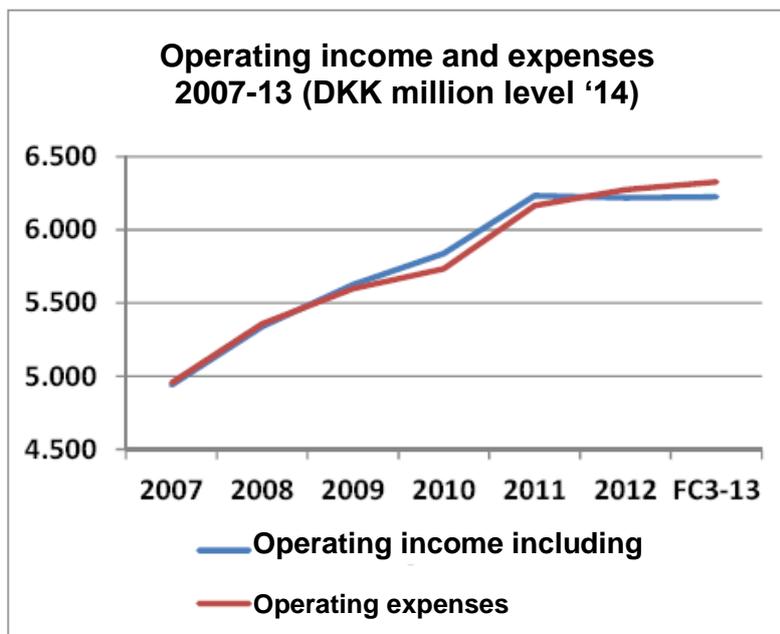


## Budget for 2014 including budget forecast for the 2015-2017 period Background and recommendation for adoption

The development in Aarhus University's operating income and expenses for 2007-2013 is presented below in **Figure 1**.

**Figure 1. Operating income and expenses 2007-2013 (DKK million level '14)**



After several years of posting a budget surplus, Aarhus University budgeted a **loss in the years 2012-2014**. The primary reason for this was the restructuring process that commenced in 2011, which has not only required resources for its implementation, but also hindered any rapid adjustment of the university's finances due to the many changes in the organisation, management, system support etc. ensuing from the academic development process.

When the budget for 2012 was adopted, however, it still seemed likely that the Danish universities would be granted additional basic funds in the years ahead, and when budgeting for 2013 the management expected that the securing and capitalisation of external research funding would provide sufficient cover of overheads for the university's financial imbalance to be addressed through increased income.

However, Aarhus University, together with all the other Danish universities, is now in a situation in which basic research funding will remain largely unchanged for the next three years (up until and including 2016), while income from degree programmes will only increase with a significantly increased student intake, since funding per student is decreasing. **Figure 1** shows that income has stagnated.

The budgetary certainty provided by the basic research funding that the universities receive is, of course, a blessing when compared to many other public-sector enterprises, but although this assists the universities in their financial planning, it does not resolve the imbalances in Aarhus University's operating budgets. Further external grants will only remedy the situation if they contribute more to overheads and/or cover more derived costs such as the salaries of those already employed than has previously been the case. For this reason, efforts are being made to address this challenge, both by changing the attitudes of the researchers applying for external funding, and more specifically by improving the way in which applications for external funding are prepared.

In 2012 and 2013, the university posted an annual **operating loss of approx. DKK 100 million** exclusive of non-recurring income. In addition, between 2012 and 2017 Danish Finance Act subsidies are expected to decline by DKK 30 million at fixed prices, while rent will increase by DKK 65 million in the same period. Preparations for the present budget have confirmed this picture. It is estimated that Aarhus University's financial imbalance is in the region of DKK 150-200 million a year, and there is no significant prospect of the university being able to fully resolve this situation through increasing its income before 2017. Moreover, financial leeway is needed in order to be able to contribute to new activities such as the co-financing of externally funded activities. Consequently, in its budgeting for 2014-2017, Aarhus University must improve the balance of income and expenses by at least DKK 200 million.

The conclusion is clear: There is a need to look both thoroughly and critically at the expense items in the budgets.

On the **administrative** side, in connection with the change process launched in 2011, the plan was for the implementation of the organisational changes to lead to efficiency increases and the professionalisation of AU Administration that would result in savings. Moreover, the Danish Finance Act includes negative income of DKK 61 million, corresponding to AU's share of the political expectations of smaller and more efficient university administrations. It has been the objective of the Aarhus University Board that the administrative expenses must be reduced by 10% over a number of years. In light of the above, the current budget includes a net reduction in the budgetary framework of AU Administration of DKK 25 million per year in the period 2014-2016.

These gross savings must be greater as the budgets must accommodate both new and predetermined measures. These cutbacks involve staff cuts, a stricter prioritisation of activities, and efficiency increases. Annual savings of 2% are expected after 2016. Gross savings in 2014 are expected to amount to DKK 56 million. A savings profile for the administration of DKK 10 million per year in the 2014-2016 period was previously incorporated into the budget for 2013. This profile has now increased considerably.

As the full-year effect of staff cuts will not be realised in 2014, other temporary cutbacks with no long-term effect will be required during the year, including a modified hiring freeze. Our assessment is that the cutbacks cannot be implemented all at once without compromising the stability of operations. By 2017, the administrative cutbacks will have redressed more than half of the overall imbalance.

With regard to the Central Administration, it should be mentioned that the pool for cross-university infrastructure – which has been approximately DKK 40 million in recent years – will be halved in 2014, reduced to DKK 30 million in 2015, and will return to its 2013 level in 2016. The pool's funds are budgeted for the Central Administration but are used widely at the university as decided by the senior management team.

**The budgets for the main academic areas** and thus AU's budget cannot be balanced solely through administrative cutbacks. There are two important conditions for cutbacks in academic areas: There must be funds for new initiatives, and the cutbacks must not undermine the growth layer or talent development. The importance of both of these elements is such that serious cutbacks in these areas cannot be justified even if this seems the easiest short-term solution. A complete freeze on new recruitment is not an option, but the need for some restraint in making new appointments to be exercised for a period of time cannot be ruled out.

This means that (as is the case for the administration) the gross savings must more than redress the imbalance so as to maintain a long-term perspective. It is estimated that total cutbacks in the four main academic areas will be in the region of DKK 100 million in 2014, and a further DKK 50 million in 2015. This cannot happen without staff cuts.

As is the case for the administration, the main academic areas will also have to make temporary cutbacks so as to comply with the 2014 budget, while cutbacks with full-year effect will not feed through until 2015. The cutbacks are structured so as to create sufficient long-term financial leeway to accommodate new initiatives corresponding to roughly half of the gross savings. In this context, it must be stressed that the financial leeway must also to be used for increased co-financing of externally funded activities, particularly because the growth in external funding in the first few years will not come from Danish public boards, councils and foundations, but from private foundations and EU funds, which generally include no (private foundations) or fewer overheads than Danish funding. The efforts to ensure increased coverage of overheads in connection with externally funded projects will therefore become even more important.

In most academic environments, financially motivated **redundancies** are something new. Previously, financial imbalances were traditionally addressed by refraining from or postponing new appointments and by not renewing temporary appointments. Only minor adjustments can be achieved in this way. Consequently, the university is facing a special challenge in this budget process as such redundancies will be perceived internally at the university as a significant change of direction.

The senior management team's assessment is that the extent of the redundancies will be such that they will be covered by the Danish Act on Advance Notice in Connection with Collective Redundancies (Lov om varsling af afskedigelser i større omfang), although it is not yet possible to quantify the number. The need for redundancies must also be seen in the light of the combined discontinuation and intake of assignments, as well as the volume of voluntary redundancies and ordinary resignations due to job changes.

Specifically, the senior management team is determined that the adjustments must be made to an extent and in a way that avoids the need for similar cuts year after year. Consequently, in 2014 one of the financial management tasks will be to ensure both short-term and long-term budgetary follow-up. In 2014, special follow-up will be required on the effect in 2014 of savings with full-year effect. When considering the budget for 2015, the planned cuts must, of course, be assessed with reference to any changes to the external and internal circumstances.

The budget for 2013 included a **loss of DKK 60 million in the budget forecast for 2014**. In the current budget, this loss is maintained for 2014 despite the fact that forecast III 2013 indicates an operating loss in 2013 that is DKK 19 million worse than expected in the budget for 2013. In contrast to the budget for 2013, no central budget regulation accounts have been incorporated for the year, rather there are modest reserves of DKK 3, 8, 14 and 10 million for the years between 2014-2017. This does not mean that there are fewer challenges in the budget for 2014 than in 2013, but the responsibilities are divided between the main academic areas and the central administration. A process involving e.g. liaison committees, union representatives and all of the university's managers has addressed the challenges in the budget for 2014, but this is a process that remains to be concluded in the course of 2014. Since the cutbacks are yet to be finalised, the distribution of expenses between salaries and other operations in the current budget, in particular, is indicative only, and may be modified as a result of further internal dialogue between managers and employees and following analyses of the various alternatives.

From **2015, the operating budgets are expected to be balanced.** In 2015, extraordinary income totalling DKK 120 million is expected from the sale of the Engineering College building on Dalgas Avenue in central Aarhus, which will be recognised as non-recurring income in the university's income statement, thus generating a profit. In accordance with the merger negotiations with the Engineering College of Aarhus (IHA) and IHA's budget assumptions at the time of concluding the agreements to acquire a section of the Navitas building and dispose of the buildings on Dalgas Avenue, the proceeds from the sale are to be used to reduce the interest burden of Navitas in the years to come, and any operating profit has, consequently, already been appropriated.

2017 is included as budget forecast year 3, but due to the three-year horizon of the Danish Finance Act it is only to be considered as an "all things being equal" scenario. If GDP starts to grow at rates similar to those seen before the financial crisis, a retention of the Barcelona objective that at least 1% of GDP be used for publicly funded research could result in an increase in the university's research income from state sources. This may take the form of both ordinary and external funding. In this context, it should be remembered that EU funding is included in this one per cent. Consequently, the state will be able to offset increased EU funding in the state's contributions to satisfy the Barcelona objective.

**Table 1** shows the university's operating budget for 2014 with forecasts for 2015-2017 at current price levels. The outlined initiatives to balance the university's income from 2015 have been incorporated.

**Table 1. AU operating budget for 2014 with forecasts for 2015-2017**

DKK million	Accounts	Budget	Forecast	Budget	Budget	Budget	Budget
	2012	2013	3	2014	forecast	forecast	forecast
	level 2012	level 2013	2013***	level 2014	level 2015*	level 2016	level 2017*
<b>REVENUE</b>							
Finance Act contributions	3,921	3,967	3,952	3,968	4,007	4,056	4,090
External funding	1,645	1,915	1,759	1,806	1,870	1,935	2,007
Sales/other operating income	476	465	476	466	470	475	483
<b>TOTAL REVENUE</b>	<b>6,043</b>	<b>6,347</b>	<b>6,188</b>	<b>6,240</b>	<b>6,348</b>	<b>6,466</b>	<b>6,581</b>
<b>EXPENSES</b>							
Wages and salaries	3,872	4,022	4,056	3,967	3,970	4,014	4,070
Rent	635	656	661	679	693	717	733
Other operating expenses	1,524	1,634	1,446	1,519	1,546	1,592	1,628
Depreciation and amortisation	132	132	132	143	151	153	160
<b>TOTAL EXPENSES</b>	<b>6,164</b>	<b>6,443</b>	<b>6,295</b>	<b>6,309</b>	<b>6,309</b>	<b>6,477</b>	<b>6,591</b>
<b>PROFIT/LOSS BEFORE FINANCIAL ITEMS</b>	<b>-121</b>	<b>-96</b>	<b>-108</b>	<b>-69</b>	<b>-12</b>	<b>-11</b>	<b>-11</b>
Net interest	66	15	7	9	12	11	11
<b>PROFIT/LOSS FOR THE YEAR FROM ORDINARY ACTIVITIES</b>	<b>-55</b>	<b>-81</b>	<b>-100</b>	<b>-60</b>	<b>0</b>	<b>0</b>	<b>0</b>
Extraordinary items***	0	0	0	0	120	0	0
<b>PROFIT/LOSS FOR THE YEAR</b>	<b>-55</b>	<b>-81</b>	<b>-100</b>	<b>-60</b>	<b>120</b>	<b>0</b>	<b>0</b>

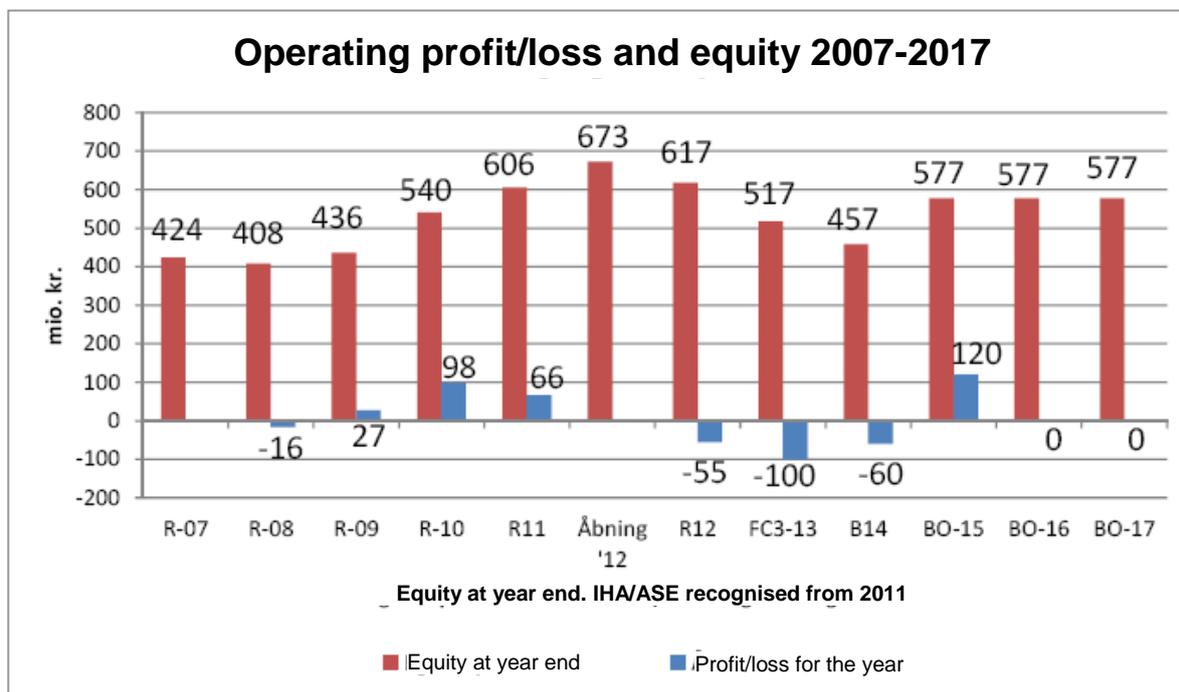
\*In 2015-2017 annual price increases of 1.0% is estimated relative to 2014

\*\*From financial report no. 3 2013.

\*\*\*The extraordinary item in 2015 is due to the sale of the former engineering college on Dalgas Avenue pursuant to the merger agreement and documentation.

The budgeted results will result in the development of equity as shown in Figure 2. The increase in equity from the 2011 accounts to the opening balance in 2012 can be attributed to the merger with the former IHA on 1 January 2012, while the increase in 2015 is due to the expected proceeds from the sale of the building on Dalgas Avenue. Consequently, none of these increases are due to operational conditions.

**Figure 2. Operating profit/loss and equity 2007-2017**



Distributed between main academic areas, the university's operating budget for 2014 is as shown in Table 2.

**Table 2. Operating budget 2014, summary table**

DKK million	AR	ST	HE	BSS	CENTRAL ADMINISTRATION	AU
	Budget 2014	Budget 2014				
	level 2014	level 2014				
<b>REVENUE</b>						
Finance Act contributions	787	1,477	865	831	8	3,968
External funding	186	1,093	326	172	29	1,806
Sales/other operating income	80	111	129	96	49	466
<b>TOTAL REVENUE</b>	<b>1,053</b>	<b>2,681</b>	<b>1,320</b>	<b>1,100</b>	<b>86</b>	<b>6,240</b>
<b>EXPENSES</b>						
Wages and salaries	567	1,321	695	572	812	3,967
Rent	82	274	102	85	137	679
Other operating expenses	407	1,016	487	434	-824	1,519
Depreciation and amortisation	1	85	29	2	25	143
<b>TOTAL EXPENSES</b>	<b>1,056</b>	<b>2,695</b>	<b>1,313</b>	<b>1,094</b>	<b>150</b>	<b>6,309</b>
<b>PROFIT/LOSS BEFORE FINANCIAL ITEMS</b>	<b>-3</b>	<b>-15</b>	<b>7</b>	<b>6</b>	<b>-65</b>	<b>-69</b>
Net interest	0	-8	0	-1	18	9
<b>PROFIT/LOSS FOR THE YEAR</b>	<b>-3</b>	<b>-23</b>	<b>7</b>	<b>6</b>	<b>-47</b>	<b>-60</b>

Against the background outlined above, the budget for 2014 is recommended for adoption by the Board.