



Extract from the report to the
Public Accounts Committee on
the growth in the Danish universities
equity

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I. Introduction and conclusion

1. This report concerns the growth in the Danish universities' equity. The total equity of the universities in Denmark has grown steadily since 2005 and significantly in 2010 and 2011. In 2011, Denmark's eight universities generated their so far largest surplus of DKK 786 million, which increased their accumulated total equity to DKK 5.1 billion (excluding government guarantees). At year-end 2012, the equity was DKK 5.4 billion.

2. Rigsrevisionen launched the study in the autumn 2012 at the request of the Danish Public Accounts Committee.

3. The Public Accounts Committee asked Rigsrevisionen to examine the growth in the universities' equity and determine how it was generated and when. The Committee also asked Rigsrevisionen to determine whether the universities are too anxious to generate equity, or whether an actual need for provisions exists.

The Committee's questions call for a clarification of facts relating to the development in the universities' equity as well as an assessment of the causes of the surpluses generated in the university sector over the past three years.

The report answers the following questions:

- What is the cause of the surplus generated by the universities in the years 2010 to 2012, and is the surplus a reflection of inadequate budgeting and budget follow-up at the universities?
- Is the need for equity founded on management-based requirements and what is the position of the Ministry of Higher Education and the Ministry of Finance on the matter?

Equity is a company's assets less its liabilities.

Denmark's eight universities

- Aarhus University
- Copenhagen Business School
- Technical University of Denmark
- IT University of Copenhagen
- University of Copenhagen
- University of Southern Denmark
- Roskilde University
- Aalborg University.

MAIN CONCLUSION

The significant increase in the universities' equity over the past three years is not a reflection of any conscious planning on the universities' part. The main cause of the growth in the equity is unbudgeted surpluses. In the period 2010-2012, the universities recorded surpluses amounting to DKK 1,37 billion, generated by increased income in combination with lower costs than estimated.

The total surplus recorded by the university sector is a reflection of the fact that the universities have been conservative in budgeting income and exercised restraint in spending. The total variance between the universities' budgets and accounts has been small (around 2 per cent), which, however, due to the large turnover of the universities, corresponds to a variance of DKK 1.4 billion. In the opinion of Rigsrevisionen, the surplus is not the result of inadequate budgeting at the universities. Yet, not all the universities follow up on their budgets in time and as frequently as required to be able to adjust the level of activities to changes in income and spending.

Two factors indicate that the universities have saved too much money in recent years; the current equity of several of the universities is higher than their stated targets, and most of the universities have decided to increase spending considerably in the coming years. Overall, the universities are budgeting with a deficit of DKK 786 million over the next two years.

A large part of the income generated by the universities is activity based and their income is therefore subject to a certain degree of uncertainty. According to the universities, the equity allows them to manage fluctuations in income and make strategic investments. Taking this into consideration, Rigsrevisionen agrees that the universities may need equity, but the individual university should then – in the opinion of Rigsrevisionen – determine a level for its equity on the basis of its investment strategy and an income risk assessment. Changes in income and investment plans have an impact on the need for equity, and it is therefore essential that the universities re-assess the size of their equity in accordance with current needs.

The Ministry of Higher Education and the Ministry of Finance do not consider it necessary for the universities to accumulate large savings, neither do they intend to define general requirements or rules concerning the size of the universities' equity. Yet, the Ministry of Higher Education considers it relevant to supervise spending at the individual university, and intends to focus also on developments in the universities' equity in the future. The Ministry of Finance is also planning to monitor the development in the universities' equity and financial management.

The universities have emphasised that the equity allows them to make long term plans and operationally sound management decisions. Rigsrevisionen therefore finds it regrettable that not all the universities have determined the level of their respective equity long ago, and that only two of the universities are linking their estimates of income to the size of their equity. The inherent risk is that the universities' savings either exceed or are smaller than the estimates of income or investment requirements warrant, and the funds will therefore not be put to work at the universities when needed.