

ALBANIA: Tertiary Education

Policy Brief #4 - Options for University Governance under Autonomy



Ministry of Education and Science



The World Bank

The Higher Education Law 2007 is a big step towards autonomy for universities in Albania. It is the Government's intention, stated in the Strategy for Higher Education, to take the second step to full autonomy when universities are ready for it. Policy Brief #3 provided guidelines to universities about the governance changes needed to implement the new Law. This policy brief addresses a number of changes that would be needed at the national level to provide universities with full autonomy, most of which would also require changes to the Law - and not just to the Higher Education Law, but to finance laws too.

Full autonomy would mean that there were issues about which Government would no longer be concerned as they would then be matters for each university:

- the organization, operational procedures, management, committee structures, both for the academic arrangements and for the administration; perhaps some centrally set guidelines about the composition of Senate might be retained
- opening or expanding, closing or contracting courses or programs; but there would still be national conditions for universities to satisfy before they could open a second or third cycle program
- the numbers of, criteria for, and appointment to, academic posts and senior management posts (e.g. Dean); as an interim condition, there may need to be national minimum qualifications for some posts (for teaching posts, these would not include any research requirements)
- the employment of foreign academic staff
- criteria for the selection of students - but using a national process, not a university specific one, as in the Strategy for HE
- the recruitment and pay for Chancellors at the level needed for an autonomous body of the size of a University
- pay flexibility - although this should be phased in very gradually
- procurement arrangements, but only below a centrally set threshold

In addition, even in an autonomous system, there will be important checks and balances to be undertaken at national level, not least to ensure that universities are using their autonomous powers responsibly. This is an aspect of external accountability. It is for discussion which checks should be the responsibility of which central agencies and how they would be operated. The main points to check will be:

- every four years, that each university has a valid Strategic Plan which realistically reflects its position and is consistent with national strategy
- that each university operates with a University Board which has a majority of external stakeholders and a centrally defined set of powers (phased in over time, starting with the 'Administrative Council' - see section 3 below)
- that each university operates an effective internal quality assurance (QA) process which is itself checked by the external QA process of the National Accreditation Agency (NAA)- both of which should assess teaching methods and the extent of cross-disciplinary programs
- that each university operates an internal 'appeal' mechanism for students and another one for staff
- that each university has an effective system of financial control, assessed by the external audit
- that each university publishes an annual report which covers centrally specified headings, including defined performance indicators, the results of its external audit and any report on its quality from the NAA

In addition to changes at Government level and to the various laws, full autonomy would require further development of governance in universities in four areas:

- **academic** in terms of opening and closing courses and programs and of academic structure
- **staffing** in terms of numbers, deployment, levels and grades, and pay
- **finance** in terms of the application of State funds
- **external accountability** to provide the balance to greater autonomy

For **academic matters**, the main change under full autonomy would simply be that universities could open or close courses or programs without any need for approval from Government. The decisions would be internal to the university - though whether the university would be funded for students on new programs would be a matter for Government.

For the other three areas, the governance changes in universities would need to be much more substantial. This policy brief provides outline guidance for these additional changes under the other three headings above. Only after a university was successfully operating with these new governance arrangements should it be considered a candidate for the final step to full autonomy. This implies that different universities might move to full autonomy at different speeds.

For full autonomy, the further governance changes outlined below would benefit from being piloted in two or three universities. The early implementers of the changes university autonomy could be invited to be pilots for the changes below. The pilots would need to run for a further two years - and would need considerable external technical assistance. The pilots would also require some form of Memorandum of Understanding with the Government as they would need special dispensation from articles of various Laws.

For the pilots, the Government would develop a checklist of points; once a pilot university had satisfied the checklist, it would be able to 'graduate' to full autonomy. This would need changes in legislation, particularly if full autonomy was to include the university employing its own staff (rather than them being employees of government) - see section 1 below. It may even require the universities to be given the status of a different form of public body. Ideally, the pilots would be TU and one or two of the regional universities - but this would depend on TU being a fast implementer, which cannot be taken for granted.

1. Staffing

For a university to operate with autonomy on staffing it also needs autonomy on finance - although not vice versa. Full autonomy on staffing would mean that all staff would be employees of the university - and not of the State. A number of countries have made this change in the status of university staff, usually as the final step on the road to autonomy, but it is not easy and can be contentious.

Unless the staff is employees of the university, there will always be constraints on the autonomy of the university. Nevertheless, even without staff becoming university employees, universities could be given more autonomy on staff than they have under the 2007 Law. There are thus two levels of autonomy on staff to consider: partial autonomy in which staff are not employees of the university and full autonomy with staff as university employees.

Under **partial autonomy**, it would be possible to allow a university to determine its total staff numbers (academic and non-academic), as long as this was done within its overall budget, and also to determine the deployment of staff across the university. The staff numbers in any Faculty would be an outcome of the Planning and budgeting process as staff would be one of the (costed) resources within the Faculty's plan proposals (see section 2 below). Thus staff numbers would be determined by the activities agreed for the Faculty - and not the other way round as tends to be the current position. Control on staff numbers would be through the budget rather than directly on staff numbers - which should be just as effective.

Under partial autonomy, there would still be national grade levels for staff, but it would be for the university (not the Council of Ministers) to determine which grade (and hence pay level) applied to which post; central control on pay costs would be through the limit on the overall budget. Each university would

need to determine its criteria for selecting, appointing and promoting staff at the various levels. The criteria for an appointment to a post would be the same as for promotion to it.

The criteria developed for selection and promotion would need to be consistent with the mission and strategic objectives of the university. Apart from TU, this would mean that the criteria for academic appointments and promotions would be related to a candidate's teaching as, outside TU, virtually all posts are teaching ones. Only in a few exceptional circumstances would the criteria include any reference to research qualifications or record. For a while, some centrally set minimum standards may be needed to limit potential abuse - although these should still not refer to research qualifications or record.

The appointment and promotion processes of the university would apply these criteria when assessing applicants for a post. The assessment would normally be done by an interview panel as the criteria would require judgments rather than simple measurements. The university would need to design appointment and promotion processes that were fair, transparent and designed to select the best candidate for the job; the processes would also need to be seen to be fair and transparent. Report A explained that the need for an appeals process for applicants who considered that they had been unfairly or improperly treated.

For administrative and support staff, the same principles would apply of having objective criteria for the selection to a post and fair and transparent selection and promotion processes. Universities should develop a system that is suitable for their circumstances in order to ensure that they select (and promote) the applicant who is the best candidate for the job.

With **full staffing autonomy**, universities would need, either together or separately, to set the grades for all levels of staff and to negotiate pay scales for each grade; this would be totally new territory for universities. Universities would also need to develop and fund pension arrangements for their staff; not only is this difficult, but it is also expensive and agreement would be needed with government about how pensions were to be funded in future. Universities would also need to develop and operate a payroll system for staff, linked to, and perhaps run by, the Personnel function. This would all require a major study in its own right.

2. Finance

In a fully autonomous system, Albanian universities would receive State funds in a small number of blocks. The amount of funds in each block would be determined on the basis of formulae using outputs, mainly student numbers, and with no account taken of inputs such as numbers of staff.

The main changes at Government level would be:

- to provide universities with their State budgets in 2 or 3 blocks, without line items, and to an agreed cash flow profile
- for each University to produce its own plans, budgets and resource allocations - covering its full budget including State funds, and without the need to submit it to any part of Government
- once the university had established an effective external University Board with a majority of external members (see section 3 below), the Board would be the body that gave the final approval for the plans and budget; it would be essential for the Board to check that the budget balanced
- universities able to be flexible on end-year carry over of finance - although there may need to be some limits to carrying forward deficits
- universities required to develop and operate their own financial regulations and accounting policies, but subject to centrally set 'high level' conditions

There would be no external constraints on staff numbers, grades or appointments (or, perhaps later, pay). The planning process would require a number of additional tasks for the university:

- convert all resource requirements into the single dimension of finance, both for the Faculty level plans and also at university level for all decisions about resource allocation

- the planning and resource allocation process would also be a ‘budgeting’ process, with all resource requirements converted to finance so that the university could ensure that its total budget balanced its expenditure with its income
- the result would be a full activity budget for the university for the academic activities and for the administrative ones; this would include the costs of staff
- submit the (balanced) budget to its external University Board for final approval - and not to Government; for accountability, the Board would need a majority of members from outside the University (see section 3 below)
- determine the format of the budget in the way that was of most value for university management
- develop its financial regulations, its accounting policies and accounting framework, including the concept of accrual accounting and arrangements for the carry over of unspent (public) funds between years
- set investment priorities - but probably still with the need for prior Government approval for any major capital expenditure
- develop policies and rules about income generation by staff - which should balance encouragement to staff with the prevention of abuse
- extend the concept of budget centers and budget holders with defined levels of delegated financial authority and with appropriate accountability
- select, hire and pay a Chancellor with the qualifications, skills and experience necessary to run the finances of an organization with the complexities and the size of budget turn-over of the university
- as part of financial control, ensure rigorous and independent internal and external audits, defining their roles, methods of appointment and reporting arrangements

This level of financial responsibility will be one of the most difficult management challenges for any university - even more complex for a university with an associated hospital. There is no doubt that universities will need experienced external help to address these and related issues.

One important decision for universities would be the extent to which there would be any **delegation of financial authority** arising from the new responsibilities to Faculties and/or units; this is very complex area which, if not done well, can result in severe financial problems for the whole university. There are two critical aspects. The first concerns questions about who can make what level of financial decision and how they would be held accountable for their decisions. The second is that the university needs to have sufficient overall financial control to prevent it from drifting into bankruptcy without realizing it - as has happened in some other countries. The main points to be considered when developing any system of financial delegation are set out below; there is no doubt that well informed external assistance will be required to ensure the two concerns above are properly addressed - they are the main reason for failures elsewhere.

For the delegation of financial authority, the university would need to be clear exactly which types and what levels of expenditure are to be delegated and how overall financial control for the university is to be ensured. There are a number of aspects:

- the definition of the budget centers (Faculties and/or basic units, as well as the non-academic and auxiliary units) to which financial responsibilities would be delegated, ensuring that any budget hierarchy below university level (both for resource allocation and for financial control) followed the management hierarchy (see below)
- a clear statement of the powers and responsibilities of each budget holder (mainly the Deans and Heads of Department), with specifications of the types and levels of expenditure for which they would have financial authority. This should also include the method by which he/she would be held accountable for decisions about expenditure (and income, where relevant). Each potential post holder should accept these points in the job description as a prior condition for being considered for the post (see section 3 below)

- the methods by which costs would be allocated to budget centers and hence the basis for activity costing, for example with approximations from proxies for usage for some central services and pro-rata allocations for others
- ways to ensure that each budget holder knew his/her budget (produced through the Planning process), with profiled financial targets over the year, both for income and for expenditure
- the way that expenditure (and income, where relevant) would be monitored against the profiles for the purposes of financial control (both 'locally' and at the centre), the financial reports and end-year forecasts that would be produced and how they would be made available in a timely fashion both to the relevant budget holder and to the Rectorate for overall financial control (see below)
- the way that deviations in financial performance would be detected if they were too far from the planned profiles and what forms of corrective action would be taken - either to return to the plan, or to modify it with matched balances elsewhere in the budget; this would include the possibility of sanctions in extreme cases
- the data that would be needed for these levels of financial control; where and how it would be collected, held and updated; to whom it would be supplied and who else would have access to it
- how all the above arrangements would operate at the Faculty level in terms of reporting lines and organizational arrangements

Autonomous universities also need a **system of financial control** to monitor and control its own expenditures - and to keep track of their income from whatever source. Financial autonomy means that a university would not have a safety net provided by Government - neither to prevent it from overspending in the first place nor to bail it out if it overspent. Financial control is required whether there is any financial delegation or not - but the more that financial responsibilities are delegated, the stronger the system of financial control needs to be.

This is a complex but essential area; without adequate monitoring and financial control, a university can find itself in serious financial trouble. The design of a financial control system will certainly require external accountancy advice. The key actions needed by a university to develop a system of financial control are:

- **Establish a budget hierarchy that follows the management chain within the university.** This is the structure of successive levels of responsibility through which a member of staff (academic or non-academic) would exercise his/her responsibilities for meeting financial targets - sometimes through dividing the total and delegating sub-targets to those at the next level below. The means through which the responsibility is delivered would be through the normal management process of reporting up the management chain. Through the management chain, the Rector should be able to ensure that overall expenditure was controlled.
- **Appoint budget holders and define their levels of delegated authority, responsibility and accountability.** The budget holders would normally be those with the relevant management responsibilities (e.g. Deans; Heads of Department) with their responsibility being up the management chain. The university should compile guidelines about exactly what are their responsibilities in terms of financial authority, control and reporting; a short training course is likely to be required for those with such responsibilities.
- **Determine the financial data to be collected and how it is to be presented in monthly monitoring reports** on income and expenditure at each level in the budget holding hierarchy (University, Faculty, Department). These monthly reports would be the means by which the university controlled its overall expenditure.

Then, every budget year, the University would:

- **Decide the income and expenditure targets for each budgetary area.** The overall financial plan and budget would be determined by the planning and resource allocation process. All aspects of

finance within the plan must be the responsibility of a designated budget holder/manager and the budget should be 'profiled' over the financial year to provide the basis for identifying deviations from it and hence any need for budgetary control.

- **Monitor financial progress against the profiled financial targets for each area, identify deviations and take corrective action.** This should be done by the Rectorate, on the advice of the Chancellor, as the members of the Rectorate, between them, would be responsible for all university expenditure; this task would be unfamiliar to most members of the Rectorate. The procedure should be simple and the financial reports should be clear and as brief as possible, consistent with financial control. The monitoring should be monthly, with a budget holder required to produce an exception report if his/her budget was not following its projected profile. The budget holder's report should explain the size of any deficit, the reasons for it and the actions that he/she proposed to take to correct it. Such reports should be presented to a regular meeting monthly of the Rectorate. Three times a year, all budget holders should produce a regular report that set out progress and forecast their expenditure to the end of the financial year.

3. Accountability

Greater autonomy for a University carries with it the need for clear accountability, both for internal management and externally. There are two further requirements for accountability before any university should be given full autonomy, one is a more complete approach to internal accountability, the other is for external accountability to the community and the nation.

Within the 2007 Law, some internal accountability would be provided by the arrangements for internal management. But a fully autonomous university needs to have stronger internal accountability for its management. In particular, appointments to senior management posts should be on the basis of an objective assessment of an individual's competence and ability to do the job - and not simply on his/her popularity as reflected in an election. The senior management posts concerned are those of the Rector, Deputy Rectors and Deans.

Of course, it would still be important to ensure that the successful candidate had the confidence of those for whom he/she would have management responsibility. This should be combined in a selection process that assessed the individual's willingness and ability to undertake the job as defined by its job description. This combined approach could be achieved, for example, by a selection panel which made the appointment decision with a formal assessment interview, but with the remit to take into account the views of the relevant academic community. The starting point would be to advertise the post and invite candidates to apply, based on their understanding - and acceptance - of the job description.

For the post of Rector, an appointment panel should include a majority of outsiders drawn from the external University Board; the Chair of the panel should be one of the external members. For the posts of Dean, the final decision could be that of the Rector (as for Deputy Rectors now) - after taking account of the views of the relevant faculty; alternatively, the Rector could chair a small panel comprising two or three members of the Faculty concerned and one or two from other Faculties. The Annex provides an example of a job description for a Dean.

The other essential pre-requisite for full autonomy would be that the university had strong **external accountability**. There are two main components. The first is that the university should have rigorous, independent external audits, annually for finance and perhaps every four years for academic quality. The results of both audits would be included as parts of the university's annual report. The annual report would also set out the university's achievements over the year, including a range of performance indicators (such as student destinations); it should be a public document, published as soon after the end of the financial year as possible.

The second component of external accountability is a "University Board" on which there should be a majority of stakeholders external to the university. The remit of the 'Board' should include agreeing the overall strategic direction of the university, its plans and budgets and its method of financial control. There

are often fears about an external Board, but the concept is a clear international trend. To allay fears, the University Board could be developed in stages, perhaps starting with the (rather mis-named) Council of Administration as set out in the 2007 Law. This Council could act initially as an advisory board and extend its powers gradually over time to become a University Board; this would give the university - and the Council/Board itself - time to become confident about the value of the roles it can play.

Universities would need to think about the development path that the Administrative Council might take to become the University Board, defining its initial remit and its subsequent remits in stages, along with a timetable for the development. The staged changes would include the steps to having a majority of the Board's members from outside the university, as well as determining how the external should be selected (and from what 'constituencies' or interests), for how long they would serve and how they would be replaced at the end of their term. The total size of the final University Board should be 15-20 people, with at least two thirds of its members being external.

Useful materials and examples from other countries

Committee of University Chairmen (2004). Guide for Members of Higher Education Governing Bodies in the UK.

http://www.hefce.ac.uk/pubs/hefce/2004/04_40/04_40.pdf

Denmark Ministry of Science Technology and Development (2003). *Recommendations for Good University Governance in Denmark*.

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Higher Education Authority and Irish Universities Association (2007). *Governance of Irish Universities: A Governance Code of Legislation, Principles, Best Practice and Guidelines*.

http://www.heai.ie/webfm_send/1609