

Ms Éilis Fallon,
Committee Secretariat,
Committee of Public Accounts,
Leinster House,
Dublin 2.

Ref: PAC32-I-1708

19 December 2019

**Re: Information note in relation to recurring deficits in third level institutions
and the impact of cuts in funding for third level institutions**

Dear Ms Fallon,

I refer to your letter of 28th November 2019 requesting an information note for the Committee in relation to recurring deficits and the impact of cuts in funding for third level institutions and welcome the opportunity to respond to the Committee.

The Higher Education Authority (HEA) monitors the financial position of all higher education institutions (HEIs). A small number of higher education institutions across the sector have been operating with budget deficits. The HEA works with these institutions to ensure appropriate mechanisms and financial plans are put in place to bring the institutions to a sustainable position. While many Institutes of Technology have managed to maintain a strong financial performance, the work of remediating the financial position for some in the technological sector continues.

Recurring deficits in third level institutions

Similar to other sectors, there have been reductions in overall State funding for the higher education sector since 2008. A 2018 spending review published by the Department of Public Expenditure and Reform summarised the impact expressed in Exchequer higher education expenditure. The review indicates that from 2008 to 2014 there was a decrease of approximately 20% and from 2015 and 2018 there was an increase of 9%. In parallel full-time student numbers increased by approximately 30% between 2008 and 2018.

Budget 2020 shows a further increase in planned current expenditure. This is in addition to several new funding initiatives which have been launched in recent years including:

- an increase in the National Training Fund (NTF) levy from 0.7% to 1% between 2018 and 2020;
- the introduction of the Human Capital Initiative (HCI) consisting of €300m invested from the NTF into higher education over a 5-year period to 2024. This forms a key part of the Government's strategic response to addressing the skills needs of the economy, mitigating Brexit risks and other challenges that the economy may face, as well as responding to digitalisation and the future world of work;
- a transformational fund of €90m over the next 3 years for Technological Universities.

Arising from reductions in recurrent funding in previous years, higher education institutions adopted various measures to secure funding. These consist of self-generated income streams and alternative sources, including international student fees and loans. Overall, there has been a significant shift from State to non-State income. State income reduced from 72% to 55% for all institutions, and specifically for Universities it reduced from 67% to 48%. However, not all institutions were able to benefit from other income streams sufficiently to compensate for the reduction in State funding.

Impact of cuts in funding for third level institutions

While there have been increases in funding provided to higher education in recent years, there are some areas where the general impact of previous funding reductions is particularly problematic and falls to be dealt with as the funds cited above come on stream. These areas include:

- increased student/staff ratio as the number of students has been growing and will continue to grow in the medium term;
- a lag in investment in capital infrastructure including maintenance of buildings and facilities and upgrading of ICT and other technology, to be addressed in the context of Project Ireland 2040 which provides a significant funding envelope of €2.2bn for investment in higher education infrastructure over the period 2018-2027.

Conclusion

Higher education institutions have, during difficult economic times, stepped up and catered for the significant increase in student numbers and in doing so have found a number of ways of supplementing their income, including, in the case of Universities, borrowing. Nevertheless, as things improve, the HEA will continue to work with the small number of vulnerable institutes that require help in the interim. In parallel, the Department of Education and Skills has commenced a comprehensive economic evaluation of the funding options presented in the Report of the Expert Group on Future Funding for Higher Education (Cassells Report), supported under the European Commission Structural Reform Support Programme. This study will be undertaken by an expert independent international consortium. It is expected that substantial work on this project will be completed by Quarter 3 in 2020 and that it will help provide the basis for a national consensus on the appropriate policy approach for the future funding of higher education.

This information has been prepared as a response to the Committee's enquiry about systemic issues related to recurring deficit and funding of higher education. Should you require additional details, please contact me and I will be happy to provide the Committee with further information.

Your sincerely,

A handwritten signature in black ink, appearing to read 'Alan Wall', with a stylized flourish extending from the end.

Dr Alan Wall
Chief Executive Officer
Higher Education Authority