Fianna Fáil Submission on Proposed Exchequer-Employer Investment Mechanism in Higher Education

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Introduction

Our higher education system, comprising universities, institutes of technologies and colleges of education, has a proud history and a world-class reputation. We also have a very good, but underdeveloped system of further education. We consistently rate as one of the most productive and competitive economies in the world, the result of an education system which has delivered enormous progress for our country. Indeed, by any measure the scale and pace of increased participation in education in this country has been dramatic and extraordinary. In the space of 30 years, we have moved from a small and exclusive third level sector to having one of the world's uppermost rates of third level qualifications among young people, including postgraduate and PhD qualifications. This remarkable expansion has been the single main driver of rising living standards for all sections of society – most of which has been retained even through the tough times.

However many of the advances that have been made in expanding access to third level education have been eroded in recent years. As a general rule, and with limited exception, Irish third level institutions have dropped significantly in international rankings. Though rankings are not the only measure of success, they are important and are affected considerably by Government investment and cuts.

This submission builds on Fianna Fáil's proud education record setting out an ambitious strategy to restore and enhance the quality and equity of our education system. We believe that Ireland's long term social and economic development will heavily depend on ensuring that we have globally recognised top class education, training and research systems. Our ambition should be to become the country with most educated and best trained population in the world. It will be a key priority of Fianna Fáil in government to ensure that this happens.

This requires investment in all levels of our education system and recognition of its role as the major driver of future economic success as well as social progress. Sustained investment in Higher and Further education over the coming years will be required to sustain teaching, research and a campus experience at our universities, IoTs and colleges.

Ensuring sustained growth in human capital will also be essential for Ireland to remain competitive as an economy in the face of external shocks from Brexit and global uncertainty. Investing in the quality of our Higher and Further Education Sectors will enable us to raise productivity, increase participation in the labour force and reduce unemployment. Being able to meeting the demand for high skilled labour will also be central to safeguarding Ireland's reputation as a location for foreign direct investment.

However to achieve these objectives, we must overcome the central education challenges of deciding how, as a society, we will finance higher education. This challenge poses several inter-related questions to us as policy makers: What level of investment do we need to improve the quality of education provision in the higher and further education sectors; and who can – and who should – shoulder the burden of paying for this?

We believe that given the importance of high skilled labour force to our economy, there is scope for some additional funding contribution to Higher Education to come from employers. This should be implemented over 3 or 4 years and subject to review of its effects on businesses' cost competiveness.

However employers should be given a greater role in higher education provision, as part of a new Employer Contribution Mechanism. At present, employers have no voice or role in the governance of the NTF. This will have to change with structured representation of employer representatives in the governance of the new Mechanism.

While things are improving, Higher Education Institutions have to become more responsive to the real needs of industry. Such structured input of business should in no way compromise the autonomy or mission of these Institutions to provide a rounded education to young people. Rather, it can be done through greater practical collaboration on measures such as facilitating businesses with part time courses for in employment upskilling or through greater involvement of businesses in vocational skills development.

Cassells Report

The Cassells Report goes a long way towards answering the question about what level of investment we need to make to have a higher quality third level education system that best serves our society and our economy.

Over the last number of years Higher Education Institutions have been coping by doing 'more with less'. However, the current resource situation in Irish universities, ITs and colleges is unsustainable. This is especially true in light of demographic pressures, with student numbers at higher education expected to grow by at least 25% by 2028.

Fianna Fáil welcomes the Cassells Report which makes clear the scale of the funding challenge at third level. Along with the Oireachtas Committee on Education, we are open to reviewing the report and considering its recommendations openly. However, while we are open to exploring the possibility of a student loan system that would enable students to repay registration fees once they begin earning over a certain threshold, certainly it appears that there are significant challenges and uncertainties surrounding such a model.

Whichever model of funding is ultimately chosen, we believe that the majority of any increase in (current) funding for Universities and IoTs will need to come from the Exchequer.

The Fianna Fáil election manifesto proposed an increase of €100 million in recurrent funding support to Higher Level Institutions (HEIs). This would be affordable within current budgetary constraints and fiscal parameters over the 2017-2021 period. Our manifesto also proposed the introduction of a new 5-Year cycle of the Programme for Research in Third-Level Institutions funding package for Capital Investment, Refurbishment and Research projects of approximately €296 million. We expect this would receive equal matching funding from Private Sector (as historically has been the case).

A Greater Contribution to Higher Education from Employers

Some groups have been critical of the proposal within the Cassells Report for the establishment of an Employer Contribution Mechanism to Higher Education Institutions, on the basis that the additional resources arising from this contribution would not solve the funding crisis identified.

However, if combined with a sustained increase in exchequer finance, additional revenues from the National Training Fund levy could make a very substantial contribution to reducing the funding gap in Higher Education.

According to the Cassells Report, there is a €600m base funding requirement in Higher Education Institutions by 2021. In addition to this, approximately €1 billion additional annual funding will be required by 2030.This would primarily meet demographic needs and enable some enhancement in quality of provision in HEIs (e.g. student lecturer ratios).

The reality is that this level of exchequer increase would be a steep requirement to meet from existing exchequer sources alone, within existing fiscal parameters.

Since Budget 2017 provided for €36m and €124m has been set aside from the calculation of the Fiscal Space for demographic increases in 2018 and 2019, this means an additional €110m is required each year over next four budgets to reach the target figure of €600m by October 2021.

If the National Training Fund levy was increased by 14.2% each year for three years (i.e. 0.7% to 1% employer contribution in Budget 2021), this would reduce the funding gap by about €66m per year .

This would significantly reduce the funding gap up until 2021, meaning that only €44m additional will have to come from exchequer or other sources for three years and €110m in Budget 2021. We believe this level of additional expenditure on HEIs is realisable within the estimated fiscal space, which is about €1.2 billion for 2018.

Pre-Commitment to Sustained Expenditure Expansion in Higher Education

We realise this is a great deal of additional costs to put upon business. However, in the long and medium term, the costs to enterprises will be outweighed by the benefits from increased human capital, productivity and labour force participation.

However these benefits from human capital will not accrue to business, unless there are sustained increases in exchequer financing of HEIs and Further Education over the next four budgets (and, in reality, beyond this).

Any proposals to increase the NTF Levy and/or to create an ongoing Employer Contribution Mechanism to Higher Education has to come with a pre-commitment from the Government that this sustained increases in funding will be forthcoming over the next four budgets. If this quid pro quo is not made with business in return for an increased contribution to Higher Education, then Fianna Fáil would not support the increase in the NTF.

Importantly, this commitment has to be on the current and capital side.

In addition to meeting the €600m recurrent funding target identified by Cassells, the Government also has to give confidence to business that Capital and Research funding levels will be substantially increased over a sustained period to bring them to a more appropriate level.

Unfortunately, current research and innovation policy at higher level is not adequately financed. The clearest indication of this is the failure to put in place another Five Year Cycle of the vitally important Programme for Research in Third Level Initiative (PRTLI) for 2017, despite the fact that the programme ended in 2015.

There appears to be no understanding of the importance of PRTLI Cycles for Irish Research. The PRTLI was launched in 1998, with five multi-annual cycles of expenditure to date. Since its establishment, the programme has been the cornerstone of Irish Research and Innovation at third level institutions and spin-offs attached to Universities and IoTs.

While the programme cycle ended in 2015 a meagre ‘’Stop gap’’ funding of €30.7 million was found to make some awards in 2016. Yet the government has not announced another five year cycle of the funding programme. This is bad for sector and bad for research and innovation. Traditionally, the PRTLI has been so successful precisely because it was announced as a multi-annual investment package for research projects as well as research facilities. It also was great value for the exchequer as, due to its multi-annual nature, it attracted matching investment from the private sector. However the due to the preference of the Government to fund the programme on an annual basis, private matching sources cannot be secured from interested private investors, due to a lack of certainty. This approach of muddling through is bad value for money for the exchequer and is not serving the best interests of Irish Research or the Irish State.

In return for taking more money from business to finance HEIs, the Government has to make a commitment to adequately fund Research and Innovation at Third Level in collaboration with business, on a multi-annual basis.

Fianna Fáil Do Not Believe Student Contributions Can be Increased

We believe that the bulk of the estimated €600m (2021) to €1 billion (2030) in recurrent funding for Universities and IoTs should come from the Exchequer and not from additional student contributions.

On the issue of income contingent student loans, while we are open to evaluating the proposals put forward by Cassells, in general the public costs of such systems are extremely uncertain and can be very high which would ultimately outweigh any short term savings made by the State (for example, as a result of reducing maintenance grants to students).

Experiences in other jurisdictions, such as the UK which has recently introduced such an income contingent loan model, are not positive. A recent economic analysis of the UK model y the Institute of Fiscal Studies found that the medium to long term costs of the model to the state - resulting from interest costs, discount and subsidy costs as well as losses from impaired loans – outweighed any public savings from abolishing maintenance grants.

In effect this means that while students are paying much higher fees under the new loan system, the government is also worse off than under the previous system of direct exchequer support.

In any case, the new funding models (i.e. student loans) proposed by Cassells are unlikely to ‘solve’ the funding crisis in universities and IoTs within the next five years (when the greatest funding pressures will be), as they take time to introduce and can have high establishment costs, even if they are accepted.

Aside from funding pressures for HEIs, the Cassells Report also rightly identifies that there is already a serious affordability gap for at third level many students and prospective students. At the most extreme, the affordability gap contributes to our very significant problem of education inequality. The distance we, as a country, still have to travel to remove barriers to attainment in higher and further education can be seen very clearly in the shocking statistics released by the HEA last year.

These showed only 15% of young people from Dublin 17 and Dublin 10 progressed to third level, while 99% of young people in Dublin 6 did so, starkly and singularly revealed the depth of education disparity. In the past, we had a tendency to focus our policies on particular manifestations of education disadvantage in isolation. The policy response to expanding third level education in 1996, for example, was the removal of tuition fees, which on its own has not been sufficient in narrowing the social class differential in higher education. Even when students from 'non-traditional backgrounds' access third level, there is strong evidence than they are not succeeding in large enough numbers with continually high non-progression rates, especially in Level 6 and 7 programmes. Households in the skilled-manual group are the often on the margins of the grant eligibility which suggests that financial cost pressures are a significant factor exacerbating the non-progression rates among students from the skilled manual group.

Such education inequality is a complex, multifaceted phenomenon which requires rounded solutions. However more especially, it has to involve earlier policy interventions at secondary, primary and early education levels.

Giving a Voice to Business within the Employer-Contribution Mechanism

At present, employers or their representative bodies do not have much voice or role in the governance of the NTF. Aside from involvement with Skillsnet, business groups do not have a say in the allocation or governance of the NTF.

For businesses to realise the benefits of the NTF – including the proposed new Employer Contribution Mechanism in HE – there has to be a greater role given to business organisations in the governance of the NTF. There is a clear implication in the *Consultation Paper*, that any increase in the NTF levy would come with a greater responsiveness of HE and FE to the needs of businesses. Yet without any mechanism to give business a voice within the NTF, this implication is unlikely to materialise.

Business, through their representative organisations, should be given a voice and there should be structures put in place to enable input from industry into the use of the proposed new Employer Contribution Mechanism at the HEIs.

Across the board, there has been a great deal of reform at Higher Education Institutions over the last ten years. However, there is significant scope for HEIs to become more responsive to the real needs of industry. The accelerating pace of technological innovation requires that our higher education becomes more responsive to industry demands and able to adapt to meet the skills needs of students. While business has never faced the magnitude of disruptive change it does today, the challenges come with great opportunity for higher education institutions to develop new ways to deliver more value to students.

The objective of these new representative structures would be to bring together HEIs and business leaders to the mutual benefit of both. It is important to stress that this should in no way compromise the wider mission or autonomy of these institutions to provide a rounded education to young people.

Rather, it could help facilitate practical accommodations between HEIs and the business sector. For instance, HEIs could facilitate particular sectors with the timing of Part Time Courses or by enabling greater involvement of businesses in vocational skills development.

Increasing the value of a higher education qualification and helping prepare students for employment, means incorporating some more practical applied approaches to education. For example, National Employers Survey Report (2015) found that employers surveyed for the report expressed lower levels of satisfaction with graduates from higher education than those from further education. The latter were perceived to have stronger practical skills, business acumen and foreign language capabilities.

Without doubt some education provision could be improved with enhanced experience-based and practical learning designed to address current performance gaps.

Building and expanding upon partnerships between academia and the private sector will create a more responsive education sector with regards technical skills development at undergraduate level. Such partnerships could be facilitated within the new representative structure.

The creation of a new Employer Contribution Mechanism to HE should be seen as an opportunity to reinvigorate our higher education system to make more responsive to industry demands, so students are adequately prepared to succeed in an evolving world.

Proposals to Rebalance the National Training Fund

Our view is that any increase in the NTF levy should come with additional funding for ‘For Employment Training’, in particular Skillsnet and Apprenticeship schemes and industry specific training. However, we believe proposals for 50/50 funding to For Employment/ In Employment programmes are too extreme.

While unemployment is rapidly diminishing, there is still a high long term unemployed rate and labour force non-participation in Ireland. Ireland has the fifth highest share of young people aged 15-29 categorised as of the not in employment, education, or training (‘NEETs’) at 19.1% according to Eurostat. This equates to about 110,000 individuals, far above those participating in Spring Board. Young People who are NEETs (not in employment, education or training) represents one of Ireland's most acute social and economic problems.

Fianna Fáil believes that labour activation policies for getting young people who are NEETs back to work, education or training should engage in a renewed focus on vocational training schemes in the Further Education Sector. While Higher Education will continue to be the primary pathway for young people to skilled employment, it does not suit everyone and employers value vocational training qualifications from the FE sector. However the importance of the FE sector to meet the future skills demand from the technology and business sectors has not been fully utilised or valued; and its role and contribution vis-à-vis the Higher Education Sector is not well understood by this government. .

Higher education in and of itself, as well as because of the employment and earnings to which it leads, undoubtedly continues to deliver for the large majority of those who become undergraduates. But not for all. In dealing with the policy challenge of NEETs, there needs to be a renewed focus and reform on the Further Education and Vocational Training.

Enhanced post-secondary vocational alternatives to entering HE will help a lot of young people because they are addressing the skills needs in real time of employers in the Irish economy. For example, while there are many and diverse ICT courses in HE (Levels 8 and higher), some of which incorporate invaluable internships, there are Springboard courses for unemployed persons – including graduates – which provides participants with Level 8 proficiency in ICT skills within one year. Job seekers do not have to complete Higher Education to have a satisfying and rewarding career in ICT. The sector is not, and does not want to be, exclusively for third level graduates. A recent OECD Skills Report finds that nearly two-thirds of overall employment growth in the EU 25 is forecast to be in the 'technicians and associate professionals category', many of which require no more than one or two years of career preparation beyond upper secondary level.

Vocational Training Paths to Employment in Ireland

A very large group of young people every year who complete their secondary schooling do not go on to third level. About one-half go onto third level immediately and are joined by a further number in the next few years (those re-sitting the Leaving Cert or using a PLC as an access route) so about 65 per cent of our young people by the age of 22. But 35 per cent do not. They either directly the labour market or into apprenticeships, PLCs and Further Education in general.

However the FE sector has not been given the attention it deserves or requires to provide high quality, career focused training. In Ireland, there is a suspicion that FE learners are of lesser ability. But the reality is that HE is not for everybody and labour policies need to acknowledge this. Many young people currently do not prosper in an academically orientated secondary school curriculum and decide that higher education is not for them. These young people should not drop out of education or training altogether.

The careers information and guidance they need is of poor quality and in limited supply in today's environment due to devastation that cuts have wrought on guidance services in schools. These young people who drop out of education are at high risk of making poor choices that they regret later and a significant number can find they have entered a cycle of 'low-pay no-pay' from which it is difficult to escape.
Many young people who are NEETs prefer learning by doing, rather than the immersion in academic work that Higher Education qualifications require. The ICT and other 'high skills' sectors in business and technology are crying out for candidates with vocational qualifications. A real Labour Activation Policy for Young people who are NEETS needs to focus on improving vocational routes to quality employment in the Irish economy**.** Getting NEETs into work, education or training will require a joined up approach between HE and FET systems. There has to be greater interchange between HE and FE where both work together to offer a continuity of education and training opportunities to the same people at different points in their lives.