

# Recent European trends in higher education financing

Dr. Jussi Kivistö

# European trends and Latvia

- Exploring the main European trends in HE financing help to **position** Latvian HE financing model to a wider European context
  - shows Latvia's current position vis-à-vis these trends (**inconsistent, consistent with, ahead of**)
- European trends **are not a criteria** to evaluate the strengths and weaknesses of Latvian model
  - what is popular/good in Europe **does not automatically** mean that it would be good for Latvia
  - European funding structures and models are bound to their **national contexts** (society, economy, etc.) and it is reasonable to assume Latvian situation differs from these contexts

# European trends: major themes

- Financial autonomy
- Resource diversification
- Public funding models
- Student funding

# Financial autonomy

- Financial autonomy refers to a university's ability to decide freely on its internal financial affairs (EUA)
- Higher level of institutional autonomy is often expected to improve the performance of HEIs and higher education systems as a whole
- Basic assumptions:
  - autonomous HEIs are better equipped to generate additional resources and efficiency gains
  - autonomous HEIs are more responsive to the needs of their operating environment (setting and achieving their strategic priorities)
- **Trend:** Many European countries have granted HEIs more freedom to manage their resources and develop new income-generation policies

DIMENSIONS OF FINANCIAL AUTONOMY (Source: EUA 2011)	European trend	Status quo in Latvia	<i>Position of Latvia</i>
<b>HEIs freedom in internal allocation of public funding (basic funding)</b>	<ul style="list-style-type: none"> <li>• <b>Block grants</b> in 25 systems, line-item budgets in 3 systems</li> <li>• <b>No restrictions</b> on the internal allocation of the block grant in 14 systems</li> <li>• <b>Some restrictions</b> for internal allocations of the block grant in 11 systems</li> </ul>	<ul style="list-style-type: none"> <li>• One-year <b>block grant</b> split into sub-categories</li> </ul>	<i>Consistent with European trend</i>
<b>HEIs ability to keep a surplus</b>	<ul style="list-style-type: none"> <li>• HEIs are <b>able to keep</b> a surplus in 27 systems, not able to keep in 4 systems</li> <li>• <b>No restrictions</b> in keeping a surplus in 15 systems</li> <li>• <b>Some restrictions</b> in keeping a surplus in 12 systems</li> </ul>	<ul style="list-style-type: none"> <li>• State funded HEIs <b>can keep</b> a surplus with an approval of external authority (MoES + other Ministries)</li> </ul>	<i>Consistent with European trend</i>
<b>HEIs ability to borrow money</b>	<ul style="list-style-type: none"> <li>• HEIs are <b>able</b> to borrow money from financial markets in 23 systems, not able to borrow in 7 systems</li> <li>• <b>No restrictions</b> for borrowing in 7 systems</li> <li>• <b>Some restrictions</b> for borrowing in 16 systems</li> </ul>	<ul style="list-style-type: none"> <li>• Latvian HEIs are <b>able</b> borrow money with an approval of external authority (MoES + other Ministries)</li> </ul>	<i>Consistent with European trend</i>

DIMENSIONS OF FINANCIAL AUTONOMY (Source: EUA 2011)	European trend	Status quo in Latvia	<i>Position of Latvia</i>
<b>HEIs ability to own their buildings</b>	<ul style="list-style-type: none"> <li>• HEIs are able to own their buildings in 22 systems, not able to own in 6 systems</li> <li>• No restrictions in selling assets in 8 systems</li> <li>• Some restrictions in selling assets in 14 systems</li> </ul>	<ul style="list-style-type: none"> <li>• Latvian HEIs own their buildings</li> <li>• Latvian HEIs can sell their buildings (restrictions apply in State property)</li> </ul>	<i>Consistent with / ahead of European trend</i>
<b>HEIs ability to set the salaries of their staff</b>	<ul style="list-style-type: none"> <li>• HEIs are not able to set salaries freely in 28 systems, salaries can be set freely in 5 systems</li> </ul>	<ul style="list-style-type: none"> <li>• Latvian HEIs are free to set the salaries of their staff (above the minimum wage)</li> </ul>	<i>Ahead of European trend</i>
<b>HEIs ability to set the level of tuition fees</b>	<ul style="list-style-type: none"> <li>• In most European systems, HEIs ability to set the level of tuition fees is restricted by the external authority, especially in the case of domestic/EU students.</li> </ul>	<ul style="list-style-type: none"> <li>• Latvian HEIs are able to set their fees at all levels</li> </ul>	<i>Ahead of European trend</i>
<b>Overview on financial autonomy</b>	<ul style="list-style-type: none"> <li>• The overall level of financial autonomy across Europe has increased significantly over the last 15-20 years</li> </ul>	<ul style="list-style-type: none"> <li>• HEIs have a high level of financial autonomy, Latvia was ranked 4th position in EUA's "University Autonomy Scorecard" (2011)</li> </ul>	<i>Ahead of European trend</i>

# Resource diversification

- Generation of additional income through new or existing funding sources that contribute to balancing the income structure of an institution (EUA)
- **Trends:**
  - European HEIs have been encouraged to diversify their revenues and reduce their dependence on public funding
  - Over the past 10 years, the relative proportion of HEI income coming from private sources has increased in most of the European countries
  - This trend is likely to continue in coming years, due to the constraints in maintaining or increasing public spending on higher education
  - EU funding: extra resources, but cannot compensate basic funding

RESOURCE DIVERSIFICATION	European trend	Status quo in Latvia	<i>Position of Latvia</i>
Public / private funding diversity	<ul style="list-style-type: none"> <li>• <b>Private expenditure</b> on HEIs has <b>increased</b> in 16 out of the 19 European OECD countries between 2000 and 2010</li> <li>• <b>EU21 average</b> of private expenditure on HEIs was <b>23%</b> in 2010 (Source: OECD 2013)</li> </ul>	<ul style="list-style-type: none"> <li>• Private funds (tuition) accounted total <b>24%</b> and “other funds” (other than EU funding) <b>19%</b> of Latvian HEI revenue in 2011  (Source: MoES 2012)</li> </ul>	<i>Consistent with / ahead of European trend</i>
Diversity of sources of funding	<ul style="list-style-type: none"> <li>•Funding of European public HEIs in 2008: <ul style="list-style-type: none"> <li>-<b>67%</b> from <b>public sources</b> through operational grants (in 1995: 78%)</li> <li>-<b>12%</b> from <b>private households as tuition fees</b> (in 1995: 8%)</li> <li>-<b>21%</b> as <b>third-party funds</b> (all project and contract funding received from public, international and private sources) (in 1995: 15%)</li> </ul> </li> <li>• On average, <b>EU funding</b> ranges <b>3-4%</b> (EUA 2011) to <b>over 10%</b> (EUA 2013) of the total income of HEIs.  (Source: Jonbloed et al. 2010)</li> </ul>	<p>Latvian HEIs funding structure on average (2011):</p> <ul style="list-style-type: none"> <li>-<b>34%</b> <b>state budget</b> funding</li> <li>-<b>24%</b> <b>tuition fees</b></li> <li>-<b>42%</b> “<b>other sources</b>” (out of which 22% were from international funding, mainly EU Structural Funds)</li> </ul> <p>(Source: MoES 2012)</p>	<i>Inconsistent with / ahead of European trend</i>

MODELS OF PUBLIC FUNDING	European trend	Status quo in Latvia	<i>Position of Latvia</i>
Structures of public funding model	<ul style="list-style-type: none"> <li>• Three typical <b>pillars</b> for allocating <b>public funding</b> for HEIs can be found from most of the European countries:               <ol style="list-style-type: none"> <li>(1) <b>basic funding</b>;</li> <li>(2) <b>performance funding</b>; and</li> <li>(3) <b>innovation-/profile-oriented funding</b></li> </ol> </li> <li>• <b>Performance contracts / target agreements</b> are in use in 15 out of 22 European systems (Source: EUA 2013)</li> </ul>	<ul style="list-style-type: none"> <li>• Latvia applies only the pillar of “<b>basic funding</b>” in allocation of core public funding to HEIs</li> <li>• Performance contracts are applied between HEIs and MoES</li> </ul>	<i>Inconsistent with European trend</i>
Basic funding and performance-based funding: modalities	<ul style="list-style-type: none"> <li>• <b>Basic funding:</b> Formula-based approaches with demand-based <b>input-oriented</b> indicators are substituting <b>incremental funding</b> with <b>historical emphasis</b> (mixed approach is common)</li> <li>• <b>Performance-based funding:</b> Majority of systems consider their funding allocation mechanisms at least partially performance-based In 2008, 24 European systems considered output-related drivers important or extremely important (in 1995: 6 systems). (Source: Jongbloed et al. 2010)</li> </ul>	<ul style="list-style-type: none"> <li>• Latvia applies <b>formula funding</b> mainly with <b>input-oriented</b> indicators (funded study places, research equipment)</li> <li>• The overall public budget of the HEIs remains largely constant and develops <b>incrementally</b> on a <b>historical basis</b> (rather than demand)</li> <li>• Current funding model does not offer <b>significant incentives</b> for greater <b>performance- and output-orientation</b></li> </ul>	<i>Inconsistent / consistent with European trend</i>

MODELS OF PUBLIC FUNDING	European trend	Status quo in Latvia	<i>Position of Latvia</i>
<p>Innovation-/profile oriented funding: modalities</p>	<ul style="list-style-type: none"> <li>• Innovation-/profile-oriented funding is used more frequently to support national policy priorities and development of institutional profiles.</li> <li>• The relevance and weight of the innovation-/profile-oriented funding component is likely to increase; especially in the form of competitive and targeted funding.</li> </ul>	<p>The innovation-/profile-oriented funding component in Latvia is currently composed of a number of different types of smaller and larger <b>third-party funding streams</b> (including EU Structural Funds) but <b>not included</b> in the system of state funding.</p>	<p><i>Inconsistent with European trend</i></p>

# Student funding

- Among the most controversial issues in the sphere of financing higher education due to equity concerns
- Student contributions: no fees, universal fees (up front or deferred), dual track fees systems
- Student support: grants, loans, subsidies (universal, merit-based, need-based) and state funded study places
- **Trend:** No clear European trend in student contributions or support systems

STUDENT SUPPORT	European trend	Status quo in Latvia	<i>Position of Latvia</i>
<p><b>Tuition fees and other fees</b></p>	<ul style="list-style-type: none"> <li>• <b>A large diversity</b> of fee systems, no clear European trend (varies according to levels of study, type of students, nationality of students...)</li> <li>• Domestic/EU, full-time, bachelor level: <ul style="list-style-type: none"> <li>- No tuition fees systems (8 systems)</li> <li>- Universal tuition fees or dual track tuition fees systems (rest of the systems)</li> <li>- (Source: Eurydice 2013)</li> </ul> </li> <li>• Majority of students pay fees in 28 systems, minority of students pay fees in 13 systems (2009/10) (Source: Eurydice 2011)</li> <li>• During the past years, some systems have abolished fees, whereas some systems have introduced fees or raised the level of fees</li> </ul>	<ul style="list-style-type: none"> <li>• Latvia applies a <b>dual track tuition fee</b> system, fees are collected at all levels, from full-time and part time students, and from domestic/EU and foreign students</li> <li>• <b>49% of all students</b> (full-time and part-time) <b>pay fees</b> (37% of full-time and 97% of part-time students) (Source: MoES 2013)</li> <li>• Latvian Bachelor student's <b>monthly expenditure on fees</b> was 19% as % of all total monthly expenditure in 2009 (4<sup>th</sup> highest among 21 countries) (Source: Eurostudent IV 2010)</li> <li>• Compared to many other European systems, <b>a relatively high fees</b> are charged in Latvian HEIs (le.g. in state HEIs, lowest fees at undergraduate level over 600 euros, highest fees over 5000 euros. (Source: MoES 2013)</li> </ul>	<p><i>No clear European trend</i></p>

STUDENT SUPPORT	European trend	Status quo in Latvia	<i>Position of Latvia</i>
<p><b>Student support</b></p>	<ul style="list-style-type: none"> <li>• <b>A large diversity</b> of student support systems, no clear European trend</li> <li>• Diversity of models mixing and matching different types of <b>grants, loans, and other subsidies</b> allocated by applying <b>universal, merit-based and/or need-based</b> criteria</li> <li>• <b>Need-based grants</b> are most frequently used in European higher education systems, but still 20 out of 39 European systems still apply also <b>merit-based</b> schemes (Source: Eurydice 2011)</li> <li>• Publically-supported student loan systems exist in 2/3 of European countries</li> <li>• <b>Share of student support expenditure</b> of all public higher education expenditure in was <b>18%</b> on average in <b>27 EU countries</b> in 2010 (Source: Eurostat)</li> </ul>	<ul style="list-style-type: none"> <li>• Latvian higher education system offers mainly <b>merit-based</b> support in the form of <b>state funded study places</b>, and relies more on government-subsidized, <b>mortgage-style loans</b> offered by commercial banks, rather than grants</li> <li>• Roughly a <b>half (51%)</b> of all students (full-time + part time) are studying in state funded study places (63% of full-time) (Source: MoES 2013)</li> <li>• <b>Only 15%</b> of students studying in <b>state funded study places received state scholarships</b> (Source: MoES 2014)</li> <li>• <b>Share of student support expenditure</b> of all public higher education expenditure in was <b>12%</b> in <b>Latvia</b> in 2010 (Source: Eurostat)</li> </ul>	<p><i>No clear European trend</i></p>

# European trends and Latvia: final overview

EUROPEAN TREND	POSITION OF LATVIA
Financial autonomy	<i>Ahead of European trend</i>
Revenue diversification	<i>Mixed</i>
Public funding model	<i>Inconsistent with European trend</i>
Student support	<i>No clear European trend</i>