

Section 3

Funding of the universities

1 University financial sources

Basically, there are three sources of university funding:

1. Direct appropriations provided for by the annual Appropriation Act.
2. Targeted research grants from research councils, the EU, foundations, private donations etc.
3. Other operating income

In addition to the university funding, the Danish government allocates considerable resources to student grants (SU), please see section 6.

The universities' largest source of funding is direct appropriations provided for by the annual Appropriation Act. The second source of funding is made up of targeted research grants from in particular research councils, the EU and foundations, in addition to small sums from private donations etc. Finally, the universities have their own operating income in the form of payments for services delivered, e.g. tuition fees that are imposed on students participating in Open University activities.¹

Table 3.1. Total university income divided by sources, 1997-2001, MDKK in 2003 figures*.

Type of income	1997	1998	1999	2000	2001	2002	2003
Direct appropriations	7,378	7,433	7,476	7,558	9,167	9,290	9,437
Targeted research grants **	2,271	2,237	2,344	2,475	2,404	2,273	2,265
Operating income	275	407	473	590	645	531	630
Total income	9,924	10,076	10,292	10,623	12,216	12,094	12,332
Fulltime equivalent students ***	54.457	55.365	56.572	59.325	60.727	62.665	64.079
Student population	92.587	96.249	99.189	99.286	-	-	-

Source: Finance Act 2003, Government Accounts 2001 and the university annual accounts 2001.

* Exclusive of the Danish University of Education (DPU). The 1997-2001 figures are from the accounts, whereas the 2002-2003 figures are budget figures. The 2003 figures include DKK 189m to be itemised in the Supplementary Appropriation Act 2003. It should be noted that due to a technical relocation additional grants to the universities to pay for rent (cf. the introduction of the governmental building administration scheme²) lead to the increase for 2001.

** Targeted research grants comprise subsidised research activities and other subsidies paid by research councils, the EU, private foundations etc.

*** The ministry has estimated the numbers of fulltime equivalent students in 2003

It is stipulated in the University Act, that the universities have entire disposal of appropriations, grants and other income on condition that they abide by the premises on which the grants were founded and by the rules of disposal. Fig 3.1. illustrates the universities 2001 income divided onto main types of income.

¹ As a general rule, Danish students do not pay tuition fees. An exception from the "free for all principle" is part time education under Open University, where the universities impose tuition on the students.

² The so-called "SEA scheme" (in Danish: Statens Ejendoms Administration)

Figure 3.1. University income sources 2001

The total income of the individual universities varies considerably according to their activities. The activity dependence is, however, more or less pronounced relative to the objectives of the grants and their various sources of funding.

Table 3.1.2. shows the universities' income for 2001 divided onto main sources.

Table 3.1. University income 2001 divided onto main sources, 2003 figures*. The abbreviations of university names are explained in subsection 2.1.

University	Appropriation Acts	grants**	income	
KU	2,628	607	191	3,426
AU	1,548	421	89	2,058
SDU	940	270	51	1,261
RUC	415	75	13	503
AAU	925	205	45	1,175
HHK	512	62	81	655
HHÅ	223	31	23	278
DFU	183	45	1	229
KVL	671	257	69	996
IT-C	84	4	4	90
IT-V	24	1	1	25
DTU	1,016	428	77	1,521
Main figures	9,167	2,406	645	12,216

The abbreviations of university names are explained in subsection 2.1.

Source: Appropriation Act 2003, Supplementary Appropriation Act, Government Accounts 2001 and the university annual accounts 2001.

* Exclusive of the Danish University of Education (DPU). The 1997-2001 figures are from the accounts, whereas the 2002-2003 figures are budget figures.

** Targeted research grants comprise subsidised research activities and other subsidies paid by research councils, the EU, private foundations etc.

The direct appropriations provided for by the annual Appropriation Act depend on production and performance and can be divided into three categories:

- Appropriations for education (activity based)
- Appropriations for research (performance based)
- Appropriations for other purposes

As regards funding by *other subsidies and income*, this part of the university activities is also dependent on the universities' performance. The size of this income is directly linked to the ability to attract subsidies from other sources and to sell goods and services on market terms.

Section 1.1 addresses the extent and principles of the appropriations to the universities provided for in the Appropriation Act. Section 1.2 briefly discusses other sources of funding in the form of subsidies from research councils, the EU, foundations and donations in addition to payments from market-based sale of research and educational activities. Section 4 provides a more detailed description of the system that distributes research council subsidies.

1.1 Direct appropriations to the universities provided for by the annual Appropriation Act

This section addresses the principles of the various parts of the lump sum grants as they are addressed in the Appropriation Act.

As an introduction, Table 3.3 shows how the state lump sum grants are divided by purpose for the period 1997 to 2003.

Table 3.3. University direct appropriations divided by purpose 1997-2001, MDKK in 2003 figures.*

Purpose of grant	1997	1998	1999	2000	2001	2002	2003
Education	2,924	2,959	3,050	3,145	3,200	3,184	3,208
Education	2,761	2,794	2,884	2,988	3,041	3,030	3,032
part time education (open university)**	135	135	135	124	126	121	140
Exchange students	27	30	31	33	33	33	36
Research	3,027	3,141	3,136	3,143	3,275	3,349	3,460
Capital expenditure***	312	271	301	298	1,561	1,633	1,652
Others	1,115	1,063	989	973	1,131	1,124	1,117
Total lump sum grants	7,378	7,433	7,476	7,558	9,167	9,290	9,437

Source: Appropriation Act 2003 and the Supplementary Appropriation Act 2003.

* Exclusive of the Danish University of Education (DPU). The 1997-2001 figures are from the accounts, whereas the 2002-2003 figures are budget figures. The 2003 figures include DKK 189m to be itemised in the Supplementary Appropriation Act 2003.

** On technical grounds the 1999 grant was technically recalculated as grants for 1997 and 1998.

*** Additional grants to the universities to pay for rent (cf. the introduction of the governmental building administration scheme) lead to the increase for 2001.

Figure 2. 2001 lump sum grants divided by main purpose.

Figure 3.2 illustrates how the direct appropriations for 2001 were divided by main purpose.

Table 3.4. shows the distribution of the lump sum grants of the individual universities divided by purpose for 2001.

Table 3.4. University 2001 lump sum grants divided by purpose, MDKK in 2003 figures.

University	Ordinary educations	Open educations	Exchange students	Research	Capital expenses	Others	Main figures
KU	776	25	7	885	563	372	2.628
AU	537	15	5	618	252	122	1.548
SDU	305	19	3	326	159	128	940
RUC	164	7	3	139	58	44	415
AAU	382	17	3	288	159	77	925
HHK	221	27	6	136	69	54	512
HHÅ	96	9	3	72	12	31	223
DFU	59	0	0	71	36	16	183
KVL	161	1	1	245	131	132	671
IT-C	25	3	0	27	10	19	84
IT-V	0	0	0	11	0	13	24
DTU	316	4	3	456	114	123	1.016
Main figures	3.041	126	33	3.275	1.561	1.131	9.167

The abbreviations of university names are explained in subsection 2.1.

Source: Appropriation Act 2003.

1.1.1 Educational grants and the taximeter scheme

Most of the university grants for educational purposes have been allocated according to the taximeter principle since 1994 and directly linked to the production in terms of the number of "full-time equivalent students".

Educational grants are determined relative to the activity of the individual educations namely by multiplying the number of full-time equivalent students passing their exams with the taximeter rates specified in the Supplementary Appropriation Act for each education.

For ordinary educations, i.e. bachelor and master (candidatus) educations, the activity "full-time equivalent student" (FTE) is computed as the annual student outcome (FTE; in Danish: *studerterårsværk (STÅ)*), which is an expression for the number of exams passed. Each exam constitutes a fraction of an FTE. A student passing all exams prescribed for an academic year equals one FTE.

To obtain the highest grants from the taximeter system, the universities need motivated and qualified students who complete their educations and pass their exams in the period of time prescribed for their studies.

For the part time education under Open University, a "full-time equivalent student" is computed as a student who has paid for an educational activity of an extent equivalent to one year of full-time studies. For these educations the incentive to adapt the educations provided by the universities to the actual demand is increased.

By the end of each financial year, the activities of the individual universities are computed and the universities are allocated grants that exactly match the activities that have been carried out.

In concrete terms, the taximeter grants of the educations are divided into three categories:

1. *Educational grants* to cover the direct education-related expenses for wages (teachers, technical and administrative staff), teaching equipment and materials.
2. *Administration/operations grants* to cover expenses that cannot be attributed to individual educations, such as administration and management, building management, power supply.
3. *Internship grants* to cover expenses incurred by internships.

All educations are allocated taximeter grants for education and administration/operations. Educations with compulsory internship periods are allocated an internship grant.³ In addition, all educations are allocated a building taximeter grant (see section 1.1.4).

In addition to the three basic taximeter grants, there are two taximeter grants for special purposes:

4. *The internationalisation taximeter grant* for exchange students that enter an internship or study visit as part of their education.
5. *Additional intake compensation taximeter grant* to ensure the cash flow of the educational institutions if the student intake of one year is higher than that of the previous year.

These taximeter grants are allocated in addition to the other taximeter grants and were introduced to give the universities an incentive to encourage internationalisation and increase the student intake.

Although these taximeter grants and the associated subsidies are assumed to cover the various types of expenses, the universities are free to distribute their funds between education and research and within the two categories, according to their own internal principles.

The taximeter grants for the individual educations is a political decision provided for in the Appropriation Act, regardless of the expenses and costs of the individual university. To provide a certain measure of transparency and to facilitate administration, the educations are divided into taximeter categories according to various historic, academic and technical criteria. There has been no major revision since the introduction of the taximeter scheme and new educations have been placed in the existing taximeter categories.

1.1.2 Basic grants for university research

The university research activities receive funding from two main sources: *basic research grants* allocated via the Appropriation Act for research purposes, administration and building management and *subsidies* allocated via research councils, the EU, private donations etc. The basic research grants (about 60% of the research budget) are not designated for specific research purposes. In contrast, the subsidies (40 % of the research budget) are restricted because they are attached to specific programs and projects.

The 60/40 ratio seems to have reached a certain degree of acceptance as an expedient balance (cf. report no. 1406, 2001:120 by the Research Commission). This section only discusses the allocation of basic grants and section 4 describes the research councils, which grant most of the subsidised research.

³ The activity statement differentiates between *theoretical activities* linked to the taximeter grants for education, joint expenses and buildings, and *internship* linked to the internship rate. Taximeter grants for education and internship are linked to the activities of the current year, whereas the taximeter grants for joint expenses and buildings are linked to the activities of the previous year.

1.1.3 Principles for distribution of basic grants for research

The basic grants are allocated to research as a non-activity related grant, to a large extent determined through budget incremental process principles. The distribution of the grants between the universities is relatively permanent and based on historical reasons.

The basic research grants are affected by fluctuations in the overall framework conditions of the ministry, which includes the general demands for higher efficiency and budget cuts presented by the Government in connection with the annual Appropriation Act.

New research grants are to an increasing extent distributed according to models relying on activity parameters resulting in a certain degree of intra-university re-distribution of funds.

In recent years, the so-called "50-40-10 model" has been applied to the marginal distribution of basic research grants. The model distributes the funds according to the institutions' relative educational grants, subsidised research activities and the number of awarded PhD degrees as follows:

- 50% according to educational grants
- 40% according to subsidised research
- 10% according to the number of awarded PhD degrees

This model makes part of the basic research grant dependent on the university activities in the form of student production, the ability to attract external research funding and PhD-programmes.

Basic research grants are relatively stable over time. At the same time, recurrent demands for higher efficiency combined with an increasing application of the "50-40-10" model of distribution of new basic grants contribute to re-distribution of funds and to increasing the activity dependency of the grant thus creating expedient incentives.

1.1.4 Building and rent grants

The building and rent grants are subsidies to cover the universities' building expenses: rent, interests and debt servicing, and maintenance, allocated on the basis of educational and research-related activities and included in the universities' total sum of freely disposable funds.

From 2001, the university building situation has been subjected to the market forces in order to optimise building and resource usage. The universities are included in a building administration scheme where they gradually enter into leases and pay rent for their buildings⁴. In return the universities are awarded higher grants to pay the rent, which previously they did not pay.

The governmental building administrative body, *Statens Forsknings- og Uddannelsesbygninger*, owns most of the university buildings. Each university is, however, free to give notice to terminate all or part of the leases. This enables the universities to adapt their building capacity to their educational and research-related needs and possibilities thus saving building grants for other purposes. Generally, the governmental building administration scheme awards grants according to a 3-pronged philosophy:

- A building taximeter grant to cover educational building needs
- Research overheads to cover research-related building needs
- A basic grant to cover the building needs for libraries, museums and collections etc.

⁴ The self-governing university Technical University of Denmark own their buildings and therefore pay no rent. The university still receives an activity-dependent sum to pay for their debt servicing, maintenance etc. The appropriation model does not yet apply to the Danish University of Education and the IT University of Copenhagen, but they do have to pay rent and receive funds to cover this.

The *building taximeter grant* is computed by multiplying the number of full-time equivalent students with the associated building rates as provided for in the Appropriation Act. There are two rates: an experimental rate and a non-experimental rate, determined on the basis of historic rates for the area used by students at the experimental and non-experimental educations at the universities.

The grant for the research-related rent is based on the *research overheads grant* for research activities. The overheads are computed based on the total research turnover of the universities.

The *basic grant* is determined based on the rent of special university buildings such as museums, libraries, gardens, collections etc. and is not activity-dependent.

In addition to these elements, there are *grants for indoor maintenance etc.* to cover capital expenditure for permanent and historic maintenance. As a general rule, these grants are generally only adjusted along with general savings, price and wage adjustments.

1.1.5 Other purposes

Finally the universities are awarded grants for their support functions such as libraries, museums, collections etc. and other special obligations. The Appropriation Act does not include these grants among the main purposes of education or research. The grants are activity independent and usually only adjusted along with general savings and price and wage adjustments.

1.1.6 Reconsidering the principles of distribution of funds and budgeting

In connection with the ongoing university reform, the principles of distribution of funds and budgeting in relation to the universities' lump sum grants for research and education are being reconsidered.

A "bachelor bonus taximeter grant" linked to the number of students that earn a bachelor degree is being introduced. The purpose is to encourage the universities to focus more on their final output ensuring that the highest possible number of students in fact complete their studies.

Furthermore it is being considered to simplify the existing taximeter principles.

As for the basic research grants, it is expected that in the future research grants will be awarded according to the so-called "50-40-10" model (cf. section 1.1.3. for a description of the model).

1.2 Other sources of funding

The universities also have considerable revenues partly in the form of *subsidies* from research councils, the EU, private foundations and donations etc.; and partly in the form of *operating income* obtained in return for services sold on market terms. Both types of revenue depend on the universities' performance. The universities must be able to clearly separate these activities from their other activities.

1.2.1 Subsidies

The universities have received app. DKK 2.3 bn. per year through subsidised research activities and other subsidies, of which grants from the governmental foundations and program funds constitute almost 2/3. They are free to spend these funds provided they observe the conditions on which the grants were given.

Using funds from their ordinary activities the universities can co-finance subsidised projects provided the university itself has research-related interests in such projects. They are, however, not allowed to co-finance projects etc. whose subsidies are supposed to cover all expenses according to the provisions of the Appropriation Act or other legislation.

1.2.2 Other operating income

Finally, the universities are entitled to generate other revenues such as payment of services rendered as a supplement to their ordinary activities. It is a condition that such activities are naturally related to the ordinary activities. Table 3.5 shows the distribution of the operating income by types of income.

Table 3.5. University operating income 1997-2001. MDKK in 2003 figures*.

Types of income	1997	1998	1999	2000	2001
User fees (open educ.)	87.7	102.7	122.9	134.6	145.2
Sale and letting	122.1	140.1	149	175.5	168
Forensic medicine	0	81.1	79.8	99.4	115.5
Other operating income	64.7	82.8	120.8	177.7	211.4
Main figures	274.5	406.7	472.5	587.2	640.1

* Source: The university annual accounts 2001.

There has been a marked increase in the operating income of the universities to a total of more than DKK 0.6bn in 2001. Almost $\frac{1}{4}$ of this is constituted by tuition fees paid by students in connection with part time education under Open University.

The universities are free to spend these funds, provided the accumulated result is not negative in four consecutive years. Profits may be transferred to the ordinary activities.

However, the universities are subject to certain pricing requirements due to the general regulations to secure the free competition and the consumers. This means that regarding the universities' other operating income, goods and services must be priced so as not to distort the competition and to ensure payment of the long-term average expenses. The purpose of these rules is to protect other suppliers against unfair competition, and to protect the consumer against overpricing when a university is in a monopoly-like situation.