

EUA's Public Funding Observatory (June 2012)

1. Introduction

EUA has been monitoring the impact of the financial crisis and the ensuing economic downturn on higher education in Europe since 2008. The monitoring has been conducted in cooperation with EUA's collective members, the national rectors' conferences, who have provided continuous information on developments in their higher education systems. Feedback from various sources and current EUA projects has also fed into regular updates of the situation, which have clearly highlighted the evolving nature of the impact of the crisis on higher education in Europe.

The latest edition of EUA's Public Funding Observatory offers a summary of the general evolution of public funding for higher education from 2008 to 2012. It also includes information on the year-on-year development of public funding levels in 2010-2011 and 2011-2012, and provides an outlook on the year 2013. Furthermore, the monitoring investigates how changes in the level and nature of public funding have affected both higher education systems and individual institutions. It also includes an analysis of changing policies on tuition fees.

Despite the challenges involved, the monitoring aims to identify broad European trends. The collected data points to major divisions across Europe in terms of public investment in higher education.

2. Overall development in the period 2008-2012

Categories used and context

For the sake of comparability, participating higher education systems have been classified according to the following broad categories:

Systems in which there has been an **overall decrease (over 10% cuts)** in public funding

Systems in which there has been an **overall decrease (up to 10% cuts)** in public funding

Systems in which public funding has been **stable**

Systems in which there has been an **overall increase** in public funding

Some contextual points should be considered when assessing public funding developments using the above categories. First, it is crucial to bear in mind that the systems included in the observatory have very **different points of departure in terms of public investment** in higher education (the starting point considered here being the situation in 2008). Slovakia is a good example. While it is one of the few higher education systems in eastern Europe to have shown a positive trend in recent years, overall public expenditure on higher education in 2008, at 0.78% of GDP, was nonetheless among the lowest in Europe.

Furthermore it is essential to evaluate **budget developments and income against the backdrop of university expenditure**. Rising student numbers and the associated costs are seen as a considerable challenge and a potential threat to financial sustainability in many systems, even where investment is stable. Serious reductions in funding per student may thus be hidden by increasing overall amounts.

Moreover the **effect of inflation** should be considered. Many higher education systems, including Flanders, Finland, France, the Netherlands, Poland and Portugal, noted that insufficient adjustment to rising prices and salaries was either eating into ostensibly stable budgets, or further amplifying the effect of public funding cuts.

Finally it should be considered that cuts at system level can affect universities in different ways, depending on their institutional profile and portfolio of funding sources.

Development of public funding in Europe in the period 2008-2012

Between 2008 and 2012 a total of 11 countries saw an **overall decrease in public funding that amounted to more than 10%**. These are the Czech Republic, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, the Netherlands, Portugal and Spain.

Latvia was hit early and hard by the financial and economic crisis (with a cumulative cut of about 57% over 2008-2010), but appears now to be stabilising: funding for the periods 2010-2011 and 2011-2012 has been stable and a possible increase is foreseen for 2013. **Lithuania** has had cuts since 2008, peaking at -26.2% in 2012. The **Czech Republic** has seen sustained budget cuts since 2008. Worryingly, the rate of funding cuts for public universities in the Czech Republic is higher than the rate of overall budget cuts in other sectors, while the funding rate is declining more rapidly for public universities than for other schools in the education ministry's budget. In **Hungary**, cuts of more than 5% have been reported every year since 2008. With the prospect of cuts of up to 10% for 2013, the outlook for the Hungarian system is bleak.

An overall decrease of more than 10% since 2008 can also be perceived in several southern European countries. Considerable reductions in public funding have been observed in **Spain** for the periods 2010-2011 and 2011-2012, and further cuts are expected for 2013. The situation in Greece and Portugal is critical: **Greece** has seen its public funding for higher education and research reduced several times by 10% or more. **Portugal**, although hit with a slight delay, has decreased by nearly a fifth its public funding for the sector between 2008 and 2012. New funding commitments agreed in 2010 between the Portuguese government and the sector have now been discarded due to the challenging economic environment. In **Italy**, overall cuts between 2008 and 2012 are likely to amount to over 10%, although the situation is expected to stabilise in 2013.

Three northern European higher education systems – Iceland, Ireland and the Netherlands – have experienced an overall decrease of over 10% since 2008. In **Iceland**, cuts of more than 10% occurred between 2008 and 2010, although the rate of public funding cuts has slowed down. In **Ireland** and the **Netherlands**, universities have struggled with cuts of over 10%. Ireland reported that some of the cuts are offset through increases in student administrative fees.

Two European higher education systems – Croatia and Estonia – have experienced **overall public funding cuts of up to 10%** between 2008 and 2012.

The development of public funding in **Croatia** resembles a descending staircase. Funds were cut up to 5% in the period 2008 and 2010 and stabilised in 2011. Further cuts were made in 2012, while a stabilisation is expected for 2013.

Following substantial cuts between 2008 and 2010, the budget in **Estonia** stabilised in 2011 and even increased slightly in 2012. However, research funds have not returned to pre-crisis levels. Estonia has pointed out that cuts have affected universities in different ways, depending on their institutional profile and portfolio of funding sources.

In Belgium (Flanders and Wallonia) and Finland, the **overall situation of public funding** has been **stable** between 2008 and 2012.

In **Belgium**, variations in higher education budgets have been small, although **Flanders** noted that the adjustment to inflation has been insufficient. In addition, the ongoing reform of the state entails a transfer of competencies for higher education and research to the regions and communities, which has led to considerable uncertainty as to future developments.

The situation in **Finland** has also been stable, although the comprehensive university reform of 2010 hampers comparisons over time. Similarly to Belgium, the relatively small budget increases in Finland have not compensated for inflation.

Between 2008 and 2012 a total of nine countries saw an **overall increase in public funding**. These are Austria, Denmark, France, Germany, Norway, Poland, Slovakia, Sweden and Switzerland.

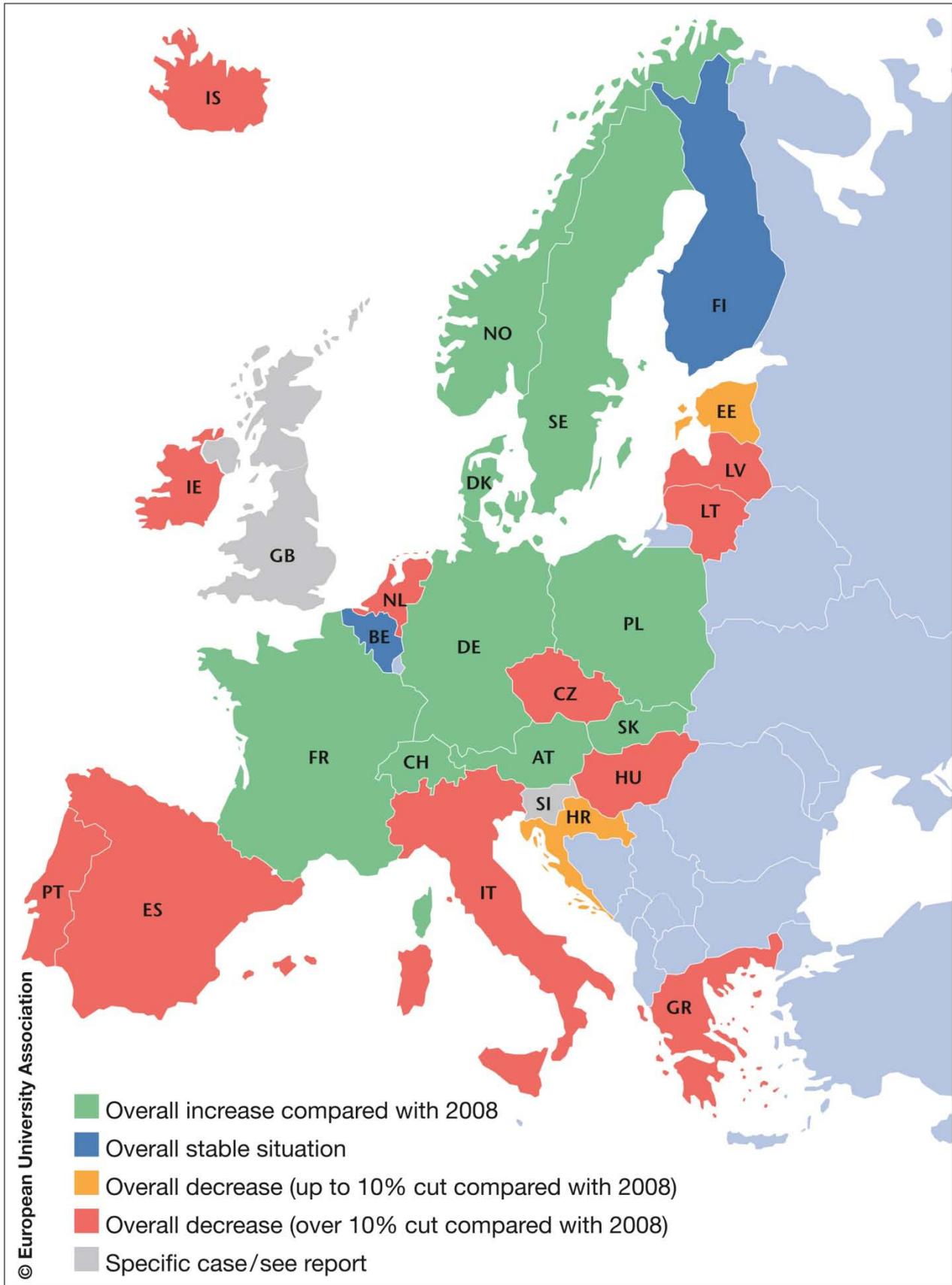
Austria and Germany have seen public funding levels rise in recent years and further increases are expected for 2013. In **Austria**, the 'billion for higher education' should add approximately €300 million per annum to university budgets until 2015. In **Germany**, increases mainly relate to competitive research funding, whereas basic funding for teaching is stagnating in view of rising student numbers. The general situation in **Switzerland** is stable, although the evolution of particular funding sources (e.g. cantonal, federal, etc.) can differ significantly.

In **France**, there have been considerable increases between 2007 and 2010 as part of the general university reform. It should be noted, however, that new funding commitments are usually made as endowments rather than as basic block grants.

Three northern European countries – **Denmark, Norway and Sweden** – have experienced increases in public funding since 2008. Denmark and Sweden underlined that the situation may vary significantly between different areas of expenditure (e.g. research, teaching, infrastructure, etc.) and different institutions.

In eastern Europe, Poland and Slovakia show a positive trend, although **Poland** noted that inflation cancels out most of the funding increase in 2010 and 2011. In **Slovakia**, capital expenditure was nonetheless cut significantly that same year.

TRENDS IN PUBLIC FUNDING TO HIGHER EDUCATION EUROPE OVER THE PERIOD 2008-2012



The developments in higher education funding in **England and Wales** over the period are subject to interpretation, due to a complex variety of funding streams, and this system is therefore considered separately on the map. In a comparative analysis it is essential, though, to understand that the British system (here limited to England and Wales, and excluding Scotland) differs from all other countries as it is undergoing a major transition in the way it is funded. Cuts around 10% were reported for the period 2008-2010, followed by stabilisation in 2011 and further cuts (under 10%) in 2012. The intention is to shift the majority of teaching funds from public authorities to students. This development will affect institutions differently, and is therefore expected to lead to considerable uncertainty. The picture is further complicated by the fact that students will be able to take on income-contingent loans guaranteed by the public authorities, which will be paid directly to universities by public authorities. This may therefore be considered as 'public funding' (at least until loans are paid back by students). Essentially, research funding is protected while substantial cuts are being made in capital spending for research.

Slovenia also appears in grey on the map as the extent to which recent budget cuts, in 2012, have offset previous increases since 2008, remains difficult to assess. There were notably concerns related to increasing personnel costs.

3. Impact per institutional activity

Higher education institutions have been affected by public funding developments in different ways. Some of the most frequently mentioned effects are presented thematically below.

Research

In Croatia and Estonia, research funding has decreased. In Ireland, an indicative 10% cut has been announced for 2013. In the Netherlands, the 'Fund for Economic Structural Reinforcement', which provided governmental subsidies for research and innovation in the region of €500 million per annum, has been abolished. In Denmark, cuts to ministerial programmes and grants allocated to research councils have raised concerns about future levels of research funding.

Flemish universities have seen their research budgets increase, as have their German and Swedish counterparts. In Flanders, France and Germany, additional funding for research is increasingly allocated through targeted projects and competitive funds, rather than as a basic block grant. By affording external authorities enhanced steering capacities over universities' research activities, this development is having an impact on institutional strategies.

Many higher education systems are responding to public funding cuts by cooperating more closely with the private sector through public-private partnerships, contract research or joint doctoral programmes (e.g. institutions in Flanders, the Czech Republic, the Netherlands and Spain). The growing importance of foundations and philanthropic funding for the financing of research was underlined by Flanders, France and Hungary. These developments, which also represent responses to broader, pre-existing challenges, have evidently been accelerated by the financial crisis and difficult economic situation.

Education

It is important to note that although some systems have reported increasing funding levels for education, absolute increases are often the results of rising student numbers (Denmark, Germany, Iceland, Ireland, Norway) while actual funding per student is, in fact, stagnating (Germany) or even decreasing (Denmark, the Netherlands). Latvia, where both funding per student and the number of state-funded students are forecast to grow from 2013 onwards, offers a counter-example to this trend, provided that these expectations are fulfilled. Following years of high cuts, in Estonia, funds for teaching are expected to rise for 2012.

Academic offer, teaching and student facilities

As regards academic offer, teaching and facilities, a lower staff/student ratio was frequently mentioned, as a combined result of higher student numbers and limited staff intake (hiring freezes, decision not to replace outgoing staff, redundancies). Some countries, such as Ireland and Spain, also reported that the academic offer was being rationalised, in the sense that degree programmes with low demand were being closed. Reductions in library opening and contact hours, larger class sizes and curtailed student services were also mentioned.

Staff

Since staff costs represent the highest percentage of university expenditure, public funding cuts have inevitably had an important effect on staffing policies. In Croatia, Ireland and Portugal, salary freezes and cuts have been introduced. Other staff benefits have often been affected too. Overall staff numbers have been reduced through hiring freezes and redundancies. In Spain, too, the recruitment of new personnel has been restricted, and the workload of existing teaching staff is growing, as is the case in a number of other higher education systems.

Infrastructure and investments

Some countries, such as Croatia and Ireland, have reported that changing funding situations have had a noticeable impact on infrastructure development and capital investment. In Slovakia, capital expenditure, especially on real estate development, has been acutely affected by public funding cuts. Capital spending for research in England has been subjected to major cuts, and Ireland has witnessed the near-complete drying up of capital spending for teaching. In Flanders, growing pressures on education and research infrastructures due to growing student numbers and public funding cuts are also being perceived as a considerable challenge.

4. Changing policies on tuition fees

Attitudes towards and policies on tuition fees in Europe are in flux. In a number of cases they are in fact **moving in opposite directions**. England underwent major reforms in 2011, which place tuition fees at the heart of the funding system for teaching. This development is accompanied by a further strengthening of the income-contingent loan support mechanism for students. The student services fee in Ireland has been rising steadily since its introduction, from €825 in 2007 to €2000 in 2011. Iceland also reported an increase of its registration fee for state universities in 2012 (from approx. €270 to €350). On the other hand, tuition fees have been or are about to be abolished in all German states apart from Bavaria and Lower Saxony. The situation in Austria is particularly complex, since there is no clear legal basis for tuition fees following a ruling of the constitutional court on the previous regulation. Universities face a period of uncertainty as regards their capacity to charge fees autonomously.

There are also many higher education systems that have recently begun to apply a **differentiation in fee regimes** among different student groups. In the Netherlands and Spain, for instance, fees for repeaters or students exceeding the prescribed average length of study are approaching the real cost of degrees. International students (non-EU/EEA) are also increasingly being charged tuition fees that come close to meeting the actual cost of the programme studied (e.g. in Denmark, Sweden and Spain).

Student support structures are also evolving in some higher education systems. In England and Wales, as part of the funding reform, students may take income-contingent loans guaranteed by the public authorities. The Netherlands is transforming the nature of financial support for Master's students from grants into loans. In Hungary, partially state-funded study places are being introduced in combination with a loan system, whereas previously places were either fully state-funded or fully self-financed. At the same time, the number of publicly funded study places will be reduced from

53,000 to 34,000 in September 2012. France is discussing new mechanisms for financial support in order to increase participation of students from weaker socio-economic backgrounds.

5. European comparative analysis

The four categories used in Section 2 to take account of the different financial situations across Europe reveal divergences between groups of countries. A first group gathers the Nordic countries (with the exception of Iceland), France and Belgium, and Germany, Austria and Switzerland. These countries essentially provided their higher education sector with stable or increased funding over the period 2008-2012. These countries' expenditure on higher education, as part of their GDP, is also higher than the EU-27 average in 2008.

Two other countries, Poland and Slovakia, show an overall positive trend in terms of public funding for higher education over the period 2008-2012, with a positive (PL) or stable (SK) outlook for 2013. The situation of these two countries is specific in several regards. Their public expenditure on higher education, as part of their GDP, is lower than the EU-27 average for 2008 (significantly so in the case of Slovakia). Poland reported an increase in higher education spending of 4.5% in 2011 (in comparison with 2010), but this figure is mitigated by an inflation rate of 4.3% in the same year. Slovakia's trajectory is rather complex, with alternating increases and decreases over the period considered. Less funds have been made available to support university infrastructure in Slovakia.

This group of countries continues to support its higher education sector by providing stable overall budgets, and in some cases stepping up investment. It should, however, be borne in mind that absolute increases sometimes conceal decreases in real terms, notably as growing student numbers outweigh reductions in funding per student (Denmark).

A second group, almost equivalent in terms of the number of countries considered, comprises systems where public funding of higher education has been cut to varying extents. Among these are the Baltic countries, where Latvia and Lithuania are experiencing very difficult financial situations, and with Estonian universities also being affected significantly in terms of their research activities. Further south, this group also includes the Czech Republic, Hungary and Croatia, as well as Greece, Italy, Spain and Portugal. All these countries had, in 2008, a lower-than-average spending on higher education (in terms of GDP).

The Netherlands, Ireland and Iceland are also part of this group. These three countries of north-west Europe are, however, in a different situation as they retain higher-than-average spending in higher education but feature negative trends (more than 10% cuts) over the period considered. The beginning of the financial crisis in 2008 had a direct and profound impact on the Icelandic economy, meaning that the higher education sector was hit early and hard. Further cuts have followed, although the severity of these has progressively lessened. Ireland, which was also exposed to the crisis at an early stage, sees its universities struggling with a general decline in funding causing hiring and salary freezes, a less favourable staff/student ratio, halted investment/infrastructure projects and fewer research activities. Finally, the Netherlands is also on a negative trajectory, with systematic funding decreases since 2008. In particular, the government abolished the 'Fund for Economic Structural Reinforcement', which financed subsidies for research, innovation and teaching of about €500 million a year.

The particular case of the United Kingdom, and more specifically of England and Wales, is considered separately, as the system is undergoing a major reform and is presently in a state of transition, as detailed at the end of Section 2.

Europe is therefore divided in terms of developments regarding the funding of higher education and research in the period 2008-2012. Countries in the north and west of Europe generally fare better than countries in the south and east. The former also tend to have higher expenditure (as a percentage of GDP) on higher education. The situation is therefore all the more worrying as these

differences are being exacerbated. However, the data gathered presents a very complex overall picture, as there are five exceptions to the general trend: the positive trends in Poland and Slovakia (although they start from a low level of investment in higher education), and the budget cuts in Iceland, Ireland and the Netherlands (with above EU-average expenditure in higher education).

This situation is unsustainable both for the affected countries and Europe as a whole. Reduced investment weakens countries' research capacities and knowledge base, and impacts negatively on the development of their knowledge economy. In addition, diverging investment trends decrease the potential for cross-border academic and scientific cooperation and put the completion of the European Higher Education and Research Areas at risk. **In the context of the current economic climate, EUA maintains that stable, sufficient and flexible public funding for higher education and research is crucial to ensure Europe's future as a dynamic competitive global region.**

In countries facing significant budget cuts in higher education and research systems, retaining researchers and students becomes more and more difficult. Should this developing 'brain-drain phenomenon' continue and intensify, it could result in many universities finding themselves excluded from European higher education and research cooperation for a long time.

This concern was notably echoed by several 'EU-12' countries (member states that joined in 2004 and 2007) in the current discussions on Horizon 2020. It was argued, for example, that the future programme should allow for personnel costs to be recovered in a different way than on the basis of real costs, as researchers in these countries often earn less than their counterparts in European consortia.

Therefore the issue of the participation of these universities in European funding schemes such as Horizon 2020 is also at stake. On the one hand, financially weaker universities from the most affected countries are less able to take part in European research consortia, given their decreased co-funding capacity. On the other hand, cash-deprived institutions need to look for additional sources of income, and European funding programmes may appear as the better solution in the short term, despite the co-funding requirements. In Estonia for instance, a greater reliance on European funds has helped to offset some of the public funding cuts in the short term (in the long term, challenges linked to the need for continued investment in existing infrastructure have to be considered as well). Therefore, it is essential that European funding programmes are designed in an appropriate way, acknowledging broader economic development trends and the need to fund activities on a full cost basis. EUA has made these arguments in the framework of the negotiations around the next generation of European funding programmes, and in particular of Horizon 2020¹.

Finally, many countries in Europe, regardless of the current financial situation of their higher education sector, have embarked on reform processes that include the revision of the funding allocation mechanisms. This can be partly explained by the need for public authorities to maximise the impact of reduced or constrained resources.

The European University Association reaffirms that higher education funding should not be seen by European governments as expenditure but rather as an investment in Europe's future, and that increased investment in higher education and research is a way to help European countries out of the economic crisis.

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¹ See "EUA Input to the debate on the rules for participation in Horizon 2020", available at www.eua.be