

IMPACT OF THE ECONOMIC CRISIS ON EUROPEAN HIGHER EDUCATION INSTITUTIONS

- EUA has been monitoring the effects of the economic crisis since its onset in 2008. The monitoring is conducted in close cooperation with EUA collective members, the National Rectors' Conferences, who have continued to give feedback on developments within their national HE systems. Additional information has also been provided by national governments and individual universities' representatives through EUDIS study visits and other EUA events.
- The main **aim of the monitoring is to understand the evolving nature** of the effects the crisis has on European higher education systems and to provide the most up-to-date information on the current state of play.
- The monitoring has **three main focuses**: 1) identify trends in public funding for universities 2) study the qualitative changes in the nature of public funding and their impact on universities and 3) look at developments in universities' private funding sources.

OVERALL FINDINGS

- European HE systems have been **affected very differently**, to some extent reflecting the general impact on their respective national economies. They have also been affected at different stages of the crisis; some already back in 2009 while others have so far not yet been affected directly.
- **Currently**, most universities report feeling uncertainty about the future and expect the situation to change, with further impacts from 2010 onwards.
- In the **forthcoming years**, possible causes for concern could stem from government policies, such as increases in the VAT, which could increase universities' costs. A (EURO) currency crisis could also be a potential threat in Eurozone countries, especially where universities make large purchases in foreign currencies, which could trigger additional costs.

PUBLIC FUNDING TRENDS

- The main focus of the monitoring looks at the impact of the economic crisis on universities' **public funding**, which, on average, represents almost 75% of European universities' income. Such reliance on public funding means that any changes in this funding source can potentially have the highest and most damaging impact.
- An important **caveat** in understanding the national-level data collected, especially concerning budget cuts, is that such information is often partial and does at times not consider the changes in inflation or the increases in the costs of universities' activities. It is furthermore difficult to compare such data due to different national methodologies used in measuring the impacts as well as due to different budgeting periods used in different countries.
- **Six main categories** have been identified to describe the trends in public funding:

- **Major (budget) cuts** were introduced or are expected in the following countries:
 - Latvia: an initial cut of 48% in the beginning of 2009 was followed by a further cut of 18% in 2010 stemming from the recommendations of the IMF and World Bank to reduce drastically public funding of higher education. The cuts have put serious pressure on the Latvian higher education system, demanding major changes to and structural reforms of the system.
 - Greece: the government has set a target to cut universities' academic and maintenance budgets by 30%, but has left it up to universities themselves to decide how to do so.
 - Italy: a budget cut of 17% is expected for 2010/11, which is more than the previously expected cut of 10% over three years. The cut will have the effect of diminishing universities' income from tuition fees, which are limited and cannot exceed 20% of total public funding.
 - UK: a major reduction to the higher education budget is also underway in the UK, where the cuts announced in 2010, which amounted to a 6.6% decrease in public funding, will now be exacerbated by the 25% cuts expected from most government departments.

- **Cuts of between 5 and 10%** have been introduced in Ireland, for example, where a cut of 9.4% in 2010 followed a 5.4% cut the previous year. The situation is all the more worrisome as the measures taken to protect the financial sector will undoubtedly have dire consequences on the public budget for higher education. Cuts of similar magnitude have also been introduced in Estonia with a 10% cut in 2010 (in addition to a 7% cut in 2009), as well as in Romania with 10% and in Lithuania with 8% cuts.

- **Cuts of up to 5%** have been observed in many countries of Eastern and South Eastern Europe, including the Czech Republic (where the cut is estimated to be 2-4% of public funding), Poland, Croatia, Serbia and the Former Yugoslav Republic of Macedonia.

- So far, **no direct cuts** have been reported by the Nordic countries, including Norway, Sweden, Finland and Denmark, or by the Netherlands and Switzerland, despite reports that universities across these countries face indirect impacts on their funding structure.

- **Commitments to increase funding discarded by governments:**
 - Hungary: The government cancelled plans announced in 2007 to increase overall university funding, leaving universities with 15% less financial support than previously expected.
 - In Belgium (both communities): The Flemish community is coping with a funding freeze to last for three years which has replaced a previously promised increase of approximately 10%. The French-speaking Walloon community has seen the planned investment of 30 million Euros over 8 years now extended over 15 years.
 - Austria: Government plans to increase higher education expenditure by 2% between 2013 and 2015 have now been scrapped, as negotiations have clearly shown that a budget cut will be inevitable for the period in question.

- **Commitments to increase funding upheld by governments (or new investments):**
 - France: "Grand Emprunt" for 2010 will see an investment of some 35 billion EUR into key priority areas, from which 11 billion EUR will be invested in higher education, 8 billion EUR to research and remaining funds will go towards create new university campuses of excellence or towards restructuring existing ones. But, since a major part of these investments consist of capital contributions, this will mean that the actual amount received by universities will ultimately depend on the financial markets and is likely to be significantly smaller.

- Germany: the federal government has substantially increased HE funding through the following instruments: 1) 800 million EUR for the Higher Education Pact to support growing student numbers until 2015. 2) 2.7 billion EUR for the German Excellence Initiative from 2012 – 2015 3) 5% per year funding increase for the Innovation and Research Pact until 2015. Further investments are currently being negotiated.
- Portugal: an agreement reached in 2010 between the government and rectors will provide a greatly needed investment of a 100 million EUR which will soften the burden of cuts from previous years.

CHANGES IN PUBLIC FUNDING AND THEIR IMPACT ON UNIVERSITIES

- The monitoring has also studied **changes and shifts in the nature of public funding**, which reveal the broader impacts of the crisis on European universities.
- Looking at how the crisis has affected funding **allocations across university missions**, EUA's analysis reveals a complex picture where teaching and research are often affected unevenly.
- **Teaching** has been more affected in the UK, Estonia, Latvia, Hungary and the Flemish community in Belgium, who have been faced with direct cuts to their teaching budgets. In addition, growing student demand, which is up as the crisis drives more and more people into education, has sometimes resulted in reduced spending per student (per capita), such as is the case in Hungary, the Czech Republic, Cyprus and the Flemish community in Belgium.
- Governments are also faced with conflicting priorities between the need to maintain quality and improve **access to higher education**, while at the same time having to balance public funding. While in the UK a cap on available student places has been introduced, Ireland plans to foster participation in higher education through funding re-qualification schemes.
- Reduced teaching budgets have had different **impacts on universities at institutional level**, some of which can be seen in:
 - Closures of offered programmes (UK)
 - Closure of smaller or associated university departments (Estonia and Spain)
 - Mergers of university programmes or institutions (Latvia)
 - Reducing employees' salaries where possible (Greece, Ireland, Latvia, Spain)
 - Introducing salary freezes (Estonia)
 - Introducing hiring freezes (Latvia, Ireland and Italy)
 - Effecting redundancies (Latvia, Ireland Italy, Hungary, UK and Austria)
 - Reductions in support infrastructure and services (Ireland)
 - Reduction in renovation investments for equipment and real-estate (Austria, Poland)
- **Research** has been affected more in comparison to teaching activities in Poland, Spain and in Austria. Spain has experienced a slower pace of research funding announcements and has seen some research funding programmes reduced or even suspended. In Austria, despite the increase in universities' general funding for the current period, cuts have been made to the budget of the Austrian Science Foundation, which has now ceased to fund indirect costs. This is a worrying setback in the development of sustainable funding of Austrian universities' research activities. In addition, Austrian universities expect funding to shift significantly towards applied research which is likely to further impact upon universities' research missions, especially in relation to basic research.

- The above examples show that **public funding is increasingly targeted to achieve specific objectives**, usually in line with strategic national priorities. This gives governments increasing steering power over universities and can curtail universities' capacity to manage their funds freely. A further example of this is the increased funding targeted to STEM (science, technology, engineering, mathematics) subjects in the UK, while similar cases have also been reported by Austria, Portugal and Finland.
- Increasingly, funding authorities also seem to resort to the use of **competitive funding tools**. These can have adverse effects on the universities' financial sustainability when coupled with reduced investment capacity. This is especially so when competitive funding does not cover the full costs of an activity, requiring co-funding from universities' other vital sources.
- Some trends described here clearly show that **universities' autonomy is being affected** significantly. This will have crucial consequences on reducing universities' financial sustainability and ultimately, on fulfilling their institutional missions. On the other hand, the ability of universities to respond to the crisis and protect the areas crucial to the fulfilment of their institutional missions has largely depended precisely on their level of institutional autonomy.

PRIVATE FUNDING

- The monitoring has also looked at the impact of the crisis on universities' **private funding sources**, which are increasingly important in helping universities' diversify their income streams and contribute to their overall financial sustainability. Although the lack of available data on private funding makes it difficult to identify clear trends, evidence suggests changes are taking place.
- The crisis has intensified debates on **student financial contributions** to higher education. Tuition fees are increasingly seen as a way to help universities reduce the funding gap exacerbated by the economic crisis. In Nordic countries such as Sweden, and Finland, universities have already started charging tuition fees to non-EU students or are applying them to some offered programmes. In the UK, a recommendation to increase tuition fees substantially to between 7.000 GBP and up to as much as 10.000 GBP is also expected to be announced in October 2010.
- Despite scarce data, evidence exists on difficulties regarding **collaborative projects with industrial partners**. Starting new projects has been reported as difficult in Austria, Belgium, Finland, Germany, Norway, and Switzerland, while Portugal, the Netherlands and the UK have already found some such projects discontinued.
- **Philanthropic and other foundations** offering another private source of income for universities reveal that their funding base has also been affected by the crisis. Reduced income from philanthropic funding has been observed by some universities in Cyprus, Finland, Portugal and the Netherlands.
- In parallel, a drop in private **income coming from donations and fundraising activities** has also been experienced in some countries. In the UK, these have fallen by one fifth according to some estimates. Despite measures being taken to spread out the impacts of lower income from these sources over the coming years, these will have a prolonged effect on universities' budgets and their ability to diversify their income streams in the future.