

For the attention of: Budget Committee of the European Parliament
From: "Futuro Scuole" Working Group,
The Parents Association of the European School in Varese,

Subject: Fees for category 3 pupils in the European School system

Introduction

Since the October 2003 meeting of the Board of Governors of the European Schools¹, and recently in a meeting between Mrs. Skikos (EC-DG Admin) and Parents at the European School of Varese this week², the European Commission has used the so-called "Boesch-Report"³ from 2002, as an excuse/alibi to pursue policies that have devastating impact, not only on Category III families already present in the European Schools, but on the European School System as a whole. The Commission states that their actions are simply execution of the Budget Committee's will; therefore, we address the committee directly to present our case in the hope that the committee will clarify to the Commission how it's previous indications should be interpreted and/or restate the policy objectives.

As a matter of simplicity, only the Category III fee issue will be addressed in this document.

In the document we will argue that, in our view, the policies and actions pursued by the Commission in relation to Category III fees, are:

1. Incoherent with other main messages in the Boesch report
2. Of doubtful legal basis and in sharp contrast with sound administrative practices
3. Based on an incomplete economic logic

For points 2 and 3 points, both individual parents, the various Parent's Associations and Interparents (the association of the parent's associations) have produced documents that present detailed arguments and documentation for the malpractice and dubious economic reasoning. In this document only the main points will be summarized.

¹ 212-D-2003-en-3

² 7/2/2005, Ispra

³ PE 318.707

Incoherence with other messages in the Boesch Report

The Commission's idea to increase Category III fees in the European Schools from an average of 2900€ in school year 2003/2004 to 9700€ in 2009/2010 (with peaks of 12.500 for secondary pupils) is apparently based on the Motion for Resolution⁴ point 21 wherein it is written;

“Requests the Board of Governors to present to the budgetary authority, before 1 March 2003, a proposal to bring the tuition fee (Fr. 'minerval'), requested from the parents of the pupils, more into line with the real cost per pupil; that tuition fee should be at least equal to the allowance which EU officials receive for children in full-time education”

As of today, the Commission has focused only on Category III fees and not for example on the costs of the school system and the suggested fee increases for Category III pupils, as will be discussed briefly below, actually goes far beyond “the real cost per pupil”. Furthermore the exclusive focus on raising Category III fees and the impact of the suggested increases, is in direct contradiction with other resolution points from the same motion, most notably:

Point 3:

“Considers, nevertheless, that the European schools foster a stronger sense of European identity and that, therefore, the maintenance of existing European schools or the foundation of new ones constitutes a positive step towards European integration”

It is beyond doubt that if the suggested fee increases for Category III pupils are implemented the “maintenance of existing European schools”, at least as we know them, is not possible. The reasons are as follows:

- Cat III pupils contribute to create critical mass for courses and culture in the system.
- The admittance of Cat III pupils to the school is a long term prerequisite for the financial contributions the “system” receives directly from the member states as direct contributions in form of seconded teachers, land and buildings. These contributions can cover up to 50% of total costs of running the schools⁵

Point 6:

“Invites local, regional or national authorities that appreciate having a European School to explore additional ways of practical and financial cooperation and participation”

and

Point 7:

“Insists on more independence for each of the European Schools, which should allow them to undertake fund-raising activities, such as providing language courses and which should improve the integration of the schools in the regions in which they are operating; is therefore in favour of a budget structure that makes funding available per school according to agreed and objective criteria”

The Commission's exclusive focus on raising Category III fees, with all its negative impact on the school system as a whole (see above) can be avoided if more effort is put in involving the

⁴ 2002/2083 INI

⁵ Estimate for Varese using the Commissions numbers, adjusted for the non consideration of the costs of land and buildings

host nations/region. It is the host nation that actually has most of the benefits (cost savings on national school system and attractiveness issues)

Legal aspects and sound administrative practices

We understand that the Budget Committee and the various resolutions voted for in the Parliament cannot go into detail with implementation aspects, but when the Commission continues to use the Parliament as an “excuse” for its actions we feel that the Committee should at least be aware of how it’s indications are interpreted and implemented.

In its implementation of its (doubtful) interpretation of the resolution with regards to Category III fees, the Commission has, in our opinion, committed a breach of contract and violated sound administrative practices. The legal aspects are currently under scrutiny in Belgium where a legal case has been initiated, and a second case is currently under assessment by the Ombudsman. The key points of the legal case and the violation of sound administrative practices are described in Appendix A and can be summarised as follows:

- Families who enrolled their children in a European School have done so under certain economic assumptions and indications. The proposition to apply a 335% average fee increase over a 5 year period forces families to take out their children and often leave the country because most of these children are not able to enter into a normal state schooling system.
- Until the legal aspects of any suggested fee increase have been settled, sound administrative practice would call for a halt in increases, yet the fee increase continues.
- The only indication of future fee increase was indicated in a document issued in 1994 stating that the school fees would double over the following 10 years. In fact, fees increased by more than 300%.

The suggested fee increase for Category III pupils are based on an incomplete economic logic

The way the Commission has decided to interpret the “real cost per pupil” statement contains a number of illogical flaws. In Appendix B and C a detailed analysis of the problems is indicated. The problems can be summarised as follows:

- As Category III pupils are admitted only on a residual basis, and only if no risk of class division is perceived, the real costs of Category III pupils are the marginal costs that the schools incur when admitting them and NOT the average full cost of all students that the Commission is claiming.
- Because of different fiscal situations of Category I, II and III, the categories overall contribution to school financing varies (because of the indirect contribution through member state taxes). This impacts on the net costs for Category III families, but the fiscal aspects are neglected by the Commission.
- In its latest working documents the Board of Governors and the Commission have begun to apply the concept of “market pricing” as an alternative principle to set fees.

This principle is in many ways flawed. First, market pricing would indicate a marketable product. However, Category III are not admitted on market conditions in the same way they are in private schools as they are admitted on a residual basis. Secondly, it is questionable whether the Commission, in order to subsidize their staff and employee costs of schooling, should be allowed to “sell” capacity and services which are not financed by the Commission itself.

We therefore request that the Budget Committee clarifies to the Commission the “Boesch Report” and that the associated Motion of Resolution should in no way be the justification for the actions initiated to drastically increase the Category III fees. In addition, that they also respect the rights of the parents who have chosen this system of education for their children, who have engaged in this in good faith, with no indication of the future intentions of the Board of Governors. That they respect that this is a long term decision of a minimum of 12 years and that they consider carefully the propositions of the school fee working group (2005-D-31-en-1), which is preparing its next report for the Board of Governors meeting in April.

Best Regards,

Luca Recalcati,
Chairman of the “Futuro Scuole” Working Group, Parents Association of Varese

For any clarifications do not hesitate to contact our members.

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APPENDIX A: LEGAL ASPECTS AND ADMINISTRATIVE PRACTICES

Resolution of the Varese Parents Association Working Group “Future of the European Schools “.

The Parents Association at the European School of Varese is united in its defense of all children in the school, regardless of their category, language section, learning difficulty, disability, nationality, religion, race or exoneration. It is the joint view of Interparents (APEEE) that the fee increases will impose the "elite ghetto" idea that has been avoided by the admission of Category 3 children at fair prices. The Category 3 parents are disappointed that the Board of Governors exceeded, by more than 300%, the statement made in 1994, that the fees would double in 10 years, and are seeking to redress this situation. We are particularly concerned that this year the closed-door policy in Varese has refused entry to a large number of children into sections that are relatively empty, which we fear may later be threatened with closure.

THE EUROPEAN SCHOOL CAT 3 FEE INCREASE POLICY

This fee increase policy is discriminatory on the basis of the proposal submitted by the EC and enclosed with document 2004-D-5810-en-1-enclosure 1 (dated 17-12-2003). This document outlines a plan for further increases in the school fees, starting from a minimum of 50% (€ 6,750) to a maximum of € 15,000 in 2010/2011.

There has been a clear breach of the contract which parents accepted at the time of admission to the school. In document 1711-D-2004-en-2 par 1 point 3, the Board of Governors decided the percentage increase in school fees to be applied over a number of years and it undertook to not exceed it. This is the same undertaking that was offered to the parents of pupils admitted to the ES at the time of their admission. The Board of Governors has NOT honoured this agreement. Why should we expect them to any future agreement? In addition, the document dated 8 December 2004 signed by Mr RYAN (ref. 712-L-204MR/jg), Secretary General of the European Schools, states that the school fees would double over a period of 10 years starting from 1993/1994 (meeting of 26+27 April 1994); however, it completely fails to mention that, in reality, the increase turned out to be in excess of 300% in this period (1993-2003).

This discriminatory policy is particularly disrupting for those NATO officers based in Solbiate Olona that receive no educational subsidy from their own countries (eg Greece). These officers have experienced severe trouble in the admission of their children to the ES. To secure their admission, these families were forced to pay out of their own pockets the costs of Category 2 pupils.

This highlights the lack of clarity in the definition of the contracts for Category 2 pupils, which in turn casts doubts on the real intentions of the school. The new contracts stipulated with local or individual companies de facto bypass the problem of Category 3, and guarantee admission only to pupils backed by extremely affluent families (those who can afford school fees of 12,000 euros/year). This will lead to the overloading of the Italian and English sections which are the main demand of the Category 1 new entrants, and to the desertion of the smaller language sections which may in turn be up for closure. (Gaignage Criteria).

This policy is in violation of:

1. **The right of admission of Cat 3 pupils is based upon the availability of residual places.** The decision of the Board of Governors dated 24-10-1989, in fact, states that the pupils of Cat 3. are admitted to the ES under the condition that the class has room to accept them and that the headmaster maintains a cushion of available places to allow admission of Cat 1+2 pupils during the year. In Varese this has not happened. The school has denied the admission of cat 3 pupils in the German section where classes have 10 to 15 pupils (evidently allowing sufficient availability for admission of Cat 1+2 pupils during the year). The Board of Governors in its meeting of 24-10-98 established that Cat 3 pupils are fully entitled to admission to the European

School under the condition that the headmaster reserves sufficient places in each class to allow the admission during the year of Cat 1 or 2 pupils.

2. **Good financial management of the schools.** In Varese, the admission of such Cat 3 pupils would have resulted in additional financial resources for the school. These resources would have helped to offset the fixed costs already being incurred by the school. This, in turn, would have limited the need for the school to request a “Budget correction” of € 615,793 (see doc 41-D2004-FR-2 – par B6).
3. **The transparency of this institution.** The number of pupils in Varese for the year 2004-2005 is 1,312. The number of pupils in 2003-2004 was 1,335. The ES has compensated in the decrease of Cat 3 pupils (107 Cat 3 pupils less in 2004-2005 compared to 2003-2004) with an increase in the number of Cat 1+2 pupils. As Cat 1 and 2 pupils pay the full costs of education, how is it possible that the school has a 600,000 euro hole in its budget?

This policy of eliminating Cat 3 pupils may, therefore, lead to the closure of those sections with fewer pupils (e.g German and Dutch), followed by the closure of the so-called smaller schools, and then of the others (including Varese) with the possible exception of those in Brussels and Luxembourg. **This will have the effect of limiting the mobility of scientists and officers of EU, as is currently happening in Parma.** It will eventually affect the families of Cat 1 pupils. It will also reduce the opportunity for existing pupils when they choose subject options in secondary school, as there are criteria applied for minimum class sizes.

The mobility of EU employees, is further impaired for those students that do not belong to a language sections (otherwise known as SWALS – students without a language section – e.g. in Varese: Greeks, Portuguese, Spaniards...) and those students needing learning support.

The recurring principle in all documents that have been issued by the Board of Governors is that the ES have been created uniquely for the benefit of the employees of the European institutions. This, however, nowadays, is only partially true. Subsequent decisions have broadened the right of access to the schools to other citizens. At present, this right is being undermined, de facto, by the enforcement of unaffordable fee increases, and by taking a political decision that is the prerogative of the EP only.

Notwithstanding that the right of all citizens to be admitted to the ES was established in the decision of the Board of Governors of 24-10-1989, there is, however, no mention of the need to maintain the ES as an instrument to create a true European Citizen. It was fundamental that this principle was considered vital when the schools were created, but this has given way to financial needs over the years. Shouldn't we find a way to strike the right balance between financial needs and the real purpose of the creation of the EU itself?

The parents of the Pupils of the ES demand that there is transparency in the rules for admission, currently kept secret. This attitude has led to unpleasant surprises and doubts which are discrediting the reputation of all the European Institutions and its executive bodies and are acting against the indications provided by the EP.

APPENDIX B: LETTER TO BOG, FEBRUARY 2004

APPENDIX B: BASIC COST DEFINITIONS AND CALCULATIONS

In this appendix some basic definitions and calculations of costs using the budget of the European School of Varese is reported. The reason why a definition appendix is thought useful is because the term “Real Costs”, often used in the documents, is not a recognized economic or accounting term. The “real cost” per pupil depends on what you perceive as pupil driven costs

and whose cost you actually calculate. In relation to Category III fees there are, therefore, two different, but interrelated issues:

1. What are the costs of adding a Category III pupil to the school population?
2. Whose cost should be considered?

If we look at the first issue, there are 3 possibilities to assign costs to Category III pupils:

- Full costs
- Marginal Costs
- Variable Costs

Full Costs

The method (implicitly) underlying the Commission's cost calculation, is the Full Cost Method. Under this method the School's total operating budget, in Varese, is approximately 16mn€/year. Divided by a total population of approximately 1350 pupils, the full cost per pupil is 11.800€ very close to the suggested 12.000.

The logical flaw in applying this method is mainly related to the fact that Category III pupils are admitted only on a residual basis, and therefore do NOT increase or drive ALL cost items in the budget. Because Category III students do not have the same admission rights as Category I, it appears unreasonable to charge the full costs to Category 3.

The other logical flaw with the method regards the fact that the calculation does not take into consideration the fiscal aspects of the fees and therefore the indirect contributions:

An eventual alignment between Category II and Category III nominal fees will only be an apparent alignment. For fiscal reasons the net costs to the paying party is very different indeed. Companies that are contracted to pay school fees for their employee's children can deduct these expenses and thus will have a net cost equalling the nominal school fee * 1- the corporate tax rate. Category III paying families on the other hand have to pay fees out of their net-income. The impact in terms of how much of their overall gross salary there must be allocated to school fees equals the nominal school fee * 1/personal income tax rate. In the following table I've tried to illustrate this impact on salary allocation for a family with 2 children in Category II and III respectively:

	Cat II	Cat III
Nominal School Fee (2 children)	€ 24.000,00	€ 24.000,00
Tax deduction of expenses (ct=35%)	€ 8.400,00	€ -
Net Expenses	€ 15.600,00	€ 24.000,00
Salary allocated to school fee (it=50%)	€ 15.600,00	€ 48.000,00

(ct=corporate tax rate, it=income tax rate)

The reason for the big differences in the impact on salary allocation of the two examples of course is that not only is the expense for Cat. III pupils (at least in Italy) not tax deductible, but it has to be paid of an already taxed income.

This example shows that a nominal alignment of school fees between corporate and private paying parties will effectively eliminate the possibility of Category III parents with “normal”⁶ income to put their children in a European School.

The third aspect of the full cost approach regards the cost basis. In the Commission’s logic, Category III pupils should be asked to pay the full costs, even though more than 50% of these costs (in the case of Varese) are actually financed by other parties, notably the Member states and the host nation. The effect of a full costing approach is that the Commission, in effect will be “selling” access to infrastructure and services that are actually not fully financed by the Commission.

Marginal costs

As can be seen above, the most logical cost calculation, considering how Category III pupils are admitted would be by calculating how much it actually cost, over a full cycle, to admit a Category III pupil. As it is, Category 3 pupils have no guarantee of being accepted by the schools. The classes are filled up with Category I and II pupils and only then, on a residual basis, with Category III pupils. Because Category III is a residual category, it would appear more reasonable to calculate the tuition fees for Cat. 3 based on what it actually costs the school to take them in, ie. Only the variable costs associated with the pupils, given that the fixed costs (buildings, teachers etc.) have to be paid independently of Cat. 3 admissions. This marginal cost pricing principle is much more coherent given Cat. 3 pupils do not have the same admission rights as Cat. 1 or 2 pupils.

An implication of the marginal cost principle is also that Cat. 3 school fees could vary between different European Schools. Today all European Schools except Culham and Karlsruhe have the same school fees, independent of the percentages of Cat. 1 and 2 pupils. A marginal cost principle would give the schools an incentive to use Cat. 1+2 pupils as the main source of financing and continue to admit Cat. 3 pupils on a residual and marginal cost basis.

⁶ In Italy the starting yearly gross salary for a school teacher is 20.000€/year

Consequently we believe that an independent audit should now be initiated to calculate the marginal costs.

Variable Costs

Variable costs are the costs that are driven directly by each pupil (teaching material for example). Currently the School Budgets DO distinguish between fixed and variable costs (see appendix C). A starting point for a “real cost” calculation could be to assign the variable costs to Category III pupils.

This method is that it tends to underestimate the cost per student. Until this year, classes were filled up to the limit with Category III pupils. In the case of new Cat I arrivals, this would lead to splitting classes and the incurrence of new fixed costs. In certain instances this fixed cost increase is a direct consequence of the presence of Category III pupils. A variable cost approach would NOT cover these aspects.

Therefore, it appears most logical to assess the “real cost” of Category III pupils from a Marginal Cost perspective. In Appendix C a method has been suggested for this calculation.

APPENDIX C. VARIABLE COSTS

MODEL FOR ASSESSING CATEGORY 3 DRIVEN COSTS IN THE EUROPEAN SCHOOLS

Introduction and Background

In relationship with the on-going process of finding alternative sources of finance for the European schools, Category 3 school fees has been subject to debate among governors, administrators and representatives of the parents. A particular object of debate has been related to the actual costs of Category 3 pupils in the school. Although no official document has been written on the methodologies adopted for calculating the cost per Category 3 pupil, the cost calculations so far seem to be based on a very simplistic approach, namely simply dividing the total cost by the total number of pupils. There are two main problems with this approach: first of all, this method completely neglects the fact that Category 3 pupils are admitted on a residual basis. ONLY if there are available places, are Category 3 pupils accepted. This fact has implications not only for the service offered by the schools to Category 3 applicants (“you can get admitted if there is place”), but also for the impact on the costs of these pupils since there are costs that INDEPENDENTLY of the number of Category 3 pupils, the schools will incur. The second problem with this method, is that it neglects differences between the different European schools cost structures and student mix.

Because of these problems, a group of parents at the European School of Varese, has come up with a method that in a better way can be used to assess the cost of Category 3 pupils. This document describes the method and applies it in the case of the Varese School.

The Basic Principles of the method

In order to allocate the precise costs that the schools incur every year by admitting a number of category 3 pupils to the school, it is necessary to go into details of the type of costs the schools incur and how these costs are decided. The budget and financial statements of the European schools divides expenses into 7 main chapters and several articles. In order to calculate the real costs of Category 3 pupils, it is necessary to make a distinction between 3 types of expenses:

- Group 1: Expenses that are incurred independently from the number of Category 3 pupils admitted
- Group 2: Expenses that are driven equally by all categories of pupils
- Group 3: Expenses that are driven exclusively by category 3 pupils

Once all expense articles are grouped the cost of Category 3 pupils can be calculated on either school or global level by applying the following formula:

Cost of 1 Category 3 pupil = sum of all group 2 expenses/total number of pupils + sum of all group 3 expenses/total number of Category 3 pupils

Allocation of costs

In our attempt to group the different types of expenses incurred by the schools into the different groups of activities, we analyzed the European School of Varese's budget⁷ for 2005. In this budget there are very few cost items that the School's administration itself think can be considered variable, ie. driven by the number of students. Those expenses that ARE considered variable are clearly indicated by a support calculation multiplying the number of forecasted students with the expected cost per student. Examples of these expenses are 60 2 2 01 (material for classes) 60 2 2 04 (insurance costs) 60 2 2 06 (medical examinations). The sum of these expenses in the 2005 budget does not exceed 50.000€ for 1344 pupils, where the variable costs per student, if one looks only at the schools own accounting method, does not exceed 37 €

However accounting methods are one thing; finding out the real cost drivers is another. Although item 60 1 2 05 (learning support) is not calculated as a variable cost, it is very likely that the total number of pupils and, not just Category 1 pupils drives these costs. It is therefore necessary to find out item per item, whether the cost is driven only by Cat 1,2 or 3 pupils, ie dividing the expense items into the above mentioned groups.

In order to do so in this preliminary document, we did not enter into detailed articles for each expense chapter, but looked at the chapter as a whole. Table 1 below summarizes the allocation of expense items into categories

	Group 1	Group 2	Group 3
Expense items	6010	6012	
	6011	6013	
	6020	6014	
	6025	6019	
	6026	6021	
	6040	6022	
		6023	
		6024	
		6027	
		6028	
		6029	
		6030	
		6050	
		6060	
		6070	
Total (€)	11.122.613	5.275.706	0

⁷ 2004-D-153 Annex - Version 2 -Preliminary draft budget of the European Schools for the financial year 2005
Explanatory document, Administrative and Financial Committee 30 March – 2 April 2004, Brussels

As can be seen from the analysis we found no expense items (looking at the overall chapters) that could be defined as driven exclusively by Category 3 pupils. However we found however certain expense posts that we firmly believe can be considered fixed costs of the school as long as just 1 Category 1 pupil is present in each class and, since Category 3 pupils are considered a residual Category, this will always be the case – at least in Varese. The major expense posts here are clearly the costs of the seconded teachers (who are financed directly by the member countries). All the other costs can be considered then using convincing arguments to be driven, at least partially by all pupils. On the other hand, going into a detailed analysis of the expense items we have defined in a preliminary way as group 2 expenses, there are several items that are arguably group 1 expenses. In other words, the above allocation of expenses is NOT giving the benefit of doubt to Category 3 parents – on the contrary.

The pupil population of September 2004 of the European school of Varese is indicated below

Category 1	Category 2	Category 3	Total
614	150	580	1344

Following this example, the cost of 1 Category 3 pupil at the European School of Varese is:

$$5.275.706/1344$$

or

$$3925 \text{ per pupil}$$

It could be argued that the variable costs are even less than the 3925€ that our model shows, but it is very tough to argue that it should be more.

Next steps and suggestions for model revision

As we have illustrated, our model is based on an analysis of the detailed expense items, using the main chapters to calculate the costs. The model could be further refined by looking at each expense item per se and allocating it to the different groups. That would have the effect of reducing the variable costs per pupil even further.

Contacts and further information

For questions concerning the methodology and the allocation of the specific cost items please do not hesitate to contact:

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The issue of category 3 fees – response from the Parents Association of Varese

In the recent months, exponents of the European Commission have re-begun commenting on the current level of Category 3 fees, indicating that they are too low, should not be subsidized by the Commission and be aligned with market prices¹.

In response hereto, the Parents Association of Varese would like express their deep disappointment with the comments that we see as constituting a return to the demagogical position of the Commission towards category 3 pupils in the European schools, that was dominating prior to the economic analyses of optimal fees and real costs of category 3 pupils in the European Schools performed by ULB (2006-D-123-en-2) and Mikkel Draebye (Need reference).

It appears that the members of Cabinet Kallas are either unaware of these studies or simply disregard their content in their crusade against category 3 pupils.

Without repeating the content of the reports (we recommend Cabinet Kallas to read them as well as the Interparent positioning paper on category 3 fees), it's useful to reassume the salient points:

- 1) Category 3 pupils in the European schools are not offered the same “product” as their category 1 and category 2 colleagues or indeed as their cousins in other “private” schools and it is therefore absurd comparing “prices” or talking about “aligning to market prices”;
 - Category 3 pupils (not even if a sibling is already in school) have no guaranteed admission to the school. Category 3 pupils are admitted on a residual basis with confirmation only in the last minute. This fact reduces the market value of the “product” as well as reducing the costs of admitting the Category 3 students
 - Even after admission, category 3 pupils do not have the same right as category 2 and 1 pupils. One example is the right to mothertongue tuition which is a key value-driver for many families in the school. Also this reduces the market value of the “product”
- 2) Category 3 pupils are NOT subsidized by the Commission and do in fact pay the REAL costs that they incur in the system.
 - Because Category 3 pupils are admitted only on a residual basis, the real costs of a category 3 pupil should be calculated as the marginal (or incremental costs) of admitting them. These costs are typically associated with the so-called “variable costs”. In 2005, we performed a simulation on the Varese School budgets², and found that the sum of all costs considered variable by the schools own accounting system was significantly lower that the fees paid by the category 3 pupils. In the same analysis we also tried to allocate costs that by the school are considered fixed,

¹ Mr. Hololei (Cabinet Kallas) in meeting with the presence of Interparent May 27th 2008

² Need reference

but could be driven also by the number of pupils, such as tem 60 1 2 05 (learning support). But even with stressing the cost allocation like this, the total costs of a category 3 pupil does not exceed the fees paid. So in fact, rather than category 3 pupils being subsidized by the Commission, the category 3 pupils are actually subsidizing the category 1 pupils.

- 3) “Alignment to market prices” for fees in the European Schools should take into account the different cost base from which private schools compete
 - If the Commission wish to compare fee levels for private schools and the European Schools, this should be using the same standards. Above it has already been argued that the “category 3 product” offered by the European school is by no means comparable to that of category 1 and category 2, and even less to a typical private schools, where pupil-to-teacher ratios are typically better.
 - Also from a cost perspective there are important differences that needs to be factored in wish the Commission to compare fees to “market prices”. The most important of these factors is the cost of teaching staff. In the European school system most of the teaching staff is tax payer financed through the detachment of teachers by memberstates. of buildings and their maintenance. NOT deducting these subsidies from the fee calculation, would in fact mean that the European Schools would be making money out of an asset that has been provided for free. This of course would be both wrong from a “aligning to market price perspective”, but also of dubious ethical standards.
 - In the same line of reasoning must be considered the buildings and their maintenance; Private schools needs to set their fee level to cover the costs of buildings and their maintenance. In the European School System, these costs are financed by the tax-payers (so category 2 and category 3 families) in the country where the school is situated. NOT deducting these subsidies from the fee calculation, would in fact again mean that the European Schools would be making money out of an asset that has been provided for free. This of course would be both wrong from a “aligning to market price perspective”, but also of dubious ethical standard.
- 4) Increasing the category 3 fees will lead to a reduction in category 3 revenues and an increase in the Commissions balancing contribution.
 - As documented by ULB in their report (2006-D-123-en-2) “School Fees in The European Schools”, the price elasticity of several of the Schools in question if so high that fee increases will reduce overall category 3 revenues. So in addition of being completely unjustified and unethical from a cost-perspective (see above) a fee increase makes no economic sense.

We hope that the above will help the Cabinet Kallas to a better understanding of the underlying economics of the category 3 fees. It is the opinion of the Parents Association of Varese, that the presence of Category 3 pupils in the school makes the schools better. We are very concerned with any initiative that will create anxiety among existing category 3 families or will effectively reduce the possibility of having an “open” school system with as a diverse pupil population as possible.

Best Regards

Signed President and Vicepresident(s)

Gavirate 22/01/04

Dear

First of all my apologies for not addressing you in your mother tongue, but since I'm sending this letter to both Danish, Italian and English native language speakers a language compromise has been necessary.

The reason why I'm contacting you is a concern I have in relation to the apparent intention of the board of governors of the European Schools¹ to increase the school fee, the so-called "minerval" for category 3² pupils from the current 2900€/year³ to a situation where category II and category III fees would be on comparable levels. The current category II fee is approximately 12.000€/year⁴.

As a parent to two interested children in the European School in Varese (Italy), an increase of this magnitude would have a radical impact on our family's possibility to maintain children in the school. Though this personal concern of course has triggered the writing of this letter I would like to direct your attention to some more general and principal aspects of the intended increase;

1. unbalanced economic impact and associated social bias

An eventual alignment between category II and category III nominal fees will be only an apparent alignment. For fiscal reasons the net costs to the paying party is very different indeed. Companies that through contracts pay school fees for their employees children can deduct the expenses and thus will have a net cost equalling the nominal school fee * 1- the corporate tax rate. Category III paying parties on the other hand have to pay fees out of their net-income, wherefore the impact in terms of how much of the overall gross salary there must be allocated to school fees equals the nominal school fee * 1/personal income tax rate. In the below table I've tried to illustrate this impact on salary allocation for a family with 2 children in category II and III respectively

¹ The European Schools are official educational establishments controlled jointly by the governments of the Member States of the European Union. In all these countries they are legally regarded as public institutions. They are governed by an intergovernmental Protocol incorporating the "Statute of the European School", signed by the six original Member States in Luxembourg on 12 April 1957. This Statute was ratified by the national authorities of the signatory countries. Their task is to provide a multicultural, multilingual and multid denominational education for nursery, primary and secondary level pupils. There are currently twelve Schools (Alicante, Uccle, Woluwé, Ixelles, Mol, Bergen, Frankfurt-am-Main, Karlsruhe, Munich, Varese, Culham & Luxembourg), in seven countries (Belgium, Netherlands, Germany, Italy, United Kingdom, Spain and Luxembourg), with a total of over 16,000 pupils. (source: www.eursc.org)

² Pupils of the European Schools are divided into 3 categories, category I are those pupils who have parents who work for the bodies of the European Union, in particular the Joint Research Centers and the central administrative and political bodies in Brussels and Strasbourg, Category II pupils are pupils who have parents who work for companies (mainly large multinationals) who have a contract for school services directly with the administrative body of the schools and who uses this as part of the managers compensation package. Category III pupils are pupils who are admitted on a residual basis. Admission is based on a need assessment and is often offered to families with at least one "foreign" parent

³ 2900 is the average fee for the academic year 2003/2004. Fee varies for nursery, primary and secondary cycles

⁴ Cat.II fees are negotiated directly between the schools administrative body and the paying corporations. Except for Nato, it is estimated that the average gross fee per student is 12.000€/year

	Cat II	Cat III
Nominal School Fee (2 children)	€ 24.000,00	€ 24.000,00
Tax deduction of expenses (ct=35%)	€ 8.400,00	€ -
Net Expenses	€ 15.600,00	€ 24.000,00
Salary allocated to school fee (it=50%)	€ 15.600,00	€ 48.000,00

(ct=corporate tax rate, it=income tax rate)

The reason for the big differences in the impact on salary allocation of the two parties of course is that not only is the expense for Cat. III pupils (at least in Italy) not tax deductible, but it has to be paid of an already taxed income.

This example makes it pretty evident that a nominal alignment of school fees between corporate and private paying parties will effectively eliminate the possibility for category III parents with “normal”⁵ income to put their children in a European School. This impact might be perfectly in line with the overall intentions of the Board of Governors, but it should be clear that the consequence will be an extremely socially biased school system – in line with parallel completely private structures, that hardly could justify any subsidies from the commission. The commission could of course continue to offer school fees as part of their compensation package to its employees in line with other category II paying parties, but the effective abolishment of category III pupils would have as a natural consequence the closing of the schools as intergovernmental institutions.

2. Full cost vs. marginal costs

The second general concern I think is worth mentioning regards whether category III tuition should be related to the full costs or marginal costs of having the pupils in the school. As it is now, category 3 pupils have no guarantee for being accepted to the schools. The classes are filled up with category I and II pupils and only then, on a residual basis, with category III pupils. Exactly because category III pupils is a residual category it would appear more reasonable to calculate the tuition fee for Cat. 3 based on what it actually cost the school to take them in, ie. Only the variable costs associated to the pupils, given that the fixed costs (buildings, teachers etc.) would have to be paid independently of Cat. 3 admissions. This marginal cost pricing principle would also be much more coherent with the fact that Cat. 3 pupils do not have the same admission rights as Cat. 1 and 2 pupils.

On implication of the marginal cost principle could also be that Cat. 3 school fees could vary between different European Schools. As it is today all European Schools except Culham and Karlsruhe has the same school fee, independently of the percentages of Cat. 1 and 2 pupils. A marginal cost principle would give the Schools an incentive to use Cat. 1+2 pupils as the main source of financing and continue to admit Cat. 3 pupils on a residual and marginal cost basis.

3. Planning horizon / policy practise

The last general concern regards the time horizon of the implementation of eventual changes in school fees. Parent who decide to put their children in a European school would have made their decisions for a 14-year period (a school cycle) and perhaps even more if parents feel that all

⁵ In Italy the starting yearly gross salary for a school teacher is 20.000€/year

children should be given same opportunities. These decisions would have been based on current costs and calculation for “normal” (inflation related) prices increases (as also indicated by the contracts). The problem with a 700-900% price increase over a (maybe) 5-year period is that it does not respect the 14 year or more engagement period. In this sense the policy decision to increase fee abnormally will be retroactive and that is simply not good policy practise.

There are many concerns and considerations in relation to the increased. Some of these are being raised by the different parents associations at and among (Interparent) the Schools. The purpose of this letter was to share with you some issues that I think are genuinely and objectively problematic with respect to the eventual alignment between Cat. 2 and Cat. 3 school fees. I think there is general consensus among parents at the European schools that a new system of financing the expenditures of the schools is necessary, but for most parents it is important that the new systems are defined with reason and fairness. It is obviously a very complicated situation to manage, but exactly therefore it is important to be sure that the suggested solutions are thoroughly thought through.

I hope the ideas of reason and fairness have been presented in such a way that you will find the basis for following up upon them in your respective political and administrative decision making forums. For any further clarifications please do not hesitate to contact me.

Thank you for your time and best regards,

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