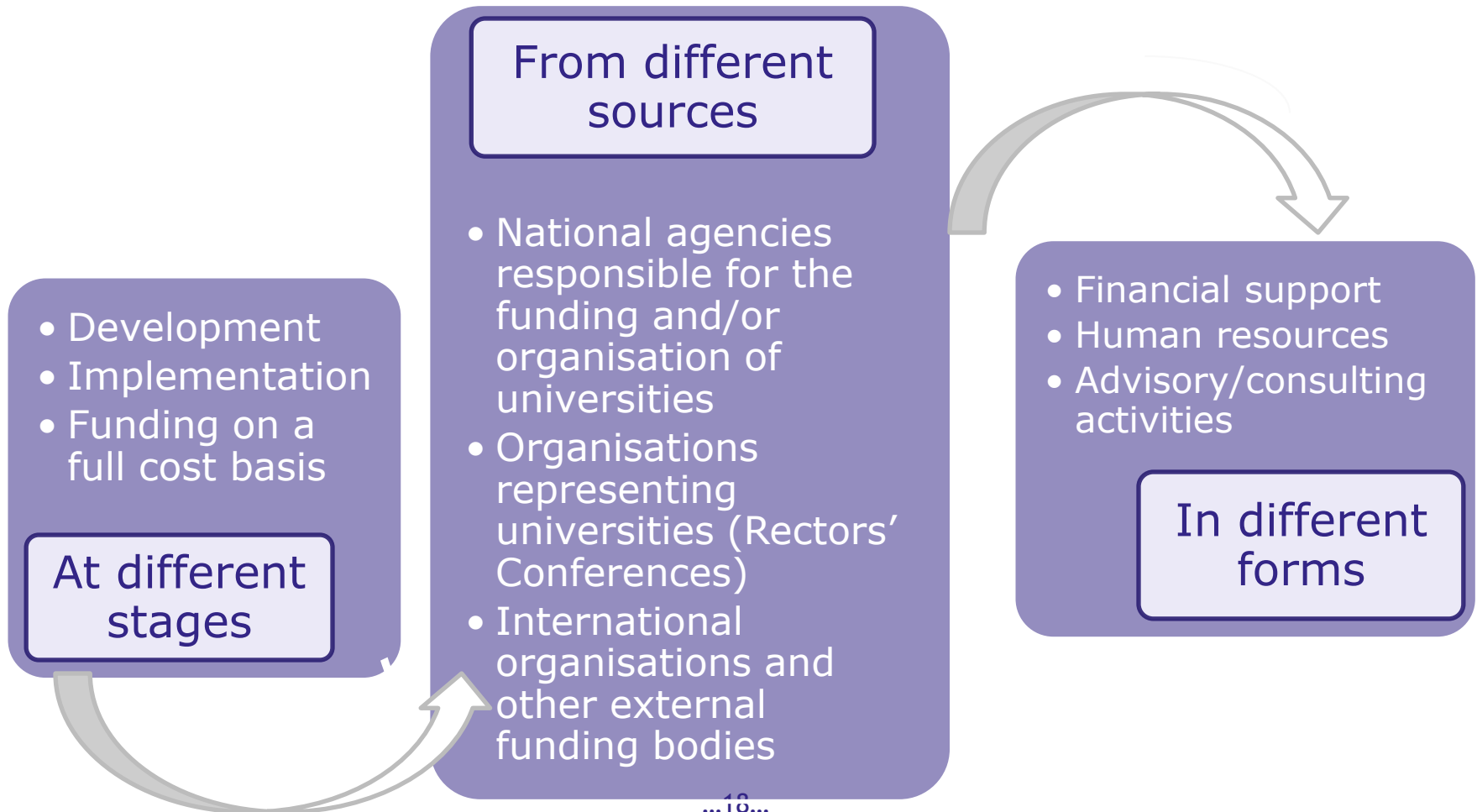


## Obstacles to implementation of full costing II

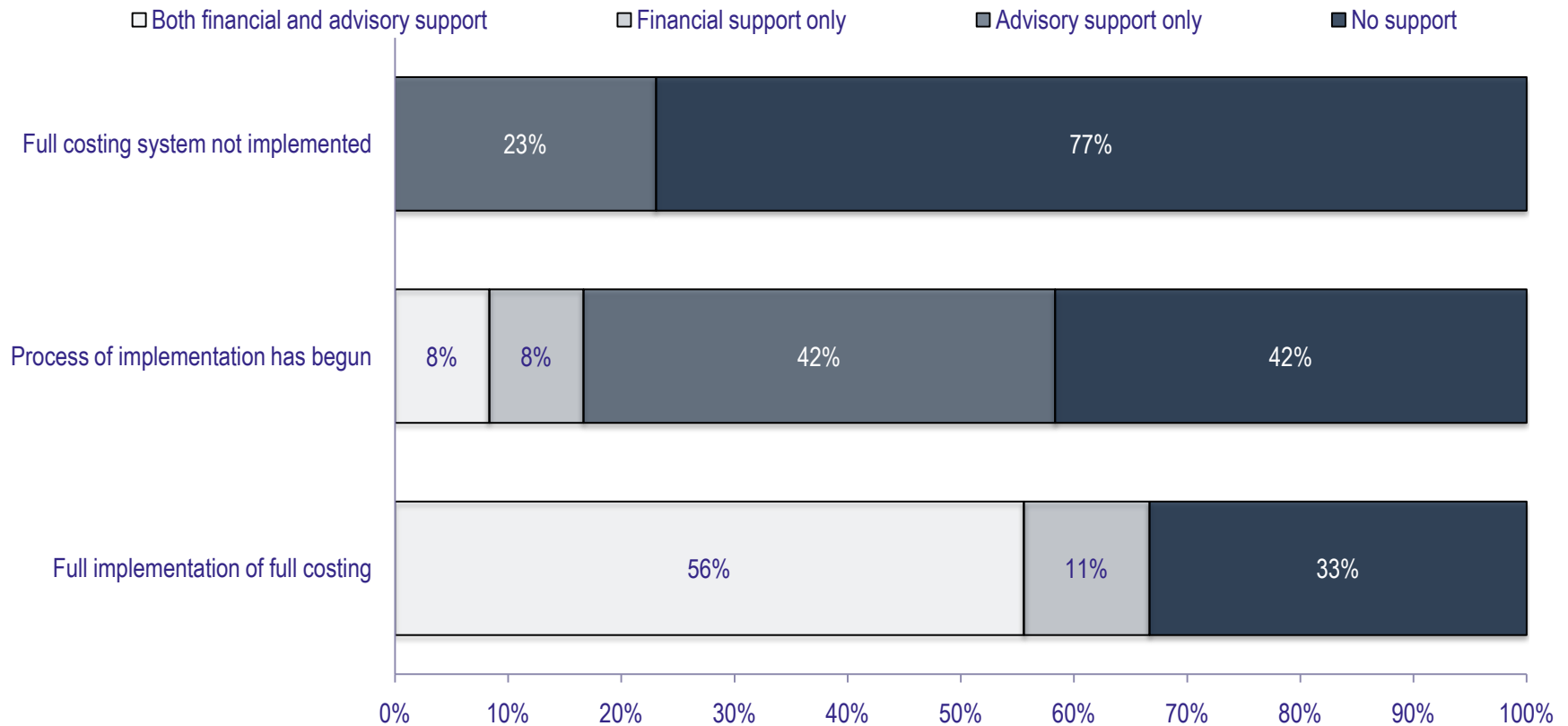
### External obstacles

- Lack of support from governments
- Lack of trust between stakeholders
- Lack of autonomy and other legal barriers
- Risk of complexity
- Low cost culture/restricted markets and pricing

## The role of external support



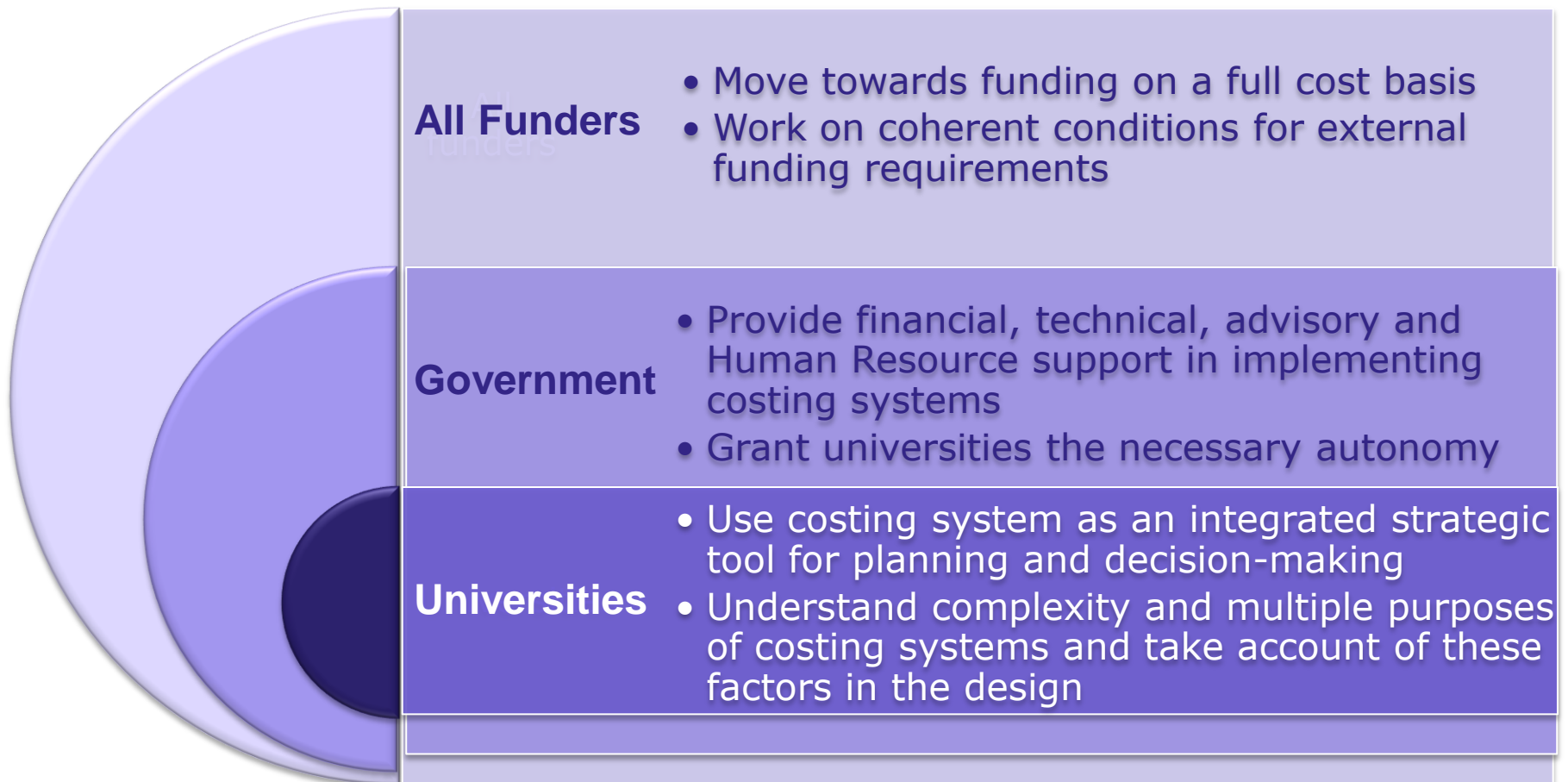
## The role of external support



## Coordinated approach to full costing

- Coordination of all stakeholders
  - ✓ Among universities
  - ✓ With other stakeholders: government, national funding agencies and other funding bodies
- Best practice exchange but respect for diversity of approaches
- Increases efficiency of the implementation process
- Better outcomes
  - ✓ Stakeholders' ownership of the project
  - ✓ Increases transparency
  - ✓ Increases trust of funders
  - ✓ Opportunity for simplification of funding rules and procedures
  - ✓ Coherent approach among funders

## Multi-level recommendations



# THANK YOU!

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