

## **Enterprise Ireland Inputs**

### **Department of Education and Skills Consultation on the National Training Fund<sup>1</sup>**

#### **Introduction and Summary**

The consultation paper asks seven questions which are addressed in this document. Enterprise Ireland has also identified key areas that should be considered for the National Training Fund (NTF).

On April 12, the National Competitiveness Council (NCC) published their bulletin, “*Competitiveness is Key to Meeting the Challenges of Brexit*”<sup>2</sup>. The NCC noted that the UK will intensify its investment in infrastructure, enhance and develop its tax and non-tax offering for enterprise, develop its skills and innovation base and broaden its trade and FDI footprint in existing and new markets.

37% of Enterprise Ireland client exports go to the UK and Brexit is therefore the greatest challenge to indigenous exporters in decades. Irish Exporters, particularly SMEs, will see an increase in the NTF levy as an additional tax and an increased cost of doing business that will further erode their competitiveness. It would be an increase in the cost of maintaining and creating employment.

If the Government is to increase the levy, it is currently in surplus, there is a need to consider several issues including the need for:

- full transparency and evaluation of the investment through the Fund to date.
- existing funding levels and any increased funding must enhance competitiveness for SMEs in excess of the loss of competitiveness realised through any increase in the levy.
- investment to be totally aligned to the needs of employers at a national and regional level.

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<sup>1</sup>[www.education.ie/en/Publications/EducationReports/pub\\_ed\\_proposed\\_exchequer\\_employer\\_investment\\_higher\\_further\\_training\\_2017.pdf](http://www.education.ie/en/Publications/EducationReports/pub_ed_proposed_exchequer_employer_investment_higher_further_training_2017.pdf)

<sup>2</sup> <http://www.competitiveness.ie/News-Events/2017/Bulletin-on-Competitiveness-Benchmarking-Ireland-and-the-UK-2017-April-12.pdf>

- extensive input and representation from employers in deciding how the NTF is invested including the established of formal mechanisms i.e. an advisory panel etc.
- a system to exempt companies in particularly exposed to the existing and impending impacts of Brexit.

### **Enterprise Ireland Strategy and Objectives**

On January 9, Enterprise Ireland announced that over the period of its 2014-2016 Strategy 'Driving Enterprise, Delivering Jobs', 45,592 new full time jobs were created by client companies. This brings the total number of people employed by Enterprise Ireland supported companies to 201,108 – an all-time high for the Agency. The contribution of all Enterprise Ireland client companies to the domestic economy is very important as it sustains over 300,000 direct and indirect jobs across all regions in Ireland.

Reports published on April 4 by the ESRI "*Enterprise Exporting, Innovation and Productivity*" and "*Services Exports and Exporters of Services*" undertaken in cooperation with Enterprise Ireland and the Department of Jobs, Enterprise and Innovation, highlighted the major contribution that the export sector makes to Irish economy performance. The research shows that domestically owned exporters are more embedded in the local economy, better regionally dispersed than foreign multinational firms and are 'an important component of sustainable, balanced and resilient economic growth'. One of the main findings of the report is that exporting firms outperform non-exporting firms across many indicators. Irish owned exporters have on average 26.5 higher employment compared to Irish non-exporters and have labor productivity around 8 per cent higher.

The NTF and other policy and funding instruments therefore need to be clearly aligned to the needs of these companies if the greatest possible economic impact is to be achieved. The Review of the Funding Allocation Model for the HEIs will also be most important in this regard.

Enterprise Ireland supports companies in many sectors to start and scale, innovate and expand their international reach. In January, Enterprise Ireland published its strategy for the period 2017-2020 Build Scale: Expand Reach. The strategy builds on the success of recent years and sets new, ambitious targets to 2020 including<sup>3</sup>:

- 220,000 jobs in Enterprise Ireland client companies

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<sup>3</sup> <https://www.enterprise-ireland.com/en/Publications/Reports-Published-Strategies/Strategy-2017-to-2020.pdf>

- €26bn in exports
- 50% growth in exports outside the UK
- 50% growth in Eurozone Exports
- An annual total spend in the Irish economy of €27bn by Enterprise Ireland clients
- A 50% increase in annual R&D spend by Enterprise Ireland clients to €1.275bn

The availability of human capital and skilled graduates and the commitment of the education and research institutions is critical to delivering these ambitions. There is a clear need for increased investment in the sector. The availability of skills is a central component of Enterprise Ireland's strategy has areas of focus in this regard:

- Increased innovation - which incorporates greater connectivity between client companies (particularly SMEs) and the HEIs
- Introduction of a Skills Analysis Programme - which incorporates a skills toolkit for companies to identify current and future skills needs.
- Increased availability of the EI graduate programme for SME Growth.
- Entrepreneurship support in conjunction with the Higher Education Institutes.

Enterprise Ireland focuses on training and skills development across our client base. There are supports for management capability and development, supporting enhanced competitiveness, sales & marketing and innovation. An SME client tool is being developed to support clients to identify, analyse and articulate their specific skills needs and this will be rolled out in the near term. This will assist at a company level but also provide inputs to the identification of the skills needs of Enterprise Ireland clients.

### **National Skills and Talent Policies**

Enterprise Ireland acknowledges the progress that has been made strengthening the alignment of our education system to further align with the needs of employers. Over the past two years there have been several consultations, policy changes and initiatives to drive industry/education alignment including.

- National Skills Strategy
- HEI Innovate
- Regional Skills Fora
- New Apprenticeship & Traineeship programme

In recognition of the changing employment market, the National Skills Strategy, referred to the NTF resources and proposed to review the share of this fund allocated to training people

in employment with a potential of increasing the allocation as unemployment levels fall<sup>4</sup>. There has been a significant increase in employment in recent years and a material rebalancing of focus is required.

## **National Training Fund**

When the National Training Fund was introduced in 2000 it was noted that that:

The National Training Fund, ...can make a significant contribution to raising in-company training performance in the years ahead if this role is clearly defined for it from the outset. ....

If its potential is to be harnessed, the Fund should be enterprise led, to ensure effectiveness and relevance to industry needs,<sup>1</sup>

Statement on Labour Supply and Skills, Forfás, 2000

Ahead of any change to the contributions to the NTF, it is critical that an evaluation of the Fund against the original objectives and activities of the fund is undertaken.

## **Proposals for change**

The NTF is currently in surplus<sup>5</sup>. In this guise, it is critical that a very clear strategy should be developed outlining the existing approach, what has been achieved to date and future priorities. This should be accompanied by a clear explanation as to why increased funding is required and what increased benefits will be gained by industry. The funding drawn through this levy is already forecast to increase as the number of employed people in the State increases. The increase in employment should lead to some rebalancing of investment from the unemployed to the employed. It is only then that any increase should be considered.

The relative competitiveness of Irish companies to their international competitors has never been more important. Companies would need to see a positive impact on their competitiveness relative to the cost that is being proposed to be imposed.

The proposal for increased levy on industry comes at a sensitive time when the challenges to industry have increased with the Brexit and other changes in the international landscape. Increasing the cost base of Irish companies at a time of significant economic uncertainty requires significant justification. Consideration will need to be given to any increased skills demands or requirements of industry in the context of Brexit.

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<sup>4</sup> Action 4.2 Workforce Development

<sup>5</sup> Figure 11 NTF Income and Expenditure 2008 – 2016, Consultation Paper

There is a need for an increase in funding for the sector whether funding is sourced through the Exchequer or through an increased levy. If an increased burden is to be borne by employers the following should be prioritised:

- full transparency and evaluation of the investment of Fund to date.
- Investment should be driven by robust analysis, enterprise needs and competitive allocation of funding.
- any existing or increasing investment levels must enhance competitiveness for SMEs in excess of the loss of competitiveness realised through an increase in the levy.
- investment to be totally aligned to the needs of employers at a national and regional level.
- extensive input and representation from employers in deciding how the NTF is invested including the established of formal mechanisms i.e. an advisory panel etc.

In considering any increase, it would be prudent to look at the international education funding landscape and how employer contributions to education are managed. The UK Apprenticeship scheme was updated in March 2017.<sup>6</sup> The scheme provides the incentive for employers to engage in apprenticeships by drawing credit from their payments made. The UK reforms are designed to give employers more control over designing, choosing and paying for apprenticeship training. This merits further examination.

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<sup>6</sup> <https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>

**Question 1: 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?**

Before examining if an increase is appropriate, it will be important to conduct an evaluation of the current expenditure of the NTF, examining the economic impact for employers (payments and benefits).

If such an increase is decided upon, the timing of such an increase should be considered. Given the current vulnerability of companies with Brexit, cost competitiveness is a key issue. Currently employers already see an increase in costs with the new Apprenticeship Programme. Many SMEs will see this as an additional tax. It is an increase in tax on employment at a time when government policy is to reduce taxation on employment.

**Question 2: What are the implications for the National Training Fund Act in a changed landscape of employer-education engagement?**

If an increased levy is being imposed on employers any expenditure must be directly linked to the specific needs of SMEs

There is a requirement for more visibility, evaluation and prioritisation of the needs of employers in the NTF.

**Question 3: 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?**

The NTF expenditure should be aligned to addressing the skills shortfall currently experienced by industry – skills, workforce development at local, regional and national basis.

Such skills are generally highlighted within the “Highly Skilled Eligibility Occupations List”<sup>7</sup>. Formal reports from the Regional Skills Fora process, from the Expert Group on Future Skills Needs, SLMRU, and National Skills Council should also be addressed by the NTF.

**Question 4: How can increased National Training Fund levy contributions be used to support further forms of employer-education engagement, flexible forms of education and training delivery, and, the education and training outcomes required to meet forthcoming skills needs?**

Consideration should be given to industry supports for in-house training, and providing the infrastructures within companies (in particular SMEs) for considering skills, training, and putting the correct structures within companies to be formal educators. Similarly, within the HEIs a contact point (Industry Liaison Office) to assist with more systematic industry linkages and supports should be considered in this regard.

**Question 5: Is the manner in which we develop, nurture and deploy talent central to HE and FET and other sectoral strategies?**

Yes. Consideration should be given to encouraging a greater bi-directional movement of human resources between academia and industry – “which allows for a much richer transfer of tacit knowledge not easily captured in publications and patents”<sup>8</sup>.

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<sup>7</sup> <https://www.djei.ie/en/What-We-Do/Jobs-Workplace-and-Skills/Employment-Permits/Employment-Permit-Eligibility/Highly-Skilled-Eligible-Occupations-List/>

<sup>8</sup> [http://www.knowledgetransferireland.com/About\\_KTI/Reports-Publications/Review-of-International-Knowledge-Transfer-Policy-and-Investment.pdf](http://www.knowledgetransferireland.com/About_KTI/Reports-Publications/Review-of-International-Knowledge-Transfer-Policy-and-Investment.pdf)

**Question 6: Are there skills gaps existing or emerging which require a more coherent response from the HE and FET sectors?**

With the recent initiatives, there has been a focus on identification of the skills gaps nationwide. Information is available from a variety of sources:

- Highly Skilled Eligibility Occupations List<sup>9</sup>.
- Formal reports from the Regional Skills Fora process,
- Expert Group on Future Skills Needs,
- Skills and Labour Market Research Unit, and
- National Skills Council

Enterprise Ireland (partnering with DJEI & DES) are working to have a toolkit rolled to allow our SME clients identify and articulate their current and future skills requirements, in the near term. This information will be made available to the Department of Education and Skills to inform them of the needs of Irish Enterprise particularly SMEs

This also must be driven by the conditions attaching to the overall funding of the HEI Sector which is currently being examined under the Review of the Funding Allocation Model being undertaken by the HEA.

**Question 7: How can better partnerships be forged between Education and Enterprise?**

The current regional development initiatives – the regional Action Plans for Jobs and Regional the Regional Skills Fora, are designed to encourage and enhance partnerships between education and industry.

The NTF expenditure should consider the challenges that smaller enterprises have in navigating the educational landscape.

The NTF could facilitate improved partnership between education and enterprise and provide a framework for such interaction. Partnership could involve resource sharing; training and an increased focus delivering on the R&D and Innovation agenda for Irish exporters. An increased focus on delivering on the RD&I agenda for Irish exporters. An industry focussed interface, such as an Industry Liaison Office, within each HE & FE&T establishment would assist to further develop these relationships.

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<sup>9</sup> <https://www.djei.ie/en/What-We-Do/Jobs-Workplace-and-Skills/Employment-Permits/Employment-Permit-Eligibility/Highly-Skilled-Eligible-Occupations-List/>



