

## **Aarhus University's financial strategy for 2017-2020 as follow-up on the university's reduced revenues**

### ***1. Background***

The Danish Finance Act for 2016 ushers in a decrease in government revenues for Aarhus University and the rest of the university sector in Denmark. The university's revenues for educational activities are falling as a result of degree programme resizing, a 2% reallocation contribution, the study progress reform and the risk of fines for failing to live up to the study progress reform. Its public-sector consultancy contracts have been subject to a 2% reallocation contribution for many years, and will probably remain so in the coming years. In addition, under the Danish Finance Act for 2016, the funding allocated to the Danish governmental research councils is cut by DKK 1.4 billion, which will further intensify the competition for external research funding. Against this background, the University Board has expressed a wish that a financial plan be prepared, describing how Aarhus University intends to handle the expected decline in revenues.

The plan must ensure the fulfilment of two overarching objectives. **First of all**, Aarhus University must still be able to invest in strategic focus areas and the further adaptation of the university's profile. The financial plan must include strategic leeway for the university in the amount of DKK 100 million a year and a similar level of leeway for the faculties in their co-financing of the strategic focus areas. At the same time, the financial plan must ensure a balanced budget for the university in the coming years.

**Secondly**, the senior management team wants to see a gradual reduction in costs, thereby avoiding redundancies and having to slow down or put a stop to activities on a large scale. The decrease in revenues is a significant challenge, but it should be noted that the drop in revenues will be phased in over a number of years. It is also worth noting that Aarhus University has a good starting point for implementing the cuts. Major cutbacks were introduced in 2014, and the university posted satisfactory financial results for 2015. In addition, a balanced budget has been planned for 2016. Aarhus University has a normal staff turnover rate of approx. 8% a year. This means that savings can be achieved by recruiting fewer new employees every time a number of positions need filling. In so far as is possible, recruitment by the faculties must support their strategic development (for

example by taking on new employees in areas which need strengthening, while leaving positions in other areas unfilled).

### *Assumptions*

Before presenting the financial plan, a number of key assumptions deserve mention.

1. Based on the budget for 2016-2019, the financial plan factors in all major known changes and financial challenges. As such, the plan is not a new budget. The budget for 2017-2020 will be prepared in autumn 2016, and the financial plan will be an element of this budget. This means, for example, that the expected fall in revenues is not the same in the budget for 2016-2019 and in the financial plan and in the new budget for 2017-2020 as the assumptions and the expected fall in revenues and reductions in costs are being updated on an ongoing basis.
2. The financial plan quality-assures and updates the university's expectations as regards its revenues and focuses on how the university may tailor its expenditure to the fall in revenues. The budget traditionally also includes increasing revenues from, for example, new degree programmes or the admission of more students to existing degree programmes. Only the net revenues are included in the financial plan.
3. The senior management team expects the reallocation contribution of 2% a year to continue after 2019, and it will be included in the budget for 2017-2020 for the entire budget period. The study progress reform fine (i.e. reduced completion bonus if a university only partially achieves the stricter time-to-degree targets) will be fully phased in in 2020. The financial plan factors in an expected fine at the same level as for 2019.
4. The financial plan is associated with a number of uncertainties. In particular, the study progress reform fine and the taximeter reform/financing reform may change the picture significantly. These uncertainties cannot at present be quantified accurately and therefore have not been factored into the financial plan.
5. The time frame for the financial plan is tailored to the known challenges, and the focus of the financial plan is therefore on the 2016-2020 period. However, the phasing-in of the degree programme resizing plan extends beyond 2020, as the plan will not be fully phased in until 2023/2024. The degree programme resizing primarily affects Arts. The handling of the degree programme resizing at Arts was considered by the Board at a meeting on 26 April 2016 and has been incorporated into the financial plan.
6. The financial plan has been prepared on the basis of the faculties' financial plans. As part of an inclusive process, the faculties' financial plans have been

considered on an ongoing basis by their liaison committees, academic councils etc.

## 2. The expected challenge

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The budget for 2016-2019 included an expected fall in revenues of approx. DKK 300 million for the period. In connection with the closing of the financial statements for 2015 and the first financial report for 2016, a number of budget items have been revised. Overall, the aggregated challenge for the 2016-2019 period is now expected to be slightly higher than DKK 300 million (see Table 1 below). The table below shows the aggregated challenge relative to the financial statements for 2015. The change from 2016 to 2019 is included to allow a comparison to be made with the budget for 2016-2019. Also, the budget for 2016, which is the first year, for example, with a 2% reallocation contribution, is expected to balance.

**Table 1. Aggregated fall in revenues for the 2016-2020 period**

DKKm level 2016	2016	2017	2018	2019	2020	Change 2016-2019	Change 2016-2020
<b>1. Revenues for educational activities</b>	<b>68</b>	<b>132</b>	<b>189</b>	<b>242</b>	<b>287</b>	<b>174</b>	<b>219</b>
2% reallocation contribution	38	71	103	133	164		
Degree programme resizing	8	18	30	47	60		
Study progress reform fine	22	43	56	62	63		
<b>2. Public-sector consultancy</b>	<b>11</b>	<b>27</b>	<b>34</b>	<b>43</b>	<b>52</b>	<b>32</b>	<b>41</b>
<b>3. Improvements</b>	<b>-18</b>	<b>-11</b>	<b>-22</b>	<b>-22</b>	<b>-15</b>	<b>-3</b>	<b>4</b>
Increased educational activities	-8	-19	-32	-37	-31		
Other changes in revenues (effects on results)	-10	8	10	15	16		
<b>Ordinary operations in total, exclusive of overheads and recovery of indirect costs</b>						<b>203</b>	<b>263</b>
<b>4. Fall in external funding</b>	<b>-3</b>	<b>75</b>	<b>122</b>	<b>144</b>	<b>138</b>	<b>147</b>	<b>141</b>
<b>Total fall in revenues</b>	<b>58</b>	<b>223</b>	<b>324</b>	<b>408</b>	<b>462</b>	<b>350</b>	<b>404</b>

The individual elements in Table 1 are described in more detail below:

### Re 1. Revenues for educational activities

- The 2% reallocation contribution covers the fall in revenues which is ascribable to the reduction in various education subsidies by approx. 2% a year.
- Degree programme resizing covers the fall in revenues which follows from the introduction of restricted intakes on selected degree programmes.
- The study progress reform fine is the completion bonus which will not be disbursed if a university only partially meets the reduced time-to-degree targets which have been defined. An increasing share of the completion bonus will be tied to the reduced time-to-degree targets, thus potentially increasing the size of the study progress reform fine. The fall in revenues attributable to the study progress reform fine is based on Aarhus University's expectations for a

positive development in the relative achievement of the targets from 50% in 2016 to 73% in 2019. This level of achievement is maintained in 2020.

*Re 2. Public-sector consultancy:*

The contracts with the Ministry of Environment and Food of Denmark have, for a number of years, been reduced by 2% a year in the form of a reallocation contribution. The fall in revenues in Table 1 shows the effect of this going forward as well as the effect of competitive funding. In addition, a requirement has now also been introduced for an annual 2% efficiency increase in the university's forensic services. This is also shown in Table 1.

*Re 3. Improved revenue base*

- The faculties expect to see an increase in revenues for educational activities due to an increase in the intake of students on existing (non-resized) degree programmes as well as a small number of new degree programmes; also, as a result of the study progress reform, students are expected to sit more exams. Generally speaking, this will, however, also lead to increasing expenditure. Table 1 therefore recognises only the net effect of the increase in revenues for educational activities, i.e. after the deduction of all expected additional expenditure.
- Table 1 also includes a small number of other improvements, such as higher sales due to new price calculations etc.

*Re 4. Development in external funding*

The faculties have assessed the development in external funding differently. ST expects an actual decline in external funding, while AR, HE and BSS expect to be able to maintain, or possibly exceed, the current level of external funding. What is special about ST's situation is that the external funding accounts for a much higher share of ST's budget, and a large share of the funding comes from the Danish governmental research councils. This means that ST will be harder hit by the decline in funding from the governmental research councils than the other faculties. Furthermore, ST is already devoting considerable efforts to applying for external funding from non-governmental sources. ST therefore does not expect to be able to compensate for the decline in funding from the governmental research councils by attracting, for example, more EU funding or external funding from private foundations. The other three faculties expect roughly to be able to substitute the fall in state subsidies with growth in EU funding and grants from private foundations.

Table 2 shows Aarhus University's expectations as regards the development in external funding.

**Table 2. Expected development in external funding at year-end 2015 vs mid-2016**

DKKm level 2016	FCIII 2015 / FS15	B2016 /FR1 16	2017	2018	2019
a. External grants FCIII 2015 + B2016	1,924	1,943	1,863	1,826	1,820
b. FS2015 and Financial report 1 2016/action plans 2017-2020	1,823	1,825	1,748	1,701	1,679
<i>Downward adjustment in relation to FCIII 2015 and B2016 (a.-b.)</i>	101	117	115	125	142
<i>Decline relative to FS2015 (number of b differences relative to 2015)</i>		-3	75	122	144
<i>Decline in % of 2015</i>		-0,1%	4,1%	6,7%	7,9%

In the financial plan, the senior management team has adjusted the forecast level of external funding downward by just over DKK 100 million relative to the budget for 2016-2019. As can be seen from Table 2, according to Financial report 1 (FR1 2016), the consumption of external funding in 2016 is expected to be on a par with the level realised for 2015. The downward adjustment is due to the faculties having prepared more realistic forecasts for their consumption of external funding compared to previous budget forecasts in which the individual grant recipients tended to be too optimistic about the progress of their projects and thus the consumption of external funding.

The decline in external funds may impact results in the form of a lower level of overheads and less potential for financing fixed operating costs by means of external funding (recovery of indirect costs). This calculation is subject to some uncertainty, but the estimate is DKK 89 million in 2019 and onwards. Conversely, a decline in external funding will result in less co-financing of external funding. The financial statements for previous years have shown that a lower level of consumption of external funding relative to the budget forecasts for the year has not had a negative impact on the financial results. The DKK 89 million challenge for the period up until 2019 is therefore expected to be a conservative scenario.

#### *Summary of expected fall in revenues*

Based on the above, Table 3 shows the aggregated challenges which have a bearing on the results of ordinary operations. These are the challenges which have a direct impact on the bottom line, including the fall in external funding, which leads to lower overheads and a lower level of recovery of indirect costs. The table shows the aggregated challenge. This translates into an aggregated challenge from 2016 to 2019 of just over DKK 280 million (decrease in revenues of DKK 353 million in 2019 relative to decrease in revenues of DKK 70 million in 2016), which is slightly lower than the total expected fall in revenues for the period.

**Table 3: Aggregated challenges to ordinary operations**

<i>DKKm level 2016</i>	2016	2017	2018	2019	2020
Revenues for educational activities	68	132	189	242	287
Public-sector consultancy	11	27	34	43	52
Improvements	-18	-11	-22	-22	-15
Overheads/recovery of indirect costs	9	53	79	89	89
<b>Total</b>	<b>70</b>	<b>201</b>	<b>281</b>	<b>353</b>	<b>413</b>

### 3. Budget improvements to mitigate challenges

This section accounts for specific reductions in expenditure which are to contribute to balancing the budget in step with the fall in revenues. Table 4 summarises the four initiatives which Aarhus University will introduce to reduce expenditure. The emphasis has generally been on identifying as many reductions in costs as possible in areas which do not directly affect the university's core activities of research and education.

**Table 4. Initiatives to improve budgets and reduce costs**

<i>DKKm level 2016</i>	2016	2017	2018	2019	2020
<b>Initiatives in total</b>	<b>70</b>	<b>201</b>	<b>280</b>	<b>353</b>	<b>413</b>
I. Reduction of administrative contributions	24	47	67	87	108
II. Reduction of USM contributions	40	58	60	61	63
III Reduction of building operations and maintenance	2	11	26	29	29
IV Initiatives by faculties	4	85	128	175	212

The various initiatives are described in the following pages:

#### I. Administrative cutbacks

Some time ago, in connection with the budgeting for 2014 and the budgeting for 2015, the senior management team decided to reduce the university's administrative costs by DKK 100 million in 2019 relative to 2015, i.e. by 2% or approx. DKK 20 million a year. The senior management team has already planned for a further 2% reduction in 2020 and subsequent years. The administrative cutbacks ensure that the faculties' financial contributions towards the administration are reduced, and that a larger share of their budgets can be spent on research and education.

The administrative cutbacks will result in a reduction in the number of administrative staff members in the near term. Aarhus University will therefore invest in process optimisation and operations management as well as digitisation with a view to still being able to offer a high level of administrative service to researchers, teaching staff and students. However, there may also be tasks to which the same level of priority can no longer be given.

In addition to the administrative cutbacks amounting to DKK 120 million for the period up until 2020, Aarhus University will invest in further digitisation with a view to achieving further administrative savings for the benefit of the faculties.

These investments will be financed through the re-prioritisation of the administration's budgetary framework.

**Table 5. Reduced costs for the administration 2016-2020**

DKKm level 2016	2015	2016	2017	2018	2019	2020
Central administration	499	473	458	450	442	433
AU Library, faculties	66	62	61	60	58	57
Administrative centres	454	444	438	427	416	408
<b>The administration in total</b>	<b>1,019</b>	<b>979</b>	<b>957</b>	<b>937</b>	<b>917</b>	<b>899</b>
<i>Reduction relative to 2015*</i>		40	62	82	102	120

\*As can be seen, the costs for the administration decrease by DKK 40 million from 2015 to 2016. However, the fall in Table 4 is only DKK 24 million. The discrepancy is primarily attributable to the fact that some administrative expenses were financed by the university's strategic funds (the so-called USM funds) in 2015. This co-financing of administrative projects has been discontinued from 2016.

## II. Senior management team's strategic funds

In connection with the budget for 2014-2017, the senior management team decided to reduce the university's strategic funds (the so-called USM funds) to DKK 100 million. The USM funds are primarily used for strategic investments, but have in the past also been used to finance expenditure of more operational nature. Following prioritisation by the senior management team, these items of expenditure have therefore – in so far as the activities are maintained – been accommodated within the (reduced) administrative budgetary framework.

**Table 6. USM 2015-2020**

DKKm level 2016	2015	2016	2017	2018	2019	2020
<b>Faculties' contribution to USM</b>	<b>156</b>	<b>116</b>	<b>98</b>	<b>96</b>	<b>94</b>	<b>92</b>
<i>Reduction since 2015</i>		40	58	60	61	63

## III. Reduced building operations and maintenance costs

The reduction in building costs include reductions in rent, energy optimisation measures, reduction in building operations and maintenance etc. Among other things, Aarhus University is currently developing a master plan for the gradual takeover and occupation of the buildings currently housing Aarhus University Hospital Nørrebrogade (*Kommunehospitalet*). The result will be better land use, building densification and thereby the potential for reduced building operations and maintenance costs. The object is for the aggregated rent expenses to be kept as low as possible. The development in rent levels will thus be monitored on an ongoing basis.

In addition, the budget includes falling expenses for the operation of the university's communal areas (see Table 7). Some of the savings in Table 7 are ascribable to better utilisation of communal areas, such as lecture theatres, and reduced rent for vacant buildings (i.e. rent paid for buildings which are not used for a period of time, for example due to refurbishment).

**Table 7. Costs of communal building use 2015-2019**

<i>DKKm, fixed 2016 prices</i>	FS2015	B2016	B2017	B2018	B2019
Rent supplement	118,4	116,8	109,1	106,4	105,3
Lecture theatres	44,8	43,4	43,1	42,6	42,3
Central building pool	28,2	30,0	29,4	28,8	28,3
<b>Total</b>	<b>191,4</b>	<b>190,2</b>	<b>181,6</b>	<b>177,8</b>	<b>175,9</b>
<i>Index 2015</i>	<i>100</i>	<i>99,4</i>	<i>94,9</i>	<i>92,9</i>	<i>91,9</i>

*The rent supplement is levied to cover the costs of communal facilities, such as canteens, underground parking, vacant buildings and other costs associated with communal buildings such as care and cleaning of outdoor areas.*

#### **IV. Initiatives by the faculties**

The above-mentioned initiatives comprise a number of university-wide budget improvements, but the individual faculties will still have to find further budgetary improvements in the aggregated amount of DKK 4 million in 2016, increasing to DKK 212 million in 2020. Furthermore, it is important to note that the faculties are facing various budgetary challenges. An outline is given below of the initiatives by the four faculties which are needed to compensate for the fall in revenues and to handle other budgetary challenges. The challenges are presented at faculty level, but the cutbacks are largely made at department/school level. In addition, departments/schools at the same faculty may be facing different budgetary challenges.

It is still too early to say anything about the exact distribution of the cutbacks on payroll costs and the faculties' other operating costs. The faculties will endeavour for a substantial share of the cuts to be made to other operating costs. This may be done, among other things, by cutting the costs of building operations and maintenance and rent, see above. Moreover, it will be possible to reduce other operating costs through the increasing use of purchasing agreements and the tendering of contracts for the supply of goods and services.

##### *Science & Technology*

In the period up until 2019/2020, ST must reduce its payroll and other operating costs by approx. DKK 106 million, after account has been taken of the cutbacks in the administration, building operations and maintenance etc. At ST, the cutbacks will primarily affect the departments, centres and the Dean's Office, increasing to DKK 36 million in 2020. The cutbacks are to be realised through continuous adjustments through natural wastage and strategic recruitment. Secondly, an amount of DKK 48 million pertains to an expected decline in the provision of public-sector consultancy services. This is not a new challenge, but one which is already being addressed through the continuous streamlining of the public sector consultancy services provided by ST and through an increase in the share of external funding etc. Thirdly, ST will ensure additional budgetary improvements through a temporary reduction of the management pool for strategic investments and unforeseen expenses. The management pool is reduced to DKK 20 million in 2016, and then grows to DKK 42 million in 2019. Moreover, ST has strengthened its efforts to at-



tract more external funding, for example through measures aimed at increasing the number and quality of applications for funding from foundations.

It should be noted that the financial consequences of the faculty's strategic focus on engineering is not included in the financial plan. It is assumed that these efforts will be cost-neutral. In connection with the gradual realisation of the strategic focus on engineering, ST will continuously assess whether economies of scale and synergies may be achieved, for example in the administration, building operations and maintenance etc.

### *Arts*

In the period up until 2019/2020, Arts must reduce its payroll and other operating costs by approx. DKK 52 million, after account has been taken of the cutbacks in the administration, building operations and maintenance etc. The faculty will realise many of the savings through a review of its degree programmes, which has already commenced. Arts expects the number of courses offered to be reduced by 180 as a result of the review. This could lead to the cutting of approx. 30 full-time positions. As a result of the reduction in the number of courses and students, the faculty will probably also be able to realise further savings on building operations and maintenance and in the administration.

In addition, co-financing from the USM funds will to some extent help address the challenges facing Arts. USM funds will be provided to support strategic appointments which can contribute to further strengthening academic standards in future. USM funds in the amount of DKK 2 million will be allocated in 2018, increasing to DKK 17 million in 2020, and with further increases planned for the period up until 2024.

It should also be noted that Arts posted a profit of DKK 14 million for 2015, while the outlook for 2016 is also satisfactory. The retained profit may be used to ensure a more gradual adjustment. It is still too early to say whether the profit for 2015 and the positive outlook for 2016 mean that Arts already has some permanent room for manoeuvre. If this is the case, this will also help to reduce the need for cutbacks. Judging conservatively, the profit posted for 2015 is not assumed to be of a more permanent nature.

Arts is also expected to embark on major strategic initiatives. The degree programme resizing will be implemented over a number of years. USM funds will be provided during the period up until 2024 to support these strategic initiatives. With the USM funds and additional funding from Arts, it is believed that it will still be possible to appoint new employees to fill most of the vacancies that naturally arise. These new employees will be used to further consolidate and develop the strong positions already enjoyed by Arts and which Arts aims to strengthen even further in future.

### *Health*

At Aarhus University, HE is the faculty where education accounts for the smallest share of the total appropriations from the Ministry of Higher Education and Science. This means that HE is not affected to the same extent as the other faculties by the fall in revenues ushered in by the Danish Finance Act for 2016. During the period up until 2019/2020, HE must reduce its payroll and other operating costs by approx. DKK 33 million. The administrative cutbacks and the reduction in USM contributions will be sufficient to make up for HE's fall in revenues.

HE is, however, facing other budgetary challenges which are calling for various adjustments to be made. In 2017, HE is moving into the Skou building with its advanced biomedical research facilities. Furthermore, in 2019 HE will be moving into the newly refurbished Bartholin Building. This will provide a significant boost to the faculty's research facilities, which are strategically important for the faculty's development. For HE, it will also mean extraordinary removal costs and costs for furnishing the new buildings. HE expects to receive a significant donation to help finance these costs; final confirmation of this is expected after the summer holiday. In addition, HE is also looking at a long-term rent increase.

It should also be noted that HE posted a slight loss for 2015, which means that the faculty must identify savings in 2016 to eliminate the negative balance carried forward.

HE expects its budget to be balanced through the introduction of a number of minor adjustments to the faculty's activities. These initiatives include:

- Reduction in modules offered by the Department of Public Health
- Optimisation of economy of medical degree programme
- Capped enrolment on the one- year pre- graduate programme in health and medical science research
- Increased teaching requirements for PhD students
- Optimisation of the operation of livestock buildings as a result of the new building
- Synergies in the areas of, for example, management and administration following the merger of the Department of Dentistry and the School of Oral Health Care (School for Dental Assistants, Hygienists and Clinical Technicians).

### *Aarhus BSS*

At BSS, a reduction in the administrative and building operations and maintenance costs etc. will solve most of the challenges at the beginning of the budget period. Thus, it is not until later in the budget period that additional cutbacks will have to be made. All else being equal, the total reductions are expected to amount to just over DKK 20 million in 2019/2020. As is the case at Arts, BSS posted a profit for 2015, which is a good starting point for the exercise. BSS is also expected to generate a profit in 2016. The savings may be used to ensure a gradual phase-in of the reductions. As is the case for Arts, it is not assumed that the DKK 9 million profit posted for 2015 is permanent. Should this prove to be the case,

this will also help address the challenges. Finally, it should be noted that BSS in 2015 financed a large share of the study progress reform fine levied on Aarhus University. In 2015, Aarhus BSS was fined approx. DKK 10 million and nevertheless posted a small profit for the year. BSS is therefore deemed to be well-gearred to handling those of the known challenges which can be addressed through minor initiatives at the individual faculties.

#### 4. Gradual adjustments and need for special initiatives

Staff turnover means that most departments and schools will be able to adjust smoothly to the new situation by refraining from filling all vacant positions – even without a hiring freeze as such. Figures show that the average turnover of permanently employed academic staff members is approx. 14% a year (see Table 8 below). The figures are associated with some uncertainty. Turnover varies over time and from faculty to faculty. The faculty with the lowest staff turnover from March 2015 to March 2016 recorded a turnover of just over 8% for academic staff members in permanent positions.

Staff turnover is higher for temporary academic staff members as well as PhDs and postdocs. This means that most departments and schools will be able to reduce their payroll costs by exercising restraint in the filling of vacant positions and through greater awareness that new appointments must support the faculty's academic development as well as providing opportunities for junior research talents. This will allow academic innovation, while ensuring that talented young people will see the university as an attractive career path, and that the university will thus continue to attract young research talents.

**Table 8. Number of employees (salaried) in March 2016 vs 2015, Aarhus University in total, exclusive of part-time academic and technical and administrative staff**

<i>Job category</i>	Retained	Resigned	Employed	Number march 2015	Retention rate	Staff turn- over
Permanent academic staff	1,899	315	320	2,214	86%	14%
Part-time academic staff	714	551	583	1,265	56%	44%
PhDs	673	477	418	1,150	59%	41%
Tech/admin staff	2,902	643	627	3,545	82%	18%
<b>Grand total</b>	<b>6,188</b>	<b>1,986</b>	<b>1,948</b>	<b>8,174</b>	<b>76%</b>	<b>24%</b>

*Retention and staff turnover are measured as the number of salaried employees in March 2015 and March 2016 relative to the number of employees in March 2015, and as the number of resigned employees in April 2015 and March 2016 relative to the number of employees in March 2015.*