An Overview of Tertiary Education funding in Ireland
Séanadh

Is í an Oifig Buiséid Pharlaininteach (OBP) a d’ullmhaigh an doiciméad seo mar áis do Chomhaltaí Thithe an Oireachtais ina gcuid duelgas parlaiminteach. Ní bheartaítear é a bheith uileghabhálach ná críochnúil. Féadfaidh an OBP aon fhaisnéis atá ann a dhéanamh as nó a leasú aon tráth gan fáil fá thóir. Níl an OBP freagra leaghdúil d’aon tagairtí d’aon fhaisnéis atá á cothabháil ag triú páirtithe nó naísc chuíg aon fhaisnéis den sórt sin ná as ábhar aon fhaisnéise den sórt sin. Tá baill foirne an OBP ar fáil chun ábhar na bpáipéar seo a phlé le Comhaltaí agus lena gcuid foirne ach ní féidir leo duit i mbun plé leis an mórphobal nó le heagralochtai seachtracha.

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This note provides an overview of the public funding provided to Higher Education Institutions (HEIs) in Ireland. This funding is mostly allocated to the Department of Education and Skills (DES) under Vote 26. Higher Education is considered to be a cornerstone of the Irish Economy and a key driver of growth, but is currently experiencing significant financial pressures.

Though funding to Higher Education has increased in recent budgets, it remains below a funding peak of €1.85 billion in 2008 (inclusive of the National Training Fund allocation) at a time when student numbers are significantly higher, and growing, and the legacy impacts of crisis era funding cuts are still being felt.¹

HEIs are increasingly reliant on self-generated income streams, including foreign student fees, investments, donations, and university endowments. However data on these funds is difficult to disaggregate from public funds, and lacks granular detail.² These funding streams fall outside the government balance sheet, and are therefore beyond the scope of this note.

It has been acknowledged that the current funding model for Irish HEIs is unsustainable, with the sector facing administrative imbalances, resource pressures, growing demand and highly constrained budgets.³ The July 2016 report by the Expert Group on Future Funding for Higher Education (the Cassells Report) concluded that an additional €1 billion in annual funding would be needed by 2030 in order to sustain and improve the provision of Tertiary Education in Ireland.⁴ Several alternative funding models have been proposed to address this which may fundamentally alter how the sector is funded and/or accounted for by the State.

This note outlines the existing funding model for Higher Education Institutions and its financial challenges. It does not address the socio-economic accessibility issues related to the sector. It further provides an overview of proposed changes ahead of the decision on a new funding model, which is expected to follow the results of the EU's economic evaluation of these models, due in September 2020.⁵ It may also assist the relevant Oireachtas committees in their consideration of this issue.

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3 Ibid.
5 Parliamentary Question, response by the Minister for Education and Skills, [36189/19], 6 September 2019.
Ireland’s highly educated workforce has been repeatedly acknowledged as a key driver of the country’s economic growth; fundamental in attracting and maintaining foreign direct investment and creating sizable social dividends for the State.

However, the sector has come under significant financial pressure in recent years due to a combination of factors, including significant reductions in funding and resources made during the financial crisis, and growing student numbers. Across all Higher Education Authority (HEA) funded institutions, the PBO estimates that funding per undergraduate student (fulltime, part time, remote and FETAC) enrolled in 2019 was 50% lower than in 2008.6

Under the HEA 2018-2022 Strategic Plan, ‘Funding, Sustainability and Performance’ is listed as a strategic theme, noting that the agreement and implementation of a sustainable funding model is “imperative and is all the more critical given the demographic trends”. These trends predict undergraduate student numbers in higher level education to increase from 187,495 in 2017/2018 to 222,514 by 2030.7 This strategic plan follows two in-depth reviews of the funding of higher education in Ireland – the Cassells Report and the Review of the Allocation Model (discussed later in this note), which recommended significant overhauls to HEI funding.

The key messages of this paper are detailed below:

- The Higher Education Sector is a cornerstone of the Irish Economy, but is under significant financial pressure and with an unsustainable funding model.
- Indecon estimates that the University sector alone contributes the equivalent of €9 billion to the economy annually (implying a return of about €9 for every €1 spent by the State). This is due to significant increases in demand, demographic pressures and the legacy impacts of the financial crisis.
- Approximately 17% of Education funding goes towards higher education. Across all Higher Education Authority (HEA) funded institutions, the PBO estimates (using HEA statistics) that funding per undergraduate student (full time, part time, remote and FETAC) enrolled in 2019 was 50% lower than in 2008. While total undergraduate student numbers have increased by 50% since 2008, funding has not recovered and remains 6% below 2008 levels. This funding shortfall has added complications due to differences in cost calculations across Higher Education Institutions, including in pensions and capital.
- Private funding makes up a significant proportion of HEI funding, but is hard to disaggregate from public funds. While exact figures for 2017/2018 are not available, there has been a growing reliance on non-EU fees as a key source of funding for HEIs, with 9% of all full-time students paying non-EU fees in 2017/2018, up from 6% in 2014, and 5% in 2012.

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The Cassells report recommended significant financial investment in the sector, with an additional €1 billion in annual funding by 2030, over 2016 levels. This would be sourced through one of three proposed funding models. As the Government awaits the European Commission’s economic assessment of the funding options proposed in the Cassells Report, it has already indicated that options 2 and 3 are unlikely to be pursued. This leaves option 1, which requires substantial increases in the level of State funding.

There are wider issues relating to the distribution of funding within Vote 26 which may be the subject of future PBO research.
Higher education brings both public and private benefits. Public benefits include reduced crime rates, higher tax revenues and social contributions, and heightened levels of civic engagement. Private benefits include an earnings premium for graduates, and better job opportunities.

When compared internationally, Ireland has particularly high levels of progression to third-level, reflecting the strong emphasis placed on continuing to higher education and the educational demands of the Irish labour market. According to the CSO, 47% of the Irish working age population (25-64 years) have attained a third-level education. This is significantly higher than the OECD average of 38%, and places Ireland at 7th highest in the OECD. In terms of the earnings premium, those with a bachelor’s degree earn 81% more, on average, than those with only an upper-secondary education. The earnings differential between these two education levels among other OECD countries is, on average, 44%.

An analysis carried out by Indecon on behalf of the Irish Universities Association (IUA), estimates that the activities and dividends of seven Irish universities (excluding the new Technological University Dublin) contribute the equivalent of €9 billion to the economy annually (implying a return of about €9 for every €1 spent by the State).

This balance of private and public benefits underpins the discussion of the extent to which third-level education should be publicly versus privately funded. The alternative funding options proposed in the Cassels report have varying implications for social mobility and the development of human capital. Ultimately, funding decisions related to third-level are a matter for government, taking into account equality of opportunity, market demands, and the competing demands on public expenditure.

9 Latest information as of Q2 2018.
The funding of third-level by the Department of Education and Skills (DES) is allocated under Vote 26 of the Revised Estimates.

Vote 26 is the third largest area of Government spending, with gross figures of €10.2 billion allocated to the Vote in 2019, and €10.5 billion planned for 2020 (see figures 1 and 2). This allocation covers State spending on primary, secondary and third-level education, as well as in the area of skills development. Of the projected allocation for Vote 26 in Budget 2020, approximately 75% is designated for the First, Second and Early Years education sectors.

The National Training Fund (NTF) makes up 5% of Vote 26 spending and is designated mainly towards reskilling and upskilling programmes that are considered part of the higher education sector.

Public spending on tertiary education in Budget 2019 was approximately 2.3% of total spending (or €1.73 billion, out of total spending of €76.3 billion). This remains lower than the pre-crisis peak of €1.85 billion in 2008 but represents an increase on the low of €1.56 billion in 2014, and a 5.3% increase over the 2018 allocation.

**Figure 1: Gross Expenditure allocations by Department, €bn, 2019**

![Expenditure chart](chart.png)

*Source: Department of Public Expenditure and Reform Databank*

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13 An examination of the NTF can be found in PBO Note 22 of 2018.

14 Ibid.
Figure 2: Vote 26 – Education and Skills funding allocation, €bn, 2013-2020

Source: Department of Public Expenditure and Reform Databank. *Based on Budget 2020 Expenditure Report.
Figure 3: Vote 26 funding distribution with breakdown of Higher Education funding – Budget 2019

Source: Department of Public Expenditure and Reform Databank

For context, the PBO examined long-term trends in Higher Education allocations relative to Primary, Secondary and Early Years (PSEY) spending before, during and after the crisis. These trends are shown in Figure 4.

The proportion of Vote 26 funding to both sectors has remained relatively static, with PSEY receiving between 74% to 77% of the total allocation from 2007 to 2014. At its lowest, PSEY was 9% below its 2008 pre-crisis peak (€7 billion) in 2013. This is in part a reflection of the pay cuts and changes to the working terms and conditions of Primary and Post-Primary teachers implemented during the crisis period. However, PSEY spending began to recover in 2015, and by 2017 had surpassed 2008 levels. Student numbers over this period increased. The total number of full-time students at first and second level increased from 821,567 in 2008 to 930,671 by 2019, a 13.3% increase overall. New teacher hiring continued over this period, with the student teacher ratio at first level remaining static at 15.9 in 2008, 16.3 in 2013 and falling to 15.2 in 2018. Under Budget 2019, PSEY spending composed 79% of the total Vote 26 spend at €8.1 billion, a 14% increase on 2008.

Allocations to Higher Education have been similarly consistent, between 17% to 20% from 2007 to 2019. At it’s lowest (in 2014) HEI funding was 16% below its pre-crisis peak (€1.8 billion) in 2008. However, HEI funding has yet to recover to pre-crisis levels. The combined impact of rising student numbers and staff cuts has resulted in decline in the student-staff ratio at third level from 16:1 in 2007 to 20:1 in 2017. The 2019 allocation of €1.7 billion remains 6% below 2008 levels, despite an 81% increase in total student numbers, and a 50% increase in undergraduate students alone, relative to 2008, and represents 17% of total Vote 26 spend.

Table 1 shows the breakdown of Vote 26 funding for the Higher Education sector for 2019 (excluding the NTF). There are wider issues relating to the distribution of funding within Vote 26 which may be the subject of future PBO research.
Figure 4: Proportion of Vote 26 allocation: Primary, Secondary and Early Years v. Higher Education

Source: Department of Public Expenditure and Reform Databank.

Table 1: Breakdown of Higher Education Expenditure 2019, €000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Private Partnership Costs</td>
<td>€25,945</td>
</tr>
<tr>
<td>Administration – Pay</td>
<td>€4,382</td>
</tr>
<tr>
<td>Administration – Non Pay</td>
<td>€1,005</td>
</tr>
<tr>
<td>Higher Education Authority (Grants-in-Aid)</td>
<td>€7,021</td>
</tr>
<tr>
<td>Universities, IoTs &amp; Other (Grants-in-Aid)</td>
<td>€991,926</td>
</tr>
<tr>
<td>Training Colleges For Primary Teachers</td>
<td>€5,857</td>
</tr>
<tr>
<td>Dublin Dental Hospital (Grants-in-Aid)</td>
<td>€11,580</td>
</tr>
<tr>
<td>Dublin Institute For Advanced Studies (Grants-in-Aid)</td>
<td>€6,828</td>
</tr>
<tr>
<td>Royal Irish Academy Of Music: General Expenditiess (Grants-in-Aid)</td>
<td>€3,216</td>
</tr>
<tr>
<td>Grants To Certain Third Level Institutions</td>
<td>€7,844</td>
</tr>
<tr>
<td>Superannuation To Institute of Technology And University Staff</td>
<td>€115,927</td>
</tr>
<tr>
<td>Student Support &amp; Related Expenses</td>
<td>€404,450</td>
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<tr>
<td>Research Activities</td>
<td>€47,600</td>
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<tr>
<td>EU, International, North/South Activities</td>
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<tr>
<td>Grangegorman Development Agency</td>
<td>€3,157</td>
</tr>
<tr>
<td>Miscellaneous Grants And Services</td>
<td>€100</td>
</tr>
</tbody>
</table>

Source: REV 2019.
 Proposed Funding Models

In response to the recognised financial difficulties faced by the sector, several reports were instigated by the Department of Education and Skills, examining the funding faced by HEIs.

The Cassells Report

The Cassells Report was commissioned by the Minister for Education in 2014 to ‘identify and consider issues related to the long-term sustainable funding of higher education in Ireland and to identify funding options for the future’.  

The Report is critical of the existing funding structures, noting the falling rate of investment per student, legacy effects as a result of underinvestment during the financial crisis, and the unsustainable financial position of the sector. It recommends that “Ireland must substantially increase the level of investment in higher education to ensure that the system is able to deliver fully on its role in supporting national economic and social development. This investment must be linked to enhanced quality and verification of outcomes.”

It estimates that the higher education sector requires an increase in annual investment on 2015 levels by €600 million by 2021, and by €1 billion by 2030, in order to maintain and improve standards in the sector while meeting increased student demand. These estimates are based on a targeted student-to-staff ratio of 14:1.  

The Report proposed three funding options for consideration. These options vary the share between public and private funding. The three funding options are:

- **Option One**: A predominately state-funded system (abolition of undergraduate fees, substantial increase in State funding relative to current levels);
- **Option Two**: Increased State funding with continuing student fees; and,
- **Option Three**: Increased State funding with the deferred payment of fees through a system of income-contingent loans.

In addition to the above, an extra capital investment of €5.5 billion by 2030 was highlighted as necessary to “sufficiently cater for increased student numbers, capital upgrades, health and safety issues, equipment renewal and ongoing maintenance.”

16 Ibid.
17 Ibid.
**Review of the Allocation Model**

The HEA initiated a review of Higher Education in 2017, considering the recommendations of the Cassells Report. This review, published in December 2017, echoed many of the concerns raised in the Cassells Report. The Review draws similar conclusions on the funding needs of the sector, noting that the existing system is “not fit for purpose.”

It emphasises the inconsistent and incoherent nature of the administration of funding, poor data collection, and a lack of overall transparency in HEI funding. It also makes several additional recommendations, specifically related to the existing allocation model framework, including:

- A shift to a “two pot system” of funding to enable a more dynamic response of HEIs to demographic patterns and student demands. It proposes increasing research and innovation funding, and the inclusion of Institutes of Technology (IoTs) in such funding for the first time;
- The integration of remaining specialist colleges into the university funding model;
- The application of a cost-reflective weighting based funding system, taking into account the cost of course provision, student fees, and an agreed income base;
- The establishment of a consistent and comparable costings system and reporting requirements across all HEIs; and,
- Greater transparency, effective communication and improved comprehension of the funding system by HEIs.

The Review further emphasises the need to preserve “institutional budgetary autonomy” so that HEIs can remain agile and responsive.

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19 Ibid.
HEIs are State funded public bodies, with just under 50% of their total funding coming from the Exchequer.\(^\text{20}\) This means that certain HEIs are ‘off-balance sheet’\(^\text{21}\) and have fully autonomous borrowing powers, while all HEIs can generate private investment.

**Public funding: HEA allocation**

Public funding allocations to HEIs, administered by the HEA, are filtered through three means:

- Block grants;
- Direct top-sliced allocations; and,
- A performance-based component.

**Block grant** funding is divided between universities and colleges (approximately 60%) and Institutes of Technology (approximately 40%).\(^\text{22}\) Block grants are composed of two distinct elements – the recurrent grant allocations model (RGAM) and the free fees grant.

The RGAM is calculated based on the preceding year’s student numbers (excluding non-EU students), weighted by the costs entailed across different disciplines. The block grant provides additional support for research, and to support access to third-level education for underrepresented cohorts (such as lower income households or those with disabilities).

The free fees grant (also known as the Exchequer fees component of funding) is based on certified student numbers in each undergraduate programme, which are then multiplied by the fee associated with each programme. The student contribution (currently €3,000 per annum) is then deducted from the grant allocation. This covers the cost of fees for Irish and EU students who are eligible for free third-level education.

Occasionally, funding within the block grant is ring-fenced (or ‘top-sliced’) for specific purposes, by either the Department or the HEA. This funding is referred to as a **direct top-sliced allocation**. It is intended to steer rapidly required systemic change, covering urgent *ad-hoc* requirements, and allows flexibility to tackle issues that are better addressed in a collective or sectoral manner. As an example, top-sliced funding may be used to support institutional restructuring arising from a national strategy (such as the formation of the Technological Universities).

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\(^{21}\) To be off-balance sheet means that an organisation is not included in the Governments Accounts.

The **performance-based funding component** is based on the three-year mission-based compact each HEI makes with the HEA. This compact is based on delivering future value, through the improvement of strategic planning and systemic performance. Each HEI identifies key targets as defined by Ministerial objectives.

Up to 10% of the block grant can be withheld or reduced under this arrangement, if it is found that a HEI has failed to perform against targets. However, the full penalty has yet to be applied. €5 million has been set aside from the 2019 recurrent allocation in respect of performance funding.23

There are approximately 38 HEIs in Ireland (including the new Technological University Dublin), of which 19 receive the above core funding contributions from the HEA. These are known as public HEIs. Private or not-for-profit HEIs are also eligible for HEA funding for specific courses, through competitive processes, or directly via the Department in recognition of a given remit.

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23 Correspondence with the HEA.
Public funding: Other sources

Student supports also make up a significant portion of the Vote 26 allocation to Higher Education. Third-level students who fit the eligibility criteria are entitled to claim two grants from Student Universal Support Ireland (SUSI). In the academic year 2017/2018, 77,495 students were awarded SUSI grants at a cost of €363 million. This figure includes maintenance grants (intended to cover additional costs, such as books) and fee grants (intended to cover some, or all, of the Student Contribution Charge of €3,000 per annum). Approximately €168 million was awarded in maintenance grants and €195 million in fee grants during the 2017/2018 academic year.\(^{24}\)

The Government has committed to spending €2.2 billion in capital expenditure across higher education over the period from 2018 to 2027 under Project Ireland 2040. Part of this funding provided for the development of Technological Universities, such as the new Technological University Dublin (encompassing Dublin Institute of Technology, Blanchardstown Institute of Technology, and the Institute of Technology Tallaght). This is in addition to the €3 billion provided for the education sector for 2018 to 2021 under the 2017 Capital Plan.\(^{25}\) This brings the Government’s planned investment close to the €5.5 billion in capital investment recommended by 2030 in the Cassells Report.

A further €60 million is to be provided for Higher Education from the €300 million Human Capital Initiative Fund in Budget 2020.\(^{26}\) This is being sourced from surpluses within the National Training Fund.\(^{27}\)

Private Funding

There are administrative differences in how private funding can be used across HEIs.

Over 50% of university funding comes from “market transactions” and private sources. This allows universities to be classified as market producers, and therefore outside the General Government or ‘off-balance sheet’.\(^{28}\) This means that they have fully autonomous borrowing powers, and their debt does not impact on the level of Government debt.

However, should Exchequer funding increase as a proportion of total university funding, this may result in universities falling under General Government. This would mean that university debt would become part of Government debt, and HEIs would lose their autonomous borrowing powers. This would prevent HEIs from unilaterally seeking funding, and possibly drive up the demand for Exchequer funds.\(^{29}\)

Additionally, the IUA reports that private borrowing by the seven universities is now approaching €800 million, with current annual capital repayments of €20 million, in addition to interest payments of €14 million. The IUA forecasts that, by 2022, repayments will have grown to €43 million, with interest costs of €24 million. As such, the scope for universities to continue borrowing is constrained.\(^{30}\)

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24 Parliamentary Question, response by Minister of Education and Skills [31282/19], 11 July 2019.
25 Department of Public Expenditure and Reform (2018), Project Ireland 2040.
27 More information on the National Training Fund can be found in PBO Note 22 of 2018, 12 November 2018.
28 This classification was carried out in relation to the seven universities in existence prior to the establishment of the Technological University Dublin.
Institutes of Technology, classified as non-market agencies, are on balance sheet and and lack a framework for borrowing funds. However, they can generate private funding through investment and research patents.

The HEA reports that, in 2017/2018, the total income for the HEI sector was €2.4 billion.31 In the same period, €1.65 billion was allocated to higher education in Budget 2018 (representing 46% of funding for the sector as a whole).

Each HEI functions independently in sourcing private income. This makes assessing the full scale and source of private funds in the sector difficult. From consulting the individual financial statements of HEIs, private investments, donations and endowments, are additional sources of revenue that continue to make-up substantial funding for HEIs since the start of the financial crisis.

The most recent disaggregated data on HEI funding is from the HEA's 2015/2016 Report.32 The HEA reports that, during this period, 25% of total funding to all HEIs came from the State through grants, with 12% from Exchequer fees. The largest segment of income was non-Exchequer fees (i.e. Non-EU student fees, Mature Student Fees), at 35%. Other sources of income include research and grants at 20%, and ‘other income’ sources such as endowments and private investment composed the remaining 8%.

While exact figures for 2017/2018 are not available, there has been a growing reliance on non-EU fees as a key source of funding for HEIs, with 9% of all full-time students paying non-EU fees in 2017/2018, up from 6% in 2014, and 5% in 2012.33

However, the distinction between private and public funding is often unclear. The CSO includes some research grants as “market transactions” as they represent the sale of services, such as specified research or studies, by a HEI to the State.34 However other State grants, classified as subsidies or investment grants to HEIs, are not classified as sales as they represent more general, less constrained funding. All university fee income (Exchequer and non-Exchequer) is also treated as sales, as it relates to the purchasing of education by, or on behalf of students, and is therefore classified as private funding by the CSO in their assessment.35

32 These same figures were initially published in the 2015/16 Institutional Performance Report and replicated in the HEA’s Key Facts and Figures: Higher Education 2017/18.
35 It is disputed whether Exchequer expenditure directed to HEIs should be considered State funding in aid by the State or private sales by the institution itself.
A sector under pressure

Resource pressures

Public funding for the HEI sector has not returned to pre-crisis levels, despite significant increases in student numbers. Full-time undergraduate numbers have increased annually since 2007, with 231,710 students enrolled in 2017/2018, a 2.9% increase on the previous year.\textsuperscript{36}

The lag between increases in HEI funding and rapidly increasing student numbers has resulted in a nearly 50% decrease in the funding per student received by HEIs. The \textit{Cassells Report} found that from 2008-2015, core funding per student fell by 22 percent, with a large part of funding reductions covered through internal efficiencies and cost cutting measures which have been largely exhausted. These include cuts to staff numbers and capital investments which are now impacting on resource capacity within the sector.

The IUA reports that State funding per student for core activities in 2019 is almost €5,000, relative to almost €9,000 per student in 2009.\textsuperscript{37} Analysis from the 2018 Spending Review finds that the average cost of the provision of third-level education per student is €10,379.

Figure 6 demonstrates the increase in student numbers relative to the allocation of State funding to third-level. Combined with a reduction in staff numbers relative to the pre-crisis period, this has resulted in a sharp decline in the student-to-staff ratio from 16:1 in 2007 to 20:1 in 2017.\textsuperscript{38} These pressures are expected to increase alongside demographic shifts, with the Department projecting an annual increase in third-level enrolments through 2029.\textsuperscript{39}

\textsuperscript{36} The Higher Education Authority (2019), \textit{Key Facts and Figures 2017/2018}.
\textsuperscript{37} Irish Universities Association (2019), \textit{Investing in Ireland’s future talent and innovation: IUA Budget 2020 Priorities}.
\textsuperscript{38} IGEES (2018) \textit{Spending Review 2018: Understanding The Funding Needs In Higher Education}.
\textsuperscript{39} Department of Education (2018) \textit{Projections for full-time third level education, 2018-2040}. 
Methodological challenges

There are inconsistencies and substantial methodological differences in how costs are calculated and distributed in universities and IoTs.

Pension costs are paid directly by universities, but this is partly funded by State grant allocations, whereas pensions are outside of funding systems for IoTs. Furthermore, IoT pensions are paid directly to the recipient from a public-sector pension fund, and are kept off-balance sheet and outside the grant allocation process.

 Universities and IoTs also differ in how they calculate the costing information required by the HEA to verify funding needs. Universities adopt a full economic costing approach which is inclusive of teaching costs, research, institution management, a complex pension system, and entails adjustments to reflect the cost of maintaining infrastructure. Whereas IoTs adopt a unit-cost system, utilising the cost per student across academic programmes, excluding non-recurrent costs. This unit-cost system makes no allowance for the depreciation of infrastructure or institutional assets.

Due to disparities in these calculation methods, it is difficult to assess the overall cost of higher education provision. This limits the ability to analyse the sector as a whole. These differences result in disparate funding and cost burdens across different HEIs.

Source: Department of Public Expenditure and Reform Databank, Higher Education Authority Statistics
Furthermore, the Review of the Funding Allocation Model found that there was significant confusion and/or poor articulation around the allocation, investment, and use of State funding within HEIs. This underscores the lack of transparency and comprehension regarding the current system, particularly as it relates to the allocation of public funds. The review concluded that there is a requirement for a common higher education costing system and a clear, shared understanding of the cost of provision.42

Performance monitoring

Under the Revised Estimates, and in the context of Performance Budgeting, performance is assessed against enrolment metrics, gender and socio-economic representation, and capital projects.

However, there is disparate data collection across the higher education sector. While it is acknowledged that assessing quality in higher education is subjective with multiple confounding factors, there is a lack of consensus in the sector regarding the metrics necessary to monitor quality and assess performance.

Student-to-staff ratios, as used in the Cassells Report, are widely used as international benchmarks. However, these ratios do not necessarily capture the amount of contact time that students may have with academic staff. Nonetheless, they can be indicative of the resource pressures that institutions are facing.43 As noted previously, student-to-staff ratios in Ireland have increased substantially over the last ten years.

The international ranking of universities can also prove useful as an indicator of comparative performance between institutions. Irish universities have slipped in these rankings in recent years. There are different approaches to constructing these rankings, with different systems weighting variables such as student satisfaction, research output, and student-to-staff ratios differently. They can also be subject to lobbying by donors or HEIs directly. However, they can provide some indication of an institution's relative performance, or general appeal to prospective students.44 Student satisfaction surveys, such as the EU's EUROSTUDENT or the domestic Irish Survey of Student Engagement, are additional sources of information on student outcomes.45

However, the lack of granular data across the higher education sector limits the extent to which demographic projections and education quality can be used as a basis to inform funding decisions. Value for Money reviews or Social Impact Assessments assessing the relative cost of services and higher education courses relative to student outcomes are also restricted.

More detailed data on education outcomes, the demographic distribution of incoming students, education quality, and HEI's own resource funding would provide for better informed funding decisions. Under the current HEA System Performance Framework 2018-2020, a suite of indicators are outlined to measure the performance of HEIs against 6 high level performance objectives (objective 5 in particular focuses on the quality of higher education).46 Data collected under this framework has yet to be released, but could be a rich source of information for future analysis.

42 Ibid.
43 Ibid.
Increasing student costs

Cost pressures on students have also increased as a result of higher living costs and constrained funding for HEIs.

The annual registration fee paid by students to HEIs currently stands at an all-time high of €3,000 per annum. This has increased from a rate of €850 in 2008/2009, in part due to the financial difficulties faced by the sector during the crisis. Some students are eligible for fee grants to cover this cost. The maintenance grant administered by SUSI, is intended to supplement additional education costs (such as books). It is a means tested grant with the maximum rate currently set at €5,915 per annum.

In recent years, the financial pressures on students have compounded in the form of increasing accommodation costs with a lack of affordable student housing, larger class sizes, and the cost of lengthy commutes. The wider issues facing students such as labour market challenges and rising demand for professional qualifications are also areas of consideration but beyond the scope of this paper.

However, collectively, all of these factors are important to consider when assessing the options proposed for future funding in the Cassells Report.
The Cassells report proposed three options for future funding against the backdrop of growing financial insecurity, complex administrative systems and increasing resource pressures.

Total funding allocations have increased in recent budgets and will see a further increase in Budget 2020 to €1.74 billion. This represents an increase of €177 million from 2016 figures but falls short of the €600 million increase (by 2021) in annual expenditure said to be needed by the Cassells report in order to maintain and improve third-level education standards.

Capital funding is projected to reach the €5.5 billion target in the coming years. However, since the report was published in 2016, there has been little change in the overall structure of HEI funding. This is in part due to the fact that each of the funding options proposed in the Report have generated substantial support and opposition across the higher education sector and political spectrum.

In March 2019, an Taoiseach Leo Varadkar indicated an opposition to increasing student fees or to implementing an English or US style student loan system. The Minister of State for Higher Education confirmed (August 2019) that Government will not introduce a student loan scheme. Under such a scheme, the repayments of these loans are tied to a specific rate of pay at which the loan repayments would then be deducted from wages.47

Furthermore, in August 2019 the Minister for Education pledged not to increase the Student Contribution Fee and to freeze it at the current rate.

As such, option three has been (at least provisionally) removed from consideration by Government, with option two constrained by the Government’s commitment to maintain student fees at €3,000 per annum.

The remaining option advocates a considerable increase in State funding. As noted in the Spending Review, the Cassells Report estimate of €1 billion in additional annual investment in HEIs was based on a targeted student-to-staff ratio of 14:1. Further investigation and more granular data is needed to assess if this metric is the best indicator of quality in the higher education sector, and is therefore a suitable target on which to base funding requirements.

Furthermore, the implications of increased State funding for other Exchequer spending priorities, as well as for the classification of HEIs and the implications for Government debt, must also be acknowledged.

47 For a closer examination of income contingent loan schemes for higher education, including case studies of the UK and Australian systems, see the Library & Research Service note of October 2017.
The Minister for Education has stated that no policy decisions on HEI funding will be made until there is a recommendation from the Oireachtas Committee on Education and Skills, to whom the Cassells Report was referred in 2016. However, the Committee did not reach a consensus on the proposals put forward in the Report, and subsequently in 2018 sought an economic impact assessment of each of the options. The Government in turn has sought the technical assistance of the European Commission’s Structural Reform Support Programme in preparing an economic evaluation of the three proposals. However, due to administrative delays, the results of this analysis are not expected until September 2020.

48 Parliamentary Question, response by the Minister for Education and Skills, [3689/19], 6 September 2019.
50 Ibid.
This note has provided an overview of the funding mechanism for higher education and the financial and administrative challenges facing Ireland’s third-level sector.

As noted by the 2018 Spending Review, assessments of the expenditure requirements of the sector are sensitive to a number of assumptions, and hindered by a lack of granular data. The funding model as it currently stands is disjointed, lacks transparency, has not kept pace with the economic demands of the sector, and has been acknowledged as being unfit for purpose.

Substantial changes to the funding model are required and have been proposed by two expert panels. While the Expert Review recommends changes which are more feasible in the short term, the Cassells Report proposes a more fundamental restructuring of HEI funding. As the Government awaits the European Commission’s economic assessment of the funding options proposed in the Cassells Report, it has already indicated that options 2 and 3 are unlikely to be pursued. This leaves option 1, which requires substantial increases in the level of State funding.

Higher education remains a cornerstone of the Irish economy and a key driver of growth. Sustainable investment into the sector is fundamental in maintaining quality, and in ensuring equality of access. However, increases in State funding should be accompanied by the recommended administrative reforms, improved performance monitoring, and a consideration of the possible impact on the Government accounts (in terms of the classification of HEIs as on- or off-balance sheet). In addition, funding should be sourced from sustainable revenues. This will be crucial to avoid a repetition of the disruptions to funding seen during the last economic and fiscal crisis.