



**FAITH**

**“Increasing the Financial Autonomy and  
Accountability at public higher education institutions in  
Kosova”**

544142-TEMPUS-1-2013-1-AT-TEMPUS-SMGR

**Report D1.3**

**“Comparative analysis of Financial  
Management practises”**

WP	WP1
WP-Leader - Partner Name	<b>Saarland University</b>
Name of the contact person	Jörg Hormann
Date	November 6 <sup>th</sup> , 2014



## Table of contents

I. Introduction .....	3
II. The development of steering Higher Education in Europe .....	4
III. Mechanisms of allocating funds to HEIs .....	5
a. General aspects.....	5
b. Lump-sum (global) budgets .....	6
c. Basic funding and performance based funding .....	6
d. Managing incomes of the HEIs.....	8
IV. Instruments of strategic planning.....	8
V. Analysis of the project's partner countries.....	10
a. The Austrian perspective .....	10
b. The German perspective .....	13
c. The Spanish perspective .....	16
VI. Conclusions and prospects .....	18
List of figures .....	20
List of references .....	21



## **I. Introduction**

**FAITH** is the acronym of Increasing the Financial Autonomy and accountabiliTy at public Higher education institutions in Kosova. The project concept was conceived with sufficient scope to target real needs gaps identified, without being unattainable. It is quite obvious that public HEIs in Kosovo are seeking to become more flexible, autonomous and transparent with regards the Financial Management (FM) of their institutions. And also the rest of the stakeholders, mainly the Ministry of Education, and the Kosova Accreditation Agency, agree on the need improving this current situation with specific actions.

Within the scope of the first work package WP1 of the project, this publication tries to give an overview of the different approaches to handle financial management in the partner institutions of the countries participating in the project. In three study visits the approaches of Austria, Germany and Spain were introduced and discussed, including the political backgrounds, the relation between government and Higher Education Institutions and the decision structures within the Institutions. All these surrounding conditions influence the manner of how financial management is handled at the partner institutions. The analysis of these practises at the partner Institutions therefore will be an important basis for the further development of project steps as well as for the identification of best practises that might be usable in the Kosovar Higher Education System.



## II. The development of steering Higher Education in Europe

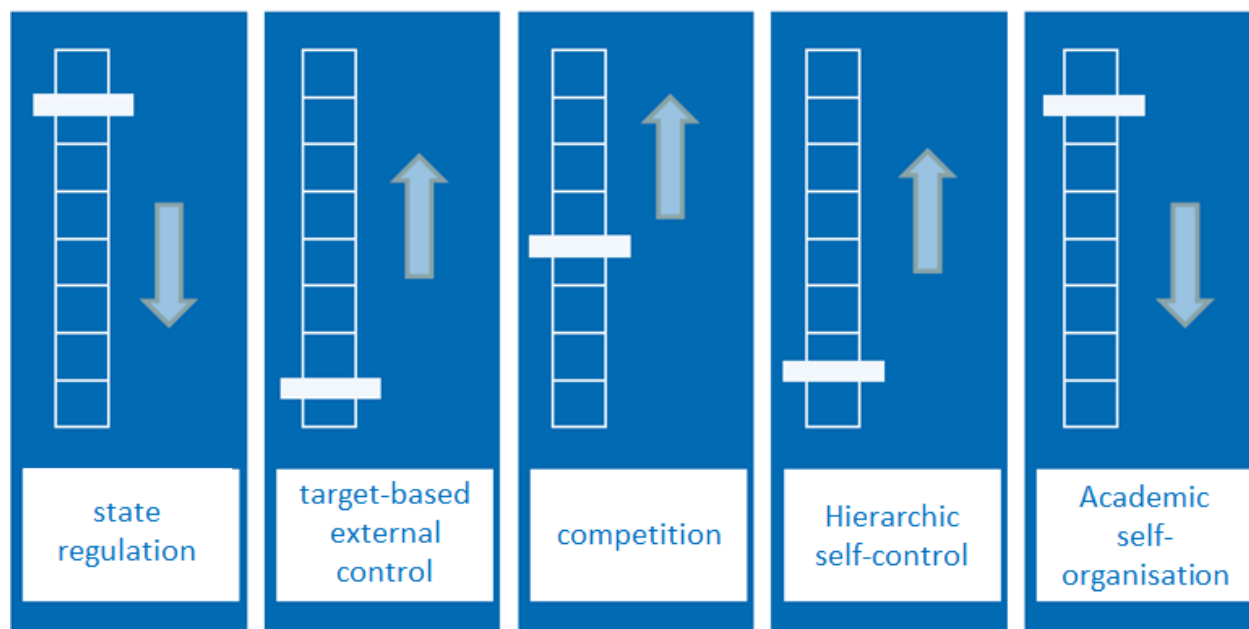
In most European countries the way how Higher Education is steered by the Governments, and therefore how financial management is handled within the Institutions, has changed a lot within the last 10 to 15 years. This process known as **New Public Management** not only affected Higher Education, furthermore it aimed to a change of the way of dealing with most institutions of public administration.

The goal was to shift away from a traditional sovereign control of the state to a more collaborative model of management. Amongst others, one reason which lead to the New Public Management approach was the pressure on public finances to save expenses. Therefore, one of the most important expectations to this reform was to make public institutions act more entrepreneurial in order to be more effective.

In the case of Higher Education this lead to a model, in which Institutions should become legally autonomous organisations and state regulation should be reduced to a minimum. This was based on the hypothesis that autonomous Universities would perform better than state directed universities. Acting as business-like organisations would increase efficiency, lead to better performance in research and education and finally, would make Universities able to better use their financial resources. Furthermore, important objectives of the new model were the increase of competition amongst Higher Education Institutions as well as the creation of incentives, which would encourage the Institutions to reach certain goals that were considered important by the state.

The New Public Management approach coincided with another important reform in Higher Education throughout Europe: the Bologna Reform. Thereby other strategic aspects of managing Higher Education got into the focus. It became more and more important that Universities had to consider qualitative aspects of teaching and education within their strategic profiles. Before the Bologna reform there was a strong "academic oligarchy", especially at Universities, where the academic units were solely responsible for the design of their study programs and the contents of research. Nowadays a system of accreditation exists, which obligates the Higher

Education Institutions to design high-quality study programs, which should meet the needs of the society.



**Figure 1:** Changes in steering HEIs towards New Public Management (Dölle 2012)

### III. Mechanisms of allocating funds to HEIs

#### a. General aspects

The ideas and changes caused by the New Public Management approach also had a strong impact on managing the allocation of public funds to Higher Education Institutions. In previous times the funds were mostly transferred to the Institutions by using multiple small-sectioned budget-lines (line-item budgets, cameralistics). With this model the state was able to steer the Higher Education Institution by apportioning single budgets to the different organisational units of the Institutions, in some cases the budgets were even broken down to single cost centres. Thus, steering the Institutions had been strongly input-oriented at that time. Caused by the change to a more output-oriented system of steering, it became obvious that also the mechanisms of allocating budgets would have to be adapted.



## **b. Lump-sum (global) budgets**

An approach that now is used in many countries with autonomous Higher Education Institutions is the idea of lump-sum budgets. In ideal case this means that a Government only uses two budget lines for the allocation of funds:

- Consumptive budget (for all expenses)
- Budget for investments

This implicates that Higher Education Institutions can act largely independent within these budgets (distribution of budgets to organisational units, intended use of the funds) but within frameworks agreed with the government. A very important difference to older mechanisms of funding is the possibility to transfer unused budgets into the following fiscal year. The model of lump-sum budgets gave the Higher Education Institutions new possibilities of using funds and established a lot more flexibility in their action.

## **c. Basic funding and performance based funding**

New approaches in financing Higher Education aim to the objective to ensure a linkage between the amount of state subsidies to the desired duties and performances of Higher Education Institutions. These models were supposed to clarify that Higher Education Institutions receive money for specific purposes, which should be in-line with the duties that the public considers as the basic duties of Higher Education institutions. On the other hand, funding should be able to create incentives at the Institutions to develop new spheres of activities, mostly related to new and innovative fields of science.

Therefore as a rule most financing systems are mixed systems:<sup>1</sup>

- A high proportion of state funds for the basis financing of operating HE institutions

---

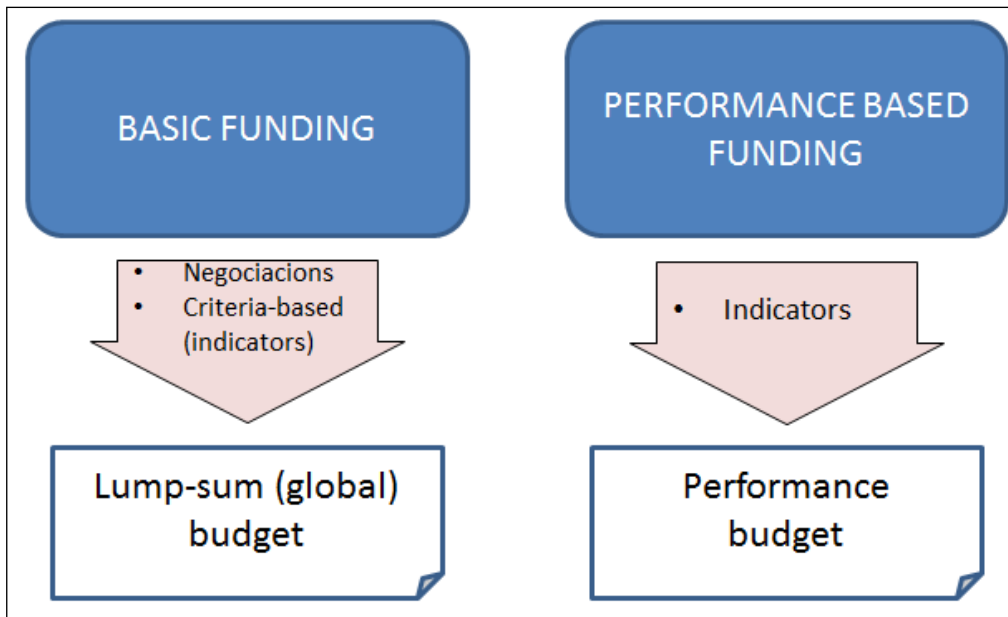
<sup>1</sup> c.f. MEST, Höllinger



- State funds used to subsidise research by means of competition
- Project-specific state contract funds for major investments (buildings, improvement of the infrastructure)
- Performance based budgets either as part of the basic budgets or as independent budgets

It turns out that those mixed systems consist of two major models:

- Basic funding:
  - Ensures the basic duties of HEIs (education and research)
  - Gives basic financial security to HEIs
  - Is mostly determined by negotiations and can also be based on indicators
- Performance based funding:
  - Shall establish commercial incentives
  - Shall encourage HEIs to act entrepreneurial
  - Shall create competition amongst HEIs
  - Is determined by performance indicators



**Figure 2:** Fundamental funding models in HE (Hormann, 2014)

#### d. Managing incomes of the HEIs

Another important aspect, which was elaborated within the framework of the New Public Management approach, was the handling of incomes, which are generated by the HE Institutions themselves. In former times all incomes from non-public sources were considered as part of the governmental budget. These incomes included, amongst others, third-party funds for specific research project, tuition fees and incomes from selling goods and services. In the former world of small-sectioned budget lines the HE Institutions did not have the freedom of deciding on how to use these additional incomes, even if they were forwarded to the HEIs in unchanged amounts. Thus, the motivation of HE Institutions on raising external funds was not very high. Nowadays most countries with autonomous HEIs consider external incomes as belongings of the HEIs, which can be used for their specific purposes.

#### IV. Instruments of strategic planning

Caused by the higher grade of Autonomy introduced in New Public Management, Higher Education Institutions now need to fulfil tasks that were in the

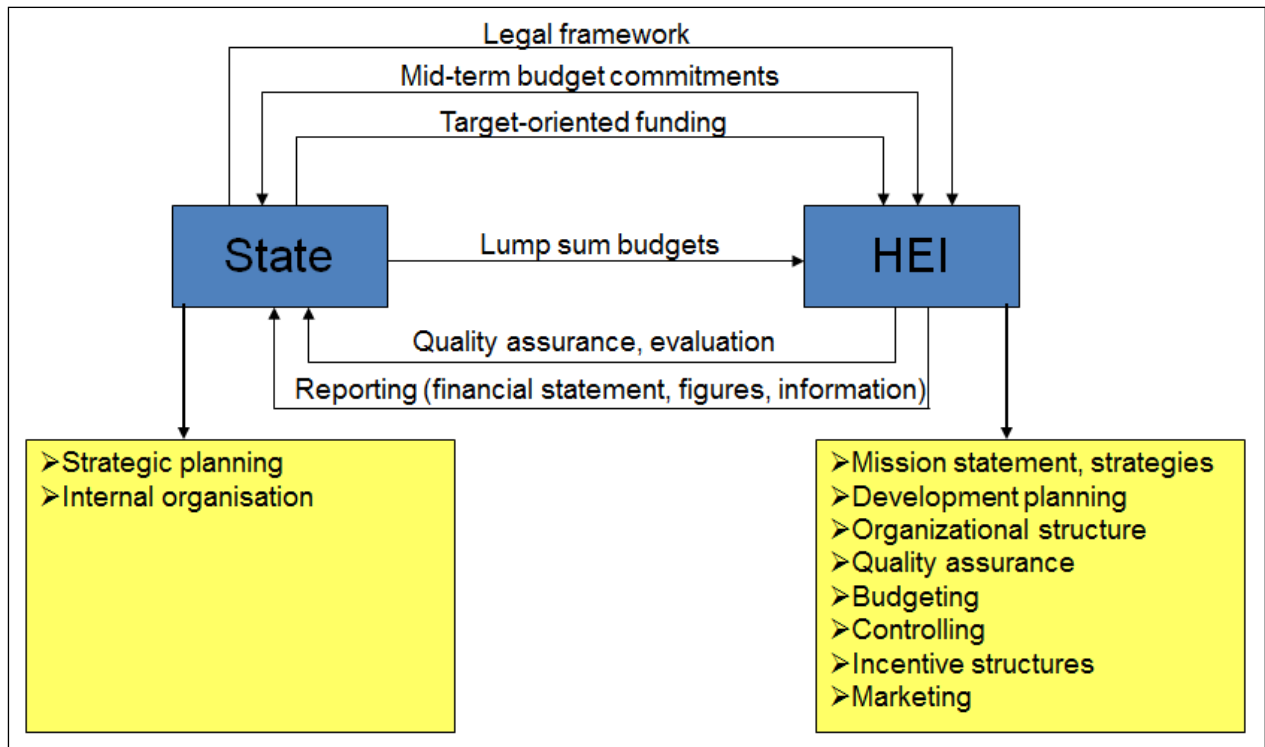




responsibility of the governments before. The basis of all action therefore should be a clear and transparent strategic planning system, which should combine strategic goals of the Institutions and the main stakeholders. In this respect one needs to understand that Autonomy does not mean that Higher Education Institutions can act autonomous in all circumstances. In particular, the definition of tasks and duties as well as the fundamental strategic focusses of Higher Education Institutions must be framed in collaboration with the governments as the main stakeholders. Therefore, in most countries with an autonomous system of Higher Education, specific instruments are used to fulfil these needs. Bringing the mechanisms of strategic planning together with the models of funding Higher Education, one of the most important model is based upon the principle of Management by objectives (MBO). The state or government on the one hand side, and the HE Institution on the other hand side define their goals and objectives in a participative way by negotiations. As a result, both sides will have to conclude target agreements, which can be described as contracts between the governments and the HE Institutions. These agreements contain the basic strategic goals of the HE Institutions to define a profile in research and education and contain the budget for a fixed period. With a target agreement the state can carry out its duty of steering the HE Institution at a more general level and the HE Institution can act autonomously within the framework set in the agreement on how to achieve the consented targets.

Besides those very general aspects target agreements can also get more specific, therefore they are often used to agree upon single activities of the HE Institutions, qualitative and quantitative targets and the description of categories of performances (= definition of a 'portfolio of products'). In order to ensure accountability, modalities of reporting and descriptions of instruments of self-control of the HEIs are also fixed in the agreements.

In order to fulfil its functions in an autonomous system of Higher Education, both sides do have several tasks and duties to perform, which can be defined closer in target agreements.



**Figure 3:** Framework of interrelations between the state and an HEI in an autonomous system (Hormann, 2014)

## V. Analysis of the project's partner countries

### a. The Austrian perspective

The recent model of steering autonomous HE Institutions in Austria was established in a reform in the year 2002, which can be put under the superordinate concept of New Public Management. In this reform, the former 200 years old administration tradition was replaced by a system of autonomous HE Institutions, which obtained full legal capacities to run themselves as independent corporate entities.

With respect to the steering of University development most issues nowadays are regulated in performance agreements between the Ministry of Science, Research



and Economy and the HE Institutions. There are only few aspects, which still need to pass governmental bodies<sup>2</sup>:

- Parliament passes the overall budget for the Universities
- The state decides by law on the following:
  - Tuition fees
  - Admission to study courses
- Decisions on major investments (buildings, large laboratories) are reserved for the minister

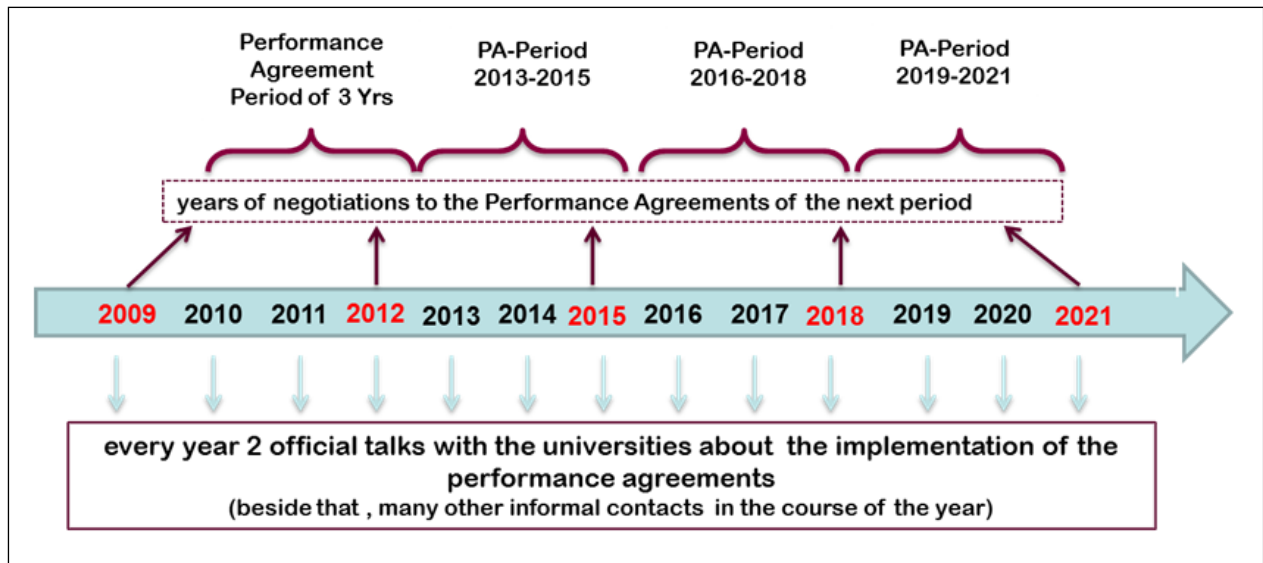
Since the year 2007 the performance agreements cover a period of three years and contain, in particular, the negotiated services of the University and the amount of governmental money.

Within the legal framework and based on the target agreements the Universities can act autonomously and decide about the appointment of personnel and the internal allocation of funds. The universities can decree own statutes, they have the right of self-organisation in terms of structure and workflows, and they can freely design the contents of study programs and research profiles. One important fact is that, since the reform took effect, new staff members of the Universities no longer are employed as civil servants but now are employees of the Universities, which gives the Universities more flexibility in their human resources planning.

In case that the performance agreements cannot be reached, there is a special arbitration procedure with a committee, which tries to mediate between both parties.

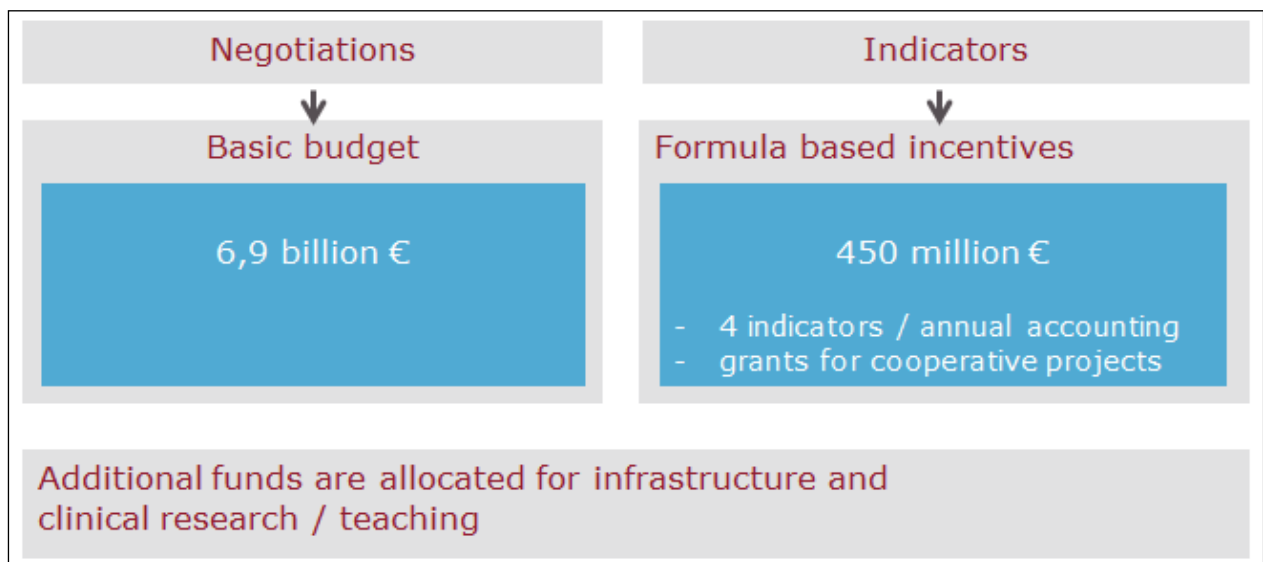
---

<sup>2</sup> c.f. Pichl (2014)



**Figure 4:** Governance schedule for negotiating performance agreements in Austria (Pichl, 2014)

In terms of the allocation of public funds to HE Institutions, Austria uses a mixed model as a combination of basic funding and performance based funding. In the current budget cycle about 6.9 billion € are assigned to the Universities as basic budgets in which the modalities are negotiated in target agreements. Another 450 million € are distributed by use of indicators as performance based budgets.



**Figure 5:** Overall University budget of the Republic of Austria, budget cycle 2013-2015 (Tummeltshammer, 2014)



### Universities of Applied Science:

The University of Applied Sciences - Studies Act is the central legal basis for the universities of applied sciences in Austria. The basic principle of the law is to define the general framework of organisation, funding, and implementation of education programs at Bachelor and Master level. The federal government controls the development of the FH sector consistently through financial support. The funding regime for the universities of applied sciences is laid down in a strategic plan by the Ministry of Science, Research and Economy on the development and financing of the "Fachhochschulsektor". The plan sets out the number of student places that the Federal Government is willing to finance over a certain period of time. Each university of applied sciences in Austria receives a global budget from the Federal Government based on an input-oriented per capita formula. These funded study places are awarded in a competitive selection process. The basis for the allocation of federal money is a funding contract for each study program. In the so called per capita funding model the Austrian Government contributes between 6.500,-- and 7.900,-- EUR per student per academic year, depending on the field of study. Each semester the university has to report the exact number of active students to the Ministry of Science, Research, and Economy, as money is awarded for "filled" study places only.

### **b. The German perspective**

In Germany there does not exist one homogenous model of financing Higher Education. Caused by the political system of federalism, the 16 federal states of Germany are responsible for Higher Education. Therefore there are many different models of governing and financing Higher Education Institutions in Germany. There is one federal law (Hochschulrahmengesetz, HRG), which regulates the very basic conditions of Higher Education in Germany, but the more precise arrangement of conditions lies in the responsibility of the several federal states. Since an amendment of the HRG in the year 1985, and continuing in the year 1998, an important topic of the legislation was the deregulation of governmental influence to Higher Education. This made it possible, that in almost every federal

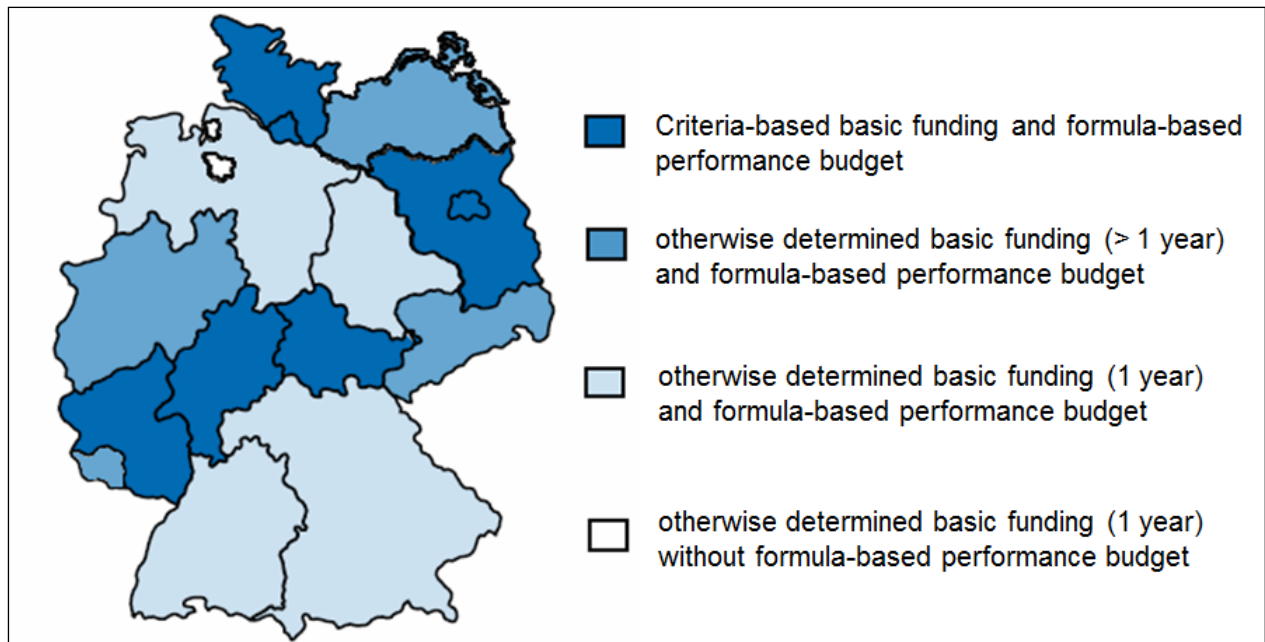


state in Germany Higher Education Institutions were transformed into legally independent entities with a high grade of autonomy. In the German political system it is also important to know, that the federal government is not allowed to participate directly in the financing of the HE Institutions, which leads to the fact that the federal states are the most important funders of Higher Education. Nevertheless several projects exist in which federal money is provided for matters of Higher Education. The most important projects of this kind are the "Exzellenzinitiative", which provides money for excellence clusters and graduate schools for selected Universities, and the "Hochschulpakt 2020", which supports the financing of a growing number of University entrants since the year 2009.

87.5 % of the public expenses for Higher Education are brought up by the federal states, 12.5 % by the federal government.<sup>3</sup> Therefore it is obvious, that the HE Institutions will mostly have to deal with the states in which they are situated. The models of the allocation of state money have changed a lot within the last 10-15 years. As described previously, throughout the New Public Management Process, nowadays almost every federal state in Germany has changed from line-item budgets to lump-sum (global-) budgets. Like in Austria, the most common model used is a combination of a basic funding and a performance based funding. The several models mostly distinguish in the way how the basic budget is determined. In all federal states negotiations between the governments and the HE Institutions are a vital part of the process. In some federal states target agreement, that are exclusively based on negotiated budgets are used, other federal states try to determine the basic budgets by the use of indicators.

---

<sup>3</sup> Statistisches Bundesamt, Bildungsfinanzbericht 2012



**Figure 6:** Models of the allocation of budgets to HE Institutions in Germany (Dölle, 2012 (modified))

The indicators, which are used in the federal states with criteria-based basic funding vary, but can be classified into three categories:

1. Input-oriented indicators: e.g. number of professors
2. Output-oriented indicators: e.g. number of graduates
3. Demand-oriented indicators: e.g. number of students

In the performance based funding usually an additional budget exists within a federal state. This budget is distributed to all HE Institutions of this state with the use of performance indicators. This implicates that the HE Institutions of this state compete against each other. This approach meant to increase competition between the HE Institutions and intended to create incentives to increase performance.



Teaching	<ul style="list-style-type: none"> <li>• Graduates, success rates</li> <li>• Students within regular duration of study, capacity utilization</li> <li>• First-year students</li> </ul>
Research	<ul style="list-style-type: none"> <li>• Third-party-funds</li> <li>• Doctoral degrees</li> <li>• publications</li> </ul>
Equal opportunities	<ul style="list-style-type: none"> <li>• Proportions of women: students / graduates / doctorates</li> <li>• Proportions of women: academic staff</li> </ul>
Internationality	<ul style="list-style-type: none"> <li>• Teaching: international students, incomings, outgoings</li> <li>• Research: Humboldt-scholarship holders, international cooperation projects</li> </ul>
Misc.	<ul style="list-style-type: none"> <li>• Awards</li> <li>• Patents</li> <li>• Ranking results</li> </ul>

**Figure 7:** Common indicators used for performance based funding in Germany (Hormann, 2014)

### c. The Spanish perspective

The Spanish system of governing and financing Higher Education is, similar to Germany, affected by a political system of 17 autonomous regions within the country. In difference to Germany the main policies and regulatory mechanisms are centralised and lie in the responsibility of national authorities, whereas the financing of the HE Institutions is regionally based. An important fact is that the autonomy of Higher Education Institutions is based in the Spanish constitution, which gives the HE Institutions a wide range of freedom in developing rules for all kinds of management. In the year 2007 a new law strengthened the autonomy of Universities, which lead to modifications of policies, government structures, and funding priorities.<sup>4</sup>

All HE Institutions in Spain raise tuition fees, which are determined annually and rate between 700€ and 1,400€ per year.

---

<sup>4</sup> Madeleine, 2014





The incomes of Public Universities in Spain consist of public incomes (75-80%) and private incomes (25-20%), which cover the basic fields of action (education, research and continuous education).<sup>5</sup> Tuition fees cover about 12-15% of the costs for education.<sup>6</sup> Furthermore, Spanish Universities can generate incomes with study programs subject to charge, especially in the postgraduate and continuous education area. Therefore external organisations like foundations, which are controlled by the Universities, are commonly used to manage these products.

The models of the allocation of public funds to HE Institutions vary in each autonomous region of Spain. Most regions use models which are similar to the previously described models of basic funding and performance based funding. In fact there are some autonomous regions, mostly those regions with only one public University, which use incremental models where the funds are based on the needs of the Institutions, but within the majority of the regions models are used, in which the basic funds as well as the performance based funds are determined by different criteria. The funds usually consist of structural funds, target-oriented funds and funds for the improvement of quality. The arrangement of the financing model as well as the amount of funds is written down in multi-annual plans, which are signed by the regional governments and all Universities of one region. Some models are quite complex and consist of several categories to determine the total funds. As an example, in the autonomous region of Catalonia a model is used that covers four large blocs:<sup>7</sup>

1. Fixed budget (15% of the total budget)

- Fixed budget, equal for all Universities: to cover basic costs (e.g. Rectorate)
- Fixed budget determined by the needed number of full-time professors and needed credit points

---

<sup>5</sup> Guerrero Boned, 2012

<sup>6</sup> *ibid.*

<sup>7</sup> *ibid.*



## 2. Basic budget (60,3%)

- Determined by indicators in four categories: Needed credit points with a subject-related price, doctoral programs, investigation, area of the University covered by buildings

## 3. Derived budget (9,4%)

- To cover costs, which are not caused by decisions of the University (e.g. social security)

## 4. Strategic budget (15,4%)

- E.g. for the implementation of new study programs

This model tries to distribute the governmental budget of the autonomous region of Catalonia to all Universities within this region, using criteria that aim to cover almost all spheres of activity of the Universities. Besides this model that mainly focuses on quantitative aspects, there is a trend to determine budgets by negotiated target agreements, which are supposed to also consider qualitative aspects in education, research and management. Therefore for each target several indicators are used to measure the grade of the target achievement.

## **VI. Conclusions and prospects**

The comparison of the three countries of this project shows, that in those countries models for the financing of Higher Education are used, which try to determine the budgets in a participative way in the relation between the governments and the HE Institutions. In all cases one can observe a shift from input-oriented funding to a more output-oriented approach within the last 10-15 years. The basic models are similar in principle, they vary in the methods that are used to determine the amount of the budgets (indicators, price-models, negotiations). Furthermore there are some differences in the grade of autonomy that allows the HE Institutions to generate own incomes, especially in the field of education.



Another important aspect is that the HE Institutions in the three countries do have the freedom to set up their own management structures (within determined frameworks) to manage the use of the budgets in their own responsibilities.

But there is also an obvious fact to observe in European countries: The financial crisis caused a high pressure on public finances which leads to the necessity of reducing the public spending. In some countries it is observable that this leads to initiatives of the governments to reduce the grade of autonomy of HE Institutions in order to return to more detailed steering by the governments. This might be caused by the fact that the management tools used within the HE institutions to ensure accountability and transparency are in some cases not as sufficient as they should be. Even though lots of different indicators are used to measure performance it is still nearly impossible to represent qualitative aspects of the performances. Another aspect is the pricing of the "products" that HE Institutions "sell". As the output of HE Institutions is mostly immaterial it is quite complicated to properly identify the costs of the several performances of the Institutions and to put "price-labels" on them. Therefore it is also not always easy for the governments as the main stakeholders of the HE Institutions to identify if their money is well invested and they do not really know what they are "buying" with their funds.

This makes it obvious that, within the scope of the FAITH project, a very important fact would be the consideration of tools for securing accountability, which would enable the Kosovar Government to keep track of the activities of the HE Institutions in order to clarify the important benefits that HE Institutions will contribute to the development of the country. In combination with autonomous structures of self-management of the HE Institutions and security of the budgets this seems to be the way to a successful implementation of the actual reforms in the country.



## List of figures

Figure 1: Changes in steering HEIs towards New Public Management (Dölle 2012)

Figure 2: Fundamental funding models in HE (Hormann, 2014)

Figure 3: Framework of interrelations between the state and an HEI in an autonomous system (Hormann, 2014)

Figure 4: Governance schedule for negotiating performance agreements in Austria (Pichl, 2014)

Figure 5: Overall University budget of the Republic of Austria, budget cycle 2013-2015 (Tummeltshammer, 2014)

Figure 6: Models of the allocation of budgets to HE Institutions in Germany (Dölle, 2012 (modified))

Figure 7: Common indicators used for performance based funding in Germany (Hormann, 2014)



## List of references

Dölle, Frank (2012): Finanzierung der Hochschulen in Deutschland. HIS-HF Institut für Hochschulforschung.

Ferrer, Virginia (2014): Internal Management Control of the University of Alicante. Presentation at the 3<sup>rd</sup> study visit within the framework of the FAITH-project, Vienna, 08 September 2014.

Guerrero Boned, Santiago (2012): Financiación y gobierno de las Universidades públicas.

Hormann, Jörg (2014): The German model(s) of allocating state money to Higher Education Institutions. Presentation at the 2<sup>nd</sup> study visit within the framework of the FAITH-project, Saarbrücken, 30 June 2014.

Hormann, Jörg (2014): Towards the global budget: Target negotiations and University development planning. Presentation at the 2<sup>nd</sup> study visit within the framework of the FAITH-project, Saarbrücken, 02 July 2014.

Madeleine, Carolina (2014): Financial management of HEIs – the case of the University of Alicante. Presentation at the 3<sup>rd</sup> study visit within the framework of the FAITH-project, Vienna, 08 September 2014.

Ministry of Education, Science and Technology in Kosovo, Höllinger, Sigurd: Financing of Higher Education, Overall HE-Financing and State-to HE-Institution-Funding, Institutional Funding Mechanisms, Student Financing, Proposals for Legislation, Recommendations for a Development Plan, Model Structure for a Performance Agreement.

Pichl, Elmar. Federal Ministry of Science, Research and Economy of Austria (2014): Steering autonomous Universities in Austria, Legal Framework, Perspectives & Challenges. Presentation at the 1<sup>st</sup> study visit within the framework of the FAITH-project. Vienna, 31 March 2014.

Tummeltshammer, Georg. Federal Ministry of Science, Research and Economy of Austria (2014): Steering autonomous Universities in Austria: Evolution of the Public University Funding System. Presentation at the 1<sup>st</sup> study visit within the framework of the FAITH-project. Vienna, 01 April 2014.