



Impact of the economic crisis on European universities (January 2011)

EUA has been monitoring the evolution of the economic crisis and its effects on higher education systems in Europe since its onset in 2008.

The monitoring has been conducted in close cooperation with the EUA collective members, the National Rectors' Conferences, who have given continuous feedback on developments within their national higher education systems. The continuous feedback from various sources provided up-to-date reports of the situation and highlighted the evolving nature of the effects the crisis has had on higher education across Europe.

The main objective of the monitoring was to look at the impact of the crisis on universities' public funding and to identify in particular the trends in public funding across Europe. It has also studied whether and how the crisis has affected the nature of public funding and how such shifts are influencing universities at institutional level. The impact of the crisis on universities' private sources of funding was also monitored, although the lack of available data makes it difficult to identify clear trends. Nonetheless, the collected evidence¹ points to changes taking place especially in relation to tuition fees, collaboration with industry, as well as philanthropic funding and funding from donations.

1. Overall findings

The results of the continuous EUA monitoring of the crisis clearly show that European higher education systems have been affected very differently, which reflects to some extent the impact that the crisis has had on their respective national economies. Some countries, such as Norway and France for instance, have benefitted from stimulus packages provided by their governments at the beginning of the crisis, although these have not always been used to relieve the effects on teaching and research as core university activities.

Furthermore, European countries have been affected at different stages of the crisis. In some countries universities saw the impact of the crisis as early as the beginning of 2009 while others were affected only later or, in a few isolated cases, have only experienced little direct impact so far.

¹ The information compiled here includes updates from December 2010 and early January 2011, and is by no means exhaustive.

At the time of writing this report it has become clear however that the economic crisis has left few higher education systems unaffected. While institutions in most countries still report being faced with uncertainty and expect further - and possibly deeper - cuts to come in the forthcoming months and years, some countries, such as the United Kingdom, prove that cuts are likely to have a significant restructuring effect on higher education systems around Europe. As other governments struggle with austerity measures and balancing their deficits, the full extent of effects on higher education systems around Europe still remains to be seen. Furthermore, the cuts in public spending tend to hit higher education budgets with somewhat of a delay as a result of different budgeting periods, which will make further monitoring and in-depth analysis essential.

2. Trends in public funding

The monitoring has focused in particular on the impact of the economic crisis on universities' public funding, which on average represents close to 75% of European universities' financial structures. Such reliance on public funding means that any change in this funding source can potentially have the highest impact. The analysis conducted on the basis of collected data shows that some trends regarding public funding for higher education in Europe can be identified, revealing how government authorities have responded to the economic crisis.

It should be pointed out however, that nationally collected data, especially on the depth of budget cuts, is often partial, since it does not always consider the changes in inflation or the increases in the costs of universities' activities. It is also difficult to compare such data across countries as different methodologies are used in measuring and assessing the effects.

Despite this, the monitoring has been able to identify six main categories which show the effect of the economic crisis on public funding across Europe.

Major cuts to public funding of higher education were first observed in Latvia, where an initial cut of 48% at the beginning of 2009 was followed by a further cut of 18% in 2010, stemming from the recommendations of the International Monetary Fund and the World Bank to reduce public funding of higher education drastically. The cuts have put serious pressure on the Latvian higher education system, demanding major changes and structural reforms to be introduced in the forthcoming years.

In Italy, universities' public funding is expected to be reduced by close to 20% by 2013, dashing previous expectations of a more gradual cut of 10% over the same period. However, the cut will also have the effect of diminishing universities' income from tuition fees, which are limited and cannot exceed 20% of their total public funding. The situation appears critical as some 25 universities already face a default in the near future. Public authorities contemplate a 1 to 1.5 billion € budget cut for 2011; at the same time, a wide-ranging reform of the higher education system is being passed, which will affect the way funding is delivered to universities. The situation is also critical in Greece, where the government has set a target to cut universities' academic and maintenance budgets by 30%, however leaving universities the choice of how to implement these savings themselves.

The last to join the category of major cuts is the United Kingdom, where it has become clear that higher education will have to take up to a 40% cut of its current budget until 2014 - 2015, as

announced in the 2010 Comprehensive Spending Review. Most of this cut will affect universities' teaching budget, which will be reduced by up to 79%. Clearly this has serious long-term consequences for the future funding of UK higher education. The high cost resulting from the loss of public funding will be covered by private contributions from students, following the recommendations of the Browne Review in October 2010. Scotland, whose higher education system is different from the rest of the United Kingdom, has not remained unaffected and has also announced cuts of about 16% of the higher education budget for 2011.

Cuts between 5 and 10% have been introduced in Ireland, for example, where a cut of 9.4% in 2010 is to be followed by a 7% cut in the universities' grant for 2011. In addition, the capital grant has been halved for 2011, reducing drastically the amount of funding available for infrastructure maintenance.

Cuts of similar magnitude have also been introduced in Iceland where a 6-7% cut in 2011 is expected to follow a 5% cut from 2010; 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 in previous years.

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

So far, **no direct cuts or minor cuts only** have been reported by the Nordic countries, including Norway, Sweden, Finland and Denmark, or by the Netherlands, Poland and Switzerland. Nonetheless, many universities across these countries give accounts of facing indirect impacts on their funding structure. In some cases, such as in Norway and the Netherlands, financial pressures seem to stem especially from increased student numbers, the cost of which is already having an impact on universities' financial sustainability. Such increases in the student numbers may also affect the universities' different activities, if the increases are not reflected in correspondingly higher budgets.

In many countries, **governments have discarded previous commitments to increase funding**. In Hungary the government has cancelled plans announced in 2007 to increase overall university funding, which will leave universities with 15% less financial support than previously expected. Both communities in Belgium have also reported that their regional governments have abandoned previous plans to increase funding. In the Flemish community of Belgium, universities are coping with a three-year funding freeze which has replaced a previously promised increase of approximately 10%; while the French speaking community has seen the investment of 30 million EUR, planned to be invested over 8 years, now extended over 15 years. Similarly, in Austria, plans by the government 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 this same period. In Spain, however, modified investment plans have mostly affected its universities' research capacities.

In contrast, some European **governments have upheld their commitments**, or indeed provided new investments to fund higher education.

France's announcement of the "Grand Emprunt" (national loan) has seen a significant increase in overall higher education funding, which comes as part of a large investment in key priority areas, especially teaching and research. In 2010, 11 billion EUR were foreseen for investments to improve

the overall quality of higher education and 8 billion EUR invested towards developing research. A further 8 billion EUR had been foreseen to create new university campuses of excellence or go towards restructuring existing ones. The prospect for 2011 remains positive, as a further increase of the budget by about 4,7 billion EUR, mainly to raise the attractiveness of career personnel, support of university reform, student social policy and increased resources for research, has been foreseen. However, since a major part of the investments foreseen by the "Grand Emprunt" consists of capital contributions, this means that the actual amount received by universities ultimately depends on the financial markets and is likely to be significantly smaller.

Another case where funds for higher education have been raised over recent years is Germany. Though higher education funding in Germany is largely provided by Länder authorities, the federal government has been increasing investments to support the financial security of German higher education and research institutions. The investments will provide an additional 800 million EUR under the renewed Higher Education Pact which will support growing student numbers until 2015. The federal government will also invest a further 2,7 billion EUR from 2012 – 2015 through the German Excellence Initiative, as well as provide additional funding through the 5% per year increase for the Innovation and Research Pact until 2015. Federal authorities, with state support, will also guarantee further financial resources over the next ten years as part of a Pact to Increase the Quality of Teaching; which comes in parallel to a 2% increase in current levels of student support via the Federal Student Finance Act. On the other hand, it seems that these developments may also have an impact on the structure of the German higher education funding model in the future. As it becomes apparent that some Länder plan to cut or have already cut their higher education funding for 2011, the increases in federal funding will, to some extent, alleviate this loss while also shifting the balance in the provision of funding between the Länder and the Federal authorities.

In the case of Portugal the situation is mixed, as a recent agreement between the government and rectors will provide a greatly needed investment of 100 million EUR for higher education which will alleviate the burden of cuts from previous years. This positive development may be halted by expected salary cuts in public administration that will affect university staff.

3. Effects at system & institutional level

While the data on the depth of budget cuts gives a good overview of the state of play of public funding in Europe, the monitoring has also studied the broader and more subtle impacts of the crisis on European universities, looking in particular at the **changes and shifts in the nature of universities' public funding**.

One of the main findings revealed by the EUA analysis is the complex picture of how reduced public funding has been allocated **across university missions**, which shows that, in most cases, teaching and research are often affected unevenly.

Effects on teaching

Teaching has, on average, been more affected than research activities. This has been noted especially in the United Kingdom, Estonia, Latvia, Hungary and the Flemish community in Belgium, which have been faced with direct cuts to their teaching budgets.

In times of financial constraints universities also face further pressures in the form of growing demand for higher education. In addition to the demographic changes causing this increase, high demand has also been exacerbated by the economic crisis, when rising unemployment levels drive more people into seeking education to increase their competitiveness on the labour market. In many countries this has caused reduced spending per student (per capita), sometimes even when the universities have not experienced direct cuts to their budgets. Such reductions have been identified in Hungary, the Czech Republic, Cyprus and the Flemish community in Belgium.

The combination of growing student numbers and reduced spending represents a major concern for maintaining the quality of higher education. While needing to balance public budgets, governments are therefore faced with conflicting priorities such as increasing access² on the one hand and maintaining the quality of the higher education system on the other. To maintain the quality of their higher education system, introducing caps on available student places is being considered in the Netherlands. In the United Kingdom such a cap has been set for the academic year 2010/11, though this may still change as the major cuts and reshaping of the system take effect. On the contrary, Ireland plans to foster participation in higher education through funding re-qualification schemes for the unemployed. The scheme aims to provide more people with the chance to gain relevant new skills, although the scheme's desired effect on higher education could be diminished by the impact of the high overall budget cuts which have put pressure on Irish universities.

At institutional level, signs of just how deep the impact of diminished teaching budgets will be have already started showing across Europe. Evidence shows that in some universities, budgetary restraints have already caused universities to close some offered programmes, so far reported only from the United Kingdom, or close down smaller or associated university departments, like in Estonia or Spain.

Many universities across Europe are also undergoing mergers; either of entire institutions, like in Iceland; or of individual departments and faculties such as has been observed in Latvia and in Denmark, where smaller language departments have come under specific threat due to funding pressures. Another example of measures considered to increase cost efficiency have also included the possibility for smaller local institutions to offer programmes for which degrees would be awarded by more prestigious universities, which has been proposed in the United Kingdom. On the other hand, the threat of funding cuts has driven some universities, reported by some Scottish and English universities, to seek new income streams by opening or strengthening activities in existing campuses abroad, as part of a strategy to attract more international graduates.

Reduced funding has also some led universities to reduce the number of their academic and/ or managerial staff, which will have important consequences on their teaching capacities. This has either happened through hiring freezes, such as in Latvia, Ireland, and Italy, or through redundancies, which have been reported in the latter three as well as Hungary and the United Kingdom; and are also threatening many positions in Austria. In addition, where it has been possible, universities have

² Increasing access to higher education is a specific goal of the Europe 2020 Strategy. As one of the five headline targets, the document proposed that at least 40% of the younger generation should have a tertiary degree. ("Europe 2020 – A strategy for smart, sustainable and inclusive growth", Communication from the Commission, March 2010)

had to introduce salary freezes, such as in Estonia, or resort to lowering their staff's salaries, as has been the case in Greece, Ireland, Spain, Portugal and Latvia, where salary reductions have been undertaken across the entire public sector.

Bigger classroom sizes and staffing shortages have also had an impact on universities' support infrastructure and services. In Ireland in particular, universities have had to cut back on library operating times and resources as well as counselling hours and other support services offered to students. Austria and Poland have experienced reduced investments in the renovations of university equipment and real-estate property, which has further affected university operations.

Effect on research

On the other hand, the crisis has also affected universities' research activities. Research has been affected more in comparison to teaching activities in the Netherlands, Spain and Austria. The case of the Netherlands reveals that funding for research and innovation has diminished despite previous ring-fencing of these funds. In Spain this has been experienced through a slower pace of research funding announcements and the reduction or suspension of some research funding programmes. In Austria, despite the increase in universities' general funding for the current period, cuts have affected the budget of the Austrian Science Foundation, which has now ceased to fund universities' indirect costs. This is a worrying setback in the development of the sustainable funding of Austrian universities' research activities. In addition, Austrian universities expect funding to shift significantly towards applied research which is likely to impact further universities' research missions, especially in relation to basic research.

In contrast, some countries have specifically protected research funding or have raised the funds for particular research activities. Such cases, which have been identified in Denmark, Ireland, Norway, and Portugal, as well as examples from other countries, have revealed that funding is increasingly targeted to achieve specific objectives, usually in line with strategic national priorities. Such policies have been observed in Finland, Poland and the United Kingdom. In the case of the latter, public funds will continue to support the development of STEM subjects (science, technology, engineering, mathematics), through teaching grants while direct funding to arts, humanities and social sciences has been removed. The move towards more targeted funding has given governments around Europe increasing steering power over universities, which can lead to curtailing universities' ability to act more autonomously.

Furthermore, funding authorities also seem to resort increasingly to competitive funding tools, a development which has been fostered and accelerated by their reduced investment capacity. Competitive funding schemes can achieve positive effects such as increasing quality and stimulating efficiency when introduced carefully and considering the nature of the complete funding system. On the other hand, when coupled with reduced university funding, they can endanger universities' financial sustainability, especially when grants do not cover the full costs of the activity for which the funding is awarded. Such mechanisms often require the university to use their own resources, or gain additional funding from other vital sources, leading to a vicious circle and widening of the funding gap. An example from Denmark shows that, when a part of universities' block funding was transformed into competitive grants, individual universities were left unable to pay the salaries of all their tenured staff, as grants had to be won by individual scientists and therefore bypassed the central university administration. The increase in competitive funding also brings the threat of

excessive fragmentation of funding sources, which can additionally harm the sustainability and autonomy of universities, when combined with time-consuming application and reporting processes.

Effect on university autonomy

The changes described above clearly reveal that public funding is not only diminishing, but also changing in the nature and form in which it is provided to universities. As described above, the monitoring has shown that public funding is increasingly provided subject to conditions to its allocation or accompanied with growing accountability requirements. This has given public authorities increasing steering power over universities, which can have counterproductive effects as it can significantly contribute to reducing universities' autonomy and their capacity to manage their own funds freely.

Such developments are worrisome as they can hinder universities' capacity to overcome the crisis successfully. The monitoring of the impact of the crisis on European universities has clearly shown that the universities' ability to respond effectively to the ongoing economic situation has largely depended on the level of their institutional and, especially, financial autonomy. In this sense autonomy is seen as the prerequisite to overcome the crisis successfully by allowing universities the freedom to allocate their funds strategically, and protect those areas that are crucial to the fulfilment of their institutional missions.

4. *Private funding*

The monitoring also collected some evidence on the impacts of the economic crisis on universities' private funding sources. These income sources are becoming increasingly important and help universities' diversify their income streams and contribute to their overall financial sustainability. The economic crisis has, in many ways, exacerbated the need for additional funding sources, making all the more clear that private sources of income will play an essential role in building sustainable strategies for the development of universities and higher education systems.

In many countries, the crisis has fostered and intensified public debate about private sources coming from student financial contributions. These discussions tend to focus on the introduction or increase of tuition fees, which would help universities reduce the funding gap exacerbated by the economic crisis. Despite the resistance that this has encountered in some countries, in particular from students and others who argue that higher education should remain a public good, it is obvious now that changes are taking place. Even in the Nordic countries such as Sweden and Finland, where society and politicians used to be in strong agreement about the need for higher education to remain exclusively publicly funded, universities have now started to introduce tuition fees for non-EU/EEA international students (in Sweden as of 2011 and in Finland as part of a trial period until 2014). In the Netherlands, authorities are considering reducing student grants to three instead of four years, while increasing tuition fees for students exceeding the average time to complete their degree.

In the United Kingdom, where tuition fees have been in place for some time, the government has decided to raise fee levels almost threefold, to as much as 9,000 GBP from 2012. While universities are discouraged to charge more than 6,000 GBP, they will be allowed to charge the maximum

amount in exceptional cases, granted they ensure mechanisms to fund more undergraduates from poorer backgrounds. To ensure that the general rise in fee levels will not affect demand or discourage people from entering higher education, the proposals also foresee a comprehensive loan and subsidy system to be set up, from which tuition would be paid to universities upfront on behalf of the students. The mechanism would also allow them to start repaying the costs of their learning and, possibly, any living support received, once their earnings are sufficiently high. Such changes also have knock-on effects on neighbouring systems; Scotland for instance is now considering raising fees for students coming from other parts of the country, in an effort to contain the anticipated growth in student demand from England and Wales.

The impact of the crisis on other types of private funding is less clear as data is more complex and more difficult to collect and analyse. Although the analysis initially showed no direct impact on collaborative projects between universities and industry, an increasing number of individual accounts from universities in Austria, Belgium, Finland, Germany, Norway, and Switzerland report difficulties in starting new projects of this sort. Similarly, universities in Portugal, the Netherlands and the United Kingdom have reported individual cases, where projects with partners from the industry have been discontinued.

Accounts collected from philanthropic and other foundations show that their funding base has also been affected by the crisis, which has had an impact on their donating capacity. Reduced income from philanthropic funding has been observed by universities in Cyprus, Finland, Portugal and the Netherlands. In parallel, other countries have also experienced a drop in private income coming from alumni donations and fundraising activities. In the United Kingdom, these have fallen by one fifth according to some estimates³. Despite measures being taken by universities to spread out the impact of reduced income from these sources over the forthcoming years, this will have a lasting effect on universities' budgets and could likely affect their ability to diversify their income streams in the future.

³ "Donations to universities down in recession", J.Shepherd, guardian.co.uk, 26 May 2010