

Pre-Budget Submission

Bridging the Funding Gap and Building for the Future



Pre-Budget Submission

Bridging the Funding Gap and Building for the Future

Executive Summary

The current government, under our then Minister and now Taoiseach, Simon Harris TD, marked a significant breakthrough in May 2022 when it launched Funding the Future. That initiative brought to an end the long-awaited analysis of the funding needs of higher education when it identified a €307m per annum core funding gap and made a commitment to close that gap over successive Budgets.

In the two following Budgets, €100m in gross funding was provided. However, as it currently stands, €92m of this has been eroded by unfunded pay awards arising from national pay agreements. This means that, ***as of June 2024, the net gain in core funding for the sector is just €8m.***

This autumn's Budget is the last opportunity for the current government to deliver on its Funding the Future commitments. This requires a 4-part funding programme as follows:

1. At least **€120m Funding the Future allocation**, exclusive of provisions for pay awards and extra places. This will go directly to addressing the student-staff ratio, which at 19.6:1 is well out line with other key competitor countries (the EU norm is 17.1:1).
2. **€92m by way of a Supplementary Budget** to pay for unfunded pay awards in the 2024 funding allocation. This will enable universities pay for existing staff.
3. **€171m in the 2025 core funding allocation to fully provide for pay awards to existing staff** under both Building Momentum and the National Pay Agreement 2024-26. A further **€35m** is required to cover the costs of medical consultant contract costs and additional students arising from demographic growth.
4. Legislative and policy measures to **unlock spending for skills development from the growing National Training Fund surplus** in line with government commitments.

We have set out below the analysis of the current funding status of the sector and the proposed basis to address it in the upcoming Budget.

Separately, we will shortly submit a plan to address the investment requirements for universities in order to enable them to deliver on their Climate Roadmap plans under the government's Climate Action Plan 2030.

Investing in Future Talent and Innovation

Ireland's dynamic economy is centred on world-class, innovative enterprises and a skilled and adaptive workforce. The high-skills talent that underpins inward investment and our indigenous enterprises is rooted in a decades-long prioritization of education. Our universities are key enablers of the future talent pool, the workforce of tomorrow, as well as upskilling and reskilling existing talent to ensure that Ireland remains a competitive and flexible place to do business.

Our universities are also core partners in creating the knowledge base and innovation capacity across a broad range of high-growth sectors that underpin the economy. These sectors are the powerhouses of regional and national development on which our current success is built and on which our future depends.

Investing in our talent, as a primary enabler of future growth, is intrinsically linked to our future success as a nation. There are three inter-linked investment priorities for government in order to secure our future talent and innovation. We set out these priorities below.

Funding the Future

In May 2022, the government formally recognised the gap in funding in higher education. Launching Funding the Future, it said that:

*"A figure of €307m (per annum) has been identified and agreed between DFHERIS and DPER as representing the quantum of increase in core funding required ...
... this does not take account of amounts required for future demographic increases, pension costs, implementation of future pay and industrial relations agreements and of certain reform measures."*

The Funding the Future commitment by government explicitly promised that the then €307m core funding gap will be bridged in addition to funding for national pay awards, pension costs and extra student enrolments. The experience to date, however, is that much of the gains made by increases in core funding have been wiped out by pay inflation arising from national pay agreements as well as other factors. We set this out below.

Running to Stand Still

Inflationary pressures, and in particular, rising pay costs have resulted in universities 'running to stand still' in budgetary terms. While government provided some measure of relief on escalating energy costs over the last two years, the funding provided for nationally negotiated and agreed pay awards has fallen well short of the actual pay bill cost.

There are a range of 'stand still' funding measures urgently required to allow universities to maintain the current level of service. These include additional pay costs arising from

national pay agreements, new medical consultant contract terms and the costs associated with increasing student numbers.

Unfunded Pay Awards

Despite the explicit commitment in Funding the Future as outlined above, the full cost of pay awards agreed by government has not been provided to universities / the higher education sector. This is now seriously undermining the gains in gross funding provided under Funding the Future.

There are 2 primary issues with regard to pay awards that need to be addressed by way of Supplementary Budget in 2024 and in Budget/Estimates 2025:

1. A shortfall of €91.7m in the funding of the cost of pay awards between 2022 and 2024 to be addressed via a supplementary budget allocation in 2024.
2. Full provision for the cost of pay awards in the core funding allocation for 2025 amounting to €171m.

A summary of the shortfall in pay awards funding in 2024 is set out below with a more detailed breakdown in Appendix 1, including the 2025 requirements.

University Pay Awards Shortfall 2024		
<i>Source of Shortfall</i>	<i>IUA Member Universities</i> €	<i>Overall Higher Ed</i> €
Unfunded Building Momentum Awards	33.9m	50.8m
Unfunded New Agreement (2024-26) Awards	27.3m	40.9m
Total pay awards underfunding (2024 only)	€61.2m	€91.7m

- The Building Momentum national pay agreement provided for cumulative increases of 8.5% over 2022 and 2023. A further 4.25% (in 3 stages) has been agreed for 2024 under the new Public Service Pay Agreement 2024-26.
- The funding provided in Budget 2024 for the Building Momentum pay awards in 2022 and 2023 was €33.9m short of the actual staff costs for IUA universities and €50.8m short for the higher education sector overall.
- In addition, as the new National Pay Agreement had not been concluded before funding allocations, an estimated provision was included in the 2024 core grant funding with a commitment that this would be subject to review following the conclusion of the pay agreement. The provisional allocation has resulted in a shortfall of €27.3m for IUA universities in 2024 for the new agreement or c. €40.9m for the sector as a whole. ***This results in a total deficit in 2024 arising from pay awards of €61.2m for IUA universities or c. €91.7m across the sector.***
- ***For the 2025 Budget, the core funding allocation will need to be increased by €171m*** for the sector in order to provide for the pay adjustments arising from both Building Momentum and the new National Agreement.

This is what is required in order to enable universities and other HEIs **to cover the cost of pay only for the staff that they currently have.**

In summary, **the higher education sector currently has a pay bill shortfall of €92m in 2024. That relates only to the current core staff and not to new hires or non-core funded staff.**

This must be provided for via a Supplementary Budget allocation in 2024. In the 2025 Budget allocation, **provision must be made for a €171m increase compared with 2024** in order to enable universities and other HEIs pay for their current complement of staff. There are two further 'stand-still' budgetary issues as follows.

Cost of Public Only Consultants Contract

The Public Only Consultants Contract agreed by government in March 2023 has cost implications for academic medical consultants in universities. The impact of increases in salary scales and related allowances incurred by universities for existing academic medical consultants has been estimated at **€4.2m** and provision for these additional costs will need to be made in Budget/Estimates 2025 under the Health Budget line.

It should also be noted that, as a result of the new academic medical consultant contract, the cost base for medical education has increased. Funding for the on-going expansion of medical education places will need to be reviewed and revised to reflect the additional costs associated with new posts.

Demographics – Funding for Extra Student Intake

In line with the Funding the Future commitments, additional funding will be required to cater for on-going demographic growth across the higher education sector. An estimated investment of **€31m¹** will be required in 2025 to fund increased intake arising from demographic growth.

Delivering the Government Commitment on Funding the Future

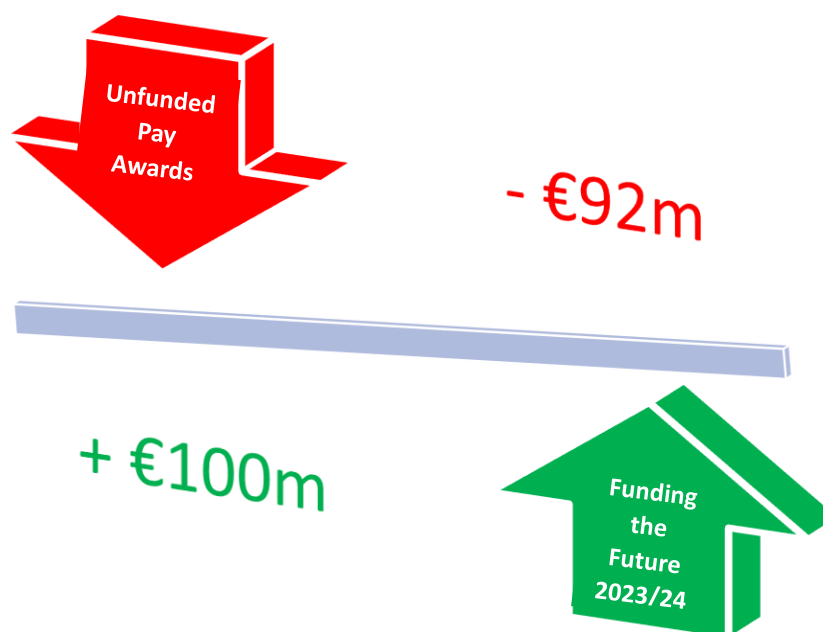
Over the last two Budgets, €100m, or just under one-third of the €307m commitment has been delivered in gross additional core funding. However, this gross amount has been significantly diluted by a lack of adequate funding to cover additional pay costs awarded under national pay agreements, which as noted above was also an explicit commitment of Funding the Future. We have set out below the net impact of this and what is required to address it.

Our member universities have been able to demonstrate some preliminary progress arising from initial funding with regard to staffing levels, student supports, enhanced teaching and learning capacity and improved pathways to HE. (Ref. *IUA Preliminary Progress and Indications of Impact*, Report to DFHERIS, April 2024). However, further progress can only be made with substantial core funding increases alongside full funding of pay awards.

¹ As identified in 'Demographics in the Higher Education Sector' IGEES Spending Review Report December 2022

As of June 2024, virtually all of the €100m increase in core funding in 2023/24 has been wiped out by the failure to adequately fund national pay awards for existing staff as is shown in stark terms in Fig. 1 below. As it currently stands, **the net gain in core funding of higher education since Funding the Future was launched in May 2022 is just €8m.**

Fig.1 Net Third Level Core Funding June 2024



In terms of core funding, **it is imperative now that the government provides not less than €120m in Budget 2025 to honour its' Funding the Future commitment.** This will enable our universities to build on the preliminary progress made by hiring additional staff to improve staffing ratios and to directly address key structural deficits including:

- ✓ Improving student outcomes by hiring an additional c. 500 academic staff in order to enable a reduction in student-staff ratios that are way out of line with OECD and EU norms. (IUA universities academic student-staff ratio is 19.6:1 v 17:1 for EU 27).
- ✓ Investing in additional services and professional staff to support enhanced access to students from under-represented groups and to support them through their educational experience with the resultant impact on performance and progression levels.
- ✓ Provision of enhanced student health, well-being and counselling services with a consequent reduction in waiting times and improved service access for students.
- ✓ Further investment in services for students with disabilities in line with government priorities and policies, and mainstreaming of these in line with Universal Design principles.
- ✓ Making further progress on enhanced pathways between further and higher education.

In addition, and in line with the government’s Funding the Future commitments, full provision must be made in the 2025 allocation for the full cost of pay awards (as outlined earlier) with the cost built into the core funding base allocation and not dependent on discretionary supplementary budgets.

A step-change in delivery of the Funding the Future commitment is required if we are to make meaningful progress on addressing growing student needs and on the delivery of the priority strands of work identified in Funding the Future.

Future Skills & Talent – Utilising the National Training Fund Surplus

The surplus in the National Training Fund continues to grow. It is now in excess of €1.5 billion and will exceed €2 billion by this time next year based on current spending plans. This is money levied on employers that is explicitly earmarked to support skills development and training for the workforce. The surplus in the NTF has grown in tandem with a widening skills shortage in both the public and private sectors.

The recent ESRI Report on the National Development Plan² concluded that capacity constraints in the economy pose particular challenges for economic development and the execution of the NDP as currently envisaged. ***Investment in higher education and research has the potential to directly respond to a number of the key ESRI recommendations.***

It is inconceivable that the NTF surplus would be allowed to continue to grow while provisions for national skills needs go unmet. This was recognised by the Minister for Public Expenditure, Paschal Donohoe TD, in his Budget speech in October 2023 when he said:

“I want to turn briefly to the matter of the National Training Fund which plays a vital funding role in how we future proof the skills needs’ of the labour market and ensure workers can readily access lifelong learning opportunities. I am keen to ensure the fund is used in an effective and sustainable way. It is in surplus because of the combination of increases in employers’ PRSI and the number of people at work in our country. At the same time, there are funding needs for Further & Higher Education but meeting these needs is always within the spending parameters of the annual budget.

I want to re-examine this to find a way of better meeting these needs. To that end, officials will bring forward options including legislative changes for the future operation of the fund. The highly educated workforce these investments create is an essential component in supporting Ireland as an enterprising and productive economy.”

² https://www.esri.ie/system/files/publications/SUSTAT123_1.pdf

It is now 8 months since that Budget speech and there is, as yet, no initiative from government to utilise the NTF surplus which it accepts is needed for essential skills development. The higher education sector, alongside the further education and training sectors, stands ready to respond to appropriate measures. Government must take urgent action to address the unacceptable anomaly of unmet skills needs while a €1.5bn+ skills fund lies idle.

We propose a number of measures to unlock the funds so that they can be used to enhance the talent pool available to employers:

- ✓ Remove the NTF from the annual fiscal expenditure ceiling limits. This is entirely within the remit of government and should be done immediately.
- ✓ Expand the categories of skills that can avail of NTF funding including skills for essential public services such as healthcare and education. Our universities can quickly expand provision for these essential skills needs if the requisite funding is provided through a combination of enhanced core funding and NTF funds, as well as capital funding to grow capacity in certain areas.
- ✓ Use the NTF to expand lifelong learning in line with the recommendations of the OECD Skills Strategy.³

IUA
June 2024

³ <https://www.oecd.org/skills/centre-for-skills/OECD-Skills-Strategy-Ireland-Report-Summary.pdf>

Appendix 1

Funding Requirements & Shortfalls for Higher Education Pay Awards

Shortfalls Breakdown	IUA Universities €m	Total Higher Education €m
2024 Budget		
- Building Momentum 2022-24 shortfalls not provided in 2024 core funding base	33.9	50.8
- New Agreement (2024-26) funding shortfall	27.3	40.9
Total 2024 Pay Awards Shortfall	61.2	91.7
2025 Budget		
- Building Momentum 2024 base adjustments	33.9	50.8
- New Agreement 2024 base adjustment	27.3	40.9
- New Agreement 2025 additional provision	52.9	79.2
Total Pay Awards 2025 Requirement (on 2024 original base)	114.1	170.9