

**Proposed Employer-Exchequer
Contribution Mechanism for Higher
Education and Further Education
and Training - IUA Response to
Consultation Paper**

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ASSOCIATION

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Proposed Employer-Exchequer Contribution Mechanism for Higher Education and Further Education and Training

IUA Response to Consultation Paper

The Irish Universities Association (IUA) welcomes the opportunity to submit its views on this important component of the policy debate on the future funding of Higher Education.

The IUA makes this submission both as a major employer (the higher education sector is a significant employer in its own right, with 15,233 staff employed in the universities alone) and as a central pillar in the national system of higher education, research and innovation. We are thus well placed to understand both the impact on and value to employers of the proposed employer-exchequer partnership contribution

The IUA has already made an overall submission on the necessity of major reform of the overall funding model for higher education in response to the recent Report of the Expert Group on Future Funding of Higher Education¹ (the Cassells report).

The Report of the Expert Group described the current funding model in the following terms:

“The funding system is simply not fit for purpose. It fails to recognise the current pressures facing higher education institutions or the scale of the coming demographic changes. It also fails to fully recognise the pressures on families and students, not just because of the €3,000 fee but also the high living and maintenance costs associated with studying and successfully progressing through college. These pressures are now seriously threatening quality within the system and the ability of our sons and daughters to gain the knowledge and develop the capabilities that will enable us to realise our national goals.”

The Report of the Expert Group recommended urgent and significant reform to *“ambitiously increase the funding available for higher education to enable the system to deliver fully on our national ambitions”*

The IUA has previously submitted that, of the options considered by the Expert Group, the fairest, most equitable and most easily implemented funding model would be a mixed approach where the costs of higher education would be shared between the State (from general taxation) the graduate (through a system of income-contingent

¹ “Investing in National Ambition: A Strategy for Funding Higher Education” Report of the Expert Group on Future Funding of Higher Education, Department of Education and Skills, Ireland, March 2016

loans) and employers (through an increase in the national training levy). The rationale for such an approach is that the individual graduate, their employer, and society at large all demonstrably benefit from higher education, so it is reasonable for all three to contribute to the costs, but requiring the graduate to contribute in retrospect rather than the student and their family to pay in advance maximises participation in higher education and distributes its benefits more widely and more equitably across society.

While the decision on the relative components of the funding mix is a political and societal one, we have stated that public funding should continue to be the foundation of the system with other contributions building on this. This mixed system would continue to benefit from the efforts of universities to leverage their assets to generate additional resources.

As regards employer contributions, our view is that employers gain tangible benefits from the knowledge, skills, competencies and social development opportunities which participation in higher education confers on their employees. However, it must also be acknowledged that that benefit is an indirect one and, as such, funding by employers should be seen as supplemental to the system of public and learner contributions. In addition, not all employers hire significant numbers of graduates and therefore not all will directly benefit from a general levy. The same is true, however, of the existing national training levy. Furthermore, most successful enterprises and organisations depend directly or indirectly on graduate skills, and such skills are often critical to their success and competitive advantage.

Finally, the income raised by an appropriately configured employer-exchequer contribution has the potential to benefit the full spectrum of post-secondary education, including universities, the technical higher education sector, further education and training and apprenticeships. This is much more extensive than the application of the current national training levy, and it is arguable that every enterprise requires and benefits in some way from the education and training provided by the broad post-secondary sector, which in turn suggests that any employer levy should be general in application.

Taking these factors into account, our view is that the level of employer contribution should be moderate and must be part of an agreed overall funding model which addresses the quality and capacity challenges which our system faces now and into the future.

We note that the employer contribution is just one component of the proposed new funding model, along with contributions from the state and from graduates, and of these three elements of the funding model, the employer contribution is the smallest. A higher education system to match our national ambition requires that all three contributions are set at an appropriate level so that the resources available to our higher education system matches those of our international competitors. Furthermore, the employer contribution will only be effective, and the desired return on investment will only be realised, if the employer contribution is accompanied by a significantly increased investment by the state, and an appropriate contribution by graduates. We support an

increase in the employer contribution but this must be part of a coherent overall funding model, with the contributions of the state, learners and employers clearly defined. It must also be absolutely clear that any additional funding by employers is part of an overall enhancement package and not a substitute for other streams of funding.

We support the introduction of an increased employer contribution to the costs of post-secondary education in the form of a general National Training and Tertiary Education Levy, as part of an overall reform of the funding model for higher education where the state, graduates and employers share in partnership the costs of higher education.

Appropriateness of Levy Mechanism

Questions:

Is an increase in the National Training Fund levy as set out in this consultation paper the most appropriate way to meet the recommendations of the Expert Group report regarding enhanced employer funding contributions?, or,

Are there alternative models such as partnerships with education providers or direct employer contributions, of the scale required to deliver the same result in a more effective manner, given the level of increased levy revenue being indicated?

We favour the structuring of employer contributions to higher education through the form of a general levy. In our view this is the most efficient and practical way to generate such contributions. In this regard we note that the current NTF replaced a previous system of sectoral based levies. While these were specifically for training, the view formed by policy makers, and endorsed by the Oireachtas, was that the sectoral levies and their associated governance mechanism were not conducive to increasing innovation or the volume of training undertaken on a sectoral basis. In addition, the collection mechanism was inefficient and would even moreso where the levy had wider coverage than it had historically.

While noting that not all employers hire significant numbers of graduates, a general education and training levy should be of benefit to the majority of employers. However, as stated above, most successful enterprises and organisations depend directly or indirectly on graduate skills, and such skills are often critical to their success and competitive advantage. We would also see such a levy as an inducement to those who have not hired graduates to do so.

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Implications for National Training Fund Act

Question:

What are the implications for the National Training Fund Act in a changed landscape of employer-education engagement?

The National Training Levy and Associated Fund should be repurposed in legislation and in practice as the National Tertiary Education and Training Fund. As a general levy, it should apply to all employers, including public sector employers.

In the interests of equity, a thorough review should be undertaken of the existing fund and its application. In this context, we draw a distinction between training which is genuinely focused on employment and other schemes which, while they may have a skills development component, can more significantly be categorised as labour activation measures. In our view, such schemes should be funded from the general exchequer or the wider social insurance fund.

We also wish to address the existing surplus within the National Training Fund. It has been argued that this surplus cannot be deployed in favour of higher education because of General Government Balance considerations. While it may be the case that expenditure of the surplus would have knock on implications for exchequer balances, it does not follow that such rebalancing should be applied to the education vote. We believe that here, and in the wider HE funding context, it is vital that government engage with the European Commission in respect of the treatment of education within the overall fiscal rules. There is a strong case for treating education as investment and for allowing more flexibility in how it is funded.

Application of Levy Funds

Questions:

In what ways can the National Training Fund levy contributions be linked to identifiable skills needs and deeper employer-education engagement?

In what ways can increased National Training Fund levy contributions be linked to (i) identifiable skills needs, (ii) the workforce development agenda and (iii) the local, regional and national roles of institutions?

“Identifiable skills needs”

Our comments earlier about the need to review the application of the existing levy funds are relevant here. At present, there is no dedicated governance system to determine the application of levy funds. Essentially, decisions are made by the Departments of Education and Skills and of Public Expenditure and Reform as part of the overall annual Estimates process. The application of a large part of the NTF is in effect, driven by the historical precedent whereby upon its introduction, a large part of the levy was substituted for exchequer funding to FAS (now Solas).

It is acknowledged that the application of levy funds has been influenced by work undertaken by the now defunct Expert Group on Future Skills Needs and the Solas Skills and Labour Market Unit (these bodies themselves being in receipt of NTF funding).

In our view a more coherent structure is needed to ensure transparency and effective application of the NTF – both in its current format and its envisioned repurposing. We return to this matter below.

Before doing so, it is worth pausing briefly on the matter of “identifiable skills needs” as referenced in question two. The terms “training” and education are not mutually exclusive but the term training has a narrower meaning than that of education. As such, there was a logic to the National Training Fund having a narrower application than the fund would have if it is repurposed to cover training and tertiary education.

That said, there are many aspects of tertiary education which involve training. However, because of the structure of the fund to date, it has tended to have a strong sectoral orientation and a strong focus on the concept of addressing identifiable shortages. These have in a large part been in high technology sectors where skills shortages are common on a global basis - these driven partly by the growth of the ICT sector but perhaps more significantly by the rate at which technological change is creating churn and obsolescence in technical skills. A second area of focus has been on lower value added sectors of the economy such as transport and catering and hospitality. These sectors are harder to analyse because (as reflected in EGFSN reports) it can be difficult to determine whether apparent skills shortages are in fact labour market shortages relating to the conditions of work in particular sectors or due to the fact that skills are fungible across sectors – for example between retail and hospitality. Because of these factors, there are limitations to the so called “predict and provide” approach.

A further significant limitation is the fact that many of the skills which employers say they require, transversal skills such as creativity, teamwork and problem solving, are not sector specific and are not dependent on vocational qualifications. Finally, national policy recognises that innovation is multidimensional and not simply technical in nature. Ireland is seeking to enhance its’ comparative advantage as an innovative and creative nation drawing on excellent graduates across the full range of disciplines.

One must also take into account the fact that the national training levy is a broadly based levy. Some employers are currently excluded and in reconfiguring the levy, it is worth reassessing whether the case for those exclusions remains valid. In the interests of equity, the proceeds of the levy should be applied so as to benefit the maximum number of employments. To illustrate this, it might be noted that employment in the

sectors of Health and Education is broadly equivalent to that in the Manufacturing and International Services sectors. We also note that the consultation paper points to the fact that higher education graduates enjoy significantly higher earnings and lower levels of unemployment than those who do not benefit from higher education.

We conclude therefore that a National Training and Tertiary Education levy should have a component applied to a combination of identified vocational and sectoral skills needs and a second component which is applied on a non-hypothecated basis to support a broad range of knowledge, skills and competencies across the labour market generally. In our view, the greater portion of the fund should be distributed broadly across disciplines to maintain a broad range of skills in the economy, while some component could be reserved to incentivise students, through scholarships, into ‘skills shortage’ programmes. In doing this the emphasis should be on promoting student demand rather than funding additional places in the hope that they will be filled.

“Employer-Education Engagement”

The question of the structures to govern and direct the fund is relevant here. In our recent submission to the Higher Education Authority’s HE funding model review we stated a principled view that funding decisions should be taken as close to the learner as possible. In this context we would caution against a purely top down approach to the application of the fund and argue for a balanced system which has high level guidance but also a strong bottom up “pull” dimension to it.

At the overall level we see merit in the proposed National Skills Council having an advisory role to government in respect of the fund.

Closer to the institutions we see an important role for the recently formed Regional Skills Councils. However, we wish to stress that these formal national-level structures should be seen as complementary to the much wider web of interaction which universities have with individual enterprises, sector bodies such as Ibec and Chambers of Commerce, and the significant array of professional bodies in areas such as medicine, engineering and accounting. All of these have a role in shaping the educational offerings of HEIs.

The IUA is anxious to see all of these mechanisms strengthened. To complement this architecture, the IUA Council proposes to initiate a regular interaction with employers specifically focused on existing and emerging skills needs.

Emerging Skills Gaps

Question

Are there existing or emerging skill gaps which require a more coherent response from the higher and further education sectors?

This question has been touched upon in our responses above. We offer the following additional observations.

The Irish economy has a high dependence on Foreign Direct Investment, albeit that the dependence on FDI is more significant in respect of its contribution to GDP than to employment. That dependence has consequences in that it has a propensity to create skills shortages which would not arise as readily in an economy where employment and skills needs in the productive sector evolve more organically. Such economies also tend to exhibit stronger clusters of related and supporting industries and these clusters tend to be more active in both identifying skills needs and promoting mechanisms to address them. The success of apprenticeships in clustered economies is related to this.

Because Ireland's FDI policy seeks out firms at the leading edge of technological and business model change it has a propensity to create skills shortages that are almost by definition unplanned for. However, these difficulties could be mitigated by a more structured relationship between the enterprise agencies (IDA Ireland particularly) and the universities and a better understanding of the FDI roadmap and its implications for skills.

There is a well acknowledged issue relating to the growing importance of quantitative reasoning skills and digital literacy. However, so far, the response of the state to this issue has focused on the provision of hypothecated funding for quite narrowly defined skills provision. This approach is too limited and is inadequate to respond to the underlying structural issue.

An effective strategy demands a response across all parts of the education system – for example – in the implementation of the recommendations of the MacCraith group report on STEM education. It also requires a concerted programme of capital investment to support provision in disciplines that are of their nature the more expensive and capital intensive ones. It also requires a re-examination of the current overall funding model for higher education and a move away from a model which seeks to massify participation at the lowest possible price to the state and with residual regard for quality or the optimisation of labour market outcomes and national competitiveness.

We concur with the consultation paper in respect of the importance of research skills and graduate education and training. The report states: *“For instance Innovation 2020, the Strategy for Research and Innovation, highlights the critical role of graduate capabilities and skills in the innovation ecosystem, and makes clear that a sustainably funded HE system will be pivotal to the strategy's success”*.

The strategy also forecasts a doubling in demand for research personnel within the enterprise sector to 40,000 by 2020 across all skill levels from technicians to PhD level research leaders. Meeting this demand requires a strengthened approach to Researcher Careers. Under Innovation 2020 IUA is tasked with developing proposals in this area and will shortly be bringing those proposals to the Interdepartmental Committee on Innovation 2020. One key element in those proposals which is of relevance to this consultation is the need for more structured skills development processes for researchers – particularly among Post-Doctoral Researchers. This is a good example of

where a specific skills component at HEI level would merit support from the NTF as currently structured or from the proposed restructured fund.

We have spoken earlier about the importance of transversal skills. Such skills are best developed in an environment which supports hands on learning and small group teaching. It is further supported by the move to broader entry routes and the avoidance of excessively early specialisation. Again, the current funding model for higher education militates against such approaches and a national Training and Tertiary Education Levy, appropriately applied, could assist in overcoming these deficiencies.

Finally, there is the matter of the evidence base. The work undertaken by the Skills and Labour Market Unit is invaluable in looking at the composition of the labour market and its evolution. More needs to be done to look at the strategic implications of this data and to use historical series to identify trends. In addition, much better longitudinal data is needed in relation to the destination of graduates and postgraduates. This is an issue in Ireland and internationally and is something on which DG Education is focusing, noting that current surveys on under-employment and skills mismatches is significantly subjective. Increased emphasis should be put on this area in Ireland and the work currently underway within the HEA should be expedited.

Conclusion

The Irish Universities Association, as an employer and as a provider of higher education:

- supports the introduction of an increased employer contribution to the costs of post-secondary education in the form of a general National Training and Tertiary Education Levy. The repurposed levy must be part of an overall reform of the funding model for higher education where the state, graduates and employers share in partnership the costs of higher education
- believes the levy should apply to all employers because the vast majority of employers benefit directly or indirectly from post-secondary education
- supports the further enhancement of employer-educator engagement in the design and delivery of tertiary education and training programmes
- advocates that the majority of the funding raised should be allocated to support learning across the full spectrum of disciplines to maintain a wide knowledge and skill base in a flexible, adaptable creative and innovative workforce, but also to provide incentive funding to address identified skill shortages and gaps
- proposes appropriate advisory and governance mechanisms to oversee the allocation of such funds.