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## **University Fundraising** *– An Update*

**December 2006**

# **Executive Summary**

- Fundraising in the UK has grown during the last three years, underpinned by increased investment in development activities. The results of these efforts are becoming apparent, with universities estimating that they have raised £450 million in philanthropic funds in 2004-05.
- Despite this growth, however, the UK sector continues to lag seriously behind US universities, in terms of funds raised, rates of alumni giving and endowment levels. The gap between the ten largest university endowments in the UK and US, for example, has widened by some £12.5 billion during the last three years alone.
- While progress in the UK is being made, significant fundraising activity remains the preserve of the academic 'philanthropic elite'. Only 13 UK universities raised more than £5 million in 2004-05.
- Only Oxford and Cambridge compare with American universities, raising £185 million in 2004-05, holding endowments totalling £6 billion and achieving alumni giving rates of 10 per cent. The remaining UK higher education institutions have a combined endowment of £1.9 billion, on average raised £1.6 million each and have annual giving rates of approximately one per cent.
- The Government's £7.5m matched funding scheme to build development capacity within the sector was a welcome step forward, but was too limited to have a significant impact.
- We believe now is the time for a step change to prompt the shift in attitudes needed both within universities and among potential alumni donors. The model for UK institutions should be US state universities which, 25 years ago, raised very little from voluntary giving. However, through a combination of investment in fundraising activities and matched funding schemes introduced by many States, they now raise a significant proportion of their revenue from donations. Similar progress is possible in the UK, if we embrace the giving and investment culture witnessed across the Atlantic.

- In particular, we urge the government (and universities) to:
  - Introduce a matched funding scheme for private donors, whereby the government allocates an equal sum of money to universities for donations raised, capped at, say, £1-5 million per institution
  - Simplify tax laws to encourage annual giving, so that higher rate tax payers can simply deduct donations over a certain level from their gross income
  - Introduce planned giving vehicles which allow individuals to transfer assets to universities whilst providing donors with a regular income and tax relief in their lifetime
  - Give high level university leaders (such as Chancellors and Vice Chancellors) a clear fundraising role, and appoint development professionals at the most senior levels
  - Publish more systematic and transparent reporting to monitor fundraising performance

# **Introduction**

In May 2003 the Sutton Trust published a report comparing the fundraising activities of UK and US universities, in particular looking at the value of endowments held by institutions. This found a huge divide between the countries: not only did US institutions hold significantly larger endowments than their UK counterparts, both in absolute terms and in relation to student numbers, but the rate of growth was markedly higher in the US too. There was also evidence that UK universities had extremely low alumni giving rates compared with a range of US institutions, from state universities to the Ivy League elite.

In June 2003 the Government set up a taskforce on increasing voluntary giving to higher education, which reported in May 2004. The report produced a series of recommendations to boost fundraising and philanthropic giving among UK universities. These included: a call for a matched funding scheme for institutions to boost fundraising capacity, and the future consideration of matched funding for donations to universities; a request that the Government consider simplifying the tax system so that higher-rate tax payers could reclaim full income tax relief on charitable donations; and a call on universities to give those in senior positions a stronger development role.

This report is a review of the philanthropic health of UK universities three years on. We consider the in-roads made in terms of giving senior university figures a fundraising brief; the recruitment of fundraising professionals; alumni giving rates; and endowment growth. The report also offers an initial appraisal of how the academic sector and the Government have responded to the taskforce's report.

In a climate of limited state funding and increasing global competition for universities, the issue of fundraising has never been more critical. Income from private gifts can provide the much needed revenue for major building projects and other academic activities, as well as boosting endowment levels so that institutions are less reliant on funding from government in the longer term. Importantly for the Trust, independent financial health is crucial for institutions to promote fair access among students, by enabling them to fund generous bursaries and ambitious outreach programmes.

We are extremely grateful to the Ross group of university development directors and the Council for Advancement and Support of Education (CASE) for sharing sector wide results of their survey on gift revenue. We are also grateful to Mary Blair of the London School of Economics, Tania Jane Rawlinson of Bristol University, John Dellandrea of Oxford University, and Professor Eric Thomas, vice chancellor of Bristol University, for their comments on the issues covered by this report.

The data used in the endowments analysis is taken from updated editions of the sources used previously: the *Chronicle of Higher Education* for the US, and the *Higher Education Financial Yearbook* for the UK. To remove the effect of variations in the exchange rate over time, all US dollar figures have been converted to Sterling at a rate of \$1.9 to £1 (the 2003 report used an exchange rate of \$1.6 to £1).

# Fundraising and alumni giving

## Latest fundraising figures

UK universities are recording increasing levels of private donations and gifts according to the most recent survey of philanthropic activity across the sector by the Ross Group of university development directors. The survey found that in total the 75 institutions responding to the survey raised £350 million in new gifts in 2004-05 (covering both cash donations and financial commitments for future years). The group estimates that the entire UK sector raised £450 million in 2004-05.

While there are no directly comparable figures for previous years, development professionals believe these levels of donations far surpass those generated by the sector in the past. The figures from the Ross Group survey also reveal the cost-effectiveness of the recent investment into fundraising activities: on average one pound is generated for every 28 pence spent on philanthropic work.

## Recruitment issues

These figures signal the emergence of an expanding cadre of development professionals across the sector, underpinned by the Government's £7.5 million matched funding scheme to develop capacity in this area.

In fact one concern expressed by some of the leading fundraisers in the sector is that the rapid expansion of development offices has outstripped the supply of suitably qualified development professionals. It is currently an employees market, with salaries rising significantly and universities having to recruit from the US and Canada. In some universities this has had the unfortunate effect of fuelling further scepticism of the value of fundraising among academics -- many of whom are paid much less than senior development professionals.

Another concern in this fledging market is that very few senior university figures (such as vice chancellors, chancellors, principals) have been given a clear fundraising remit, which was one of the key recommendations of the taskforce's report. It would be a considerable boost to a university's fundraising efforts if, for instance, its chancellor was paid to undertake development activity for two or three days each week. Not only would such a move generate more revenue, it would also help to underline the key role of development work in delivering the university's overall academic priorities.

Related to this point, is the paucity of development professionals at the most senior levels in university administration. We could only identify two fundraising appointments at the pro-vice-

chancellor level (Oxford and Edinburgh universities) in the sector. The current generation of vice-chancellors are generally much more aware of fundraising opportunities, but more senior level appointments are needed to inculcate the cultural change needed at the very top of universities. Only then is it likely that fundraising will emerge as a central accepted activity in academic life in the UK.

### **Comparisons with US**

To put the UK's figures into perspective, the latest figures for the US show that Harvard alone raised over £310 million in 2004-05, and total private giving to the US higher education sector was £13.5 billion in 2004-05. Perhaps a fairer UK-US comparison would take into consideration total student numbers in each sector, but even then the gulf remains huge.

Even the most ambitious campaigns launched in the UK, meanwhile – for example Cambridge University's bid to raise £1 billion by 2012 – are of a much smaller scale than the leading fundraising drives announced across the Atlantic. Harvard, Stanford and Columbia universities have all recently unveiled fundraising drives to generate well in excess of \$4 billion (or £2.1 billion) -- over more ambitious timeframes.

A common characteristic of the UK and US fundraising sectors is – albeit on different scales – the existence of a philanthropic elite. The UK scene is predictably dominated by Oxbridge, which raised £185 million of the estimated £450 million raised through private giving. But there are also a select group of 13 institutions that raised more than £5 million each in 2004-05. The overall fundraising figures for the UK mask very low fundraising returns at many institutions, suggesting that much of the sector is yet to tap in to the potential revenues of philanthropic work.

### **Alumni giving rates**

These patterns are also observed for annual alumni giving rates. The Ross group's survey provides the first comparable figures from the UK sector on the percentage of former university students who donate to their institution. It found that only nine institutions reported giving rates of three per cent or more, and a sector average of one per cent. We also know that Oxford and Cambridge record giving rates of around 10 per cent. Importantly, very few UK universities ask their contactable alumni, every year, to make a donation.

These figures contrast with much higher levels across the Atlantic. The giving rates for US state universities, for example, can be up to 30 per cent and are typically around 15 per cent, and most universities make a point of contacting their alumni annually. Meanwhile the Ivy League institutions demonstrate levels of annual giving which place them amongst the most

effective fundraising operations in the world. The latest statistics for Princeton reveal an alumni giving rate of 61 per cent. And Yale, Harvard and Stanford have recorded figures of 45, 44 and 39 per cent respectively.

### **Reporting of fundraising performance**

We welcome the survey undertaken by the Ross group, which does give cause for optimism. Nevertheless, we urge the sector to introduce as soon as is possible more systematic and transparent reporting of fundraising activities on a university level, so that instructive comparisons can be made for future years.

## Endowment levels

Unsurprisingly the gap in endowment levels between the UK and US remains stark. As in 2002, the total value of the ten largest endowments held by American universities, at almost £54 billion, dwarfs that held by UK universities, at just £6.9 billion. Harvard's endowment of £13.4 billion is £5.5 billion more than all the UK universities combined. Yale, Stanford, Texas and Princeton also have individual funds of over £5 billion – higher than any UK institution.

Only two UK universities –Cambridge and Oxford – have endowments over £1 billion and would be placed seventh and eighth respectively in the US top ten. Edinburgh's endowment of £180 million, third on the UK list, would place it 146th in the US rankings. By contrast, the US's 500<sup>th</sup> largest university endowment – at the New York Upstate Medical University – would come 29<sup>th</sup> in the UK ranking.

**Table 1: Ten largest university endowments, by country**

<b><u>United Kingdom</u></b>			
	£m	2005	2002
1	Cambridge	3,200	2,000*
2	Oxford	2,800	2,000*
3	Edinburgh	180	140
4	Manchester <sup>1</sup>	120	78
5	Glasgow	120	91
6	Liverpool	110	79
7	KCL	103	83
8	UCL	90	73
9	Reading	81	n/a
10	Birmingham	68	55
-	Surrey	n/a	62
	<b>TOTAL</b>	<b>6,872</b>	<b>4,661</b>

  

<b><u>United States</u></b>			
	£m	2005	2002
1	Harvard	13,400	9,000
2	Yale	8,000	5,500
3	Stanford	6,400	4,000
4	Texas	6,100	4,500
5	Princeton	5,900	4,400
6	MIT	3,500	2,800
7	California	2,700	2,200
8	Columbia	2,700	2,200
9	Texas A&M	2,600	2,000
10	Michigan	2,600	n/a
	<i>Emory</i>	n/a	2,400
	<b>TOTAL</b>	<b>53,900</b>	<b>39,000</b>

\*Best estimate for 2002

In fact, the top ten US and UK funds (minus the Oxbridge colleges) have grown at a similar rate since 2002 (please see Appendix 1). However because the UK figures relate to a significantly smaller base, the absolute gap (including the Oxbridge Colleges) has widened by some £12.5 billion in the last three years alone.

<sup>1</sup> Manchester University merged with UMIST between the two studies.

Leading fundraisers in the UK urge caution when making comparisons between endowment levels—particularly in relation to the huge funds overseen by the Ivy League institutions. One reason is that endowment growth is a feature of more mature fundraising sectors, driven in particular by legacy funds and planned giving — often received following a lifetime of donations. But there may also be cultural differences, with UK donors more interested in contributing to immediate academic or infrastructure projects, rather than being associated with endowments.

Interestingly, some vice-chancellors in the UK have also argued that the endowment levels are unhealthily high at some US institutions, and that more money should be freed up for immediate spending.

Yet the US has strength in depth too, with significant endowments not just in a handful of the most prestigious and well-known institutions, but throughout the HE system. Oxbridge accounts for 76% of the value of the UK's 100 largest university endowments, whereas the top two US university endowments make up just 14% of the US total. If the top two universities in each country are discounted, the average value of the largest 498 US endowments – at £267 million – is now 14 times greater than that of a UK top 98, at £19 million.

**Table 2: Aggregate value of largest 500 US and 100 UK endowments**

	2005		2002	
	UK Top 100	US Top 500	UK Top 100	US Top 500
Total (£m)	7,800	154,000	5,700	106,100
Average per institution (£m)	78	309	57	212
Average without top two (£m)	19	267	17	195
% help by top two	76%	14%	70%	13%

Many assume that the US sector has always had access to such large funds, but this is not the case. In 1981 Harvard was the only US university with a \$1 billion endowment; 25 years later, there are 56 such US universities, including many state universities. Even if inflation is taken into account, this is a significant rate of growth which indicates what can be achieved with the right resources, support and culture.

Going forward, the model for UK institutions should be US state universities which, 25 years ago, raised very little from voluntary giving. However, through a combination of investment in fundraising activities and matched funding schemes introduced by many States, these institutions now raise a significant proportion of their revenue from donations and have built up large endowments.

## **Endowment per student**

It is also often assumed that US universities hold vast endowments because they are massive institutions. However, as our earlier report made clear, this is not so, particularly in the case of the private US universities, with which our own state-funded institutions must compete. Harvard, for instance, has fewer students than Edinburgh, but over eighty times the endowment; and although Princeton's endowment is almost as big as the combined total of the UK top 10, it actually has fewer students than any of these universities.

**Table 3: Endowment per student at the highest endowed universities**

	<b>United Kingdom</b>		Endowment per student (£)	
		Students (2005)	2005	2002
1	Cambridge	18,400	172,700	120,000
2	Oxford	18,400	150,000	119,000
3	Edinburgh	20,100	9,100	8,000
4	Glasgow	18,600	6,200	3,600
5	Manchester	32,500	3,800	5,200

	<b>United States</b>		Endowment per student (£)	
		Students (2005)	2005	2002
1	Princeton	7,100	830,700	684,200
2	Yale	11,500	696,800	499,000
3	Harvard	19,800	677,100	463,400
4	Stanford	14,500	443,000	301,300
5	Texas	185,000	33,000	26,700

The UK's highest endowment per student ratio, at Cambridge, is £172,700; Princeton has almost five times this amount, at over £800,000 student. Edinburgh – third on the UK list – holds just £9,100 of endowment per student, whereas Harvard – third on the US list – has over 70 times this figure, at £680,000 a student. Even the state-funded, multi-site University of Texas has an endowment per student level higher than any other UK university, bar Oxbridge, despite being significantly larger.

## **Investment strategies**

One of the problems with the current low levels of endowments in the UK is that they lead to risk-averse and often less successful investment strategies. The main reason endowments in the US have enjoyed such significant rates of growth – over twice that of UK funds between 1994 and today – is because universities have invested them imaginatively in a diverse portfolio of funds. UK universities, by contrast, have been reluctant to move away from more traditional investments, which offer low risks but also low returns.

There are positive signs that this mindset is changing and that UK universities are recognising the need to broaden their investment portfolios. In early 2006 three Oxford colleges (Balliol, St Catherine's and Christ Church) announced they were setting up a new fund management group, Oxford Investment Partners, to manage their pooled assets. Lord Lawson, the chairman of the partnership, has already announced that it will be investing part of the portfolio in hedge funds, private equity and commodities. Cambridge University is following a similar path, and in November 2006 appointed a chief investment officer from the world's biggest listed hedge fund company. It may make sense for groups of universities with smaller endowments to pool their funds so that they attract the interest of big fund managers and can be invested more strategically.

## Next steps

### Matched funding scheme

Following the success of the Government's £7.5m matched funding scheme to build fundraising capacity in the UK sector, we believe the time is now ripe to launch a more ambitious initiative to encourage more widespread giving to universities, and provide the impetus for a much needed shift in attitudes towards fundraising and giving both within academe and among potential donors.

Despite the progress being made, there remains a widespread view that philanthropic work is only an add-on to other central, more important, university activities. There is still a feeling that asking for money is something that is just not done in the UK. What is often forgotten of course is that the UK universities' reliance on state funds is a relatively new, post war phenomenon; in fact much of the UK academic sector was created in the past only thanks to charitable benefactions.

We urge the Government to launch a scheme to match pound for pound the private donations made to universities. Only then will UK universities stand any chance of genuinely building on the promising start that has been made during the last three years – and of starting to narrow the gap in performance with the US sector. Such schemes have proved to have a catalytic impact in other countries, as revealed in a recent research report carried out by the Council for Advancement and Support for Education for the Sutton Trust<sup>2</sup>.

The report found that matched funding schemes are widespread and effective. It showed how initiatives in the USA, where 24 states had created programmes as of 2002, and similar programmes in Canada, Hong Kong and Singapore have increased gifts to universities by matching them with public funds. Research found that between 2000 and 2003 US schemes raised \$363m (£191m), of which \$276m (£145m) came from private sources - a return on state funding of over 300%.

The benefits of a similar UK-based scheme would be manifold: raising more money to support teaching and research, providing scholarships and bursaries to help widen access and address shortages in the sciences and other endangered subjects, and perhaps boosting academic pay.

However, some consideration would have to 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 universities, whose level of fundraising dwarfs that of other UK institutions. As a starting point,

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<sup>2</sup> Select Government Match Fund Programmes at [www.suttontrust.com](http://www.suttontrust.com)

we would suggest that such a scheme be limited to between £1-5 million per institution, which would mean the total cost for the 125 universities in the UK would range between £125–600 million. Consideration should also be given to tying allocations to targets for improving alumni giving rates.

### **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 may be efficient and easy for standard-rate tax payers, but it is 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, while the individual is entitled to claim the difference between this and the forty per cent higher rate through self assessment).

In the US, by contrast, donations qualify as a straight deduction from gross income. This is not only 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 vehicles for planned giving, 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.

The UK Government has so far proved reluctant to introduce such reforms, but making the process of giving to universities more straightforward – and letting donors see the immediate tax benefits – can only help to increase private support, particularly amongst high-earning alumni.

**Appendix 1: Growth of endowments 1994-2005**

<b>United Kingdom</b>							
		<b>Value 1994 (£m)</b>	<b>Value 2002 (£m)</b>	<b>Value 2005 (£m)</b>	<b>% Annualised 1994-2002</b>	<b>% Annualised 2002-2005</b>	<b>% Annualised 1994-2005</b>
1	Cambridge*	360	460	710	3%	16%	6%
2	Oxford	230	390	560	7%	13%	8%
3	Edinburgh	92	140	180	5%	9%	6%
4	Manchester**	66	78	120	2%	15%	6%
5	Glasgow	71	91	120	3%	10%	5%
6	Liverpool	57	79	110	4%	12%	6%
7	KCL	16	83	103	23%	7%	18%
8	UCL	41	73	90	7%	7%	7%
9	Reading***	32	49	81	5%	18%	9%
10	Birmingham	39	55	68	4%	7%	5%
	<b>TOTAL</b>	<b>1,004</b>	<b>1,498</b>	<b>2,142</b>	<b>5%</b>	<b>13%</b>	<b>7%</b>

\* Oxbridge figures exclude colleges

\*\* Manchester due to merger

\*\*\* Earliest figure is 1996

<b>United States</b>							
		<b>Value 1994 (£m)</b>	<b>Value 2002 (£m)</b>	<b>Value 2005 (£m)</b>	<b>% Annualised 1994-2002</b>	<b>% Annualised 2002-2005</b>	<b>% Annualised 1994-2005</b>
1	Harvard	3,300	9,000	13,400	13%	14%	14%
2	Yale	1,900	5,500	8,000	14%	13%	14%
3	Stanford	1,400	4,000	6,400	14%	17%	15%
4	Texas	2,400	4,500	6,100	8%	11%	9%
5	Princeton	1,800	4,400	5,900	12%	10%	11%
6	MIT	940	2,800	3,500	15%	8%	13%
7	California	920	2,200	2,700	12%	7%	10%
8	Columbia	1,000	2,200	2,700	10%	7%	9%
9	Texas A&M	1,100	2,000	2,600	8%	9%	8%
10	Michigan	530	1,800	2,600	17%	13%	16%
	<b>TOTAL</b>	<b>15,290</b>	<b>38,400</b>	<b>53,900</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>