

# **Expert Group on Future Funding for Higher Education**

## **Funding Irish Higher Education— A Constructive and Realistic Discussion of the Options**

**Discussion Paper for  
Stakeholder Consultation  
30<sup>th</sup> October 2015**

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# Foreword

We have been tasked with assessing the long term funding requirements of the higher education system and identifying funding options for the future.

In that context we have engaged in extensive consultations. Throughout these discussions we have received two overwhelmingly clear messages. The first is a strong consensus on the role and value of higher education and its vital contribution to our national ambitions of creating more jobs, restoring living standards, rebuilding social services and achieving greater social cohesion.

The second is a clear understanding of the extent of the pressures facing our higher education system – both within higher education institutions and on households and students. These pressures are now seriously threatening the ability of our sons and daughters to gain the knowledge and develop the capabilities that will enable us to realise our national goals. We urgently need, therefore, a reformed funding system for higher education and indeed further education and apprenticeships that will enable us to fund a dynamic, flexible tertiary system with ambition.

The purpose of this phase of our consultations is to generate a constructive and realistic discussion on this funding challenge. Can we agree implementable approaches to reform that will deliver a long-term sustainable funding base? I can understand that different economic and social groupings will naturally have a particular model of funding as their first preference. However, a discussion which does not converge, yielding only restatement of first preferences and consequent stalemate, will simply consolidate the status quo.

It is clear to me that the status quo is not sustainable – current funding levels are insufficient and the funding model requires reform. The future system of funding in Ireland must be sufficient to deliver a higher education experience equal if not better to that in neighbouring countries and competitors, meet the needs of employers in the private, public and social sectors and achieve wide access and affordability for students from different backgrounds.

The issues under consideration in this paper do pose difficult questions and will require difficult decisions. But it is incumbent on all of us – parents, students, higher education providers, taxpayers, employers, social activists and public representatives – to collectively work towards a model of funding that will underpin and support a high quality system for future generations.

This discussion should look to international systems for guidance and ideas but it should not be driven by any particular model or ideology. It must take full account of the position we are starting from, be situated in the context of values of Irish society and be creative in the solutions it considers.

Finally it is essential that the views of as wide a range of people as possible are taken into account. This consultation will provide an important input into the final deliberations of the Expert Group and I hope all interested parties will avail of the opportunity to engage fully and openly with this process.

**Peter Cassells**  
**Chair**  
**Expert Group on Future Funding for Higher Education**

# Introduction

The Expert Group on Future Funding for Higher Education was established 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<sup>1</sup>.

The Group has engaged in three phases of work, and is undertaking extensive consultation with a wide range of stakeholders on each phase. The three phases are outlined below, along with a short summary of conclusions to date.

## ***Phase I: Value and Role of Higher Education***

The first phase of the Group's work sought to achieve a shared understanding of the contribution that higher education will make to Ireland's next phase of development across social, economic and cultural perspectives. Four critical attributes or contributions were identified that must be protected and enhanced in any future funding arrangements<sup>2</sup>. These are outlined in Box 1.

### **Box 1: Four critical contributions of higher education**

- The quality of higher education courses and qualifications remains paramount. This is the single most important way in which higher education serves its students and the public good. We need graduates who can understand our past, engage with the present and imagine the future. This requires renewed attention not just to what graduates learn, but how they learn. It also requires high quality teaching, active scholarship of academic staff across the disciplines and a high level of engagement with students.
- Higher education is central to the development of a dynamic and open national innovation system. It must support innovation in its broadest sense which means supporting the pursuit of knowledge, research and development across the full spectrum of arts, humanities, social sciences and STEM to address societal challenges, support prosperity and facilitate human development. Institutions need to further adapt and respond to the fundamental changes taking place in innovation and how knowledge is generated and must embrace greater levels of interaction between higher education, business, government and civil society.
- The system needs to support and respond to the changing needs of our economy, society and public system in the medium and long-term. Higher education graduates are vital not only for our enterprise sector but also across a range of public services including health, education and policy-making. This means giving more attention to how employability of graduates can be improved and the role of high-quality, informed career advice and support to students.
- Higher education must support greater social cohesion. Equitable access to the opportunities of higher education for those from non-traditional backgrounds needs to be improved and resourced sufficiently.

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<sup>1</sup> Appendix 1 provides the terms of reference and membership of the Expert Group.

<sup>2</sup> Expert Group Discussion Paper 1 <http://www.education.ie/en/The-Education-System/Higher-Education/>

## ***Phase II: Efficiency and Organisation***

This second phase examined the use of resources and organisational structures within the higher education sector. This focused on a broad range of areas including: organisation and management structures, human and financial resources, adoption of new technologies, and wider system level reforms<sup>3</sup>.

This confirmed the resilience and flexibility of the sector over recent years and highlighted the delivery of significant efficiencies and a commitment to reform and improved work practices. While acknowledging these achievements, consultations and discussions point to the need for greater impetus and further commitment to the reform agenda. Resources must be used optimally and any increase in resources must support a more flexible and dynamic system. This message was re-emphasised in focus group research. Box 2 provides a summary of areas that offer further potential and these will be returned to in the final report from the Expert Group.

### **Box 2: Efficiency and Organisation**

- Innovations and reforms that have been put in place in recent years must be retained and built on. This includes advances in shared services, regional planning, institutional mergers, and workload allocation processes.
- Greater emphasis on the development of enhanced and deeper management and leadership capacity in institutions.
- Much greater impetus in the delivery of more coherent and coordinated academic planning and provision across the sector, in particular within regions. This includes the length of programmes.
- Greater flexibility and innovations in programme design and delivery. This is essential for underpinning lifelong learning and access ambitions, can ensure greater use of campus facilities and can alleviate some demand pressures.
- More systemic and structured adoption of technology across the sector to support back-office activities, reduce administration burden on academics and deliver new innovations in pedagogy. This will not deliver cost savings in the short term – and is in fact more likely to need targeted investment.
- More flexible HR arrangements will be necessary to underpin some of these reforms.
- Revisions to the allocation mechanism for public funding (RGAM) to ensure national objectives are incentivised and rewarded.

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<sup>3</sup> Expert Group Discussion Paper 2 <http://www.education.ie/en/The-Education-System/Higher-Education/>

### ***Phase III: Funding System***

The current and final phase of the Group's work involves a consideration of the future funding requirements of the sector and the case for reform of the funding model. As part of this process, the Group commissioned a review of international models of funding higher education and qualitative focus group research on attitudes to higher education. The reports from both of these processes accompany this discussion paper.

This paper provides the basis for discussion and consultation in Phase III. It is designed to prompt a constructive discussion on how higher education can be funded in Ireland in a way that enables our national economic and social ambition.

The paper begins by setting out in Chapter 1 the ways in which the existing funding system imposes costs in terms of the quality of student experience, social inclusion, the future career opportunities for Irish graduates in a mobile labour market and, ultimately, the overall contribution of higher education to Irish economic and social development. The paper then outlines a number of principles that should inform the consideration of funding reforms.

Before considering the Irish funding model, Chapter 2 provides a review of the main mechanisms for funding higher education internationally. This draws on a review paper prepared for the Expert Group.

The final two chapters turn to the Irish situation. Chapter 3 argues that to support Ireland's next phase of development investment must be benchmarked against leading countries. This will require a significant and sustained increase in the funding available for higher education. It also outlines the scale of the immediate funding challenge arising from positive demographics and a period of underinvestment.

Chapter 4 identifies a spectrum of funding approaches. It argues that there are strengths and drawbacks associated with each. Beyond that, it also shows that some of them depend on wider conditions that do not exist, and are unlikely to materialise, in Ireland in the coming years. Consideration of these and Ireland's particular funding context suggests that the consultation and ongoing discussion should focus on an integrated reform package for Irish higher education funding incorporating a number of elements from this spectrum. The challenge for the consultation, the Expert Group and Irish policy makers is to identify a model suited to the Irish context which draws on some of the best features in other countries. The paper concludes with a series of questions which will form the basis of consultations and considerations.

# Chapter 1: The Imperative of Reform and Guiding Principles

## 1.1 Introduction

Quality higher education across a wide range of disciplines, availed of by increasing cohorts of the Irish population, was a major contributor to Ireland's economic and social progress over the decades since the 1960s. As set out in the Expert Group's first Consultation Paper, its contribution is built upon four attributes: high quality student experiences and qualifications, a strong role in supporting a dynamic open innovation system, meeting the needs of employers in the private, public and social sectors and achieving greater access.

This chapter sets out the pressures being experienced within the current Irish funding system which now threaten this contribution, and outlines a set of guiding principles which must be at the heart of any funding reforms.

## 1.2 The Case for Reform

The funding constraints within the higher education system and the impacts of increasing costs for students and households have been well documented. Other countries at similar levels of development—with whom we compete in the development of talent, inward investment, innovation and quality public services—devote more attention and resources to ensuring both high-quality education and education that is free at the point of access to students from a range of social backgrounds. This is likely to weaken Ireland's relative ability to undertake high-value innovative activities across the economy and society, but also to put Irish young people at a disadvantage in competing for the opportunities that do arise.

The following provides a summary of some of the key pressure points in the current system:

- Falling resources, across the sector since 2008<sup>4</sup>, and a deteriorating student:staff ratio<sup>5</sup> impacting on the range of activities within higher education, particularly the ability to provide high quality undergraduate

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<sup>4</sup> The level of core funding per student has fallen from €11,750 in 2008 to a current level of €9,250.

<sup>5</sup> Academic staff to student ratio fell from 15.5 in 2008 to a current level of 19.5.

programmes and qualifications. The scale and pace of public funding reductions means that some of Ireland's higher education institutions are now falling into deficit;

- Overcrowded and mixed quality facilities—such as lecture halls, classrooms and libraries—arising from increased student numbers in a context of limited investment and a shortage of income for maintenance of capital stock;
- Further increases in student numbers due to demographic growth, likely to imply a 29 per cent increase by 2018;
- High non-progression rates in parts of the higher education system;
- Growing pressure on student support funding, leading to reduced resources available to support maintenance and living costs;
- Pressures on many students and families to meet the annual 'student contribution', which has now reached €3,000, and to meet living costs while studying with indications that there is a growing recourse to borrowing<sup>6</sup>;
- The significant reduction in higher education grant supports for postgraduate students, creating the real risk that the social class gradient that once characterised all of higher education could reappear at postgraduate level;
- Increased need for life-long learning, part-time and more flexible higher education, which is still not sufficiently supported within Ireland's system of higher education funding.

Ireland—as a society, a state and an economy that aspires to global competitiveness—needs to urgently address these issues. A precondition for this is a strong increase in the overall resource put into higher education in order to ensure quality across all disciplines and activities and that the widening access achieved in recent decades is not undermined. Continuation of the existing funding system is not an option. This is the context in which a range of reform possibilities are identified and discussed in Chapter 4. Before doing so, the following section outlines the principles that we believe should shape this approach.

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<sup>6</sup> This was a key message throughout the focus group discussions.

## 1.3 Guiding Principles

The focus of this phase of the consultation is how to reform the funding system so that higher education can enable Ireland's national ambition and address current funding problems. To support the development of a reformed funding system this chapter identifies four guiding principles. These principles will orient consideration of how the main sources of funding might be combined and will prompt more specific questions about design options.

### ***Systems Perspective and Sustainability***

In reforming the funding model it is important to take a system perspective, rather than focusing partially on the budgets of the education institutions, the cost to particular groups of students or the public finance dimension. Although all these are valid viewpoints, an effective and fair system must be sustainable and serve the overall national interest and ambition. A system perspective also requires joint consideration of the implications and interactions of all the main sources and types of funding—for education, scholarship, research and societal engagement. A further implication of a system perspective is that the funding system must address not only the current resources, but also the need for capital investment and strategic projects.

The reformed funding system must provide a high degree of certainty and consistency to each of the main stakeholders. Students and families need certainty about not only the enrolment cost, but also how they will meet the costs of participation and completion. The staff designing and delivering programmes, and the higher education institutions in which they work, need limited volatility in the resources they have available to plan and deliver high-quality programmes. A reformed funding system must also provide the state with reasonable certainty on both the short-term and long-term costs of Ireland's expanding higher education system.

In addition, the funding system must be attuned to incentives and the factors that shape the demand for higher education and its supply.

Finally, in terms of sustainability, the funding system must be relatively simple, easy to explain and have a high degree of administrative simplicity. International experience underlines this principle and the high cost that is paid for having overly-complex funding provisions and elaborate, bureaucratic, administrative systems.

### ***Quality student experience and qualifications***

Quality, across a full breadth of higher education activities, must be a key consideration in reforming the funding system. In particular, the quality of the undergraduate learning experience and qualification must be protected and

enhanced. Quality is what is most compromised and threatened in the existing funding system. The reformed funding system must support scholarship across a broad spread of disciplines in the humanities, social sciences and STEM areas. Such scholarship—as well as yielding knowledge of economic, social and cultural value—is a critical foundation for high-quality teaching and learning.

### ***Access—in All Its Dimensions***

A key guiding principle of relevance to both the organisation and funding of higher education is access and progression among all socio-economic groups. There are both efficiency and equity reasons for public policy to support access to higher education of students whose family or other circumstances prevent them accessing learning from which they have the ability to benefit. National and international experience underlines the degree to which widening of access involves effective measures at various stages: in promoting attainment and awareness in school, in meeting the cost of enrolment, in supporting student engagement and progress and making it possible for students and their families to meet living costs while in college. There is also increasing recognition that funding and other measures to promote access must also encompass part-time, adult and taught post-graduate education.

### ***Fairness and Balance***

The funding system must reflect the balance between the public, private and enterprise benefits of higher education. It is widely accepted that higher education yields a combination of public returns, to society at large and to the state, and private benefits to those with good higher education qualifications and to employers of graduates. Most accept that it is not possible to calculate the exact balance between these and not possible to create quasi-markets that would somehow reveal the exact value of each element. But the principle of fairness and balance, in combination with the other principles and international experience, suggest that a good funding system would share the costs and benefits of higher education across the relevant stakeholders.

Indeed, the World Bank's comparative evaluation of innovations in higher education funding concludes that a primary lesson from international experience in recent decades is the importance of not relying on a single source of funding. The growing diversity of funding sources has been an important and effective response by many governments and institutions to the mismatch between demand and resources<sup>7</sup>.

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<sup>7</sup> Salmi & Hauptman, 2006. *Innovations in Tertiary Education Financing: A Comparative Evaluation of Allocation Mechanisms*.

Finally, in terms of balance and fairness the funding system should enable higher education to serve society in the full range of ways identified in the first Consultation Paper issued by the Expert Group. The full benefits of higher education must be really accessible to widest enterprise base, community and voluntary interests and to all socio-economic groups.

# Chapter 2: International Approaches to Higher Education Funding

## 2.1 Introduction

The scale and mechanisms for funding higher education is the subject of debate in many countries, and the experience of different systems and recent reforms can provide very useful learning for the current discussion in Ireland.

A review of international models of funding higher education was prepared for the Expert Group and is also circulated as part of the Consultation<sup>8</sup>. It shows that higher education is structured and funded in a wide variety of ways and arrangements are highly dependent on the context and circumstances of each individual country. This chapter draws on this review to outline the main mechanisms for funding higher education and supporting students in meeting the associated costs. Chapter 4 provides a deeper examination of particular arrangements in a number of countries.

## 2.2 Funding of Higher Education: Main Mechanisms

The review paper, by Bahram Bekhradnia of the Oxford-based HEPI institute, discusses some of the main elements in different arrangements for financing higher education. Among the funding systems and mechanisms discussed are:

- State funding
- Student fees
- Graduate tax
- Employer contribution
- Private sources other than tuition fees

### 2.2.1 State Funding

Until relatively recently public higher education systems almost everywhere in the developed world relied exclusively, or very largely, on public funding provided as grants to higher education institutions from general taxation. State grants still provide a substantial part of the funding of higher education in most countries, though increasingly alongside student fees.

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<sup>8</sup> Funding Higher Education in Ireland—Lessons from International Experience, Bahram Bekhradnia 2015

On average 70 per cent of higher education funding comes from public sources across OECD countries<sup>9</sup>. The majority of higher education systems in the EU are predominately publically funded with 79 per cent of funding in EU21 countries coming from public sources<sup>10</sup>. This public investment in higher education has meant that tuition fees for undergraduate programmes are low or non-existent across most EU countries. The most pronounced role for public funding is in the Nordic countries which charge virtually no tuition fees

Public funding is delivered in different ways including direct state grants for teaching, research and capital, competitive research awards, and student financial aid.

The review paper highlights that in many countries reduced state funding for higher education has been compensated for by increases in funding from students/family. In Ireland, the decrease in State funding since 2008 was partly offset by the rise in the student contribution. Public funding accounted for around 80% of the sector's core income in 2008, this now stands at 65%.

Public funding recognises the public benefit or public good dimension of higher education. For both efficiency and equity reasons it helps support accessibility of those from poorer backgrounds. Public investment in higher education also enables the state to maintain an interest in overall system development. Fully publicly funded systems take as their starting perspective that higher education is a social rather than an individual good, and outside the general income tax system take no specific account of the fact that higher education also yields significant individual benefits. A weakness in purely publicly funded systems is that, because of changing government priorities and pressures on public finances, it can be variable and uncertain. This has been true in Ireland in the past decade in relation to both current and capital funding.

### **2.2.2 Student fees**

The paper by Bekhradnia notes that in recent years there has been a move in a number of countries towards charging fees for full-time undergraduate degrees where these had formerly been fully funded by the State. This in part can be attributed to increased participation in higher education and the consequent costs this has for the state. Although it is also observed that some states, most notably Germany, are now reversing this approach<sup>11</sup>. Fees have also long been a feature of postgraduate and part-time degrees in most countries. The logic of student fees is primarily to ensure that those who gain significant private benefits from higher education contribute to part of

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<sup>9</sup> OECD Education at a Glance, 2014 Table B3.2.c

<sup>10</sup> OECD Education at a Glance, 2014 Table B3.2.c

<sup>11</sup> Fees of €1,000 per year were introduced in seven of the sixteen Länder in 2006–07, but were all subsequently abolished by 2014/15 following wide protests.

its funding. In theory fees also provide higher education institutions with greater autonomy, although this is usually qualified in several ways. Fees can, when combined with income from other State and private sources, help to create greater certainty and stability in the overall funding of higher education.

Naturally, an important question is whether student fees diminish the access of students from low-income households to higher education and, indeed, overall participation. Research by the European Commission and others indicates that when balanced with student support of various kinds, increased fees do not necessarily have an overall negative impact on enrolments in higher education<sup>12</sup>. The experience to date in the UK after the recent rise of fees to £9,000 (c.€12,000) is consistent with this. In Ireland, movement in the opposite direction, the removal of tuition fees in 1996/97, was not followed by a significant narrowing of the participation gap between social classes.<sup>13</sup>

The review paper discusses two types of fees: upfront and deferred repayment. The advantages of upfront fees are that those who can afford to contribute towards the cost do so immediately. If accompanied by fee waivers or grants for students from lower income backgrounds, upfront student fees do not necessarily disadvantage the less privileged. However, in the absence of such financial aid support, upfront fees can entail a significant barrier to participation from lower income groups.

Deferred fees are charged by institutions at the time of enrolment, but the student obtains a loan that covers the full cost. This is repaid by the student after graduating, thus enabling higher education to be free at the point of access. While deferred tuition fee arrangement supported by a state-backed student loans provide an immediate income stream for HEIs, the cost of providing loans arises immediately for Government and the schemes will only become self-financing much later. This is discussed in more detail in section 2.3 and chapter 4.

In Ireland, the Free Fees Initiative introduced in 1996/97 abolished tuition fees for first-time, full-time EU undergraduate students, while retaining a small registration fee. This fee has increased over the years and now stands at €3,000. Students in receipt of student support grants (currently 50 per cent of undergraduates) have this contribution paid for them under the student grants scheme.

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<sup>12</sup> Do changes in cost-sharing have an impact on the behaviour of students and higher education institutions?, EU Commission, 2014

<sup>13</sup> What did abolishing university fees in Ireland do? Kevin Denny, 2010

### **2.2.3 Graduate Tax**

In principle, a graduate tax has certain attractions as a means of funding higher education. However, Bekhradnia's review points out that no country has a tax which is levied on individuals simply by virtue of their having attended a higher education institution. A graduate tax would be progressive in that those who benefit the most from higher education by earning higher salaries would pay more. It would also maintain the principle that higher education would be free at the point of use. However, it can be difficult to guarantee that higher education receives the benefits, unless such taxes were hypothecated. There is also a question of which graduates would be taxed (existing graduates or future graduates, those educated within or outside the country) making the design of such a tax difficult. Finally, graduate emigration poses a possible problem for a system of graduate tax. Nationals who work and live abroad upon graduation will not contribute to the cost of the higher education from which they have benefited.

It has been argued that a publicly supported income contingent repayment scheme with collection through the taxation system, which exists in a number of countries, is closer to a limited graduate tax than it is to debt and should be thought of as such<sup>14</sup>.

### **2.2.4 Employer contribution**

Several considerations suggest that employers should make a structured contribution towards the funding of higher education. This would support the principle that the cost of higher education should be spread among all beneficiaries. It would also put to the test the real value and benefit of higher education. Bekhradnia's paper notes that in many countries employers pay a general training levy, but that no country operates a levy linked to the number of graduates employed. A possible disadvantage is that such a levy might reduce the incentive to recruit graduates were it tied specifically to the number or share of graduates employed by an enterprise and it could be viewed as an increase in the cost of employment.

In Ireland, employers contribute financially to higher education institutions by paying tuition fees for employees, contributing to research projects and through donations or sponsorships and there is scope for further contributions in this regard. Employers also contribute via a levy to the National Training Fund. The National Training Fund was established in 2000 to raise the skills of those in employment, to give prospective employees relevant skills and to facilitate lifelong learning. The levy of 0.7% of reckonable earnings of employees raised €290 million in 2013. This Fund primarily

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<sup>14</sup> Paying for Higher Education: What policies in what order. Nicholas Barr. London School of Economics 2010.

supports programmes in the further and education sector but has in recent years supported targeted skills programmes in higher education including Springboard and ICT Conversion programmes.

### **2.2.5 Private sources other than tuition fee income**

Private sources of higher education funding (other than tuition fees) include philanthropic donations, income from international education and executive education programmes and research investments. There is a drive internationally to increase income from these type of activities as a means of providing a more diversified income base.

The potential of philanthropy in particular is often raised in discussions on higher education funding. Philanthropic donations form a significant element of income in some countries and in particular institutions. The level of donations is very much dependent on the culture of a country, the tax incentives in place and the history and reputation of the institution. The US is the leading country for philanthropic donations and it is estimated that some €23 billion is donated annually to institutions<sup>15</sup>. Indeed, many of its leading higher education institutions have large endowments that yield a significant flow of current income. The UK also has a strong history of donations, albeit, concentrated in a smaller number of institutions.

Bekhradnia argues that Government can help in facilitating private and philanthropic sources of funding. In England, for example, the Government established a matched funding scheme that ran from 2008 until 2011, and provided different amounts of matched funding—ranging from 1:1 to 1:3. Some £150 million was allocated through this scheme, and the independent review of the scheme judged that it had generated over £0.5 billion of donations.

In Ireland, philanthropy has proved a valuable source of income for higher education institutions in the past and a number of individuals and foundations have been particularly supportive to Irish higher education. Income levels peaked in the early 2000s, hugely related to the impact of the single large donor, Atlantic Philanthropies, which is unlikely to be repeated. Income levels were around €60m in 2012, 85 percent of which were in the university sector. In relation to international education, the sector is aiming to grow student numbers from 7 per cent of the student body in 2012 to 13 per cent by 2016. Income levels are currently nearly €60m per year.

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<sup>15</sup> 'The Role of Philanthropy in Funding Irish Universities', D. O'Connor, R. Miller, 2012

The capacity to generate income from these types of activities is greater in some parts of the Irish higher education sector, and the majority of income from philanthropy and international education is currently concentrated in the universities.

## **2.3 Student Support Arrangements**

Most countries have some system of financial student supports to incentivise participation and support students with the costs of higher education, or both. These can either be universal or allocated on the basis of merit (academic, sporting, artistic or other performance) or need (household incomes). They are used to meet student fees/charges or to assist with living costs. The structure of the student support system is very dependent on the overall funding structure of higher education. This section provides an overview of the different type of supports, including:

- Grants
- Student Loans
- Tax reliefs and incentivised savings schemes

### **2.3.1 Student Grants**

Student grants form an element of student support structures in nearly all countries and seek to make higher education more affordable and attractive, especially for lower income groups.

Usually grants are targeted at those students that need them most and generally depend on household income. Grants will generally cover the cost of tuition, if any, and some contribution towards living expenses. The extent of the grant system varies across countries. In Nordic countries, all students are entitled to some level of support to assist with living costs. Across the EU, supports are generally available to 20 – 30% of students attending higher education<sup>16</sup>.

In a number of countries, there has been some move away from grants in recent years in favour of student loans. In a radical new development, it has been signalled that maintenance grants will be abolished in England and replaced by higher levels of student loans, although England is unique in making such radical changes. The Netherlands has recently agreed to abolish a universal grant payment for all students in favour of loans, but is maintaining a targeted maintenance grant for students from low-income households.

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<sup>16</sup> National Student Fee and Support Systems in European Higher education 2015/16, Eurydice

### 2.3.2 Student Loans

Government-supported student loans are a feature of many higher education systems—both in countries that charge tuition fees and those that do not. They are designed to overcome the high initial costs to the student of participating in higher education, by spreading those costs over all, or more likely, the initial part of a working career and, therefore, making higher education free at the point of use.

In principle, the case for Government-backed loans is strong. While on average higher education produces high private returns, there is still uncertainty in individual cases that this will be so. This uncertainty implies high risk premia for commercial lenders and diminishes the attractiveness of participation for students. There is thus a public good in Government intervening to provide some form of support to overcome this uncertainty, on the basis that the costs if any will be outweighed by the wider benefits to society of higher participation (e.g. more employment, higher wage levels and taxation receipts, better social inclusion etc.). State-supported loans scheme are generally available to all students to ensure that family circumstances or credit worthiness do not prevent access to higher education. This would not be possible in the commercial lending market, without a government backed guarantee scheme. In addition, Governments are generally able to offer less stringent conditions than would normally apply to commercial loan, such as lower interest rates and more flexible repayment options.

The design features, the extent, and the purpose of loans vary. They can cover tuition fees and/or living costs. The extent of loans and debt varies widely across countries that support student loan schemes. The discussion of loans tends to be generally dominated by the situation in England and US, but many EU countries offer loan facilities to assist students with living costs and debt levels on graduating are more manageable. Finally, loan schemes can be operated directly by the Government or can entail a Government guarantee to commercial lenders.

There are two different types of student loan arrangements: fixed repayment and income contingent.

#### *Fixed Repayment Mortgage-Type Loan*

With a fixed term, mortgage-type loan, as is common in the US, regular fixed repayments are required each year, regardless of income or ability to repay.

This fixed repayment approach does not take account of employment prospects, likely earnings, requirement for further study, illness etc. Thus there are real problems in justifying and designing such loans on the basis of the observed 'graduate premium',

since that is generally measured as an average of all graduates. The average conceals very significant variance, reflecting life contingencies and labour market outcomes. Under this model, most of those falling below the average, and certainly all of those in the bottom tail of the income distribution, can experience financial stress in seeking to repay these loans. This is an even greater problem for those students that do not complete their programme.

In a number of countries, state guarantees to commercial lenders have been used instead of direct State loans. This enables lenders to offer fixed-term loans to a wider cohort of students and at reduced rates. One current example is the loan guaranteed scheme, operated by the European Investment Fund, for students undertaking Masters programmes under the Erasmus+ programme<sup>17</sup>.

### *Income-contingent loans*

The basic concept of an income-contingent loans scheme is relatively simple, although they do have a sophisticated rationale in economic analysis<sup>18</sup>. This type of loan was pioneered in Australia and now operates in a number of countries including England, New Zealand and Australia.

Income contingent loans seek to overcome some of the shortfalls of fixed-term repayment loan schemes, and to distribute this risk more fairly across society. These operate by linking repayments to the level of income of the borrower. This ensures that at any time, the amount that a graduate has to repay is a manageable portion of disposable income. This is achieved by varying the length of the loans—i.e. there is no fixed term over which the loan must be repaid. By linking repayments to income levels, this removes the risk that repayments will become a substantial burden on disposable income, and allows for a repayment schedule that only activates once a certain minimum income has been reached.

Income-contingent loan schemes can be intentionally designed to ensure that the state will cover much of the repayment costs for low income earners or so that repayments will form either a small or a manageable proportion of disposable income. This should not be viewed as default or as a system failure, but as a targeted state contribution to funding the higher education system. It creates a framework that

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<sup>17</sup> [http://ec.europa.eu/education/opportunities/higher-education/masters-loans\\_en.htm](http://ec.europa.eu/education/opportunities/higher-education/masters-loans_en.htm)

<sup>18</sup> This derives from the theory of human capital, which suggests that individuals will underinvest, the identification of financial market failures, which suggests that individuals will be unable and unwilling to borrow sufficiently, even where there are high returns. In addition to a range of efficiency arguments, there are equity reasons to support access through making higher education free at the point of entry through a system of loans, and to recoup some of the cost of higher education from those who go on to have relatively high earnings.

allows higher paid graduates to repay proportionately more of the cost and lower paid graduates to repay proportionately less of the cost of their education.

Income-contingent loans are generally collected through the revenue system. The research on student loan systems underlines the importance of the mechanisms of loan collection and demonstrates that the state revenue system is far and away the most cost-effective, simple, efficient and transparent way to collect loan repayments.

### **2.3.3 Tax Reliefs and Incentivised Savings Scheme**

Tax relief on tuition fees is used in many countries to support students or families in meeting the costs of higher education. Tax reliefs can be used to support those outside of “free education” i.e. students in private colleges, and those paying fees in public institutions, generally part-time students and postgraduate students as is the case currently in Ireland. A number of countries operate schemes of this nature, including Canada, Singapore and Malaysia—all of which have tuition fees.

A targeted savings scheme provides another means for the state to provide some support to students/households in contributing to the cost of higher education. These schemes are generally targeted at parents with children of school-going age and include an incentive/state subsidy to encourage savings. This could take the form of tax reliefs on interest earned or matched funding. Savings funds can only be used towards the cost of higher education in approved institutions.

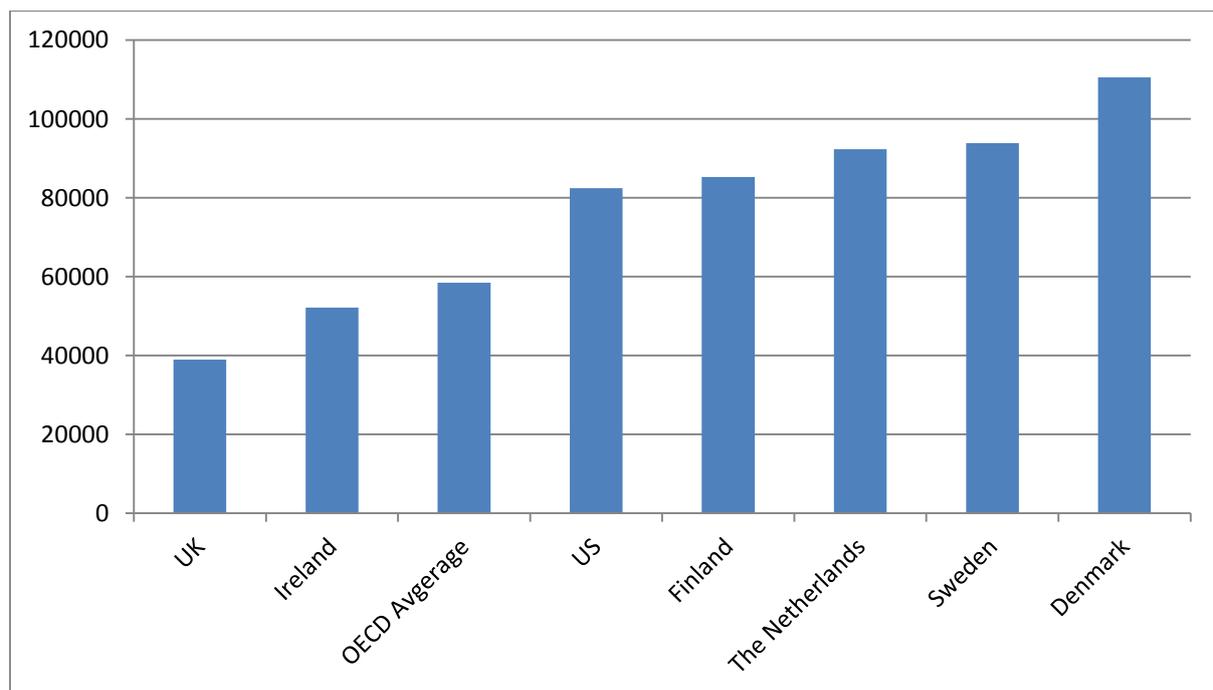
Some countries offer discounts for upfront payment of tuition fees, even where loan schemes are available. This could be considered to be an indirect incentive for prior saving.

## Chapter 3: The Funding Challenge for Ireland

The breadth of ambition for higher education and the imperative for reform as described in the previous sections underline the need for a significant and sustained increase in the funding available for higher education. It is important that there is an understanding and consensus on the scale of this requirement.

If higher education is to be an enabler in Ireland's next phase of development then its funding requirement needs to be benchmarked not just against historical patterns and by reference to demographic pressures. It must also be benchmarked against the funding in those countries we aspire to emulate and to compete with. Figure 1 provides an illustration of the funding per student in a number of key countries.

**Figure 1:** Cumulative Expenditure per Student (USD 2011)

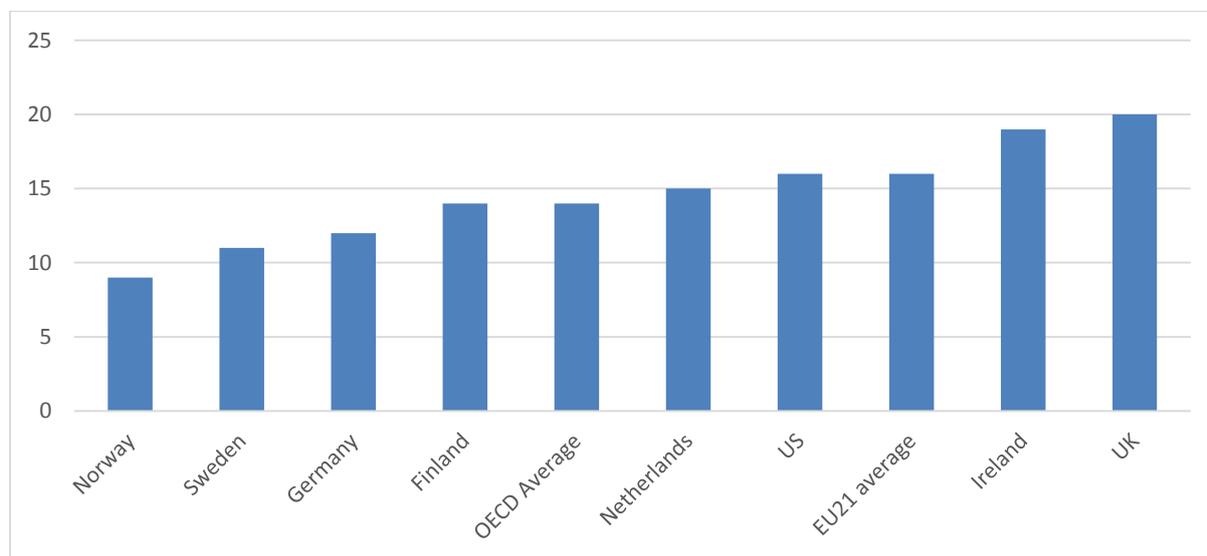


Source: OCED Education At A Glance (2014) Table B1.3.A; [http://www.oecd.org/edu/EAG2014-Indicator%20B1%20\(eng\).pdf](http://www.oecd.org/edu/EAG2014-Indicator%20B1%20(eng).pdf)

The chart shows cumulative expenditure per student for all services (core education R&D and ancillary services such as housing and student welfare) over the average duration of tertiary studies. The chart shows the investment per student during their time in higher education. It shows that Irish expenditure is significantly below what is spent on students in Finland, the US, The Netherlands, Sweden and Denmark.

A key inference from this chart is that in key comparator countries the levels of investment in students in higher education is significantly higher than in Ireland. This underinvestment is also evident in the following chart, which illustrates how far Ireland is behind in terms of student-staff ratio.

**Figure 2: Ratio of Students to Academic Staff (2011)**



Moving towards the levels of investment evident in these countries is the funding challenge facing higher education. To move in this direction there must be a significant and sustained increase in the funding available for higher education institutions. In addition to the requirement to provide increased funding to institutions, there are also pressures in the system of supports available to students which also need to be considered in the context of the funding of the overall higher education system.

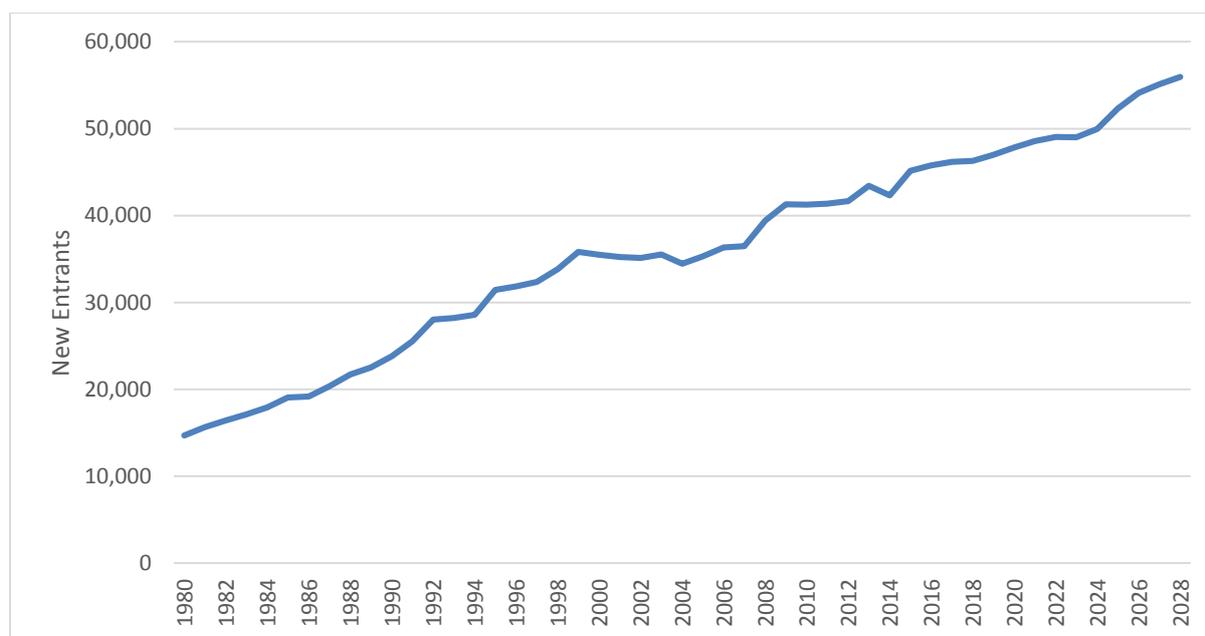
In the first instance the focus must be to immediately and as quickly as possible bring Ireland in line with OECD norms.

Doing so must acknowledge the demographic increases in the school-leaver population. Ireland is almost unique in the EU in terms of its favourable demographic structure and this gives us a significant advantage in terms of talent availability and attraction of investment. This, as in other parts of the education system, necessitates investment. The latest available projections suggest that by 2028 the number of new entrants to higher education will increase by 29 per cent over 2013 levels (Figure 3).<sup>19</sup> These projections are based on the current rate of participation remaining constant, with year-on-year growth driven by increases in the school-leaver population.

<sup>19</sup> Projections of Demand for Full Time Third level Education, 2014–2028, July 2014, DES

Importantly, there is evidence that there is demand from a labour market perspective for this increase, with occupational projections indicating a continuing strong demand from the labour force for graduates<sup>20</sup>. In addition to growth in the school-leaver population, a number of strategies and programmes are in place to increase mature and lifelong learners further adding to the expected higher education population.

**Figure 3: New Entrants to Higher Education**



The immediate funding challenge is also driven by the reductions over the last seven years. Two of the most cited impacts of the funding contraction are the worsening academic staff to student ratio and the deterioration of capital facilities.

The ratio of academic staff to students is a widely used proxy indicator for quality in higher education systems. While it is only one of a number of factors that contribute to student success, the level of staffing does provide the capacity for many elements of good practice in high quality teaching such as pedagogies that allow active learning, prompt feedback, and respect for diverse learning styles. It also allows for greater levels of engagement with students – smaller classes and tutorials, closer supervision of project work, and greater capacity to incorporate research projects and work placements. Over the last seven year period, the academic staff to student ratio has risen from 1:15.6 – the OECD average – to a current level of 1:19. In the first instance,

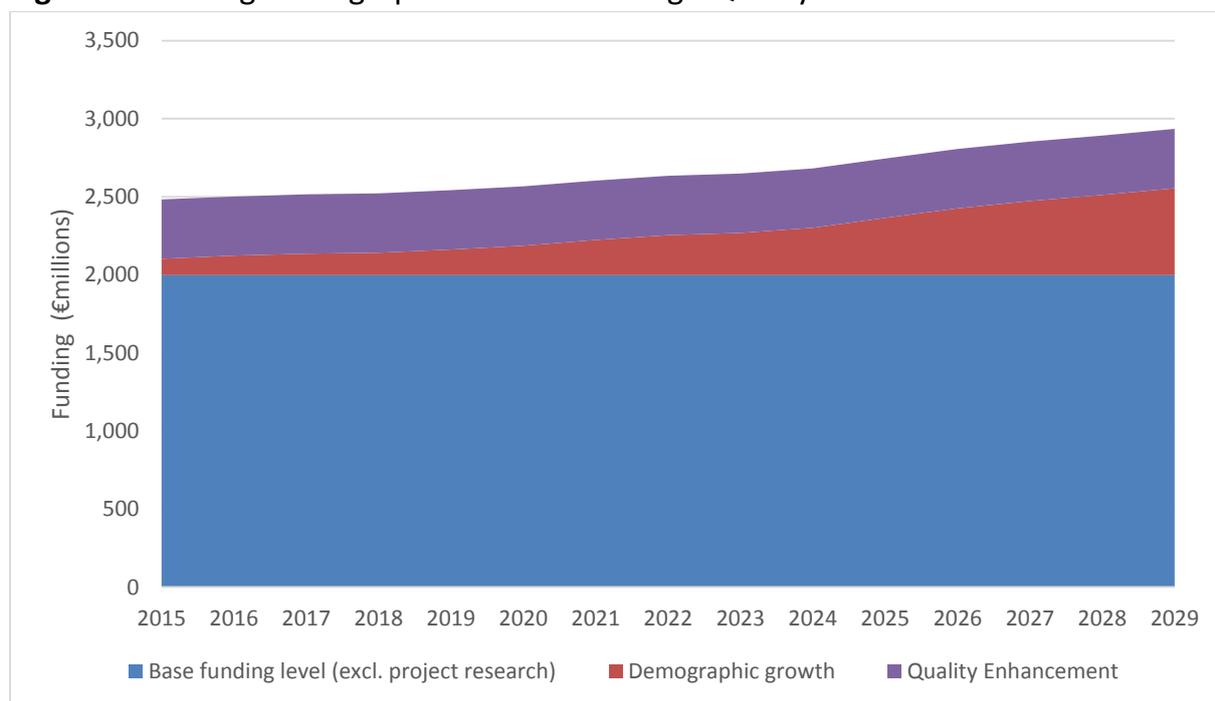
<sup>20</sup> Occupational projections prepared in 2012 show the labour market’s demand for graduates continuing to grow to 2020. Under the best case scenario termed ‘recovery’ an additional 160,000 graduates will be at work in 2020 or an additional 20,000 a year over the eight-year period. Cedefop Skills Forecasts Published in 2014

a programme of investment is imperative to steadily bring staffing levels back to average international levels.

A reduction in state capital grants, along with reduced flexibility in core operating budgets has resulted in a significant lacuna in capital upgrades and developments over the recent period. Backlogs which have been consistently identified in the sector most notably in 2004<sup>21</sup> and in 2010<sup>22</sup>, have been exacerbated over the recent period. The HEA Space Utilisation Survey of 2010 found that with a total insured value of existing buildings of €8.1bn, 60% were in good condition, 30% were in need of major repair, and 10% were in need of replacement. Very little progress has been made in the intervening years in upgrading these facilities. In addition, a significant proportion of funding for general day-to-day maintenance and repair which would have normally come from operating budgets – reserves – has been severely reduced or eliminated following the reductions in recurrent funding.

Figure 4 provides an outline of the scale of funding required to address these three immediate challenges. This amounts to a requirement for a 50% increase in funding – some €1 billion – by 2029.

**Figure 4: Funding Demographic Growth and High Quality**



<sup>21</sup> Review and Prioritisation of Capital Projects in the HE Sector, 2004

<sup>22</sup> HEA Space Utilisation Survey, 2010

# Chapter 4: Towards a Reformed Irish Funding Model

## 4.1 Introduction

This chapter outlines a spectrum of international funding approaches. The spectrum is based on the different ways in which higher education is funded and supported in a number of countries. This allows a discussion of both positive attributes and drawbacks of each these models.

Drawing on this assessment the chapter focuses on the Irish context. Reflecting the principles outlined in Chapter 1 it outlines for consideration the elements of a reform package for Ireland.

## 4.2 The Spectrum of Funding Approaches

The international review paper prepared for the Expert Group by Bekhradnia demonstrates a number of key facts of relevance to Irish discussion of the future funding of higher education. First, it shows that the state is the central actor in shaping the way in which higher education is funded, creating the framework and mechanisms through which resources are garnered and the way in which they are allocated to higher education institutions and students. Second, it shows that these mechanisms are used to achieve different combinations of kinds of funding—direct state grants, students and/or their families, graduated, indirect state funding and other private sources. Third, it also shows that there has been significant change in the past decade or two, with many countries reducing the overall share of direct state funding and creating mechanisms by which students and graduates contribute to the funding of higher education. Fourth, the review highlights how complex—indeed, opaque—the funding of higher education can be; even where the state has greatly reduced its direct ‘core’ funding to higher education institutions, it can provide a significant share of overall funding indirectly through, for example, its provision and guarantee of student loans. Governments or other public bodies also play a major role in funding research in many countries.

Based on the variety of international approaches it is possible to identify a spectrum of possibilities (see Table 1). This spectrum is based on the different ways in which public policy creates mechanisms to garner and deliver funding for higher education,

resulting in different combinations of three immediate sources of funding—state, student/graduate and other private—and different incidence of the ultimate cost.

Column A of the table shows the model in which higher education is funded predominantly by direct state grants. In such a system, the immediate funding for higher education is provided almost entirely by the state or general taxpaying citizens and students pay no fees. Indeed, in some cases, the state also provides students with maintenance grants that vary depending on their family income. This is broadly the approach in the Nordic countries and also in Scotland.

At the other end of the spectrum lies Column E. It depicts a model, such as that in the US, in which the direct funding of higher education institutions is predominately from fees or other private sources, with the State playing a less direct, but still very significant, role. This includes the creation of a tax regime which incentivises various private contributions to higher education institutions and an element of subsidy and guarantee for a system of student loans.

Between these two polar options, lie a range of other hybrid models. Column B, depicting the system in the Netherlands, involves relatively high direct grants from the state combined with moderate student fees supported by a loan system. Column C shows the Australian system. Over 20 years ago the state reconfigured the system to create a balance between direct state grants, student fees supported by state-supported income contingent loans and continuation of maintenance grants for students from low-income households. Column D shows the new system in England in which the state has radically reconfigured the way both the taxpayer and others fund higher education. Direct state grants have been almost abolished and replaced by high student fees, which are, in turn, largely funded by a system of state-subsidised income contingent loans. Even maintenance grants for students from low income households are now proposed to move from direct funding by the state to such income contingent loans.

**Table 1: Spectrum of Funding Arrangements: International Evidence**

A	B	C	D	E
High State Grant Funding	High State Grant Funding	Moderate State Grant Funding	Very low State Grant Funding	Very low State Grant Funding
No Student/Family contribution	Moderate Student Fee €2k	Moderate to High Student/Family contribution (€4k-€7k)	High Student Fees (€12k)	High Student/Family Contribution (€11k - median)
	Income contingent loan for tuition and living	Income contingent loan for tuition only	Income Contingent Loan for full-time undergrad – tuition and maintenance	Federal subsidised and unsubsidised mortgage-type student loans
		Lower default and cost to the State – 25%	Cost to State 45p in £1	High levels philanthropy (with tax incentives for individuals)
Grants and Loans for Living Expenses	Grants for low incomes		Recent proposal to remove maintenance grant	Grants for low incomes
Norway	The Netherlands	Australia	England	US

In considering the future funding of Irish higher education we need to consider the full spectrum of possibilities. We suggest that such a discussion needs to be informed by two sets of considerations. First, it needs to be informed by our national ambition and the four guiding principles set out in Chapter 4: (a) sustainability and simplicity, (b)

quality student experience and scholarship, (c) access—in all its dimensions, and (d) fairness and balance.

The discussion also needs to be informed by an awareness of Ireland’s particular—and, indeed, distinctive—situation. Three distinctive features of the Irish context are particularly relevant. First, Irish higher education faces an unusually large funding challenge relative to the countries with which we compare ourselves and with whom we compete; as set out in Chapter 1, this severely threatens the contribution of higher education to economic and social development and, because of that, threatens Ireland’s future prosperity and social progress. Second, because of the increase in student contribution or fee (the second highest in Europe), without a system to support deferred payment. There is evidence that this, combined with the high ancillary costs of going to college, is placing huge financial strains on some students and families. This has been a consistent message in focus group consultations and feedback from institutions and access offices, and is demonstrated in the higher take up of commercial loans. Third, Ireland is distinctive, although not unique, in having to operate within complex EU fiscal rules starting with a high debt level.

Each of the models have strengths but also drawbacks which need to be heeded.

### ***The Nordic Model***

The Nordic countries have some of the highest levels of investment per student in the world, with the vast majority of funding coming from the State. The Government meets the entire cost of education, requiring no contribution or fee from students. Indeed, it goes further, by providing student grants and loans for living expenses. Scotland provides another example of this approach, albeit not with the same levels of investment as in the Nordic countries. It is unique in the UK in maintaining a no-fees policy, and its institutions are well regarded.

This approach as set out in model A in Table 1, has some obvious strengths. It can be supportive of quality student experiences and scholarship, provided state funding is maintained. In that context, it can conform to the fourth principle—a system perspective, sustainability and simplicity. It is strongly supportive of access, since a student’s family income creates little or no barrier to accessing, participating in and completing higher education. Its conformity with the principle of fairness and balance is a subject of some debate. Within the context of the Nordic model of economic and social governance, universal tax-funded provision of a range of services is seen as highly supportive of fairness. Outside of that context—for example, in countries with less universal high-quality provision of other essential services, such as health, and greater inequality of income and social outcomes—full state funding of higher

education can be considered less fair and balanced. In such a context, it can be argued that it takes insufficient account of the large private benefits that accrue to graduates and imposes taxes on some who have limited opportunity of accessing higher education. If the level of state funding becomes uncertain, contested and volatile then the approach may not conform so well with the principle of sustainability or quality. It would probably still score high on simplicity and access.

In considering this model from an Irish perspective account would need to be taken of Ireland's starting point: the need for a very significant increase in the overall funding of higher education, not simply maintenance of the existing level of state support. The conditions which underpin the almost fully state funded systems in the Nordic countries would require significant changes to the level and share of total tax revenue generated in Ireland. But, beyond the overall funding model, there may be features of the Nordic approach that Ireland should learn from, such as the commitment to quality small-group learning and the role of higher education teaching and research as a key resource in building quality public and social services.

### ***The Netherlands***

Some of these strengths, contextual factors and potential weaknesses of model A are likely to be noted in considering model B, which relies on relatively high levels of direct state grant and low student contributions.

The Netherlands largely follows the Nordic approach and provides a high level of state funding to higher education institutions. However, it differs in that it also charges a universal fee, supported by income-contingent loans, to all students undertaking Bachelor and Masters programmes of €2,000, thus overcoming some of the weaknesses outlined above. This recognises the benefit accruing to graduates and provides a second source of sustainable income to institutions.

The Dutch also provide a comprehensive system of support for living costs consisting of maintenance grants and loans. Up until this year, most students received a basic grant (€1,200 - €3,360) and a further supplementary grant of €3,200 was available for those from lower-income households. Students also had access to income-contingent student loans for tuition fees (€2,000) and living costs (€3,600). A series of reforms have been introduced from the 2015/16 academic year. This entails the removal of universal basic grants, an increase in the value of the targeted supplementary grant for families with incomes of less than €46,000, and an increase in the maximum value of living costs loans. The level of tuitions fee will remain the same. The repayment terms for loans have been made more favourable. Repayment will continue to be

linked to income levels, but repayments will now only start when the salary reaches the minimum wage level. Repayments will never be more than 4 per cent of income above this level, and the repayment period has been increased from 15 years to 35 years. The savings arising from this reform are being invested in enhancing the quality of higher education provision, including smaller class sizes and greater engagement with students and enhanced grant supports for students from lower income groups.

The Dutch approach, and in particular the new reforms being introduced, satisfy many of the principles outlined above. The overall level of investment, supported by both state and student contributions, provide the capacity for high levels of quality and sustainability. While it is one of only a few countries to charge student fees in the EU, the system of income-contingent loans provides that higher education is free at the point of entry. The recent changes to student support arrangements for living costs ensure that all students have support in meeting the costs of participating in higher education. The recognition that students from lower income groups require additional support is likely to strike a chord. There are also lessons in the broader supports provided to all students via the loan system and the provision of the same supports for Masters students.

## ***Australia***

Model C, which operates in a number of countries including Australia, relies on moderate levels of direct state grants and student contributions. Australian institutions receive a set amount of “base” funding per student which comes from two sources – state grant and regulated student contributions. The level of base funding and the balance between the state and student contribution varies dependent on discipline. Prior to 2012, the Government imposed a cap on the numbers of student places funded under this arrangement. This cap was removed in 2012 to support broader access to higher education. Tuition fees represent about 40 per cent of the base funding that universities receive, having increased from about 20 per cent in 1989.

Australia applies differentiated student contribution rates which are currently:

- Band 1 courses up to \$6,152 (c. €4,000) such as humanities, social studies, education, clinical psychology, foreign languages or nursing.
- Band 2 courses up to \$8,768 (c. €6,000) and such as computing, built environment, engineering, agriculture, mathematics or science; and,
- Band 3 courses can up to \$10,266 (€7,000) and such as law, dentistry, medicine, veterinary science or accounting.

Australia was the first country in the world to introduce an income-contingent loans scheme to support tuition fees, doing so in 1989. The amount that can be borrowed by students is determined by the total student contribution amount payable, up to a maximum of \$10,266. Repayments only begin when income has reached \$53,345 (€36,000), and are levied at 0 to 8 per cent of income, depending on income level. Real interest rates are not charged on loans, however the debt is indexed each year to reflect changes to the Consumer Price Index (CPI) in order to maintain its real value.

The Australian system would seem to conform fairly well with most of the principles. The combination of direct state grants, student fees funded through income contingent loans and continued maintenance grants to low-income students has proven to provide relatively stable sustainable funding and a quality student experience for over 20 years. However, a decision to remove the cap on places in 2012 has resulted in a significant increase in the numbers attending higher education, placing pressure on the state funding element. The income contingent loan system seems to address fairly affectively a number of the market failures and equity issues that can arise in student loan schemes. It also appears to be relatively sustainable; the public subsidy is lower than in England for a number of reasons – tuition fees are lower, a maintenance loan is not available, and repayments are linked to full salary level once the threshold is reached. Because of this, the bulk of repayment is completed much earlier in the Australian system. Approximately 15-20 percent of loans are not repaid, as a result of graduates failing to earn enough income and emigration. This is seen as a design feature rather than a ‘default’. Reduced repayments are also available to students who take up employment in priority areas such as education, nursing, early childhood, maths and science. The system also scores strongly on simplicity and organisational efficiency, since loans are repaid through the national revenue system.

The Australian system highlights the feasibility and advantages of a mixed system of funding which combines state grants, a graduate contribution and maintenance supports for low-income students. As an approach it has been in operation for over 20 years. It shows that it is possible in practice to make a system of income contingent loans workable. It is also critical that this approach shows that it is possible to limit the scale of student debt by maintaining moderate fee levels and ensuring reasonable repayment periods. However, recent concerns regarding pressures on public finances following the removal of the cap on numbers must be heeded given Ireland’s long-standing policy of growing participation.

## ***The Recently-Established English Approach***

The English approach, model D, is similar to the US in that it has high student contributions and a loan system; but it differs in a number of respects. There has been rapid and radical change in the English system in recent years and this makes it somewhat hard to judge how well such a system will conform with the guiding principles over time.

Up until 2012, the English system had a moderate mix of state grants and student fees. Fulltime undergraduate fees were £3,000, supported by income-contingent loans, and the state provided a grant to HEIs for each student, the level of grant varying dependent on disciplines. Since 2012, the Government no longer provides grants to institutions (other than a relatively small amount in respect of some high cost subjects) and institutions were allowed charge a maximum student fee of £9,000 (€12,000). Virtually all higher education institutions moved to charge the maximum fee for all disciplines – underlining the high demand for places in colleges and its price inelasticity. It has also been signalled in this year's budget that the means-tested maintenance grant (income cut-off point of £42,620, maximum value of £3,387, 40% students eligible) will be abolished and replaced by maintenance loans.

Loan repayments are collected through the income-tax system. Repayments are only made on earnings over £21,000 a year at a rate of 9% of income<sup>23</sup>. Interest on the loan is linked to the rate of inflation and is adjusted each year in line with the Retail Price Index (RPI). Rates will vary depending on the students' circumstances, and can increase to an 'RPI plus 3 per cent' rate for higher incomes. Any loan remaining after 30 years is written off. As a result of the 2012 fee reforms and the recent budget provision in relation to maintenance grants, the maximum level of loan available to students will increase dramatically to £17,000 per year.

The English model has proven more supportive of access than some expected. The 2012 reforms are believed to have largely succeeded in relation to participation and access – the college application rate of 18 year-olds has continued to increase and the application rate for disadvantaged young people reached record high levels, but mature and part-time applications fell sharply.

The model can also be considered to be very fair. The parameters of the system of income contingent loans were set in such a way that graduates with low income are unlikely to repay their loans. Projections suggest that the lowest earning 30 per cent of graduates are likely to pay back less of their loan, and that the remaining 70 per cent are likely to make higher repayments than had been expected before the 2012

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<sup>23</sup> A graduate earning £30,000, would repay 9% of £9,000 or £810 annually.

reforms. It is projected that 73 per cent of graduates will have some debt written off, compared with 32 per cent under the old system<sup>24</sup>.

The large increase in student fees has certainly enhanced the resources available to the higher education institutions. This can, potentially, be supportive of high quality. But high institutional income may not, in reality, yield systemic sustainability. As noted in Chapter 4, the systems perspective and systemic sustainability goes beyond the budgets of the higher education institutions. The English system of income contingent loans has created uncertain future demands on the UK public finances. It is estimated that the UK government will eventually pay around 45 pence of every pound lent to students as a result of low interest rates and favourable repayment terms; but estimates of both the future and current cost are highly dependent on a number of assumptions about future graduate income, interest rates and the discount rate. The removal of the cap on student numbers, similar as in Australia, has placed additional burden on the system. Overall, the savings to the government of the overall reform are less than originally anticipated and could soon become negative if loan subsidy rates inch higher, although accounting for this level of expenditure (as loans rather than grants) under the reformed system may still prove advantageous from a public finances perspective.

Contrary to what might appear because of the proximity and familiarity of the UK—the English system is not a typical example of the use of income contingent loans. Other countries have not abolished most direct state grants to higher education institutions and the recently announced plans to abolish all maintenance grants in favour of loans is relatively unique. The political context in the UK is unusual in yielding such radical reform of higher education and other policy areas. But the UK, like a number of other countries, does illustrate that making higher education free at the point of access is consistent with continued high demand across the social class spectrum, despite the charging of significant student fees. The Irish discussion seems likely to focus also on the public finance dimension, particularly the high degree of uncertainty of the long-term fiscal cost of higher education and the scale of loans now available from the combination of high tuition fees and a high provision for maintenance.

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<sup>24</sup> Payback Time? Student Debt and Loan Repayments: What Will the 2012 Reforms Mean for Graduates? Institute of Fiscal Studies 2014

## ***The US Model***

At the other end of the spectrum is the US – model E. Like the Nordic countries, the US also has one of the highest levels of investment in higher education and a significant number of highly reputable institutions. Unlike the Nordic model, direct state grants only account for a small proportion of overall investment in the system. There is a high reliance on student fees and philanthropic donations. Median listed fees are \$11,550<sup>25</sup> but private institutions can charge many multiples of this. 2/3<sup>rd</sup> of US students receive either a need-based grant, under the Federal Grant Program (Pell) or a merit-based scholarship, but the majority also hold student loans as higher education costs in the US have risen much faster than the value of grants and scholarships. Up to 70 per cent of US students now have student loans<sup>26</sup> and median debt amounted to about \$20,000 in 2011-12. The vast majority of loans are fixed-term repayment based.

The US model offers a different pattern of strengths and weaknesses to the Nordic model. The undoubted excellence of many of its higher education institutions depends on very large philanthropic donations, which are supported by the general taxpayer through tax breaks. In addition, historically the US's leadership position in scientific research reflects massive defence spending. From a system perspective, there are real issues about sustainability and simplicity. As regards both access and fairness, the increasing US reliance on mortgage-type loans seems problematic. While median debt levels may appear modest, loans of this type create high repayments burdens for some and access and completion by students from low-income households has become increasingly difficult. The rising cost of higher education (including tuition and living costs) and the diminishing value of grants result in the students from the lowest income quartile face a net cost equivalent to 59 per cent of their typical family income<sup>27</sup> — making them most reliant on loans. 1 in 3 people that receive the Pell Grant leave without a degree but with average debt of \$9,000<sup>28</sup>. College affordability and student debt burdens have come to be pressing political issues and an agenda to make tuition transparently free in certain parts of the higher education system is emerging. Particular problems in the US system include that debt is largely not related to income, although calls for income contingent repayment are increasing<sup>29</sup>. Also student debt burdens are not extinguished on bankruptcy or at

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<sup>25</sup> College Board, Trends in College Pricing 2014.

<sup>26</sup> Student Debt and the Class of 2013, TICAS

<sup>27</sup> Goldrick-Rab, S, Kelchen, R and J. Houle (2014). *The Colour of Student Debt*, Wisconsin HopeLab, September 2014.

<sup>28</sup> Prof. Sara Goldrick-Rab, University of Wisconsin-Madison *Making College Both Affordable and Accessible: Lessons from the United States*. NUI Maynooth Conference on Funding Higher Education

<sup>29</sup> Attis, D. (2013) *Higher Education and US Competitiveness: Making the Case for Increased Investment*, College for Every Student Summit, November 2013.

retirement but continue into old age with particular consequences for low income earners. Particular problems have emerged in relation to very low quality outcomes and very low completion rates for large numbers of non-traditional parts of the private for-profit sector in the US.

The high levels of student fees and the approach to meeting them through mortgage-type loans does not seem to offer a model that meets the principles outlined above. The levels of philanthropy upon which the US system relies are unlikely to materialise in Ireland and it would be hard to make a case for the kinds of tax breaks which underpin philanthropic contributions in the US. While Ireland has made significant progress on widening access, the social profile of higher education in the US has become less egalitarian. Indeed, one thing that the Irish discussion should learn from research on the US system is that we need to look beyond the cost of enrolment, to take account of the ongoing cost of participation and completion for students and their families, including the opportunity cost.

### **4.3 Drawing on International Experience to Find a Reformed Irish Funding Model**

The central purpose of the consultation and ongoing discussion should be to bring together three of the elements set out in this paper:

- The imperative of reform and action if Ireland is to achieve its ambition, set out in Chapter 1;
- The guiding principles for reform as set out in Chapter 1; and
- The assessment of the strengths and weaknesses of the different options as outlined above.

Developing the third of these, we summarise here what would seem to be the main lessons which Irish citizens, higher education actors and policy makers may learn from the international models and experience discussed above.

From the Nordic and wider continental European experience we learn:

- the legitimacy of high levels of state funding which can be achieved when higher education is perceived to contribute strongly to a broad set of economic, social, public governance and public service goals;
- The wider socio-economic and fiscal conditions which underpin a fully state funded system of higher education;

- The advantages of including taught postgraduate programmes in the general system of funding and maintenance, in order to promote high skill development and to ensure wide access;
- The advantages of having sufficient resources to have tutorial and small group learning, close connection between students and staff, limited hierarchy, and high levels of trust and expectation.

From the US experience, we learn:

- The high repayment burden on low earners that can arise from a mortgage-type fixed repayment student loan system;
- The specific economic, cultural and fiscal conditions which underpin high levels of philanthropic funding of higher education;
- The role the private sector can play in meeting increasing demand.

From the English experience, we learn:

- The increase in overall HEI funding that can be achieved by higher fees supported by a system of income contingent loans;
- The uncertainty about the public finances that can be created by a comprehensive, radical and rapid reconfiguration of the overall system of higher education funding;
- The public finance implications and loan scheme sustainability concerns that are created by having high fees and high loan provision for living costs.

From the Dutch and Australian experience, we learn:

- The feasibility and advantages of a mixed system of funding, combining state grants, a graduate contribution and maintenance supports for low-income students;
- The advantages of a system of income contingent loans that makes the 'student' contribution to higher education funding reflective of post-graduation earnings and life contingencies;
- The ability to limit the scale of student debt by maintaining moderate fee levels and ensuring reasonable repayment periods

Taken together, these experiences and lessons seem likely to lead the Irish discussion to the following reform directions:

- The need to keep a balance of state, student and other funding;
- The need to increase the level of funding derived from all three sources, in order to achieve a level of resource approaching that in the advanced countries that Ireland seeks to emulate and compete with;
- The need to improve maintenance supports and manage individual private contributions, in order to ensure that affordability and access for all cohorts are protected;
- The need to include taught postgraduate programmes in a reformed general system of funding in order to prevent the re-emergence of a strong social class gradient in levels of participation and qualifications;
- The system of funding must be consistent with sustainable public finances and Ireland's adherence to EU fiscal rules on the deficit, expenditure and debt.

This will be further probed in the consultation and the following questions will be used to guide the discussion.

## **Towards A Reform Package: Key Elements and Questions**

### **1. Increased state funding through core grants**

- Should there be a continuation of formula-based core grant allocation - funding follows the student and cost-based (a small number of tiered cost groups)?
- Does the State have a responsibility for funding demographic growth, as in other parts of the education system?
- How can increased core grants be better aligned with performance outcomes, in which the front-line is used as the acid test in assessing outcomes?
- What ring-fencing of particular initiatives is appropriate and how can this be made effective?
- How can state-funding be used to incentivise more flexible provision?
- Can private institutions play a greater role in meeting demand for higher education?

### **2. Student/Graduate Fees & Contributions**

- Should Ireland move from student fees/contributions to graduate contributions enabling higher education to be free at the point of entry?
- How can student/graduate contributions be regulated in a way that makes an appropriate contribution but also takes account of affordability?
- Should fees charged be linked to types of courses or level of qualification?
- If a system of deferred payment is created, what model should it take?
- What are the public finance implications of introducing a student loan scheme?
- How might the phenomenon of emigration be addressed?

### **3. Revised system of student support**

- Is the current student support system adequate or are there cohorts of students that are not receiving the support they need?
- Should grant supports to lower income groups be increased to more adequately reflect the costs of going to college?
- Could a student loan scheme provide a means of supporting more students in meeting the overall costs of higher education?
- How can part-time students – generally mature learners – be better supported?

### **4. Employer contribution**

- How could the contribution from employers be increased and more structured?
- Should this be linked to identifiable skills and workforce development agenda?
- How can the regional role of institutions, particularly in the IOT sector, be enhanced?

### **5. Other Income Sources**

- How can income generation activities such as philanthropy and international education be supported and developed?
- Can borrowing facilitate greater levels of capital development and if so how should this be regulated to ensure debt levels are sustainable?
- Should all institutions be allowed to borrow?

# Appendix 1 – Terms of reference and Membership of the Group

## *Terms of Reference*

The overall mandate for this work is to identify and consider the issues relating to the long term sustainable funding of Higher Education in Ireland and to identify options for change for consideration by the Minister for Education and Skills.

It is envisaged that the overall work programme will be managed in six distinct modules, as outlined below. The six modules to be examined are:

1. *Demand.* To spell out the anticipated demographic growth in the Higher Education sector, drawing on work previously undertaken by the HEA, DES, ESRI and elsewhere. To review projected labour market requirements for graduates and the resulting implications for provision of places.
2. *Benefits.* To identify the benefits of higher education to the individual graduate and to the wider Irish economy and society – with reference to relevant research already underway. This work to include analysis of the economic and social benefits of greater levels of equity of access to higher education.
3. *Income/expenditure.* To establish the total funding available to HEIs from the state, students, the EU, research bodies, philanthropy etc. The work will also establish the current cost base, encompassing pay, non-pay and capital expenditure.
4. *Efficient and Effective Sector.* To report on efficiencies achieved by the sector during the 2009-2014 period, and to assess the potential for additional efficiencies to be achieved through the 2014-2019 period, and beyond.
5. *Measuring financial performance.* The work will identify benchmarks of financial performance, including a consideration of the merits of operating a unit cost approach. These benchmarks will be designed to inform future analysis of institutional performance via performance compacts.
6. *Long Term Funding.* The final module will provide an assessment of the long term funding requirements of the Higher Education sector, along with a set of funding options for consideration by the Minister for Education and Skills.

*Members of Expert Group on Future Funding for Higher Education*

Peter Cassells	Independent Chairperson
Mary Doyle	Deputy Chairperson – Department of Education & Skills
Ronan Powell	Professor of Corporate Finance, UCD
Tim Creedon	Former President of IT Tallaght
Joe O'Connor	Former USI President
Brid Horan	Former Deputy Chief Executive, ESB Ireland
Sara Cantillon	Equality Studies Centre, UCD
Tom Boland	Higher Education Authority
Seán Rowland	President of Hibernia College
Neil Ward	Adviser to the Minister for Education & Skills
John Burke	Department of Public Expenditure & Reform