

Academic Assets

University Fundraising - An Update

June 2014

Improving social mobility
through education



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When the Sutton Trust extended its summer school programme to leading US universities, we were able to do so for one important reason. Ivy League and other top universities have substantial endowments which in recent years they have used to provide needs blind admissions for children from low and middle income families, in many cases to those from overseas as well as from the US.

These endowments give American universities a much greater freedom than their British counterparts and arise from a different attitude to fundraising and alumni giving in the US than exists in the UK. 11% of US graduates give to their old universities,¹ compared to just 1% of contactable alumni in the UK.²

There has been some growth in fundraising by British universities over the last ten years. The match-funding scheme introduced by the last government, drawing on recommendations from a Task Force chaired by Professor Eric Thomas, on which I served, increased the capacity for fundraising in many universities as well as helping increase the overall levels of money raised.

Nevertheless, as our new analysis shows, the level of endowments available to leading British universities is dwarfed by their American counterparts. Oxford and Cambridge would make a top 20 for the size of their endowments in the US, but no other British university would. Where even state universities have billion pound endowments in the US, no other British university has more than £300m invested.

It is argued by some that this doesn't matter so much because the government subsidises student loans in the UK, or because of the extent of public funding for research. But strong endowments enable universities to think about their activities in the long-term and allow them to be internationally competitive: recent research suggests that Russell Group universities alone contribute £44 billion to the UK economy. They could, for example, help to support more postgraduate students from low-income backgrounds, where there is minimal public support and students can get into significant debt. They could also use endowment income to strengthen the quality of teaching to undergraduates.

Over the last decade – Oxbridge aside – UK universities have not seen any significant growth in the size of their endowments, although their fundraising capacity has improved. There is a good economic case for the Government to do more to encourage donations to our universities and to build further their fundraising capacity and alumni networks, including through matched donations and simplified tax incentives. Doing so could help make British higher education more globally competitive.

Sir Peter Lampl, Chairman, The Sutton Trust and the Education Endowment Foundation

¹ Council for Aid to Education, 2011

² Ross CASE Survey 2012-13

BACKGROUND

Universities in the UK derive their income from a variety of sources - Government grants, student fees (which have become far more significant since 2012), research grants, direct government grants, donations and legacies, in addition to income from endowment investments.

An endowment fund is a form of charitable trust which is retained for the benefit of the institution. The main purpose of an endowment is to be invested, so that the total asset value will increase and create another source of income for the university. Endowments are a way of protecting universities from short-term economic pressures and allowing freedom for the institutions greater control over how to use its assets. Universities will have investment management policies that will dictate how the income from endowments can be invested. For some universities, the income generated from managing the endowment fund can be significant. Universities UK suggest that institutions in the UK are facing challenges in funding the maintenance of existing infrastructure and making new investments which means they will have to rely more on their own internal cash sources.¹

In the US, there is less emphasis on government funding for universities, as there are significant numbers of private colleges, alongside public ones. Since the 1980s, government at all levels has reduced the amount of subsidy it provides to public universities. This resulted in expanded research activity as universities sought other income sources. Private colleges have long relied on private fundraising, and public universities have become increasingly reliant on philanthropy.

This report compares the fundraising activities of universities in the UK and the US, following on from two previous Sutton Trust reports published in 2003² and 2006.³ These reports find large disparities between the two countries – with US universities having significantly larger endowments than those in the UK, and funds that are also growing at much faster rates.

¹ The Funding Challenge For Universities, 2013, Universities UK

² University Endowments, a US-UK Comparison. Sutton Trust 2003

³ University Fundraising - an Update. Sutton Trust, 2006.

Key Findings

- Endowment funds at American universities continue to dwarf those held by UK universities. They have recovered from the economic downturn better than their British counterparts, so that they are now worth a quarter more than they were a decade ago. Meanwhile endowments funds at most UK universities – apart from Oxford and Cambridge – have failed to see any significant growth in a decade.
- The level of endowments at the top 100 UK universities grew in real terms from £7,980 million in 2002 to £10,900m in 2012, an increase of 37%. However, that increase was almost entirely the result of growth in the size of funds held by Cambridge and Oxford, and their colleges. Cambridge's funds were worth £4.9 billion in 2012 (up from £2.8 billion) and Oxford's funds were worth £3.8 billion (up from £2.8 billion).
- Oxbridge continues to have significantly larger endowments than any other UK universities, and they have also grown proportionately larger. When Oxbridge is excluded, the average UK university saw its funds fall in real terms from £23.8m to £23m between 2002 and 2012.
- The funds held by the top 500 US universities grew from £192.4 billion in 2002 to £237 billion in 2012. Among the Top 500 US universities, the average endowment is worth £418 million, when Harvard and Yale (the top two) are excluded, an increase of 24% from £337m in 2002.

Recommendations

- The Government should launch a modified match-funding scheme, building on the 2008-11 initiative. This will enable UK universities to build on the promising start that has been made over the last ten years. Any new fund should focus on improving the fundraising capacity of universities other than Oxbridge and include clear targets aimed at improving the overall levels of alumni giving and fundraising by universities.
- A simplification of the tax laws that relate to charitable donations would help encourage more giving to universities. Donations should qualify as a straight deduction from gross income. This is not only more straightforward, but means that donors claim all the tax relief themselves, both of which provide significant incentives to give.

1. THE LAST TEN YEARS

Since the Sutton Trust's last report on this subject in 2006, there have been some significant changes for university funding in the UK. In particular, since 2012 universities have had to raise far more of their income through tuition fees. Universities have also faced global economic pressures and stricter student immigration policies.

There have also been significant changes in fundraising within the universities.

The 2004 Thomas report⁴ and the Sutton Trust's early work on endowments and fundraising in higher education led the Government to introduce a match-funding scheme which aimed to stimulate greater fundraising by English universities.⁵ The scheme aimed to achieve 'a step change in voluntary giving', by significantly increasing voluntary donations to institutions and increasing fundraising capacity within them.

To avoid the benefits of the scheme being monopolised by a small number of well-established development institutions, the scheme had three tiers:

- 1 1:1 private to public: Intended for the least-experienced fundraising institutions and those looking to build capacity from a low base. Every £1 raised will be matched in full up to the level of any cap.
- 2 2:1 private to public: Intended for the majority of institutions with existing development programmes. Every £2 raised will be matched by £1 up to the level of any cap.
- 3 3:1 private to public: This is intended for the most experienced fundraisers. Every £3 raised will be matched by £1 up to the level of any cap.

Match-funding payments of over £143 million were made, triggered by around £580 million of giving by donors.⁶ Fifty-five institutions reached the cap within their respective tiers, while 43 others, although not meeting their own tier's cap, raised more than needed to achieve the same level of match in the next lowest tier.

The scheme showed some signs of success: annual fundraising by UK universities rose from £513 million at the start of the scheme to £694 million by the end.⁷ Match-funding ended in 2011, when the coalition government published a White Paper setting out its policy changes for higher education provision in England. The Paper set out a greater role for competition between institutions, new providers and relaxed number controls, but no renewed commitment to a match-funding scheme for university fundraising.⁸

One of the conditions for inclusion in the match-funding scheme was that universities had to commit to completing the annual Ross-CASE surveys for the duration of the scheme. This resulted in good, reliable data on the uptake and success of the scheme, and information about the extent of fundraising activities more generally in universities.

⁴ http://www.case.org/Documents/PublicPolicy/CASE_Europe/increasingvoluntarygivingreport.pdf

⁵ <http://www.hefce.ac.uk/whatwedo/invest/funds/volgiving/>

⁶ <http://www.hefce.ac.uk/pubs/year/2012/cl142012/name,73096,en.html>

⁷ *ibid*

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31384/11-944-higher-education-students-at-heart-of-system.pdf

2. THE DATA

The data used in this report on US universities is from the Chronicle of Higher Education, drawing on research by the National Association of College and University and Business Officers. The UK data is collected by Caritas, which uses the universities' annual reports and accounts, as was previously published in the Higher Education Financial Yearbook. They are the latest available figures, but not all figures may be from the same financial year. The figures for Oxford and Cambridge are from 2013, and include the endowments of their constituent Colleges.

It is worth noting that not all donations received by universities will be shown in these endowment figures. Many donors give for a specific purpose, or have a regular annual donation, and these will not be shown in the figures quoted later in this report. Conversely, there are often restrictions on what endowments can be used for, and so cannot be used for general funding purposes. Universities will have guidelines that determine how much of the endowment income can be spent per year. Many donors will also make stipulations on endowment donations and what the income earned from them can be used for, for example they may stipulate that income should go towards providing a particular scholarship each year.

Figures are given in Pounds Sterling, at a conversion rate of £1=\$1.67. Unless otherwise stated, all figures are in 2012 prices.

3. ENDOWMENT LEVELS

One of the biggest differences between higher education in the UK and the US is the substantial endowments many American universities have established, the returns from which give them a much greater degree of financial autonomy and flexibility than their British counterparts.

The gap between US and UK endowment levels remains as dramatic as it was ten years ago. Harvard's endowment of over £19 billion dwarfs the total endowments of all UK universities combined, at just under £11 billion.

Only Cambridge, with an endowment of £4.9 billion, would be placed in the US top ten. It would be in ninth place, while Oxford would come 14th. Oxford and Cambridge are the only two universities in the UK with endowments of over £1 billion, while the US has 42. Edinburgh, the UK's third largest endowment fund, would be 182nd on an American league table.

Table 1: Ten largest university endowments, UK

	£m	2012	2008 (real)	2008 (nominal)	2002 ⁹ (real)	2002 (nominal)
1	University of Cambridge (inc colleges)	4,900**			2800*	2000*
2	University of Oxford (inc colleges)	3,770**			2800*	2000*
3	University of Edinburgh	238	220	185	224	160
4	University of Manchester	154	170	138	126 ¹⁰	90
5	University of Liverpool	138	140	113	130	93
6	Kings College London	131	130	111	140	100
7	University of Glasgow	129	150	121	168	120
8	University College London	86	79	66	113	81
= 9	University of Birmingham	83	88	73	91	65
= 9	London School of Economics	83	68	57	N/A	N/A

*Best estimate for 2002. These were the figures estimated by the Sutton Trust for its 2003 research report ** 2013 figures.

Strikingly, nine of the universities with the ten largest endowments have remained the same since 2002. This suggests that those universities with some form of fundraising activity underway have sustained that activity. Liverpool has entered the top 10 in fifth place, and Surrey has slipped down the table to 18th. Liverpool made extensive use of the match-funding scheme, securing over £2 million in additional funding from government as a result.¹¹ Surrey also made use of the scheme, securing £1.35 million in match-funding.

Oxbridge continues to dominate the top of the table, as it did in 2002, and the remainder of the top ten is exclusively composed of Russell Group universities. The relative gap between Oxbridge and the rest has widened.

Using 2012 prices, only seven universities have endowments worth more than £100m. In 2002 there were eight, at 2012 prices, though in cash terms, there were only five. This partly reflects the difficulties universities have had fundraising and managing their endowments during the global financial crash. It also, however, covers a period where the Statement of Recommended Accounting Practice (SORP) guidance for Higher Education changed. This guidance, published in 2007, meant that funds donated 'with no specific purpose by the donor and with no requirement for maintenance of

⁹ <http://www.suttontrust.com/our-work/research/item/university-fundraising-an-update/>

¹⁰ Manchester University merged with UMIST between the two studies

¹¹ <http://www.hefce.ac.uk/pubs/year/2012/cl142012/name,73096,en.html>

the original capital' could no longer be treated as endowment funds. For some institutions this had a significant impact. For example, UCL identified £28m of its endowment in 2007 which could no longer be classed as such.

Table 2: Ten largest university endowments, US

	£m	2012	2002 (real)	2002 (nominal)
1	Harvard University	19,300	14,100	10,700
2	Yale University	12,400	8,700	6,600
3	University of Texas System	12,200	7,110	5,400
4	Stanford University	11,200	6,320	4,800
5	Princeton University	10,900	6,850	5,200
6	Massachusetts Institute of Technology	6,570	4,480	3,400
7	Texas A&M University System and Foundations	5,220	3,030	2,300
8	University of Michigan	5,010	N/A	N/A
9	Columbia University	4,900	3,420	2,600
10	Northwestern University	4,710	N/A	N/A

Conversion rate is £1 = \$1.67.

In the US, the top ten has also remained remarkably static over the past ten years. The only change is that Northwestern in Illinois has entered the top ten, and the University of California has slipped down to 14th reflecting the economic difficulties facing the state over recent years.

Harvard and Yale remain at the top of the table, but their dominance has narrowed slightly with other universities increasing the size of their endowments at a faster rate. It's also worth noting when comparing the US and the UK, that US universities also felt the impact of the financial crash on their endowments. In 2009 Harvard's endowment lost more than 27 percent of its value on the previous year, yet the university's endowment today is still a third greater in real terms than in 2002.¹²

To review total endowments in a more systematic way, taking into account the number of universities in each country, we look at the top 100 UK universities and the top 500 in the US. This also allows us to compare results with our previous two studies.

Table 3: Aggregate value of the largest 500 US and 100 UK endowments

	Top 100 UK (£M, 2012)	Top 100 UK (£m, 2002 real)	Top 500 US (£M, 2012)	Top 500 US (£M, 2002 real)
Total	10,900	7,980	237,000	192,360
Average (per institution)	109	79.8	475	385
Average (without top 2)	23	23.8	418	337
% held by top 2	79%	70%	12%	13%

This table emphasises the large gap between the two countries, and shows that this has not narrowed over the decade. It also shows that the size of endowments increasing across universities in both countries. The average endowment for UK universities in the top 100 has increased from £80m in 2002 to £109m in 2012.

¹² <http://news.harvard.edu/gazette/story/2009/09/harvard-management-company-announces-fiscal-2009-results/>

However, this is misleading, as it reflects the increasing dominance of Oxbridge on the UK endowment picture. These two universities have both had concentrated efforts in the past few years to increase the size of their endowments, and this has resulted in them increasing the proportion of the UK total they hold – from 70% in 2002 to 79% in 2012.

For US universities, the dominance of the top two has actually decreased slightly since 2002: the proportion of the total endowment held by Yale and Harvard has decreased from 13% to 12%.

The net result is that in the UK, aside from Oxford and Cambridge, there has been a slight *decrease* in the size of the average UK university endowment, while excluding Yale and Harvard, the average US university endowment has *increased* by 24% over the last decade in real terms.

Table 4: Endowment per student, UK

	£m	Number of students	Endowment per student (£)
1	University of Cambridge (inc colleges)	21,000	233,000
2	University of Oxford (inc colleges)	22,100	171,000
3	University of Edinburgh	31,300	7,600
4	University of Manchester	40,700	3,790
5	University of Liverpool	21,900	6,310

Table 5: Endowment per student, US

	£m	Number of students	Endowment per student (£)
1	Harvard University	21,000	920,000
2	Yale University	11,900	1,045,000
3	University of Texas System	51,100	239,000
4	Stanford University	18,100	616,000
5	Princeton University	7,900	1,370,000

Tables 4 and 5 show that US universities have much larger endowments than comparable UK universities, but not significantly larger student populations. For example, both Yale and Princeton have an endowment that equates to over £1 million per student. This allows them significant financial autonomy, and the freedom to introduce much more ambitious schemes to promote social mobility. For example, many top US universities now have needs blind admission processes, where no financial information is taken into account when universities are offering places to prospective students.

They focus on recruiting the right students, and then find a way to pay once they have found them. UK universities would find such a scheme much more difficult to support financially, though there are fee remission and bursary schemes funded from the increased tuition fees.

4. GROWTH IN ENDOWMENTS

Table 6: Growth in UK Endowment levels 2002-2012

	£m	2012 (£m)	2002 (£m, real)	% Increase
1	University of Cambridge (inc colleges)	4,900	2800*	75
2	University of Oxford (inc colleges)	3,772	2800*	35
3	University of Edinburgh	238	224	6
4	University of Manchester	154	126 ¹³	22
5	University of Liverpool	138	130	6
6	KCL	131	140	-6
7	University of Glasgow	129	168	-23
8	UCL	86	113	-24
=9	University of Birmingham	83	91	-9
=9	LSE	83	N/A	

*Sutton Trust estimates from our 2003 research report

Table 7: Growth in US Endowment levels 2002-2012

	£m	2012 (£m)	2002 (£m, real)	% Increase
1	Harvard University	19,300	14,100	37%
2	Yale University	12,400	8,690	43%
3	University of Texas System	12,200	7,110	72%
4	Stanford University	11,200	6,320	77%
5	Princeton University	10,900	6,850	59%
6	Massachusetts Institute of Technology	6,600	4,480	47%
7	Texas A&M University System and Foundations	5,220	3,030	72%
8	University of Michigan	5,010	N/A	
9	Columbia University	4,900	3,420	43%
10	Northwestern University	4,710	N/A	

All the top ten US universities with the largest endowments have increased their size by more than 37% over the decade. While the top five UK universities have all increased the size of their endowments too, the others in the top ten have seen real terms decreases. Only Cambridge has managed to increase its endowment at a similar rate to top US universities. This is partly due to a concentrated fundraising drive to mark the 800th anniversary of the university's founding. During this campaign, almost one in three of alumni who were contactable made a donation.¹⁴ The Ross-CASE survey of higher education fundraising estimates that almost half of philanthropic income generated by the sector in 2012-13 can be attributed to Oxbridge.¹⁵ The rest of the Russell Group make up 30% of total new funds secured.

Manchester also has performed well, but it is worth noting that in 2004 Manchester merged with the University of Manchester Institute of Science and Technology, which will have had a positive impact on its overall finances. Oxford has also increased the size of its endowment, again evidence of the

¹³ Manchester University merged with UMIST between the two studies

¹⁴ <http://www.ft.com/cms/s/0/859643a2-11ff-11e1-9d4d-00144feabdc0.html#axzz34RVAjQId>

¹⁵ Ross Case Survey 2012-13

financial dominance of Oxbridge compared to other UK universities. However, it has not matched Cambridge in the growth of its fundraising over the decade.

The fundraising success seen at Oxbridge is a long-standing phenomenon. There are many factors that might contribute to their success including the 'elite' reputations of the universities, the financial success of alumni, and the college system amongst others. Each Oxbridge College has its own development team, which not only contact alumni and prospects regularly but will organise socials and have other 'keeping in touch' activities, which many other universities would struggle to do to the same extent. The substantial size of the Oxbridge endowments also allows more flexibility in the management of the fund, which can help its growth performance.

5. THE CULTURE OF FUNDRAISING AND ALUMNI GIVING

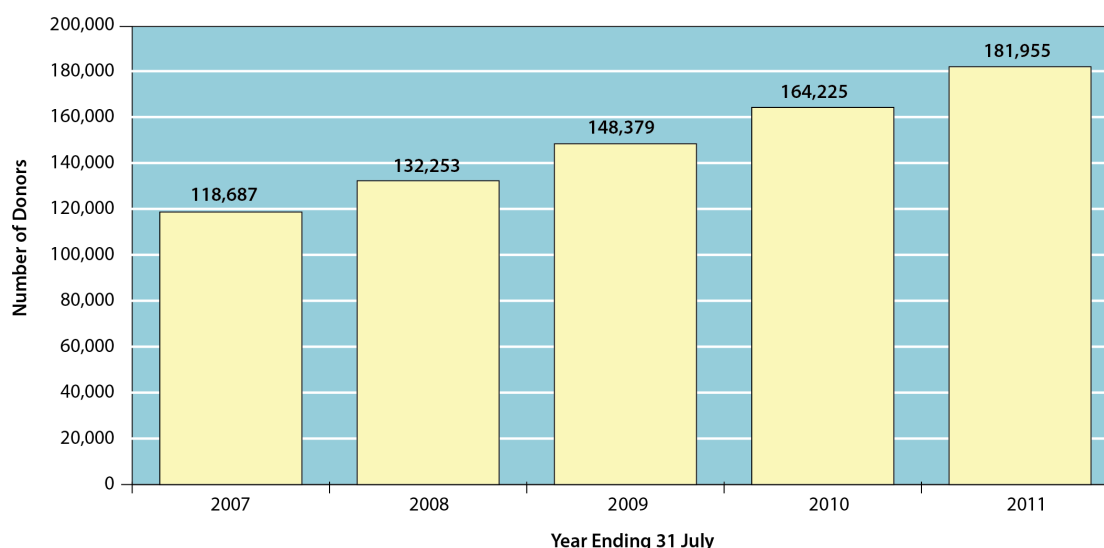
Fundraising is now a more widespread activity in UK universities, but it still lags well behind the US. The most recent survey of philanthropic activity published by the Ross Group of development directors in 2014 showed that there has been an increase in the amount of new gifts secured of almost 100% on 2005 levels, from £350million in 2004-5 to £681million in 2012-13.¹⁶ However, this still represented a decline of £81million on 2011-12.

Across the sector, excluding Oxbridge, such income accounts for 1.36% of total institutional turnover per year, and 2.2% if Oxbridge is included. HEFCE estimate that the range is from functionally zero per cent of turnover up to an extremely high level of 44%.¹⁷

This growing reliance on income from fundraising has resulted in increasing professionalism within the sector – with around 1,800 people now working in Higher Education development or alumni relations.¹⁸

With this increase in awareness of fundraising in higher education, there has been a corresponding rise in the number of individuals giving to HE in the UK:

Fig 1: Numbers of Donors to English Higher Education (HEFCE)



However, Oxbridge's dominance is reflected across a range of factors measured in the Ross-CASE survey. For example, Oxford and Cambridge combined spent approximately the same amount on fundraising activity in 2012-13 as the rest of the Russell Group (22 other universities), and had a median cost per pound received of just 7p. The rest of the Russell Group had a cost per pound received of 16p. Bearing in mind that the Russell Group spent significantly more time and resources on fundraising than the other mission groups, this reflects the considerable disparity in fundraising across the sector.

¹⁶ <https://www.rosscasesurvey.org.uk/file.axd?file=Ross-CASE+Survey+2012-13+Final+report.pdf>

¹⁷ HEFCE, Review of Philanthropy in UK Higher Education 2012

¹⁸ Ross-CASE 2014

6. NEXT STEPS

Match-funding Scheme

Following the success of the Government's matched funding scheme to build fundraising capacity in the UK sector, we believe a more ambitious initiative is needed to encourage more widespread giving to universities, and shift in attitudes towards more concerted fundraising from both institutions and donors.

The Government should launch a modified match-funding scheme, building on the 2008-11 initiative. Only then will UK universities be able to build on the promising start that has been made over the last ten years.

Despite the progress that has been made in the last decade, UK university endowments have not been able to match US levels of growth. Partly, this reflects the smaller size of the endowments and the more conservative approaches to managing them. Universities in both countries felt the impact of the financial crash in 2008/9. Harvard and Yale experienced significant declines of 30% in one financial year. Oxford and Cambridge were also affected, but the management of their endowment funds relied less heavily on hedge funds and private equity and so they did not see the same dramatic declines.

However, as with the previous version of the match-funding scheme, consideration should be given to how any budget might be allocated so that it benefits the whole sector and is not swallowed up entirely by Oxford and Cambridge, whose endowments and fundraising activity continues to dwarf that of other UK institutions.

Tax issues

We also believe that a simplification of the tax laws that relate to charitable donations would help encourage more giving to universities. The current Gift Aid system is relatively efficient and easy for standard-rate tax payers, but it is quite complex for those on the higher rate of tax. Relief is shared between the individual and the recipient organisation (the charity claims the 22 per cent standard relief on the donation, while the individual can claim the difference between this and the forty per cent higher tax rate through annual self-assessment).

In the US, donations qualify as a straight deduction from gross income. This is not only more straightforward, but means that donors claim all the tax relief themselves, both of which provide significant incentives to give. There are also a number of mechanisms which allow individuals to donate assets (such as property or shares) to a charity while providing donors with a regular income and tax relief in their lifetime. In the UK there is no such system, which could provide some certainty for both donors and charities.

The UK Government has been reluctant to introduce such reforms, but anything that can be done to make the process of giving to universities more straightforward can only help to increase private support for universities, particularly amongst alumni.