Ensuring the future efficiency and effectiveness of public expenditure on tertiary education.

The Council of 14 May 2008 invited the EPC and the Commission "*to continue their sectoral analysis, with a view to assessing in more detail the efficiency and effectiveness of public spending on R&D and education. Given the strong relationship between higher education and productivity as well as growth, it would be desirable to develop appropriate performance measurement tools in order to assess its efficiency and effectiveness.*"

Further to this call, the EPC and the Commission carried out an analysis of efficiency and effectiveness of public expenditure on tertiary education. The analysis comprises quantitative and qualitative elements, and country-specific information was obtained by means of a detailed peer review of tertiary education systems in Member States.

The Council notes the close collaboration between Finance and Education Ministries in analysing the tertiary education systems in the EU and welcomes this fruitful working method. Co-operation between economic and education policy makers is essential to maximise the contribution of ECOFIN to higher education reform.

The Council WELCOMES the Joint Report and HIGHLIGHTS the main findings:

- That improving the efficiency and effectiveness of public expenditure on tertiary education would also require action at the earlier levels of education which lay the foundations needed by students to advance to, and progress in, tertiary education. Interventions at these earlier stages may therefore be very cost-efficient.
- That reform of tertiary education systems in particular governance aspects, has the potential to raise the effectiveness of public expenditure, which currently accounts for the bulk of resources devoted to tertiary education. Tertiary education systems are more efficient when tertiary education institutions have basic autonomy and flexibility, in particular staff policy and financial autonomy. Higher levels of autonomy, accompanied by appropriate mechanisms to ensure accountability, can help increase education and research productivity provided the right conditions are in place, such as financial incentives for good staff and student performance, sufficient ability to attract and retain qualified staff, sufficient capacity to meet demand and adequate levels of resources (from public and private sources).

On ***Tertiary education financing,***

- Efficiently-designed tertiary education systems are a necessary pre-condition, but will not be sufficient to achieve excellence in the long run if funding is not adequate. In this respect, attention should be given to the fact that population ageing may bring additional pressure to bear on tertiary education financing for three main reasons. First, it will raise the need for periodic education and retraining, as working lives gradually lengthen. Second, education and training will become increasingly important in achieving the productivity growth needed to ensure strong economic growth. Finally, future costs of tertiary education will also increase in line with the expected upturn in enrolment due to higher participation rates.
- The extent of public funding varies across the EU, but it remains a key consideration in the few tertiary education systems where the issue of private funding may be most important. The case for an increase in private funding sources is considerably stronger in situations where limited public funding acts as an excessive constraint on *the number of students* or *reduces spending per student* to levels which risk jeopardising the quality of teaching and the acquisition of skills by students.
- The balance between *private* and *social* returns to tertiary education could set the basis for public subsidisation of higher education. Private returns to tertiary education

tend to be high (although differing across disciplines, institutions and gender) as well as social returns.

- A private contribution to the costs of tertiary education is generally justified by the high private returns that accrue to individuals. If increases in tertiary education funding come from higher student fees, it is critical that a well-functioning system of grants and/or loans is set up to ensure access for poorer students.
- Concerns for equality of access to tertiary education, however, have to be addressed and they are unlikely to be alleviated solely by policies to subsidise tuition fees at the tertiary level. Efforts to address this should start at the preschool level of education.

The Council RECOGNISES there is a strong need for highly qualified labour in the EU and reaffirms its commitment to the Europe 2020 benchmark to increase the share of population having completed tertiary education. In the horizon to 2020, the policy focus should be on increasing the success rate and on reducing graduation time, both without lowering academic standards.

The Council NOTES that labour market and education policies are closely intertwined: returns to education are lower when labour markets are less rewarding of high skills, even though these skills may be needed to strengthen the growth potential from a long-run perspective. Lifelong learning policies which allow tertiary education institutions to cater for the needs of the working population are essential in view of ageing populations. Currently the bulk of education continues to take place before the mid-20s and at the same time people are expected to remain active for longer.

The Council *UNDERLINES* that, taking into account the urgent need for a period of substantial budgetary consolidation, enhancing the efficiency and effectiveness of public spending on tertiary education by improving cost efficiency and governance (including through performance-based budgeting) is very important.

The Council *INVITES* the relevant Member States to consider the highlighted reforms and the Commission to factor these findings into its analysis and proposals in the frame of the Europe2020 strategy, and to take account of their implications in all relevant EU policies aimed at supporting job creation, promoting technological progress and enhancing the long-term potential growth of the European economy.