The new frontier in the fight for financial sustainability.

"Australian universities more than ever before will be forced to look closely at non-teaching income streams as the battle for financial sustainability just got a whole lot harder." By **Greg Spinks**

The release of the Federal Budget on May 13 has created a watershed moment for Australia's higher education system. Despite some noble intentions, the proposed reforms will fundamentally change the Australian higher education landscape. In particular, the budget will have significant impact on the nature of university income stemming from:

- The full deregulation of student fees from 1 January 2016.
  Course fees will be set by the institution. Poor pricing decisions could have catastrophic consequences for some universities and those that do nothing will lose significant income to those that get it right.
- The reduction of Commonwealth's contribution towards course fees by an average of 20 per cent and extending funding for government supported places to non-university higher education providers (TAFE and private colleges).
  This will see non-universities compete directly with universities which will increase competition for a smaller pool of funding.
- The lowering of the income threshold at which HELP debt is repaid and the introduction of an interest rate equivalent to the 10-year government bond rate to HELP debt.
  Repayment of university fees will now start earlier due to the reduction in the income threshold at which HELP is repaid. Additionally, unpaid HELP will incur interest charges equivalent to the indexation rate. This will increase the cost of higher education. Debt burden will not only be higher, it will fluctuate depending on interest rates which will now make the decision to undertake higher education not only more expensive but riskier.

This combined with the move towards a demand driven system, increasing competition for full-fee paying international students and the overall reduction in federally funded research, will force many higher education providers to re-examine their strategies so that they are able to survive in this rapidly changing landscape. These reforms will push the responsibility for funding higher education further away from the Government and more towards the individual students and their families as universities fight to fill their funding gap.

Sources of Funding for the University

Since the mid-1990s, there has been a steady reduction in Federal Government support — from almost 60 per cent of funding to around 44 per cent currently. The proportional shortfall has been picked up by a greater amount from full-fee paying international students, HELP and, to a lesser extent, domestic fees.

The Department of Education's 2012 Finance Report showed that operating revenue for Australian higher education providers (HEPs) totalled $25.21 billion, of which $10.989 billion (43.59 per cent) came from Government grants. Government contributions to course fees came at $3.687 billion

(14.63 per cent) while fees and charges (including upfront student contributions) comprised $6.169 billion (24.47 per cent). Investment revenue accounted for 3.66 per cent and the remaining 13 per cent comes from a diverse range of sources depending on the individual institution.

Evidently, Australian HEPs on average are still heavily reliant on Government funding. The impact of the reforms will mean a further burden on universities and other higher education providers to find alternate sources of income – to replace the direct and indirect cuts by the Federal Budget.

Alternate Sources of Funding

So where are these other funding sources and how can they be realised?

(1) Expanding core and non-core programs to a greater student population

In response to a growing knowledge economy, universities could aim to attract a greater and diverse population of students with a broad range of study options. Despite an increasingly competitive and saturated market of degrees, diplomas and certificates – universities of some renown are well-positioned to leverage their reputation and quality of teaching. Diversification of core and non-core programs can therefore increase income streams and sustain institutional funding.

There are a range of methods to attract a more diversified student population, they include the provision of award and non-award programs, and expanding the time and location of delivery.

Universities offering only full-time and part-time courses may also want to diversify into:

- Summer semesters
- Trimesters
- Out-of-hours programs
- Single unit (non-award) studies
- Online studies.

Universities offering traditional study options such as single degrees and double degrees, can also diversify into:

- Industry and professional development programs
- Bridging and pathway programs
- Tailor-made courses.

(2) Leasing university property and property development

Australian higher education providers in 2012 held a combined total of 40.3 per cent of their assets in Freehold Buildings and 11 per cent in Freehold Land. This is a significant amount of property and land assets that are tied up on the balance sheet.

Drawing from this, there are a number of asset monetisation options for universities to optimise their return on assets. One of these options is to form public-private partnerships to develop land and buildings in which new and synergistic streams of revenue can be created for both the university and investor. Under such an arrangement, the university could retain the long-term ownership of their property and land assets, while the investors can build or operate facilities for an agreed number of years. Universities of course could choose to develop their land and buildings themselves, if they have the capital and expertise to do so.

(3) Freeing up capital from selling assets and leaseback arrangements

As mentioned above, Australian higher education providers possess large amounts of assets in the form of buildings and land – at over 50 per cent of their total assets. Another method of monetising assets include sale-leaseback arrangements.

Although not without its drawbacks, there are sound commercial motives in sale-leaseback arrangements where the university can sell its property to an investor whilst retaining control through lease agreements. In this arrangement, the university can convert its non-liquid assets to cash while continuing to utilise those assets through lease agreements.

(4) Extending retail and other services

Universities are or should be vibrant communities. A university community with a good mix of different stores, shops and services adds to the attraction of the university to potential students as well as providing valuable income streams. These income streams can come from shops, kiosks, restaurants and services.

Depending on the university's characteristics, some of the above shops and services may be supported by capabilities and resources generated from other areas of the university. For example, restaurants may hire hospitality certificate holders from the institution, and photography services may be offered by the university using aspiring student photographers.

Other shops and services that are essential or near-essential such as food outlets, coffee shops, bookshops, photocopying and printing-services, and pharmacies enjoy a steady stream of foot traffic; and in most cases are quite profitable. Universities could choos to directly manage and provide these services.

(5) Leasing university facilities

Another option is to create revenue streams from underutilised assets. Universities have world class infrastructure and significant capital that is often poorly utilised due to the relatively short academic year and the underutilisation during the academic year. Revenue streams could come from leasing out or shared use of facilities with the surrounding community or corporations. These arrangements could extend well beyond the use of core teaching facilities to; sport and recreation facilities, library, entertainment venues, child care, accommodation, venues for social events and car parks. Other opportunities to lease university facilities include conference rooms, lecture theatres and tutorial spaces. All of the aforementioned are able to provide streams of income to the university through utilising otherwise under used facilities.

(6) Generating income for research

When it comes to research, Australia is seen as a world leader in many areas. Australia ranks 1st against OECD countries as having the highest number of researchers as a percentage of total labour force. Australia's bilateral research links with Asian countries is measured by the number of joint publications – where Australia was among the top 10 international collaboration partners in research for China, Japan, South Korea and India. Simultaneously, Australia ranks 9th in its share of world publications and 8th in its share of world's top 1% highly cited publication attributed to international collaboration across all disciplines.

However, a significant portion of research funding for universities comes from government sources (36 per cent) and despite the recent pause in the 17th CRC Selection Round there is a clear trend to encourage research that is supported by industry. Universities could extend their engagement and partnerships with industry both here and abroad to secure much needed research funding.

Consulting services, often looked down on by academics provide important linkages into industry and a first-hand appreciation for industry problems and time frames to solve these problems. Leveraging the universities' facilities, technologies, expertise, knowledge and infrastructure could further extend linkage into research intensive industries.

Research funding from government agencies both domestic and international, are typically available for universities. Most grants are highly competitive with the quality of applications variable. Most academics are provided with little or no training on developing grant application and have little support for components that are beyond their research expertise such as modelling the economic impact of their research, , the path to market, how IP will be handled, the risk framework etc. There is also the progressive trend to outsource large grant applications to expert grant developers, particularly given the time frames in which some grants must be submitted. Universities need to develop a strong capability for grant applications and find appropriate networks and partners that can support the development of these grants.

Given the increasingly competitive environment for research funding; universities are increasingly identifying areas of core research capability and investing in building on these capability areas to ensure that they have a competitive position. Universities who try to be all things to all people will increasingly find themselves unable to compete against more focused and well-resourced research providers.

(7) Generating income through commercialisation

Australian universities have a particularly poor history of commercialisation research. In 2011, 12 out of the 38 public universities in Australia did not report any IP revenue at all. Only six reported income greater than $5 million. This is despite most academics typically spending over a third of their time on research endeavours. Another is intellectual property, a side of research that is often not fully exploited for income generation. Intellectual property (IP) can generate income through 'renting' in which the university can license the IP and collect royalties, through 'buying' in which the university can acquire someone else's IP for further commercialisation, or through 'sharing' in which the university can cross-license its IP.

A logical next step for intellectual property that is developed, kept or acquired is to commercialise it. Researchers and commercialisation offices will need to build both a stronger capability and culture if the returns available from commercialisation of IP is to be realised.

(8) Philanthropic, corporate and alumni fundraising, gifts and bequests

Australia, when compared to other countries, particularly the United States, does not have a strong philanthropic culture of giving to universities. In 2011, Australian universities attracted $365.7 million (1.5 per cent of total income) in donations and bequests. In the United States and the United Kingdom, philanthropic funding is far more wide-spread due to a culture where universities are integrated into their past and current students' lives and careers. Universities in the US and UK form strong and enduring relationships with alumni and local communities, whereas Australian universities have a tendency to view the provision of education much more as a transaction.

Australian universities wanting to replicate the success of philanthropic fundraising models of US and UK universities need to ensure a number of requirements:

- The building and nurturing of good relationship with future alumni beginning from the students' commencement.
- The creation of strong alumni relations units that can sustain long-lasting, trusting and engaging relationships with alumni.
- Looking to continuously add value to their alumni.
- The implementation or refinement of an internal funding model that creates incentives for faculties to undertake philanthropic fundraising activities from alumni and corporations.
- The existence of structures that integrate university communication unit, the alumni relation unit and individual faculties.

There are a plethora of variations of alternate sources of income that universities can take advantage of – with the only limitation dictated by their ingenuity and boldness. However, the Australian university sector must not lose track of their core mission to be academically successful in striving for financial sustainability. Balancing academic success and financial sustainability in the current dynamic funding environment will be one of the finest dances for years to come.