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## TABLE OF CONTENTS

INTRODUCTION .....	5
EXECUTIVE SUMMARY .....	6
CONSTITUTIONAL POSITION .....	9
Legal status .....	9
Formal relationships between Government and universities .....	10
Funding .....	10
Governance and management arrangements.....	13
Asset ownership and staff employment .....	15
CURRENT POLICY CONTEXT .....	17
Position of higher education within the national regional economy .....	17
Current and future role in economic and social development.....	19
Key financial political issues and policy dilemma's.....	20
DESCRIPTION OF POLICY INSTRUMENTS.....	25
Management approach.....	25
Sector coordination .....	25
Internal control system.....	26
External control.....	28
Accreditation.....	30
ANALYSIS OF SECURING FINANCIAL VIABILITY EVALUATION OF EFFECTIVENESS OF POLICY INSTRUMENTS.....	32
Background Stichting Vangnet HBO.....	32
Early Warning System .....	32
Phases of alert .....	36
Relationship between politics, professional universities and Vangnet HBO.....	36
Evaluation of the performance of Vangnet .....	37
ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND RISKS .....	39
Strengths .....	39
Weaknesses .....	39
Opportunities .....	40

Threats .....	40
REFERENCES .....	42
APPENDIX A - FUNDING IN DETAIL.....	43
Funding of universities of professional education .....	43
Funding of research-intensive universities .....	45
APPENDIX B - BACKGROUND INFORMATION .....	47
APPENDIX B - BACKGROUND INFORMATION .....	48
APPENDIX C - KEY ISSUES RELATED TO FINANCIAL VIABILITY .....	52
APPENDIX C - KEY ISSUES RELATED TO FINANCIAL VIABILITY .....	53

## INTRODUCTION

### Background

1. This report is a contribution to the comparative international research of the Higher Education Funding Council for England (HEFCE) and the OECD Program on Institutional Management in Higher Education (IMHE).
2. The project of the HEFCE and IMHE Program is a contribution to the development of higher education policy and management in a number of countries by learning from each other's experiences and by ensuring the effectiveness of institutional financial governance and management.
3. This report describes the position of universities of professional education and of research-intensive universities in the Netherlands. The emphasis in this report is on higher education and more specifically on universities of professional education.

### Report structure

4. This report is structured following the project organisation's template.
  1. **Constitutional position:** describes the legal status of universities of professional education and research-intensive universities, and the relationship between government and universities.
  2. **Current policy context:** presents current and future position of universities of professional education and research-intensive universities.
  3. **Description of policy instruments:** gives an overview of approaches and instruments of internal and external control.
  4. **Analysis of securing financial viability:** evaluation of effectiveness of policy instruments.
  5. **Analysis of strengths, weaknesses, opportunities and threats.**
5. Three appendices have been added. Appendix A gives more detailed information about the funding of higher education in the Netherlands. Appendix B contains contextual and background information. Appendix C offers information on key issues related to financial viability of universities in higher education.

## EXECUTIVE SUMMARY

### Constitutional position

6. The constitutional position of Dutch higher education is established in the Higher Education and Research Act. The universities of professional education have their own managerial responsibility within the framework described in this Act. The Minister of Cultural Affairs, Science and Education (Minister of Education) is responsible for higher education, which consists of universities of professional education (HBO) and research-intensive universities (WO). The Minister of Agriculture is responsible for agriculture-related higher education.

### State funding

7. Universities of professional education receive state funding, consisting of a lump sum budget and a dedicated budget. The lump sum budget is divided among the universities based on their market share. Apart from state funding, universities of professional education are financed by tuition fees, contract activities (research and work for third parties) and other revenues. In 1994, the universities received full ownership of and responsibility for their own estate properties.

8. Daily practice shows that the system of state funding is not always straightforward. Some universities of professional education active in arts are confronted with an unclear government policy about state funding, making it difficult for them to manage their financial situation. Moreover, a few universities of professional education were recently accused of irregularities. They received state funding for students who were not properly registered. It shows that the interpretation of allocation rules is quite complicated.

### Current policy

9. Every four years, the Minister of Education publishes a policy paper (White Paper), called HOOP. Higher education is currently confronted with the following main problems:

- a. Shortages of higher educated personnel and increasing demands for retraining and extra training.
- b. Increasing importance of international developments in education and research.
- c. Increasing importance of information and communication technology (ICT) in education and in society in general.

10. Continuous internationalisation requires education at an internationally comparable level. In order to achieve this, a Bachelor-Master structure will be introduced in both universities of professional education (HBO) and research-intensive universities (WO). This new structure will help to create one European market for education inclusive of a European system of accreditation.

11. The spending plans of the new government (summer 2002) show substantial cuts in the budget dedicated to (higher professional) education. Funding will become even more dependent on the measurable results of the number of students and the number of graduates. Apart from the imposed cutbacks, the Minister of Finance put in a proposal for an act to administer cash management for state funded universities.

### **Internal and external control**

12. Government regulations directed at companies in the market sector are made applicable more and more for universities of professional education and research-intensive universities. This analogy is visible in control systems operating in higher education. A supervisory board and a representative advisory body execute internal control. External control is executed by the responsible Ministers, by accreditation panels and by trusts like *Stichting Vangnet HBO*.

13. In this report special attention is paid to the activities of *Stichting Vangnet HBO*. This trust monitors the financial position and continuity of universities of professional education by means of an Early Warning System (EWS). Each year universities are obliged to deliver financial information, which is registered in the EWS. Based on defined financial indicators (referring to solvability, profitability and liquidity) and strategic information derived from the annual report, *Vangnet* qualifies universities of professional education as *going concern*, *alert* or *high alert*. If necessary, *Vangnet* helps universities to improve their financial position. This monitoring system seems to be successful since not one university has formally appealed for financial aid or has gone bankrupt.

14. Moreover *Stichting Vangnet HBO* has created distance between the universities of professional education and the Minister of Education. In the past universities having a (financial) problem requested the Minister for additional financial aid. This was in the interest of the university but harmed the sector as a whole (one university could be helped at the expense of the budget available for the whole sector).

### **Strengths, weaknesses, opportunities and threats**

15. When analysing the Dutch sector for higher education, the following conclusions can be made.

16. On the one hand, the relative independence of universities of professional education forms their strength. However the increasing autonomy has resulted in an increase in the number of internal and external control mechanisms, the universities have gained freedom (and responsibility) to act. But on the other hand, the universities are still dependent on state funding. Because the market for higher professional education is regulated by law, the universities can compete on program offered but not on price. Price competition or price differentiation (by tuition fees) could add an interesting dimension, because it will create the opportunity to focus on identified target groups.

17. The introduction of the Bachelor-Master structure will also increase competition among universities for higher education. Until now competition on the market for higher education

has only taken place on the Dutch market. Moreover the Bachelor-Master structure will influence the accountability to (new) supervisory bodies. This system is still developing.

18. Future risks are especially expected in the financial field. State funding will decrease and will be made more dependent on outcome in terms of numbers of students and numbers of graduates. Universities should actively look for other ways to obtain additional financial means. A shortage of lecturers and researchers is expected to be a serious obstacle towards achieving this goal.

## CONSTITUTIONAL POSITION

19. This chapter offers a description of the constitutional position of universities of professional education and research-intensive universities in the Netherlands.

20. The following subjects have been described:

1. Legal status of universities;
2. Formal relationship between government and universities;
3. Funding of universities;
4. Governance and management schemes and responsibilities in universities;
5. Asset ownership and staff employment in higher education.

### Legal status

21. Since 1993, the constitutional position of Dutch higher education has been regulated in one act: the Higher Education and Research Act (*Wet op hoger onderwijs en wetenschappelijk onderzoek (WHW)*). The Act provides the universities with a statutory framework within which they have to work. The Minister of Education and Cultural Affairs is responsible for the higher educational system (funding, quality, acts, etc.) as a whole, except for agricultural disciplines. They are the responsibility of the Minister of Agriculture. The ministers are not responsible for the individual universities and their specific managerial problems. However, the ministers have to approve of the programs that the universities offer. The universities are responsible for the admissions, organisation, quality and contents of programs offered. The management can be confronted with several problems, such as fluctuation of student loads, managerial problems, funding problems or problems with the continuity of the institute. The attention of the government is mainly directed towards control of procedures and processes of the system as a whole. Key elements are efficient use of state funds, accessibility and coordination between the education offered and the demands of the labour market.

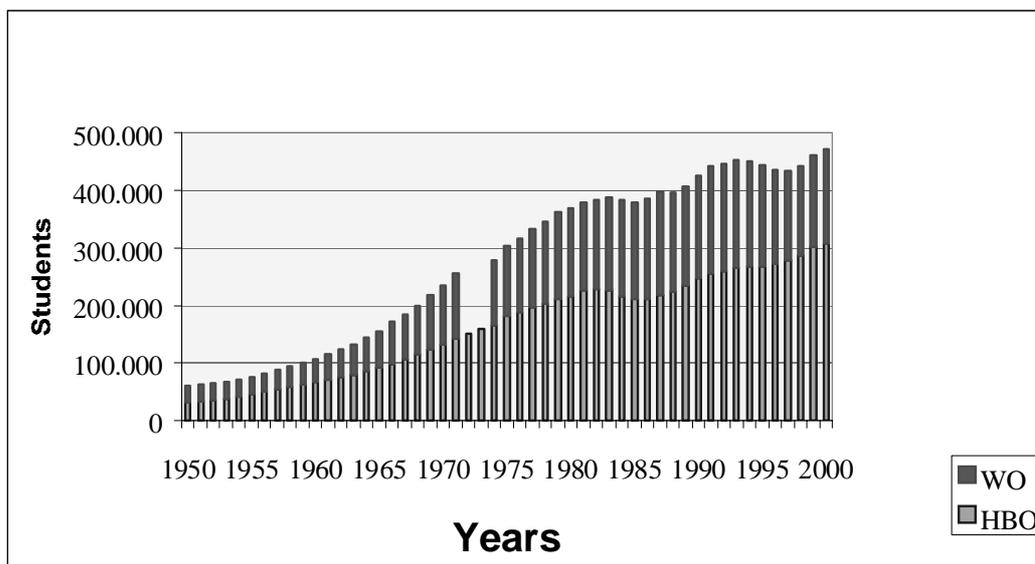
22. However the universities themselves are responsible for the educational quality offered, the quality is also periodically assessed by accreditation panels. The government has authorized them to monitor the quality performance of all Dutch professional universities.

23. The Dutch higher educational system is a binary system with universities of professional education (*Hoger Beroeps Onderwijs (HBO)*), providing professional education, and research-intensive universities (*Wetenschappelijk onderwijs (WO)*), concentrating on academic teaching and scientific research. 47 universities of professional education and 14 research-intensive universities.

24. The universities of professional education are all incorporated by law, but are otherwise private bodies. Most of the research intensive universities are public bodies, but things may change soon. In figure 1 the development of the number of students in is shown. The number of students is increasing and is expected to increase in the next few years. Because the

demographic profile for the student age group is declining, relatively more people are educated at universities.

**Figure 1: Development of number of students subscribed in higher professional education (HBO) and universities (WO)**



Source: [www.cfi.kennisnet.nl](http://www.cfi.kennisnet.nl)

Note: The number of students subscribed in Universities in 1973-1974 is not available

### Formal relationships between Government and universities

25. The relationship between the Dutch government and higher education is determined by law, the *WHW* (the Higher education and Research Act). The Minister of Education defines a framework based on a general policy paper, which is written once every four years. This general policy paper is a medium-term planning called the Higher Education Policy Paper, abbreviated to “HOOP”. HOOP is written with regard to all parties directly and indirectly involved in the educational area. The board of the universities of professional education set their own institutional policies within this framework. HOOP is described in more detail in the next chapter on *Current policy context*.

### Funding

26. The legal basis for funding of universities has been laid down in the Higher Education and Research Act (*WHW*). Funding is enacted by order of the Funding Decree *WHW* and the Regulation for funding higher professional education. A limited number of universities of professional education and/or educational programs is not funded by the government.

27. Since 1994, higher professional universities have been receiving a lump sum budget (corrected for price and wage index) from the Ministry. This funding is based on the branch’s set budget and is divided over the universities by a formula of the universities’ market share, based on the number of students, of the previous two years. It is composed of fixed

components, a lump sum budget per institution and a variable component depending on the number of enrolled students and tuition fees.

28. The allocation system distinguishes a limited number of so called funding profiles. Three profiles are defined representing (groups of) educational programs, such as technique, health care, economics, behaviour and society, language and culture. The educational programs belonging to the same group receive state funding based on similar amount. By determining only a limited number of profiles the Minister has given a certain freedom in allocating state funding within universities. It also implies some cross-subsidisation because the profiles are not optimised. Under circumstances this can cause financial problems in 'mono-profile' universities.

29. On top of the above-mentioned budget, universities receive additional subsidies for projects in the field of innovation, internationalisation, quality improvement, information and communication technology. Already for years the budget available for these additional subsidies is steady at about 4% of total state funding (universities of professional education). The government policy to give additional, dedicated subsidies is meant to stimulate universities to invest in certain fields. Apparently the regular funding system does not allow for such investments. The universities are responsible for the allocation of funds for teaching, research, housing, infrastructure and personnel.

30. The level of government funding for universities of professional education and research-intensive universities is more or less on equal footing. For universities of professional education funding is mainly related to teaching output (enrolment and completion rates). The government grant includes compensation for unemployment benefits and capital. In addition all universities receive a subsidy of about 2% total turnover as a basic research grant. The research-intensive universities receive separate funding for research programs. The budget available for stimulating research activities at the Ministry is divided among the research plans of the universities based on a so called depth and breadth strategy. The focus however is shifting to more attention for innovative research especially at universities for professional education. It is estimated that 36% of the research-intensive university budget is based on teaching and 64% on research activities. These research-intensive universities also receive funds for academic hospitals, if applicable.

31. Higher education is partly funded by commercial activities. These activities make up for approximately 6.5% of the total income of universities of professional education. For research-intensive universities this supplementary source of income has been increasing fast during the past 20 years. It represents about 25% of the university's income for teaching and research (and additional 5% other income)

32. State funding for research activities is decreasing. Research-intensive universities are becoming more and more dependent on enterprises, governmental institutions, programs of the European Union and "collecting-box" funds to be able to do research. These funds collect money from civilians to stimulate research on life endangering diseases. Since state funding for research is proportionally decreasing, this results in bottlenecks in fundamental research.

**Table 1: Funding of higher education**

	<b>Universities of professional education</b>	<b>Research-intensive universities</b>
Lump sum budget	65.0%	65.0%
Tuition fee	18.5%	5.0%
Contract activities	6.5%	25.0%
Other income	10.0%	5.0%
	100.0%	100.0%

33. Research has showed that 28% of the students of universities of professional education follow part of their study abroad, especially students educated in Agriculture, Art and Economics. An important part of this mobility is financed by funds made available by organisations like Nuffic. In 2001 the Dutch Government started the Delta program in order to promote Dutch higher education in countries outside the European Union (like China, Indonesia, Taiwan and South Africa). In 2001, 21 universities of professional education participated in this program, 50% of the charges was financed by funds.

34. Dutch universities of professional education in the field of development cooperation have a huge backlog compared to research-intensive universities. In new programs for development cooperation no funds are reserved for universities of professional education. These funds should be obtained by the universities in “open competition”.

35. Funding of universities of professional education and research-intensive universities is discussed in detail in Appendix A. Financial support of students and tuition fees paid by students will be discussed in the following two chapters.

#### ***Student support***

36. In 1986, a new system of direct financial support for students was introduced with the approval of the Student Support Act (*Studiefinanciering*). Although this system has gone through a large number of reforms, it is still based on the following three provisions:

- All regular full-time students at funded and designated universities receive a basic grant for the nominal course duration of a higher educational program (4 or 5 years). Since the academic year 1996/97, this basic grant has been transformed into a “performance-related grant”. Initially students receive it as a loan. If students perform well academically, the loan becomes a grant.
- Students may apply for a supplementary grant when parental income is below a certain level (means-tested). This grant can only be received for the nominal course duration (4 or 5 years). The supplementary grant is also subject to the same performance requirements as the basic grants.
- Finally, students can voluntarily take up an interest-bearing student loan.

37. The student support system also contains some secondary advantages such as annual season tickets for free public transport.

### ***Tuition fees***

38. Tuition fees for regular, full-time students are centrally determined by the Minister of Education and are the same for all courses at universities of professional education and research-intensive universities.

**Table 2: Tuition fees through the years**

	1996/97	1997/98	1998/99	1999/00	2000/01
Tuition fee (euro)	1 089	1 168	1 248	1 278	1 304
Tuition fee ratio, research-intensive university	18%	19%	19%	19%	
Tuition fee ratio, university of professional education	20%	21%	22%	22%	

Source: Report 'Public funding of higher education – a comparative study of funding mechanisms in ten countries' by Frans Kaiser, Hans Vossensteyn, Jos Koelman, November 2001

39. Table 2 shows that the tuition fees have increased in recent years. The last two rows in the table show the tuition fee ratio, *i.e.* tuition fees as a percentage of the total direct cost of a higher education program. Related private contributions have remained fairly stable at around 19% of average direct costs for the research-intensive universities, but have increased for universities of professional education.

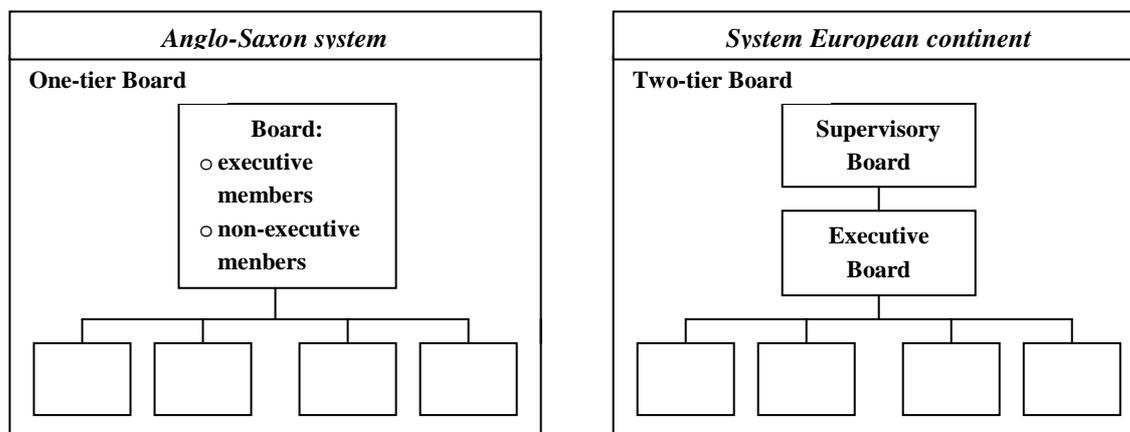
40. Since September 1996, universities have been able to determine their own tuition fees for sandwich and part time courses. Some universities make use of this room for tuition fee differentiation. Universities of professional education, however, hardly make use of the possibility to set tuition fees beyond the minimum rates set by the government.

41. Students do not have to pay any other education-related charges. Administration and examination fees are rare. If a student has enrolled in a research-intensive university or in a university of professional education, the facilities of the university may be used. However, the student has to pay for his own books and living expenses.

### **Governance and management arrangements**

42. In the Netherlands, unlike in Anglo-Saxon countries where a one-tier governance structure exists, a two-tier system exists. A one-tier structure is common in most Anglo-Saxon countries. In a one-tier structure the supervisory and executive (managerial) tasks are divided within the board. A two-tier structure as seen on the European continent the supervisory tasks means that a difference is made between executive and supervisory tasks on corporate level. Besides an external body is made responsible for external control (see figure 2).

Figure 2: One-tier and Two-tier Board



43. This means that one tier is composed by the executive and the other by non-executive board members forming a supervisory board (*Raad van Toezicht*). The supervisory board appoints the executive board.

44. The appointment of the non-executive members of the board differs and depends on the form of higher education. The Minister of Education appoints board members of research-intensive universities. The non-executive board members of universities of professional education are appointed by a system of cooptation. The cooptation system is quite similar to that of large private enterprises in the Netherlands. According to Dutch law the (executive and non-executive) board members are all fully responsible for the continuity of the organisation.

45. The universities have a substantial autonomy:

- assets are owned by the universities;
- the management decides whether the university will invest or not;
- the management is responsible for the overall financial control, including long-term decisions;
- employees are employed by the universities;
- the conditions of employment are negotiated by the universities;
- universities pay for retirement rights and unemployment compensation.

46. All universities of professional education have implemented a planning & control system that includes a forecast of income statements and balance sheet information for a period of four years. The universities of professional education have jointly agreed to present their long-term financial position to a Monitoring Body, *Stichting Vangnet HBO*. The planning & control system for these universities has developed into a “state of the art system”. We do not

have a centralised view of the research-intensive universities and are therefore not able to judge their planning & control system.

### Asset ownership and staff employment

47. In 1994, the universities of professional education had to buy their real estate from the government through loan financing (see chapter “*Description of policy instruments*”, *Stichting Waarborgfonds*). Since then these universities receive in addition to their grant funding (i.e. per student) a compensation for capital costs. Research-intensive universities received their estate property from the government free of charge. Consequently, these universities do not receive compensation for capital costs. They do have a (relatively) better balance sheet (more capital, less liabilities).

48. The universities of professional education and research-intensive universities do their own bargaining for the collective terms of employment. Collective terms of employment are however not the only aspects on staff employment. Attention is also paid to:

- menu of terms of employment: individual terms of employment are possible. Universities of professional education will give more room for the differentiation of terms of employment. This means separate universities will have more freedom to negotiate different conditions and are accountable for implementation and evaluation.
- increasing the mobility and employability within the sector of higher education. This initiative has resulted in the decreasing number of employees entitled to unemployment pay.

49. The universities pay a part of the unemployment benefit of their employees themselves. They are also responsible for the pension rights of their current employees to public pension funds.

**Table 3: Total number of employees versus teaching and supporting staff**

	Universities of professional education			Research-intensive universities		
	1996	1997	1998	1996	1997	1998
Number of employees (1 000 fte)	20.6	20.9	21.2	39.2	39	39.6
of which supporting personnel	8	8.2	8.5	18.9	18.8	18.9
Ratio						
*student/employee	12.8	12.9	13.3	4.1	4	3.9
*student/teaching staff	20.9	21.2	22.1	18.3	18.2	17

Source: [www.minocw.nl/budget](http://www.minocw.nl/budget) 2001

50. The number of employees employed in higher professional education (in full time equivalents) declined at the beginning of the 1990s. During the past few years, however, the number has been increasing again. The increase concerns both teaching and support personnel. The ratio of the number of students and the number of employees has increased. This means that the relative increase in number of students outweighs the increase in employees. The average age of employees is increasing and simultaneously are personnel expenses. The number of employees (partly) entitled to unemployment pay has also decreased in 2001.

51. This tendency at research-intensive universities equals that of universities of professional education: here too the number of employees has been increasing since the late 1990s. The number of “research trainees” (*assistenten in opleiding, AIO's*) is however still decreasing. Research trainees are mainly working towards a doctorate, but also do some teaching tasks. Because of the increasing age of employees at research-intensive universities, personnel expenses have risen too. Research-intensive universities also try to change their role as employer by offering flexible terms of employment, paying more attention to career perspectives to attract research trainees and to the income development.

52. The development in the number of employees of research-intensive universities entitled to unemployment pay is –as with universities of professional education– positive. A few figures to illustrate this:

- decrease in the number of unemployed of 20% (equal to average sector education and research);
- decrease in the amount paid on unemployment fees with 17% (below average sector education and research, which was –13%).

53. In this chapter the constitutional position of universities in the Netherlands is described. The following chapter discusses the most important developments within the current policy context.

## CURRENT POLICY CONTEXT

54. In this chapter attention will be paid to the current policy context of higher education in the Netherlands. The following topics will be discussed:

- position of higher education within the national/regional economy
- current and future role in economic and social development
- key financial political issues and policy dilemmas and how they are tackled.

### **Position of higher education within the national regional economy**

55. Universities of professional education have strong links with regional organisations like small and medium sized enterprises and networks for regional planning. This is not only the case for education but also for research activities:

- representatives of the (regional) labour market are often in the board of supervisors;
- many educational programs are assessed by committees composed of representatives of the working field involved;
- people having broad experience on the labour market have a seat in the visitation committees assessing the quality of education.

56. Moreover the relationship between universities of professional education and the labour market is yearly monitored by means like the 'HBO Monitor'. This Monitor describes the market opportunities of graduates from Dutch universities of professional education.

57. The possibilities of innovation depend on the financial position of the university. Most universities of professional education have difficulties to engage in real innovative activities. The budgets are tight and do not leave much space for research. Therefore the funding of those activities is often related to companies that are prepared to invest in the research field.

58. The universities of professional education are continuously confronted with changes in their environment. The universities are expected to meet the wishes of their students and to answer the changing requirements of the labour market by offering new courses. Government policy has developed considerably over the last years in order to give the universities of professional education more room for manoeuvre. Universities of professional education informed each other about their plans for new courses through a central point at the HBO-raad. Hence there is a tendency to allow the universities more freedom to start new programs. In order to start a new program the university first has to obtain a temporary accreditation. Once that has been obtained, it submits a request to the Minister of Education and Science. If there is not much overlap with other program offerings in the same region, the university generally obtains an approval.

59. As a result of this liberalisation for the start of new programs, hundreds of new programs were started over the past few years. In the last round, the Minister of Education asked the

sector of professional education to suspend requests for new programs. In spite of this, in 2001 about 108 submissions were made and 96 new programs approved, 38 initiatives were announced to start another site of instruction for programs in addition to the existing ones of which 35 were approved. The more liberal approach has led to more competition in a steady market (with a steady budget!). For individual universities it is interesting to start new programs in order to maintain its market share; for the sector as a whole it means that the margins are getting rather thin. The universities themselves and the Minister of Education have concluded that the “market” is split up too much. At present the sector as a whole is considering instruments that could restrain this development.

60. Students with the right secondary school qualifications are by law entitled to admission to the university of their choice. Only under exceptional circumstances universities may limit the number of admissions, in which case a lottery is set up to allocate the available places. Lately however, the universities are given some say in the selection of students in situations where the intake is limited.

61. We already mentioned HOOP, the medium-term planning regarding education, in the preceding chapter. This chapter will pay attention to the content of the latest HOOP. HOOP 2000 refers to the period 2000-2004. The policy paper consists of a description of expected developments and gives a framework in which to deal with these expectations.

62. HOOP 2000 discusses the following main problems expected in higher education:

- a. shortages of higher educated personnel and an increasing demand for retraining and extra training;
- b. increasing importance of international developments for education and research<sup>1</sup>;
- c. increasing importance of information and communication technology (ICT) in education and in society in general;
- d. universities performing as a regional knowledge centre.

63. The Minister has stipulated that the universities of professional education need more self-regulation to be able to give a proper answer to these developments. For example in order to stimulate universities to fulfil their regional function the Minister has decided that the universities themselves may determine 30% of the curriculum of universities. The remainder is determined in joint agreement with all universities concerned. More self-regulation by universities of professional education results in an increase in external control. This consequence will be discussed in chapter “*Deescription of policy instruments*”.

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<sup>1</sup> The last aspect concerning the application of the possibilities of ICT will have an enormous impact not only on the necessary investments in ICT systems (e.g. multichannel), but also on the structure of educational systems. Think of the development of the digital university and the digital learning environment (e-learning).

## **Current and future role in economic and social development**

64. On the one hand, the Netherlands is confronted with an ongoing internationalisation of the economy and on the other hand with a shortage of higher educated personnel and a knowledge based economy.

65. Internationalisation of the economy requires education at an internationally comparable level. It is therefore necessary that the European education system becomes more coherent. The ultimate aim is to arrive at a European system of accreditation, in which different countries will recognize each other's quality assurance system. Such a system will enable students to compare the quality of Dutch programs more effectively with those of foreign programs. In addition, Dutch higher education will gain an internationally recognizable position. Arrangements for a more international educational system were made in the Bologna Treaty and should result in a Bachelor-Master structure. This topic will be discussed in paragraph "*Bachelor-Master structure*".

66. A recent survey, executed by the *HBO-Raad* and *VSNU*, concludes that one out of five employers is experiencing serious problems due to lack of higher educated employees. Within the labour force is a lack of good knowledge on business policy & management, a loss of innovative capacity, and we see increasing personnel expenses in higher education. The biggest shortages are visible in health care, government, business services and (building) industry. In the current time frame knowledge is getting more important.

67. Other initiatives will also be necessary, such as:

- stimulating enrolment of students from abroad;
- improving the fiscal climate for mature entry.

68. In order to solve the future problem of a shortage of higher educated people, the Minister of Education is trying to make higher education more attractive by offering sandwich education. These programs will be discussed in paragraph "*Sandwich Programs*".

### ***Bachelor-Master structure***

69. A uniform Bachelor-Master structure will introduce a kind of quality mark. It will give rise to an indication of the content of programs given, of educational processes, and of necessary revenues and costs (or investments). An accreditation body has been founded. The Minister of Education appoints the members. This body is responsible for the assessment of new and existing programs. This assessment is compulsory for every institution that wishes to grant a degree, to qualify for state aid and to ensure that its students are eligible for government financial aid. Universities must reapply for the quality mark every six years. The Bachelor and Master programs will be registered with CROHO after the approval of the accreditation body.

70. The accreditation system is scheduled to commence in 2002; the first accreditation procedures must have taken place by 31 December 2004. On 31 December 2006, all current higher education programs must have been accredited.

71. At this very moment all higher education programs are fitted into the new Bachelor-Master structure. The universities of professional education will mainly offer bachelor programs of a professional nature. The research-intensive universities will mainly offer general bachelor degrees as the groundwork for a subsequent master program. At this moment some universities of professional education are also offering master programs, sometimes in cooperation with universities abroad. However, the number of master programs at universities of professional education is rather limited. The majority of the students from universities of professional education that wish to pursue a master program do so at a research-intensive university.

### ***Sandwich programs***

72. Sandwich programs have been offered since 1991/92. In the case of sandwich programs, the student works on a job relevant for his course based on an education-cum-employment contract between the student, his employer and the university. Most universities (i.e. of professional education) have been working with sandwich programs for a long time.

73. Another, lately introduced initiative to strengthen the relationship between education and enterprises, is the introduction of (assistant) professors at the universities of professional education. (Assistant) professors are responsible for the innovation of education, research & development and contacts with companies in their area of expertise. In 2001 the Expertise Development Council (*Stichting Kennisontwikkeling HBO (SKO)*) was founded by the *HBO-Raad*. The Council allocates the funds available for the basic research grants of universities of professional education.

### **Key financial political issues and policy dilemma's**

74. This paragraph describes the political issues in the Netherlands. First, the financial position of the universities of professional education will be considered. Next, the following developments will be discussed:

- new allocation system;
- state banking;
- allegations of irregularities in higher education at large.

We will end this paragraph with the challenges of the new Minister of Education (in office since summer 2002).

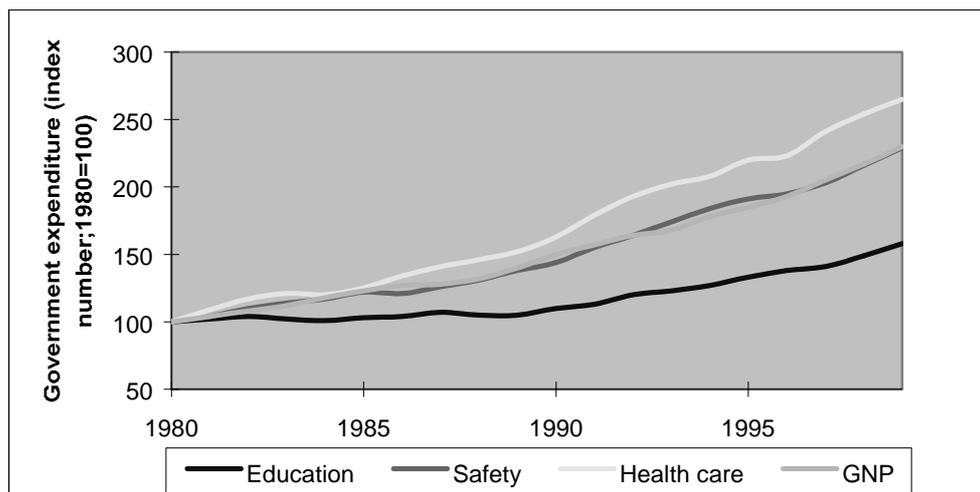
### ***Financial development higher education***

75. Since 1980, the Dutch government policy has been directed at the realisation of a decrease in government spending. One of the areas confronted with cutbacks has been (higher) education.

76. Figure 3 shows the development of the expenditure on Education, Safety and Health Care compared to the development of GNP. It is clear that budgets for Education remain behind

GNP. You can see that the percentage of GNP spent on health care is increasing. This trend however has been a conscious political choice, which is experienced as a desirable development.

**Figure 3** Government expenditure on Education, Safety and Health Care compared with development GNP



Source: VSNU (April 2002)

### *New allocation system*

77. The current allocation system is too complicated and does not fit current trends in higher education. In 2000, the *HBO-Raad* and the Ministry of Education, Cultural Affairs and Science developed a plan to drastically change the allocation system for universities of professional education. Funding should become better geared towards the current variety in study patterns. At present the allocation system presumes a regular full time student who completes his course within four years. In practice, however, the variety of study patterns has increased considerably. This gives rise to friction with the parameters used for allocation. More flexibility is needed.

78. Although several allocation models were developed, no agreement has been reached so far. Progress on this issue has been influenced by the accusations of irregularities with the registration of students. However, the new Minister of Education has indicated that she wishes to implement a new system as from 2005. The new system will apply to universities of professional education and research-intensive universities simultaneously and be based on similar parameters. Quite a lot of discussion may be expected on the question whether completion rates should or should not be included as a parameter for the allocation of funds.

79. Currently, there is a pilot scheme with vouchers. In a voucher system students pay universities for the tutoring they receive, not for passing exams. These vouchers will increase

the mobility of students across the various universities. They will also increase the complexity of the budgets and control system of the organisations.

80. For research-intensive universities only the introduction of the bachelor-master structure will influence the allocation system.

### ***State banking***

81. The Finance Minister has proposed a new act regulating cash management for legal entities with public responsibilities, both private and public. The act includes universities of professional education. Main conditions for the universities are:

- cash management has to be outsourced to a current account at the Ministry of Finance (this means a daily settlement with this account);
- universities have the option to borrow money from the Ministry of Finance (at relatively favourable conditions).

82. The reason for the Minister to introduce this act is that individual universities can obtain better interest rates. These interest rates will be lower, because the state as a whole can borrow money at much lower costs. Nevertheless, the act implies that universities may become more dependent on the government. To a certain extent, it also implies a division between public and private tasks. This division is not always applicable. Because borrowing money is an option for the universities and relatively cheap, a division between public and private tasks is not important.

83. In the long run the Act may influence the external control of universities. The State may become interested in investment plans because of the capital risks involved. The Minister of Finance will have a total view of the flow of funds and liquidity of the sector and the individual universities.

84. The way in which the *Stichting Waarborgfonds HBO* and the *Stichting Vangnet HBO* work and their influence will change. The *Waarborgfonds* will have to give mortgage guarantees for the refinancing operation and the risks which will remain in the sector. The *Stichting Vangnet HBO* will probably develop towards a rating agency for the financial developments and risks of the universities. It is not to be expected that the responsibilities and powers of the CFI will change because of state banking. The CFI is more or less responsible for state funding, not state banking.

### ***Accusations of irregularities in higher education***

85. In 2001 six universities of professional education were accused of irregularities in the registration of students. In most cases the irregularities were found in franchising operations.

86. Earlier that year the *HBO-Raad* had developed a code of conduct for franchising. This code stipulates that programs of universities of professional education qualify for state funding when:

- the student attends the main body of the educational program;
- the student has a clear, direct relationship with the institution;
- the institution itself is completely responsible for maintaining educational quality levels.

87. The irregularities that were found later that year referred to franchising constructions of an earlier date. Later on (in the beginning of 2002) the Minister of Education decided to undertake a full swing investigation in the registration of students in the higher education system at large. In due course quite a number of signals of irregularities were received, although the actual budgetary impact seems quite limited (less than 1% of total operations). A “blue ribbon” commission will report towards the end of 2002.

88. Franchising became more popular because the changing environment of universities of professional education requires more tailor-made educational programs, resulting in increasing private and public co-operation within the organisation between universities and third parties. This required additional agreements for the execution of educational plans.

89. Detailed discussion of the irregularities showed that the allocation system had not developed with the changes in the daily operations. Interim reports of the “blue ribbon” commission made quite clear that the allocation system should be made more transparent and set clear objectives.

Interim recommendations for adjustments in the present allocation system for universities of professional education are:

- give a clear description of the difference between students qualified for state funding and students who are not. This difference is essential because of the increasing demand for state-funded education. Moreover, it should be clear how foreign students are to be funded by the fixed macro budget.
- present a clear view on how private-public cooperation in the field of higher education should be assessed, and the spending of state funds.
- describe the effectiveness and range of external control.
- make clear that there will be more emphasis on the relationship between state funding and realised performance of the universities.

### ***New government plans***

90. The relatively decreasing amount of state funding available for higher education, is expected to continue given the plans of the new Dutch government presented in the coalition agreement of summer 2002. According to the *HBO-Raad* (association for all professional universities) and *VSNU* (association for academic universities), the coalition agreement does not pay any attention to the importance of knowledge in society. Research-intensive universities and universities of professional educational are seriously concerned about the lack of vision on knowledge economy and innovation in the coalition agreement. Development and distribution of knowledge are driving forces behind a strong economy. In order to solve societal bottlenecks in health care and safety, innovative solutions are essential.

91. The former Minister of Education advised his successor on the following challenges:

- The unsolved *shortage of teachers*. Last year’s policy was directed at reducing the shortage of teachers and improving the professional image of the “teacher”. The effects have however not been sufficient enough to solve the problem. The shortage of teachers will endanger the quality of education.

**Table 4: Estimate shortage of teachers 2002-2006**

	Primary education	Secondary education	Total
Demand in full time equivalents	24 000	25 000	49 000
Supply = enrolment students teaching programs	16 000	6 000	22 000
Shortage = other necessary enrolment	8 000	19 000	27 000

Source: Ministry of Education, 19 July 2002

- The decreasing number of students enrolling in educational programs in nursing. The universities of professional education and the (academic) hospitals are trying to compose a new course structure in order to attract more students.
- In the coalition agreement, the political parties agreed to increase the educational capacity step-by-step, particularly where medical education is concerned. This capacity increase should result in a removal of the “numerus fixus”. By increasing the number of students per medical educational program higher education should be able to contribute to solving the serious problem of waiting lists in health care.
- State funding for Art education. The Minister has decided to change the specific allocation for courses theatre, dance, music and fine arts.

92. The policy context of higher education in The Netherlands was discussed in this chapter. It has shown that for state funding of higher education only a decreasing government budget is available. The new, conservative government will not change this in times of economic decline. The consequences of these measures are not completely evident yet for the educational quality, but parties involved, like the *HBO-Raad* and *VSNU*, are not optimistic.

93. In the following chapter, a description will be given of internal and external control mechanisms in higher education.

## DESCRIPTION OF POLICY INSTRUMENTS

94. This chapter will focus on policy instruments in the higher education sector. We will start with a description of management approach. Next, we will take a look at sector coordination and the internal and external control system. Finally, we will describe the accreditation process.

### Management approach

95. The universities are registered by law. The focus is on:

#### 1. *Quality*

Independent accreditation panels review the quality of the educational programs offered, based on a uniform, predetermined framework. They report to the National Accreditation Organization (NAO). The NAO may or may not provide accreditation. In case the accreditation is withheld, the Minister may withdraw state funding. The external quality audit relies for a considerable amount on the internal quality assurance mechanisms. Panels review the aims set by the university for a particular program and evaluate the effectiveness and the outcomes of the internal quality system.

#### *Efficiency*

Efficiency is mainly related to the spending of state funding. Efficiency is monitored by comparing the budget year with realisation. This monitoring task is a responsibility of the board of the institution.

#### 2. *Access*

Higher education should be accessible to everyone who has the right secondary school qualifications. This means that sufficient capacity (throughout the country) should be available, also for minority groups, such as immigrants and refugees. In view of the competition between universities, there is a constant struggle to enrol more students.

96. Responsibilities within the organisation can be directional or devolved. The directional or devolved approach depends on the number of students of the institution.

### Sector coordination

97. Before we describe the systems of internal and external control we pay some attention to sector coordination. However the universities are finally responsible for their own actions and monitoring arrangements, they are supported by advisory bodies. There is an advisory body for universities of professional education and one for research-intensive universities:

- **The HBO-Raad** – association for all professional universities – covers three quarters of the higher education system in the Netherlands in terms of students. The association is the main interlocutor of professional universities. Not only for the

government, but also for members of parliament, employer federations, and trade unions. The HBO-Raad negotiates the collective terms of employment on behalf of the professional universities. However, the HBO-Raad does not bear any responsibility for the allocation of funds. In the absence of funding councils, the Dutch government allocates the funds directly to the universities on the basis of general funding mechanisms (See chapter “*Funding*”).

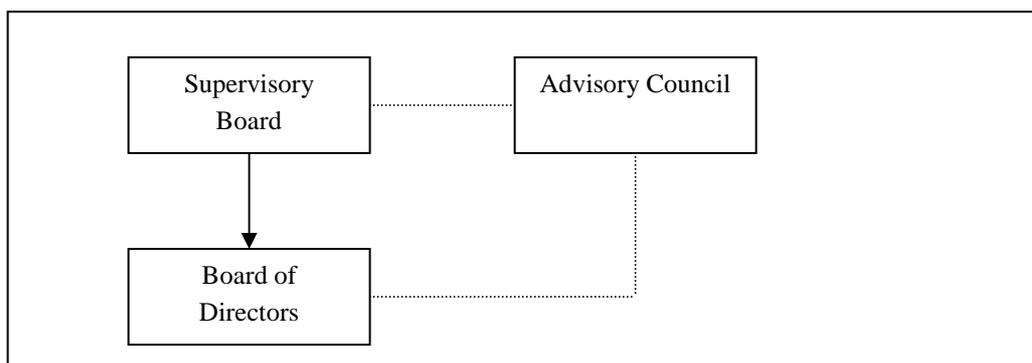
- **The VSNU** – association for research-intensive universities – promotes the interests of Dutch research-intensive universities towards politics, government and societal organisations. The association is also the employers’ organisation and develops supporting activities for (clusters of) universities. Moreover the VSNU organises the quality systems of universities.

98. The associations support the universities in their policies with codes of conduct and schemes, for example for outsourcing and franchising.

99. There are benchmark surveys, which indicate good practice of universities. Most benchmark surveys are carried out by or under the authority of supporting associations like HBO-Raad and VSNU. The Central Financial Institution (Cfi)<sup>2</sup> also make comparisons of universities mostly based on the annual accounts. Costing of activities is still problematic because of differences in costing and allocation systems. There is a tendency to assess universities not only based on financial indicators, but also on non-financial indicators. Methods like the Balanced Score Card are gaining popularity especially in universities of professional education.

### Internal control system

Figure 4: Internal control system



100. Part of the internal control system implemented by the management of universities is a planning and control system. The organisation is responsible for its own policy, including financial policy and risks. In a devolved structure the universities organise the budget

<sup>2</sup> The CFI operates under the Ministry of Education, Cultural Affairs and Science

responsibility per faculty. The system of planning and control has an integral character consisting of:

- an annual budget;
- an annual report;
- investment (and divest) plans
- a rolling forecast on key financial indicators (for professional universities to *Stichting Vangnet HBO*).

101. Departments draw up the educational and corresponding financial plans for the year(s) ahead. Departments are approached as a portfolio.

102. The Supervisory Board of the university of professional education implements the function of internal control like a Board of Non Executives in a Dutch company (see "*Governance and management arrangements*"). Contrary to Anglo-Saxon companies Dutch companies have a two-tier system. A distinction is made between the executive board and the non-executive board having a supervisory function. This Supervisory Board monitors the Board of Directors and offers advice, serving the interests of the institution. The Supervisory Board has been chosen by cooptation. In 1997, a study among universities of professional education was performed by a special task committee, the Glasz Committee (comparable to the Nolan Committee in the UK). This committee investigated corporate governance items like the Peters Committee did in the Netherlands for the stock exchange companies. The Committee made some recommendations to the universities, including a profile for the members of the Supervisory Board. All members of the Supervisory Board are - as one body related to the university - collectively held responsible for the fulfilment of their tasks.

103. In addition, the Board has the following tasks and competencies:

- appointment, determination of labour conditions, suspension and dismissal of members of the Board of Directors;
- determination of salary, suspension and dismissal of members of the Supervisory Board;
- monitoring the correct profile of the Board of Directors and the Supervisory Board;
- determining annual report;
- approving all major (strategic) decisions;
- representing the university in case of a conflict between university and director.

104. According to the Glasz Committee, a supervisory board should be transparent, independent and have sufficient expertise. Transparent in order to realise a clear difference between internal and external supervision. Independent, because there should be no

conflicting interests. Sufficient expertise for example to be able to assess the marketing mix of programs offered.

The most essential *recommendations* made by *Glasz Committee* are:

1. The Minister of Education should more clearly define his responsibility.
2. The criteria set by external supervisors should be reported in the annual report. Information should be given about the extent to which objectives/goals are met and what actions will be taken to influence the outcome positively.
3. Universities of professional education should clarify the difference between the responsibilities of the Board of Directors and the Supervisory Board. The Supervisory Board should be more like a board of management in companies meaning:
  - They should play a guiding role in the policy formulation concerning access, quality assurance and effectiveness.
  - They should be involved in the process of appointment, determination of labour conditions, suspension and dismissal of members of the Board of Directors; the process of appointment, determination of pay/ salary and suspension of members of the Supervisory Board; recommendation of the right profile of the Board of Directors and the Supervisory Board; determination of annual report and approval of far-reaching /fundamental decisions.

105. Universities of professional education have also got a Advisory Council (*Medezeggenschapsraad*) consisting of students and employees, comparable to the “work council” in the Anglo-Saxon context. Up until now the responsibilities of the Advisory Council are not clearly defined. Discussions are going on. The most likely outcome is that the Advisory Council will obtain a similar position for universities of professional education as those of large stock companies. Furthermore, the Glasz Committee proposes legal routes for conflicts between the Board and the Advisory Council. The Chamber of Enterprise (*Ondernemingskamer*) should decide in these situations.

### **External control**

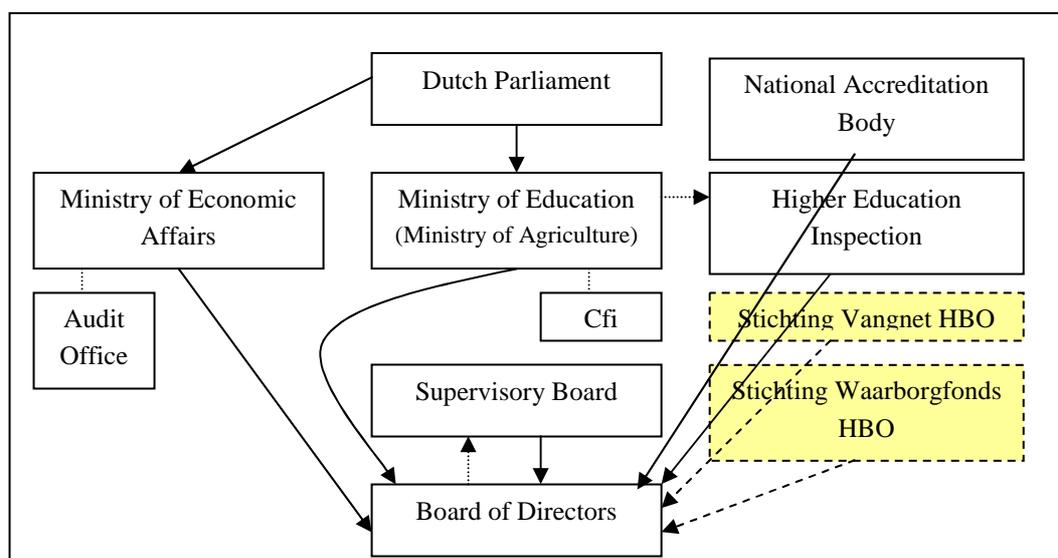
106. The relations with regard to external supervision in higher professional education are shown in figure 5. The figure is almost identical for universities of professional education and research-intensive universities. Except that research-intensive universities do not have a *Stichting Vangnet HBO* and a *Stichting Waarborgfonds HBO*. We will discuss the parties in more detail.

107. The Dutch Parliament supervises the policy of the Minister of Education and is informed by the Audit Office (*Algemene Rekenkamer*).

108. The supervision of the Ministry of Education (and Ministry of Agriculture) is concentrated on three elements: quality of education, effectiveness and access (see “*Management Approach*”).

109. One of the operational organisations of the Ministry of Education, Cultural Affairs and Science is the Central Financial Institution (Cfi). This organisation is responsible for cash flow of state funding of universities active in the area of education and research.

**Figure 5: External control**



Source: Glasz Committee Report (adapted)

110. In the Netherlands universities of professional education have an internal and an external quality system (see “*Quality*”). The educational quality is evaluated on a regular basis by external, independent *visitation panels*. These evaluations are based on a framework formulated by the professional universities. In addition to the National Accreditation Organization (NAO) and the internal quality assurance systems of the universities, the Higher Education Inspection (*Onderwijsinspectie*) supervises this process in the higher education sector. It is an independent body within the Ministry of Education. The Inspection generally assesses the ways in which universities and NAO give meaning to quality assurance and quality control.

111. The research-intensive universities have their own quality system, besides the visitation panels. The quality system is a systematic assessment of the academic quality of university research programs initiated. Part of the quality system is a self study. This self study is a reflection of an internal evaluation of the university program, that takes place before the visitation.

112. The Minister of Economic Affairs is currently formulating a new law, which will give rise to a branch code referring to the latitude available between the market and the public domain. Based on this code, uniform measures of internal control may be formulated. The formulation of this branch code would be a first step, as Dutch research-intensive universities (united in *VSNU*) have already started this process. One of the tasks of the Audit Office (*Algemene Rekenkamer*) is to propose a formulation for independent control in the public sector. For example, given the new allocation system the Audit Office asks attention for the presentation of a clear relationship between means used and the performance realised.

113. Stichting Vangnet HBO (*Vangnet*) assesses the financial perspective – continuity – of the universities of professional education. *Vangnet* will inform the Board of Directors if the financial situation in the long term gives rise to concern. If the causes for concern last for a longer period of time, the Minister of Education (with the connivance of the university involved) may be informed too. In all other cases the exchange of information between *Vangnet* and the universities is confidential.

For more detailed information about the working and activities of the *Vangnet* see next chapter.

114. Stichting Waarborgfonds HBO monitors the quality of loans obtained by the universities of professional education in order to finance real estate. *Stichting Waarborgfonds HBO* was founded in 1993 in reaction to the government's decision to transfer the economic property of real estate to the universities. The guarantee given by this foundation was a necessary condition to finance this transfer. Every year, *Stichting Waarborgfonds* evaluates the running budget and the annual report of the universities of professional education they guarantee. If necessary, *Stichting Waarborgfonds* will contact the Board, or in the worst case, the Minister. In view of the changing role of the state in terms of cash management and capital funding, the position of this institute may change in the near future (see "*State banking*").

115. The universities appoint an auditor in order to audit the financial statements at the end of the year and in some cases the annual rolling forecast for four years (professional education). The auditors are aware of the specific demands of the universities set by the government. Special guidelines according to Dutch commercial law are applied for the financial control. The Ministry of Education, Cultural Affairs and Science also have their own auditors in order to audit the annual account and other surveys (see "*Accusations of irregularities in higher education*").

### **Accreditation**

116. In the recommendations of HOOP and the Advisory Council for Education special attention is paid to the quality of education. The corresponding laws have been passed. From this year on accreditation panels will review the quality of new and current programs on a regular basis. The evaluation is based on minimum quality standards, taking into account current international standards, sector qualifications (HBO and WO) and different levels (Bachelor, Master). This evaluation is partly based on a self-study report and by discussing

the quality offered with the parties involved: teacher, (assistant) professors, and students. The results are reported to the National Accreditation Organization (NAO).

117. Accreditation may take place *ex ante* and/or *ex post*.

- *Ex ante* accreditation is directed at starting new courses. These courses can be non-existing or not existing in the portfolio of the institution offering them. The result of an *ex ante* accreditation is a conditional accreditation for the duration of the course plus one year. A conditional accreditation does not automatically result in state funding.
- *Ex post* accreditation concerns *all* higher educational courses. Every higher educational course is regularly assessed (every 6 years). The outcome of an accreditation may question whether accreditation can be maintained.

118. Continuation of accreditation means that state funding (and complementary rights) is maintained. Whether a new course will or will not be funded by the government has no direct relation with the accreditation decision. The Minister of Education makes decisions about state funding.

119. This chapter described the most important internal and external influences on universities of professional education as well as research-intensive universities. The next chapter will focus on the external control system of the professional education sector.

## ANALYSIS OF SECURING FINANCIAL VIABILITY EVALUATION OF EFFECTIVENESS OF POLICY INSTRUMENTS

120. In previous chapters a description was given of higher professional education in the Netherlands. We described the constitutional position of higher education, control and monitoring by external and internal parties, the financial situation and the political context. In this chapter we will evaluate the effectiveness of the policy instruments used in Dutch higher professional education. We will start with the background of *Stichting Vangnet HBO* and will then focus on the system implemented to monitor the financial situation of universities. This leads us to a phase of financial alert for the institution. Finally we will focus on the arrangements of the Vangnet and the Ministry of Education (Agriculture), because of the relation between the universities of professional education and politics.

### **Background Stichting Vangnet HBO**

121. The universities of professional education implemented an early warning system in 1997 and set up an independent trust (*Stichting Vangnet HBO*) to maintain this system. The main reason to start this monitoring trust was the increased risk caused by the rising expenditure in terms of unemployment benefits. The universities of professional education felt that default risks should be contained. Not only because of reputation risks, but also because the damage of defaults were likely to be charged back to the sector as a whole. The *Stichting Vangnet* and the Ministry of Education signed an agreement in which the mutual responsibilities with reference to *Vangnet* are described. It became clear that is very important to fine-tune the activities of the Ministry of Education, *Stichting Waarborgfonds HBO* and *Vangnet* in order to prevent unnecessary interference. *Vangnet* deals with the universities of professional education, not with the research-intensive universities. These universities have their own internal methods to forecast problems related to future financial positions.

122. *Vangnet* can be seen as an external supervisor (see chapter “*Internal control system*”), comparable to a rating agency. This means that in the first place, the Boards of Directors of the universities of professional education are responsible for the policies of their institutes. They are expected to take proper measures when the financial position of their university requires this and to give additional information to *Vangnet*. In the second place, *Vangnet* will support the university in taking corrective action. The continuity of an university can be endangered in case of acute or threatening shortage of liquidity during one or more years and if the university in question has not got sufficient capital to solve this problem by its own means.

### **Early Warning System**

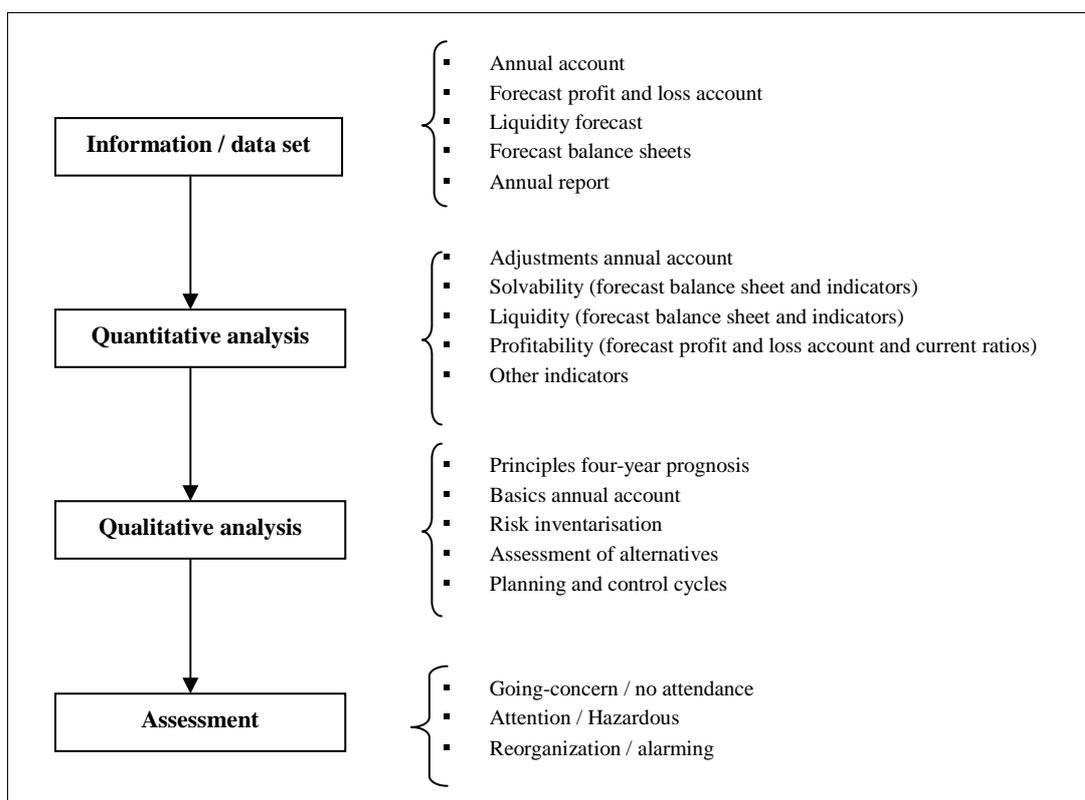
123. The Early Warning System (EWS) is an information system, a complex of preventive measures or instruments, in order to monitor the financial development of universities of professional education. The objective of the system is to spot risks and opportunities as early as possible, on the basis of yearly information given by the universities. The information set is composed of:

- balance sheet information;
- cash forecast;
- income statement;
- rolling forecast for the next three years.

124. In assessing the financial position, the EWS makes both a vertical and a horizontal analysis. In a vertical analysis the value of the performance indicator is compared to the standard value defined, at a given moment in time. The analysis is sector wide, universities are compared with each other. In a horizontal analysis the development of the value of the performance indicator in time is monitored. Does the performance indicator show a positive or a negative trend? Similar universities of professional education can be compared in order to determine the relative position of a university.

125. Figure 6 shows the contents of the information set, but also the way to analyse and to assess the universities of professional education.

**Figure 6 Stichting Vangnet HBO Scheme**



In general an Early Warning System is used to:

- perceive and analyse relevant events (in the form of performance indicators) as early as possible;
- offer specific information to the user of the system in case changes occur (deviations from standard) in the expected developments of a relevant event;
- give the user enough time to take proper action/measures in order to diminish risks.

126. On the basis of quantitative analyses *Vangnet* determines a number of indicators. In order to compare the universities the following corrections are sometimes necessary:

1. In case universities use “*cash basis*” for the registration of tuition fees eight-twelfths of the tuition fees is adjusted at the expense of equity capital, because this is against the matching principle. By making this adjustment the link to the profit and loss system is realised. Only a few universities of professional education use a system of cash basis on the moment.
2. As far as financial fixed assets on the balance sheet include claims for medical and other future employment benefits, *Vangnet* will adjust this entry on behalf of equity capital, as it is not consistent with the going-concern principle. In case of liquidation of a university the sector at large will have to “cough up” the corresponding claims. As long as the university is in operation nothing will be paid out. If this entry is registered as a booked item on the balance sheet, it should be adjusted in the analysis since it is not conform to economic reality.
3. Standardisation of input, i.e. the clustering of information.

127. The main performance indicators used by *Vangnet* are solvability, profitability and liquidity. *Vangnet* has determined criteria for these indicators in the form of guidelines in order to assess the financial position of universities of professional education.

*Performance indicators used by Vangnet:*

### **Solvability**

Formula used:

$$\text{Solvability} = \frac{\text{capital}}{\text{Total assets}} \times 100\%$$

The minimum level required by this indicator is determined by the risk a university runs. More risk means more capital in order to resist possible set backs. *Vangnet* has formulated a minimum solvability factor of 20%.

## Profitability

The formulas used are:

$$\text{Profitability} = \frac{\text{operating profit}}{\text{total income}}$$

$$\text{Profitability} = \frac{\text{operating profit} \text{ -/- } \text{extraordinary profits and losses}}{\text{total income}}$$

In theory a positive profitability should be enough, given the fact that the solvability and liquidity are sufficient. In general, a negative profitability will result in a decrease of equity capital and later on in a worse solvability and liquidity position.

## Liquidity

The liquidity position of a university of professional education is determined by free cash flows at the end of the year. This balance can be derived from the cash statement, distinguishing between the nature of cash flows:

- Operational cash flow
- Investment cash flow
- Mutation in operating capital
- Finance cash flows

The liquidity can also be balance sheet information.

The formulas used are:

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liability}}$$

$$\text{quick ratio} = \frac{\text{current assets} \text{ -/- } \text{inventory}}{\text{current liability}}$$

applied from

Since universities of professional education have no inventories, the current ratio will be equal to the quick ratio. In case of sound financing the quick ratio will be greater than 1. Current liabilities can be paid out of current assets.

128. Besides this financial information *Vangnet* also pays attention to the qualitative information received. Attention is paid to:

- Principles of financial forecast;
- Accounting principles used;
- Risks resulting from financial forecast;
- Scenario's (plans) described;
- Planning & control cycle.

## Phases of alert

129. As a result of the quantitative as well as qualitative analysis *Vangnet* categorises the universities of professional education in phases of alert:

a. **going concern**

*Going concern* or no alert means that the current ratio and solvability give no reason to expect serious continuity problems within the forecasting period. No specific actions are expected.

b. **attention/hazardous**

The phase of *attention* should not be an immediate continuity risk, but alert in order to take corrective actions, if necessary.

c. **reorganisation/alarm**

The *reorganisation* phase requires a reorganisation of the financial situation in order to guarantee the continuity of the institution.

130. *Vangnet* informs the universities of the analyses' results in writing or personally, depending on the phase of alert of the university. The university is informed about the phase of alert in a letter. There will be more questions asking for explanations, actions or decisions taken will be recorded and advice, if necessary, will be given.

131. In case of high or highest alert *Vangnet* will contact the Board of Directors in order to discuss the financial problems and possible solutions. If the Board does not act adequately *Vangnet* will inform the Supervisory Board.

132. The first version of the four year rolling forecasts often means a forecast without any policy shifts. On the basis of different scenarios about the future its possible to discuss the necessary policy for the future. This means not only a worst case scenario but also a middle scenario.

133. A scheme to inform the Minister about the universities of professional education in a reorganisation phase has been laid down in a covenant between the Minister of Education and *Vangnet*. The minister is not to intervene in the process between the institution and *Vangnet*. If the process ends without a satisfactory solution, there will be clear guidelines as how to handle. More attention to this process is paid in the next paragraph.

134. *Vangnet* also has a limited budget to finance eventual reorganisations of universities of professional education.

## Relationship between politics, professional universities and Vangnet HBO

135. Until the start of *Vangnet*, universities of professional education with financial problems tried to find the solution with requesting the Government for financial support. The government was also hindered by this regional lobby. When a university received additional funds this caused a decline in the budget for the other universities of professional education. A university could be helped at the expense of the budget available to the whole sector. By

the foundation of *Vangnet* the interference between the government and the sector of higher education is diminished.

136. An advantage of this relatively wide “gap” between the universities and the Minister is:

- the universities have to handle their own problems;
- the Minister will not interfere in a way that is in the interest of one university but not for the sector as a whole;
- the Minister does not have to spend (too) much time on solving (financial) problems of a single university.

137. If a university of professional education is having or expecting financial problems, the university has to deal with *Vangnet HBO* in the first place

138. In case the university of professional education and *Vangnet HBO* cannot come to a satisfactory solution or if the solutions found do not result in a satisfactory improvement of the financial situation, an independent counsellor advising the Minister will interfere.

139. The independent counsellor is ordered to make a proposal, which makes continuation possible. Part of his task is to find out whether the university of professional education involved is willing to accept his proposal and under which conditions.

140. The proposal made by the counsellor is first presented to *Vangnet* for comment. After that the Minister will make a decision, taking into account *Vangnet*'s comment. It is also possible that the university of professional education does not agree with the solution proposed by *Vangnet* in order to improve the financial situation. In that case the university can submit a notice of objection. Whether the new decision made by *Vangnet* does not result in another comment, *Vangnet* will inform both the Minister and the university of professional education involved.

#### **Evaluation of the performance of *Vangnet***

141. An evaluation of *Vangnet* is planned for 2003. This evaluation will gain a better insight in his added value to the universities of professional education. We noticed that since 1998 the EWS has been playing an important role in pointing out and preventing financial problems for *Stichting Vangnet HBO*.

142. In the first place the boards of directors of the universities of professional education is actively committed to the EWS, and not only because they have to deliver a four-year rolling forecast.

143. Second, the application of EWS has had a positive contribution to:

- a learning effect at universities of professional education;
- (better) planning & control systems;

- more proactive instead of reactive behaviour giving the universities of professional education the ability to signal financial problems in an earlier phase;
- the capability of universities of professional education to solve these problems themselves or with the aid of others before they become a real financial risk.

144. In this chapter we saw that *Vangnet* was founded in order to guarantee the continuity of the universities of professional education in the Netherlands. In order to fulfil these tasks the foundation has set up an Early Warning System. The foundation also has the opportunity to offer financial support to universities in serious financial problems. Perhaps the most important benefit *Vangnet* has realised is that the professional universities are now acting as one group to the Minister of Education. Besides the assessment of the performance of universities of professional education and the solutions offered by *Vangnet HBO* are defined more objectively than before and financial problems can be solved before they influence the sector as a whole.

## ANALYSIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND RISKS

145. In the first few chapters of this report the position of higher professional education in the Netherlands was described. The previous chapter presented an analysis of the practical value of instruments used to secure financial viability of the universities and of the effectiveness of policy instruments. In this chapter an analysis of strengths, weaknesses, opportunities and threats (SWOT) of the sector of higher professional education is given. The question is how to create conditions under which universities can increase their position on quality and efficiency.

### Strengths

146. Universities of professional education and the research-intensive universities have become more autonomous organisations. This increasing autonomy has resulted in more responsibility and also in more operational risks. These side effects have resulted in the implementation of more instruments of internal and external control to monitor aspects of quality, efficiency and access. The Stichting Vangnet HBO plays an important role to reduce the risks of insolvency of the universities of professional education.

147. Another strength is the fact that the monitoring activities have improved the implementation of the planning and control system at universities of professional education. Universities are increasingly operating like commercial businesses. Research-intensive universities have implemented their own planning and control systems.

### Weaknesses

148. The independence of the universities for higher education mentioned as one of the strengths of the Dutch educational system is also a weakness. In order to realise a healthy financial situation, universities are largely dependent on state funding. In the first place this dependence will increase as universities for higher education are less capable of earning (extra) funds with research or contract activities.

149. Secondly, universities are confronted with uncertainty about future regulations concerning state funding and the amount of state funding to be expected. The fact that these regulations are not sufficiently clear makes it hard for the universities to formulate (long-term) financial forecasts.

150. In the third place universities have limited opportunities to increase their income, since price competition or price discrimination is not possible. For example, universities of professional education offer secondary teacher training and technical programs that are not profitable. On the one hand these programs are however part of the curriculum of these universities since they consider it as their public responsibility to offer a broad (or complete) spectrum of programs. On other hand the Ministry obliges universities to offer certain programs. The Ministry of Education does however not sufficiently support this phenomenon, because a clear price mechanism is missing.

151. Finally, the division of responsibility for higher education between the Minister of Education and the Minister of Agriculture can also be seen as a weakness. The Minister of Agriculture is responsible for the educational programs in relation to agricultural aspects. The Minister of Education is responsible for all other educational programs offered. This structure at a ministerial level results in inefficiency and lack of clarity. Moreover, expertise and experience will not be shared optimally.

### **Opportunities**

152. The developments on the labour market are an important opportunity for higher education. Increasing internationalisation of the Dutch economy requires international comparison and recognition of educational programs. The introduction of the Bachelor-Master structure makes an agreement on international standards possible.

153. A shortage of higher educated people and a knowledge-driven economy require a more active attitude of higher education in order to attract more students. Instruments available to realise this goal are dual or sandwich programs and the Bachelor-Master structure. Besides universities of professional education have gained experience with instruments of risk control. So it is possible to have less rules and regulations and to move towards a more demand controlled system.

### **Threats**

154. The amount of state funding for higher education will decrease because of proposed cutbacks in current government plans. Moreover, the standards on which the amount of state funding is based will be changed.

155. As an additional measure, universities are obliged to borrow money from the government in order to maintain the financial budget necessary to offer the educational quality asked for. This form of state banking, however, may make the universities for higher education more dependent of the government. The government may wish to influence the decisions of the universities by refusing the loan or by cutbacks in public sectors with a relatively solid financial position.

156. Universities of professional education lack the power to make use of alternative sources of financing. This is not a positive element in the light of increasing competition between universities of professional education on programs offered or on price. Competition will however increase, also because of the liberalisation of the market (e.g. introduction of the Bachelor-Master structure). Dutch universities will have to formulate the right answer to withstand competition and to make a profit out of these developments.

157. The strengths, weaknesses, opportunities and threats described above have been summarised in table 5.

**Table 5: SWOT analysis**

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>- Autonomy of universities</li> <li>- Independent supervision on risks and financial distress (<i>Vangnet</i>)<sup>1</sup></li> <li>- Well organized planning &amp; control systems</li> </ul> <p><sup>1</sup> This can only be concluded for universities of professional education.</p>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>- Financial position higher education</li> <li>- Dependence on state funding</li> <li>- Unclear regulations about funding (Cause of supposed abuse?)</li> <li>- Price setting regulated by law</li> <li>- Division of responsibility for higher education between Minister of Education and Minister of Agriculture</li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Bachelor-Master structure</li> <li>- Sandwich programs</li> <li>- Shortages higher educated people (development labour market)</li> <li>- Knowledge-driven economy</li> <li>- New allocation system</li> <li>- Experience with instruments of risk control</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>- State banking: loss of autonomy for universities</li> <li>- More savings on education proposed by the government</li> <li>- Missing the possibility to make use of alternative forms of financing</li> <li>- Lack of market forces (no competition)</li> </ul>

158. Proposed government savings and the new system of state funding may cause a change in the autonomous position of universities. Universities for higher education will be offered the opportunity of state banking in order to partly compensate for the decline in available financial means. These state banking activities however, may increase the influence of the government on decisions made by the universities.

159. Market developments offer both opportunities and threats. The internationalisation of educational programs realised by the introduction of the Bachelor-Master structure, the knowledge driven economy and the increasing need for higher educated people are opportunities. On the other hand, the market of higher professional education is not able to take advantage of market forces. Competition based on programs offered will increase, but the universities have no space to answer this by price differentiation. This can be seen as a threat.

160. The answer to the question how to create the conditions to realise more efficiency and effectiveness is to adopt a system in which the educational programs offered are more determined by market demand. In this case market demand can be generated by needs of students or corporations. Especially in case of large differentiation in educational programs. This solution however means that other interests may be negatively influenced, such as:

- universities of professional education should be able to compete;
- students will experience shortage in programs offered;
- extra money on parts of the educational program will be required, for example for secondary teaching training.

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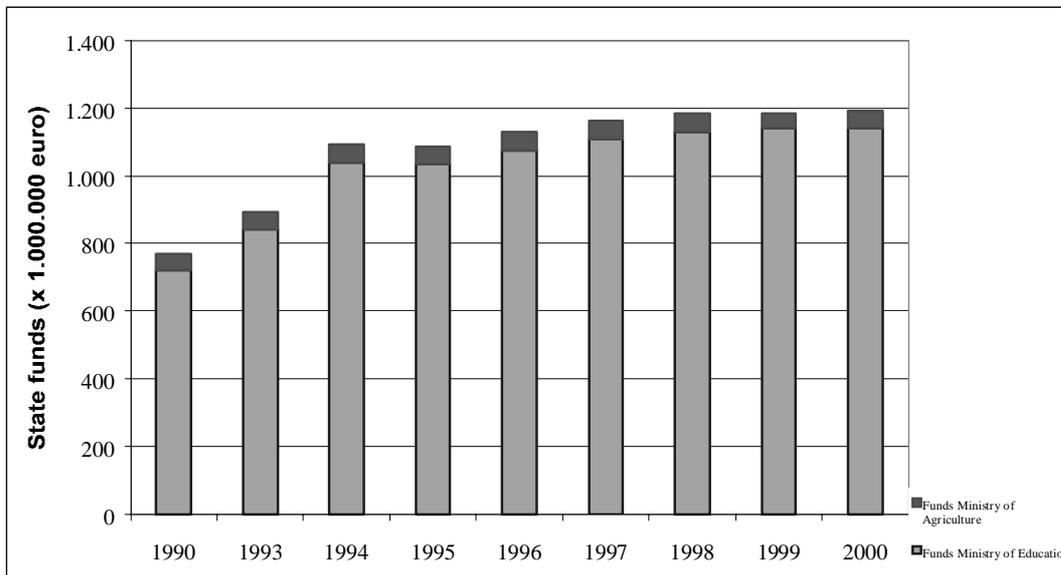
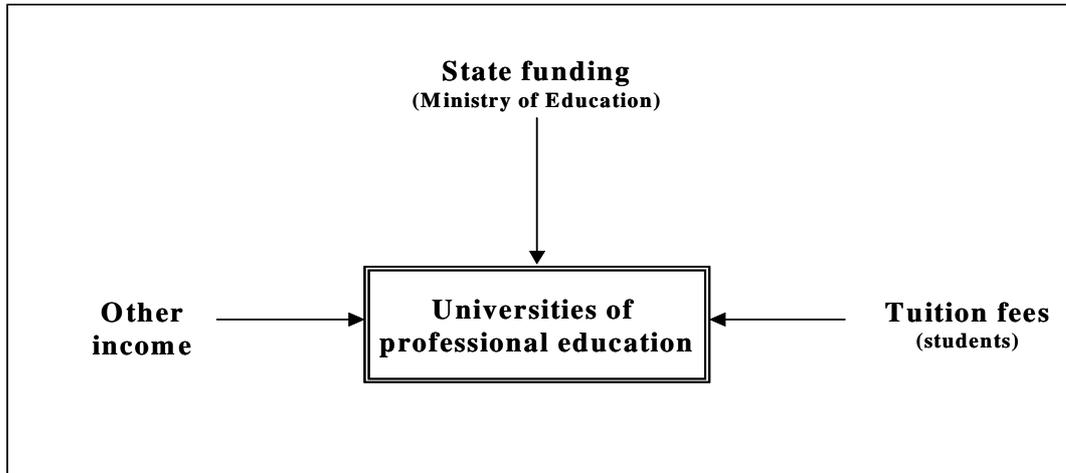
*Various websites:*

<a href="http://www.hbo-raad.nl">www.hbo-raad.nl</a>	HBO-Raad
<a href="http://www.vsnu.nl">www.vsnu.nl</a>	VSNU
<a href="http://www.minocw.nl">www.minocw.nl</a>	Ministry of Education, Cultural Affairs and Science
<a href="http://www.onderwijsraad.nl">www.onderwijsraad.nl</a>	Advisory body Ministry of Education
<a href="http://www.kengetallen.hbo.nl">www.kengetallen.hbo.nl</a>	HBO-Raad
<a href="http://www.cfi.nl">www.cfi.nl</a> and <a href="http://www.cfi.kennisnet.nl">www.cfi.kennisnet.nl</a>	Cfi
<a href="http://www.cbs.nl">www.cbs.nl</a>	Central Office for Statistics
<a href="http://www.owinsp.nl">www.owinsp.nl</a>	Body for Educational Inspectorate
<a href="http://www.oecd.org">www.oecd.org</a>	OECD

## APPENDIX A - FUNDING IN DETAIL

### Funding of universities of professional education

Funding of universities of professional education and research-intensive universities is drawn in the following diagram:



Source: Ministry of Education (adapted)

	1990	1993	1994	1995	1996	1997	1998	1999	2000
OCenW	723	843	1 039	1 035	1 075	1 108	1 130	1 140	1 140
LNV	44	49	53	52	53	53	53	45	51
Total	767	892	1 092	1 087	1 129	1 161	1 183	1 185	1 191

Source: [www.cfi.kennisnet.nl](http://www.cfi.kennisnet.nl)

Almost the entire teaching allocation (first flow of funds) for the universities of professional education is formula-based. There are no floors in the allocation except for special arrangements taken for funding of Art schools and a few teacher-training courses.

For the funding of universities of professional education, the following basic formula generates the amount of funds allocated for teaching:

$$\text{Amount} = \text{funding tariff} \times \text{dynamic demand factor} \times \text{enrolment}$$

There are two funding tariffs for full-time students, one for programs with a strong practical character and one for programs with a social science (so-called gamma) character. Previously, there were six “profiles”. Still, there are some special arrangements for students in performing arts, music, theatre and teacher training. For part-time students, 75% of the rates apply. Should tuition fees be changed, the level of funding rates will also be adjusted.

The funding rates are not applied to the number of registered students, but to an estimate of the teaching load (“*student demand*”). This teaching load is in turn dependent on enrolment and a so-called dynamic demand factor. The formula for this factor is as follows:

$$\text{Dynamic demand factor} = [ \text{DG} \times 4.5 + \text{DO} \times 1.35 ] / (\text{TG} + \text{TD})$$

where:

DG the number of HBO-degrees awarded (during previous year)

DO the number of students that dropped out (during previous year)

4.5 the normative funding period for HBO-graduates (4.5 years)

1.35 the normative funding period for HBO-dropouts (1.35 years)

TG total period (in years), during which graduates have been enrolled before graduation

TD total period (in years), during which dropouts have been enrolled

The dynamic demand factor can be interpreted as the ratio of the normative funding period and the actual registration period for graduates and dropouts. In case of graduates or dropouts taking more time before leaving the universities of professional education, the operation of this factor implies that the university receives less funding. If a university would be able to bring down the time to graduate or the time to drop out, this would only affect funding if the graduation (or success) rate rose simultaneously. This is due to the fact that total enrolment decreases along with shorter periods of stay.

However, both options bring along larger costs for the university of professional education. In all cases, the funding formula intends emphasise performance, especially in terms of graduation rates.

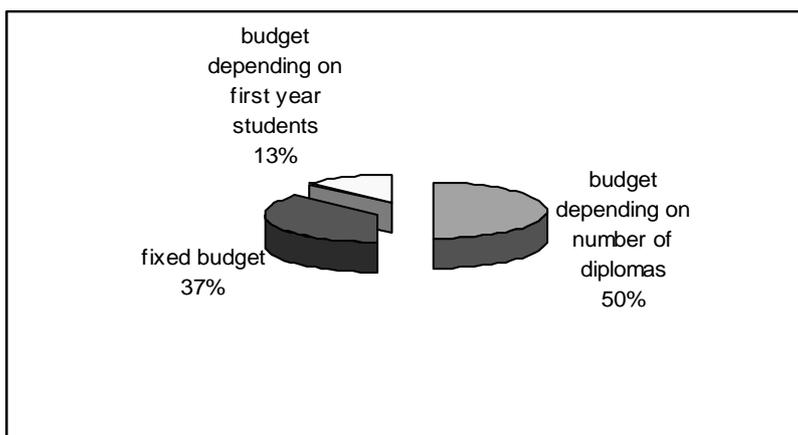


in % of total

	1990	1995	1997	1998	1999
Net state funding	73.0%	69.1%	66.9%	65.7%	65.9%
Tuition fees	5.9%	6.5%	5.9%	6.1%	6.1%
<b>First flow of funds (net)</b>	<b>78.9%</b>	<b>75.6%</b>	<b>72.8%</b>	<b>71.1%</b>	<b>72.0%</b>
Income contract activities	12.3%	15.6%	16.2%	17.1%	18.2%
Interest	1.3%	1.4%	1.4%	1.5%	1.3%
Other income	6.2%	6.6%	8.9%	8.6%	7.9%
<b>Third flow of funds</b>	<b>19.7%</b>	<b>23.6%</b>	<b>26.1%</b>	<b>27.5%</b>	<b>27.3%</b>
Other contributions	0.8%	0.8%	0.6%	0.8%	0.7%
Capital mutation	0.6%	-	-	-	-
<b>Other</b>	<b>1.4%</b>	<b>0.8%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>0.7%</b>
<b>Total income research intensive universities</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Since 2000, funding has been based on the so-called “Performance Funding Model”. This means that state funding is made more dependent of university results. The budget is composed as follows:

50% of the budget is based on achievement. Achievement is measured in terms of diplomas and Master degrees (final examination). A moving average will be used for measuring the number of degrees. On the basis of first-year enrolments, (only) 13% of the teaching budget is allocated. The underlying rationale for this component is that students are believed to base their choice of university on the quality of programs offered. However, this reasoning may not be valid in a non-transparent higher education market and students may use other selection criteria. The third component in the list above is a constant allocation per university, representing 37% of the total teaching budget (in 2000). This element is to provide stability in funding for the universities.



With regard to state funding for scientific research, more funds will be made available for innovative projects.

As shown in the diagram, the second flow of funds for research-intensive universities comes from **NWO** (*Nederlandse organisatie voor Wetenschappelijk Onderzoek*), Dutch Organisation for Scientific Research. This institution pays the salaries of researchers (and support staff) working either in NWO-universities (40%) or in research-intensive universities (60%). It also contributes to other costs or investments, but the larger part of material and overhead costs are to be paid by the receiving university. The universities pay these costs out of the funds they have received for commercial contracts. NWO acts as an intermediary in granting funds for separate research proposals submitted by individual researchers seeking funds for their projects.

## APPENDIX B - BACKGROUND INFORMATION

### General remarks concerning information presented in this appendix:

- The financial amounts mentioned in Appendix B are all in euros.
- The information collected by Cfi refers only to education funded by the Ministry of Education, not Agriculture.
- The information does not include facts about research-intensive universities and academic hospitals.

### 1. The number of universities

47 Universities of professional education,

14 Research-intensive universities (one Open University)(*Open Universiteit*)

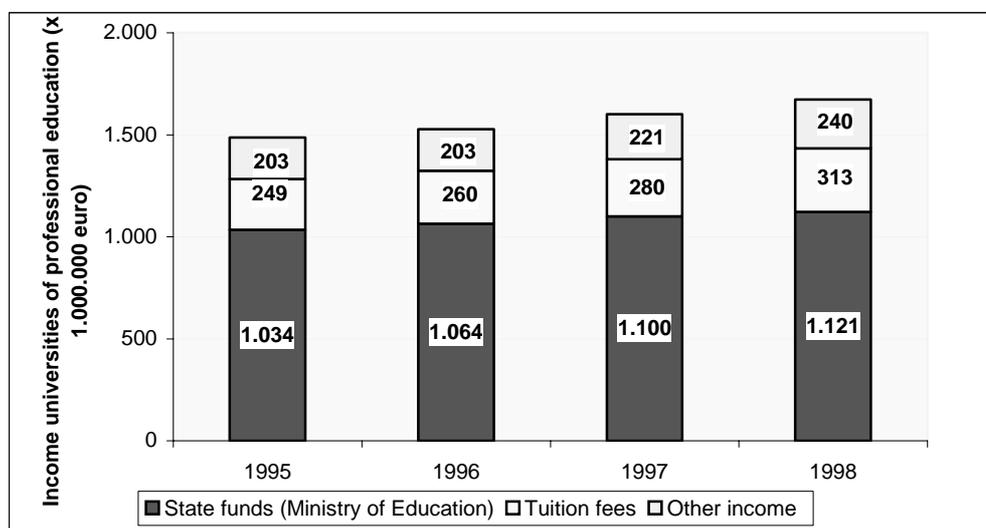
### Universities of professional education

1. Amsterdamse Hogeschool voor de Kunsten, Amsterdam
2. Christelijke Agrarische Hogeschool Dronten, Dronten
3. Christelijke Hogeschool De Driestar, Gouda
4. Christelijke Hogeschool Ede, Ede
5. Christelijke Hogeschool Noord Nederland, Leeuwarden
6. Christelijke Hogeschool Windesheim, Zwolle
7. Dr. Gerrit Rietveld Academie, Amsterdam
8. Fontys Hogescholen, Eindhoven
9. Gereformeerde Hogeschool, Zwolle
10. Haagse Hogeschool, 's Gravenhage
11. Hanzehogeschool Groningen, Groningen
12. HAS Den Bosch, 's Hertogenbosch
13. Hogeschool Brabant, Breda
14. Hogeschool De Horst, Driebergen
15. Hogeschool Delft, Delft
16. Hogeschool Dierenoord, Wageningen
17. Hogeschool Domstad, katholieke lerarenopleiding basisonderwijs, Utrecht
18. Hogeschool Drenthe, Emmen
19. Hogeschool Edith Stein/ Onderwijscentrum Twente, Hengelo
20. Hogeschool Helicon, Zeist
21. Hogeschool InHolland, Diemen
22. Hogeschool IPABO Amsterdam Alkmaar, Amsterdam
23. Hogeschool Leiden, Leiden
24. Hogeschool Rotterdam, Rotterdam
25. Hogeschool van Amsterdam, Amsterdam
26. Hogeschool van Arnhem en Nijmegen, Arnhem
27. Hogeschool van Beeldende Kunsten, Muziek en Dans, 's Gravenhage
28. Hogeschool van Utrecht, Utrecht
29. Hogeschool voor de kunsten Utrecht, Utrecht
30. Hogeschool voor Economische Studies, Amsterdam
31. Hogeschool voor Muziek en Dans Rotterdam, Rotterdam
32. Hogeschool Zeeland, Vlissingen
33. Hogeschool Zuyd, Heerlen
34. Hotelschool Den Haag, 's Gravenhage
35. Internationale Agrarische Hogeschool Larenstein, Velp
36. Iselinge Educatieve Faculteit, Doetinchem
37. Katholieke Pabo Zwolle, Zwolle
38. Marnix Academie P.c. hogeschool Lerarenopleiding Basisonderwijs, Utrecht
39. Nationale Hogeschool voor Toerisme en Verkeer, Breda
40. Noordelijke Hogeschool Leeuwarden, Leeuwarden
41. Pedagogische Hogeschool De Kempel, Helmond
42. RK Technische Hogeschool Rijswijk, Rijswijk
43. Saxion Hogeschool Enschede, Enschede
44. Stichting ArtEz, Arnhem
45. Stoas, Wageningen
46. The Design Academy, Eindhoven
47. Van Hall Instituut, Leeuwarden

### Research-intensive universities

- |  |   |
|--|---|
| 1. Universiteit Leiden, Leiden               | 8. Katholieke Universiteit Nijmegen, Nijmegen |
| 2. Universiteit Utrecht, Utrecht             | 9. Universiteit van Tilburg                   |
| 3. Rijksuniversiteit Groningen, Groningen    | 10. Technische Universiteit Delft, Delft      |
| 4. Erasmus Universiteit Rotterdam, Rotterdam | 11. Universiteit Eindhoven, Eindhoven         |
| 5. Universiteit Maastricht, Maastricht       | 12. Universiteit Twente, Enschede             |
| 6. Universiteit van Amsterdam, Amsterdam     | 13. Wageningen Universiteit, Wageningen       |
| 7. Vrije Universiteit Amsterdam, Amsterdam   | 14. Open Universiteit, Heerlen                |

## 2. Total income of universities of professional education



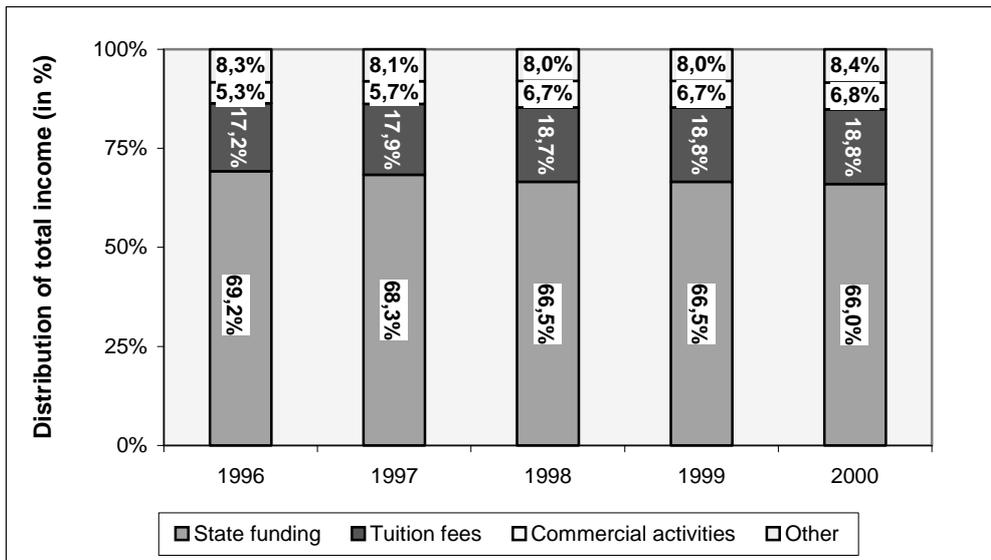
Source: Kerncijfers Cfi

## 3. Recurrent (annual) income from state funds and the way this varies in percentages between universities

The income – state funds – of universities of professional education is presented in the graph above. The diversity in the income from state funds per university depends on the number of students subscribed.

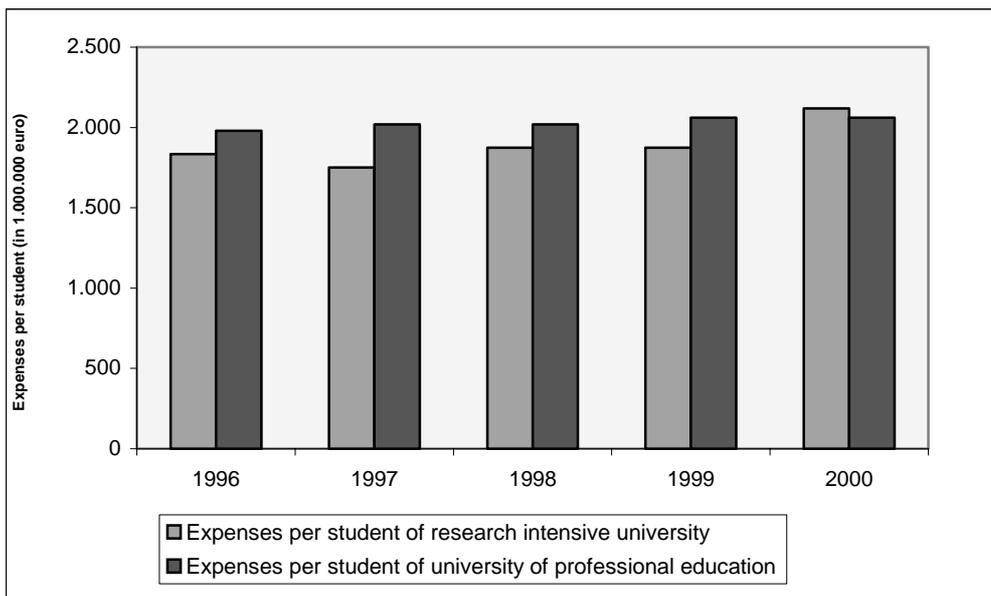
## 4. Any capital funding received from state funds

## 5. Approximate relative costs of main institutional activities; teaching and student learning; research; other activities (e.g. consultancy, social and cultural activities etc.)



Source: HMI 2001

#### 6. The value of state funding for teaching per student and the way this has varied over the past 10 years



	1996	1997	1998	1999	2000
Expenses per student university of professional education	1 978	2 019	2 019	2 060	2 060
Expenses per student research intensive university	1 833	1 752	1 874	1 874	2 119

Source: Kerncijfers 2001 Ministry of Education € correct?

## 7. Value of assets which the universities control

See balance sheet per 31 December 2000

<b>Balance sheet</b> 31-12-2000 (amounts x € 1 million)	<b>Universities of professional educ.</b>		<b>Research intensive Univ. (excl. open en agr.)</b>		<b>Total</b>	
Fixed assets	1.592,6	71,1%	2.408,7	63,0%	4.001,3	66,0%
Current assets	646,0	28,9%	1.414,4	37,0%	2.060,4	34,0%
<b>Total assets</b>	<b>2.238,6</b>	<b>100,0%</b>	<b>3.823,1</b>	<b>100,0%</b>	<b>6.061,7</b>	<b>100,0%</b>
Capital	571,7	25,5%	2.351,1	61,5%	2.922,8	48,2%
Sundry Provisions	215,5	9,6%	339,1	8,9%	554,6	9,1%
Long-term debt	771,0	34,4%	90,1	2,4%	861,1	14,2%
Current liabilities	680,4	30,4%	1.042,7	27,3%	1.723,1	28,4%
<b>Total liabilities</b>	<b>2.238,6</b>	<b>100,0%</b>	<b>3.823,1</b>	<b>100,0%</b>	<b>6.061,7</b>	<b>100,0%</b>

## 8. Annual surplus as a percentage of income and the range between universities see income statement

<b>Income statement</b> year 2000 (amounts x € 1 million)	<b>Universities of professional educ.</b>		<b>Research intensive Univ. (excl. open en agr.)</b>		<b>Total</b>	
State funds	1.307,9	66,8%	2.607,3	69,7%	3.915,2	68,7%
Tuition fees	369,8	18,9%	193,1	5,2%	562,9	9,9%
Contract activities	140,8	7,2%	637,5	17,0%	778,2	13,7%
Other income	139,5	7,1%	304,9	8,1%	444,4	7,8%
<b>Total revenues</b>	<b>1.958,0</b>	<b>100,0%</b>	<b>3.742,8</b>	<b>100,0%</b>	<b>5.700,8</b>	<b>100,0%</b>
Personnel costs	1.305,6	69,2%	2.224,7	59,4%	3.530,2	62,7%
Housing costs	201,4	10,7%	242,6	6,5%	444,0	7,9%
Other costs	380,8	20,2%	1.276,5	34,1%	1.657,3	29,4%
<b>Total costs</b>	<b>1.887,7</b>	<b>100,0%</b>	<b>3.743,8</b>	<b>100,0%</b>	<b>5.631,5</b>	<b>100,0%</b>
<b>Operating result</b>	<b>70,3</b>		<b>-1,0</b>		<b>69,3</b>	
Financial results	-25,1		41,7		16,6	
<b>Net income before ext.res.</b>	<b>45,2</b>		<b>40,7</b>		<b>85,9</b>	
Extraordinary results	-8,0		0,8		-7,2	
<b>Net income</b>	<b>37,2</b>		<b>41,6</b>		<b>78,8</b>	

<b>Key figures</b> year 2000	<b>Universities of professional educ.</b>		<b>Research intensive Univ. (excl. open en agr.)</b>		<b>Total</b>	
Solvability	25,5%		61,5%		48,2%	
Current ratio	0,95		1,36		1,20	
Profitability	1,9%		1,1%		1,4%	

**9. The number of universities which in the past 5 years:**

- **had an annual deficit**
- **had financial difficulties requiring state intervention or other external help**
- **merged or were taken over for reasons partly connected to financial viability**
- Approximately between 14 and 25 universities of professional education (30-45%) had an annual deficit during the past 5 years. We do not have long term information regarding the financial position of research-intensive universities.
- Universities of professional education do not receive support from the government when they have financial difficulties. *Stichting Vangnet HBO* advises and helps universities of professional education reorganise and supports them with financial management. An average of 20 universities of professional education are monitored more intensively, and 5 universities of professional education are paid extra attention to. The number of universities of professional education with bad financial positions decreased in 2000, compared to 1999.
- The reason for universities of professional education to merge or be taken over is difficult to assess. Reasons for mergers or takeovers may be:
  - quality improvement;
  - regional representation;
  - improvement of financial situation;
  - attracting more students;
  - being a more interesting employer.

We assume most mergers not to be related to financial distress.

In the near future, more mergers between universities of professional education and research-intensive universities will be possible.

Research-intensive universities are confronted with a deteriorating solvability. The results of six research-intensive universities are negative. The shortage of state funding available for these (all) universities is even more serious in the light of the necessary investments in real estate. Most universities have increased their estate property in the 70s. These buildings however now no longer fit current requirements of use, safety and environment.

Formally a university can go bankrupt. But is the question is if the Minister is not obliged to interfere when an institution threatens to get bankrupt. This is called “*Ministerial responsibility*” in the Netherlands. The answer to this question remains to be seen.

## APPENDIX C - KEY ISSUES RELATED TO FINANCIAL VIABILITY

### 1. How can we measure or recognize financial sustainability?

Financial sustainability can be measured or recognized by using indicators about financial position, number of students and quality. Indicators should be formulated and standards for these indicators defined. Based on these indicators previous performances and trends can be determined. On the basis of forecasts future developments of these indicators can be predicted too. This method is part of the Early Warning System (EWS) used by *Stichting Vangnet HBO*. The EWS can be used as an instrument to show the consequences of forecasts and of various scenarios, including a worst-case scenario.

The advantage of a system, which measures the development of indicators, based on periodic information about realised and expected outcomes is that it requires a well functioning planning & control cycle. Necessary ingredients to such a planning & control cycle is a long term forecasts and scenario planning.

### 2. To what extent are universities able to manage their own financial sustainability?

Universities are able to manage their own financial sustainability, if they have enough financial means at a macro economic level.

### 3. What indicators can be used to classify universities as strong and vulnerable?

In order to assess the performance of universities and to classify them as strong or vulnerable three kinds of indicators can be distinguished:

#### 1. *Financial indicators:*

- solvability
- current ratio
- profitability

#### 2. *Student-related indicators:*

- number of students
- number of employees related to number of students

#### 3. *Quality indicators:*

- student satisfaction
- employability of graduates, etc.

#### 4. *Other indicators*

- Balanced mechanism
- Negotiation at sector level

#### **4. What is the relative importance of different factors in determining universities' financial sustainability?**

A limited list of factors determining financial sustainability is given below. It is difficult to rank the factors in order of importance due to some factors influencing each other. For example, state funding depends on the development of the number of students; the economic situation and relative importance is influenced by diversity of activities and funding sources. We arrived at the following order of importance:

1. State funding and policies form the basis for the financial situation of most universities of professional education. For both universities of professional education (HBO) and research-intensive universities (WO), state funding is the most important source of funds.
2. Management quality determines whether correct strategic decisions are made. In many cases weak management means a weak financial situation.
3. Type of institution is related to state funding on the one hand and the opportunity to use other funding resources on the other hand. A small institution has a higher risk of changes in student demands than an institution, which offers a broad spectrum of educational programs.
4. Strength of assets and reserves, forming the capital of the university, influences the power to deal with financial setbacks.
5. Growth of universities (e.g. student numbers). Our benchmark studies do not show a clear link between the growth of a university and its financial results, but when large capital outlays are necessary then smaller universities are faced with greater risks.
6. Diversity of activities and funding sources. Research-intensive universities have more sources of funds than universities of professional education. This makes universities relatively less dependent on state funding.
7. Governance. In addition to management quality, governance as a whole influences the financial position.
8. Economic situation in the country influences government policies, and in doing so the financial means available for education. If savings are necessary universities for higher education too will be confronted with less state funding.
9. History of the university is related to the growth of the university. A university with a good reputation is expected to have a constant or even increasing number of students. Among other factors, this determines the amount of state funding. History of the financial position of an institution is important too. An institution with a weak financial position over a longer period of time will not increase confidence in its future prospects.
10. Academic culture. An academic culture will hardly influence financial sustainability.

**5. What examples can be found to monitor the response of universities to financial problems?**

The following examples show different ways in which universities may deal with financial problems:

- Reorganizing, in the form of defining a new organisation structure or by releasing personnel;
- Merging, takeover or joint ventures: mostly to realise concentration of activities in a certain geographic area;
- Starting new disciplines/courses in order to attract new students or new groups;
- Concentrating various buildings in one location so as to reduce housing costs;
- Outsourcing of supporting or risky activities.

**6. In what way did government policies help universities solve their problems?**

The Dutch government does not help universities on an individual basis. The government can make additional budgets available for the educational sector as a whole. Other assistance can be offered by a less strict interpretation of existing regulations.

**7. How are strong universities without financial problems to be characterized?**

Strong universities are characterized by:

- good management;
- strong Human Resource Management;
- well functioning Planning & Control with rolling forecasts;
- dedicated investments in new disciplines and housing.

**8. In what way did government policies help the universities to achieve this?**

Government policies helped the universities indirectly. The trust *Stichting Vangnet HBO* (implementation of Early Warning System) offered universities of professional education a financial advisory body and showed them the need to implement a planning & control policy.