Funding an Alliance: From Project Grants to Institutional Budgets

The Economics of a Consortium That Must Pay for Itself

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An alliance is financed as a project and costs as an institution, and the difference between the two is the source of its financial fragility. This article examines the cost structure of a consortium, the four revenue sources available to it, and the accounting practices that conceal a deficit until a grant ends. It argues that an alliance should be budgeted as a permanent cost centre with a published annual cost, and that the transition from project funding to institutional budgeting is the decision that determines whether an alliance survives its funder.

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1. Two Accounting Worlds

A project has a budget that is granted and spent, and an institution has a budget that is planned and defended. The two are governed by different habits, and an alliance lives in both.

The project's accounting is retrospective: costs are eligible or not, and the question at the end is whether the money was spent as agreed. The institution's accounting is prospective: the question is what the next year will cost and who will pay for it. An alliance that has been managed in the first mode discovers, when the grant ends, that it has no answer to the second question, because nobody has ever computed what it costs to run.

The grant asks what the alliance will do; nobody

The discovery is not a failure of management. It is the predictable consequence of a funding instrument that rewards the elaboration of a

work plan and does not require the calculation of a steady-state cost. The alliance has been asked what it will do in three years and never what it will cost in the fourth.

asks what it costs to exist

2. The Cost Structure

The cost of an alliance has four components, and only one of them is visible in a project budget.

The first is the coordination office, which is a small permanent staff: a director, a programme manager, an administrator, a communications officer. The second is the academic time released for the alliance, which is the largest component and the least visible, because it is spent by people who are paid by their institutions for other work. The third is the mobility, which is the component that funders do pay for and which is therefore the one that the alliance can expand.

The fourth is the infrastructure: the platform, the data environment, the shared services, the registries. It is small in money and large in dependency, because an alliance without it cannot operate and the dependency is on a partner's goodwill or a provider's contract.

The composition of the cost explains a common pathology. An alliance that has been funded by a mobility grant optimises for mobility, since mobility is what the instrument pays for, and underinvests in coordination and infrastructure, since those are the components that the grant treats as overhead.

3. Four Revenue Sources

An alliance can be financed from four sources, and the balance among them determines its independence.

The first is the programme grant, which is time-limited, competitive and conditional on a work plan that the alliance must invent in order to be funded. The second is the partners' contributions, which are in cash or in kind, are rarely costed, and constitute the alliance's only unconditional money.

The third is fee income, from executive programmes, joint masters with a fee, or services to third parties, and it is the source that gives the alliance a margin and a client. The fourth is philanthropy, which is

available in some systems and almost absent in others, and which carries the risk of a donor's agenda.

The alliances that have survived their funders have in common a shift toward the second and third sources: a partner contribution that is a line in each institution's budget, and a service that produces income. The shift is uncomfortable, because it converts an alliance from a funded activity into a cost that each rector must defend in her own council.

4. The Deficit That Is Not Counted

The financial fragility of an alliance is usually invisible until it becomes acute, and the reason is an accounting convention.

The academic time released for the alliance is not charged to it. A professor who spends a third of her year on a joint programme is paid by her institution, and the institution's budget records her salary under teaching, so the alliance's accounts show a programme that costs a coordinator's salary and nothing else. When the coordinator's grant ends and the institutions are asked to contribute, the true cost appears for the first time, and it is between four and ten times the figure that the board has been reading.

The instrument that addresses this is a shadow budget: a statement of what the alliance would cost if every hour were paid for, prepared annually and reported with the actual budget. The shadow budget is not an accounting document and it is not used for billing; it is the instrument that allows a board to decide whether a programme is affordable before the funder's question forces the decision.

Component	In the grant	In the shadow budget
Coordination	Partly	Fully
Academic time	No	At a defined rate
Mobility	Yes	Yes
Infrastructure	As overhead	Fully
Transition cost	No	Named

Table 1 Cost components and their visibility

5. The Transition Cost

Every alliance carries a transition cost that no grant funds: the money required to move from a project to a permanent arrangement.

The cost has three parts. The first is the legal work of creating a vehicle, which is small in money and long in time. The second is the bridge: the period between the end of one grant and the beginning of the next, during which the coordination office must be paid by somebody. The third is the investment in the infrastructure that a permanent operation requires, which the project budget treated as a consumable.

The bridge is the part that ends alliances. A consortium whose grant ends in December and whose partners have not budgeted for January loses its coordinator, and the loss is not recoverable, because the person who held the programme's memory has taken a job elsewhere. The instrument is a commitment by the partners, signed before the grant's final year, to fund the coordination office for the bridge period at a stated amount.

6. Budgeting as Governance

A budget is a statement of priorities, and an alliance whose budget is written by a funder has surrendered the statement to the funder.

The instrument that restores it is a three-year institutional budget, adopted by the board, with four lines: coordination, academic time, infrastructure and a reserve. The budget should be published to the partners' senates, since it is the document that makes the alliance's cost visible, and it should be revised annually with a variance report that states what was not spent and why.

The alliances that have adopted such a budget report an effect that is political rather than financial. The conversation in the board changes from what the funder will pay for to what the partners are willing to sustain, and the second conversation is the one that an institution can survive.

7. Conclusions

An alliance is financed as a project and costs as an institution, and the gap between the two accounts is the deficit that nobody counts. The transition from one to the other is a decision that the partners must

take while the grant is still running, because after it ends the decision is taken by events.

Three conclusions follow. A shadow budget should be prepared annually, since the cost of academic time is otherwise invisible until the funder's question exposes it. The bridge period should be funded by a signed commitment before the final year of a grant, because the coordinator's departure is the loss that alliances do not recover from. And the three-year institutional budget is the instrument that converts an alliance from a funded activity into an institution, which is what the word governance means when it is used about money.

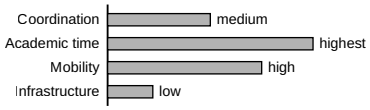

Figure 1 Cost of an alliance by component

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Biography:

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