

Royal Irish Academy Advice Paper on the Future Funding of Higher Education in Ireland

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Key Points

- The Higher Education sector has performed well under reduced budgets and increased student numbers but has lost ground in terms of quality and infrastructure.
- Quality is difficult to measure, and change in quality even more difficult. It depends on many parameters. An internationally recognised indicator of capacity for the quality of the student experience is the ratio of students to academic staff. Since 2008 Ireland's student/staff ratio has risen from 16:1 to 20:1 and compares unfavourably to the OECD average of 14:1. This paper proposes a circa 25–30% increase in academic staff as a correction to achieve a moderate but credible staff/student ratio of 16:1. This does not imply simply reverting to conditions in 2008. Further growth in student numbers should only be considered following this adjustment and only if the student/staff ratio can be maintained.
- The Student Contribution Charge should be replaced with a new Student Fee and Support Mechanism. This mechanism should offer students the option of deferred payment through an income-contingent loan or possibly a graduate tax. Students should be given the option to borrow to cover living costs associated with participating in Higher Education.
- The Higher Education capital budget has been reduced by 85% since 2008 while student numbers have increased by 25%. The state of infrastructure has deteriorated. According to the Higher Education Authority (HEA), the sector requires an estimated €5.8 billion of investment over the next 10 years to address substandard conditions and continued growth in student numbers. This paper proposes that an emergency public capital investment fund be established with a remit to fund major repairs and replacements for existing capital stock. For the long term, Higher Education Institutions should be allowed to operate an annual surplus which could be used for infrastructural maintenance and, if high enough, to service borrowing for new buildings.
- Institutions already have diverse funding sources – state grant, fees, competitive research, philanthropy, and other entrepreneurial activities. The burden of meeting the suggested student/staff ratio should be judiciously shared between these. In the case of increased numbers of Irish entrants to Higher Education, the onus will be on state contribution and student contributions.
- Higher Education and Further Education should be considered together as part of the broader 'Tertiary Education'. In this way, the combined budgets of the two sectors could be rationalised to give greater efficiency, stronger student progression and completion, and value to the varied needs of Ireland.
- Research is the subject of a separate policy initiative and has many issues other than funding, such as the imbalance between the support of priority areas and the broad base of research.

On the basis that academic staff recruited in the future to meet the proposed student/staff ratio are likely to be highly experienced in research, the capacity for high-quality research will increase. It would make sense for the state to consider scaling its funding accordingly. A minimum increase of 20% in research funding is proposed in line with an increase in academic staff and a greater increase in research-active staff.

- Institutions are, and will be, challenged to diversify their funding and be flexible and efficient in their uses of resources. Flexibility and efficiency go hand in hand with autonomy and accountability. It is recommended that more trust in institutions to manage their affairs will pay dividends.

I. Introduction

The Royal Irish Academy/Acadamh Ríoga na hÉireann ('the Academy'), Ireland's leading body of experts in the sciences, humanities and social sciences, welcomes the opportunity to respond to the consultation process initiated by the Expert Group on Future Funding Options for Higher Education in Ireland, Chaired by Mr Peter Cassells. The Expert Group is in the last stages of its deliberations and has published three documents for consultation on the value of Higher Education, efficiency, and funding options, respectively, in which it captures all the key issues and challenges. This Advice paper addresses the last of these topics but draws on all three. The paper has been informed by the Academy's Funding Forum 'A Dialogue on the Future Funding Options for Higher Education in Ireland' (RIA, 2015), which was held in Academy House, Dawson Street on 23 September 2015, and by the Academy's Steering Group on Future Funding of Higher Education, Chaired by Professor John Hegarty, MRIA.¹

In this paper we assume that the mission of Higher Education is reasonably clear, a settled view of the Higher Education landscape is emerging, and agreed mechanisms for dialogue and accountability are in place. The mission has been articulated in the Hunt Report and again in the first consultation document. The mission, however, is complex, covering education of diverse students of all ages in diverse fields, and the acquisition of broad and specific skills; advancement of knowledge by research for long-term and short-term needs; and a more intangible but vital conservation of independent wisdom and expertise through scholarship. As such, there are different and often convinced narrow views of Higher Education, depending on one's personal involvement in the past and today. The balance of these mission components will vary with the institution according to its strength and tradition, and between universities and institutes of technology.

The focus of the paper is on the scale of investment available to HEIs that is appropriate to Ireland's needs and how this might be achieved by a balance across different funding sources.

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There is a remarkable degree of convergence between views articulated by the Expert Group, the HEA, and members of the academic community at the Academy’s forum (RIA, 2015). Convergence indicates acceptance that the combination of severe cuts in public funding in recent years, dramatic increase in student number, and further expected increases to 2030 makes the system unsustainable in terms of quality as it currently stands, and even more so in the face of further increases in numbers. It is also generally agreed that the system has performed well within these constraints and delivered value for Ireland, based on a very strong commitment by staff and ambitious leadership.

2. The current situation

The Expert Group’s consultation papers (1 & 2) lay out the data in stark terms. Since 2008, student numbers have increased by 25%, the state grant has decreased by 29%, state controls on internal affairs have reduced staff, and there has been negligible investment in the maintenance of the physical infrastructure. To put the reduction in public investment into a European context, the European Universities Association (EUA) has compared public investment in Higher Education across countries. Comparison (see Table 2.1) with countries seen as good benchmarks in terms of changes in student numbers and public investment over recent years shows that Ireland fares poorly.

Table 2.1: Changes in student numbers and public funding in Higher Education in Europe 2008–2013

Country	% Change in Student Numbers	% Change in Public Funding Allocation
Ireland	+18%	-29%
UK	+8.6%	-15%
Portugal	+7.9%	-11%
Spain	+5.2%	-6.2%
Germany	+29%	+33%
Netherlands	+13%	+10%

Source: European Universities Association.

As might be expected, Ireland, Portugal and Spain cut their Higher Education budgets while their respective exchequers implemented wide-ranging austerity measures. In the UK the Higher Education budget was cut, as England continues to transfer the cost burden to students via increased tuition fees. Ireland is the only country in Europe whose public funding decreased by more than 10% while its student numbers increased by more than 10% (EUA, 2015). It should be noted that since 2013 Portugal has actually increased its Higher Education funding by 20%.

There are some mitigating factors, including a dramatic increase in the student charge to €3,000 (not enough to compensate for the reduction in the state grant); however, the overall funding of Higher Education has been reduced by 13.5%. The net effect of these adjustments has been a decrease of funding per student of 18% from €11,000 to €9,000 (HEA, 2015). Other mitigating factors include the scaling downwards of salary bands in line with the public sector, some increases in efficiency which are hard to quantify, willingness of staff to operate in crisis mode to deal with increased student numbers, and strong efforts to diversify funding through international students, philanthropy, and a mix of entrepreneurial activities.

Two outcomes are clear from this, as follows:

Firstly, the quality of the infrastructure across the system has deteriorated and in many cases buildings are not fit for the purpose for which they are being used. Investment in infrastructure has fallen from just over €200m in 2008 to €35m in 2014 (Nevin Economic Research Institution (NERI), 2014, p. 20).

Secondly, the ability of students to pay upfront both a relatively high charge and high living expenses is likely to reduce access in the absence of a loan system. This is despite the fact that the student charge is waived for 50% of students and there is a student grant towards living expenses (Consultation Paper 1, 2015, p. 12).

3. The quality factor

Less clear has been the impact on the quality of the student experience and the volume of high quality research output. The meaning of quality is often disputed, it is difficult to measure, and many aspects are unquantifiable. Institutions benchmark their course standards and student learning by external examiners and benchmark Schools/Departments on a multi-annual basis. They are increasingly benchmarking research and research centres by external reviews. The system has a strong quality assurance programme in place to improve teaching and learning outcomes. This now includes a national student survey and employer satisfaction surveys.

The benchmarking exercises indicate good progress but severe challenges posed by tightening resources.

Two of the consultation papers stated that students were happy with their experience (from the national Irish Survey of Student Engagement (ISSE)), while employer surveys indicated satisfaction with the quality of the graduates. Both of these indicators are flawed unless placed in context. Students have little opportunity to benchmark against previous times or other systems. Employer responses can have a time lag even if rigorously measured, so that changes in the past four to five years may not be captured.

An important indicator that holds international currency is the ratio of students to academic staff members. While it does not guarantee quality, it surely sets an upper limit on the degree of personal interaction and mentoring, which are at the core of the student experience, even if that interaction is virtual. It also sets an upper limit on the time for research and scholarship and hence on high quality output. The current situation is bleak: a deterioration of the student/staff ratio from a moderate 15.6:1 in 2007/08 to a poor 19.5:1 by 2012/13, projected to deteriorate further to 20.5:1 in 2016/17 (HEA, 2014) with large variations between disciplines and institution types. To put this into context, the OECD average is 14:1, while the average for universities ranked in the QS top 20 is 12:1 (HEA, 2015, p. 2). Therefore it is not surprising that Ireland's institutions have slipped in international rankings and the volume of research publications has dipped.

4. Proposed scenario

Several options are available, of course. One is to accept a trade-off in quality in order to respond to the increased student demand for places in the immediate future. As the Expert Group has already stated, this is unacceptable but it could well be the outcome if implementation of new policy is weak or deferred. A second option is to take the present situation as the baseline, and ensure that investment in the future scales with increased numbers. While this is tempting, it would be compounding an already deteriorating situation. The third option, preferred in this paper, is to take feasible action now before numbers are increased further. In the following we lay out a possible scenario which takes an integrated view of all sources of funding and does not unduly tax any one source.

Achieving a coherent funding mix: who pays and what are the implications?

Even though there is a tendency to look to exchequer funding for all answers, the reality is that HEIs in Ireland already have a broad spectrum of funding, depending on the type of institution. It includes in order of scale: state grant and so-called 'free fees' paid by the state; student charge (which is a fee in reality); competitive research (state and private); other fees not subject to state control (postgraduate and non-EU students); and philanthropy and other entrepreneurial activities. Institutions rightly plan their programmes based on an integrated view of these sources. A complicating factor relating to research is that all research activity has indirect costs which are generally not fully covered by sponsors.

The state, in addition to these direct contributions to institutions, contributes to the living costs of students via the student grant, and pays the student contribution charge on behalf of 50% of eligible students.

Most notable since 2008 is the gradual substitution of the state grant for a student fee (or 'contribution charge'), even though the combination also reduced. Public research funding has fared less badly but it has refocused to priority areas at the expense of a broad base.

It is reasonable to assume that a mixed blend of funding sources is most realistic for Ireland. The question will be how this blend can contribute to increased investment in the system. This is dealt with in the next section.

Achieving a credible total funding level for current scale of participation

It is very difficult to determine the appropriate level of investment in a Higher Education system for a specific number of students and spread of disciplines. Ideally, it would be possible to work back from the quality of defined outcomes to the investment needed. To our knowledge this has not been worked out for any system. Instead proxies are used, many of which are inputs to the system such as absolute investment per student or % of GDP invested, referenced to some international benchmarks. The student/staff ratio, discussed earlier, is a recognised proxy and because it is independent of local pay norms, we consider it reasonable to use as a guide.

According to the HEA’s ‘Higher Education System Performance’ Report , 2014, the student/ staff ratio in full-time equivalent numbers was 19.5:1 (181,308 students and 9297 academic staff) in 2012/13. This was projected to increase to 20.5:1 in 2016/17 (191,194 students and same number of staff). According to the Expert Group’s first Consultation Paper (p. 11), the number of full-time equivalent students in 2015/16 is already close to 189,000. Assuming that the number of academic staff has changed little since 2012/13, the current student/staff ratio is reasonably extrapolated to be close to 20:1.

To reach a student/staff ratio of 16:1, a moderate but credible ratio, an additional 2500 full-time equivalent academic staff would be needed. Assuming a loaded average salary (salary, pension and institution contributions) of €100k and an overhead of 70% to cover some support services, heat and light, etc., an additional investment of €375m/annum would be necessary. Any efficiency already achieved in the system would be built in.

Given the depletion of the capital budget over the past seven years, while student numbers have continued to increase, it is evident that capital investment is urgently required to address the current infrastructural deficit and to allow for continued growth in student numbers. This is supported by recent comments by Tom Boland, Chief Executive of the Higher Education Authority:

On the infrastructure side there is no question but that investment is urgently required, and HEA and DES reviews now showing that the HE sector requires circa €5.8 billion of investment (€580 million per year for 10 years) addressing substandard conditions and continued growth in student numbers. Of particular concern is the fact that circa 40% of space in the sector requires ‘major repair’ or ‘replacement’, with campuses having to close temporarily as a result in some instances and recurrent funding being used as emergency support to bridge the gap (HEA, 2015, p. 2).

Given that the scale of investment required is so large, we recommend that investment be in two stages. The first is an emergency public investment to bring existing building stock up to an acceptable and safe level. The second is to address long-term maintenance costs in a systematic way. One option used in the UK is to allow institutions to operate an annual surplus which is then used for maintenance and, if high enough, to service borrowing for new build.

Our estimate (€375m) of the increase in current funding to achieve a student/staff ratio of 16:1 in the existing system is close to 22% of the combined state grant/‘free fees’, student charge and other fees. Allocation of this increase across the various categories of funding is a matter of balancing what each can realistically bear, institutional factors, and political considerations.

The following scenario is posed as one of many, but with some advantages.

Table 4.1: The proposed increases in funding by source

Funding Source	Proposed Increase (2016)
The HEA grant	20% (€176m)
EU undergraduate fees (Student Contribution Charge)	30% (€127m)
Other revenue ² and entrepreneurial activities	18% (€74m)

Source: HEA: Higher Education System Performance First Report 2014 –2016.

² Other revenue includes postgraduate fees, part-time fees, non-EU fees, etc.

The greatest, but still modest, increase is on student fees as a once-off. The income from students will scale with further increase in numbers and, along with a scaling state grant, will largely have to fund that increase. The impact on the state contribution will have to scale as numbers further increase. The impact on student fees both now and following any increase will create the urgency to introduce a loan system that might incorporate fees and living costs. It could also include part or the entire amount paid by the state to institutions for 50% of students who cannot afford the student charge. This is dealt with in the next section.

Institutions themselves will be challenged to design both the content and the quality of courses which will satisfy a local student cohort and families more concerned with value because of paying significant fees. International student interest will likewise continue and grow if quality is guaranteed and fees are competitive. Institutions will need to be nimble and flexible and to have the tools to deploy their resources accordingly. International experience shows clearly that the more successful HEIs are also the more autonomous, while at the same time fully accountable.

If new high-calibre research-active staff are recruited into the system, it is reasonable to project that a 20% increase in research funding would be productively absorbed and would return value to the country. This is the subject of a separate exercise in government.

5. Replacing the Student Contribution Charge

In 1995/1996 the 'Free Fees Scheme' was introduced for all first-time full-time undergraduate students; fees were replaced with a £150 'Fee' which was intended to cover the costs of student services such as health services, clubs and societies, and examination fees. However in practical terms the remit of the Registration Fee expanded to cover the expenditure on 'core' institutional activities such as administration and library services. Between 1996 and 2015 the Registration Fee, now known as the Student Contribution Charge, rose from £150/€190 to €3,000, an increase of 1480%. Under the Academy's proposal to diversify the sources of funding for Higher Education, revenue from the student contribution charge would have to increase by a further 30%. Under the current model that would mean that the student contribution charge would rise to €3,900. Given that the average cost of attending college away from home including accommodation, bills, and other living expenses amounts to €11,000 per annum (Irish League of Credit Unions, 2014) and the maximum grant is €5,915 ('the special rate of non-adjacent grant'), it is evident that the current fee and support structure is no longer sufficient.

Accepting responsibility for putting forward constructive proposals, the Academy has reviewed two alternative models for the Student Contribution Charge.

- a) A graduate tax
- b) An income-contingent loan scheme

a) *Graduate tax*

A graduate tax is a mechanism that would impose a higher income tax rate on graduates as a way to fund Higher Education. Although no country has implemented this system, proposals have been made in Ireland and the UK. We have looked at two proposals.

- i. In 2009 Fine Gael published a Green Paper entitled 'The Third Way' which proposed introducing a graduate tax.

Under this proposal:

- The Student Contribution Charge would be abolished.
- Each graduate would be required to contribute 30% of the unit cost of their Higher Education.
- The contribution would be collected through the PRSI system.
- The exchequer would establish a Higher Education fund to compensate for the loss of income from the abolition of the Student Contribution Charge.
- The fund would be financed through borrowing on the basis that it was guaranteed income and would therefore not be included on the state balance sheet.

Advantages

- If it were adopted immediately the outlined 'funding gap' would be closed by 2020.
- The abolition of the Student Contribution Charge would free up much-needed finances for students and families who are currently struggling to pay the charge.
- It would end the differentiation between part-time and full-time students.

Disadvantages

- As there is no guarantee that the borrowings would be off the state's balance sheet, the initiative may be unrealistic.
 - Because graduates from laboratory courses would face much higher payments, regardless of their income, implementation of this proposal could be regressive.
 - Graduates may be tempted to emigrate to avoid excessive taxes.
 - There may be a significant time lag before additional funding is made available to HEIs.
- ii. In 2009 the National Union of Students (NUS) in the UK proposed a tax on graduates who have received academic degrees over a fixed period of 20 years after award of their degree.

Under this proposal:

- Full-time and part-time student fees would be abolished.
- All graduates would pay a percentage of their income over a fixed period of 20 years.
- The proportion of earnings sought would be variable and progressive rates of contribution would range from 0.3% for the bottom quintile to 1.5% for the 4th quintile, 2.0% for the 3rd quintile, 2.3% for the 2nd quintile, and 2.5% for the 1st quintile.

- A 'People's Trust for Higher Education' would be established independent of government with representatives from universities, students and employers.
- Funds from this trust would be used to fund Higher Education.
- In the short term the government would have to increase its funding to the system in the absence of tuition fees.
- To support lifelong learning, the scheme allows for voluntary contributions from employers, incentivised through the tax system.

Advantages

- Up-front fees for full- and part-time students would be abolished.
- The system is progressive: the more a graduate earns the more they contribute, and low-income earners are not burdened with excessive debt.
- Under NUS projections, this system increases funding for Higher Education in the long term.

Disadvantages

- A large increase in up-front expenditure on Higher Education from the exchequer is unlikely in the current economic climate.
- Given the fixed time period of repayment, some graduates would pay back significantly more than the cost of their own tuition.
- Similar to the 'Third Way' proposal, graduates may be perversely incentivised to emigrate to avoid excessive taxes
- There may be a significant time lag before additional funding is made available to HEIs.

b) Income-contingent loan scheme

An income-contingent loan (ICL) is a student loan where the amount to be paid depends on a graduate's future income. Since the late 1980s ICLs have been adopted in a number of countries such as Australia, New Zealand, South Africa and the UK. Although each system is different in its implementation, there are common factors.

According to Chapman (2005), the key characteristics of an ICL scheme include:

- Upon enrolment students choose between an up-front payment or incurring a debt reflecting course costs and living expenses.
- Those incurring the debt are issued with a unique social security number by the university.
- The size of the debt is recorded and the information is communicated to the relevant government department.
- A Higher Education debt record is set up, which is unique for each student.
- At the time of employment the graduate is required to let the employer know what their number is, and the employer is required by law to remit debt repayments to the relevant tax authority.

- The relevant tax authority is required to remit the debt repayment to the relevant government department, where the unique identifier allows the former student's debt to be adjusted accordingly.
- After the debt is repaid in full the government department lets the employer know that no further obligations exist, and the employer ceases collection from that former student.

In evaluating the Australian ICL scheme, Chapman (2008) concluded that:

- The relative administrative burden was 'relatively simple' and cost less than 5% of the annual receipts from the scheme, due to an effective legal framework, a transparent income tax system, and an efficient repayment mechanism.
- The Higher Education Contribution Scheme (HECS) has led to increased revenue, which has been used to increase the size of the sector by abolishing the cap on student numbers.
- There have been few consequences for the accessibility to Higher Education for students from relatively disadvantaged backgrounds; the socio-economic make-up of the student body is broadly the same as it was before HECS was introduced.

In 2005, HECS was changed from being a fee set by and paid to the government to being a fee set by and going to universities, with a limit set by the government. HECS was also amalgamated with other support schemes into a single loan scheme – the Higher Education Loan Program (HELP). According to Highfield and Warren (2015), these changes have led to a rapid expansion of HELP debt, which, according to their projections, will rise from \$35bn 2013/2014 to \$70bn in 2016/2017, with a default rate of 25% (\$17bn). In 2014 the government examined the possibility of removing all caps on university fees.

Advantages

- Upfront fees would be abolished.
- Students could borrow to cover living costs in addition to tuition costs.
- Repayments are income-contingent: graduates would only repay what they could afford based on earnings after a threshold.

Disadvantages

- Lower income groups are debt-averse and may decide to avoid Higher Education as a consequence.
- A higher than projected default rate may put unexpected pressures on public finances.
- Once introduced, immediate pressure could be placed on exchequer finances if a suitable off-balance-sheet mechanism was not adopted.

After evaluating these models, the Academy recommends that the following five points be considered in developing a student fee and support system.

6. Recommendations

1. Students who wish to pay up front should be afforded the opportunity to do so – incentives should be considered.
2. Ideally, if administratively possible, students should be given the option of up-front fees, graduate tax, or an income-contingent loan. In the likely event that this is not practical, an income-contingent loan scheme is preferred.
3. Student loans should encompass the living costs associated with Higher Education and not just the student fee.
4. An independent 'trust' or a legal framework must be established which ensures graduate repayments are ring-fenced for Higher Education.
5. A graduate tax or an income contingent loan should not be adopted without an effective mechanism for preventing large-scale graduate default through emigration.

7. Further increase in numbers

The projected increase in demand over the next 15 years is well documented based on current demographics. We recommend that careful thought be given to whether or how that demand is met. If no action is taken for the system as it currently stands, then further increasing student numbers is inadvisable, even if this might be politically difficult. If corrective steps such as those outlined are taken, we still recommend that expansion should only be contemplated under certain conditions and following careful consideration of a number of factors. We outline two main conditions and propose three factors for consideration.

The student/academic staff ratio should ideally be maintained at no greater than 16:1. The overall income from all student fees (undergraduate, EU, and postgraduate) would naturally increase linearly. The public contribution in terms of a state grant (even if part of that is based on performance) should also keep pace. It is natural that there should be some economy of scale in terms of support functions, whether within any one institution or by shared services across institutions. The scale of the infrastructure should also keep pace, whether it is physical space for additional student or IT facilities for blended online learning.

We propose that consideration be given to the following:

Tertiary Education comprises Higher Education and Further Education. The paper so far has focused on Higher Education. Further Education is of equal importance but is in a more developmental state. It is fair to say that participation is skewed to Higher Education and many students would find a better path towards a productive and fulfilled life in Further Education. As the pressure of numbers increases, it makes sense to review the two sectors together and seek a better balance of participation between them. In this way, the combined budgets of both sectors could be rationalised to give greater efficiency, stronger student progression and completion, and value to the varied needs of Ireland. We are happy that government is considering taking a holistic view of Tertiary Education.

Secondly, the world of business and industry is a key beneficiary of skilled graduates. It has been mooted that this sector might play a more active and tangible role in supporting Tertiary Education. The sector already is active in terms of policy development, involvement in some course design and delivery, placement of students for periods during their courses, mentoring, and so on. The sector also contributes financially via a National Training Levy. We would support exploration of how this financial involvement could be extended across the Tertiary system.

While the current system of publicly funded institutions would naturally bear the brunt of any expansion, private providers should be considered to carry some of that burden, provided that they can meet robust accreditation requirements.

Conclusion

In the period to 2008, Higher Education in Ireland was beginning to emerge as a respectable and competitive system covering education, research, and innovation. It featured reasonably well in the new international rankings. It had adjusted its operations and structures to include research of a high bar, new facilities to meet increasing numbers, and broader student supports for a diverse student population. However, since the crash in 2008, Higher Education in Ireland has seen a severe divestment of its funding base. It is the belief of this submission that although the system has performed well due to the efforts of committed staff and ambitious leaders, quality has indeed suffered and would continue to suffer in the face of rising student numbers and dwindling resources. The Academy suggests that a new approach is needed to the funding of Higher Education: a funding model that determines the appropriate level of investment based on proxies of quality such as the student/staff ratio outlined in this paper. In acknowledging that further resources are needed, we recognise the reality that the public finances cannot carry the burden of the entire cost of funding of Higher Education. The Academy is proposing a multifaceted approach for raising the scale of investment in Higher Education. Adopting this approach would require burden-sharing of funding between the state, HEIs, and students through a Student Fee and Support mechanism.

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